City of Anaheim
Public Utilities Department
Year Ended June 30, 1988

Annual Report

The mission of the City of Anaheim is to provide the leadership and service necessary to make Anaheim a quality place in which to live, work and play.

The goal of the Anaheim Public Utilities Department is to provide the people of the community, the consumer-owners of the water and electric systems, with high quality, reliable water and electric service at the lowest practical cost, in keeping with sound business practices.

The Department's continued success in meeting its goal is essential to the future growth of Anaheim. Through proactive planning and diversified resource development, the Anaheim Public Utilities Department will progress, along with the dynamic and diverse city it serves, into the next century.

Water and Electric System Source & Supply

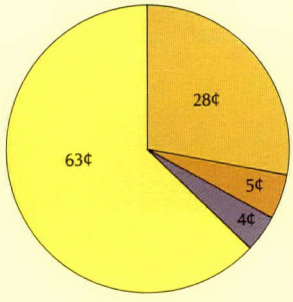
LEGEND

- Transmission lines in which Anaheim has an interest
- Transmission by other Utilities for Anaheim
- Firm generating resources
- Non-firm economy energy resources

1987-1988 Source and Distribution of Revenue

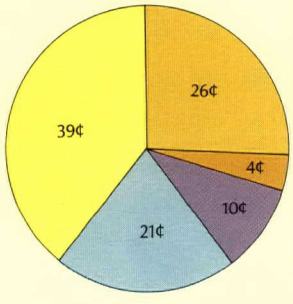
THE 1987-1988 WATER DOLLAR

SOURCE OF REVENUE



- Residential Sales
- Commercial and Industrial Sales
- Other Sales
- Other Revenue

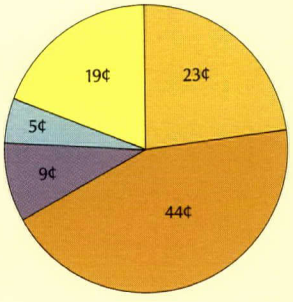
DISTRIBUTION OF REVENUE



- Water Supply
- Operation and Maintenance
- Transfer to City General Fund
- Debt Service
- Available for Additions and Replacements to the System

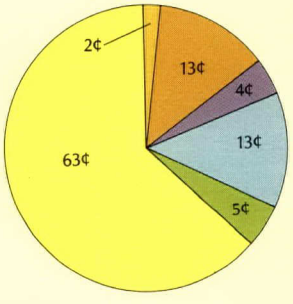
THE 1987-1988 ELECTRIC DOLLAR

SOURCE OF REVENUE



- Residential Sales
- Commercial Sales
- Industrial Sales
- Other Revenue
- Other Sales

DISTRIBUTION OF REVENUE



- Purchased Power Supply
- Fuel Used for Generation
- Operation and Maintenance
- Transfer to City General Fund
- Debt Service
- Available for Additions and Replacements to the System

	WATER SYSTEM		ELECTRIC SYSTEM	
OPERATIONS	**Year ended June 30 1988**	**1987**	**Year ended June 30 1988**	**1987**
Sales	21,853 million gallons	21,958 million gallons	2,661 million kilowatt-hours	2,199 million kilowatt-hours
System peak requirements	96.9 million gallons	98.7 million gallons	470,880 kilowatts	471,360 kilowatts
Average number of customers	53,769	53,418	96,699	95,108
FINANCIAL				
Revenues from sale of water and electricity*	$19,580,000	$18,587,000	$178,869,000	$174,448,000
Net income	$4,438,000	$6,217,000	$14,486,000	$30,670,000
Transferred to City of Anaheim General Fund	$745,000	$702,000	$7,333,000	$7,218,000

**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 $3,416,000 and ($826,000) for the years ended June 30, 1988 and 1987, respectively, and do not reflect any provision for changes in the Rate Stabilization Account which were $9,427,000 and $7,291,000 in the fiscal years ended June 30, 1988 and 1987, respectively. See Note 1 to Electric Utility Financial Statements.*

CREDIT RATING	MOODY'S INVESTORS SERVICE	STANDARD AND POOR'S CORPORATION
Electric Revenue Bonds	Aa	A+
Water Revenue Bonds	Aa	AA
Water Revenue Anticipation Notes	MIG 1	SP-1+
Electric Tax-Exempt Commercial Paper	Prime-1	A-1

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Report from the General Manager

Senior managers of the Public Utilities Department together have more than 123 years of utility and municipal experience. From left:

Dale L. Pohlman
Assistant General Manager
Power Resources

Darrell L. Ament
Assistant General Manager
Finance and Administration

Edward G. Alario
Assistant General Manager
Field and Warehouse

Charles T. Slatten
Assistant General Manager
Engineering

Gordon W. Hoyt
General Manager

Success. When you talk about success stories, you have to include Anaheim, California, and its Public Utilities Department.

Anaheim, the largest city in Orange County, economically is the nation's second fastest growing major metropolitan area.

By the year 1994, more than 9,000 new housing units are planned for construction in Anaheim; 80 percent will consist of multifamily dwellings.

New hotel rooms, stores, shops and office space will be added. More than 22 million square feet of additional commercial floor space is expected by 2005, much of it in modern high-rise development.

Disneyland is adding attractions. The Anaheim Convention Center is being expanded to over one million square feet and will be the largest convention center on the West Coast.

Like the community we serve, the Public Utilities Department embodies the dynamic and diverse spirit needed to facilitate Anaheim's growth into the 21st century.

Our goal is to provide the people and businesses of Anaheim with reliable, high quality water and electric service at the lowest practical cost. In fiscal 1988 we successfully continued to meet this goal.

Water Utility

Sound planning has paid off in Anaheim. Today, 70 percent of our water comes from wells drilled into water-bearing strata deep below our community. We also buy water which is imported from the Colorado River and melting northern Sierra Nevada snowpack.

Noteworthy fiscal 1988 successes:

- Anaheim water continues to meet or exceed all state and federal standards for drinking water
- Three new deep, high quality wells in production
- Sales of 21.9 billion gallons
- Aggressive production and distribution system replacement and maintenance programs continue

Electric Utility

Electricity for Anaheim is provided by the Public Utilities Department from a variety of clean, reliable, economical resources throughout the Western United States. Our reliability is enhanced by our diverse mix of resources:

- The coal-fueled Intermountain Power Project in Utah
- Hydroelectric power from Hoover Dam on the Colorado River
- Our share of Units 2 & 3 from nearby San Onofre Nuclear Generating Station
- Power purchases from Pacific Gas & Electric and Deseret Generation and Transmission Co-operative

- Economy energy purchases from California, Washington, Oregon, New Mexico, Montana, Arizona, Utah and Texas utilities

The successes we achieved during fiscal 1988 were marked by:

- The first full year of Intermountain Power Project operation, supplying 56 percent of our power
- A major reduction in reliance on Edison for power, down to 2 percent of system production
- Record sales of 2.7 billion kWh
- Doubling the capacity of Sharp Substation

Finance

Ultimately, everything we do is for our consumer-owners. They voiced their support of their Utility Department's financial plans in November 1987 with an overwhelming 82 percent approval of a proposed $14 million Water Revenue Bond authorization.

Our financial successes during the year included:

- Improved credit rating on $5 million Water Revenue Bond issue
- Water rates among lowest in Orange County
- Electric rates unchanged after two decreases in the prior year

Safety

The nature of our business requires that many of our employees perform high risk tasks on a daily basis. But we believe a job is not worth doing unless it is done safely. Our fine record continued to improve in fiscal 1988, thanks to the successful efforts of managers and employees.

Our successes in fiscal 1988 compared to the five-year average were:

- Days away from work down 21.8 percent
- Recordable injuries down 28.6 percent
- Disabling injuries down an outstanding 54.5 percent

Dedicated Team

When evaluating our accomplishments, it is evident that they result from the dedication, professionalism and creativity of our people.

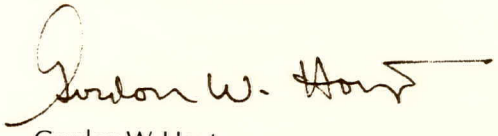
They are risk takers and innovators, always striving to find a better, safer, and more efficient way to get the job done.

Their successes are as diverse as the community they serve. My special thanks go to each of them for jobs well done.

The Mayor, City Council and Public Utilities Board have earned the Department's gratitude, as well. It is their policies that have enabled us to turn farsighted plans into reality.

By working together, we have provided Anaheim with a diverse water supply and taken the City from reliance on a single wholesale power supplier to a successful program of electric energy diversity and independence.

Based on these successes, we recognize that continued vision, supported by creative, sound planning, is the key to the future. This philosophy, combined with outstanding efforts of the staff, will keep the Anaheim Public Utilities Department innovative, productive and effective.



Gordon W. Hoyt
Public Utilities General Manager

PUBLIC UTILITIES DEPARTMENT
ADMINISTRATIVE MANAGEMENT

Stephen E. Albright
Utilities Systems Operations Manager

Michael A. Bell
Financial Services Manager

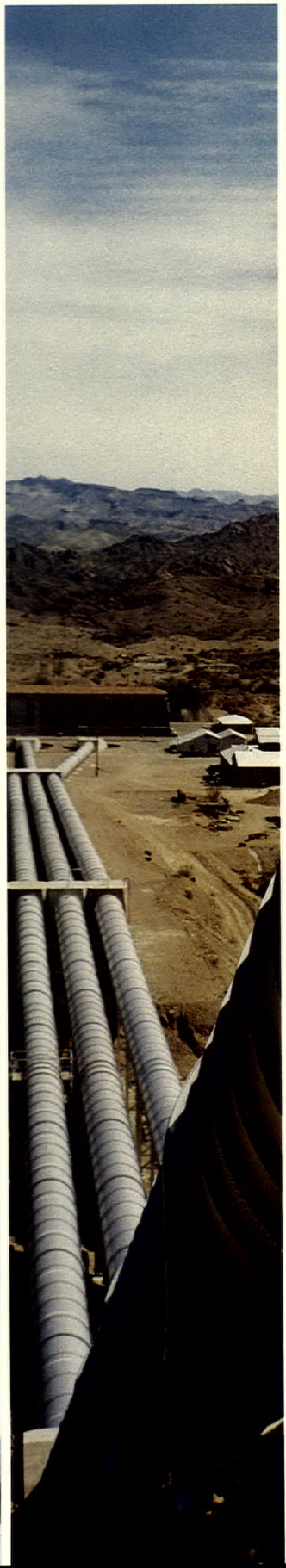
Richard E. Butryn
Power Production Manager

Diana M. Leach
Administrative Services Manager

Jafar T. Taghavi
Electrical Engineering Manager

Diem X. Vuong
Water Engineering Manager

Bonnie A. Woodson
Customer Service Manager



Visionary planning, diversity of supply and supportive consumer-owners spelled success for Anaheim, California's municipal water system in fiscal 1988.

California and much of the Western United States experienced a second successive year of dry conditions in fiscal 1988. Some communities imposed restrictions on water use. However, the region's planning paid off with minimal impact on Anaheim consumers and most other Southern Californians.

Dry weather is a way of life on Orange County's semi-arid coastal plain. Anaheim and the region can be proud of their successes in planning and building the diverse water delivery systems and reservoirs needed to assure adequate supplies of water during dry spells.

In addition to supplies of water from northern Sierra Nevada snowpack, Anaheim and its neighbors use water imported from the Colorado River via aqueduct. Water flows on the Colorado River over the past few years have been among the highest ever.

The foresight of Anaheim's water planners in developing a system of wells to take advantage of local ground water supplies also continued to pay off for Anaheim consumers in fiscal 1988.

WATER SUPPLY

The Department typically is able to pump about 70 percent of its water supply from wells drilled into water-bearing strata lying deep below the community. Supplemented with purchases of water imported by the Metropolitan Water District of Southern California (MWD), wells are the backbone of Anaheim's water production system.

PRODUCTION

Water production was 22.5 billion gallons, down 1.0 billion gallons from fiscal 1987. Reduced consumer use and a net decrease in reservoir storage levels were the primary reasons for overall production falling below the fiscal 1985 level.

The system's 32 active wells produced 14.3 billion gallons in fiscal 1988, or 63 percent of total production. Well water is Anaheim's lowest cost water source. The Department purchased 8.2 billion gallons of imported water from MWD during the fiscal year, accounting for the remaining 37 percent of total water production.

The Department generally pumps about 70 percent of its annual supply from its own wells. In order to help "bank" ground water for future use, MWD made surplus imported water available early in fiscal 1988 at a price comparable to the cost of pumped water.

The Department participated in MWD's program, purchasing 1.5 billion gallons that normally would have been pumped from wells. Adjusting production figures for the impact of the joint water conservation program would result in pumped to purchased water ratios of 70 and 30 percent, respectively.

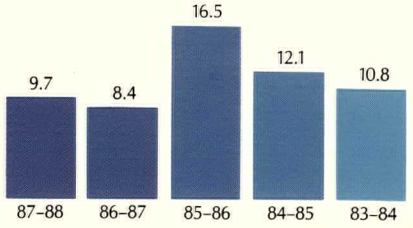
SALES SECOND TO FISCAL 1987 RECORD

In fiscal 1988, consumers used 21.9 billion gallons of water. While down 105 million gallons from the prior record year, water use in fiscal 1988 was the second highest level in the history of the Department. Water use in fiscal 1988 topped fiscal 1986 by 461 million gallons. The difference between water produced and water sold is due to changes in reservoir levels, evaporation and other losses.

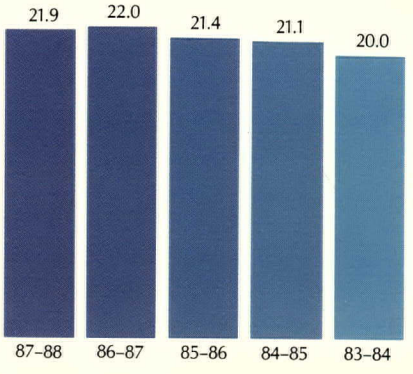
The fiscal 1988 decline was due primarily to relatively mild temperatures, a slight increase in rainfall compared to the prior fiscal year and increased consumer awareness in response to conservation messages.

Relatively mild temperatures were experienced for the second year in a row during fiscal 1988 and rainfall was 9.7 inches. While up 1.3 inches from fiscal 1987, it was well below the annual average of 13 inches for the area.

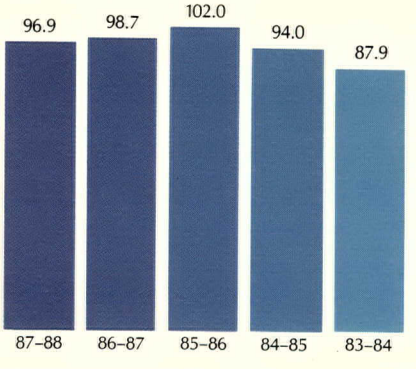
Average use per capita declined to 241 gallons a day from 243 gallons in fiscal 1987. The decline marks a return to the level recorded in fiscal 1986. Average water use also was down in each major customer class. These declines, particularly in view of the increased number of customers, are attributable directly to the impact of conservation messages and weather.



ANNUAL RAINFALL
(INCHES)



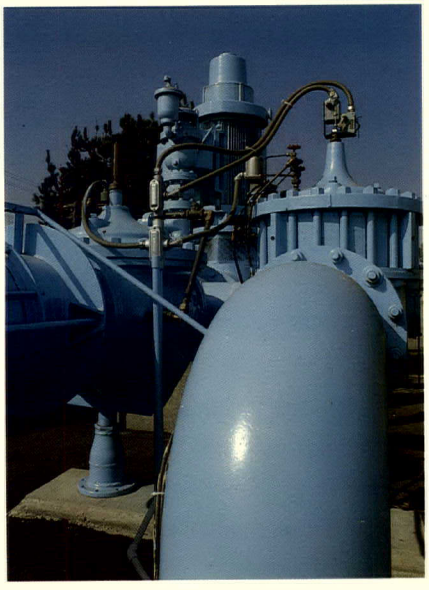
WATER SALES
(BILLION GALLONS)



PEAK DAY DEMAND
(MILLION GALLONS)

CONSUMER-OWNERS SUPPORT THEIR UTILITY

Water system consumer-owners voiced overwhelming support of their utility in the November 1987 election. An impressive 82 percent of those voting gave their approval to a $14 million water revenue bond authorization. The Department sold $5 million of that authorization on January 12, 1988, to help pay for system improvements and additions.



LINDA VISTA WELLS AND RESERVOIR

Three wells, adding 12,930 gallons per minute to the Department's production capability, were completed and placed in service in fiscal 1988.

Drilled into a deep aquifer, the three high-production wells will replace capacity lost when three older relatively shallow wells were contaminated by a gasoline spill. Water pumped from each of the three new wells is of such high quality that no treatment is required.

The project also involved installation of pipelines and valves to tie the three new wells directly to the 4 million gallon Linda Vista Reservoir. In addition, the capacity of the booster pumping station at Linda Vista was increased approximately 10 percent, raising capacity to 11,500 gallons per minute.

RENEWAL AND REPLACEMENT PROGRAM

Increased operating efficiencies and improved reliability continued to mark the success of the Department's aggressive maintenance and replacement programs.

Well Rehabilitation

Department engineers coordinated the rehabilitation of eight wells during the year. Cleaning each well, in addition to the installation of new pumps and motors, will result in a 10 percent increase in production efficiency or, in other words, increased water production per kilowatt-hour of electric energy. That translates into a bottom line of lower future electric pumping costs for the Department and lower water rates for consumers.

Remote Monitoring and Control

As key facilities are replaced or rehabilitated, they are tied into the Supervisory Control and Data Acquisition (SCADA) System. Each year, system operators obtain greater real time monitoring and control of water production and distribution facilities. The bottom line result is increased operating flexibility and efficiency.

Wells are the backbone of Anaheim's water supply, annually producing about 70 percent of consumers needs. Opposite page, Cheong Ho, associate civil engineer, discusses the performance of one of the Department's newest wells with Mike Casper and Dennis Voll, water production technicians. Together, the three wells are capable of pumping 12,930 gallons of high quality water per minute. The project included construction of valves and a pipeline connecting the new wells to nearby Linda Vista Reservoir.


ANAHEIM
19 88
ALL-STARS

The Department tests more than 6,000 samples annually to confirm that its water meets all state and federal standards.

RATES

New water rates adopted effective August 5, 1987, resulted in a 5.8 percent increase in the average cost per unit of water sold by the end of fiscal 1988. This additional revenue was used primarily to pay for ongoing maintenance and replacement costs and higher water supply costs.

In spite of the increase, Anaheim residential water rates remained generally in the lower third among rates charged by other Orange County water agencies.

WATER QUALITY

The Department has no higher priority than to supply each customer with water that exceeds all state and federal standards for drinking water. The Department continued to meet this commitment in fiscal 1988.

Imported Water

Both treated and untreated water are purchased from MWD. Treated water is introduced directly into the system at six connections with MWD's supply system. Imported Colorado River water purchased from MWD is stored in the Department's 920 million gallon Walnut Canyon Reservoir prior to treatment in the August F. Lenain Filtration Plant.

Local Well Water

Well water undergoes natural filtration in the underlying soil, sand and rock strata before reaching the underground aquifers. Water pumped from the newer deep wells is of such high quality that no treatment is required.

Rigorous Testing

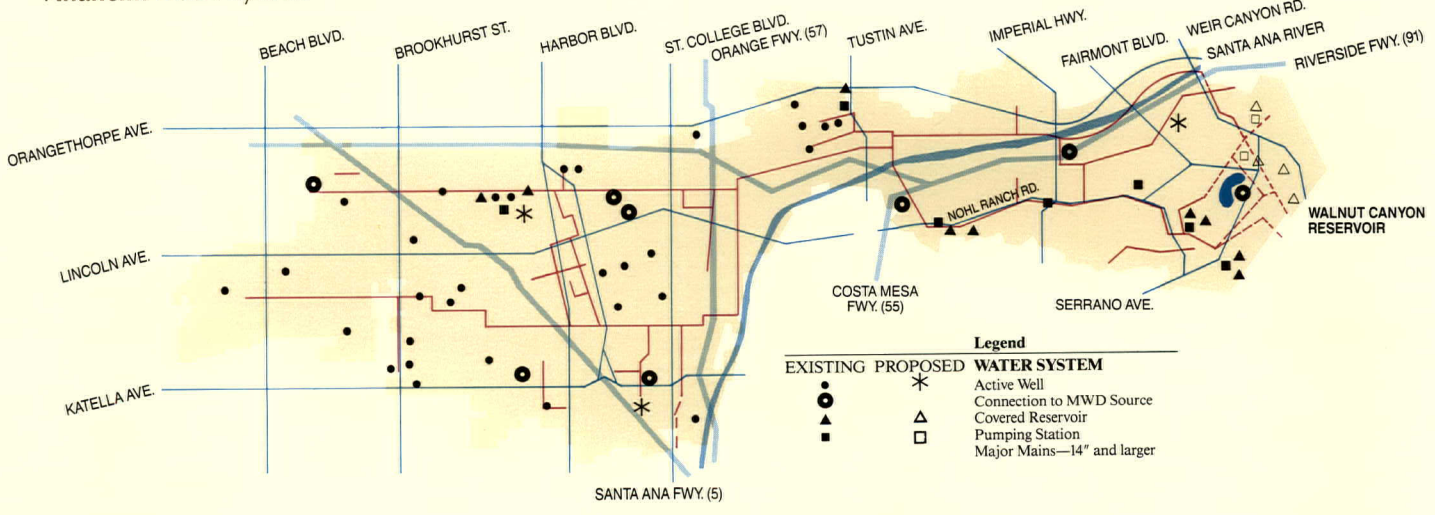
Regardless of the source, rigorous testing programs are firmly in place to assure the quality of water delivered to Anaheim consumers. MWD continually monitors the water it imports and treats prior to delivery to Anaheim. In addition, the Orange County Water District tests water from the aquifers it manages along the Santa Ana River.

The Water System's Lab

In Anaheim, the Department operates its own modern Water Quality Laboratory to provide the monitoring necessary to assure consumers that water delivered to the tap meets all requirements for quality drinking water. Over 30,000 physical, biological, and chemical tests on approximately 6,000 water supply and distribution system samples were conducted by the Department during fiscal 1988.

Thinh Nguyen, water treatment operator, conducts water quality tests at the August F. Lenain Filtration Plant.

Anaheim Water System




Think

PLANNING FOR THE FUTURE

The Department has completed a comprehensive study of distribution pipelines in the eastern hill and canyon area of the city. The purpose of the study was to identify the most cost-effective use of capital to meet growing consumer needs. A similar study of the flatland area of the city was completed in fiscal 1987.

Serrano/Twin Peaks Reservoir

One result of the hill and canyon study, coupled with revised development plans, was to relocate the site for the proposed 1 million gallon Twin Peaks Reservoir. The Department will redesign the project to provide for construction of a 2 million gallon reservoir on land dedicated by the developer.

Other Hill and Canyon Projects

Design also is underway on a pair of 4 million gallon storage reservoirs to meet water needs of this rapidly developing area. These and other reservoirs, along with booster pumping stations, will be paid for primarily by developer contributions.

FUTURE CAPITAL EXPENDITURES

During the next five years, the Department plans to invest $50.9 million toward improvements in the water production and distribution system. Approximately $25.4 million is targeted for replacement of water production and distribution facilities, while $25.5 million is slated for the construction of new facilities.

THE GOAL

A clear vision, backed up with sound long-range planning, will allow the Department to make optimum use of its diverse water supply alternatives in the coming years.

The ongoing commitment of the Department to the consumer-owners it serves will remain the delivery of a reliable supply of quality water at an economical price.

Colorado River water traverses the desert via MWD's aqueduct and is stored in Anaheim's 920 million gallon Walnut Canyon Reservoir prior to treatment.

Thom Coughran, right, a water system associate civil engineer, discusses plans for the 2 million gallon Serrano/Twin Peaks Reservoir with Steven Riggs, senior project manager for Presley of Southern California. The developer will construct the reservoir on this site and the entire project will be dedicated to the water system.

There are few utilities in the nation that can match Anaheim's successful program of power supply diversity and independence.

A little more than a decade ago, Anaheim's electric utility was locked into buying power from a single supplier. In 1975, the community expressed confidence in the aggressive program of power supply independence envisioned by the managers of their consumer-owned utility.

Today, the Department generates power from its own resources and buys electricity from utilities located throughout the West—hydroelectric power and energy from the Pacific Northwest and Colorado River, coal-fueled resources located from the Great Basin to western Texas and nuclear power from nearby San Onofre Nuclear Generating Station.

At the same time, the Public Utilities Department's distribution system is as modern and technologically advanced as they come. Experienced personnel, dedicated to doing their jobs well and safely, have put together a reliable, flexible system that keeps electricity flowing to homes, businesses and schools throughout Anaheim's 45 square miles.

The Department's success can easily be measured at the bottom line. In fiscal 1988, rates charged Anaheim consumers remained unchanged for yet another year, while rates in surrounding communities increased.

RECORD PRODUCTION FROM DIVERSE RESOURCES

Electric system generation and purchases totaled a record 2,846.3 million kilowatt-hours (kWh) in fiscal 1988, up 482.4 million kWh or 20 percent.

Intermountain Power Project

Fiscal 1988 marked the completion of the first full year of operation of both units of the 1.6 million kilowatt Intermountain Power Project (IPP).

This highly successful Utah coal-fueled project supplied Anaheim with 1,585.3 million kWh of electricity in fiscal 1988, or 56 percent of total generation and purchases.

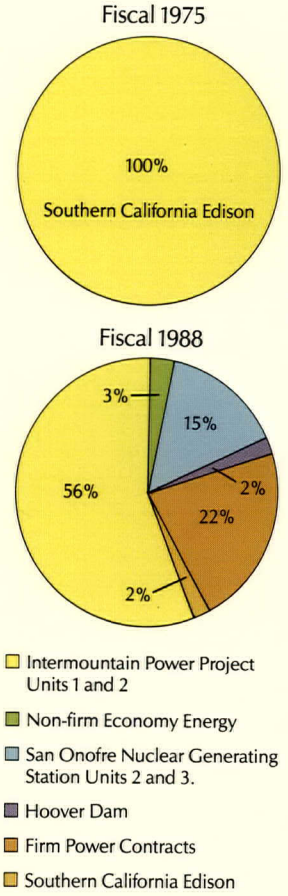
In fiscal 1988, IPP Units 1 and 2 logged impressive 88 and 90 percent capacity factors, respectively, living up to the project's design goal as one of the most reliable, efficient generating stations ever built.

Anaheim has contractual rights to over 13 percent of the generating station's output, the second largest share among IPP's 36 participants. Anaheim continues to play an active and visible role in support of ongoing project management.

San Onofre

Adding diversity and reliability is Anaheim's ownership interest in San Onofre Nuclear Generating Station (SONGS), Units 2 and 3. Anaheim's 3 percent share of SONGS supplied 427.3 million kWh in fiscal 1988.

During fiscal 1988, Unit 2 operated at 64 percent capacity, which included being out of service 112 days during the first half of the fiscal year for scheduled refueling and maintenance. Unit 3 recorded an impressive 81 percent capacity factor, in spite of being out of service during the last 61 days of the fiscal year for similar scheduled refueling and maintenance.



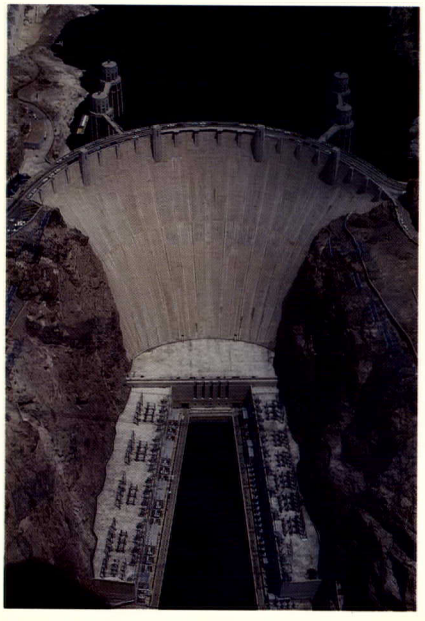
Anaheim has moved from a city totally dependent upon a single source of electricity to a community able to select from a variety of power resources. The bottom line of this program of energy diversification and flexibility is long-term reliability and savings measured in the hundreds of millions of dollars for Anaheim consumers.

Hoover Dam

A total of 53.4 million kWh were delivered by the end of fiscal 1988 from Hoover Dam, the Department's first federal hydroelectric resource. Upon completion of the uprating of each of Hoover's 17 generators in 1991, Anaheim's share of Hoover's capacity will be 40,000 kilowatts.

Firm Power Purchases

Anaheim has reduced its reliance on Edison from 96 percent of system production in fiscal 1983 to about 2 percent during fiscal 1988. Power



The Colorado River provides two resources, economical federal hydroelectric power from Hoover Dam and water that is imported by MWD.

purchased from Edison continued to fall sharply during the fiscal year to only 59.4 million kWh.

In addition to firm power purchases from IPP, the significant increase in power purchased under the terms of firm contracts with Pacific Gas & Electric (PG&E) and Deseret Generation and Transmission Co-operative led to the decreased reliance on Edison. During the first full year of availability, the two resources supplied Anaheim with 634 million kWh.

Other Power Purchases

Non-firm, supplemental economy energy continues to be a significant low-cost resource for the Department. For the first time, Anaheim consumers used electricity the Department purchased from the Bonneville Power Administration, Montana Power Company and El Paso Electric Company. These and other "spot market" purchases supplied 86.9 million kWh in fiscal 1988.

Western Systems Power Pool

The Department also is a participant in the Western Systems Power Pool, an experimental agreement among 24 consumer-owned and privately owned utilities in the West. The pool facilitates bulk power and transmission sales and purchases among its participants.

ELECTRIC RATES REMAIN STABLE

Thanks largely to the rate stabilization policy formally adopted by the City Council in January 1986, the Department has not increased base rates since September 1984.

With the continued success of the Department's diverse power supply program, Anaheim consumers' rates remained stable in fiscal 1988, following two decreases in the prior year. The bottom line is that the average billing price per kWh has continued to fall and Anaheim consumers paid less than consumers in surrounding communities.

ENERGY SALES RECORD

Electricity sales continued to climb to a system record 2.7 billion kWh in fiscal 1988, up an impressive 463 million kWh, or 21 percent, compared to the prior fiscal year.

Sales of surplus energy to other electric utilities were up 380.1 million kWh to a record 509.9 million kWh. This increase was the primary reason for the overall increase in sales.

Retail sales, excluding sales to other electric utilities, were up 82.6 million kWh, or 4 percent. All customer classes, except Irrigation and Pumping, recorded sales gains. Irrigation and Pumping sales were down primarily because less land was devoted to agriculture.

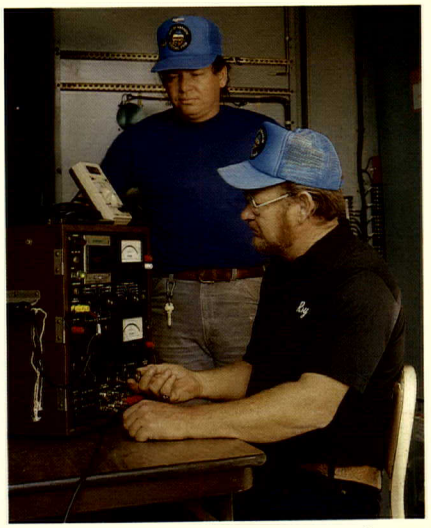
The relatively mild weather conditions experienced in fiscal 1988 led to another year in which the annual peak consumer demand remained below the historical peak of 483,400 kilowatts recorded in fiscal 1985.

DISTRIBUTION SYSTEM GROWTH

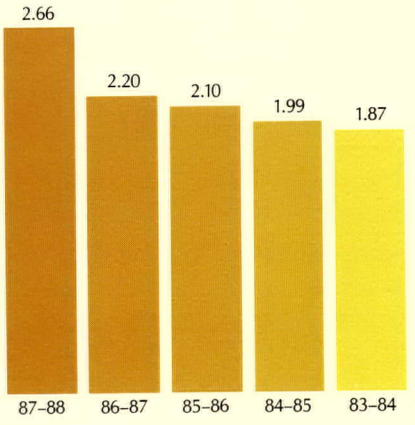
Line extensions and services were designed for 2,006 residential and 641 commercial and industrial customers. Approximately three circuit miles of underground distribution lines were installed during fiscal 1988.

Substation Expansion

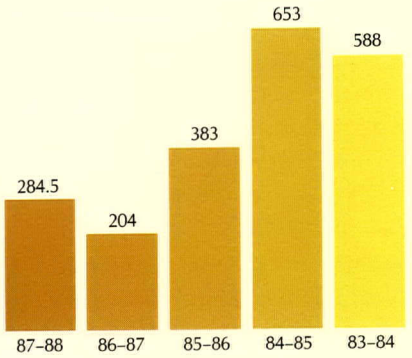
Crews energized a new 69/12 kV transformer and related switchgear, doubling the capacity of Sharp Substation to 80,000 kilovolt-amperes. Named after E. C. Sharp, the engineer responsible for the city's first power plant back in 1895, the station serves growing demands in the north central industrial area.



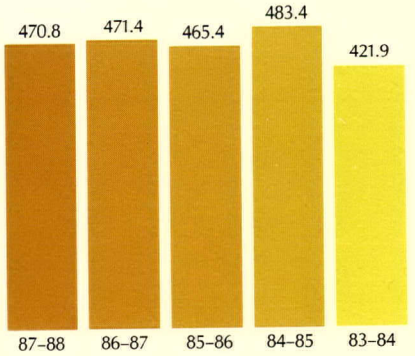
Mike Nash, substation electrician, and Roy Wright, substation test technician supervisor, tested systems to ready the expanded Sharp Substation for service.



ELECTRIC SALES
(BILLION KILOWATT-HOURS)



TEMPERATURE
(DEGREE DAYS ABOVE 72°)



ELECTRIC PEAK DEMAND
(THOUSAND KILOWATTS)

This control room at IPP represents the latest technology in highly automated coal-fueled power projects.

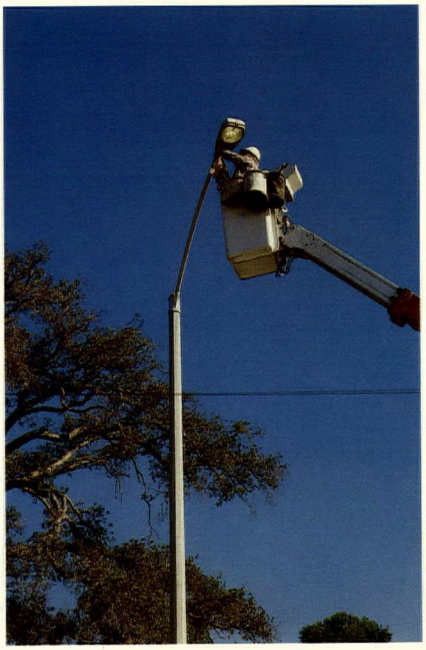
Intermountain Power Project has fulfilled all expectations, with the completion in fiscal 1988 of the first full year of joint operation of both units.

LOOKING AHEAD

Proactive planning and accurate forecasting have helped the Department make sound business decisions, enabling it to meet Anaheim's ever expanding needs.

Within the Department, an expert team of economists, statisticians and engineers continuously study economic, land use, climatic and other relevant data. These futurists examine a wide range of variables and contingencies to forecast new housing starts, taxable sales, employment figures, government expenditures and other pertinent trends. This information is used to formulate consumer energy and capacity requirements five and 20 years into the future.

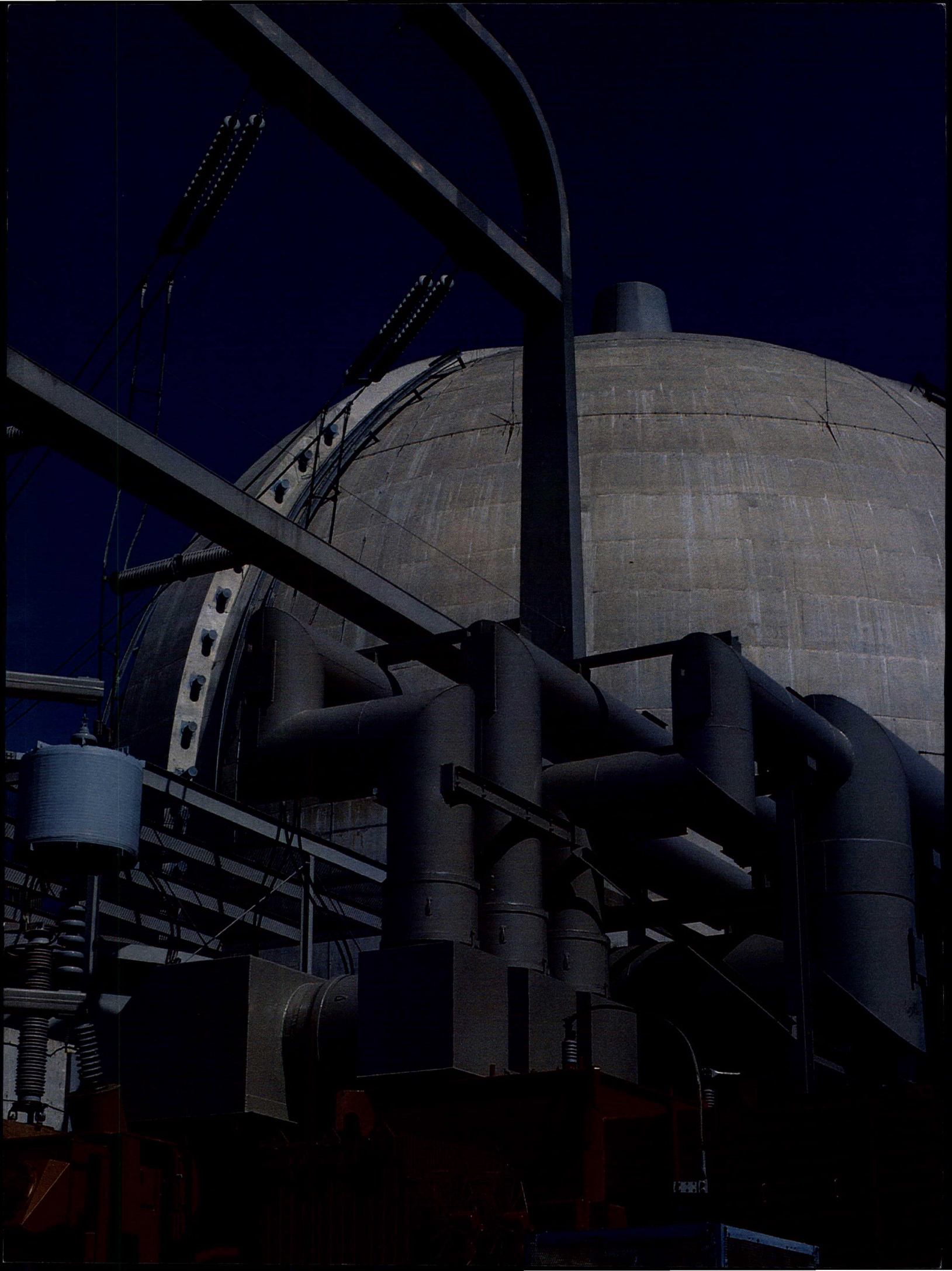
While proud to be meeting its goals today, the Department recognizes that continued success can be achieved only by striving to foresee and to prepare for what lies ahead. With this mission in mind, management and staff are planning new projects that will allow the Department to meet future challenges successfully.



Line Mechanic Steve Moyle helps the Department provide another vital service—maintenance of Anaheim's energy-efficient, sodium street lights.

Apprentice Line Mechanic Mitch Schroeder and Cable Splicers Barney Allen, Bob Durbin and Bob Holden use fault locator equipment to detect underground electric cable faults.

A major part of Anaheim's diversified power supply program, SONGS remains one of the United States' most efficient nuclear generating stations.



Gas Turbine

The Department continued preparations to request bids for construction of a natural gas turbine generator at Dowling Substation. The turbine is expected to generate up to 48,000 kW during periods of peak demand to offset higher cost capacity purchases from Edison.

Transmission Projects

Studies continued on three proposed regional transmission lines, the California-Oregon, Mead-Adelanto and Mead-Phoenix Transmission projects.

Distribution

Bids for construction of Southwest Substation were under review at year-end. Southwest will serve growing consumer demand in and around Disneyland and the expanding Anaheim Convention Center.

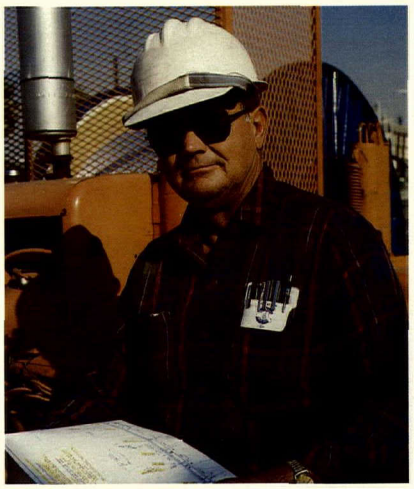
Studies also were underway on the addition of a fourth 220/69 kV transformer at Lewis Substation.

Capital Spending

Over the next five years, the Department plans to invest about $96 million in new electric facilities. Approximately $45.8 million relates to power supply and will be financed from borrowed funds. The remaining $50.2 million is for electric subtransmission and distribution facilities in Anaheim and will be financed by power sales.

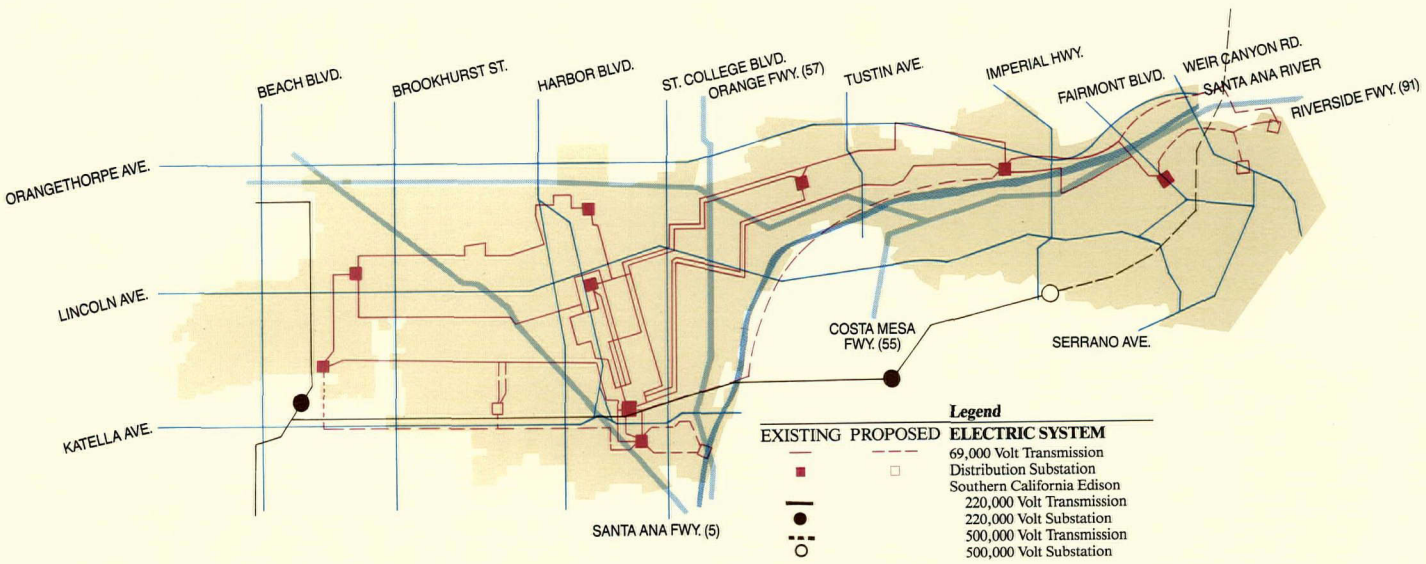
The Goal

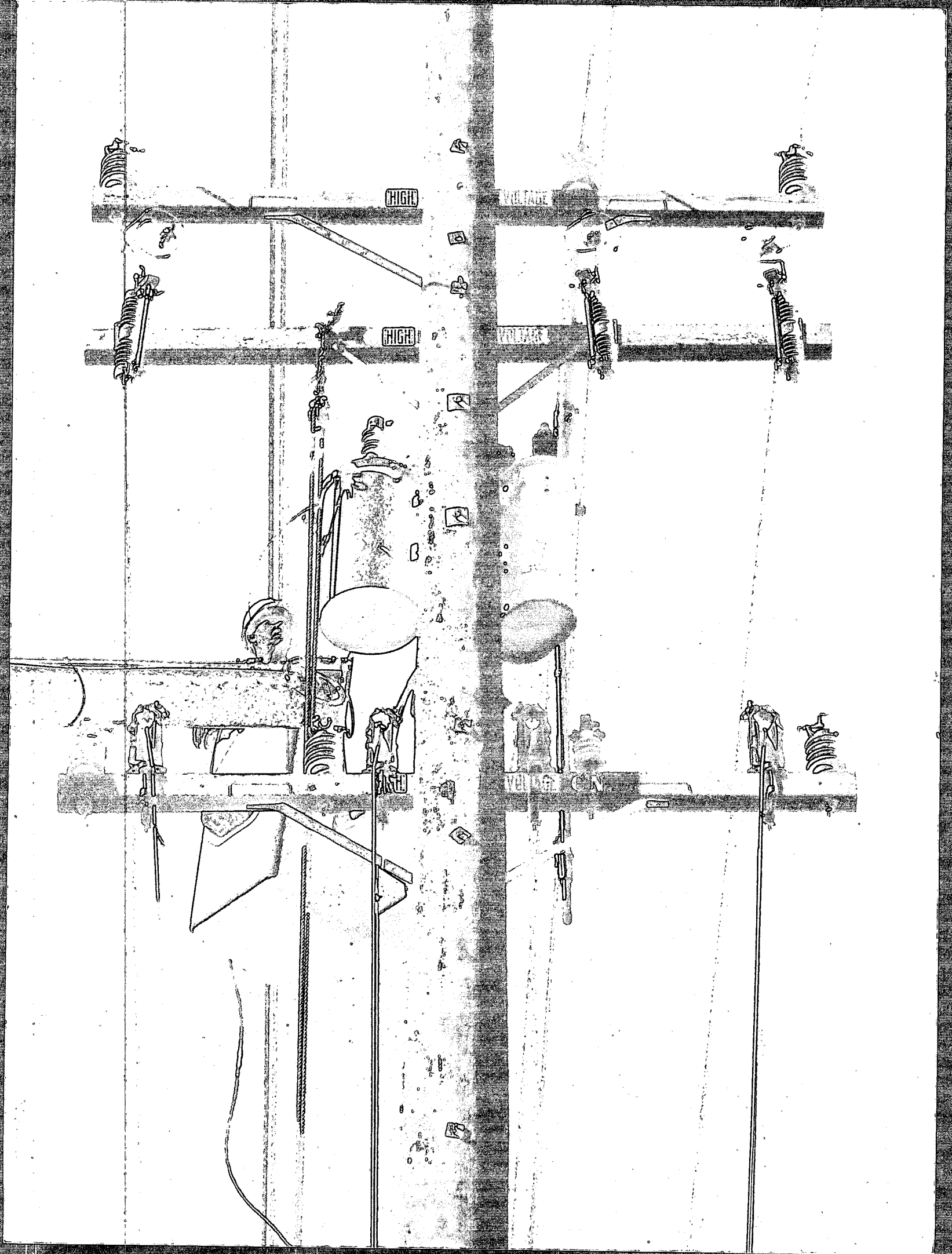
Regardless of future developments, the Department is securely positioned to take advantage of new opportunities that will allow it to meet the power needs of its consumers reliably and economically. With strong leadership, proactive planning and diversified resource development, the Anaheim Public Utilities Department will progress, along with the dynamic city it serves, into the next century.



Line Crew Supervisor Bob Shiveley, above, a 31-year employee, directs an experienced team that tackles major overhead construction projects. His crew, including Line Mechanic Nick Hutchinson, right, keeps the system in step with a rapidly changing city.

Anaheim Electric System




HIGH
HIGH

Officials for the City of Anaheim

CITY MANAGEMENT

Bob D. Simpson
City Manager

George P. Ferrone
Finance Director

Jack L. White
City Attorney

Leonora N. Sohl
City Clerk

Mary E. Turner
City Treasurer

CITY COUNCIL

Fred Hunter
Mayor

Tom Daly
Councilman

Irv Pickler
Councilman

Miriam Kaywood
Mayor ProTem

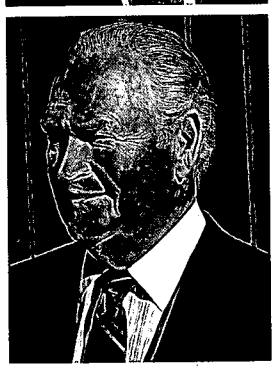
William D. Ehrle
Councilman

PUBLIC UTILITIES BOARD

Richard J. McMillan
Vice Chairman

Robert O. Schmahl

S. Dale Stanton



Carl J. Kiefer
Chairman

Bob Kazarian

Walter J. Smith

Joseph R. White

CITY OF ANAHEIM
PUBLIC UTILITIES
DEPARTMENT

FINANCIAL ANALYSIS
AND STATISTICS

Public Utilities Department Financial Analysis

In the business world, success is most often measured in terms of financial performance.

The continued operational success of the Public Utilities Department of the City of Anaheim has resulted in the strongest financial position ever for both the water and electric systems.

The year also was a success from the standpoint of the consumer-owners of Anaheim's water and electric systems—the ratepayers. Average residential electric bills were 13 percent lower than those in surrounding communities at year end and water rates remained among the lowest in Orange County.

While credit for this success is due largely to successful operations, it also can be attributed to the people responsible for the Department's strategic financial planning. They have charted a prudent course through the often turbulent waters of uncertain and changing financial market conditions.

In the coming years, the Department will continue to use a balanced and diverse financial program relying on:

- Current revenues
- Short-term, tax-exempt commercial paper
- Long-term revenue anticipation notes
- Long-term revenue bonds
- Capitalized lease
- Contributions in aid of construction

FISCAL 1988
ANOTHER SUCCESSFUL YEAR

The outstanding financial performance of the Water and Electric utilities during fiscal 1988 included the following significant events:

- Voter approval of $14 million water revenue bond authorization
- Issued $5 million in Water Revenue Bonds at a true interest cost of 7.3765 percent
- Water bond rating raised to AA by Standard and Poor's Corporation and confirmed at Aa by Moody's Investors Service
- No electric rate increase
- Net gain of $148,000 from sale of securities taken in settlement of unpaid utility bills

WATER UTILITY

Operating revenues totaled $19,399,000 for the Water Utility in fiscal 1988, down $1,255,000 from the prior fiscal year. This decrease was primarily the result of an accounting policy change effective in fiscal 1987 regarding unbilled revenue. This policy change resulted in a one time extraordinary increase in revenue of $1,802,000 in fiscal 1987. Beginning with fiscal 1988, the Water Utility records only the net change, up or down, in unbilled revenues from the prior fiscal year.

The net change in unbilled revenue for fiscal 1988 was a decrease of $293,000. Billed revenue from the sale of water was $19,580,000 in fiscal 1988, an increase of $993,000.

Operating expenses were $14,393,000 in fiscal 1988, up $417,000 from fiscal 1987. The cost of water was $7,933,000 in fiscal 1988, up $77,000 from the prior year.

The unit cost of water increased by 6 percent as a result of increased purchases of treated water from the Metropolitan Water District. Pumped water accounted for 63 percent of total water production.

Other operations and maintenance expenses were up $149,000 in fiscal 1988, an increase of 3 percent.

Water Utility net income was $4,438,000 in fiscal 1988, down $1,779,000 from the prior year. This decrease was due primarily to reduced operating revenues resulting from the impact of the accounting policy change regarding unbilled revenues.

During the year, a total of $11 million was invested in water system capital construction. Approximately $2.9 million was provided by current revenues, $1.5 million was provided by borrowed funds and $6.6 million was contributed by developers and others in aid of construction.

ELECTRIC UTILITY

Operating revenues totaled $191,845,000 for the Electric Utility in fiscal 1988, up slightly from the $191,637,000 recorded the prior fiscal year.

Like the Water Utility, the Electric Utility adopted an accounting policy change effective in fiscal 1987 regarding unbilled revenue. This policy change resulted in a one time extraordinary increase in revenue of $8,502,000 in fiscal 1987. Beginning with fiscal 1988, the Electric Utility records only the net change, up or down, in unbilled revenue from the prior fiscal year. The net change in unbilled revenue for fiscal 1988 was a decrease of $667,000.

Billed revenue from the sale of electricity was $178,869,000 in fiscal 1988, an increase of $4,421,000. However, the combination of the impact of lower unbilled revenue in fiscal 1988 and the extraordinary revenue of $8,502,000 due to the accounting change in fiscal 1987, resulted in a net decrease of $4.7 million in the sale of electricity in fiscal 1988.

However, this decrease was offset by increased transfers from the Power Cost Adjustment Account (PCA) and Rate Stabilization Account (RSA) to the Revenue Fund compared to the prior fiscal year. The PCA and RSA were up $2.6 million and $2.1 million, respectively, in fiscal 1988. Other operating revenues were up $230,000. Overall, operating revenues increased by $208,000 to $191,845,000 in fiscal 1988.

On January 28, 1986, the City Council adopted a rate stabilization policy which included the creation of a Rate Stabilization Account (RSA). The policy provides that refunds recovered from Edison for wholesale electric rate overcharges should be deposited in the RSA. These refunds then are used to help stabilize base electric rates.

About $9.4 million and $7.3 million were transferred to the Revenue Fund from the RSA in fiscal 1988 and 1987, respectively. The transfers are made monthly and are based upon recorded kWh sales.

Approximately $36.8 million in refunds and interest have been placed in the RSA since the account was established in 1986. Additional refunds of $591,000 were received in fiscal 1988. Department management is confident that significant additional refunds will be received over the next three fiscal years. This confidence is based on decisions of the administrative law judges hearing these wholesale rate cases which are now before the Federal Energy Regulatory Commission. The RSA balance at June 30, 1988, was $12,861,000. The Department expects that this amount will be sufficient to stabilize overall electric rates at least through the Summer of 1989.

Electric Utility operating expenses were $164,503,000 in fiscal 1988, up $17,489,000 from the prior fiscal year. Purchased power cost increased $16,636,000 as a result of increased purchases from the Intermountain Power Project, Hoover Dam and other firm power contracts. These increased purchases were due primarily to the sale of excess energy from the Intermountain Power Project to other utilities. Other operations and maintenance expenses increased $1,178,000 compared to the prior fiscal year. This increase was due primarily to SONGS, Units 2 and 3, being out of service for scheduled refueling and maintenance. SONGS maintenance costs were up $878,000 from the prior fiscal year.

Electric Utility operating income of $27,342,000 in fiscal 1988 was down $17,281,000 from the prior year. Net income of $14,486,000 was down $16,184,000 from the prior year. Both operating income and net income were down as a result of the change in accounting policy and increased purchased power costs.

Investments in construction of new electric system facilities totaled $8.5 million for fiscal 1988. Of this amount, $2.6 million was invested in construc-

tion and nuclear fuel related to Anaheim's ownership in SONGS. The remaining $5.9 million was invested in electric subtransmission and distribution facilities in Anaheim.

NOTE PROGRAM

As of June 30, 1988, the Electric Utility had outstanding $20,450,000 in short-term, tax-exempt commercial paper. The Department used this commercial paper to finance the purchase and processing of nuclear fuel for SONGS. The Electric Utility notes were rated Prime-1 and A-1 by Moody's Investors Service and Standard and Poor's Corporation, respectively.

The Water Utility note proceeds of $4.3 million helped pay for water system capital replacements. Moody's and Standard and Poor's rated the Water Utility notes MIG 1 and SP-1+, respectively.

The Department's Revolving Credit Agreement may be used in the event that the Water or Electric Utility notes cannot be refinanced as they mature.

The existing agreement is 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 the remaining $8.0 million of the Electric Utility line and the entire $4.3 million of the Water Utility credit line.

LONG-TERM DEBT MANAGEMENT

In November 1987, Anaheim voters overwhelmingly approved a $14 million water revenue bond authorization. On January 1, 1988, the Water Utility issued $5,000,000 in Water Revenue Bonds at a true interest cost (TIC) of 7.3765 percent. The proceeds of this issue are being used to finance water system additions and improvements.

IMPROVED BOND RATING

The Department's financial strength, strong management and sound planning continued to be recognized in the ratings assigned to Water and Electric Utility securities by Moody's and Standard and Poor's. Aa ratings by Moody's were maintained for both Water and Electric Utility revenue bonds. Standard and Poor's raised its rating of the Department's long-term Water Revenue Bonds from AA- to AA. The Department's Electric Revenue Bonds are rated A+ by Standard and Poor's.

OUTSTANDING BONDS

Bonds outstanding at the end of the year totaled $19,510,000 in the Water Utility and $238,365,000 in the Electric Utility. Maturing revenue bond principal payments of $330,000 and $6,090,000 were paid from the Water and Electric utilities, respectively.

SELF-SUPPORTING

The Public Utilities Department pays all costs of operation and debt service and part of the cost of capital improvements from current revenues. The remainder of the 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.

SUPPORT FOR CITY GOVERNMENT

In addition to meeting all costs of operation from current revenues, including payments to the City of Anaheim for services rendered by the various municipal departments, the Public Utilities Department annually transfers a percentage of the prior year's gross revenues, up to a maximum of 4 percent. In fiscal 1988, the Department transferred $8,078,000 from retained earnings to the General Fund of the City in support of general municipal city government, the maximum allowable under the City Charter. The Water and Electric utilities transferred $745,000 and $7,333,000, respectively.

Water System Operating Statistics

WATER SUPPLY	1987-88	1986-87	1985-86	1984-85	1983-84
Water Production:					
From Metropolitan Water District, million gallons	8,212.8	6,623.8	7,616.7	10,843.1	11,711.9
Percent of Total Production	37%	28%	33%	48%	54%
From Water System Wells, million gallons	14,284.1	16,887.6	15,337.1	11,714.7	9,866.8
Percent of Total Production	63%	72%	67%	52%	46%
Total Production, million gallons	22,496.9	23,511.4	22,953.8	22,557.8	21,578.7
Capacity—gallons per minute:					
From Metropolitan Water District Connections	58,435	58,435	58,435	58,435	58,545
From Water System Wells, average	48,130	41,340	43,022	43,545	38,678
Filtration Plant Capacity	10,417	10,417	10,417	10,417	10,417
Total Supply Capacity	116,982	110,192	111,874	112,397	107,640
Peak Day Distribution, million gallons	96.9	98.7	102.0	94.0	87.9
Average Daily Distribution, million gallons	63.2	63.7	62.9	61.4	60.6
WATER USE					
Average Number of Customers:					
Residential	47,007	46,677	46,111	45,429	44,696
Commercial/Industrial	5,328	5,290	5,249	5,170	5,095
Municipal	349	346	320	316	323
Other	1,085	1,105	1,038	981	879
Total—all classes	53,769	53,418	52,718	51,896	50,993
Millions of Gallons Sold:					
Residential	12,631	12,625	12,381	12,145	11,478
Commercial/Industrial	8,393	8,394	8,108	7,883	7,488
Municipal	612	629	633	702	567
Other	217	310	270	398	448
Total—all classes	21,853	21,958	21,392	21,128	19,981
Anaheim Population Served	243,021	242,161	237,506	234,700	233,019
Population Served Outside City, estimated	5,100	5,100[1]	5,900[1]	6,500	6,500
Total Population Served	248,121	247,261	243,406	241,200	239,519
Average Daily Sales Per Capita, gallons	241	243	241	240	228
GROWTH OF SYSTEM					
Active Wells	32	32	32	32	33
Reservoirs	10	10	10	10	10
Water Storage, million gallons:					
Treated	77	77	77	77	77
Untreated	920	920	920	920	920
Water Mains, miles	698	688	680	662	650
Fire Hydrants	6,448	6,358	6,196	5,999	5,890

[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—						
1988	$12,859,000	$ 5,641,000	$ 133,000	$ 482,000	$ 465,000	$19,580,000
1987	11,969,000	5,578,000	158,000	483,000	399,000	18,587,000
Increase (decrease)	$ 890,000	$ 63,000	($ 25,000)	($ 1,000)	$ 66,000	$ 993,000
Percent increase (decrease)	7.4%	1.1%	(15.8%)	(0.2%)	16.5%	5.3%
Units of 100 cubic feet sold:						
Year ended June 30—						
1988	16,886,937	11,220,542	213,797	818,442	75,510	29,215,228
1987	16,877,890	11,221,432	289,822	840,893	125,132	29,355,169
Increase (decrease)	9,047	(890)	(76,025)	(22,451)	(49,622)	(139,941)
Percent increase (decrease)	0.1%	(0.0%)	(26.2%)	(2.7%)	(39.7%)	(0.5%)
Average billing price per 100 cubic feet:						
Year ended June 30—						
1988	$ .7615	$ .5027	$ .6221	$ .5889	$ 6.1581	$ .6702
1987	.7092	.4971	.5452	.5744	3.1886	.6332
Increase	$ .0523	$ .0056	$ .0769	$ .0145	$ 2.9695	$ .0370
Percent increase	7.4%	1.1%	14.1%	2.5%	93.1%	5.8%
Average number of customers:						
Year ended June 30—						
1988	47,007	5,328	54	349	1,031	53,769
1987	46,677	5,290	57	346	1,048	53,418
Increase (decrease)	330	38	(3)	3	(17)	351
Percent increase (decrease)	0.7%	0.7%	(5.3%)	0.9%	(1.6%)	0.7%
Average annual use per customer in units of 100 cubic feet:						
Year ended June 30—						
1988	359	2,106	3,959	2,345		
1987	362	2,121	5,085	2,430		
Increase (decrease)	(3)	(15)	(1,126)	(85)		
Percent increase (decrease)	(0.8%)	(0.7%)	(22.1%)	(3.5%)		

Amounts represent revenue derived solely from billings.

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

	1987-88	1986-87	1985-86	1984-85	1983-84
			(in thousands)		
Revenues:					
Sale of water:					
Residential	$ 12,859	$ 11,969	$ 11,120	$ 10,845	$ 8,837
Commercial/Industrial	5,641	5,578	5,185	5,042	4,063
Municipal	482	483	453	492	363
Other	598	557	479	549	496
Billed revenue from sale of water	19,580	18,587	17,237	16,928	13,759
Change in unbilled water revenue[1]	(293)	1,802			
Total revenue from sale of water	19,287	20,389	17,237	16,928	13,759
Other (including interest income)	1,155	1,127	1,172	979	680
Total gross revenues	20,442	21,516	18,409	17,907	14,439
Operating expenses (excluding depreciation and amortization):					
Cost of water	7,933	7,856	8,164	8,272	6,524
Operations	2,353	2,124	2,384	2,004	1,798
Maintenance	2,955	3,035	2,549	2,402	2,050
Total operating expenses	13,241	13,015	13,097	12,678	10,372
Net revenues	$ 7,201	$ 8,501	$ 5,312	$ 5,229	$ 4,067
Revenue bond debt service requirements[2]	$ 1,817	$ 1,381	$ 1,625	$ 1,205	$ 874
Times revenue bond debt service covered by net revenues	4.0	6.2	3.3	4.3	4.7

[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 revenues for water consumed but not billed at the end of a fiscal period. Previously, revenues were recorded when billed to customers.*

	1987–88	*1986–87*
Estimate of unbilled water revenue for:		
Fiscal year	*$ 1,509*	*$ 1,802*
Prior fiscal year	*1,802*	*0*
Change in unbilled water revenue	*($ 293)*	*$ 1,802*

[2] *Excludes debt service on a portion of the 1984 $6,650,000 Water Revenue Bond Issue which has been advance refunded. See Note 3 to Water Utility Financial Statements.*

Electric System Operating Statistics

POWER SUPPLY	1987-88	1986-87	1985-86	1984-85	1983-84
Own Generation:					
San Onofre Nuclear Generating Station, kWh	427,297,605	476,785,844	304,229,709	286,779,260	183,183,951
Firm Purchases:					
Intermountain Power Project, kWh	1,585,321,000	942,740,589	82,560,196		
Hoover, kWh	53,407,000	4,307,000			
Power Contracts, kWh	634,001,745	56,267,180			
Southern California Edison Company, kWh	59,394,969	265,134,768	1,391,023,534	1,521,205,882	1,628,917,965
Non-Firm Purchases, kWh	86,924,376	618,624,268	421,189,000	304,017,000	171,578,000
System Total, kWh	2,846,346,695	2,363,859,649	2,199,002,439	2,112,002,142	1,983,679,916
System Peak Demand, kW	470,880	471,360	465,600	483,360	421,920
ELECTRIC USE					
Average Number of Customers:					
Residential	82,030	81,043	79,967	79,827	78,439
Commercial	13,942	13,353	12,901	11,826	11,037
Industrial	559	546	533	527	511
Other	168	166	167	167	167
Total—all classes	96,699	95,108	93,568	92,347	90,154
Kilowatt-Hour Sales:					
Residential	483,700,118	470,309,712	475,055,915	494,519,080	463,058,218
Commercial	510,345,288	490,775,601	480,552,216	471,732,433	448,055,902
Industrial	1,121,912,987	1,066,954,519	1,048,774,980	991,719,855	932,219,674
Other	545,513,004	170,740,072	90,803,292	31,698,296	28,065,923
Total—all classes	2,661,471,397	2,198,779,904	2,095,186,403	1,989,669,664	1,871,399,717
Average Annual kWh per Residential Customer	5,897	5,803	5,941	6,195	5,903
GROWTH OF SYSTEM					
Transmission, 69 kV, circuit miles	59	59	59	59	57
Distribution, 12 kV and lower, circuit miles:					
Overhead	888	890	890	888	886
Underground	398	395	379	351	343
Total	1,345	1,344	1,328	1,298	1,286
Transformer Capacity, kVa:					
220 kV to 69 kV	840,000	840,000	840,000	840,000	840,000
69 kV to 12 kV	592,000	552,000	552,000	552,000	552,000
12 kV to Customer	974,000	930,000	905,000	868,000	843,000

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—							
1988	$37,211,000	$44,874,000	$ 86,172,000	$1,007,000	$1,622,000	$ 7,983,000	$ 178,869,000
1987	37,145,000	44,179,000	84,978,000	1,007,000	2,031,000	5,108,000	174,448,000
Increase (decrease)	$ 66,000	$ 695,000	$ 1,194,000	0	($ 409,000)	$ 2,875,000	$ 4,421,000
Percent increase (decrease)	0.2%	1.6%	1.4%	0.0%	(20.1%)	56.3%	2.5%
Kilowatt-hours sold:							
Year ended June 30—							
1988	483,700,118	510,345,288	1,121,912,987	12,219,540	23,418,586	509,874,878	2,661,471,397
1987	470,309,712	490,775,601	1,066,954,519	11,990,744	29,002,806	129,746,522	2,198,779,904
Increase (decrease)	13,390,406	19,569,687	54,958,468	228,796	(5,584,220)	380,128,356	462,691,493
Percent increase (decrease)	2.8%	4.0%	5.2%	1.9%	(19.3%)	293.0%	21.0%
Average billing price per kilowatt-hour:							
Year ended June 30—							
1988	$ .0769	$ .0879	$ .0768	$ .0824	$ .0693	$ .0157	$ .0672
1987	.0790	.0900	.0796	.0840	.0700	.0394	.0793
Increase (decrease)	($ .0021)	($ .0021)	($ .0028)	($ .0016)	($ .0007)	($ .0237)	($ .0121)
Percent increase (decrease)	(2.7%)	(2.3%)	(3.5%)	(1.9%)	(1.0%)	(60.2%)	(15.3%)
Average number of customers:							
Year ended June 30—							
1988	82,030	13,942	559	105	62	1	96,699
1987	81,043	13,353	546	102	63	1	95,108
Increase (decrease)	987	589	13	3	(1)	0	1,591
Percent increase (decrease)	1.2%	4.4%	2.4%	2.9%	(1.6%)	0.0%	1.7%
Average annual use per customer in kilowatt-hours:							
Year ended June 30—							
1988	5,897	36,605	2,007,000				
1987	5,803	36,754	1,954,129				
Increase (decrease)	93	(149)	52,871				
Percent increase (decrease)	1.6%	(0.4%)	2.7%				

Amounts represent revenue derived solely from billings.

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

	1987-88	1986-87	1985-86	1984-85	1983-84
			(in thousands)		
Revenues:					
Sale of electricity:					
Residential	$ 37,211	$ 37,145	$ 39,999	$ 39,440	$ 33,498
Commercial	44,874	44,179	46,357	43,045	37,785
Industrial	86,172	84,978	90,272	81,772	69,576
Other	10,612	8,146	6,755	2,525	2,112
Billed revenue from sale of electricity	178,869	174,448	183,383	166,782	142,971
Change in unbilled electric revenue[1]	(667)	8,502			
Total revenue from sale of electricity	178,202	182,950	183,383	166,782	142,971
Provision for power cost adjustment	3,416	826	(10,855)	8,312	(4,420)
Provision for rate stabilization	9,427	7,291	7,196		
Other (including interest income)	6,499	5,690	6,638	8,080	7,008
Total gross revenues	197,544	196,757	186,362	183,174	145,559
Operating expenses (excluding depreciation and amortization):					
Cost of purchased power	124,936	108,300	119,744	122,495	102,602
Fuel used for generation	4,399	5,227	2,913	2,706	1,894
Operations	17,174	17,127	15,724	16,794	13,491
Maintenance	8,937	7,806	7,586	8,208	4,714
Total operating expenses	155,446	138,460	145,967	150,203	122,701
Net revenues	$ 42,098	$ 58,297	$ 40,395	$ 32,971	$ 22,858
Revenue bond debt service requirements[2]	$ 21,394	$ 19,852	$ 21,932	$ 14,229	$ 1,048
Times revenue bond debt service covered by net revenues	2.0	2.9	1.8	2.3	21.8

[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 revenues for electricity consumed but not billed at the end of a fiscal period. Previously, revenues were recorded when billed to customers.

	1987–88	*1986–87*
Estimate of unbilled electric revenue for the:		
Fiscal year	*$ 7,835*	*$ 8,502*
Prior fiscal year	*8,502*	*0*
Change in unbilled electric revenue	*($ 667)*	*$ 8,502*

[2]Excludes interest paid from bond proceeds on 1980 $84 million; 1982 $70 million, Issue A and B; and 1983 $130.4 million, Issue A, B and C, Electric Revenue Bond issues prior to December 1, 1984. The 1980, 1982 and 1983 issues were for the city's share of San Onofre Nuclear Generating Station, Units 2 and 3, construction costs. The 1982 and a portion of the 1980 and 1983 bond issues have been advance refunded. See Note 4 to Electric Utility Financial Statements.

CITY OF ANAHEIM
PUBLIC UTILITIES
DEPARTMENT
YEAR ENDED
JUNE 30, 1988

AUDITED
FINANCIAL STATEMENTS

City of Anaheim Water Utility Fund Balance Sheets

	June 30	
	1988	**1987**
Assets	**(in thousands)**	
Utility plant:		
Land	$ 1,554	$ 1,554
Source of water supply	10,030	9,842
Pumping	4,872	4,573
Transmission and distribution	104,466	96,369
General	2,460	2,429
	123,382	114,767
Less — accumulated depreciation and amortization	(21,797)	(20,144)
	101,585	94,623
Construction work in progress	5,014	3,203
	106,599	97,826
Restricted cash and investments	11,536	6,756
Current assets:		
Cash and investments	2,432	2,481
Customer and other accounts receivable, net	2,921	3,202
Accrued interest receivable	172	170
Materials and supplies, at average cost	136	230
Purchased water in storage	220	570
	5,881	6,653
Other assets:		
Unamortized bond refunding costs	1,081	1,159
Unamortized debt issuance costs	396	155
Total assets	$125,493	$112,549

	June 30	
	1988	1987
Equity, liabilities and other credits	(in thousands)	
Equity:		
Beginning fund balance contributed by the City	$ 19,280	$ 19,280
Retained earnings	18,091	14,398
Total equity	37,371	33,678
Long-term debt, less current portion	18,701	18,386
Capitalized lease obligation, less current portion	2,681	2,734
Total capitalization	58,753	54,798
Current liabilities (payable from restricted assets):		
Current portion of long-term debt	4,520	202
Accrued interest	529	449
Customer deposits	752	841
	5,801	1,492
Current liabilities (payable from current assets):		
Current portion of long-term debt	277	261
Current portion of capitalized lease obligation	53	49
Accounts payable and accrued expenses	1,954	2,733
Customer deposits	163	241
	2,447	3,284
Total current liabilities	8,248	4,776
Other liabilities and deferred credits:		
Contributions in aid of construction	58,492	52,975
Commitments and contingencies		
Total equity, liabilities and other credits	$125,493	$112,549

See accompanying Notes to Financial Statements

City of Anaheim Water Utility Fund Statements of Income

	Year Ended June 30	
	1988	**1987**
	(in thousands)	
Operating revenues:		
Sale of water	$ 19,287	$ 20,389
Other operating revenues	112	265
Total operating revenues	19,399	20,654
Operating expenses:		
Cost of water	7,933	7,856
Other operations	2,353	2,124
Maintenance	2,955	3,035
Depreciation and amortization	1,152	961
Total operating expenses	14,393	13,976
Operating income	5,006	6,678
Other income (expense):		
Interest and other income	1,043	862
Interest expense	(1,611)	(1,323)
	(568)	(461)
Net income	$ 4,438	$ 6,217

STATEMENTS OF CHANGES IN RETAINED EARNINGS		
Balance at beginning of year	$ 14,398	$ 8,883
Net income for the year	4,438	6,217
Transfer to the General Fund of the City	(745)	(702)
Balance at end of year	$ 18,091	$ 14,398

See accompanying Notes to Financial Statements

City of Anaheim Water Utility Fund Statements of Changes in Financial Position

	June 30	
	1988	1987
	(in thousands)	
Financial resources were provided by:		
Operations —		
Net income	$ 4,438	$ 6,217
Charges to income not involving working capital—		
Depreciation and amortization	1,152	961
Amortization of debt issuance costs and bond discount	181	176
Working capital provided by operations	5,771	7,354
Increase in current liabilities (payable from restricted assets)	4,309	
Contributions in aid of construction	6,574	3,451
Increase in long-term debt	5,000	4,300
	21,654	15,105
Financial resources were used for:		
Purchase and contribution of utility plant, net	10,981	6,619
Decrease in long-term debt and capitalized lease obligation	4,823	516
Transfer to the General Fund of the City	745	702
Increase in restricted cash and investments	4,780	1,136
Increase in debt related costs	260	
Debt refinanced during the current period		2,900
Decrease in current liabilities (payable from restricted assets)		352
	21,589	12,225
Increase in working capital	$ 65	$ 2,880
Increase (decrease) in working capital:		
Cash and investments	($ 49)	$ 1,212
Customer and other accounts receivable	(281)	1,817
Accrued interest receivable	2	(9)
Materials and supplies	(94)	25
Purchased water in storage	(350)	159
	(772)	3,204
Current portion of long-term debt	(16)	(46)
Current portion of capitalized lease obligation	(4)	(4)
Accounts payable and accrued expenses	779	(496)
Customer deposits	78	222
	837	(324)
Increase in working capital	$ 65	$ 2,880

See accompanying Notes to Financial Statements

City of Anaheim Water Utility Fund 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.

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

In accordance with industry practices, debt issuance 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's 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 $203,000 and $205,000 for the Water Utility at June 30, 1988 and 1987, 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 1987 financial statements to conform to the 1988 presentation.

NOTE 2 — Operating Expenses

Operating expenses shared with the Electric Utility amounted to $13,545,000 and $13,405,000 for the years ended June 30, 1988 and 1987, respectively, of which $2,709,000 and $2,670,000 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 — Long-Term Debt

The Water Utility is indebted as follows:

	June 30	
	1988	**1987**
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 $175,000 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 $12,097,000 to maturity	$ 6,455,000	$ 6,615,000
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 $110,000 to $180,000; total debt service of $1,394,000 to maturity	995,000	1,095,000
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 $70,000 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 $13,184,000 to maturity	7,060,000	7,130,000
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 $10,941,000 to maturity	5,000,000	
Total revenue bond debt	19,510,000	14,840,000
Revenue Anticipation Notes, 5.0%, issued September 12, 1986 in the amount of $4,300,000, in the form of tax-exempt notes maturing September 12, 1988; the notes are backed by a $4.3 million revolving credit agreement, which can be used in the event that the notes cannot be refinanced as they mature; total debt service of $4,397,000 to maturity	4,300,000	4,300,000
Note Payable to General Fund of the City, 7%, issued July 1, 1980 in the amount of $1,021,000, monthly principal and interest payments of $12,000 to June 1, 1990; total debt service of $288,000 to maturity	268,000	389,000
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 $554,000 to maturity	319,000	303,000
Total other long-term debt	4,887,000	4,992,000
Total long-term debt	24,397,000	19,832,000
Less: current portion	4,797,000	463,000
bond discounts	899,000	983,000
	$18,701,000	$18,386,000

NOTE 3 — Long-Term Debt (continued)

Annual debt service requirements at June 30, 1988 to maturity are as follows:

Fiscal Year	Revenue Bond Debt			Other Long-Term Debt			Total All Long-Term Debt
	Principal	Interest	Total	Principal	Interest	Total	
1989	$ 355,000	$ 1,381,000	$ 1,736,000	$4,442,000	$148,000	$4,590,000	$ 6,326,000
1990	465,000	1,351,000	1,816,000	153,000	30,000	183,000	1,999,000
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
Thereafter	17,070,000	11,546,000	28,616,000	244,000	119,000	363,000	28,979,000
	$19,510,000	$18,106,000	$37,616,000	$4,887,000	$363,000	$5,250,000	$42,866,000

Current interest costs of $299,000 and $539,000 have been included in Construction work in progress for fiscal years ended June 30, 1988 and 1987, 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, 1988 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. In accordance with industry practices, this amount is being deferred and amortized over the life of the 1986 Bonds using the effective interest method. At June 30, 1988, 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	
	1988	1987
Held by Fiscal Agent:		
Bond Reserve Fund	$ 1,905,000	$ 1,499,000
Bond Service Fund	437,000	428,000
Held by City Treasurer:		
Bond Service Account	264,000	175,000
Renewal and Replacement Account	1,016,000	946,000
Restricted bond proceeds	7,914,000	3,708,000
	$11,536,000	$ 6,756,000

NOTE 4 — 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	
1989	$ 294,000
1990	294,000
1991	294,000
1992	294,000
1993	294,000
Thereafter	4,410,000
	5,880,000
Less interest at 8.8%	3,146,000
Present value of future minimum lease payments	$ 2,734,000
Current portion	$ 53,000
Long-term portion	2,681,000
	$ 2,734,000

The asset related to this lease is recorded in Utility plant, Transmission and distribution, and at June 30, 1988 amounted to $3,059,000. The related accumulated amortization at June 30, 1988 and 1987 was $265,000 and $224,000, respectively. Amortization expense for each fiscal year amounted to $41,000.

NOTE 5 — 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 6 — 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 7 — Cash and Investments

At June 30, 1988, all of the City's pooled cash and investments were insured, registered or collateralized, with the exception of amounts invested by fiscal agents. A summary of the Water Utility's participation in the City's pooled cash and investments is allocated based on the overall percentage participation as follows:

U.S. government securities	$ 4,946,000
Negotiable certificates of deposit	4,643,000
Bankers acceptances	798,000
Repurchase agreements	451,000
Cash and time deposits	94,000
Local agency investment fund (state pool)	694,000
Total cash and investments controlled by City Treasurer	11,626,000
Amounts invested by fiscal agents	2,342,000
Total cash and investments	$13,968,000

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.

During the year the City invested in commercial paper and treasury notes. No investments were held in commercial paper and treasury notes at June 30, 1988.

NOTE 8 — 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 incident to the operation of a utility such as the water system of the City. In the opinion of management, the liability under these claims and suits would not materially affect the financial position of the Water Utility as of June 30, 1988.

Capital expenditures

The Water Utility's budget for the fiscal year 1988-89 provides for capital expenditures of approximately $10,042,000 of which $6,141,000 will be funded by water revenue bond proceeds and contributions in aid of construction. Substantial commitments have been made in connection therewith.

NOTE 9 — Subsequent Events

On September 12, 1988, the City paid off the two year, $4,300,000 Water Revenue Anticipation Notes issued in September 1986; at the same time the City sold a new issue of $3,700,000 in one year Water Revenue Anticipation Notes at a rate of 6.2 percent.

Report of Independent Auditors

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, 1988 and 1987, and the related statements of income, changes in retained earnings and changes in financial position 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 at June 30, 1988 and 1987 and the results of its operations and the changes in its financial position for the years then ended in conformity with generally accepted accounting principles.

Peat Marwick Main & Co.

Peat Marwick Main & Co.
October 14, 1988
Los Angeles, California

City of Anaheim Electric Utility Fund Balance Sheets

	June 30	
	1988	**1987**
Assets	**(in thousands)**	
Utility plant:		
Production	$171,198	$167,906
Transmission	12,313	12,227
Distribution	89,323	81,563
General	10,380	10,376
	283,214	272,072
Less — accumulated depreciation	(58,433)	(50,158)
	224,781	221,914
Construction work in progress	7,013	8,042
Nuclear fuel, at amortized cost	10,199	12,916
	241,993	242,872
Restricted assets:		
Cash and investments	48,950	49,798
Other	377	380
	49,327	50,178
Current assets:		
Cash and investments	46,895	42,845
Customer and other accounts receivable, net	23,770	22,482
Prepaid purchased power	742	8,016
Accrued interest receivable	1,926	1,774
Materials and supplies, at average cost	2,226	2,065
	75,559	77,182
Other assets:		
Unamortized bond refunding costs	27,578	29,932
Unamortized project costs	4,792	3,142
Unamortized debt issuance costs	1,775	2,020
	34,145	35,094
Total assets	$401,024	$405,326

	June 30	
	1988	1987
Equity, liabilities and other credits	(in thousands)	
Equity:		
Beginning fund balance contributed by the City	$ 14,629	$ 14,629
Retained earnings	80,001	72,848
Total equity	94,630	87,477
Long-term debt, less current portion	223,147	228,920
Total capitalization	317,777	316,397
Current liabilities (payable from restricted assets):		
Current portion of long-term debt	4,900	4,620
Accrued interest	3,952	3,997
Accounts payable	144	536
Tax-exempt commercial paper	20,450	20,450
	29,446	29,603
Current liabilities (payable from current assets):		
Current portion of long-term debt	1,909	1,801
Accounts payable and accrued expenses	7,947	6,552
Customer deposits	920	785
Power cost adjustment balancing account	6,960	12,591
Rate stabilization account	12,861	20,130
Test energy billings	3,064	
	33,661	41,859
Total current liabilities	63,107	71,462
Other liabilities and deferred credits:		
Contributions in aid of construction	17,521	15,528
Decommissioning reserve	2,619	1,939
Commitments and contingencies		
Total equity, liabilities and other credits	$401,024	$405,326

See accompanying Notes to Financial Statements

City of Anaheim Electric Utility Fund Statements of Income

	June 30	
	1988	1987
	(in thousands)	
Operating revenues:		
Sale of electricity	$178,202	$182,950
Provision for power cost adjustment	3,416	826
Provision for rate stabilization	9,427	7,291
Other operating revenues	800	570
Total operating revenues	191,845	191,637
Operating expenses:		
Cost of purchased power	124,936	108,300
Fuel used for generation	4,399	5,227
Other operations	17,174	17,127
Maintenance	8,937	7,806
Depreciation	9,057	8,525
Amortization of project costs		29
Total operating expenses	164,503	147,014
Operating income	27,342	44,623
Other income (expense):		
Interest income	5,699	5,120
Interest expense	(18,555)	(19,073)
	(12,856)	(13,953)
Net income	$ 14,486	$ 30,670
STATEMENTS OF CHANGES IN RETAINED EARNINGS		
Balance at beginning of year	$ 72,848	$ 49,396
Net income for the year	14,486	30,670
Transfer to the General Fund of the City	(7,333)	(7,218)
Balance at end of year	$ 80,001	$ 72,848

See accompanying Notes to Financial Statements

City of Anaheim Electric Utility Fund Statements of Changes in Financial Position

	June 30	
	1988	1987
	(in thousands)	
Financial resources were provided by:		
Operations—		
Net income	$ 14,486	$ 30,670
Charges to income not involving working capital—		
Depreciation	9,057	8,525
Amortization of project costs		29
Amortization of debt costs	3,522	3,334
Increase in decommissioning reserve	680	734
Working capital provided by operations	27,745	43,292
Increase in current liabilities (payable from restricted assets)		882
Decrease in restricted assets	851	688
Contributions in aid of construction	2,356	1,313
Increase in long-term debt		77,780
	30,952	123,955
Financial resources were used for:		
Purchase and contribution of utility plant, net	8,541	8,864
Decrease in long-term debt	6,696	6,438
Transfer to the General Fund of the City	7,333	7,218
Increase in unamortized project costs	1,650	860
Decrease in current liabilities (payable from restricted assets)	157	
Increase in debt related costs		5,519
Debt refinanced during the period		72,775
	24,377	101,674
Increase in working capital	$ 6,575	$ 22,281
Increase (decrease) in working capital:		
Cash and investments	$ 4,050	($ 723)
Customer and other accounts receivable	1,288	7,261
Prepaid purchased power	(7,274)	8,016
Accrued interest receivable	152	926
Materials and supplies	161	(191)
	(1,623)	15,289
Current portion of long-term debt	(108)	(591)
Accounts payable and accrued expenses	(1,395)	2,715
Customer deposits	(135)	(162)
Power cost adjustment balancing account	5,631	(121)
Rate stabilization account	7,269	5,151
Test energy billings	(3,064)	
	8,198	6,992
Increase in working capital	$ 6,575	$ 22,281

See accompanying Notes to Financial Statements

City of Anaheim Electric Utility Fund Notes to Financial Statements

NOTE 1 — Summary of Significant Accounting Policies

Basis of accounting

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

Utility plant and depreciation

The cost of additions to utility plant and of replacement of retired units is capitalized. Utility plant is recorded at cost, or in the case of contributed plant, at fair market value at the date of the contribution, except that the 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.

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 a Power Cost Adjustment (PCA) billing formula which is included in customer billings to reflect variations in the cost of power to the Electric Utility. The Electric Utility adjusts revenues from the sale of electricity for overcollections or undercollections 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 are recorded in the PCA balancing account until they are refunded to, or recovered from, utility customers.

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.

NOTE 1 — Summary of Significant Accounting Policies (continued)

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.

Debt issuance costs

In accordance with industry practices, debt issuance 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's 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 $646,000 and $626,000 for the Electric Utility at June 30, 1988 and 1987, 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 1987 financial statements to conform to the 1988 presentation.

NOTE 2 — Operating Expenses

Operating expenses shared with the Water Utility amounted to $13,545,000 and $13,405,000 for the years ended June 30, 1988 and 1987, respectively, of which $10,836,000 and $10,735,000 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 includes $4,792,000 which represents 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, 1988 amounted to approximately $200,000.

NOTE 4 — Long-Term Debt

The Electric Utility is indebted as follows:

	June 30	
	1988	**1987**
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 $525,000 to $675,000; total debt service of $3,283,000 to maturity	$ 2,975,000	$ 3,475,000
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 $125,000 to $400,000; total debt service of $8,057,000 to maturity	4,750,000	4,875,000
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 serially through October 1, 1990 in annual principal installments ranging from $1,700,000 to $2,000,000; total debt service of $6,240,000 to maturity	5,550,000	7,150,000
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 $952,000 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 $3,808,000 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 $2,100,000 to $2,850,000; total debt service of $21,381,000 to maturity	16,750,000	18,700,000
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 $1,030,000 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 $235,154,000 to maturity	128,290,000	129,275,000
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 $975,000 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 $139,599,000 to maturity	76,850,000	77,780,000
Total revenue bond debt	$238,365,000	$244,455,000

NOTE 4 — Long-Term Debt (continued)

	June 30	
	1988	1987
Note Payable to the General Fund of the City, 7%, issued July 1, 1980 in the amount of $2,382,000, monthly principal and interest payments of $28,000 to June 1, 1990; total debt service of $672,000 to maturity	$ 626,000	$ 907,000
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 $2,216,000 to maturity	1,276,000	1,213,000
Total other long-term debt	1,902,000	2,120,000
Total long-term debt	240,267,000	246,575,000
Less: current portion	6,809,000	6,421,000
bond discounts	10,311,000	11,234,000
	$223,147,000	$228,920,000

Annual debt service requirements at June 30, 1988 to maturity are as follows:

	Revenue Bond Debt			Other Long-Term Debt			Total All Long-Term Debt
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	
1989	$ 6,455,000	$ 14,915,000	$ 21,370,000	$ 354,000	$136,000	$ 490,000	$ 21,860,000
1990	6,900,000	14,487,000	21,387,000	379,000	110,000	489,000	21,876,000
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	63,000	88,000	151,000	20,894,000
1993	7,705,000	13,092,000	20,797,000	70,000	83,000	153,000	20,950,000
Thereafter	202,745,000	110,051,000	312,796,000	977,000	476,000	1,453,000	314,249,000
	$238,365,000	$180,109,000	$418,474,000	$1,902,000	$986,000	$2,888,000	$421,362,000

NOTE 4 — Long-Term Debt (continued)

Current interest costs of $1,598,000 and $1,500,000 have been included in Construction work in progress for fiscal years ended June 30, 1988 and 1987, 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, 1988 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, 1988, outstanding principal of the refunded 1982 Bonds totaled $61,000,000. 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. In accordance with industry practice, this amount is being deferred and amortized over the life of the 1986 Bonds using the effective interest method. At June 30, 1988, outstanding principal of the refunded 1983 bonds totaled $103,000,000. 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. In accordance with industry practice, 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, 1988, outstanding principal of the refunded 1980 bonds totaled $71,175,000. 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	
	1988	**1987**
Held by Fiscal Agent:		
Bond Reserve Fund	$22,356,000	$22,346,000
Bond Service Fund	602,000	588,000
Held by City Treasurer:		
Bond Service Account	8,096,000	7,928,000
Renewal and Replacement Account	6,792,000	6,741,000
Decommissioning and fuel reserves	9,241,000	6,179,000
Restricted bond proceeds	1,863,000	6,016,000
Other restricted assets	377,000	380,000
	$49,327,000	$50,178,000

NOTE 5 — 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, 1988 and 1987 totaled $20,450,000. The interest rates on this debt at June 30, 1988 ranged between 4.65% and 4.90% with maturities ranging from 20 to 61 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 6 — 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 $171,198,000 at June 30, 1988, was included in Utility plant at June 30, 1988. The Electric Utility recorded depreciation related to SONGS of $5,997,000 during fiscal year 1988. The Electric Utility has made provisions for disposal costs of spent nuclear fuel and for future decommissioning costs (see Note 1) of $428,000 and $680,000, 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 1988.

NOTE 7 — Pension Plan

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

NOTE 8 — Self-Insurance Program

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

NOTE 9 — Refunds

Since fiscal year 1986 the Electric Utility received refunds from Edison totaling $32,226,000. These refunds have been placed in the RSA. At June 30, 1988 and 1987, total principal and interest amounted to $12,861,000 and $20,130,000, respectively. The City intends to refund these amounts 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.

NOTE 10 — Cash and Investments

At June 30, 1988, all of the City's pooled cash and investments were insured, registered or collateralized, with the exception of amounts invested by fiscal agents. A summary of the Electric Utility's participation in the City's pooled cash and investments is allocated based on the overall percentage participation as follows:

U.S. government securities	$31,006,000
Negotiable certificates of deposit	29,111,000
Bankers acceptances	5,000,000
Repurchase agreements	2,828,000
Cash and time deposits	591,000
Local agency investment fund (state pool)	4,351,000
Total cash and investments controlled by City Treasurer	72,887,000
Amounts invested by fiscal agents	22,958,000
Total cash and investments	$95,845,000

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.

During the year the City invested in commercial paper and treasury notes. No investments were held in commercial paper and treasury notes at June 30, 1988.

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, 1988, 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	
1989	$57,567,000
1990	$62,187,000
1991	$62,189,000
1992	$63,675,000
1993	$63,324,000

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.

During the year ended June 30, 1987, payments to IPA for power were based upon IPA's budget for the year. IPA determined that its actual costs for the year were less than budgeted, resulting in $8,016,000 which will offset against future power payments by the Electric Utility to IPA. This amount has been reflected in the Electric Utility's Financial Statements.

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 Accounts Receivable 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 incident to the operation of a utility such as the electric system of the City. In the opinion of management, the liability under these claims and suits would not materially affect the financial position of the Electric Utility as of June 30, 1988.

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 1988-89 provides for capital expenditures of approximately $45,158,000, of which $31,616,000 will be funded from electric revenue bond proceeds.

NOTE 12 — Subsequent Events

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 is approximately $35.8 million which the Electric Utility will use to reduce future IPP purchased power costs.

Report of Independent Auditors

To the Honorable City Council
City of Anaheim, California

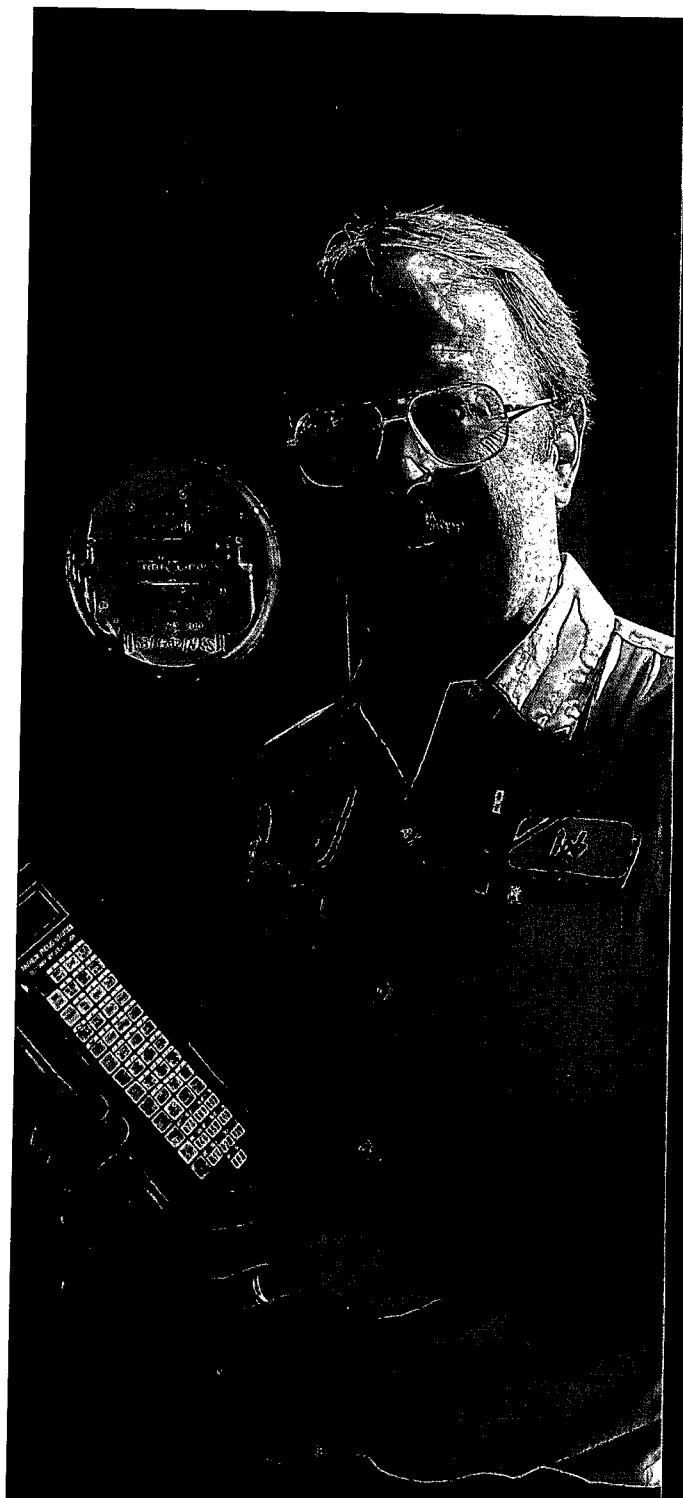
We have audited the accompanying balance sheets of the Electric Utility Fund of the City of Anaheim, California as of June 30, 1988 and 1987, and the related statements of income, changes in retained earnings and changes in financial position for the years then ended. These financial statements are the 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 at June 30, 1988 and 1987 and the results of its operations and the changes in its financial position for the years then ended in conformity with generally accepted accounting principles.

Peat Marwick Main & Co.

Peat Marwick Main & Co.
October 14, 1988
Los Angeles, California



Meter Reader Bob Blair uses a hand-held microcomputer to record an average of 450 water and electric readings daily.

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PUBLIC UTILITIES DEPARTMENT
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