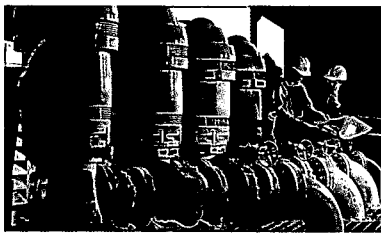
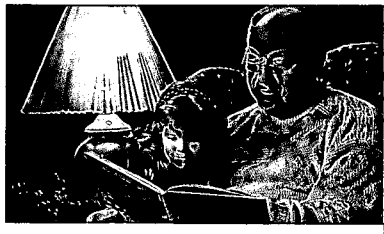
City of Anaheim



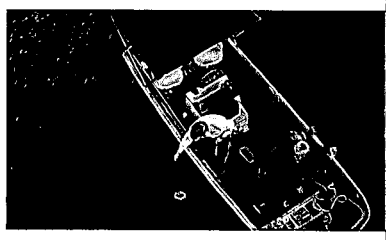
Public Utilities

Department

Annual Report



Year Ended June 30, 1989



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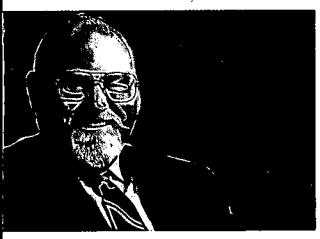
HIGHLIGHTS

Operations	Water System Year ended June 30 1989	Water System Year ended June 30 1988	Electric System Year ended June 30 1989	Electric System Year ended June 30 1988
Sales	21,756 million gallons	21,853 million gallons	2,419 million kilowatt-hours	2,661 million kilowatt-hours
System peak requirements	97.0 million gallons	96.9 million gallons	492,960 kilowatt-hours	470,880 kilowatt-hours
Average number of customers	54,127	53,769	98,228	96,669
Financial				
Billed revenues from sale of water and electricity*	$20,504,000	$19,580,000	$175,831,000	$178,869,000
Net income	$ 5,896,000	$ 4,438,000	$ 14,202,000	$ 14,486,000
Transferred to City of Anaheim General Fund	$ 802,000	$ 745,000	$ 7,511,000	$ 7,333,000

**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 $15,462,000 and $3,416,000 in the years ended June 30, 1989 and 1988, respectively, and do not reflect any provision for changes in the Rate Stabilization Account which were $12,288,000 and $9,427,000 in the years ended June 30, 1989 and 1988, 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



Gordon W. Hoyt
Public Utilities
General Manager

Report from the General Manager

An experienced management team is a key ingredient in any successful organization. The Anaheim Public Utilities Department's four assistant general managers and 10 division managers have more than 300 years of utility experience. These managers and the other talented individuals who work for the Department have forged an inter-departmental alliance dedicated to a common goal: to provide Anaheim consumers with a reliable supply of electricity and water at the lowest possible cost. The successful achievement of this goal is reflected in year-end electric and water rates. Year-end residential electric rates averaged 25 percent lower than those paid to the Southern California Edison Company by residents in neighboring communities, and water rates ranked in the lowest third among Orange County communities.

The experience of our managers has been enhanced over the past years by a cross training program. Assistant general managers have traded divisions in order to broaden their management experience and knowledge. In fiscal 1989, this program was expanded to include division managers. Managers of the Administrative Services, Financial Services and Systems Planning divisions exchanged responsibilities for six months. Assuming management of another division not only challenged each division manager's abilities, but also broadened their knowledge and brought fresh problem-solving strategies to the operation of those divisions.

The Department made significant progress in several key areas during the year. Taking another step forward in its quest for energy independence, the Department contracted for the construction of a natural gas turbine capable of generating 48 megawatts (MW) of power. When completed it will represent the first generating resource to come on-line within the city limits in 60 years. The turbine will be operated only during peak-demand periods to reduce costly capacity purchases from outside resources.

On September 6, 1988, continued load growth and soaring 100 degree-plus temperatures led to an all-time record electric system peak demand of 493 MW. That mark was nearly eclipsed on an unseasonably warm April 6, 1989 – the year's hottest day – when system peak demand climbed to 481 MW.

We reaffirmed our commitment to comply with environmental regulations by establishing an Environmental Services Section. In-house experts are working closely with other utility divisions and other city departments to establish the

most cost-effective procedures for monitoring and complying with all local, state and federal environmental laws and regulations.

The PCB program is designed to eliminate all polychlorinated biphenyls from the electric system by the mid-1990s. Three new field crews have been added to inspect the city's more than 16,000 electrical transformers for PCB contamination. The Department is purchasing sophisticated laboratory equipment and hiring a chemist to conduct in-house PCB testing. Located in the Water Quality Laboratory, the new equipment also will be used in the water system's ongoing tests for trace organic compounds.

Anaheim consumers reap the benefits of having a first-class water utility. New deep wells are tapping aquifers currently untapped by other water utilities. Increased reliance on these wells will help insulate Anaheim from the impact of future droughts and groundwater contamination.

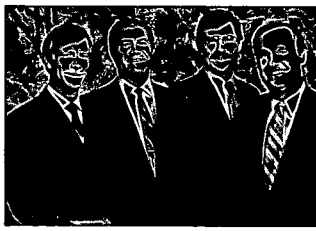
With major construction underway in Anaheim's hill and canyon area, water engineers are working on developer-funded facilities that ultimately will serve more than 5,600 new homes.

A common thread in all of these achievements is the innovation, expertise and ongoing commitment to excellence of the Department's managers and employees. They have made the Anaheim Public Utilities Department one of the nation's most successful municipal utilities.

As I anticipate my retirement at the end of calendar 1989, I am taking this opportunity to thank our management team, and the Department's entire work force, for their dedication and their contributions in fiscal 1989 and over my past 25 years in Anaheim.

On behalf of the Department, I extend special thanks to the City Manager, Mayor, City Council and members of the Public Utilities Board for the vital role they play in creating an environment which allows our talented staff to achieve the Department's goals.

Gordon W. Hoyt
Public Utilities General Manager



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

Charles T. Slatten
Edward G. Alario
Dale L. Pohlman
Darrell L. Ament

Dale L. Pohlman

Assistant

General Manager

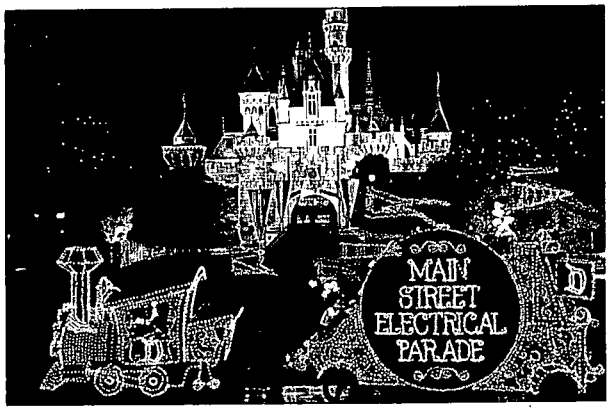
Power Resources Group

Power Resources Group

In fiscal 1987, the Public Utilities Department realized its goal of energy diversification. We pledged that Anaheim would never again find all of its energy eggs in one resource basket. Never again would one utility control the Department's only source of power supply for Anaheim's electric consumers.

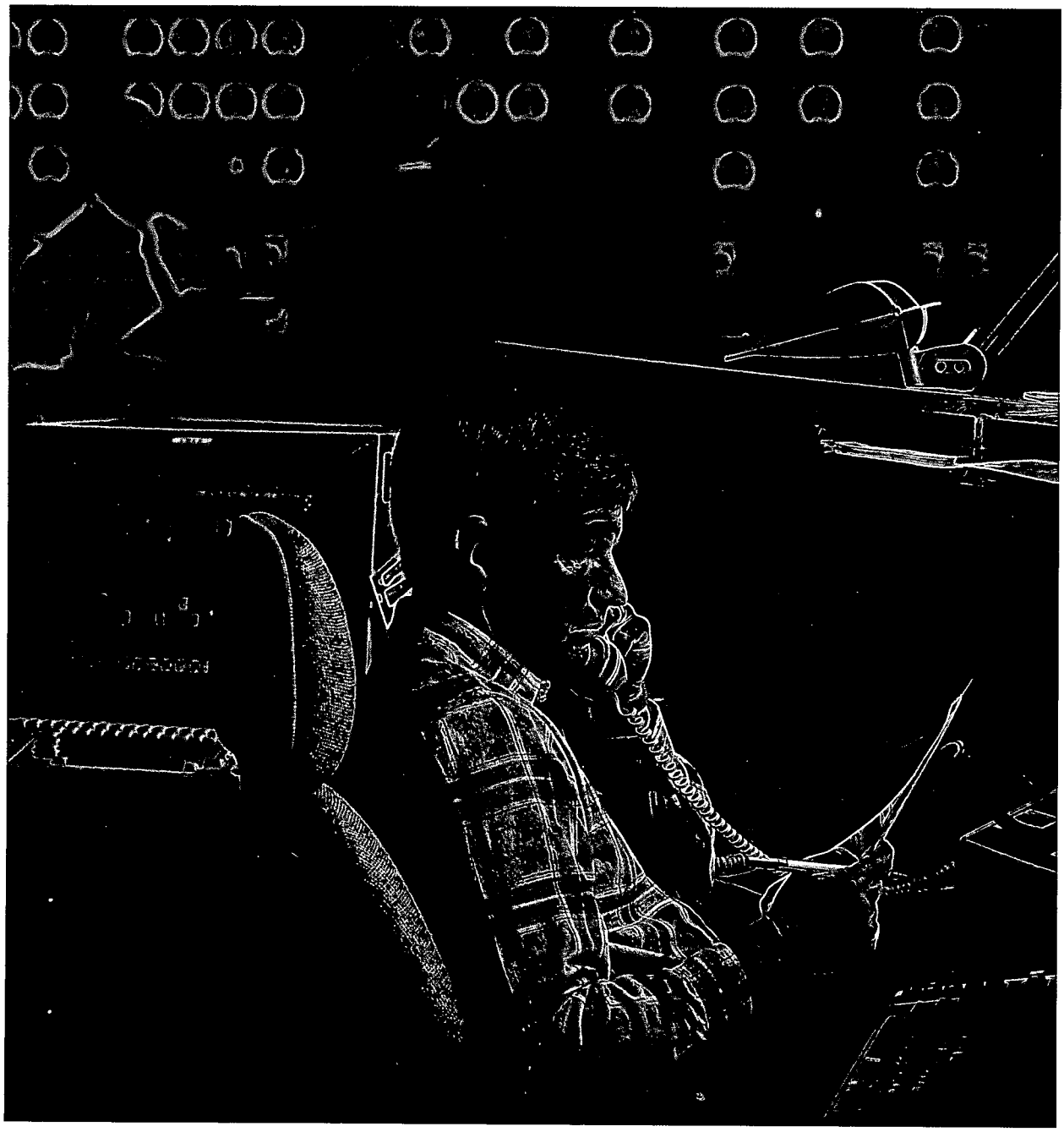
Today, the goal is even more ambitious: to replace our short-term, outside supplier energy contracts with an assortment of long-term resources in which we have direct ownership or a firm contractual interest. Through planning and working together now to control our collective energy destiny, Anaheim will be firmly positioned to move into the next century with an assured, plentiful and reliable supply of economical power.

The Department's ownership interest in San Onofre Nuclear Generating Station (SONGS) Units 2 and 3, and long-term purchase contract for output from the coal-fueled, 1,600 megawatt (MW) Intermountain Power Project (IPP) in Utah, are the backbone of our commitment to a self-reliant future. Supplying more than two-thirds of Anaheim's annual electric energy requirements, SONGS and IPP play a critical role in stabilizing Anaheim electric rates. Projects of this magnitude require an incredible amount of planning and teamwork within the Department, with other city departments, with outside agencies and other utilities. Transforming IPP from an initial concept to an energy-producing resource took more than 13 years.



The process begins with development of the Department's load forecast, filed with the California Energy Commission (CEC) every two years. The filing identifies the City's future power needs and discusses alternative methods of meeting the projected demand. Our futurists, led by economist and System Planning Manager Dr. David Kolk, compile extensive data on land use, population growth, development plans, national economic trends and even studies on appliance use to build both econometric and end-use models on which they can accurately base their projections. Conforming with the CEC's methodology is a mammoth undertaking and few utilities pass without modification by the commission. Our Department's forecasts, however, have been accepted with little or no change and have, in fact, made Anaheim a leader in electric load forecasting.

Purchases made by Power Production Division Manager Dick Butryn's staff, under the terms of firm contracts with Pacific Gas & Electric and Deseret Generation and Transmission Co-operative, provide additional power for the community and complement the economic benefit from SONGS and IPP. In addition to scheduling deliveries from our firm resources, SONGS, IPP and our share of the Hoover Uprating Project, the Department's power production team



bought lower cost economy energy on the open market from 18 utilities located throughout the western United States. We continued to displace more costly purchases from Southern California Edison Company to the point where the Department sold more energy to Edison from our resources during periods of low demand than it purchased from Edison in fiscal 1989.

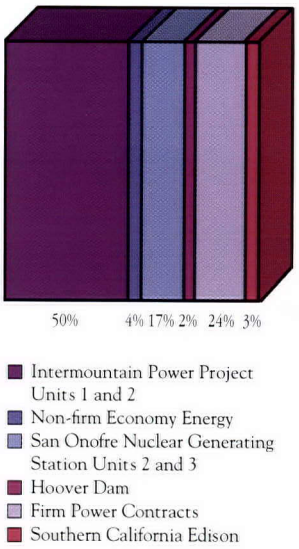
Anaheim moved closer to making the first generating resource within the city limits in 60 years a reality. A contract to build a natural gas combustion turbine generator in the northeast industrial center adjacent to Dowling Substation was awarded during the year to Ebasco Constructors Inc. Slated to be operational in 1991, the turbine will generate up to 48 MW during peak demand periods and will meet tough air quality standards. This important new peaking resource, in conjunction with Anaheim's power allocation from Hoover Dam, will help to reduce high-cost capacity purchases from Edison and ultimately help hold down the rates we charge our retail consumers.

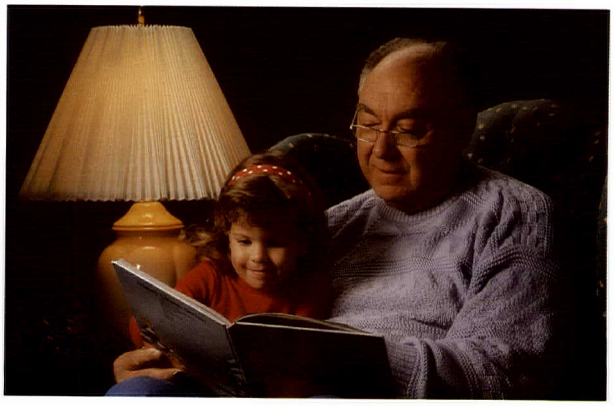
Once power is transmitted home to Anaheim from distant resources, delivery to consumers is the responsibility of Steve Albright and his Systems Operations Division staff. Highly trained personnel, using the latest in computer technology, continually monitor the electric system to provide reliable service. Water production and distribution also command the attention of Albright's systems operators.

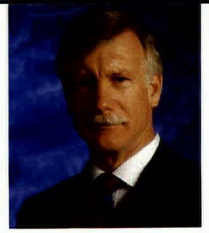
The Department generally pumps about 70 percent of its annual water supply from its own wells. To help "bank" ground water for future use, Metropolitan Water District of Southern California (MWD) makes surplus imported water available at a price comparable to the cost of pumped water. Implementation of the program requires daily coordination between the Systems Operations, Water Engineering and Water Field Divisions. In addition to conserving ground water, $22,000 was saved as a result of reductions in peak demand. Combined with the $99,000 saved through Systems Operations' other peak reduction programs, the Department saved a total of $121,000 on pumping operations costs in fiscal 1989.

Water production in fiscal 1989 was a record 24 billion gallons, up 1.5 billion gallons from fiscal 1988. The system's 31 active wells produced 15.6 billion gallons, or 65 percent of total production. Well water is Anaheim's lowest cost water supply. The Department purchased 8.4 billion gallons of imported water from MWD during the fiscal year, accounting for the remaining 35 percent of total water production.

FISCAL 1989







Charles T. Slatten

Assistant

General Manager

Engineering Group

Engineering Group

Anaheim Public Utilities Department designers and engineers work closely with Department economists, city planners as well as residential and commercial developers to identify where the city's future growth is most likely to occur and to project the water and electric use that growth will bring. Once forecasts have been made, we then must identify the facilities which will meet future consumer demand reliably and economically.

Under Water Engineering Division Manager Diem Vuong's direction, eight wells, with a combined capacity of 9,700 gallons per minute (gpm), were rehabilitated in fiscal 1989. The program increased overall efficiency of the wells by approximately 12 percent with annual operating energy savings of roughly 500,000 kilowatt-hours (kWh). In 1990, six more wells will be rehabilitated, bringing an additional 300,000 kWh of energy savings. Saving 800,000 kWh annually translates into $48,000 of avoided electric pumping costs each year.

Continuing a comprehensive maintenance and replacement program, funded primarily by current revenues, approximately 3.1 miles of old, unlined four to eight inch distribution pipelines were upgraded during the year to eight and 16 inch pipelines.

Design of pumping modifications at Linda Vista and Olive Hills reservoirs was started in fiscal 1989. This project will double the pumping capacity of the Linda Vista Reservoir and Pumping Station Complex to 22,000 gpm. In conjunction with new pumps at Olive Hills Reservoir, this project will enable the Department to supply up to 1.4 billion gallons of lower cost well water annually to our high elevation system. The area is now served exclusively with higher cost imported water. Using lower cost well water will result in projected water cost savings of $400,000 annually.

Water Engineering staff engineers, designers and inspectors currently are working with three major developers on water production and distribution projects in the Santa Ana Canyon. Upon completion, 4.5 miles of new water mains, two new pump stations with 8,500 gpm of pumping capacity and five reservoirs with total storage capacity of 12 million gallons, will be in place serving more than 5,600 homes.

The Department continued to meet its commitment to deliver water that meets all state and federal standards for drinking water in fiscal 1989. Rigorous testing programs help maintain the quality of the water delivered to Anaheim consumers. The Department's own Water Quality Laboratory conducted more than 30,000 physical, biological and chemical tests on approximately 6,000 water supply and distribution samples during fiscal 1989. In addition, tests were conducted by Metropolitan Water District of Southern California on imported water sold to the

Department and by the Orange County Water District on the aquifers it manages along the Santa Ana River.

During fiscal 1989, the Electrical Engineering Division, managed by Jafar Taghavi, issued work orders for construction and installation of facilities to serve 1,328 new residential and 423 new commercial/industrial customers. Approximately eight circuit miles of underground and overhead 12 kilovolt (kV) distribution lines were designed, in addition to more than five circuit miles of secondary distribution lines.

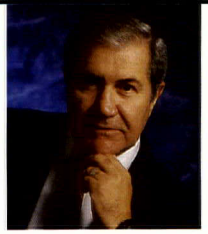
Construction of Southwest Substation, a new 69/12 kV distribution substation, was near completion at year end. Southwest will serve growing consumer demand for power in the Disneyland, Anaheim Convention Center, and hotel area.

Working closely with officials from the California Department of Transportation, our engineers are planning for replacement of electrical transmission and distribution lines and facilities, including Katella Distribution Substation that will have to be relocated as a result of the widening of Interstate-5. The Department plans to supply customer loads now served from Katella Substation through a future expansion of Southwest Substation and a new distribution substation currently planned for construction near Anaheim Stadium. A third new distribution substation will be constructed to serve new residential and commercial loads in the rapidly developing Santa Ana Canyon.

Design of a fourth "A" bank, or 220/69 kV transformer, planned for installation at Lewis Substation, was completed in fiscal 1989. This $5 million project will increase the capacity of Anaheim's connection to Southern California Edison's 220 kV transmission grid from 840,000 to 1,120,000 kilovolt amperes to accommodate future consumer demand and enhance system reliability.

Accurate long-term planning and a coordinated effort between divisions has been, and continues to be, a key element of the Department's success. Several important studies are underway ranging from communications to enhancing electrical distribution system reliability. One study initiated in fiscal 1989 is designed to identify the most economic, reliable and environmentally acceptable plan for meeting transmission needs within the city for the next two decades.

Over the next 20 years, Anaheim is expected to add 50,000 residents to its current population of 244,300. More than 9,000 new housing units are expected by 1994. Through cooperative planning based on sound engineering, the Public Utilities Department will have the facilities in place to meet the community's water and power needs well into the next century.



Edward G. Alario
Assistant General Manager Field and Warehouse Group

Field and Warehouse Group

Trained in such diverse specialties as communications, construction and maintenance, equipment test and repair, and computer operations, the men and women of the Field and Warehouse Group maintain the integrity of Anaheim's water and electrical systems, 24 hours a day, 365 days a year. When nature's fury or other problems disrupt service, the Group's dedicated professionals move in to repair any damage and quickly restore service to our consumer-owners. From Lewis Substation's massive 220/69 kilovolt (kV) transformers to individual customer service installations, our field crews transform the designs and concepts of the Department's other divisions into real-time applications.

To maximize the utility system's reliability, the Field Group implemented a formalized, aggressive preventive maintenance program for the electric and water systems. Interim Electric Field Manager Gayle Herbel's technicians make regularly scheduled inspections of substations, transformers, switches and protective relays to make sure the equipment is in top operating condition.

Crews also conduct yearly examinations of Anaheim's 59 circuit miles of 69 kV transmission lines and 530 miles of primary overhead distribution power lines. By using an infra-red scanner to detect "hot spots" or points on the system where heat is generated due to such things as old or loose connections, crews can make repairs or replacements on a planned basis before a point fails. Scheduled maintenance can save the Department thousands of dollars each year in avoided overtime costs, not to mention reducing the intangible costs associated with outages and customer inconvenience. Although the scanning procedure currently is contracted to an outside firm, we are studying the feasibility of purchasing our own equipment and performing the inspections with our field personnel.

The maintenance program performed by Interim Water Field Manager Jerry Baldwin's crews include a critical valve-turning program. The exercising of all system valves on at least a yearly basis will help assure their performance during routine maintenance programs and emergency operating conditions. A scheduled routine meter test program not only improves system-wide meter accuracy, it helps decrease unscheduled maintenance and replacement of old, worn meters. Water field production crews are devoting significant hours and working closely with water engineers to rehabilitate the system's older wells which will result in improved pump operating efficiency plus enhanced water quality and reliability.

Three new field crews were hired to help the Department attain its goal of becoming a PCB-free utility by the mid-1990s. PCBs, once a widely used element in electrical equipment insulating and

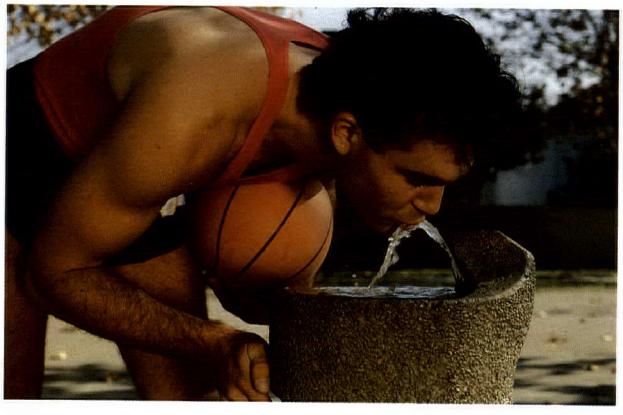
cooling oils, now have been identified as a toxic substance and suspected carcinogen. All PCB contaminated capacitors have been removed from the electrical system. Testing of the majority of the Department's approximately 16,000 transformers is now underway. Those transformers found to be PCB contaminated will be retrofilled or removed from service and destroyed.

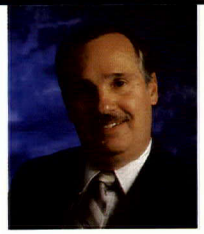
In addition to the PCB program, we are working closely with Environmental Services personnel from the Finance and Administration Group on several projects, including the development of formal procedures for cleaning up spills, and the implementation of protocols for surplus department equipment subject to disposal regulations. Environmental Services also is providing oversight of contractual agreements related to the management of hazardous waste generated by the Department.

The Field Group contracts with Anaheim's Parks and Recreation Department for its city-wide tree-trimming program as part of our ongoing effort to enhance electric system reliability. By aggressively maintaining safe clearances between power lines and tree limbs, the frequency and severity of outages created by branches fouling lines during windstorms are being reduced significantly.

Responding to requests from Anaheim's Fire Department, field crews are replacing the city's existing dry-barrel style fire hydrants with new wet-barrel hydrants. Firefighters feel confident that wet-barrel hydrants provide a more reliable flow of water in firefighting emergencies. Based on the reliability and flexibility designed into Anaheim's water system over the years, the Insurance Services Office has rated Anaheim's water utility a Class I, their highest underwriting rating. The bottom line results for Anaheim residents and businesses are the benefits of reasonable water rates and relatively lower insurance premiums.

A job is not worth doing unless it is done safely. The Department is especially proud of its safely record. Support for the program stems from top management, with overall coordination provided by the Administrative Services Division of the Finance and Administration Group. But the root of our success is the strong commitment to working safely on the part of our field personnel. We see positive efforts from individuals in recognizing, reporting and resolving safety issues before they can become a personal injury or accident statistic. In fiscal 1989, compared to our five-year average, disabling injuries and days away from work dropped 48 and 22 percent, respectively. Our safety program has made great strides over the last five years and is just one example of what can be achieved through hard work, innovation and teamwork between employees and managers across divisional lines.





Darrell L. Ament
Assistant General Manager Finance and Administration Group

Finance and Administration Group

The cornerstone of Finance and Administration is service, to our water and electric customers, and internally, to the other utility groups and divisions. In fiscal 1989, we continued our commitment to provide all of our constituents with the highest quality service possible.

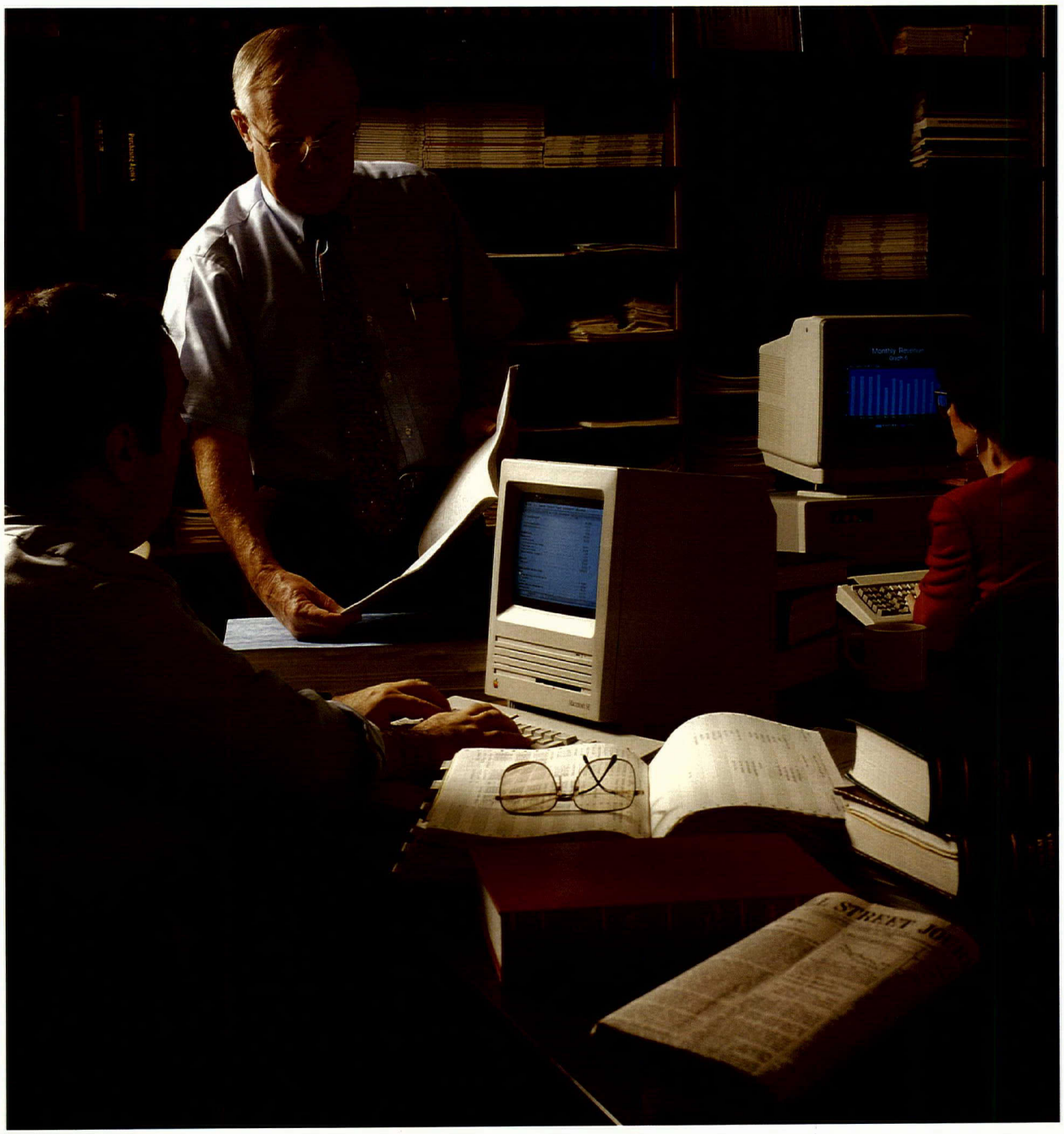
As the Department's front-line contact with Anaheim consumers, the Customer Service Division, managed by Bonnie Woodson, specializes in courtesy and efficiency. Representatives responded to more than 100,000 telephone, 4,200 written and 13,500 in-person inquiries in the past fiscal year. Our meter readers achieved an enviable 99.96 percent accuracy level. To further improve our service, we're designing a new computerized customer information and billing system. Due to go on-line in fiscal 1991, the system will expedite billing and our response to service and information requests from our consumer-owners.

One of our Department's most significant achievements in fiscal 1989 was the creation of an Environmental Services Section. Environmental Services is headed by John Hills, who was formerly in charge of Orange County's Hazardous Materials Management Programs. This new program represents a Departmental move to be proactive and cost-effective in complying with all local, state and federal environmental regulations. Environmental Services has developed and implemented new procedures that have already saved the Department more than $500,000.

Strong financial planning has strategically positioned the Department to finance capital projects needed for efficient operation of the Department's complex systems at favorable interest rates. The bottom line is to maintain lower water and electric rates for our customers.

The Department's low rates – residential electric rates at year end averaged 25 percent less than those of Southern California Edison in other Southern California communities while water rates were among the lowest in Orange County – are a direct result of a cooperative effort with the Engineering, Field and Warehouse and Power Resources Groups. Financial Services Manager Mike Bell and his staff use computerized models to analyze alternative methods of financing projected capital projects and to project operating results in order to determine probable rate consequences. They then prepare the most cost-effective five-year financial strategic plan. Their insightful financial planning is integral to the Department's financial strength and financial success.

Financial Services' active participation in financing activities of joint action agencies such as the Intermountain Power Agency and Southern California Public Power Authority, has further solidified the Department's financial


Monthly Revenue
Graph 1
STREET JO

base. The division's important role in negotiations regarding distribution of IPP's surplus construction funds will ultimately result in $36 million in savings for Anaheim's consumer-owners.

Over the next five years, approximately $18.6 million is targeted for replacement of water production and distribution facilities, $18.4 million for construction of new water facilities, $45 million for power supply and $55.6 million for electric subtransmission and distribution facilities in Anaheim. Plans are in place to fund the Department's investment in these facilities.

From personnel services to external communications, the role of the Administrative Services Division, managed by Diana Leach, is as diversified as it is important to the organization's overall effectiveness.

Interacting with the Field and Engineering Groups, Administrative Services Division staff is updating our construction standards. Setting guidelines for each construction project, this program details how it will be built, the material, equipment and number of hours including drive, set-up, tear-down and clean-up time needed to do the job. With these improved guidelines, we can plan, schedule and use our work crews even more efficiently.

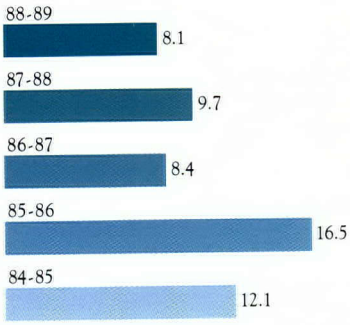
After a successful evaluation period, the Executive Information System is being expanded. This valuable business management tool enables top management to closely monitor the financial and operational aspects of the electric and water systems and make the appropriate operational adjustment by providing rapid access to running data on performance indicators. We also moved forward with the installation of a computer automated records storage and retrieval system.

This year's decline in water sales, especially in light of warmer temperatures, more customers and less rain, can be attributed in part to Administrative Services' water conservation communications program. Although water supplies remain plentiful, the Department continues to encourage customers to conserve this most precious resource by eliminating wasteful practices.

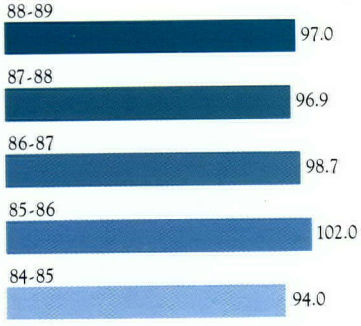
To promote safety as an integral part of every task, Administrative Services implemented a Safety Recognition Program honoring employees with exemplary safety records. Providing employees with the skills, training and recognition needed to assure a safe working environment will continue as one of the Department's top priorities.

FISCAL YEAR
WATER SALES
(BILLION GALLONS)

FISCAL YEAR
ANNUAL RAINFALL
(INCHES)



FISCAL YEAR
PEAK DAY DEMAND
(MILLION GALLONS)



Statistical and Operational Analysis

Public Utilities Department managers strive to operate the Department with the same conscientious attitude and dedication as managers of the best run businesses – long-range planning, attention to detail, an insistence on excellence, teamwork and a commitment to providing reliable, caring service.

While not the entire story, statistics are indicators of the results of the Department's operations and financial performance.

The operating and financial results of the Public Utilities Department in fiscal 1989 continued to reflect the Department's achievements across a broad spectrum of services provided for Anaheim consumers.

Water system production was 24.0 billion gallons, up 1.5 billion gallons from fiscal 1988, primarily as a direct result of increased water storage levels.

Wells, the Department's lowest cost source of water, produced 15.6 billion gallons in fiscal 1989, or 65 percent of total production. Fiscal 1989 well production was up 1.3 billion gallons from the prior year. The purchase of 8.4 billion gallons of imported water from the Metropolitan Water District of Southern California (MWD) during the fiscal year, made up the remaining 35 percent of total water production.

The Department's water production goal is to pump 70 percent of total production from its own wells and to make up the remaining 30 percent with purchases of imported water from MWD. In order to help "bank" ground water for future use during dry years, MWD once again made surplus imported water available from March through May of 1989 at a price comparable to the cost of pumped water.

The Department strongly supports the program and bought 1.3 billion gallons from MWD that normally would have been pumped from the Department's 31 active wells. Adjusting production figures for the impact of the joint water banking program yields pumped local water to purchased imported water percentages of 70 and 30 percent, respectively.

In fiscal 1989, consumers used 21,256 million gallons of water. Down 97 million gallons from the prior year, water use in fiscal 1989 was still the third highest level in the history of the Department. Fiscal 1987 record sales were 21,958 million gallons. The difference between water produced and water sold varies depending on the amount of water in storage, evaporation and other losses.

It is notable that water use was down in spite of decreased rainfall during fiscal 1989. Rainfall was 8.0 inches, down 1.7 inches from the prior year and well below the annual average of 13 inches for the coastal plain. Dry conditions in the West generally and in Southern California particularly have not adversely affected Anaheim's supplies of water. However, consumer awareness has been heightened by the Department's communications program and regional advertising by MWD. The message is that even though supplies are adequate, there is a need to eliminate wasteful uses of this precious resource.

Another indication of improved consumer awareness, per capita water use continued a three year downward trend to 239 gallons a day in fiscal 1989, the lowest mark in six years. Average water use was down in each major customer class except for residential, which was up only 100 cubic feet, or 748 gallons.

Electric system generation and pur-

chases totaled 2,843.5 million kWh, compared to the record 2,846.3 million kWh set in the prior fiscal year.

The Department's firm, long-term resources – San Onofre Nuclear Generating Station, Units 2 and 3; the two coal-fueled units of the Intermountain Power Project and allocation of low cost hydroelectric power from the ongoing uprating at Hoover Dam – continued to provide a reliable and economical source of power for Anaheim consumers. Together, these resources accounted for 69 percent of the Department's total production of electrical energy.

Firm system purchases from Pacific Gas and Electric, Deseret Generation and Transmission Co-operative and the addition of seasonal purchases from the California Department of Water Resources made up 24 percent of the Department's needs. Only 3 percent of the Department's power supply was purchased from Edison compared to 100 percent in 1975.

The Department's participation in the Western Systems Power Pool and the purchase of non-firm supplemental economy energy from other utilities stretched across the western United States contributed to increased diversity and relatively lower power supply costs. Non-firm purchases were 4 percent of the system total.

Electric base rates were stable for another year due to the Department's successful power supply program and the City Council's rate stabilization policy. The Department has not increased base rates since September 1984.

After two decreases in fiscal 1987 and another decrease in fiscal 1988, the Department moved to increase revenues collected through the Power Cost Adjustment in April, 1989. However, the average billing price per kWh continued to show a decline and residential consumers were paying 25 percent less on the average than consumers in surrounding communities.

Electricity sales overall fell to 2.4 billion kWh in fiscal 1989, down 242 million kWh, or 9 percent, compared to the prior fiscal year.

Sales of surplus energy to other electric utilities were 225 million kWh, down 285 million kWh, or 56 percent, and were the cause of the overall decrease in sales.

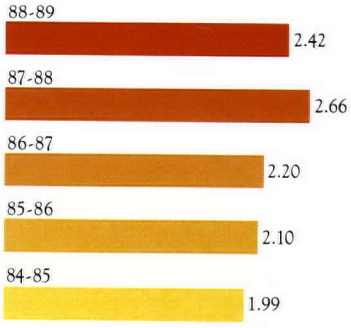
Retail sales, excluding sales to other electric utilities, were 2.2 billion kWh, up 42.7 million kWh, or 2 percent. All retail customer classes recorded sales gains.

Electric system energy use and demand are temperature sensitive and are driven significantly by the impact of hot weather on consumer use of air conditioning. While relatively mild weather was experienced for a fourth consecutive year, fiscal 1989 was warmer than the three preceding years.

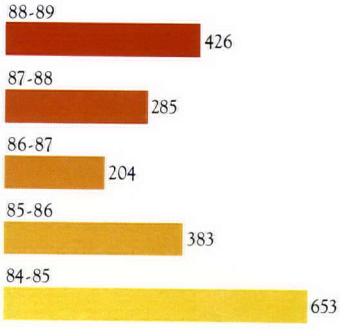
By analyzing the number of degree days above 72 degrees F., Department engineers can evaluate the effect of temperature on retail consumer electric energy use. Degree days are the number of degrees above 72 degrees F., times the number of hours above 72 degrees F., divided by 24 hours.

In fiscal 1989 there were 426 degree days above 72 degrees F. compared to 285, 204 and 383 degree days in the prior three years. It was an early September heat wave, with temperatures in the 100 degree F. plus range, that helped push system demand to a new all time peak of 493 MW.

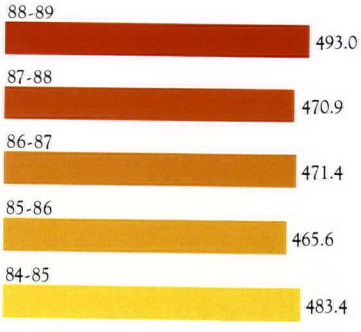
FISCAL YEAR
ELECTRIC SALES
(BILLION KILOWATT-HOURS)



FISCAL YEAR
TEMPERATURE
(DEGREE DAYS ABOVE 72°)



FISCAL YEAR
ELECTRIC PEAK DEMAND
(THOUSAND KILOWATTS)



WATER SYSTEM OPERATING STATISTICS

WATER SUPPLY	1988-89	1987-88	1986-87	1985-86	1984-85
Water Production:					
From Metropolitan Water District, million gallons	8,406.9	8,212.8	6,623.8	7,616.7	10,843.1
Percent of Total Production	35%	37%	28%	33%	48%
From Water System Wells, million gallons	15,565.6	14,284.1	16,887.6	15,337.1	11,714.7
Percent of Total Production	65%	63%	72%	67%	52%
Total Production, million gallons	23,972.5	22,496.9	23,511.4	22,953.8	22,557.8
Capacity—gallons per minute:					
From Metropolitan Water District Connections	58,435	58,435	58,435	58,435	58,435
From Water System Wells, average	47,209	48,130	41,340	43,022	43,545
Filtration Plant Capacity	10,417	10,417	10,417	10,417	10,417
Total Supply Capacity	116,061	116,982	110,192	111,874	112,397
Peak Day Distribution, million gallons	97.0	96.9	98.7	102.0	94.0
Average Daily Distribution, million gallons	64.1	63.2	63.7	62.9	61.4
WATER USE					
Average Number of Customers:					
Residential	47,162	47,007	46,677	46,111	45,429
Commercial/Industrial	5,381	5,328	5,290	5,249	5,170
Municipal	361	349	346	320	316
Other	1,223	1,085	1,105	1,038	981
Total—all classes	54,127	53,769	53,418	52,718	51,896
Millions of Gallons Sold:					
Residential	12,684	12,631	12,625	12,381	12,145
Commercial/Industrial	8,145	8,393	8,394	8,108	7,883
Municipal	633	612	629	633	702
Other	294	217	310	270	398
Total—all classes	21,756	21,853	21,958	21,392	21,128
Anaheim Population Served	244,300	243,021	242,161	237,506	234,700
Population Served Outside City, estimated	5,100	5,100	5,100[1]	5,900[1]	6,500
Total Population Served	249,400	248,121	247,261	243,406	241,200
Average Daily Sales Per Capita, gallons	239	241	243	241	240
GROWTH OF SYSTEM					
Active Wells	31	32	32	32	32
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	701	698	688	680	662
Fire Hydrants	6,513	6,448	6,358	6,196	5,999

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

WATER SYSTEM SALES COMPARISON

	Residential	Commercial and Industrial	Irrigation	Municipal	All Classes Other	Combined
Revenue from sale of water:						
Year ended June 30—						
1989	$13,416,000	$5,862,000	$113,000	$513,000	$600,000	$20,504,000
1988	12,859,000	5,641,000	133,000	482,000	465,000	19,580,000
Increase (decrease)	$ 557,000	$ 221,000	($ 20,000)	($ 31,000)	$135,000	$ 924,000
Percent increase (decrease)	4.3%	3.9%	(15.0%)	(6.4%)	29.0%	4.7%
Units of 100 cubic feet sold:						
Year ended June 30—						
1989	16,957,194	10,889,296	186,305	846,489	215,680	29,094,964
1988	16,886,937	11,220,542	213,797	818,442	75,510	29,215,228
Increase (decrease)	70,257	(331,246)	(27,492)	(28,047)	140,170	(120,264)
Percent increase (decrease)	0.4%	(3.0%)	(12.9%)	(3.4%)	185.6%	(0.4%)
Average billing price per 100 cubic feet:						
Year ended June 30—						
1989	$ .7912	$ .5383	$ .6065	$ .6060	$ 2.7819	$ .7047
1988	.7615	.5027	.6221	.5889	6.1581	.6702
Increase (decrease)	$ .0297	$ .0356	($ .0156)	$ .0171	($ 3.3762)	$ .0345
Percent increase (decrease)	3.9%	7.1%	(2.5%)	2.9%	(54.8%)	5.2%
Average number of customers:						
Year ended June 30—						
1989	47,162	5,381	51	361	1,172	54,127
1988	47,007	5,328	54	349	1,031	53,769
Increase (decrease)	155	53	(3)	12	141	358
Percent increase (decrease)	0.3%	1.0%	(5.6%)	3.4%	13.7%	0.7%
Average annual use per customer in units of 100 cubic feet:						
Year ended June 30—						
1989	360	2,024	3,653	2,345		
1988	359	2,106	3,959	2,345		
Increase (decrease)	1	(82)	(306)	(0)		
Percent increase (decrease)	0.3%	(3.9%)	(7.7%)	(0.0%)		

Amounts represent revenue derived solely from billings.

WATER UTILITY FUND SUMMARY OF RESULTS FOR OPERATIONS AND NET REVENUES AVAILABLE FOR LONG-TERM REVENUE BOND DEBT SERVICE

	1988-89	1987-88	1986-87	1985-86	1984-85
			(in thousands)		
Revenues:					
Sale of water:					
Residential	$13,416	$12,859	$11,969	$11,120	$10,845
Commercial/Industrial	5,862	5,641	5,578	5,185	5,042
Municipal	513	482	483	453	492
Other	713	598	557	479	549
Billed revenue from sale of water	20,504	19,580	18,587	17,237	16,928
Change in unbilled water revenue[1]	509	(293)	1,802		
Total revenue from sale of water	21,013	19,287	20,389	17,237	16,928
Other (including interest income)	1,565	1,155	1,127	1,172	979
Total gross revenues	22,578	20,442	21,516	18,409	17,907
Operating expenses (excluding depreciation and amortization):					
Cost of water	8,184	7,933	7,856	8,164	8,272
Operations	2,526	2,353	2,124	2,384	2,004
Maintenance	3,057	2,955	3,035	2,549	2,402
Total operating expenses	13,767	13,241	13,015	13,097	12,678
Net revenues	$ 8,811	$ 7,201	$ 8,501	$ 5,312	$ 5,229
Revenue bond debt service requirements[2]	$ 1,817	$ 1,817	$ 1,381	$ 1,625	$ 1,205
Times revenue bond debt service covered by net revenues	4.8	4.0	6.2	3.3	4.3

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

	1988-89	1987-88	1986-87
Estimate of unbilled water revenue for:			
Fiscal year	$ 2,018	$ 1,509	$ 1,802
Prior fiscal year	1,509	1,802	0
Change in unbilled water revenue	$ 509	($ 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 4 to Water Utility Financial Statements.*

ELECTRIC SYSTEM OPERATING STATISTICS

POWER SUPPLY	1988-89	1987-88	1986-87	1985-86	1984-85
Own Generation:					
San Onofre Nuclear Generating Station, kWh	492,562,602	427,297,605	476,785,844	304,229,709	286,779,260
Firm Purchases:					
Intermountain Power Project, kWh	1,434,285,100	1,585,321,000	942,740,589	82,560,196	
Hoover, kWh	45,733,000	53,407,000	4,307,000		
Power Contracts, kWh	689,994,000	634,001,745	56,267,180		
Southern California Edison Company, kWh	73,036,778	59,394,969	265,134,768	1,391,023,534	1,521,205,882
Non-Firm Purchases, kWh	107,842,787	86,924,376	618,624,268	421,189,000	304,017,000
System Total, kWh	2,843,454,267	2,846,346,695	2,363,859,649	2,199,002,439	2,112,002,142
System Peak Demand, kW	492,960	470,880	471,360	465,600	483,360
ELECTRIC USE					
Average Number of Customers:					
Residential	83,131	82,030	81,043	79,967	79,827
Commercial	14,337	13,942	13,353	12,901	11,826
Industrial	589	559	546	533	527
Other	169	167	165	166	166
Other Utilities	2	1	1	1	1
Total—all classes	98,228	96,699	95,108	93,568	92,347
Kilowatt-Hour Sales:					
Residential	498,768,985	483,700,118	470,309,712	475,055,915	494,519,080
Commercial	518,876,801	510,345,288	490,775,601	480,552,216	471,732,433
Industrial	1,139,252,784	1,121,912,987	1,066,954,519	1,048,774,980	991,719,855
Other	37,356,996	35,638,126	41,220,770	37,037,292	31,698,296
Other Utilities	224,818,564	509,874,878	129,519,302	53,766,000	
Total—all classes	2,419,074,130	2,661,471,397	2,198,779,904	2,095,186,403	1,989,669,664
Average Annual kWh per Residential Customer	6,000	5,897	5,803	5,941	6,195
GROWTH OF SYSTEM					
Transmission, 69kV, circuit miles	59	59	59	59	59
Distribution, 12 kV and lower, circuit miles:					
Overhead	888	888	890	890	888
Underground	404	398	395	379	351
Total	1,351	1,345	1,344	1,328	1,298
Transformer Capacity, kVa:					
220kV to 69kV	840,000	840,000	840,000	840,000	840,000
69kV to 12kV	592,000	592,000	552,000	552,000	552,000
12 kV to Customer	1,021,000	974,000	930,000	905,000	868,000

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 —							
1989	$ 37,970,000	$ 44,767,000	$ 86,746,000	$ 1,007,000	$ 1,686,000	$ 3,655,000	$ 175,831,000
1988	37,211,000	44,874,000	86,172,000	1,007,000	1,622,000	7,983,000	178,869,000
Increase (decrease)	$ 759,000	($ 107,000)	$ 574,000	$ 0	$ 64,000	($ 4,328,000)	($ 3,038,000)
Percent increase (decrease)	2.0%	(0.2%)	0.7%	0.0%	3.9%	(54.2%)	(1.7%)
Kilowatt-hours sold:							
Year ended June 30 —							
1989	498,768,985	518,876,801	1,139,252,784	12,430,597	24,926,399	224,818,564	2,419,074,130
1988	483,700,118	510,345,288	1,121,912,987	12,219,540	23,418,586	509,874,878	2,661,471,397
Increase (decrease)	15,068,867	8,531,513	17,339,797	211,057	1,507,813	(285,056,314)	(242,397,267)
Percent increase (decrease)	3.1%	1.7%	1.5%	1.7%	6.4%	(55.9%)	(9.1%)
Average billing price per kilowatt-hour:							
Year ended June 30 —							
1989	$ .0761	$ .0863	$ .0761	$ .0810	$ .0676	$ .0163	$ .0727
1988	.0769	.0879	.0768	.0824	.0693	.0157	.0672
Increase (decrease)	($ .0008)	($ .0016)	($ .0007)	($ .0014)	($ .0017)	$ .0006	$ .0055
Percent increase (decrease)	(1.0%)	(1.8%)	(0.9%)	(1.7%)	(2.5%)	3.8%	8.2%
Average number of customers:							
Year ended June 30 —							
1989	83,131	14,337	589	107	62	2	98,228
1988	82,030	13,942	559	105	62	1	96,699
Increase	1,101	395	30	2	0	1	1,529
Percent increase	1.3%	2.8%	5.4%	1.9%	0.0%	100.0%	1.6%
Average annual use per customer in kilowatt-hours:							
Year ended June 30 —							
1989	6,000	36,191	1,934,215				
1988	5,897	36,605	2,007,000				
Increase (decrease)	103	(414)	(72,785)				
Percent increase (decrease)	1.7%	(1.1%)	(3.6%)				

Amounts represent revenue derived solely from billings.

ELECTRIC UTILITY FUND SUMMARY OF RESULTS FOR OPERATIONS AND NET REVENUES AVAILABLE FOR LONG-TERM REVENUE BOND DEBT SERVICE

	1988-89	1987-88	1986-87	1985-86	1984-85
			(in thousands)		
Revenues:					
Sale of electricity:					
Residential	$ 37,970	$ 37,211	$ 37,145	$ 39,999	$ 39,440
Commercial	44,767	44,874	44,179	46,357	43,045
Industrial	86,746	86,172	84,978	90,272	81,772
Other	2,693	2,730	3,057	2,996	2,525
Other utilities	3,655	7,882	5,089	3,759	
Billed revenue from sale of electricity	175,831	178,869	174,448	183,383	166,782
Change in unbilled electric revenue[1]	(369)	(667)	8,502		
Total revenue from sale of electricity	175,462	178,202	182,950	183,383	166,782
Provision for power cost adjustment	15,936	3,416	826	(10,855)	8,312
Provision for rate stabilization	12,288	9,427	7,291	7,196	
Other (including interest income)	8,009	6,499	5,690	6,638	8,080
Total gross revenues	211,695	197,544	196,757	186,362	183,174
Operating expenses (excluding depreciation and amortization):					
Cost of purchased power	136,570	124,936	108,300	119,744	122,495
Fuel used for generation	4,023	4,399	5,227	2,913	2,706
Operations	18,956	17,174	17,127	15,724	16,794
Maintenance	10,719	8,937	7,806	7,586	8,208
Total operating expenses	170,268	155,446	138,460	145,967	150,203
Net revenues	$ 41,427	$ 42,098	$ 58,297	$ 40,395	$ 32,971
Revenue bond debt service requirements[2]	$ 21,387	$ 21,394	$ 19,852	$ 21,932	$ 14,229
Times revenue bond debt service covered by net revenues	1.9	2.0	2.9	1.8	2.3

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

	1988-89	1987-88	1986-87
Estimate of unbilled electric revenue for the:			
Fiscal year	$ 7,466	$ 7,835	$ 8,502
Prior fiscal year	7,835	8,502	0
Change in unbilled electric revenue	($ 369)	($ 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 6 to Electric Utility Financial Statements.*

Management Discussion of Financial Activity

The Public Utilities Department continued its long record of outstanding financial performance in fiscal 1989. Significant financial events in fiscal 1989 included the following:

- Electric operating revenues passed the $200 million mark.
- Anaheim's share of debt service savings resulting from fiscal 1989 advance refundings by the Intermountain Power Agency (IPA) and Southern California Public Power Authority (SCPPA) was $6.4 million, bringing Anaheim's total share to $312 million for the life of the project.
- Refunds totaling $3.5 million were received from Southern California Edison for previous wholesale electric rate overcharges.
- Water and Electric utilities' credit ratings were maintained at the same high levels by Moody's Investors Service and Standard and Poor's Corporation.
- $3.7 million in one year Water Revenue Anticipation Notes was sold with an interest rate of 6.2 percent.

Water Utility

The Water Utility's operating revenues totaled $21,255,000 in fiscal 1989, an increase of $1,856,000 over the prior fiscal year.

This increase was primarily the result of the increase in water rates effective September 27, 1988. In fiscal 1989, billed revenue from the sale of water was $20,504,000, which represents an increase of $924,000 over the prior fiscal year. In fiscal 1989, unbilled revenue of $2,018,000 represents an increase of $509,000 over fiscal 1988.

Water Utility operating expenses in fiscal 1989 were $14,942,000, an increase of $549,000 over the prior fiscal year.

The $8,184,000 expended for cost of water in 1989 reflects an increase of just $251,000 over the prior year and was primarily due to increased production from wells. The unit cost of water actually decreased by 3.0 percent as a result of increased use of relatively lower cost water pumped from the Department's own wells. Water pumped from water system wells accounted for 65 percent of the total water production in fiscal 1989 compared to 63 percent in the prior year. Purchases of treated water from the Metropolitan Water District of Southern California (MWD) included water made available at a reduced rate under MWD's "water banking" conservation program.

Other operations and maintenance expenses of $5,583,000 for the year were $275,000 higher than fiscal 1988, an increase of 5 percent.

Water Utility net income of $5,896,000 in fiscal 1989 was up $1,458,000 over the prior fiscal year. This increase is due primarily to increased operating revenues resulting from the impact of increased rates.

During the year, $8.0 million was invested in water system capital construction. About $1.9 million was provided by current revenues and $4.1 million by borrowed funds. Developers and others contributed another $2.0 million in aid of construction.

Electric Utility

Electric Utility operating revenues totaled $204,467,000 in fiscal 1989, an increase of $12,622,000 compared to the prior year.

Billed revenue from the sale of electricity was $175,831,000 for the fiscal year. Revenue from sales to other utilities was $3.7 million in fiscal 1989, representing a decrease of $4.3 million from the prior year. The major reason for the decrease in sales to other utilities was a dispute with Edison over the price of power that it has purchased from the City. Retail sales to Anaheim consumers of $172.1 million represented an increase of $1.3 million over the prior year. The result was a net decrease of $3,038,000 in billed revenue from the prior fiscal year.

Unbilled revenue from the sale of electricity in fiscal 1989 was $7,466,000, a decrease of $369,000 from the prior fiscal year. The decline in unbilled revenue was the result of lower kilowatt-hour sales.

Decreases in billed and unbilled revenue were offset by increased transfers from the Power Cost Adjustment Account (PCA) and the Rate Stabilization Account (RSA). The PCA and RSA transfers increased $12.5 million and $2.9 million, respectively, in fiscal 1989.

The City's rate stabilization policy provides that refunds recovered from Southern California Edison for wholesale electric rate overcharges should be deposited in the Rate Stabilization Account. These refunds then are used to stabilize base electric rates. Transfers from the PCA and RSA accounts are made monthly and are based upon the recorded kilowatt-hour sales.

Refunds of $3.5 million were received in fiscal 1989. Approximately $41.1 million in refunds and interest have been placed in the RSA since the account was established in 1986. Department management is forecasting that significant additional refunds are forthcoming. The forecast is based on decisions of the administrative law judges hearing these wholesale rate cases. Those decisions are now before the Federal Energy Regulatory Commission for review and action. The RSA balance at June 30, 1989 was $4.9 million.

Electric Utility operating expenses were $179,633,000 in fiscal 1989, an increase of $15,130,000 over the prior fiscal year. Purchased power cost of $136,570,000 was up $11,634,000 over the prior fiscal year.

The increase in purchased power cost was the result of a combination of factors. The expiration of an Interim Operating Procedures (IOP) Agreement with Southern California Edison in October 1988 resulted in the Department purchasing additional capacity and contract energy from Edison and maintaining a higher reserve margin. The result was a $3.1 million increase in power costs. The Department expects to resolve this issue with Edison in fiscal 1990.

Also, planned increases in debt service for power from the Intermountain Generating Station and debt service costs for the Northern and Southern Transmission Systems accounted for $6.3 million and $2.2 million of the increase, respectively.

Other operation and maintenance expenses were $29,675,000, up $3,564,000 compared to fiscal 1988. This increase was due to a combination of factors including increased salaries and wages,

increased emphasis on preventative maintenance and activities associated with the testing and removal of polychlorinated biphenyls (PCB's) from electric distribution facilities.

Electric Utility net income was $14,202,000 in fiscal 1989, a decrease of $284,000 from the prior fiscal year.

Investment in construction of new electric system facilities totaled $13.1 million for fiscal 1989. Of this amount, $4.2 million was invested in construction and nuclear fuel related to Anaheim's ownership in SONGS. The remaining $8.9 million was invested in electric subtransmission and distribution facilities in Anaheim.

Short-Term Financing

As of June 30, 1989, the Water Utility had $3.7 million in short-term notes outstanding. The Water Utility short-term notes were rated MIG 1 and SP-1+ by Moody's and Standard and Poor's, respectively.

At June 30, 1989, the Electric Utility short-term tax-exempt commercial paper outstanding totaled $20,450,000. The Department used this commercial paper to finance the purchase and processing of nuclear fuel for SONGS. The Electric Utility notes were rated by Moody's and Standard and Poor's as Prime-1 and A-1, respectively.

The department maintains a Revolving Credit Agreement which 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 Water Utility credit line.

Long-Term Financing

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

At June 30, 1989, revenue bonds outstanding totaled $19,155,000 in the Water Utility and $231,910,000 in the Electric Utility. During fiscal 1989, maturing revenue bond principal payments of $355,000 and $6,455,000 were paid by the Water and Electric Utilities, respectively.

Self Supporting

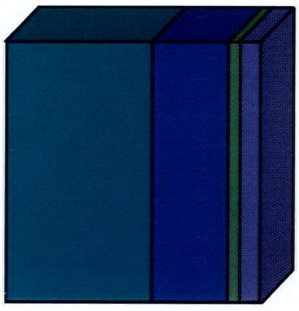
The Pubic Utilities Department continues to be self-supporting by paying all costs of operation and debt service and part of the cost of capital improvements from current revenues. The remainder of the cost of water and electric system capital improvements is met through the sale of revenue bonds or revenue anticipation notes and contributions by developers and others in aid of construction.

While providing reliable water and electric service at economical rates, the

Department meets all costs of operation from current revenues, including payments to the City for services rendered by the various municipal departments. In addition, the Department annually transfers to the City a percentage of the prior year's gross revenues from retained earnings up to a maximum of 4 percent. In fiscal 1989, the Department transferred $8,313,000 from retained earnings to the General Fund of the City in support of general municipal government, the maximum allowable under the City Charter. The Water and Electric Utilities transferred $802,000 and $7,511,000, respectively.

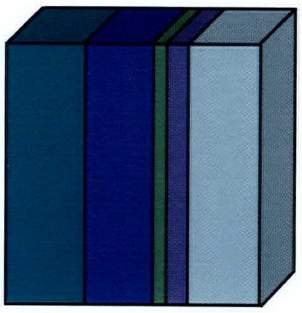
THE 1988-1989
WATER DOLLAR

SOURCE OF REVENUE



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

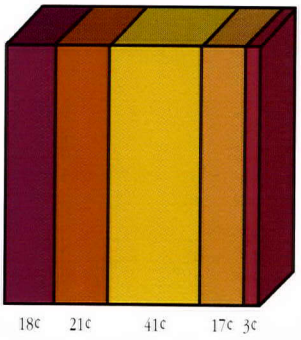
DISTRIBUTION
OF REVENUE



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

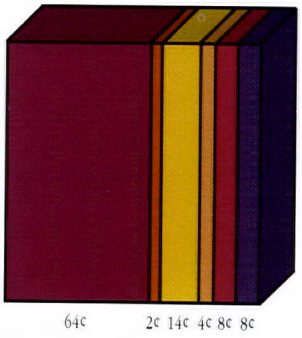
THE 1988-1989
ELECTRIC DOLLAR

SOURCE OF REVENUE



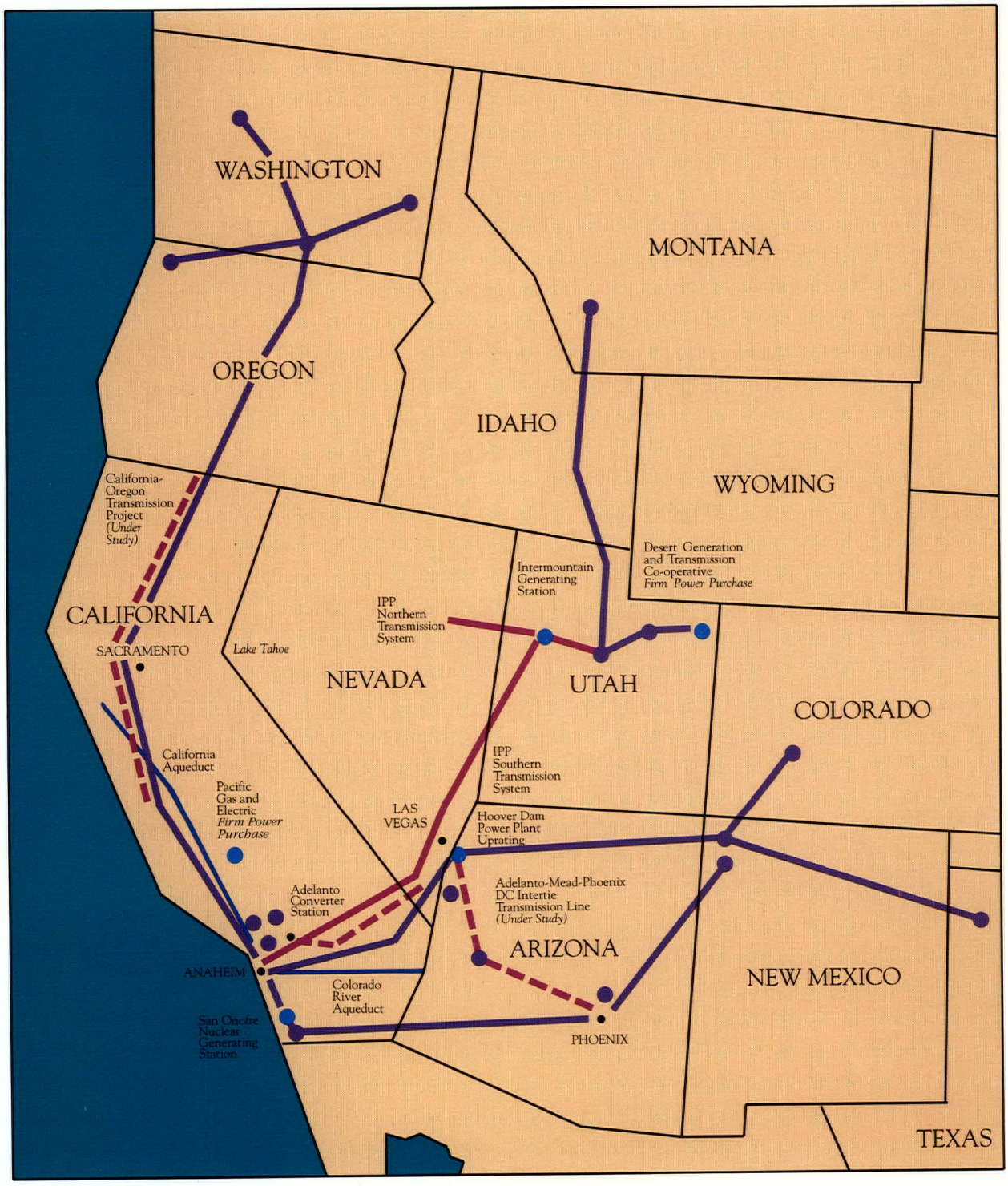
- Residential Sales
- Commercial Sales
- Industrial Sales
- Other Revenue
- Other Sales

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

WATER AND ELECTRIC SYSTEM SOURCE & SUPPLY



Existing transmission lines in which Anaheim has an interest

Transmission lines under study in which Anaheim has an interest

Transmission by other Utilities for Anaheim

Firm generating resources

Non-firm economy energy resources

City of Anaheim

Public Utilities Department

Years Ended June 30, 1989 and 1988

Water Utility Fund

Audited

Financial Statements

CITY OF ANAHEIM WATER UTILITY FUND BALANCE SHEETS

	June 30	
	1989	1988
	(in thousands)	
Assets		
Utility plant:		
Land	$ 1,554	$ 1,554
Source of water supply	10,612	10,030
Pumping	4,990	4,872
Transmission and distribution	107,097	104,466
General	2,701	2,460
	126,954	123,382
Less — accumulated depreciation and amortization	(23,334)	(21,797)
	103,620	101,585
Construction work in progress	7,722	5,014
	111,342	106,599
Restricted cash and investments	12,544	11,536
Current assets:		
Cash and investments	1,250	2,432
Customer and other accounts receivable, net	4,168	2,921
Accrued interest receivable	203	172
Materials and supplies, at average cost	168	136
Purchased water in storage	569	220
	6,358	5,881
Other assets:		
Unamortized bond refunding costs	1,004	1,081
Unamortized debt issuance costs	370	396
Total assets	$131,618	$125,493

	June 30	
	1989	1988
	(in thousands)	
Equity, liabilities and other credits		
Equity:		
Beginning fund balance contributed by the City	$ 19,280	$ 19,280
Retained earnings	23,185	18,091
Total equity	42,465	37,371
Long-term debt, less current portion	18,165	18,701
Capitalized lease obligation, less current portion	2,624	2,681
Total capitalization	63,254	58,753
Current liabilities (payable from restricted assets):		
Current portion of long-term debt	298	4,520
Accrued interest	522	529
Customer deposits	1,321	752
	2,141	5,801
Current liabilities (payable from current assets):		
Current portion of long-term debt	320	277
Current portion of capitalized lease obligation	58	53
Accounts payable and accrued expenses	2,433	1,954
Short-term debt	3,700	
Customer deposits	289	163
	6,800	2,447
Total current liabilities	8,941	8,248
Other liabilities and deferred credits:		
Contributions in aid of construction	59,423	58,492
Commitments and contingencies		
Total equity, liabilities and other credits	$131,618	$125,493

See accompanying Notes to Financial Statements.

CITY OF ANAHEIM WATER UTILITY FUND STATEMENTS OF INCOME

	June 30	
	1989	1988
	(in thousands)	
Operating revenues:		
Sale of water	$21,013	$19,287
Other operating revenues	242	112
Total operating revenues	21,255	19,399
Operating expenses:		
Cost of water	8,184	7,933
Other operations	2,526	2,353
Maintenance	3,057	2,955
Depreciation and amortization	1,175	1,152
Total operating expenses	14,942	14,393
Operating income	6,313	5,006
Other income (expense):		
Interest and other income	1,323	1,043
Interest expense	(1,740)	(1,611)
	(417)	(568)
Net income	$ 5,896	$ 4,438

See accompanying Notes to Financial Statements.

STATEMENTS OF CHANGES IN RETAINED EARNINGS

	June 30	
	1989	1988
	(in thousands)	
Balance at beginning of year	$18,091	$14,398
Net income for the year	5,896	4,438
Transfer to the General Fund of the City	(802)	(745)
Balance at end of year	$23,185	$18,091

See accompanying Notes to Financial Statements.

CITY OF ANAHEIM WATER UTILITY FUND STATEMENTS OF CASH FLOWS

	June 30	
	1989	1988
	(in thousands)	
Operating activities:		
Net income	$ 5,896	$ 4,438
Adjustments to reconcile net earnings to net cash provided from operations:		
Depreciation and Amortization	1,175	1,152
Amortization of debt issuance costs and bond discount	185	181
Changes in current assets and liabilities:		
Customer and other accounts receivable, net	(1,247)	281
Accrued interest receivable	(31)	(2)
Materials and supplies	(32)	94
Purchased water in storage	(349)	350
Accounts payable and accrued expenses	479	(779)
Customer deposits	696	(167)
Accrued interest	(7)	80
Total adjustments	869	1,190
Net cash provided from operations	6,765	5,628
Capital and related financing activities:		
Proceeds from borrowings	3,700	5,000
Principal reduction in debts and capitalized lease	(4,849)	(485)
Issuance cost on new financing		(260)
Transfer to General Fund of the City	(802)	(745)
Contributions in aid of construction	983	880
Net cash provided from (used for) financing activities	(968)	4,390
Investing activities:		
Capital expenditures	(5,971)	(5,287)
Net cash used for investing activities	(5,971)	(5,287)
Increase (decrease) in cash and investments	(174)	4,731
Cash and investments, at beginning of the year	13,968	9,237
Cash and investments, at end of the year	$13,794	$13,968
Schedule of noncash financing and investing activities:		
Contributions in aid of construction	$ 1,058	$ 5,694

See accompanying Notes to Financial Statements.

NOTE 1 — Summary of Significant Accounting Policies

Basis of accounting

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

Utility plant and depreciation

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

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

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

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

Cash and investments

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

Revenue recognition

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

The Water Utility's Rates, Rules and Regulations include a water commodity adjustment formula by which billings to customers are subject to adjustment, up or down, to reflect variations in the cost of water production to the Water Utility.

Debt issuance costs

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

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 $245,000 and $203,000 for the Water Utility at June 30, 1989 and 1988, 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 1988 financial statements to conform to the 1989 presentation.

Statement of Cash Flows

Recent Accounting Standards issued require the reporting of Cash Flows in place of Changes in Financial Position. The Water Utility has elected to adopt such standards using the indirect method for the current year. The fiscal year 1988 Statement of Changes in Financial Position has been restated to reflect this change.

NOTE 2 — Operating Expenses

Operating expenses shared with the Electric Utility amounted to $15,203,000 and $13,545,000 for the years ended June 30, 1989 and 1988, respectively, of which $3,041,000 and $2,709,000 were allocated to the Water Utility.

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

NOTE 3 — Short-Term Debt

On September 12, 1988 the City issued $3,700,000 of Water Revenue Anticipation Notes at an interest rate of 6.2 percent. At the same time, the City paid off $4,300,000 of two year Water Revenue Notes at 5.0 percent issued in 1986. The Water Utility maintained a $4.3 million revolving credit agreement, which can be used in the event that the debt cannot be refinanced as it matures.

NOTE 4 — Long-Term Debt

The Water Utility is indebted as follows:

	June 30 1989	June 30 1988
	(in thousands)	
Water Revenue Bonds, 1980 Series, TIC 8.6401%, dated January 1, 1980, sold February 26, 1980 in the amount of $7,350,000, of which (1) $3,270,000 at rates ranging from 7.6% to 8.0% mature serially to July 1, 1999 in annual principal installments ranging from $185,000 to $400,000, and (2) $3,185,000 at rates of 8% are term bonds maturing July 1, 2005, subject to mandatory call and redemption from July 1, 2000 to July 1, 2005 in annual principal installments ranging from $435,000 to $640,000; total debt service of $11,417,000 to maturity	$ 6,280,000	$ 6,455,000
Water Revenue Bonds, 1984 Series, TIC 10.317%, dated October 1, 1984, sold October 9, 1984 in the amount of $6,650,000 at rates ranging from 7.4% to 10.4%, of which $5,370,000 maturing April 1, 1996 through 2009 were advance refunded on March 31, 1986; the remaining bonds mature serially to April 1, 1995 in annual principal installments ranging from $120,000 to $180,000; total debt service of $1,193,000 to maturity	885,000	995,000
Water Revenue Bonds, 1986 Series, TIC 7.048%, dated March 1, 1986, sold March 4, 1986 in the amount of $7,160,000, of which (1) $2,735,000 at rates ranging from 5.5% to 6.9% mature serially to April 1, 2001 in annual principal installments ranging from $75,000 to $415,000, (2) $1,405,000 at rates of 5.75% are term bonds maturing April 1, 2004, subject to mandatory call and redemption from April 1, 2002 to April 1, 2004 in annual principal installments ranging from $445,000 to $495,000, and (3) $2,920,000 at rates of 5.75% are term bonds maturing April 1, 2009, subject to mandatory call and redemption from April 1, 2005 to April 1, 2009 in annual principal installments ranging from $520,000 to $650,000; total debt service of $12,686,000 to maturity	6,990,000	7,060,000
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 $10,583,000 to maturity	5,000,000	5,000,000
Total revenue bond debt	19,155,000	19,510,000
Revenue Anticipation Notes, 5.0%, issued September 12, 1986 in the amount of $4,300,000 in the form of tax-exempt notes which matured and were paid off on September 12, 1988.		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 $144,000 to maturity	139,000	268,000
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 $515,000 to maturity	306,000	319,000
Total other long-term debt	445,000	4,887,000
Total long-term debt	19,600,000	24,397,000
Less: current portion	618,000	4,797,000
bond discounts	817,000	899,000
	$18,165,000	$18,701,000

NOTE 4 — *Long-Term Debt (continued)*

Annual debt service requirements at June 30, 1989 to maturity are as follows:

	Revenue Bond Debt			Other Long-Term Debt			Total All Long-Term
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	Debt
1990	$ 465,000	$ 1,351,000	$ 1,816,000	$ 153,000	$ 24,000	$177,000	$ 1,993,000
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
1994	625,000	1,189,000	1,814,000	22,000	19,000	41,000	1,855,000
Thereafter	16,445,000	10,356,000	26,801,000	222,000	99,000	321,000	27,122,000
	$19,155,000	$16,724,000	$35,879,000	$ 445,000	$208,000	$653,000	$36,532,000

Current interest costs of $387,000 and $299,000 have been included in Construction work in progress for fiscal years ended June 30, 1989 and 1988, 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, 1989 require the establishment of a Bond Service Account accumulating monthly one-sixth of the interest which will become due and payable on the outstanding bonds within the next six months and one-twelfth of the principal amount which will mature and be payable on the outstanding bonds within the next twelve months.

On March 31, 1986, the Water Utility defeased a portion of the Water Revenue Bonds, 1984 Series, in the aggregate principal amount of $5,370,000 at rates ranging from 9.7% to 10.4%, with a portion of the proceeds from the sale of $7,160,000 of Water Revenue Bonds, 1986 Series at rates ranging from 5.0% to 6.9%. The excess of the amount required to advance refund the 1984 Bonds over the carrying value of those bonds at the refunding date amounted to $1,250,000. This amount is being deferred and amortized over the life of the 1986 Bonds using the effective interest method. At June 30, 1989, 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	
	1989	1988
Held by Fiscal Agent:		
Bond Reserve Fund	$ 1,910,000	$ 1,905,000
Bond Service Fund	443,000	437,000
Held by City Treasurer:		
Bond Service Account	328,000	264,000
Renewal and Replacement Account	1,036,000	1,016,000
Restricted bond proceeds	8,827,000	7,914,000
	$12,544,000	$11,536,000

The Water Utility cash expenditures for interest expense for the years ended June 30, 1989 and 1988 were $1,899,000 and $1,648,000, respectively.

NOTE 5 — *Capitalized Lease Obligation*

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

Fiscal Year	
1990	$ 294,000
1991	294,000
1992	294,000
1993	294,000
1994	294,000
Thereafter	4,116,000
	5,586,000
Less interest at 8.8%	2,904,000
Present value of future minimum lease payments	$2,682,000
Current portion	$ 58,000
Long-term portion	2,624,000
	$2,682,000

The asset related to this lease is recorded in Utility plant, Transmission and distribution, and at June 30, 1989 amounted to $3,059,000. The related accumulated amortization at June 30, 1989 and 1988 was $305,000 and $265,000, respectively. Amortization expense for each fiscal year amounted to $40,000.

NOTE 6 — *Pension Plan*

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

NOTE 7— *Self-Insurance Program*

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

NOTE 8 — *Cash and Investments*

At June 30, 1989, the carrying amount of the Water Utility's share of the City's pooled deposits was $2,226,000. Of this amount, $1,169,000 is insured or collateralized with securities held by the City or its agent in the City's name. The remaining $1,057,000 is collateralized with securities held by the pledging financial institution's trust department in the City's name.

At June 30, 1989, all of the City's pooled investments were insured or registered with the exception of amounts invested by fiscal agents. A summary of the Water Utility's participation in the City's pooled investments is allocated based on the overall percentage participation as follows:

U.S. government securities	$ 3,012,000
Bankers acceptances	856,000
Repurchase agreements	1,106,000
Commercial paper	3,798,000
Local agency investment fund (state pool)	443,000
Controlled by City Treasurer	9,215,000
Amounts invested by fiscal agents	2,353,000
Total cash and investments	$11,568,000

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.

NOTE 9 — Commitments and Contingencies

Litigation

A number of claims and suits are pending against the City for alleged damages to persons and property and for other alleged liabilities arising out of matters usually incidental to the operation of a utility such as the water system of the City. In the opinion of management, the exposure under these claims and suits would not materially affect the financial position of the Water Utility as of June 30, 1989.

Capital expenditures

The Water Utility's budget for the fiscal year 1989-90 provides for capital expenditures of approximately $6,984,000 of which $3,801,000 is expected to be funded by water revenue bond proceeds and contributions in aid of construction.

Substantial commitments have been made in connection therewith.

NOTE 10 — Subsequent Events

On September 12, 1989, the City paid off the one year, $3,700,000 Water Revenue Anticipation Notes issued September 12, 1988; 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 6.15 percent.

Independent Auditors' Report

To the Honorable City Council
City of Anaheim, California

We have audited the accompanying balance sheets of the Water Utility Fund of the City of Anaheim, California as of June 30, 1989 and 1988, and the related statements of income, changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Water Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Utility Fund of the City of Anaheim, California as of June 30, 1989 and 1988, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the Water Utility Fund has adopted the recent Accounting Standard requiring the reporting of Cash Flows in place of Changes in Financial Position.

KPMG Peat Marwick

KPMG Peat Marwick
October 13, 1989
Orange County, California

City of Anaheim
Public Utilities
Department

Years Ended June 30, 1989 and 1988

Electric Utility Fund

Audited

Financial Statements

CITY OF ANAHEIM ELECTRIC UTILITY FUND BALANCE SHEETS

	June 30	
	1989	1988
	(in thousands)	
Assets		
Utility plant:		
Production	$172,914	$171,198
Transmission	12,315	12,313
Distribution	94,691	89,323
General	11,288	10,380
	291,208	283,214
Less — accumulated depreciation	(65,838)	(58,433)
	225,370	224,781
Construction work in progress	8,419	7,013
Nuclear fuel, at amortized cost	9,213	10,199
	243,002	241,993
Restricted assets:		
Cash and investments	52,778	48,950
Other	414	377
	53,192	49,327
Current assets:		
Cash and investments	53,371	46,895
Customer and other accounts receivable, net	19,757	23,770
Prepaid purchased power	1,468	742
Accrued interest receivable	2,047	1,926
Materials and supplies, at average cost	2,817	2,226
	79,460	75,559
Other assets:		
Unamortized bond refunding costs	25,274	27,578
Unamortized project costs	5,938	4,792
Unamortized debt issuance costs	1,563	1,775
	32,775	34,145
Total assets	$408,429	$401,024

	June 30	
	1989	1988
	(in thousands)	
Equity, liabilities and other credits		
Equity:		
Beginning fund balance contributed by the City	$ 14,629	$ 14,629
Retained earnings	86,692	80,001
Total equity	101,321	94,630
Long-term debt, less current portion	216,740	223,147
Total capitalization	318,061	317,777
Current liabilities (payable from restricted assets):		
Current portion of long-term debt	5,225	4,900
Accrued interest	3,756	3,952
Accounts payable	202	144
Tax-exempt commercial paper	20,450	20,450
	29,633	29,446
Current liabilities (payable from current assets):		
Current portion of long-term debt	2,054	1,909
Accounts payable and accrued expenses	7,878	7,947
Customer deposits	1,140	920
Power cost adjustment balancing account	(8,869)	6,960
Rate stabilization account	4,869	12,861
Test energy billings	3,315	3,064
Surplus energy billing reserve	2,159	
Intermountain Power Agency refund account	24,918	
	37,464	33,661
Total current liabilities	67,097	63,107
Other liabilities and deferred credits:		
Contributions in aid of construction	19,474	17,521
Decommissioning reserve	3,797	2,619
Commitments and contingencies		
Total equity, liabilities and other credits	$408,429	$401,024

See accompanying Notes to Financial Statements.

CITY OF ANAHEIM ELECTRIC UTILITY FUND STATEMENTS OF INCOME

	June 30	
	1989	1988
	(in thousands)	
Operating revenues:		
Sale of electricity	$175,462	$178,202
Provision for power cost adjustment	15,936	3,416
Provision for rate stabilization	12,288	9,427
Other operating revenues	781	800
Total operating revenues	204,467	191,845
Operating expenses:		
Cost of purchased power	136,570	124,936
Fuel used for generation	4,023	4,399
Other operations	18,956	17,174
Maintenance	10,719	8,937
Depreciation	8,786	9,057
Amortization of cancelled project costs	579	
Total operating expenses	179,633	164,503
Operating income	24,834	27,342
Other income (expense):		
Interest income	7,228	5,699
Interest expense	(17,860)	(18,555)
	(10,632)	(12,856)
Net income	$ 14,202	$ 14,486

See accompanying Notes to Financial Statements.

STATEMENTS OF CHANGES IN RETAINED EARNINGS

	June 30	
	1989	1988
	(in thousands)	
Balance at beginning of year	$ 80,001	$ 72,848
Net income for the year	14,202	14,486
Transfer to the General Fund of the City	(7,511)	(7,333)
Balance at end of year	$ 86,692	$ 80,001

See accompanying Notes to Financial Statements.

CITY OF ANAHEIM ELECTRIC UTILITY FUND STATEMENTS OF CASH FLOWS

	June 30	
	1989	1988
	(in thousands)	
Operating activities:		
Net income	$ 14,202	$ 14,486
Adjustments to reconcile net income to net cash provided from operations:		
Depreciation	8,786	9,057
Amortization of nuclear fuel	3,531	3,971
Amortization of cancelled project costs	579	
Amortization of debt costs	3,400	3,522
Increase in decommissioning reserve	1,178	680
Changes in current assets and liabilities:		
Customer and other accounts receivable, net	4,013	(1,288)
Prepaid purchased power	(726)	7,274
Accrued interest receivable	(158)	(149)
Materials and supplies	(591)	(161)
Accounts payable and accrued expenses	(11)	1,003
Customer deposits	220	135
Power cost adjustment balancing account	(15,829)	(5,631)
Rate stabilization account	(7,992)	(7,269)
Intermountain Power Agency refund account	24,918	
Test energy billings	251	3,064
Accrued interest	(195)	(45)
Surplus energy billing reserve	2,159	
Total adjustments	23,533	14,163
Net cash provided from operations	37,735	28,649
Capital and related financing activities:		
Reduction of long-term debt	(6,810)	(6,308)
Payments to the General Fund of the City	(7,511)	(7,333)
Contributions in aid of construction	1,715	935
Debt issuance costs	(11)	
Net cash used for financing	(12,617)	(12,706)
Investing activities:		
Capital expenditures	(10,544)	(9,837)
Nuclear fuel expenditures	(2,545)	(1,254)
Project costs	(1,725)	(1,650)
Net cash used for investing	(14,814)	(12,741)
Increase in cash and investments	10,304	3,202
Cash and investments at beginning of the year	95,845	92,643
Cash and investments at end of the year	$106,149	$ 95,845
Schedule of noncash financing and investing activities:		
Contributions in aid of construction	$ 629	$ 1,421

See accompanying Notes to Financial Statements.

NOTE 1 — Summary of Significant Accounting Policies

Basis of accounting

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

Utility plant and depreciation

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

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

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

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

Cash and investments

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

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.

Nuclear fuel

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

NOTE 1 — *Summary of Significant Accounting Policies (continued)*

Debt issuance costs

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

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 $741,000 and $646,000 for the Electric Utility at June 30, 1989 and 1988, 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 1988 financial statements to conform to the 1989 presentation.

Statement of Cash Flows

Recent Accounting Standards issued require the reporting of Cash Flows in place of Changes in Financial Position. The Electric Utility has elected to adopt such standards using the indirect method for the current year. The fiscal year 1988 Statement of Changes in Financial Position has been restated to reflect this change.

NOTE 2 — *Operating Expenses*

Operating expenses shared with the Water Utility amounted to $15,203,000 and $13,545,000 for the years ended June 30, 1989 and 1988, respectively, of which $12,162,000 and $10,836,000 were allocated to the Electric Utility.

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

NOTE 3 — *Unamortized Project Costs*

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

In addition, the City is participating in other projects which are being financed by outside third parties. If the projects are ultimately abandoned, the Electric Utility will be required to reimburse the third parties for the Electric Utility's share of project costs, which at June 30, 1989 amounted to approximately $200,000.

NOTE 4 — *Short-Term Debt*

The Electric Utility has outstanding Revenue Anticipation Notes in the form of short-term tax-exempt commercial paper for the purpose of financing nuclear fuel purchases related to the ownership interest in SONGS. The balance outstanding at June 30, 1989 and 1988 totaled $20,450,000. The interest rates on this debt at June 30, 1989 ranged between 6.00% and 7.05% with maturities ranging from 5 to 92 days. The Electric Utility has obtained a $21 million revolving credit agreement, which can be used in the event that the commercial paper cannot be refinanced as it matures.

NOTE 5 — *Jointly-Owned Utility Project*

The Electric Utility owns a 3.16% interest as a tenant in common in SONGS. The other participants in Units 2 and 3 are Edison, 75.05%; San Diego Gas & Electric Company, 20%; and the City of Riverside, 1.79%. Units 2 and 3 became operational on October 9, 1983 and April 1, 1984, respectively. The Electric Utility's cumulative share of construction costs, which amounted to $172,914,000 at June 30, 1989, was included in Utility plant at June 30, 1989. The Electric Utility recorded depreciation related to SONGS of $5,720,000 and $5,997,000 for the years ended June 30, 1989 and 1988, respectively. The Electric Utility made provisions during fiscal year 1989 for disposal costs of spent nuclear fuel and for future decommissioning costs (see Note 1) of $493,000 and $1,178,000, 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 1989.

NOTE 6 — *Long-Term Debt*

The Electric Utility is indebted as follows:

	June 30	
	1989	1988
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 $550,000 to $675,000; total debt service of $2,639,000 to maturity	$ 2,450,000	$ 2,975,000
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 $7,645,000 to maturity	4,625,000	4,750,000
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 $1,850,000 to $2,000,000; total debt service of $4,164,000 to maturity	3,850,000	5,550,000
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 $900,000 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 $3,602,000 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 $2,250,000 to $2,850,000; total debt service of $18,096,000 to maturity	14,650,000	16,750,000
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 $1,085,000 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 $226,279,000 to maturity	127,260,000	128,290,000
Electric Revenue Bonds, Second Issue of 1986, TIC 6.7737% dated October 15, 1986, sold November 25, 1986 in the amount of $77,780,000, of which (1) $46,700,000 at rates of 4.3% to 6.5% mature serially through October 1, 2002 in annual principal installments ranging from $1,015,000 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 $133,779,000 to maturity	75,875,000	76,850,000
Total revenue bond debt	$231,910,000	$238,365,000

NOTE 6 — Long-Term Debt (continued)

	June 30	
	1989	1988
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 $336,000 to maturity	$ 324,000	$ 626,000
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 $2,062,000 to maturity	1,224,000	1,276,000
Total other long-term debt	1,548,000	1,902,000
Total long-term debt	233,458,000	240,267,000
Less: current portion	7,279,000	6,809,000
bond discounts	9,439,000	10,311,000
	$216,740,000	$223,147,000

Annual debt service requirements at June 30, 1989 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	
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
1994	8,145,000	12,583,000	20,728,000	89,000	76,000	165,000	20,893,000
Thereafter	194,600,000	97,468,000	292,068,000	888,000	400,000	1,288,000	293,356,000
	$231,910,000	$165,194,000	$397,104,000	$1,548,000	$850,000	$2,398,000	$399,502,000

NOTE 6 — *Long-Term Debt (continued)*

Current interest costs of $578,000 and $1,188,000 have been included in Construction work in progress for fiscal years ended June 30, 1989 and 1988, 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, 1989 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, 1989, outstanding principal of the refunded 1982 Bonds totaled $58,300,000. Over the life of the Issue C of 1983 Bonds, the Electric Utility expects to save approximately $12,297,000 in debt service as compared to the refunded 1982 Bonds.

On March 31, 1986, the Electric Utility defeased a portion of the Electric Revenue Bonds, Issues A, B and C of 1983, in the principal amounts of $9,360,000, $37,440,000 and $58,150,000, respectively, at rates ranging from 8.3% to 9.0%, with a portion of the proceeds from the sale of $129,275,000 of Electric Revenue Bonds, Issue of 1986 at rates ranging from 5.0% to 6.9%. The excess of the amount required to advance refund the 1983 Bonds over the carrying value of those bonds at the refunding date amounted to $21,476,000. This amount is being deferred and amortized over the life of the 1986 Bonds using the effective interest method. At June 30, 1989, outstanding principal of the refunded 1983 bonds totaled $104,950,000. Over the life of the 1986 Bonds, the Electric Utility expects to save approximately $10,849,000 in debt service as compared to the refunded 1983 Bonds.

On November 25, 1986, the Electric Utility defeased a portion of the Electric Revenue Bonds, Issue of 1980, in the principal amount of $72,775,000, at rates of 8.0%, with a portion of the proceeds from the sale of $77,780,000 of Electric Revenue Bonds, Second Issue of 1986 at rates ranging from 3.8% to 6.75%. The excess of the amount required to advance refund the 1980 Bonds over the carrying value of those bonds at the refunding date amounted to $9,693,000. This amount is being deferred and amortized over the life of the Second Issue of 1986 Bonds using the effective interest method. At June 30, 1989, outstanding principal of the refunded 1980 bonds totaled $72,775,000. Over the life of the Second Issue of 1986 Bonds, the Electric Utility expects to save approximately $10,818,000 in debt service as compared to the refunded 1980 Bonds.

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

	June 30	
	1989	1988
Held by Fiscal Agent:		
Bond Reserve Fund	$22,487,000	$22,356,000
Bond Service Fund	618,000	602,000
Held by City Treasurer:		
Bond Service Account	8,302,000	8,096,000
Renewal and Replacement Account	8,304,000	6,792,000
Decommissioning and fuel reserves	12,344,000	9,241,000
Restricted bond proceeds	723,000	1,863,000
Other restricted assets	414,000	377,000
	$53,192,000	$49,327,000

The Electric Utility cash expenditures for interest expense for the years ended June 30, 1989 and 1988 were $16,371,000 and $16,377,000, respectively.

NOTE 7 — *Pension Plan*

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

NOTE 8 — *Self-Insurance Program*

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

NOTE 9 — *Refunds*

Since fiscal year 1986 the Electric Utility has received refunds from Edison totaling $35,705,000. These refunds have been placed in the RSA. At June 30, 1989 and 1988, total principal and interest amounted to $4,869,000 and $12,861,000, 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 as part of the RSA.

NOTE 10 — *Cash and Investments*

At June 30, 1989, the carrying amount of the Electric Utility's share of the City's pooled deposits was $16,160,000. Of this amount, $8,484,000 is insured or collateralized with securities held by the City or its agent in the City's name. The remaining $7,676,000 is collateralized with securities held by the pledging financial institution's trust department in the City's name.

At June 30, 1989, all of the City's pooled investments were insured or registered with the exception of amounts invested by fiscal agents. A summary of the Electric Utility's participation in the City's pooled investments is allocated based on the overall percentage participation as follows:

U.S. government securities	$21,865,000
Bankers acceptances	6,212,000
Repurchase agreements	8,029,000
Commercial paper	27,567,000
Local agency investment fund (state pool)	3,211,000
Controlled by City Treasurer	66,884,000
Amounts invested by fiscal agents	23,105,000
Total	$89,989,000

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.

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, 1989, 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	
1990	$63,218,000
1991	63,412,000
1992	64,897,000
1993	64,545,000
1994	64,674,000

NOTE 11 — Commitments and Contingencies (continued)

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

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

At June 30, 1989, the Electric Utility's remaining share of these surplus funds was approximately $24.9 million, which the Electric Utility will use to reduce future IPP purchased power costs over the next 3 to 4 years.

Test energy billings

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

Litigation

A number of claims and suits are pending against the City for alleged damages to persons and property and for other alleged liabilities arising out of matters usually incidental to the operation of a utility such as the electric system of the City. In the opinion of management, the exposure under these claims and suits would not materially affect the financial position of the Electric Utility as of June 30, 1989.

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.

Edison and the City also have a dispute over capacity and energy charges under the Integrated Operations Agreement. As of June 30, 1989, the City has received $3,356,000. Of this amount, $2,113,000 has been placed in a restricted account pending the resolution of the dispute. The City has paid Edison $8,691,000, of which the City is disputing $3,048,000. Both this dispute and the test energy billing dispute are the subject of negotiations between Edison and the City.

Capital expenditures

The Electric Utility's budget for the fiscal year 1989-90 provides for capital expenditures of approximately $30,540,000, of which $14,518,000 is expected to be funded from electric revenue bond and certificate of participation proceeds.

NOTE 12 — Subsequent Events

On September 15, 1989, the City issued Electric System Certificates of Participation (Combustion Turbine Peaking Plant) in the aggregate principal amount of $44,336,000. The Certificates evidence direct and proportionate interests in the right to receive purchase payments to be made by the City pursuant to an installment Purchase Agreement, dated September 15, 1989, between the Anaheim Public Improvement Corporation, a California non-profit public benefit corporation, and the City relating to the purchase by the City of a 48 MW combustion turbine peaking plant for the City's electric system. The interest rate on the Certificates ranges from 6.20% to 7.00%. The certificates will be repaid in semi-annual installments of principal and interest commencing April 1, 1990 and continuing through the year 2012.

Independent Auditors' Report

To the Honorable City Council
City of Anaheim, California

We have audited the accompanying balance sheets of the Electric Utility Fund of the City of Anaheim, California as of June 30, 1989 and 1988, and the related statements of income, changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Electric Uility'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 resonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Utility Fund of the City of Anaheim, California as of June 30, 1989 and 1988, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the Electric Utility Fund has adopted the recent Accounting Standard requiring the reporting of Cash Flows in place of Changes in Financial Position.

KPMG Peat Marwick

KPMG Peat Marwick
October 13, 1989
Orange County, California

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PUBLIC UTILITIES DEPARTMENT

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