Serving a Dynamic City

City of Anaheim

Public Utilities

Department

1990

Annual Report

Year Ended June 30, 1990

Date
12/10/91

City of Anaheim

Public Utilities

Department

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Highlights

Operations	*Water System* Year ended June 30 1990	1989	*Electric System* Year ended June 30 1990	1989
Sales	22.260 billion gallons	21.756 billion gallons	2.807 billion kilowatt-hours	2.419 billion kilowatt-hours
System peak requirements	94.4 million gallons	97.0 million gallons	522,720 kilowatts	492,960 kilowatts
Average number of customers	54,603	54,127	100,004	98,228
Financial				
Billed revenues from sale of water and electricity*	$ 21,870,000	$ 20,504,000	$193,677,000	$175,831,000
Net income	$ 5,467,000	$ 5,896,000	$ 13,506,000	$ 14,202,000
Transferred to City of Anaheim General Fund	$ 875,000	$ 802,000	$ 7,937,000	$ 7,511,000

**Amounts represent revenues derived solely from billings. Electric system revenues also do not reflect any provision for changes in the Power Cost Adjustment Balancing Account which were ($9,090,000) and $15,936,000 in the years ended June 30, 1990 and 1989, respectively, and do not reflect any provision for changes in the Rate Stabilization Account which were $4,952,000 and $12,288,000 in the years ended June 30, 1990 and 1989, respectively. See Note 1 to Electric Utility Financial Statements.*

Credit Rating	*Moody's Investors Service*	*Standard and Poor's Corporation*
Electric Revenue Bonds	Aa	AA-
Water Revenue Bonds	Aa	AA
Water Revenue Anticipation Notes	MIG 1	SP-1+
Electric Tax-Exempt Commercial Paper	Prime-1	A-1

Edward K. Aghjayan

Public Utilities

General Manager

Report from the General Manager

Planning, expansion, revitalization, conservation and environmental awareness — these are the hallmarks of Anaheim in the 1990s. From its burgeoning hill and canyon area to its westernmost point, Anaheim is 45 square miles of city in motion.

Matching the pace of the vibrant city it serves, the Public Utilities Department marched forward in fiscal 1990. Long-standing plans became reality and fresh ideas began to take shape as the Department continued to fulfill its vital supporting role — delivering reliable, economical water and power to a city rapidly approaching the quarter million mark in population.

Shortly after the fiscal year closed, I stepped into Anaheim's exciting environment as public utilities general manager. From my first day on the job, I have been impressed by the strength of the staff assembled by my predecessor, Gordon Hoyt. Their expertise is as evident as their vitality is contagious, and I am proud to report their many accomplishments during fiscal 1990.

Developments in the Department's power resources program highlighted our progress during the year. A new business relationship with Southern California Edison Company, executed in March, resolved several long-standing points of contention and paved the way for reduced power supply costs and increased transmission service in the future.

The Department broke ground, and broke through to a new era of self-generation, in February to begin construction of a natural gas-fueled combustion turbine, the city's first generating resource within the city limits in 60 years. This signals a turning point in the history of the Department and signifies that we are geared up to meet the growth taking place in Anaheim daily.

A clear indicator of this growth was our new electric system peak on June 27, 1990, when the mercury soared to 103 degrees. Due to the routinely outstanding effort by field, engineering and operations staff, our system performed flawlessly as demand pushed load to 523 megawatts (MW), breaking the record of 504 MW set the prior day. The previous record, set in September 1988, was 493 MW.

Of course, increased demand requires expansion of facilities and systems. Our Engineering Group looked toward the future during the year with plans for improving existing facilities and building new substations, reservoirs, pumping stations and wells. The $2.5 million Southwest Substation joined the system in May and provides power to Disneyland and the expanded Anaheim Convention Center, among others.

In 1990, as always, the Department recognized that one of the results of growth is additional responsibility. Our Environmental Services Division continued to

expand, creating programs that reduced the potential for future liability associated with hazardous waste and saved the Department hundreds of thousands of dollars. In the area of water quality, the Department mailed its first water quality brochure to customers.

Fiscal 1990 was California's fourth dry year, and we continued to encourage wise water use through publications and presentations. Our new Energy Services Section ended the fiscal year in a research mode, laying the groundwork for a major expansion of energy and water conservation programs. As of late 1990, the drought had not abated and the City Council approved the expenditure of $120,000 to implement the Department's water conservation programs.

Our commitment to our customers includes not only a responsibility to serve their water and power needs, but to do so in a way that is respectful of our environment and conserves our natural resources.

Department-wide, improved safety statistics indicate that our employees continued to make safety a top priority. Our year-old Safety Recognition Program is a proven success, with 304 awards given to employees who completed the year without a lost-time accident. This shows that our employees are not only taking care of their own safety as they work — they're looking after their coworkers as well.

I've been impressed by the camaraderie that exists in the Department, despite its size. An example of this rose out of tragedy in December, when a water field employee, Tony Pizano Sr., lost his 3-year-old son to cancer. In addition to cash donations, more than 100 Utilities and Maintenance employees donated 899 vacation and sick leave hours to Tony, who had exhausted his hours during his son's illness.

Assistant general managers of the Public Utilities Department, from left to right:

Edward G. Alario

Darrell L. Ament

Charles T. Slatten

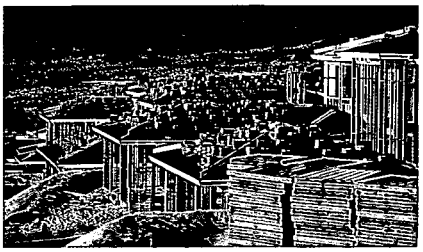
Dale L. Pohlman

This act of generosity demonstrates one reason why people are pleased to be part of the Department — our employees care about each other as well as their work. They take pride in contributing to an organization that has its priorities in the right place.

It's clear from this brief recap of 1990 that the Public Utilities Department is thriving during Anaheim's era of expansion. Committed to staying a step ahead, our employees recognize the value of foresight and incorporate it into each project they tackle. On their behalf, I want to thank the City Manager, Mayor, City Council and members of the Public Utilities Board for enabling us to support the growth that lies ahead.

I'm looking forward to next year, when I will have the opportunity to update you on our progress as we continue doing what we do best — serving a dynamic city.

Edward K. Aghjayan
Public Utilities General Manager



Power Resources Group

Rapid expansion of Anaheim's hill and canyon area in the past few years has provided beautiful new homes for hundreds of families. While they arranged the details, from down payments to landscaping, our Power Resources Group already had taken care of a crucial element — an adequate, economical power supply.

Long before the bulldozers rolled, our energy forecasters anticipated the development of Anaheim's east end and figured this phenomenal growth into long-term plans for a reliable, diverse supply of economical power. These new consumer-owners benefit from the voters' approval 15 years ago of $150 million in electric revenue bonds. Their decision initiated a successful power supply program now in its second phase.

Fueled by the achievement of our first goal — a diversified power supply program — we are progressing with our current goal — to replace short-term energy contracts with long-term resources in which we have direct ownership or firm contractual interest.

For proof of how vital this is to Anaheim's future, we need only look at the foundation of the Department's current power supply program — Intermountain Power Project (IPP) and San Onofre Nuclear Generating Station (SONGS). Our 3.16 percent ownership of SONGS and our contractual right to 13.225 percent of IPP's output provided about 71 percent of the city's energy in fiscal 1990.

Firm contractual purchases from Pacific Gas & Electric, Deseret Generation & Transmission Co-operative, Hoover Dam and the California Department of Water Resources, coordinated by our Power Production Division, represented an additional 26 percent of the city's power.

To get the best deals in the day-to-day energy market, our load schedulers shopped around the clock, purchasing economy energy from utilities throughout the Western U.S. In fiscal 1990, this provided one percent of our energy, averting the purchase of more costly power from Southern California Edison Company.

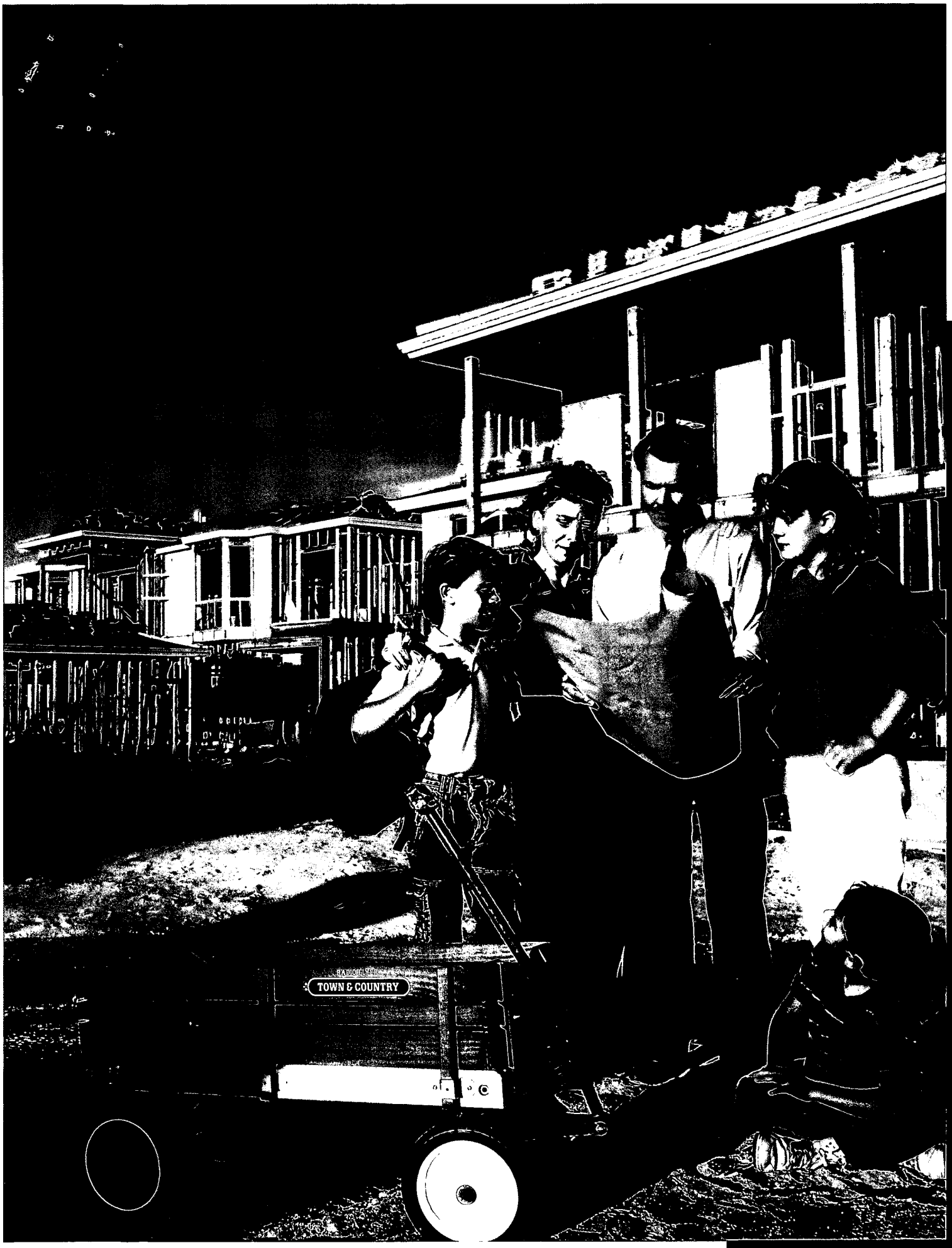
Reducing high cost capacity purchases from Edison continues to be a priority in our mission to serve Anaheim's growing number of consumer-owners. A fiscal 1990 milestone — the groundbreaking for a natural gas-fueled combustion turbine — will help us cut these purchases further.

The $34 million plant is slated to start-up in 1991. It will generate 48 megawatts (MW) during peak demand periods, operating about six hours a day while meeting tough Southern California air quality standards.

The group took steps at year-end to pursue another source of energy within the city — that which can be saved through additional conservation. The addition of an energy services manager kicked off what will be a major expansion of the Department's energy and water conservation programs. Although the Department has regularly promoted wise use of energy and water through bill inserts, literature, and billing credit programs for air conditioner cycling and swimming pool pump timers, it is planning a more aggressive approach for fiscal 1991.

There were other Power Resources milestones in 1990. The Department's often

Development in Anaheim continued to roll eastward last year, as more homes sprang up in the hill and canyon area. The Department was ready for this growth, having planned far in advance for the power new consumer-owners, such as the Stewart family, require. The additional demand from these residential developments contributed to the electric system's record-breaking peak demand of 523 megawatts in June 1990.


TOWN & COUNTRY

turbulent relationship with Edison took a positive turn with the negotiation and implementation of a new business relationship in March. The resulting agreements will save the city an estimated $50 million over the next decade. This will help provide access to the power needed to fuel Anaheim's future growth.

The Department also signed an agreement with Bonneville Power Administration for 16 MW year-round and an additional 8 MW during the summer. Pending integration with Edison, this power will be available by summer 1991.

In a city that undergoes perpetual change, it's not enough to develop an economical power supply program and pursue it. We must constantly reevaluate our plans, to ensure that they are consistent with the latest projections of Anaheim's future needs.

One of the ways we achieve this is through our 20-year forecast, filed biannually with the California Energy Commission (CEC). To prepare this report, System Planning staff compile data on land use, population growth, plans for development and economic trends. Once again in fiscal 1990, our submission to the CEC was adopted without change, reinforcing our reputation as a leader in electric load forecasting.

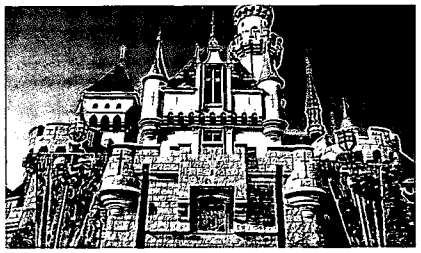
Looking into the future is just part of Power Resources' job. The Systems Operations Division concentrates primarily on the present, overseeing the day-to-day performance of the electric and water systems, including water production and distribution. Using the Department's Supervisory Control and Data Acquisition system, staff can monitor utility systems round-the-clock from a central location. Their ability to respond rapidly to service problems and fluctuating demand continued to save the Department time and money in 1990.

The number of births at Martin Luther Hospital has skyrocketed in the past few years. With 375 babies to care for each month, the nursery staff shouldn't have to worry about power outages – and they don't. Thanks to the joint efforts of operations, engineering and field personnel to maintain the electric system's integrity, hospital staff can concentrate on providing quality care to their precious newborn patients.

For example, the Department saved $237,000 in electric pumping costs through its peak reduction programs, including our participation in the Metropolitan Water District of Southern California (MWD) "water-banking" program. Through this program, MWD sells surplus imported water at reduced rates to encourage utilities to pump less water from the underground basin.

Including these purchases, the Department bought 9.6 billion gallons of imported water from MWD during the year, 41 percent of fiscal 1990 water production. Anaheim's lowest cost source of water, well water, continues to be the city's major water resource. The Department pumped about 13.8 billion gallons of water from its 28 active wells during the fiscal year, which accounted for 59 percent of total water production.

While Walt Disney put Anaheim on the map originally, the Department put the city on another map in July 1989 — that of the U.S. Weather Service. Our weather data collection site at Linda Vista Reservoir became an official U.S.Weather Service reporting station. It's a small but symbolic milestone for Anaheim, indicative of the increasing prominence of a city prepared for the future. Thanks in part to the work of the Power Resources Group, the Department is ready and waiting as well.



Engineering Group

Investors are evaluating a site for a commercial center...The city is designing a sports arena...Disneyland is building a major new attraction...A residential developer wants to construct a tract of homes...

At some point in their planning, they all interact with the Department's Electric and Water Engineering Divisions, exchanging information that will allow everyone to make the best possible decisions. Based on this input and data from several other sources, our engineers evaluate when and where growth will occur and what facilities will be needed to meet the increased demand for water and power.

On the electric side in fiscal 1990, this planning in response to growth resulted in the new 69/12 kilovolt (kV) Southwest Substation, which began operation in May. Located in the Disneyland and Anaheim Convention Center area, this $2.5 million substation will help us meet the increased electric demand from the convention and tourism industries.

To prepare for greater demand throughout the city and to increase system reliability as the city grows, the Department prepared to install a fourth 220/69 kV transformer at Lewis Substation in fiscal 1990. This $3.4 million project will increase the capacity of Anaheim's connection with Southern California Edison's 220 kV transmission grid from 840,000 to 1,120,000 kilovolt amperes. With a projected in-service date of January 1991, the additional transformer will enhance reliability and operating flexibility.

The Department embarked on one of its most farsighted, ambitious projects yet during the year with plans to underground 69 and 12 kV overhead electric lines along major streets. About one-third of the Department's electric lines are already underground, primarily in the eastern end of the city. The policy, which is expected to be carried out over the next 60 years, was recommended by the Public Utilities Board and approved by the City Council in July. Designed to increase reliability and improve Anaheim's overall appearance, the project will be financed primarily through gradual rate increases up to a limit of 4 percent above current rates.

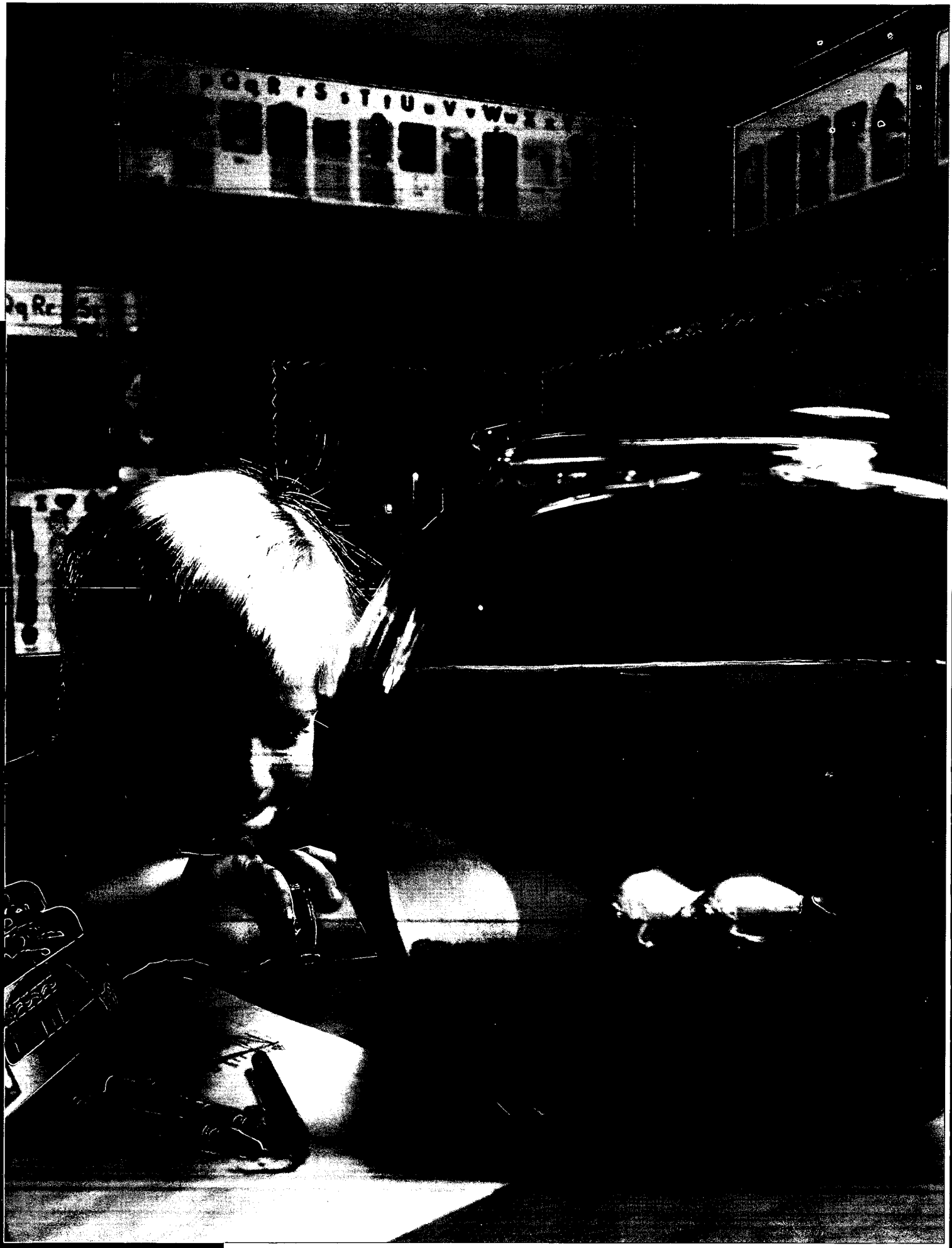
Smaller-scale projects matter too, as Electrical Engineering demonstrated by helping the Anaheim Redevelopment Agency with a special request. Because the Department is responsible for streetlight maintenance, electrical engineers assisted in plans to install graceful period-style streetlights in a downtown area that includes historical homes.

Among the drawings and work orders Electrical Engineering issued during the year were those for 3,481 new residential, commercial and industrial service installations, primarily in the eastern hill and canyon area.

Growth in this area also kept Water Engineering busy. A pump station and two new reservoirs were added to the system to help serve the area. The Department's largest reservoir, Walnut Canyon, which also serves this area, underwent $1.1 million in improvements to increase the rate of flow from our connection with MWD.

Weir Canyon and Serrano Twin Peaks Reservoirs went into service to provide adequate flows and pressure levels in new developments and increase reliability to the existing hill

For Mouseketeers around the world, a trip to Disneyland is a dream come true. More than 13 million visitors passed through its gates last year to delight in new attractions and old favorites. The Department works closely with its second-largest customer, so that engineers can design, modify, and build electric transmission and distribution facilities that will accommodate the park's exciting plans for expansion.



and canyon area system. These $4.3 million reservoirs increase treated water storage capacity from 77 million gallons to 83 million gallons. The Weir Canyon Pump Station was completed at a cost of $1.2 million.

While new facilities were added to the system, older components were rehabilitated or replaced to increase efficiency and reliability as part of a comprehensive program funded primarily by current revenues. The division rehabilitated five wells at a cost of $206,000, improving their efficiency by 10 percent, which will save 300,000 kilowatt-hours and $21,000 annually.

Of the 11 miles of water mains laid during the year, 1.8 miles were 12- and 16-inch mains that replaced old 4- to 10-inch mains, improving pressures and flows in older areas of Anaheim. New primary and secondary distribution mains, installed primarily in the developing hill and canyon area, totaled 3.3 and 5.9 miles, respectively.

Several water projects shaped up on the drawing board in fiscal 1990, including the 1-million-gallon Summit Reservoir, the 4-million-gallon Oak Hills Reservoir and the 1-million-gallon Deer Canyon Reservoir. Scheduled to be complete by early 1992 at a cost of $4.7 million, these will serve new developments in east Anaheim.

Design work continued on Linda Vista Reservoir and Pump Station, and the Olive Hills Control Facility Project, all of which will increase system reliability and save energy. The $4.5 million Linda Vista project, including a chloramination disinfection facility, is scheduled for completion in January 1992. This project, along with the $2.3 million Olive Hills modifications, due for completion in December 1991, will allow the Department to pump low-cost well water into the higher elevations currently served with imported water from Walnut Canyon Reservoir.

Three other pump stations — La Palma, Parkview and Westridge — also are slated for modifications and expansion to further increase reliability, reduce operating costs and meet the forecasted demand for water. Design work continued on these projects during 1990, the largest of which is the $3.4 million La Palma Pump Station expansion and modification, scheduled for completion in January 1993. A $1.2 expansion of Parkview will allow us to pump more water into elevations where water cannot be delivered by gravity flow from Walnut Canyon Reservoir.

Reliability is just one of our two top priorities when it comes to water delivery; quality is equally important. Anaheim's water continued to meet all state and federal standards for drinking water in fiscal 1990. Water quality staff conducted more than 55,000 chemical and microbiological tests during the year in the Department's own laboratory, at a cost of less than half what a private laboratory would charge. MWD and Orange County Water District conducted additional tests on water they supply to Anaheim.

During fiscal 1990, the Department mailed its first water quality brochure to customers, featuring a detailed chart showing how imported and well water meets state and federal standards. In compliance with state law, the brochure will be updated and mailed annually.

As the preceding list of projects indicates, it was an accomplishment-filled year for the Department's engineers. Based on current growth projections, these architects of Anaheim's utilities systems can look forward to a dynamic decade.

Like all parents, those whose children attend Sunkist Elementary School or one of Anaheim's 62 other public schools want the best for their children – a good education, safe neighborhoods, and clean air and water.

The Department's water quality staff sees to the latter, conducting more than 55,000 tests annually to confirm that the city's water meets all state and federal standards. They make sure Anaheim's water is safe for all, even the goldfish in Mrs. Burris' first-grade classroom.

Field & Warehouse Group

Reliability doesn't just happen — it's the result of a coordinated effort to design, install, and maintain systems that provide trouble-free performance. The Department's forecasters and designers start the ball rolling, but it's the field and warehouse employees who work round-the-clock to keep it in motion.

In fiscal 1990, preventative maintenance continued to be a priority for the field. Electric technicians and electricians inspected the Department's 10 substations thoroughly, checking each transformer, relay switch and circuit breaker. Field crews checked overhead distribution lines and associated equipment.

Anything not up to snuff was repaired or replaced with equipment ready and waiting at the Department's warehouse, which underwent some major changes of its own in fiscal 1990. Several time-consuming manual processes were eliminated by the installation of a fully computerized Inventory Control System.

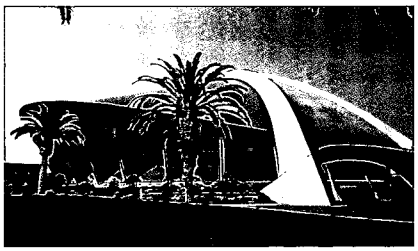
While Anaheim escapes the extreme weather conditions that plague utilities in other parts of the nation, it is subject to windstorms powerful enough to snap tree limbs. To limit wind-related outages, the Department continued its highly successful tree-trimming program, provided through a contract with the city's Parks and Recreation Department. This program proved its worth again in fiscal 1990, as Anaheim's electric system remained virtually unscathed during several windstorms.

Preventative procedures comprise one of the Department's best investments. Whether it's as basic as hosing off dirty insulators or as high-tech as seeking out loose connections with infra-red scanners, the Department's electric maintenance programs pay off. Our consumer-owners continue to enjoy the reliable service they have come to expect and the Department saves thousands of dollars in outage response costs.

The Water Field Division also continued its focus on preventative maintenance during the year. Water production crews routinely inspected well pumps and motors, reservoirs, filtration and disinfection stations, pumping stations and pressure regulating stations. Where they left off, transmission and distribution crews took over, handling maintenance of mains, pipelines, valves, fire hydrants and meters. This section also completed a money-saving meter replacement program, installing more efficient meters in situations where increased flow exceeded the capacity of older meters.

Both the Electric and Water Field Divisions worked on the Department's capital projects. Coordinating with Electrical Engineering and Operations, field employees completed installation and testing of Southwest Substation. Development in the hill and canyon area kept underground crews busy installing more than six miles of distribution circuit cabling in several new residential tracts.

As beneficiaries of Anaheim's redevelopment project, many historic homes have been moved to the central city area for restoration. The Department is proud of the role it's playing in this revitalization, working with the Anaheim Redevelopment Agency and homeowners to establish new service lines and modify existing lines. The preservation of these homes shows that Anaheim refuses to sacrifice its past as it ushers in the future.



Working with Water Engineering, water field and electric test crews helped put Weir Canyon Pump Station, the 4-million-gallon Weir Canyon Reservoir and the 2-million-gallon Serrano Twin Peaks Reservoir in service. They assisted engineers with completion of the Department's well rehabilitation program and will continue assisting with the well replacement program.

The Department's goal to become a PCB-free utility by the mid-1990s moved one step closer to reality when field personnel completed the removal of all PCB-contaminated capacitors from substations. Testing of transformers for PCB contamination continued during the year. The field and warehouse continued to work closely with Environmental Services in several areas, including spill response procedures, hazardous waste management and use of surplus equipment.

While the Department's Safety Program is coordinated out of Administrative Services, its end results are most critical within the Field and Warehouse Group, where employees face the greatest risk of on-the-job injury. Statistics for the year show that employees continued their daily commitment to safe work practices. Compared to the five-year average, disabling injuries and days away from work dropped 22 and 21 percent, respectively.

While the ultimate responsibility for working safely rests with each employee, the Department's electric and water safety committees play a major role as well. This group of field employees meets monthly to discuss general safety issues and investigate "near misses" to help further reduce the potential for on-the-job accidents.

All employees receive the Department's Safety Newsletter and are encouraged to attend quarterly safety meetings. In 1990, these meetings featured personal safety, earthquake preparedness and employees' roles as emergency disaster workers. The year-old Safety Recognition Program provides awards to employees who maintain good work safety records. Just as the Department protects its power and water resources, it aggressively promotes on-the-job safety to protect its most precious resource — its employees.

Nowhere is safety more vital than in the field. With an average of more than 13 years with the Department, field personnel have developed an unparalleled familiarity with the utility systems. These men and women, with their blend of knowledge, skill and intuition, are vital to the Department's ability to serve Anaheim's growing population.

The ongoing expansion of the city-owned Anaheim Convention Center to more than 1 million square feet will make it the largest such center on the West Coast. Located in the heart of Anaheim's commercial/ recreation area, near Disneyland, the center fosters growth in several related industries. Southwest Substation, added to the electric system in May 1990, will help provide the electricity needed to keep this bustling area running smoothly.

Finance & Administration Group

As the Department grows along with Anaheim, so do the diverse responsibilities of the Finance and Administration Group. From financing capital projects to coordinating work force management, these employees provide a myriad of services that allow all employees to do their jobs effectively and plan for the future.

Sound financial planning continues to be the rock-solid foundation for the Department's smooth operation and expansion. In fiscal 1990, our Financial Services Division continued to successfully balance the ongoing need for revenue with the Department's commitment to competitive rates.

The average residential electric bill for the year was 21 percent lower in Anaheim than in surrounding communities served by Edison. Residential water bills remained in the lower half of Orange County water purveyors.

In addition to designing rates that make such favorable comparisons possible, our financial experts financed the construction of the Department's Combustion Turbine Peaking Plant so that the Power Resources Division could carry out its plans. They also worked out funding through gradual rate increases for the undergrounding program.

Plans are underway to fund several other investments in the future. Over the next five years, the Department plans to spend $18.1 million on water production and distribution facility replacement projects, $15.8 million for new water facilities, $58.9 million for electric transmission and distribution facilities, and $44.5 million for power supply projects. The Department is also planning to finance the construction of an 11-story, $33 million office building in the downtown redevelopment area to house Public Utilities and other city staff.

While Financial Services helped assure adequate resources, our Environmental Services Division continued to save the Department money — more than $500,000 by the year's end. Staff developed several programs to ensure compliance with regulatory requirements, reduce the costs of overcompliance, and reduce the liability associated with hazardous waste disposal. Key projects included reuse of surplus equipment, a quality assurance/control program for hazardous waste contractors, and chemical spill response plans.

The efforts of this group have cast the Department and Anaheim in a leadership role. At the close of fiscal 1990, we received word from the California State Department of Health Services that the division's hazardous waste management project proposal had earned the city a $25,000 state grant.

Staff immediately began implementing the project, which evaluates ways to reduce the type and volume of hazardous waste generated throughout the city. Because the city's operations are so diverse, other municipalities will be able to use the resulting report as a hazardous waste management guidebook.

As part of the Department's commitment to remain responsive to consumer-owners, the division developed a program to monitor and address any concerns that arise over the health

One of the products manufactured by the Department's largest customer, Rockwell International, at its Anaheim facility is the ring laser gyro, used in military and aerospace guidance equipment.
With 7,000 employees, Rockwell is the city's second-largest employer and a major force in the local economy.
The Department is proud of the role its favorable public power rates have played in the success of this international company.

effects of electromagnetic fields (EMF). Several groups have conducted inconclusive EMF studies, but research continues, some of which is sponsored by the utilities industry. Environmental Services continues to review information as it becomes available.

Because our consumer-owners remain our top priority, the Department's Customer Service Division continued its effort to foster a spirited commitment to service during the year. The division produced a mission statement, refined procedures and conducted training to help employees handle their huge volume of work — 1,149,593 meter readings, 170,330 record changes, 73,798 credit inquiries, and 1,702 billing investigations, to cite a few fiscal 1990 statistics.

This emphasis on service also benefitted customers with special needs during the year. The division installed a telecommunications device for the deaf, and, based on an employee suggestion, placed medical meter seal insignias on all Life Support Patient meters. Staff continued to participate in the Gatekeeper program, referring elderly or disabled customers in need of assistance to local social service agencies.

The Consumer Programs Section continued its emphasis on conservation promotion, conducting energy and water-use audits and distributing thousands of pieces of literature. More than 16,000 students took part in Department-sponsored water conservation awareness programs in Anaheim's schools. Toward year-end, this section made plans to move its programs into the Power Resources Group, under the direction of the new energy services manager.

The division proceeded with its comprehensive Customer Information System, which is expected to go on-line in 1992. Once again, improved customer service is the focus, as the system will greatly facilitate billing and responsiveness to customers.

Delivering about 100 arrangements daily, the Visser family's business has grown right along with Anaheim for 35 years. A side-effect of booming business has been increased utility usage. To help give the Vissers more control over utility costs, the Department conducted a free energy- and water-use audit. By suggesting ways to use less electricity and water, these audits help successful businesses become even more profitable.

The diverse Administrative Services Division concentrated on several key projects during the year. Industrial Engineering proceeded with the Department's work force management project, primarily re-evaluating labor and construction standards. While continuing to coordinate the Department's Safety Recognition Program, the Safety and Training Section also implemented an Earthquake Survival Program for all employees.

In the area of Information Services, the use of local area networks was expanded throughout the Department to provide managers with more rapid access to information that assists them in making timely, sound business decisions for the overall good of the Department.

Because the Finance and Administration Group operates so effectively despite its varied roles, it is, in a sense, a microcosm of the Department. Similar to the mechanism of a complex machine, each division has a specific function that contributes to the organization as a whole.

This successful coordination, fine-tuned through years of carefully managed growth and constructive reevaluation, continues to be the Department's foremost asset. With it, we will do more than succeed; we will thrive on the challenges of serving ever-changing Anaheim — a city with its mind on the present and its eyes on the future.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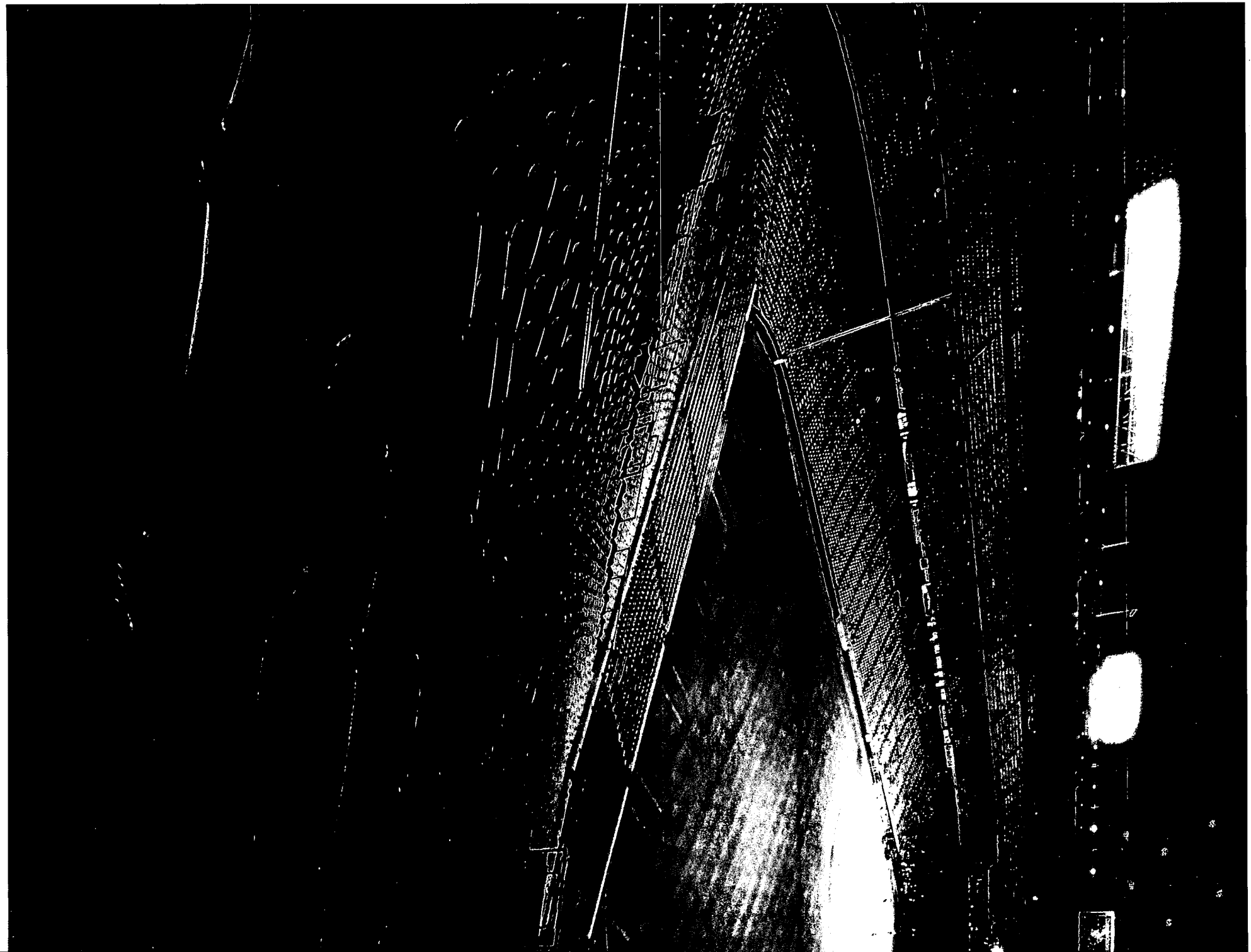
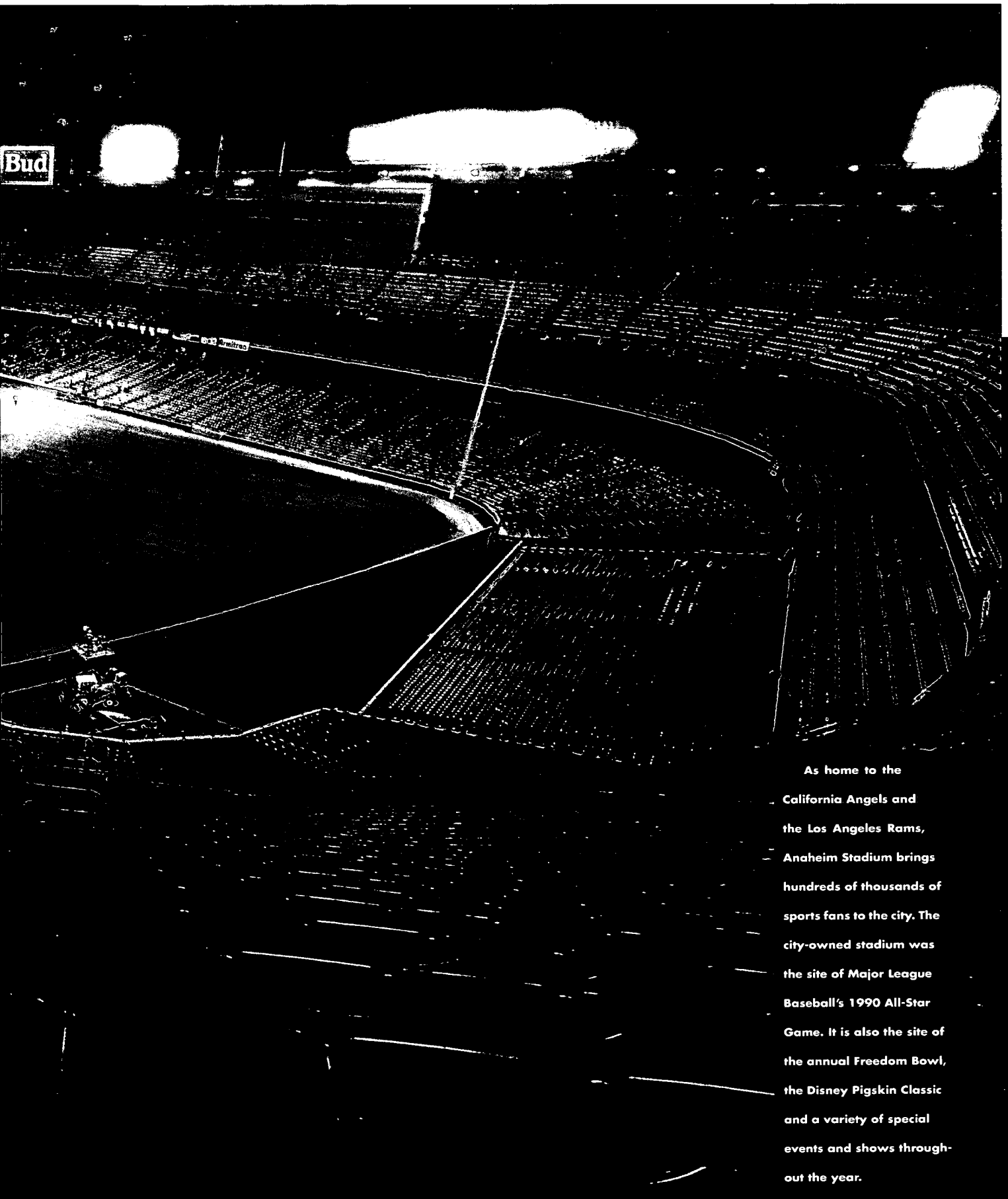
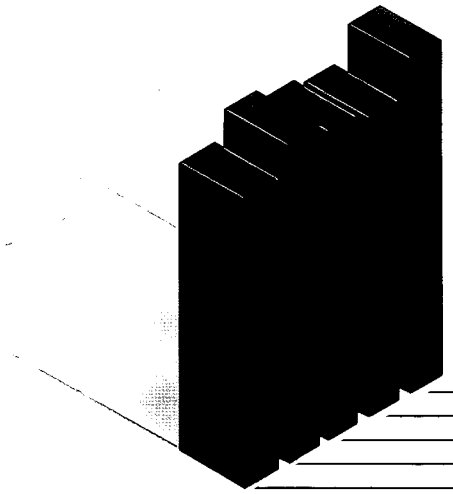


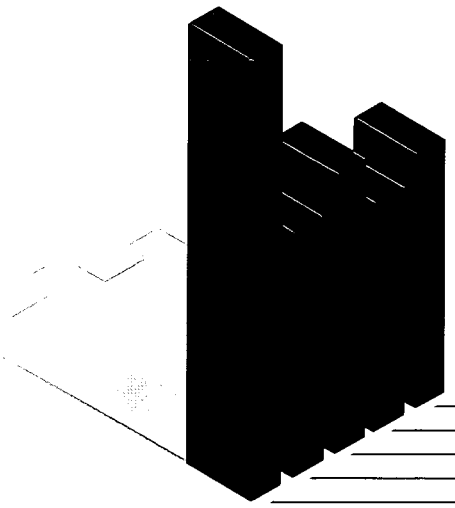


As home to the California Angels and the Los Angeles Rams, Anaheim Stadium brings hundreds of thousands of sports fans to the city. The city-owned stadium was the site of Major League Baseball's 1990 All-Star Game. It is also the site of the annual Freedom Bowl, the Disney Pigskin Classic and a variety of special events and shows throughout the year.



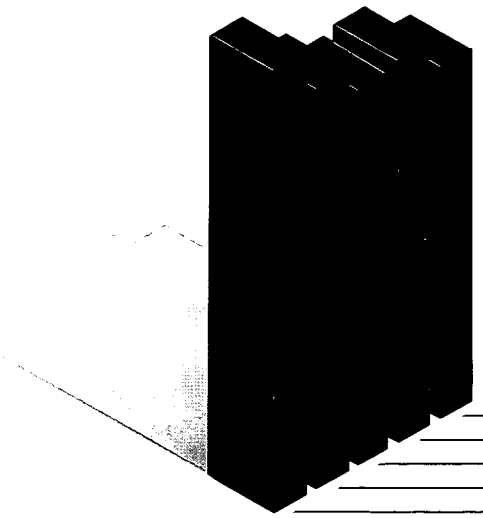
Fiscal Year
Water Sales
(Billion Gallons)

89-90	**22.3**
88-89	**21.8**
87-88	**21.9**
86-87	**22.0**
85-86	**21.4**



Fiscal Year
Annual Rainfall
(Inches)

89-90	**8.7**
88-89	**8.1**
87-88	**9.7**
86-87	**8.4**
85-86	**16.5**



Fiscal Year
Peak Day Demand
(Million Gallons)

89-90	**94.4**
88-89	**97.0**
87-88	**96.9**
86-87	**98.7**
85-86	**102.0**

Statistical and Operational Analysis

The operating results of the Public Utilities Department in fiscal 1990 reflect Anaheim's dynamic growth. In meeting record consumer demand for water and power in fiscal 1990, the Department continued to demonstrate its ability to plan for and meet the water and power needs of its consumer-owners.

Water production was 23.4 billion gallons in fiscal 1990 and was down 545 million gallons from the prior fiscal year. However, total system distribution, the amount of water actually put into the system, including water drawn from reservoir storage, reached a record 23.8 billion gallons.

The Department's goal is to pump 70 percent of total production from its own wells and to make up the remaining 30 percent with purchases of imported water from Metropolitan Water District of Southern California (MWD). Wells are the Department's lowest cost source of water.

Production from the water system's 28 active wells was 13.8 billion gallons in fiscal 1990, about 59 percent of total production. Fiscal 1990 well production was down 1.7 billion gallons from the prior year. The groundwater aquifers supplying the Department's wells are managed by the Orange County Water District (OCWD). The purchase of 9.6 billion gallons of imported water from MWD during the fiscal year made up the remaining 41 percent of total water production. MWD purchases were up 1.2 billion gallons from the prior fiscal year.

In order to help "bank" ground water for future use during dry years, MWD and OCWD once again activated a winter program making surplus imported water available at a price comparable to the cost of pumped water.

In fiscal 1990, the Department bought 2.5 billion gallons from MWD that normally would have been pumped from the Department's own wells. Adjusting production figures for the impact of the joint "water-banking" program yields pumped local water to purchased imported water percentages of 70 and 30 percent, respectively.

In fiscal 1990, consumers used a record 22.260 billion gallons of water, up 504 million gallons, or 2.3 percent, from the prior year. The difference between water production, distribution and water sold varies depending on the amount of water in storage, evaporation and other losses.

System growth and a fourth consecutive dry year contributed to the increase in water sales. Rainfall totaled 8.7 inches during fiscal 1990, up only 0.6 inches from the prior year and well below the annual average for the area of approximately 13 inches. Because the state is entering a fifth dry year, the Department is taking a more aggressive stance in urging consumers to use this precious resource wisely.

Electric system generation and purchases climbed to a record 2.953 billion kilowatt-hours (kWh) in fiscal 1990, up by 109.7 million kWh from the prior fiscal year.

The Department's firm, long-term resources – San Onofre Nuclear Generating Station Units 2 and 3, the two coal-fueled units of the Intermountain Power Project and allocation of low-cost hydroelectric power from the ongoing uprating at Hoover Dam – continued to provide a reliable and economical resource base for Anaheim consumers. These resources

accounted for 73 percent of the Department's total production of electrical energy.

Firm system purchases from Pacific Gas and Electric, Deseret Generation & Transmission Co-operative, and seasonal purchases from the California Department of Water Resources accounted for 24 percent of total production. The Department purchased approximately 2 percent of its power supply from Edison.

The Department's participation in the Western Systems Power Pool and the purchase of non-firm economy energy from other Western utilities contributed to increased diversity and lower power supply costs. Non-firm purchases were 1 percent of the system total.

Electric base rates were increased October 1, 1989, the first increase since September 1984. Coupled with an increase in the Power Cost Adjustment in April 1989, the average billing price per kWh for residential consumers increased 7.6 percent in fiscal 1990 compared to the prior year.

In spite of the increases, at year-end Anaheim residential electric consumers were paying approximately 21 percent less on the average than consumers in surrounding communities. In fact, a typical one-month 500 kWh residential bill was $43.48, exactly 8 cents lower than in July 1985. During the same time period, the consumer price index was up 20.5 percent.

Electricity sales overall climbed to a record 2.807 billion kWh in fiscal 1990, up 387.5 million kWh, or 16 percent, compared to the prior fiscal year.

Sales of surplus energy to other electric utilities were 587.9 million kWh, up 363.0 million kWh, or 161.5 percent, and accounted for about 94 percent of the overall increase in sales.

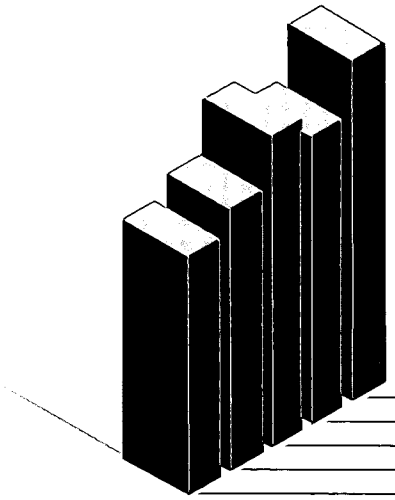
Retail sales, excluding sales to other electric utilities, were 2.219 billion kWh, up 24.4 million kWh, or 1 percent. Residential sales were down by 103,785 kWh compared to fiscal 1989, while all other classes except irrigation and pumping recorded sales gains. Irrigation and pumping were down primarily as a result of reduced electric use for water system wells due to increased purchases from MWD.

Average annual use per customer was down in the three major retail customer classes, due to an increase in the number of customers and relatively cooler weather.

Electric system energy use and demand are temperature sensitive and are driven significantly by the increased use of air conditioning during hot weather. Anaheim experienced relatively mild weather for a fifth consecutive year, and fiscal 1990 was cooler overall than the preceding two years.

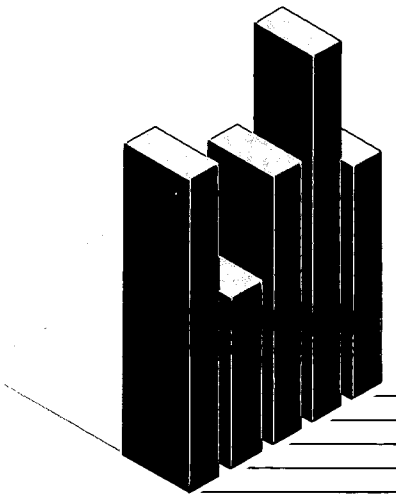
There were 263 degree days above 72 degrees F recorded in fiscal 1990, compared to 426 and 285 degree days in the prior two years. Degree days indicate the number of degrees and hours the temperature remains above a stated level, in this case, 72 degrees F.

An early summer heat wave, with temperatures soaring above 100 degrees F, pushed system electric demand to a new all-time peak of 522.7 MW on June 27, 1990.



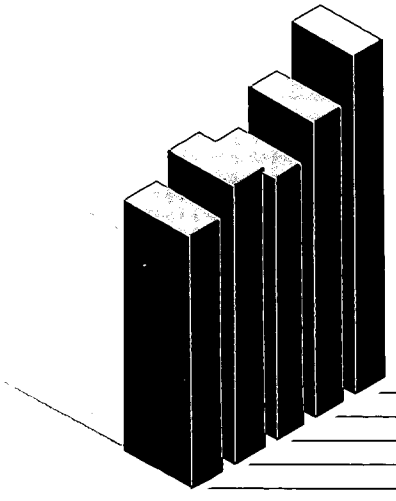
Fiscal Year
Electric Sales
(Billion Killowatt-Hours)

89-90	**2.81**
88-89	**2.42**
87-88	**2.66**
86-87	**2.20**
85-86	**2.10**



Fiscal Year
Temperature
(Degree Days Above 72 F)

89-90	**263**
88-89	**426**
87-88	**285**
86-87	**204**
85-86	**383**



Fiscal Year
Electric Peak Demand
(Thousand Kilowatts)

89-90	**522.7**
88-89	**493.0**
87-88	**470.9**
86-87	**471.4**
85-86	**465.6**

Water System Operating Statistics

Water Supply	1989-90	1988-89	1987-88	1986-87	1985-86
Water Production:					
From Metropolitan Water District, million gallons	9,603.7	8,406.9	8,212.8	6,623.8	7,616.7
Percent of Total Production	41%	35%	37%	28%	33%
From Water System Wells, million gallons	13,823.9	15,565.6	14,284.1	16,887.6	15,337.1
Percent of Total Production	59%	65%	63%	72%	67%
Total Production, million gallons	23,427.6	23,972.5	22,496.9	23,511.4	22,953.8
Capacity—gallons per minute:					
From Metropolitan Water District Connections	58,435	58,435	58,435	58,435	58,435
From Water System Wells, average	46,724	47,209	48,130	41,340	43,022
Filtration Plant Capacity	10,417	10,417	10,417	10,417	10,417
Total Supply Capacity	115,576	116,061	116,982	110,192	111,874
Peak Day Distribution, million gallons	94.4	97.0	96.9	98.7	102.0
Average Daily Distribution, million gallons	65.3	64.1	63.2	63.7	62.9
Water Use					
Average Number of Customers:					
Residential	47,422	47,162	47,007	46,677	46,111
Commercial/Industrial	5,487	5,381	5,328	5,290	5,249
Municipal	362	361	349	346	320
Other	1,332	1,223	1,085	1,105	1,038
Total—all classes	54,603	54,127	53,769	53,418	52,718
Millions of Gallons Sold:					
Residential	12,976	12,684	12,631	12,625	12,381
Commercial/Industrial	8,330	8,145	8,393	8,394	8,108
Municipal	699	633	612	629	633
Other	255	294	217	310	270
Total—all classes	22,260	21,756	21,853	21,958	21,392
Anaheim Population Served	247,822	244,300	243,021	242,161	237,506
Population Served Outside City, estimated	5,100	5,100	5,100	5,100[1]	5,900
Total Population Served	252,922	249,400	248,121	247,261	243,406
Average Daily Sales Per Capita, gallons	241	239	241	243	241
Growth of System					
Active Wells	28	31	32	32	32
Reservoirs	12	10	10	10	10
Water Storage, million gallons:					
Treated	83	77	77	77	77
Untreated	920	920	920	920	920
Water Mains, miles	712	701	698	688	680
Fire Hydrants	6,636	6,513	6,448	6,358	6,196

[1] *Reduction in average number of people per dwelling unit for estimating purposes.*

Water System Sales Comparison

	Residential	Commercial and Industrial	Irrigation	Municipal	Other	All Classes Combined
Revenue from sale of water:						
Year ended June 30—						
1990	$14,482,000	$5,936,000	$ 89,000	$595,000	$768,000	$21,870,000
1989	13,416,000	5,862,000	113,000	513,000	600,000	20,504,000
Increase (decrease)	$ 1,066,000	$ 74,000	($ 24,000)	$ 82,000	$168,000	$ 1,366,000
Percent increase (decrease)	8.0%	1.3%	(21.2%)	(16.0%)	28.0%	6.7%
Units of 100 cubic feet sold:						
Year ended June 30—						
1990	17,347,338	11,136,710	171,978	934,552	169,121	29,759,699
1989	16,957,194	10,889,296	186,305	846,489	215,680	29,094,964
Increase (decrease)	390,144	247,414	(14,327)	88,063	(46,559)	664,735
Percent increase (decrease)	2.3%	2.3%	(7.7%)	10.4%	(21.6%)	2.3%
Average billing price per 100 cubic feet:						
Year ended June 30—						
1990	$ .8348	$ .5330	$ .5175	$ .6367	$ 4.5470	$ .7349
1989	.7912	.5383	.6065	.6060	2.7819	.7047
Increase (decrease)	$ .0436	($ .0053)	($ .0890)	$ .0307	$ 1.7651	$ .0302
Percent increase (decrease)	5.5%	(1.0%)	(14.7%)	5.1%	63.5%	4.3%
Average number of customers:						
Year ended June 30—						
1990	47,422	5,487	41	362	1,291	54,603
1989	47,162	5,381	51	361	1,172	54,127
Increase (decrease)	260	106	(10)	1	119	476
Percent increase (decrease)	0.6%	2.0%	(19.6%)	0.3%	10.2%	0.9%
Average annual use per customer in units of 100 cubic feet:						
Year ended June 30—						
1990	366	2,030	4,195	2,581		
1989	360	2,024	3,653	2,345		
Increase	6	6	542	236		
Percent increase	1.7%	0.3%	14.8%	10.1%		

Amounts represent revenue derived solely from billings.

Water Utility Fund Summary of Results for Operations and Net Revenues Available for Long-term Revenue Bond Debt Service

	1989-90	1988-89	1987-88	1986-87	1985-86
			(In thousands)		
Revenues:					
Sale of water:					
Residential	$14,482	$13,416	$12,859	$11,969	$11,120
Commercial/Industrial	5,936	5,862	5,641	5,578	5,185
Municipal	595	513	482	483	453
Other	857	713	598	557	479
Billed revenue from sale of water	21,870	20,504	19,580	18,587	17,237
Change in unbilled water revenue[1]	156	509	(293)	1,802	
Total revenue from sale of water	22,026	21,013	19,287	20,389	17,237
Other (including interest income)	1,533	1,565	1,155	1,127	1,172
Total gross revenues	23,559	22,578	20,442	21,516	18,409
Operating expenses (excluding depreciation and amortization):					
Cost of water	9,071	8,184	7,933	7,856	8,164
Operations	2,669	2,526	2,353	2,124	2,384
Maintenance	3,763	3,057	2,955	3,035	2,549
Total operating expenses	15,503	13,767	13,241	13,015	13,097
Net revenues	$ 8,056	$ 8,811	$ 7,201	$ 8,501	$ 5,312
Revenue bond debt service requirements[2]	$ 1,817	$ 1,817	$ 1,817	$ 1,381	$ 1,625
Times revenue bond debt service covered by net revenues	4.4	4.8	4.0	6.2	3.3

[1]*To provide a better matching of costs and revenues, effective with fiscal year ended June 30, 1987, the Water Utility changed its accounting policy for recording revenue. The new method provides for the accrual of estimated unbilled revenue for water consumed but not billed at the end of a fiscal period. Previously, revenues were recorded when billed to customers.*

	1989-90	1988-89	1987-88
Estimate of unbilled water revenue for:			
Fiscal year	*$ 2,174*	*$ 2,018*	*$ 1,509*
Prior fiscal year	*2,018*	*1,509*	*1,802*
Change in unbilled water revenue	*$ 156*	*$ 509*	*($ 293)*

[2]*Excludes debt service on a portion of the 1984 $6,650,000 Water Revenue Bond Issue which has been advance refunded. See Note 4 to Water Utility Financial Statements.*

Electric System Operating Statistics

	1989-90	1988-89	1987-88	1986-87	1985-86
Power Supply					
Own Generation:					
San Onofre Nuclear Generating Station, kWh	417,591,656	492,562,602	427,297,605	476,785,844	304,229,709
Firm Purchases:					
Intermountain Power Project, kWh	1,693,678,000	1,434,285,100	1,585,321,000	942,740,589	82,560,196
Hoover, kWh	47,824,000	45,733,000	53,407,000	4,307,000	
Power Contracts, kWh	701,610,000	689,994,000	634,001,745	56,267,180	
Southern California Edison Company, kWh	55,376,533	73,036,778	59,394,969	265,134,768	1,391,023,534
Non-Firm Purchases, kWh	37,162,457	107,842,787	86,924,376	618,624,268	421,189,000
System Total, kWh	2,953,242,646	2,843,454,267	2,846,346,695	2,363,859,649	2,199,002,439
System Peak Demand, kW	522,720	492,960	470,880	471,360	465,600
Electric Use					
Average Number of Customers:					
Residential	84,540	83,131	82,030	81,043	79,967
Commercial	14,674	14,337	13,942	13,353	12,901
Industrial	606	589	559	546	533
Other	178	169	167	165	166
Other Utilities	6	2	1	1	1
Total—all classes	100,004	98,228	96,699	95,108	93,568
Kilowatt-Hour Sales:					
Residential	498,665,200	498,768,985	483,700,118	470,309,712	475,055,915
Commercial	524,116,063	518,876,801	510,345,288	490,775,601	480,552,216
Industrial	1,159,838,729	1,139,252,784	1,121,912,987	1,066,954,519	1,048,774,980
Other	36,092,030	37,356,996	35,638,126	41,220,770	37,037,292
Other Utilities	587,866,427	224,818,564	509,874,878	129,519,302	53,766,000
Total—all classes	2,806,578,449	2,419,074,130	2,661,471,397	2,198,779,904	2,095,186,403
Average Annual kWh per Residential Customer	5,899	6,000	5,897	5,803	5,941
Growth of System					
Transmission, 69kV, circuit miles	60	59	59	59	59
Distribution, 12 kV and lower, circuit miles:					
Overhead	888	888	888	890	890
Underground	410	404	398	395	379
Total	1,358	1,351	1,345	1,344	1,328
Transformer Capacity, kVa:					
220kV to 69kV	840,000	840,000	840,000	840,000	840,000
69kV to 12kV	632,000	592,000	592,000	552,000	552,000
12 kV to Customer	1,034,000	1,021,000	974,000	930,000	905,000

Electric System Sales Comparison

	Residential	Commercial	Industrial	Public Street and Highway Lighting	Irrigation and Pumping	Other Electric Utilities	All Classes Combined
Revenue from sale of electricity:							
Year ended June 30 —							
1990	$ 40,845,000	$ 48,174,000	$ 93,430,000	$ 1,086,000	$ 1,622,000	$ 8,520,000	$ 193,677,000
1989	37,970,000	44,767,000	86,746,000	1,007,000	1,686,000	3,655,000	175,831,000
Increase (decrease)	$ 2,875,000	$ 3,407,000	$ 6,684,000	$ 79,000	($ 64,000)	$ 4,865,000	$ 17,846,000
Percent increase (decrease)	7.6%	7.6%	7.7%	7.8%	(3.8%)	133.1%	10.1%
Kilowatt-hours sold:							
Year ended June 30 —							
1990	498,665,200	524,116,063	1,159,838,729	13,186,909	22,905,121	587,866,427	2,806,578,449
1989	498,768,985	518,876,801	1,139,252,784	12,430,597	24,926,399	224,818,564	2,419,074,130
Increase (decrease)	(103,785)	5,239,262	20,585,945	756,312	(2,021,278)	363,047,863	387,504,319
Percent increase (decrease)	(0.0%)	1.0%	1.8%	6.1%	(8.1%)	161.5%	16.0%
Average billing price per kilowatt-hour:							
Year ended June 30 —							
1990	$ .0819	$ .0919	$ .0806	$ .0824	$ .0708	$ .0145	$ .0690
1989	.0761	.0863	.0761	.0810	.0676	.0163	.0727
Increase (decrease)	$ .0058	$ .0056	$ .0045	$ .0014	$ .0032	($ .0018)	($ .0037)
Percent increase (decrease)	7.6%	6.5%	5.8%	1.7%	4.7%	(10.9%)	(5.1%)
Average number of customers:							
Year ended June 30 —							
1990	84,540	14,674	606	116	62	6	100,004
1989	83,131	14,337	589	107	62	2	98,228
Increase	1,409	337	17	9	0	4	1,776
Percent increase	1.7%	2.4%	2.9%	8.4%	0.0%	200%	1.8%
Average annual use per customer in kilowatt-hours:							
Year ended June 30 —							
1990	5,899	35,717	1,913,925				
1989	6,000	36,191	1,934,215				
Increase (decrease)	(101)	(474)	(20,290)				
Percent increase (decrease)	(1.7%)	(1.3%)	(1.0%)				

Amounts represent revenue derived solely from billings.

Electric Utility Fund Summary of Results for Operations and Net Revenues Available for Long-term Revenue Bond Debt Service

	1989-90	1988-89	1987-88	1986-87	1985-86
			(In thousands)		
Revenues:					
Sale of electricity:					
Residential	$ 40,845	$ 37,970	$ 37,211	$ 37,145	$ 39,999
Commercial	48,174	44,767	44,874	44,179	46,357
Industrial	93,430	86,746	86,172	84,978	90,272
Other	2,708	2,693	2,730	3,057	2,996
Other utilities	8,520	3,655	7,882	5,089	3,759
Billed revenue from sale of electricity	193,677	175,831	178,869	174,448	183,383
Change in unbilled electric revenue[1]	2,192	(369)	(667)	8,502	
Total revenue from sale of electricity	195,869	175,462	178,202	182,950	183,383
Provision for power cost adjustment	(9,090)	15,936	3,416	826	(10,855)
Provision for rate stabilization	4,952	12,288	9,427	7,291	7,196
Other (including interest income)	8,363	8,009	6,499	5,690	6,638
Total gross revenues	200,094	211,695	197,544	196,757	186,362
Operating expenses (excluding depreciation and amortization):					
Cost of purchased power	124,439	136,570	124,936	108,300	119,744
Fuel used for generation	3,549	4,023	4,399	5,227	2,913
Operations	20,673	18,956	17,174	17,127	15,724
Maintenance	11,534	10,719	8,937	7,806	7,586
Total operating expenses	160,195	170,268	155,446	138,460	145,967
Net revenues	$ 39,899	$ 41,427	$ 42,098	$ 58,297	$ 40,395
Revenue bond debt service requirements[2]	$ 21,387	$ 21,370	$ 21,394	$ 19,852	$ 21,932
Times revenue bond debt service covered by net revenues	1.9	1.9	2.0	2.9	1.8

[1]*To provide a better matching of costs and revenues, effective with fiscal year ended June 30, 1987, the Electric Utility changed its accounting policy for recording revenue. The new method provides for the accrual of estimated unbilled revenue for electricity consumed but not billed at the end of a fiscal period. Previously, revenues were recorded when billed to customers.*

	1989-90	*1988-89*	*1987-88*
Estimate of unbilled electric revenue for the:			
Fiscal year	*$ 9,658*	*$ 7,466*	*$ 7,835*
Prior fiscal year	*7,466*	*7,835*	*8,502*
Change in unbilled electric revenue	*$ 2,192*	*($ 369)*	*($ 667)*

[2]*Excludes debt service on the 1982 and a portion of the 1980 and 1983 bond issues that have been advance refunded. See Note 6 to Electric Utility Financial Statements.*

Management Discussion of Financial Activity

The Public Utilities Department continued its long record of outstanding financial performance in fiscal 1990. Significant financial events in fiscal 1990 included the following:

- Settlement of outstanding litigation with Southern California Edison resulted in a new business relationship and a $10 million reduction in power supply costs.
- Electric system Certificates of Participation in the amount of $44.3 million were issued to finance construction of a 48-megawatt Combustion Turbine Peaking Plant.
- Water and Electric Utility long-term credit ratings were maintained at Aa by Moody's Investors Service.
- After fiscal year end, Standard and Poor's Corporation affirmed its AA rating of Water Utility long-term credit and raised its rating of Electric Utility long-term credit to AA-.
- $3.7 million of one-year Water Revenue Anticipation Notes were sold at an interest rate of 6.15 percent to retire maturing notes.

Water Utility

The Water Utility's operating revenues totaled $22,147,000 in fiscal 1990, an increase of $892,000 over the prior fiscal year.

This increase was primarily the result of the increase in water rates effective September 1, 1989, and the increase in unbilled revenue over the prior year. In fiscal 1990, billed revenue from the sale of water was $21,870,000, an increase of $1,366,000 over the prior fiscal year. In fiscal 1990, unbilled revenue of $2,174,000 represents an increase of $156,000 over fiscal 1989.

Water Utility operating expenses in fiscal 1990 were $16,814,000, an increase of $1,872,000 over the prior fiscal year.

The $9,071,000 expended for cost of water in 1990 reflects an increase of $887,000 over the prior year and was due to increased distribution, including purchases and water drawn from storage during the fiscal year. Water purchased from the Metropolitan Water District of Southern California (MWD) accounted for 41 percent of the total water production in fiscal 1990, compared to 35 percent in the prior year. Purchases of treated water from MWD included water made available at a reduced rate under MWD's "water-banking" conservation program.

Net non-operating income increased $551,000 over fiscal 1989 largely as a result of a one-time refund of $286,000 which reduced fiscal 1990 interest expense on the lease for the Allen-McColloch Pipeline.

Other operations and maintenance expenses of $6,432,000 for the year were $849,000 higher than fiscal 1989. Approximately $706,000 of the increase was a result of a higher level of service connection maintenance than in prior years.

Water Utility net income of $5,467,000 in fiscal 1990 was down $429,000 from the prior fiscal year.

During the year, the value of water system facilities in service increased $15.8 million.

About $6.0 million was financed by current revenues and borrowed funds. The remaining $9.8 million of the increase was in dedicated water system facilities contributed by developers and others.

Electric Utility

Electric Utility operating revenues totaled $192,529,000 in fiscal 1990, a decrease of $11,938,000 compared to the prior year.

Billed revenue from the sale of electricity was $193,677,000 for the fiscal year, up $17.8 million over the prior year. Revenue from sales to other utilities was $8.5 million in fiscal 1990, representing an increase of $4.9 million from the prior year. The major reason for the increase in sales to other utilities was settlement of a dispute with Edison over the price of power that it has purchased from the City. Retail sales to Anaheim consumers of $185.2 million represented an increase of $12.9 million over the prior year.

Unbilled revenue from the sale of electricity in fiscal 1990 was $9,658,000, an increase of $2,192,000 from the prior fiscal year. The increase in unbilled revenue was the result of a surge in kilowatt-hour sales due to an early summer heat wave.

Increases in billed and unbilled revenue were offset by decreased transfers from the Power Cost Adjustment Account (PCA) and the Rate Stabilization Account (RSA). The PCA and RSA transfers decreased $25.0 million and $7.3 million, respectively, in fiscal 1990.

The Department's rate stabilization policy provides that refunds recovered from Edison for wholesale electric rate overcharges should be deposited in the RSA. These refunds are then used to stabilize base electric rates. Transfers from the RSA to Electric Revenue are made monthly and are based upon the recorded kilowatt-hour sales.

Approximately $41.2 million in refunds and interest have been placed in the RSA since the account was established in 1986. No additional refunds were received in fiscal 1990 and the balance of the RSA at June 30, 1990, was zero. Department management is projecting significant additional refunds in the future. The projections are based on decisions of administrative law judges assigned the wholesale rate cases. Those decisions are now before the Federal Energy Regulatory Commission for review and action.

Electric Utility operating expenses were $169,516,000 in fiscal 1990, down $10,117,000 from the prior fiscal year. Purchased power cost of $124,439,000 was down $12,131,000 from the prior fiscal year.

The decrease in purchased power cost was primarily the result of the settlement of several disputes between the Department and Edison which resulted in a new business, or operating, relationship between the Department and Edison. The net financial impact on the Department in fiscal 1990 was a $10 million reduction in purchased power costs.

Fuel used for generation was $3.5 million in fiscal 1990, down $500,000 from the prior year. The decrease was due primarily to planned refueling activities at both Units 2 and 3 of San Onofre Nuclear Generating Station (SONGS) during the fiscal year. In the prior year,

only Unit 3 was out of service for planned refueling.

Other operation and maintenance expenses were $32,207,000, up $2,532,000 compared to fiscal 1989. Operating expenses increased approximately $1.7 million due to increased staffing levels in the engineering, field, and finance and administration support groups. Maintenance expenses were $11,534,000, up $815,000 over fiscal 1989.

Electric Utility net income was $13,506,000 in fiscal 1990, down $696,000 from the prior fiscal year.

Investment in construction of new electric system facilities totaled $30.8 million for fiscal 1990. Of this amount, $25.8 million consisted of $9.8 million in electric subtransmission and distribution facilities in Anaheim and $16.0 million for construction of the new 48-megawatt Combustion Turbine Peaking Plant. The remaining $5.0 million was invested in construction and nuclear fuel purchases related to the Department's ownership interest in SONGS.

Short-term Financing

Short-term financing continues to play a key role in the Department's financial operations. As of June 30, 1990, the Water Utility had $3.7 million in short-term notes outstanding. Note proceeds are used to help pay for water system capital replacements. The Water Utility short-term notes are rated MIG 1 and SP-1+ by Moody's and Standard and Poor's, respectively.

At June 30, 1990, the Electric Utility short-term tax-exempt commercial paper outstanding totaled $20,450,000. The Department uses this commercial paper to finance nuclear fuel purchases and processing for its interest in SONGS. The Electric Utility notes are rated by Moody's and Standard and Poor's as Prime-1 and A-1, respectively.

The Department's note program is backed by a Revolving Credit Agreement with Bank of America NT&SA and Morgan Guaranty Trust Company. Bank of America backs $13.0 million of the Electric Utility's $21.0 million credit line. Morgan Guaranty Trust Company backs $8.0 million of the Electric Utility line and the entire Water Utility credit line. The credit lines may be used to pay maturing notes in the event the Department cannot refinance the notes as they mature.

Long-term Financing

Strong ratings of the Department's long-term water and electric revenue bonds are another indication of the overall financial strength of the Water and Electric Utilities. Strong management and sound planning continued to be recognized in the high ratings maintained for Water and Electric Utility securities by Moody's and Standard and Poor's. Aa ratings by Moody's were maintained for both the Water and Electric Utility revenue bonds. Standard and Poor's maintained the revenue bond ratings of the Water Utility at AA and the Electric Utility at A+. Subsequent to the end of the fiscal year, Standard and Poor's raised the Electric Utility's long-term bond rating to AA-.

At June 30, 1990, revenue bonds outstanding totaled $18,690,000 in the Water Utility and $225,010,000 in the Electric Utility. During fiscal 1990, maturing revenue bond principal payments of $465,000 and $6,900,000 were paid by the Water and Electric Utilities, respectively.

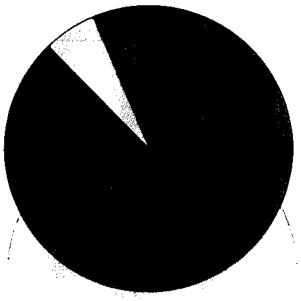
Self-Supporting

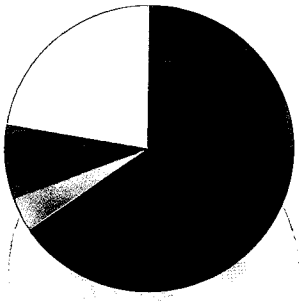
In addition to providing reliable water and electric service at economical rates, the Public Utilities Department is self-supporting.

It pays all costs of operation, including payments to the city for services rendered by various municipal departments, as well as debt service payments and part of the cost of capital improvements from current revenues. The remaining cost of water and electric system capital improvements is met through the sale of revenue bonds or revenue anticipation notes and contributions by developers and others in aid of construction.

The Department also annually transfers to the city a percentage of the prior year's gross revenues from retained earnings, up to a maximum of 4 percent. In fiscal 1990, the Department transferred a total of $8,812,000 from retained earnings to the General Fund of the City in support of general municipal government, the maximum allowable under the City Charter. The Water and Electric Utilities transferred $875,000 and $7,937,000, respectively.

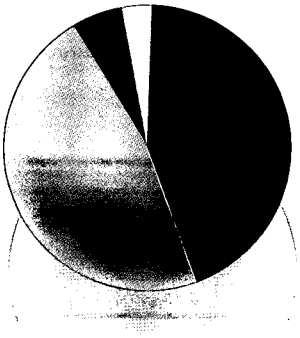
1989-1990 Water Dollar

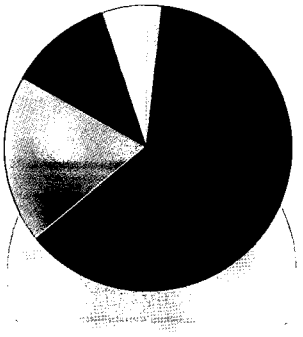




Source of Revenue	¢	*Distribution of Revenue*	¢
■ Residential Sales	61	■ Water Supply	38
■ Commercial and Industrial Sales	25	■ Operation and Maintenance	27
□ Other Sales	7	□ Transfer to City General Fund	4
■ Other Revenue	7	■ Debt Service	8
		□ Available for Additions and Replacements	23

1989-1990 Electric Dollar





Source of Revenue	¢	*Distribution of Revenue*	¢
■ Residential Sales	20	■ Purchased Power Supply	62
■ Commercial Sales	24	■ Fuel Used for Generation	2
▨ Industrial Sales	47	□ Operation and Maintenance	16
■ Other Sales	6	■ Transfer to City General Fund	4
□ Other Revenue	3	□ Debt Service	11
		□ Available for Additions and Replacements	5

City of Anaheim

Public Utilities

Department

Years Ended June 30, 1990 and 1989

Water Utility Fund

Audited

Financial Statements

City of Anaheim Water Utility Fund Balance Sheets

	June 30	
	1990	1989
	(In thousands)	
Assets		
Utility plant:		
Land	$ 1,554	$ 1,554
Source of water supply	10,654	10,612
Pumping	6,285	4,990
Transmission and distribution	121,591	107,097
General	2,700	2,701
	142,784	126,954
Less — accumulated depreciation and amortization	(25,301)	(23,334)
	117,483	103,620
Construction work in progress	7,738	7,722
	125,221	111,342
Restricted cash and investments	14,216	12,544
Current assets:		
Cash and investments	860	1,250
Customer and other accounts receivable, net	4,015	4,168
Accrued interest receivable	366	203
Materials and supplies, at average cost	193	168
Purchased water in storage	323	569
	5,757	6,358
Other assets:		
Unamortized bond refunding costs	928	1,004
Unamortized debt issuance costs	341	370
Total assets	$146,463	$131,618

	June 30	
	1990	1989
	(In thousands)	
Equity, liabilities and other credits		
Equity:		
Beginning fund balance contributed by the City	$ 19,280	$ 19,280
Retained earnings	27,777	23,185
Total equity	47,057	42,465
Long-term debt, less current portion	17,730	18,165
Capitalized lease obligation, less current portion	2,565	2,624
Total capitalization	67,352	63,254
Current liabilities (payable from restricted assets):		
Current portion of long-term debt	320	298
Accrued interest	509	522
Customer deposits	1,594	1,321
	2,423	2,141
Current liabilities (payable from current assets):		
Current portion of long-term debt	194	320
Current portion of capitalized lease obligation	58	58
Accounts payable and accrued expenses	2,924	2,433
Short-term debt	3,700	3,700
Customer deposits	260	289
	7,136	6,800
Total current liabilities	9,559	8,941
Other liabilities and deferred credits:		
Contributions in aid of construction	69,552	59,423
Commitments and contingencies		
Total equity, liabilities and other credits	$146,463	$131,618

See accompanying Notes to Financial Statements.

City of Anaheim Water Utility Fund Statements of Income

	June 30	
	1990	1989
	(In thousands)	
Operating revenues:		
Sale of water	$22,026	$21,013
Other operating revenues	121	242
Total operating revenues	22,147	21,255
Operating expenses:		
Cost of water	9,071	8,184
Other operations	2,669	2,526
Maintenance	3,763	3,057
Depreciation and amortization	1,311	1,175
Total operating expenses	16,814	14,942
Operating income	5,333	6,313
Other income (expense):		
Interest and other income	1,412	1,323
Interest expense	(1,278)	(1,740)
	134	(417)
Net income	$ 5,467	$ 5,896

See accompanying Notes to Financial Statements.

Statements of Changes in Retained Earnings

	June 30	
	1990	1989
	(In thousands)	
Balance at beginning of year	$23,185	$18,091
Net income for the year	5,467	5,896
Transfer to the General Fund of the City	(875)	(802)
Balance at end of year	$27,777	$23,185

See accompanying Notes to Financial Statements.

City of Anaheim Water Utility Fund Statements of Cash Flows

	June 30	
	1990	1989
	(In thousands)	
Operating activities:		
Operating income	$ 5,333	$ 6,313
Adjustments to reconcile operating income to net cash provided by operations:		
Depreciation and amortization	1,311	1,175
Amortization of debt issuance costs and bond discount	184	185
Changes in current assets and liabilities:		
Customer and other accounts receivable, net	152	(1,247)
Materials and supplies	(25)	(32)
Purchased water in storage	246	(349)
Accounts payable and accrued expenses	491	479
Customer deposits	244	696
Total adjustments	2,603	907
Net cash provided by operations	7,936	7,220
Capital and related financing activities:		
Proceeds from borrowings	3,700	3,700
Principal reduction in debts and capitalized lease	(4,377)	(4,849)
Interest paid	(1,291)	(1,747)
Transfer to General Fund of the City	(875)	(802)
Contributions in aid of construction	1,536	983
Net cash provided by (used in) financing activities	(1,307)	(2,715)
Investing activities:		
Capital expenditures	(6,597)	(5,971)
Interest received	1,249	1,292
Net cash used in investing activities	(5,348)	(4,679)
Increase (decrease) in cash and investments	1,281	(174)
Cash and investments, at beginning of year	13,795	13,968
Cash and investments, at end of year	$15,076	$13,794
Schedule of noncash financing and investing activities:		
Contributions in aid of construction	$ 9,776	$ 1,058

See accompanying Notes to Financial Statements.

Note 1 *Summary of Significant Accounting Policies*

Basis of accounting

The Water Utility Fund (the Water 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 water system operations was transferred to Water Utility equity. The financial statements of the Water Utility are presented in conformity with generally accepted accounting principles and accounting principles and methods prescribed by the California Public Utilities Commission (CPUC). The Water Utility is not subject to the regulations of the CPUC.

Utility plant and depreciation

The cost of additions to utility plant and 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:

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 Water 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 Water Utility's share of the City's pool and in accounts held by the fical agents.

Revenue recognition

To provide a better matching of costs and revenues, effective with fiscal year ended June 30, 1987, the Water Utility changed its accounting policy for recognizing revenue to a method which provides for the accrual of estimated unbilled revenues for water 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 Water Utility's Rates, Rules and Regulations include a water commodity adjustment formula by which billings to customers are subject to adjustment, up or down, to reflect variations in the cost of water production to the Water Utility.

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 Water 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 $290,000 and $245,000 for the Water Utility at June 30, 1990 and 1989, 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 1989 financial statements to conform to the 1990 presentation.

Note 2 *Operating Expenses*

Operating expenses shared with the Electric Utility amounted to $16,520,000 and $15,203,000 for the fiscal years ended June 30, 1990 and 1989, respectively, of which $3,303,000 and $3,041,000 were allocated to the Water Utility.

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

Note 3 *Short-Term Debt*

On September 12, 1989 the City issued $3,700,000 of Water Revenue Anticipation Notes at an interest rate of 6.15 percent. At the same time, the City paid off $3,700,000 of one year Water Revenue Notes at 6.2 percent issued in 1988. The Water Utility maintained a $4.3 million revolving credit agreement, which can be used in the event that the debt cannot be refinanced as it matures.

Note 4 *Long-Term Debt*

The Water Utility is indebted as follows:

	June 30	
	1990	1989
Water Revenue Bonds, 1980 Series, TIC 8.6401%, dated January 1, 1980, sold February 26, 1980 in the amount of $7,350,000, of which (1) $3,270,000 at rates ranging from 7.6% to 8.0% mature serially to July 1, 1999 in annual principal installments ranging from $185,000 to $400,000, and (2) $3,185,000 at rates of 8% are term bonds maturing July 1, 2005, subject to mandatory call and redemption from July 1, 2000 to July 1, 2005 in annual principal installments ranging from $435,000 to $640,000; total debt service of $10,741,000 to maturity	$ 6,095,000	$ 6,280,000
Water Revenue Bonds, 1984 Series, TIC 10.317%, dated October 1, 1984, sold October 9, 1984 in the amount of $6,650,000 at rates ranging from 7.4% to 10.4%, of which $5,370,000 maturing April 1, 1996 through 2009 were advance refunded on March 31, 1986; the remaining bonds mature serially to April 1, 1995 in annual principal installments ranging from $120,000 to $180,000; total debt service of $992,000 to maturity	765,000	885,000
Water Revenue Bonds, 1986 Series, TIC 7.048%, dated March 1, 1986, sold March 4, 1986 in the amount of $7,160,000, of which (1) $2,735,000 at rates ranging from 5.5% to 6.9% mature serially to April 1, 2001 in annual principal installments ranging from $75,000 to $415,000, (2) $1,405,000 at rates of 5.75% are term bonds maturing April 1, 2004, subject to mandatory call and redemption from April 1, 2002 to April 1, 2004 in annual principal installments ranging from $445,000 to $495,000, and (3) $2,920,000 at rates of 5.75% are term bonds maturing April 1, 2009, subject to mandatory call and redemption from April 1, 2005 to April 1, 2009 in annual principal installments ranging from $520,000 to $650,000; total debt service of $12,186,000 to maturity	6,915,000	6,990,000
Water Revenue Bonds, 1988 Series, TIC 7.3765%, dated January 1, 1988, sold January 12, 1988 in the amount of $5,000,000 at rates ranging from 6.3% to 7.6%, maturing serially to October 1, 2012 in annual principal installments ranging from $85,000 to $425,000; total debt service of $10,144,000 to maturity	4,915,000	5,000,000
Total revenue bond debt	18,690,000	19,155,000
Note Payable to General Fund of the City, 7%, issued July 1, 1980 in the amount of $1,021,000, the final principal and interest payment of $144,000 was made June 1, 1990.		139,000
Note Payable to Internal Service Fund of the City, 8.95%, issued October 13, 1984 in the amount of $335,000, semi-annual principal and interest payments ranging from $14,000 to $29,000 through October 31, 2003; total debt service of $476,000 to maturity	292,000	306,000
Total other long-term debt	292,000	445,000
Total long-term debt	18,982,000	19,600,000
Less: current portion	514,000	618,000
bond discounts	738,000	817,000
	$17,730,000	$18,165,000

Note 4 *Long-Term Debt (continued)*

Annual debt service requirements at June 30, 1990 to maturity are as follows:

	Revenue Bond Debt			Other Long-Term Debt			Total All Long-Term
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	Debt
1991	$ 500,000	$ 1,316,000	$ 1,816,000	$ 14,000	$ 23,000	$ 37,000	$ 1,853,000
1992	540,000	1,277,000	1,817,000	16,000	22,000	38,000	1,855,000
1993	580,000	1,235,000	1,815,000	18,000	21,000	39,000	1,854,000
1994	625,000	1,189,000	1,814,000	22,000	19,000	41,000	1,855,000
1995	675,000	1,139,000	1,814,000	16,000	18,000	34,000	1,848,000
Thereafter	15,770,000	9,217,000	24,987,000	206,000	81,000	287,000	25,274,000
	$18,690,000	$15,373,000	$34,063,000	$292,000	$184,000	$476,000	$34,539,000

Current interest costs of $475,000 and $387,000 have been included in Construction work in progress for fiscal years ended June 30, 1990 and 1989, 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 1% of the depreciated book value of the utility plant in service.

The bond issues outstanding at June 30, 1990 require the establishment of a Bond Service Account 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 March 31, 1986, the Water Utility defeased a portion of the Water Revenue Bonds, 1984 Series, in the aggregate principal amount of $5,370,000 at rates ranging from 9.7% to 10.4%, with a portion of the proceeds from the sale of $7,160,000 of Water Revenue Bonds, 1986 Series at rates ranging from 5.0% to 6.9%. The excess of the amount required to advance refund the 1984 Bonds over the carrying value of those bonds at the refunding date amounted to $1,250,000. This amount is being deferred and amortized over the life of the 1986 Bonds using the effective interest method. At June 30, 1990, outstanding principal of the refunded 1984 Bonds totaled $5,370,000. Over the life of the 1986 Bonds the Water Utility expects to save approximately $1,049,000 in debt service as compared to the refunded 1984 Bonds.

Restricted cash and investments includes reserved amounts, as well as undisbursed bond proceeds, as follows:

	June 30	
	1990	1989
Held by Fiscal Agent:		
Bond Reserve Fund	$ 1,887,000	$ 1,910,000
Bond Service Fund	449,000	443,000
Held by City Treasurer:		
Bond Service Account	331,000	328,000
Renewal and Replacement Account	1,131,000	1,036,000
Restricted bond proceeds	10,418,000	8,827,000
	$14,216,000	$12,544,000

The Water Utility cash expenditures for interest expense for the years ended June 30, 1990 and 1989 were $1,529,000 and $1,899,000, respectively.

Note 5 *Capitalized Lease Obligation*

The City has a long-term non-cancelable lease with the Municipal Water District of Orange County to finance the acquisition of a 7.2% share in the capacity of the Allen-McColloch Pipeline. The lease provides for semiannual payments of $147,000 commencing August 1, 1981 and continuing until February 1, 2008. Future minimum lease payments under this lease are as follows:

Fiscal Year	
1991	$ 294,000
1992	294,000
1993	294,000
1994	294,000
1995	294,000
Thereafter	3,822,000
	5,292,000
Less interest at 8.8%	2,669,000
Present value of future minimum lease payments	$2,623,000
Current portion	$ 63,000
Long-term portion	2,560,000
	$2,623,000

The asset related to this lease is recorded in Utility plant, Transmission and distribution, and at June 30, 1990 amounted to $3,059,000. The related accumulated amortization at June 30, 1990 and 1989 was $346,000 and $305,000, respectively. Amortization expense amounted to $41,000 and $40,000 for the fiscal years ended June 30, 1990 and 1989, respectively.

Note 6 *Pension Plan*

The City has a contributory pension plan for its full-time employees under the State of California Public Employees' Retirement System. Information is not available separately for the Water 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 7 *Self-Insurance Program*

The Water 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 Water Utility. Effective July 1, 1986, the City became self-insured. Costs relating to the litigation of claims are charged to expense as incurred.

Note 8 *Cash and Investments*

At June 30, 1990, the carrying amount of the Water Utility's share of the City's pooled deposits was $3,909,000. Of this amount, $3,034,000 is insured or collateralized with securities held by the City or its agent in the City's name. The remaining $875,000 is collateralized with securities held by the pledging financial institution's trust department in the City's name.

At June 30, 1990, all of the City's pooled investments were insured or registered with the exception of amounts invested by fiscal agents. A summary of the Water Utility's participation in the City's pooled investments is allocated based on the overall percentage participation as follows:

U.S. government securities	$ 3,126,000
Bankers acceptances	238,000
Repurchase agreements	25,000
Commercial paper	4,432,000
Local agency investment fund (state pool)	993,000
Controlled by City Treasurer	8,814,000
Amounts invested by fiscal agents	2,353,000
Total investments	$11,167,000

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 9 — *Commitments and Contingencies*

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 water 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 Water Utility as of June 30, 1990.

Capital expenditures

The Water Utility's budget for the fiscal year ending June 30, 1991 provides for capital expenditures of approximately $11,444,000 of which $5,915,000 is expected to be funded by water revenue bond proceeds and contributions in aid of construction.

Substantial commitments have been made in connection therewith.

Note 10 *Subsequent Events*

On August 14, 1990, the City issued $9,000,000 of Water Revenue Bonds, 1990 Series, dated July 1, 1990. The Bonds were sold at a true interest cost of 7.0226 percent with rates ranging from 6.25 to 7.00 percent.

On September 12, 1990, the City paid off the one year, $3,700,000 Water Revenue Anticipation Notes issued September 12, 1989; at the same time the City sold a new issue of $3,700,000 eight month Water Revenue Anticipation Notes at a rate of 6.15 percent.

Independent Auditors' Report

To the Honorable City Council City of Anaheim, California

We have audited the accompanying balance sheets of the Water Utility Fund of the City of Anaheim, California as of June 30, 1990 and 1989, 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 Water 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 Water Utility Fund of the City of Anaheim, California as of June 30, 1990 and 1989, 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

KPMG Peat Marwick
October 12, 1990
Orange County, California

City of Anaheim

Public Utilities

Department

Years Ended June 30, 1990 and 1989

Electric Utility Fund

Audited

Financial Statements

City of Anaheim Electric Utility Fund Balance Sheets

	June 30	
	1990	1989
	(In thousands)	
Assets		
Utility plant:		
Production	$175,529	$172,914
Transmission	12,370	12,315
Distribution	103,685	94,691
General	11,581	11,288
	303,165	291,208
Less — accumulated depreciation	(74,441)	(65,838)
	228,724	225,370
Construction work in progress	27,919	8,419
Nuclear fuel, at amortized cost	8,543	9,213
	265,186	243,002
Restricted assets:		
Cash and investments	81,840	52,778
Other	446	414
	82,286	53,192
Current assets:		
Cash and investments	29,289	53,371
Customer and other accounts receivable, net	32,695	19,757
Prepaid purchased power	2,107	1,468
Accrued interest receivable	1,684	2,047
Materials and supplies, at average cost	3,492	2,817
	69,267	79,460
Other assets:		
Unamortized bond refunding costs	23,026	25,274
Unamortized project costs	5,760	5,938
Unamortized debt issuance costs	1,961	1,563
	30,747	32,775
Total assets	$447,486	$408,429

	June 30	
	1990	1989
	(In thousands)	
Equity, liabilities and other credits		
Equity:		
Beginning fund balance contributed by the City	$ 14,629	$ 14,629
Retained earnings	92,261	86,692
Total equity	106,890	101,321
Long-term debt, less current portion	252,692	216,740
Total capitalization	359,582	318,061
Current liabilities (payable from restricted assets):		
Current portion of long-term debt	5,586	5,225
Accrued interest	3,681	3,756
Accounts payable	159	202
Tax-exempt commercial paper	20,450	20,450
	29,876	29,633
Current liabilities (payable from current assets):		
Current portion of long-term debt	1,837	2,054
Accounts payable and accrued expenses	9,100	7,878
Customer deposits	1,070	1,140
Power cost adjustment balancing account		(8,869)
Rate stabilization account		4,869
Test energy billings	3,635	3,315
Surplus energy billing reserve		2,159
Intermountain Power Agency refund account	16,458	24,918
	32,100	37,464
Total current liabilities	61,976	67,097
Other liabilities and deferred credits:		
Contributions in aid of construction	21,087	19,474
Decommissioning reserve	4,841	3,797
Commitments and contingencies		
Total equity, liabilities and other credits	$447,486	$408,429

See accompanying Notes to Financial Statements.

City of Anaheim Electric Utility Fund Statements of Income

	June 30	
	1990	1989
	(In thousands)	
Operating revenues:		
Sale of electricity	$195,869	$175,462
Provision for power cost adjustment	(9,090)	15,936
Provision for rate stabilization	4,952	12,288
Other operating revenues	798	781
Total operating revenues	192,529	204,467
Operating expenses:		
Cost of purchased power	124,439	136,570
Fuel used for generation	3,549	4,023
Other operations	20,673	18,956
Maintenance	11,534	10,719
Depreciation	9,113	8,786
Amortization of cancelled project costs	208	579
Total operating expenses	169,516	179,633
Operating income	23,013	24,834
Other income (expense):		
Interest income	7,565	7,228
Interest expense	(17,072)	(17,860)
	(9,507)	(10,632)
Net income	$ 13,506	$ 14,202

See accompanying Notes to Financial Statements.

Statements of Changes in Retained Earnings

	June 30	
	1990	1989
	(In thousands)	
Balance at beginning of year	$ 86,692	$ 80,001
Net income for the year	13,506	14,202
Transfer to the General Fund of the City	(7,937)	(7,511)
Balance at end of year	$ 92,261	$ 86,692

See accompanying Notes to Financial Statements.

City of Anaheim Electric Utility Fund Statements of Cash Flows

	June 30	
	1990	1989
	(In thousands)	
Operating activities:		
Operating income	$ 23,013	$ 24,834
Adjustments to reconcile operating income to net cash provided by operations:		
Depreciation	9,113	8,786
Amortization of nuclear fuel	3,115	3,531
Amortization of cancelled project costs	208	579
Amortization of debt costs	3,265	3,400
Increase in decommissioning reserve	1,044	1,178
Changes in current assets and liabilities:		
Customer and other accounts receivable, net	(12,956)	4,013
Prepaid purchased power	(639)	(726)
Materials and supplies	(675)	(591)
Accounts payable and accrued expenses	1,179	(11)
Customer deposits	(70)	220
Power cost adjustment balancing account	8,869	(15,829)
Rate stabilization account	(4,869)	(7,992)
Intermountain Power Agency refund account	(8,460)	24,918
Test energy billings	320	251
Surplus energy billing reserve	(2,159)	2,159
Total adjustments	(2,715)	23,886
Net cash provided by operations	20,298	48,720
Capital and related financing activities:		
New long-term debt, net of discount	42,557	
Reduction of long-term debt	(7,280)	(6,810)
Interest paid	(17,147)	(18,055)
Payments to the General Fund of the City	(7,937)	(7,511)
Contributions in aid of construction	1,031	1,715
Debt issuance costs	(596)	(11)
Net cash provided by (used in) financing activities	10,628	(30,672)
Investing activities:		
Capital expenditures	(31,385)	(10,544)
Interest received	7,914	7,070
Nuclear fuel expenditures	(2,445)	(2,545)
Project costs	(30)	(1,725)
Net cash used in investing activities	(25,946)	(7,744)
Increase in cash and investments	4,980	10,304
Cash and investments at beginning of year	106,149	95,845
Cash and investments at end of year	$111,129	$106,149
Schedule of noncash financing and investing activities:		
Contributions in aid of construction	$ 995	$ 629

See accompanying 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.

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 $860,000 and $741,000 for the Electric Utility at June 30, 1990 and 1989, 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 1989 financial statements to conform to the 1990 presentation.

Note 2 *Operating Expenses*

Operating expenses shared with the Water Utility amounted to $16,520,000 and $15,203,000 for the years ended June 30, 1990 and 1989, respectively, of which $13,217,000 and $12,162,000 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.

In addition, the City is participating in other projects which are being financed by outside third parties. If the projects are ultimately abandoned, the Electric Utility will be required to reimburse the third parties for the Electric Utility's share of project costs, which at June 30, 1990 amounted to approximately $200,000.

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, 1990 and 1989 totaled $20,450,000. The interest rates on this debt at June 30, 1990 ranged between 5.90% and 6.15% with maturities ranging from 53 to 97 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 $175,529,000 at June 30, 1990, was included in Utility plant at June 30, 1990. The Electric Utility recorded depreciation related to SONGS of $5,822,000 and $5,720,000 for the years ended June 30, 1990 and 1989, respectively. The Electric Utility made provisions during fiscal year 1990 for disposal costs of spent nuclear fuel and for future decommissioning costs (see Note 1) of $434,000 and $1,044,000, 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 1990.

Note 6 *Long-Term Debt*

The Electric Utility is indebted as follows:

	June 30	
	1990	1989
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 $600,000 to $675,000; total debt service of $1,998,000 to maturity	$ 1,900,000	$ 2,450,000
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 $7,215,000 to maturity	4,475,000	4,625,000
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 mature October 1, 1990 in a principal installment of $2,000,000; total debt service of $2,080,000 to maturity	2,000,000	3,850,000
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 $849,000 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 $3,395,000 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 $2,400,000 to $2,850,000; total debt service of $14,810,000 to maturity	12,400,000	14,650,000
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 $217,406,000 to maturity	126,175,000	127,260,000
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 $1,070,000 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 $127,964,000 to maturity	74,860,000	75,875,000
Total revenue bond debt	$225,010,000	$231,910,000

Note 6 *Long-Term Debt (continued)*

	June 30 1990	June 30 1989
Note Payable to the General Fund of the City, 7%, issued July 1, 1980 in the amount of $2,382,000, the final principal and interest payment of $336,000 was made June 1, 1990	$	$ 324,000
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 $1,909,000 to maturity	1,169,000	1,224,000
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 $87,954,000 to maturity	44,336,000	
Total other long-term debt	45,505,000	1,548,000
Total long-term debt	270,515,000	233,458,000
Less: current portion	7,423,000	7,279,000
bond discounts	10,400,000	9,439,000
	$252,692,000	$216,740,000

Annual debt service requirements at June 30, 1990 to maturity are as follows:

	Revenue Bond Debt			Other Long-Term Debt			Total All Long-Term
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	Debt
1991	$ 7,365,000	$ 14,016,000	$ 21,381,000	$ 59,000	$ 93,000	$ 152,000	$ 21,533,000
1992	7,195,000	13,548,000	20,743,000	1,263,000	2,040,000	3,303,000	24,046,000
1993	7,705,000	13,092,000	20,797,000	1,745,000	2,611,000	4,356,000	25,153,000
1994	8,145,000	12,583,000	20,728,000	1,868,000	2,499,000	4,367,000	25,095,000
1995	8,765,000	12,003,000	20,768,000	1,960,000	2,379,000	4,339,000	25,107,000
Thereafter	185,835,000	85,465,000	271,300,000	38,610,000	30,833,000	69,443,000	340,743,000
	$225,010,000	$150,707,000	$375,717,000	$45,505,000	$40,455,000	$85,960,000	$461,677,000

Note 6 *Long-Term Debt (continued)*

Current interest costs of $749,000 and $578,000 have been included in Construction work in progress for fiscal years ended June 30, 1990 and 1989, 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, 1990 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, 1990, outstanding principal of the refunded 1982 Bonds totaled $55,350,000. 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, 1990, 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, 1990, 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	
	1990	1989
Held by Fiscal Agent:		
Bond Reserve Fund	$22,117,000	$22,487,000
Bond Service Fund	653,000	618,000
Certificates of Participation Proceeds	26,123,000	
Held by City Treasurer:		
Bond Service Account	8,509,000	8,302,000
Renewal and Replacement Account	8,371,000	8,304,000
Decommissioning and fuel reserves	15,127,000	12,344,000
Restricted bond proceeds	941,000	723,000
Other restricted assets	446,000	414,000
	$82,287,000	$53,192,000

The Electric Utility cash expenditures for interest expense for the years ended June 30, 1990 and 1989 were $15,723,000 and $16,371,000, 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 valued 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 $35,705,000. These refunds have been placed in the RSA. The City did not receive any refunds from Edison during the 1990 fiscal year. At June 30, 1990 and 1989, total principal and interest amounted to zero and $4,869,000, 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, 1990, the carrying amount of the Electric Utility's share of the City's pooled deposits was $27,045,000. Of this amount, $20,990,000 is insured or collateralized with securities held by the City or its agent in the City's name. The remaining $6,055,000 is collateralized with securities held by the pledging financial institution's trust department in the City's name.

At June 30, 1990, 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	$21,625,000
Bankers acceptances	1,649,000
Repurchase agreements	172,000
Commercial paper	30,665,000
Local agency investment fund (state pool)	6,868,000
Controlled by City Treasurer	60,979,000
Amounts invested by fiscal agents	23,105,000
Total investments	$84,084,000

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, 1990, 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	
1991	$64,581,000
1992	66,140,000
1993	65,772,000
1994	65,909,000
1995	65,951,000

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, 1990, the Electric Utility's remaining share of these surplus funds was approximately $16.5 million, which the Electric Utility will use to reduce IPP purchased power costs over the next 2 to 3 years.

Test energy billings

On August 5, 1988, as a precondition to entering into an arbitration agreement on disputed billings, Edison paid the City $3,064,000 for contested Intermountain Power Project test energy which is included in cash and offset by a current liability. This money will not be expended for any purpose until such time as the arbitration has been completed.

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, 1990.

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 1990-91 provides for capital expenditures of approximately $41,750,000, of which $27,633,000 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, 1990 and 1989, 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, 1990 and 1989, 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

KPMG Peat Marwick
October 12, 1990
Orange County, California

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City Manager

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Assistant City Manager

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Finance Director

Jack L. White
City Attorney

Leonora N. Sohl
City Clerk

Mary E. Turner
City Treasurer

City Council

Fred Hunter
Mayor

William D. Ehrle
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Tom Daly
Councilman

Irv Pickler
Councilman

Bob D. Simpson
Councilman

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Public Utilities

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