

THIS DOCUMENT CONTAINS  
POOR QUALITY PAGES

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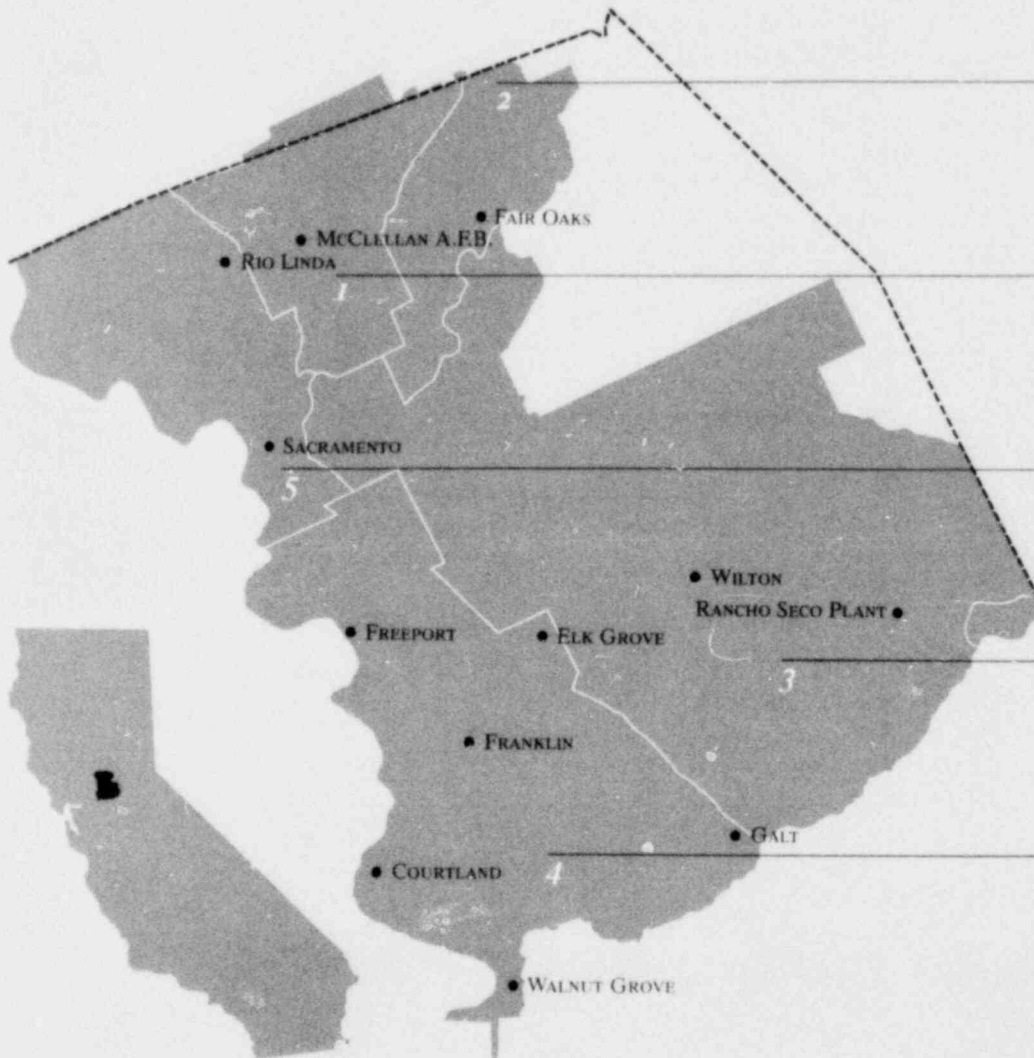
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*On the Cover:  
Homes are a major user of the  
electricity SMUD supplies,  
and the families living in  
them are learning to use their  
energy more efficiently  
today. The experience of  
one family participating in  
several conservation pro-  
grams developed by SMUD is  
chronicled in this report.  
Victorian dollhouse, Pansy  
Higgins, Old Sacramento.  
Cover photo by Bill Courtney.*

## SMUD Profile

The Sacramento Municipal Utility District serves electricity to consumers living and working throughout a 750 square mile area forming the heart of California. SMUD is operated under the 1921 State of California Municipal Utility District Act. SMUD's five directors are elected by the public to serve staggered terms of four years each. The General Manager is appointed by the Board.



WILLIAM O. BAIRD  
*President, Ward 2*



GARY HURSH  
*Vice President, Ward 1*



RICHARD D. CASTRO  
*Ward 5*



PAUL W. CARR  
*Ward 3*  
*(Elected President  
January 1980)*



DONALD C. MCCLAIN  
*Ward 4*  
*(Elected Vice President  
January 1980)*



WILLIAM C. WALBRIDGE  
*General Manager*

## Operations Review

For the first time in the 33-year operating history of the Sacramento Municipal Utility District, peak demand for electricity was reduced in 1979. In the Sacramento Valley, peak demand for power is recorded during hot summer days when use of air conditioning is greatest. SMUD was serving over 14,000 more customers than it had the previous summer, but peak demand declined two percent.

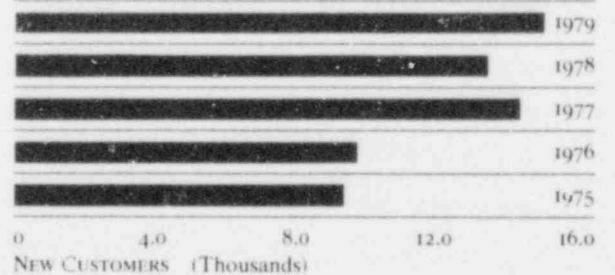
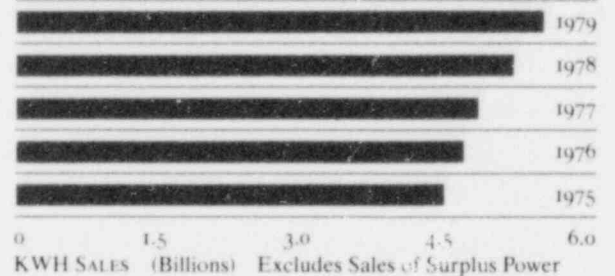
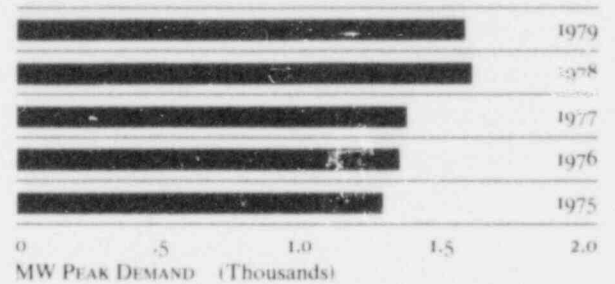
Sacramento's conservation efforts played a key role in this historic reduction. Properly insulated homes, and use of approved thermostat settings in industrial and commercial buildings, helped to make peak demand decline.

SMUD was serving 324,438 customers at the end of 1979, an increase of 14,703 over the previous year.

Residents in a lightly populated area of south-eastern Sacramento County, adjacent to existing service boundaries, voted to join SMUD in 1978. During 1979, an agreement was reached with Pacific Gas and Electric Company which will enable SMUD to begin serving this 100-square mile area on March 3, 1980, while continuing to negotiate the purchase price for the distribution system.

A reliable supply of electricity was maintained to meet area needs during the year using SMUD's nuclear and hydroelectric generating resources; however, Northern California's summer reserve margin was as low as 4.1 percent.

The Rancho Seco nuclear power station, a 913-megawatt unit representing SMUD's largest resource, generated 5.7 billion kilowatt-hours during 1979.



## Helping to Meet the Challenge of the 80's



Searching for additional capacity to generate electricity and working toward conservation of existing resources were major concerns during 1979.

SMUD moved ahead with new generating projects designed to help supply power needs of the future, while developing programs to aid consumers in their efforts to conserve energy by reducing waste today.

While engineers calculated the potential output of small hydroelectric expansion projects in the Sierra Nevada and geothermal steam wells in Sonoma, Sacramentans like Richard and Carol Padilla took steps to see that their family is making efficient use of today's energy resources. Together, SMUD and the consumers it serves made substantial progress in both new resource planning and conservation.

Like several commercial reactor operators, SMUD was required to perform extensive safety modifications during the year. Those modifications were designed to meet more stringent government standards set by the Nuclear Regulatory Commission (NRC) following the accident at the Three Mile Island nuclear plant in Pennsylvania. Parts of this work required that Rancho Seco be taken out of service late in April, but the plant was able to return to full power operation in July.

SMUD operates a hydroelectric project located in mountainous country 64 miles east of Sacramento. This Northern California hydro project includes 11 reservoirs and six power plants, and has a generating capacity of 650 megawatts. During 1979, the output of this Sierra Nevada hydroelectric resource was 1.7 billion kilowatt-hours, slightly below the project's average year of 1.8 billion kilowatt-hours.

**C**ONSERVATION: Emphasis on electrical energy conservation was intensified during 1979, resulting in expansion of existing programs and implementation of new ones.

Energy audits and seminars for commercial and industrial customers are designed to meet the specific needs of different types of business. These programs help by providing information on ways to improve the efficiency of existing equipment and suggesting new methods and devices to save energy.

Residential energy workshops administered by conservation specialists were conducted in the homes of people who invited their neighbors to participate. This program was created in 1979 to enable SMUD representatives to reach several homeowners at each meeting place.

Viewing the heat pump as an energy efficient home device, SMUD adopted a promotional program including cash incentives for builders and home remodelers who use this type of heating and cooling system. The heat pump program offers additional rewards to those who include other home conservation measures in their planning. Over 2,000 residential units were enrolled in the program during its first year of operation.

There is a need to reduce peak demand for electricity during summer months due to potential capacity shortages in Northern California. Attempts to inform large numbers of customers of this need resulted in a mass media campaign known as H.E.L.P. (Heavy Electrical Load Period). Portions of this campaign were employed by utilities in other areas of California. SMUD mailed H.E.L.P. "pledge" cards to every customer, and over 40,000 returned the cards with their pledges to conserve especially during peak use periods.



*Plans for small hydroelectric development moved ahead. This effort to expand existing facilities could generate 40,000,000 kilowatt-hours of electricity annually. The first stage of this expansion is scheduled to be operational by 1981.*

A load cycling device on the Padilla home's central air conditioner helped SMUD study the effectiveness of this means of reducing peak demand during hot summer days, and pool filtering equipment was only operated during off-peak hours. In 1979, approximately 1,000 homes were enrolled in the air conditioning cycling experiment, and SMUD reached over 20,000 pool owners with a special information program asking for their support.

Several conservation programs also addressed summer peak demand. A load reduction experiment designed to gauge the effectiveness of air conditioning cycling equipment was continued. Approximately 1,000 homeowners participated, and SMUD plans to expand this effort in 1980. Preliminary estimates indicate a reduction of one kilowatt per customer is possible through load cycling.

SMUD encourages swimming pool owners to use filtering pumps during off-peak hours through special mailings and direct contacts. The Sacramento area has over 20,000 pools representing a sizeable electrical demand. As a result, this program is considered a useful peak reducing tool.

Participation in special exhibits and shows was expanded to better inform the general public about effective conservation measures. This effort included sponsoring a special, three-day show called "Energy Expo" which was designed to inform the general public about the latest in energy conservation products and techniques. Over 300,000 attended.

Work with educators and students intensified during 1979. An energy conservation road show educated and entertained some 34,000, and SMUD helped to develop an energy curriculum for use in schools throughout California.

**A**TTITUDE SURVEY: SMUD had an independent customer survey conducted during the year with special attention placed on energy and peoples' attitudes toward conservation. The results offered several insights.

In the Sacramento area, energy ranked third on a list of social issues just behind inflation and crime. Most customers surveyed were aware of the need to conserve, but many were unaware of how their electricity was produced. Over 82 percent of those surveyed gave the manner in which SMUD is operated high marks.

**C**ONSTRUCTION: An estimated 913 trench miles of underground conductor were installed during the year, and \$25,821,000 was expended on expansion of the distribution system.

Crews completed construction of a 115,000-volt line directly linking the central city electric system with the area south of Sacramento. This overhead power line spans six and one-quarter miles.

A bulk power substation in Sacramento's north area was placed in service in August. Overloaded power lines serving the area were aided when the Carmichael Substation was energized. The new substation is connected to SMUD's transmission grid by a single 230,000-volt power line which combines both overhead and underground construction.



Another 230,000-volt transmission line is being constructed to connect the Carmichael Substation to a second point in the transmission system. When completed, this line will increase the substation's service reliability.

Ground was broken on the Foothill Service Center, a 27.6-acre project in the northeast corner of SMUD's service area. When completed, the Foothill complex will combine a bulk power substation to meet rapid growth in the area and a complete operations center.

Land was purchased in southern Sacramento County near Elk Grove for possible use as a site for another bulk power substation and materials storage area. Initial studies leading to an environmental impact report for a south area facility will not be completed until mid-1980.

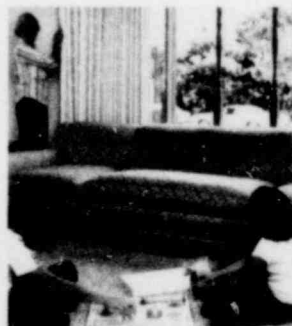
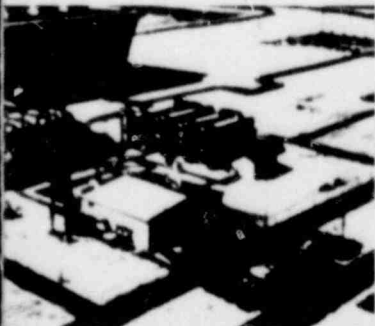
Major modifications on security and fire protection systems at Rancho Seco nuclear power station continued throughout 1979. Expansion of security facilities, improvements to fire protection systems, and additional plant upgrading resulting from Three Mile Island were required of all commercial nuclear power plants by the Federal Nuclear Regulatory Commission. SMUD spent \$12,421,000 on this work during the year.

**R**ESOURCE PLANNING: SMUD's search for additional generating resources took several directions and met with both success and disappointment during 1979.

Efforts to expand SMUD's existing hydroelectric project moved ahead, and other potential Northern California hydro developments were closely studied. Advance work on three separate expansion proposals to make more effective use of available water resources is under way. The first of these, a mini-generator to be located on Slab Creek, is scheduled to be operational by 1981. Other hydroelectric project expansion plans include diversion of water from Ice House Reservoir through a new powerhouse into Union Valley Reservoir, and diversion of water from the Rubicon River into Loon Lake. These expansion efforts could net SMUD an additional 40 million kilowatt-hours annually.

SMUD took a major step toward development of a geothermal generating resource during 1979. Exclusive rights to steam from a 400-acre site in Sonoma County were secured following negotiations which began in 1977. SMUD's first geothermal power development is expected to provide 55 megawatts of electrical capacity. The Sonoma plant is scheduled to be in service by 1984.

Plans to share in the output of a large fossil-fired generating station were announced by SMUD during 1979. After several years of advance work, Pacific Gas and Electric Company plans to build a two-unit power station capable of generating 1,600 megawatts in Solano County. SMUD plans to own a 200-megawatt share of this station. The Solano project is expected to go into service in the late 1980s.



*Rights to geothermal steam from wells to be drilled in Sonoma County were secured by SMUD following several years of negotiation. This will add 55 megawatts of generating capacity, and the Sonoma plant is scheduled to go into service in 1984.*

Assuring that their home's attic insulation was up to the recommended R-19 standard was one of the first steps taken in the Padilla's drive to conserve, and they shared what they learned about home weatherization with neighbors by hosting an energy workshop and inviting a SMUD conservation specialist.

Citing the tremendous cost of fuel oil and reluctance to further increase national dependence on imported energy supplies, SMUD cancelled a combustion turbine project for which planning had begun in 1975. The 160-megawatt project was to have helped meet system capacity shortages forecast for the 1980s. SMUD had expended \$1.33 million on preliminary design and licensing work.

**L**EGAL ACTIONS: During 1979, the District and the Pacific Gas and Electric Company agreed to submit to arbitration the PGandE claim against the District resulting from plant outages at Rancho Seco in 1975 and 1976. Under the agreement, PGandE abandoned a portion of its claim so that the amount in dispute is now approximately \$50 million instead of approximately \$70 million.

The Western Area Power Administration (WAPA), an agency which administers the power marketing functions of the Central Valley Project, put into effect an interim rate increase of approximately 95 percent effective May 25, 1978, and an additional increase of approximately 10 percent effective November 1, 1979. These increases are subject to review and approval by the Federal Energy Regulatory Commission. The District contended that these increases are not in accord with the rate modification formula in its power purchase contract, and the United States filed a lawsuit to resolve this dispute. On June 25, 1979, the United States District Court granted

judgment in favor of the United States. The District has taken an appeal from this judgment. Pending conclusion of the lawsuit, the District is paying into escrow all billings for Central Valley Project power in excess of those based on the pre-May 25, 1978 rates.

In November of 1979, a group of electrical contractors filed a lawsuit charging the District with attempting to monopolize the markets for electric distribution systems and street and outdoor lighting systems in the District's territory. The contractors have asked for injunctive relief and for damages of approximately \$54 million.

In October of 1979, one of the District's employees filed a class action charging that the District had discriminated against women and minorities in its employment practices. The complaint seeks injunctive relief and damages in an unspecified amount.

**F**INANCIAL: Power bonds sold in 1946 to finance SMUD's purchase of the electric distribution system then serving Sacramento were paid off in July. The electric system's value was listed as \$13.9 million when those bonds were issued. Book value of plant at the end of 1979 was over \$900 million.



Recognizing the significant role that youth will play in the conservation efforts of the future, SMUD sends an energy road show into area schools to educate and entertain at the same time. This highly visible part of the overall conservation education program reached an estimated 34,000 in 1979. The Padilla children (Curt, Cindi, and Caren) participate with their parents in the family's effort to conserve. In doing so, they are learning good habits which will last a lifetime.



SMUD completed issuance of \$50,000,000 in long-term electric revenue bonds (Series H) in September. This issue was rated Aa/AA by Moody's and Standard & Poor's, as have been all previous SMUD bonds. The Series H bonds were sold at a total effective interest rate of 6.751 percent. The successful completion of this sale reflects SMUD's excellent reputation within the financial community.

SMUD and the International Brotherhood of Electrical Workers (IBEW) were unable to agree on a wage and benefits package for hourly-rated employees during 1979. As a result, the District's Board of Directors adopted a 10.25 percent wage increase for the bargaining unit in January, 1980, but the group went on strike for four days following the Board's action. Workers returned and negotiations continued until agreement was reached on a two-year package in February.

While no electric rate increase was adopted during 1979, extensive advance work leading to an early 1980 increase was completed. This work included the formation of citizens' committees to obtain public input on rate making policies. These committees were established to comply with requirements set forth in the Public Utility Regulatory Policies Act (PURPA), a part of the National Energy Act. This activity culminated with the adoption of an 18 percent rate increase to be effective on March 1, 1980.

During 1979, the District wrote off the preliminary design and licensing costs for two generating projects — the 160-megawatt turbine project mentioned

earlier and the second nuclear unit at the Rancho Seco site. The total write-off for these two items was \$2,492,000. The financial statements also reflect the fact that the Rancho Seco nuclear plant did not require refueling during 1979 as it has in recent years. This reduced the total operation and maintenance costs by approximately \$4 million from what they would have been had refueling been necessary.

At year's end, SMUD's capitalization was \$913,008,000, of which 42.3 percent was equity. Net revenue for the year was \$27,477,000. The revenue bond debt service coverage ratio for 1979 was 2.34 times.

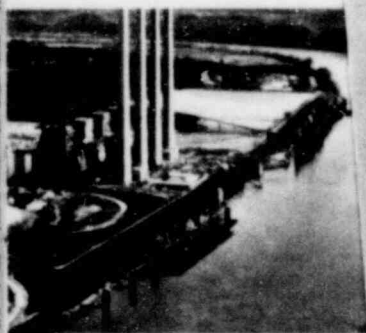
A 1980 budget totaling \$258,455,000 was approved by the Board of Directors in December. The new year's budget includes \$91,077,000 for capital expenditures, excluding nuclear fuel purchases.

*William O. Baird*

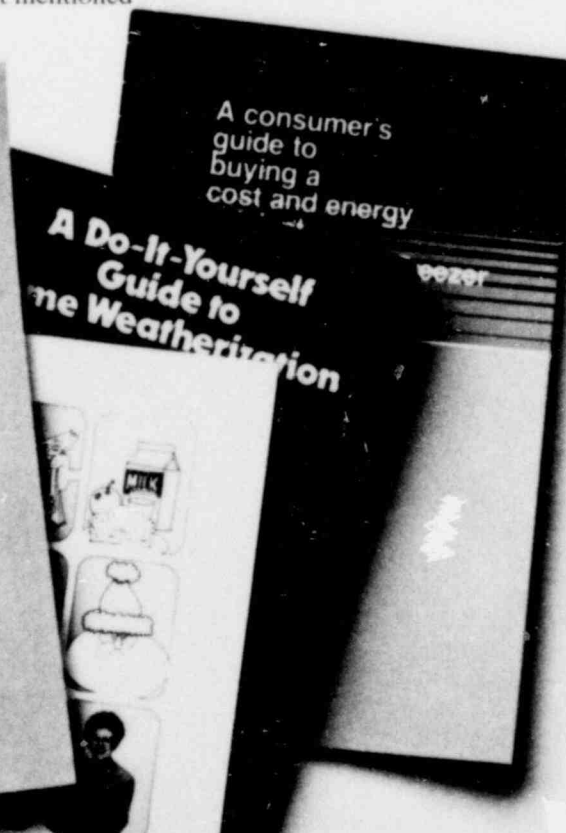
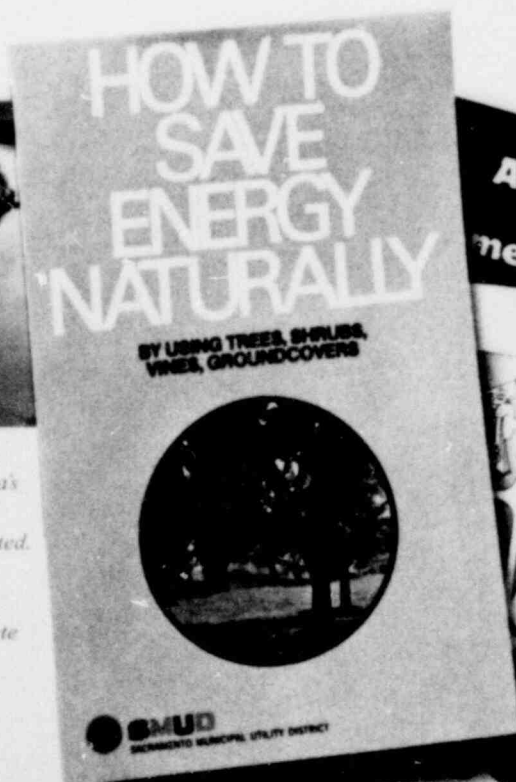
WILLIAM O. BAIRD  
President

*Wm. C. Walbridge*

WM. C. WALBRIDGE  
General Manager



Plans to share in California's first coal-fired generating station were being formulated. The proposed two-unit complex to be located in Solano County will generate 1,600 megawatts.



*Balance Sheets*

December 31, 1979 and 1978

<i>Assets</i>	1979	1978
<i>Electric Utility Plant:</i>		
Plant in service, at original cost	\$840,320,052	\$817,258,348
Less - Reserve for depreciation	162,547,313	141,535,467
	<u>\$677,772,739</u>	<u>\$675,722,881</u>
Construction work in progress	60,860,839	30,704,640
Nuclear fuel, at cost less amortization	90,821,386	65,071,127
	<u>\$829,454,964</u>	<u>\$771,498,648</u>
<i>Reserve Funds, consisting of cash and securities at cost which approximates market:</i>		
For Revenue Bonds (Note 3)	\$ 27,983,898	\$ 25,064,883
<i>Current Assets:</i>		
Cash and marketable securities, at cost which approximates market -		
General fund	\$ 52,591,937	\$ 64,546,677
For payment of debt service	13,877,949	13,702,665
Accrued interest receivable	2,429,975	1,884,899
Accounts receivable, less reserves of \$387,000 and \$243,000, respectively	9,977,269	9,499,541
Receivable from sale of surplus power	9,358,825	3,316,362
Materials and supplies, at average cost	13,157,849	11,361,013
Prepayments and special deposits	1,315,002	697,852
Purchased power rate increase - Escrow deposit (Note 6)	8,755,277	-
	<u>\$111,464,083</u>	<u>\$105,009,009</u>
<i>Deferred Charges</i>	\$ 5,200,258	\$ 5,709,646
	<u>\$974,103,203</u>	<u>\$907,282,186</u>

The accompanying notes are an integral part of these balance sheets.

<i>Customers' Equity and Liabilities</i>	1979	1978
<i>Capitalization:</i>		
Customers' equity employed in the business —		
Balance beginning of year	\$358,794,438	\$329,210,379
Net revenue for the year	27,476,995	29,584,059
Total customers' equity	\$386,271,433	\$358,794,438
Long-term debt (Note 2)	526,736,445	493,204,534
	\$913,007,878	\$851,998,972
<i>Current Liabilities:</i>		
Accounts payable	\$ 15,748,734	\$ 19,848,065
Accrued salaries, wages and vacation pay	4,204,281	3,668,639
Long-term debt due within one year	16,484,774	16,055,829
Accrued interest on long-term debt	7,053,639	6,351,888
Customers' deposits	2,619,141	2,288,346
Purchased power rate increase (Note 6)	11,797,243	4,037,451
Other	3,187,513	3,032,996
	\$ 61,095,325	\$ 55,283,214
<i>Commitments (Note 4)</i>		
	—	—
<i>Contingencies (Notes 5, 6, 8, and 9)</i>		
	—	—
	\$974,103,203	\$907,282,186

*Statements of  
Net Revenue*

Years ended December 31, 1979 and 1978

	1979	1978
<i>Operating Revenues:</i>		
Residential	\$ 60,836,900	\$ 53,955,315
Commercial and industrial	52,643,857	48,446,174
Sale of surplus power (Note 5)	35,382,315	31,557,976
Other	1,364,498	1,263,368
Total operating revenues	<b>\$150,227,570</b>	<b>\$135,222,833</b>
<i>Operating Expenses:</i>		
Operation —		
Purchased power (Note 6)	\$ 14,972,257	\$ 11,739,904
Nuclear fuel used for generation	21,212,516	13,507,470
Production	10,730,213	8,627,324
Other	20,528,354	17,126,324
Abnormal generation plant maintenance (Note 5)	—	(2,139,463)
Other maintenance	15,953,421	17,350,450
Provision for depreciation (Note 1)	22,694,566	21,768,744
Total operating expenses	<b>\$106,091,327</b>	<b>\$ 87,980,753</b>
Net operating revenue	<b>\$ 44,136,243</b>	<b>\$ 47,242,080</b>
<i>Other Income:</i>		
Allowance for equity funds used during construction (Note 1)	2,035,702	900,787
Interest income and other	6,241,335	5,360,885
Net revenue before interest expense	<b>\$ 52,413,280</b>	<b>\$ 53,503,752</b>
<i>Interest Expense:</i>		
Interest on long-term debt	27,130,261	25,032,873
Allowance for borrowed funds used during construction — credit (Note 1)	(2,193,976)	(1,113,180)
Net revenue for the year	<b>\$ 27,476,995</b>	<b>\$ 29,584,059</b>

The accompanying notes are an integral part of these statements.

*Statements of  
Changes in  
Financial Position*

Years ended December 31, 1979 and 1978

	1979	1978
<i>Funds provided from:</i>		
Operations—		
Net revenue for the year	\$ 27,476,995	\$ 29,584,959
Add non-cash charges—		
Depreciation	22,694,566	21,768,744
Write-off of generation projects	2,491,945	—
Add interest on long-term debt	27,130,261	25,032,873
Total available for revenue bond debt service	\$ 79,793,767	\$ 76,385,676
Add—Nuclear fuel used for generation	21,212,516	13,507,470
Total available for total debt service	\$101,006,283	\$ 89,893,146
Sale of electric revenue bonds	50,000,000	40,000,000
Other	—	698,330
Total funds provided	\$151,006,283	\$130,591,476
<i>Funds used for:</i>		
Debt service—		
Revenue bonds	\$ 34,040,486	\$ 31,136,192
General obligation bonds	8,912,377	9,264,523
Total debt service	\$ 42,952,863	\$ 40,400,715
Additions to plant and nuclear fuel	103,707,051	68,172,362
Increase in working capital	642,963	20,536,194
Additions to reserve funds	2,919,015	1,482,205
Other	784,391	—
Total funds used	\$151,006,283	\$130,591,476
<i>Number of times debt service is covered by funds available:</i>		
Revenue bonds	2.34	2.45
Total debt	2.35	2.23

The accompanying notes are an integral part of these statements.

## Notes to Financial Statements

December 31, 1979 and 1978

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Organization and Exemption From Income Taxes.*

The Sacramento Municipal Utility District was formed and operates under the State of California Municipal Utility District Act. The Act confers upon the District the rights and powers to fix rates and charges for commodities or services furnished, to incur indebtedness and issue bonds or other obligations and, under certain circumstances, to levy and collect ad valorem property taxes. The District's power to levy property taxes is restricted by the California Constitution, Article XIII A, which places limits on the taxing power of all California public agencies. The District is exempt from payment of Federal and State income taxes.

*Method of Accounting.* The District's books and accounts are based upon the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission, the same accounting system which investor-owned electric utilities operating in California are required to follow.

*Depreciation and Amortization Methods.* The District provides for depreciation on the historical cost of electric properties on a straight-line basis at rates determined by engineering studies. The average annual depreciation rates for District plant in 1979 and 1978 were:

	1979	1978
Intangible plant	3.06%	3.06%
Generation—		
Hydro	1.43	1.53
Nuclear	3.30	3.35
Transmission	2.62	2.62
Distribution	3.00	3.01
General	5.47	5.92
Composite	2.85	2.91

The costs of replacement of property units are charged to plant. Repair and maintenance costs are charged to expense, including such costs associated with refueling Rancho Seco. Rancho Seco was refueled in 1978, but not in 1979.

The District amortizes the cost of nuclear fuel on a unit-of-production method, based on the original cost of nuclear fuel plus estimated costs of disposal escalated for inflation to the anticipated time of disposal.

*Allowance for Funds Used During Construction.* The total allowance for funds used during construction in 1979 and 1978 amounted to approximately 5.9% and 5.5%, respectively, of eligible nuclear fuel and plant under construction.

*Retirement Plan.* The District's employees are covered by a contributory retirement plan administered by the State of California Retirement System. The District's policy is to fund retirement costs as accrued and contributions for 1979 and 1978 amounted to \$5,121,000 and \$4,084,000, respectively. Reflecting improved benefits of the plan and actuarial studies, the District's rate of covered payroll contributed to the plan increased from 13.46% to 15.31% effective July 1, 1978, and to 17.19% effective July 1, 1979. The State Retirement System has reported that the District's share of the actuarially determined unfunded obligation as of June 30, 1978, was approximately \$50,000,000.

*Notes to  
Financial  
Statements*  
(continued)

**NOTE 2. LONG-TERM DEBT** Long-term debt outstanding at December 31, 1979 and 1978, was as follows:

	1979	1978
<i>General Obligation Bonds—</i>		
Power Bonds of 1938 including premium	\$ —	\$ 640,359
Electric Bonds, 2%, 1980 to 1990	6,144,000	6,864,000
Building Bonds, 4%–4½%, 1980 to 1992	6,100,000	6,420,000
SMUD Bonds, Series C, 4%–4½%, 1980 to 1981	13,100,000	19,200,000
<i>Revenue Bonds—</i>		
Upper American River Project Refunding Bonds, 3½%–3¾%, 1980 to 1991	50,100,000	53,500,000
White Rock Project Bonds— Series A and B, 3¼%–3½%, 1980 to 2004	34,645,000	35,475,000
Series C and D, 6¼%–7%, 1980 to 2010	55,400,000	55,800,000
Electric System Bonds 3%–3½%, 1980 to 1983	4,000,000	5,145,000
Electric Revenue Bonds, Series A-H, 4¼%–7%, 1980 to 2019	373,500,000	326,000,000
Total bonds	\$542,989,000	\$509,044,359
Purchase Agreements, 3¼%–6½%, 1980 to 2000	1,392,705	1,433,817
	\$544,381,705	\$510,478,176
Less—Bond discount, White Rock Project, Series C	1,160,486	1,217,813
Less—Amount due within one year	16,484,774	16,055,829
	\$526,736,445	\$493,204,534

**NOTE 3. RESERVE FUNDS FOR REVENUE BONDS** Reserve funds for revenue bonds at December 31, 1979 and 1978 were as follows:

	1979	1978
Electric System Bonds	\$ 1,000,000	\$ 1,056,672
Electric Revenue Bonds	20,501,565	16,865,376
White Rock Project Bonds	929,986	929,986
All Parity Bonds	5,552,347	6,212,849
	\$27,983,898	\$25,064,883

**NOTE 4. CONSTRUCTION PROGRAM AND NUCLEAR FUEL PURCHASES** Estimated construction and nuclear fuel expenditures in 1980 are \$91,077,000 and \$40,355,000, respectively. The total cost of nuclear fuel under contracts for future reloads (covering the period 1980 to 1988) is estimated to be approximately \$186,000,000.

**NOTE 5. RANCHO SECO NUCLEAR PLANT** In April 1975, the Rancho Seco nuclear plant began commercial operation, and the District's surplus power billings to Pacific Gas and Electric Company (PGandE) since that time have been rendered in accordance with the terms of the 1970 Power Sale, Exchange and Integration contract with PGandE. The contract provides that PGandE shall purchase the District's unused generating capacity, the energy generated by that capacity and also the surplus energy generated by capacity used by the District. Under the contract, payments for capacity continue during periods of plant shutdown, although payments for energy do not.

On June 30, 1975, the operation of the plant was halted because of a failure of the rotor discs in the low pressure turbines. The turbine rotors were replaced, and the plant went back into operation in late February, 1976. It was again taken out of service in early April 1976 for replacement of the generator stator windings and was returned to service on October 10, 1976. As a result of these problems:

## Notes to Financial Statements

(continued)

(1) In 1975, the District recorded \$5,850,000, consisting of \$9,350,000 turbine rotor replacement cost less \$3,500,000 of anticipated insurance recovery, as "Abnormal Generation Plant Maintenance." The \$9,350,000 turbine rotor replacement cost included billings from Westinghouse Electric Corporation which the District had not paid. On October 4, 1977, Westinghouse filed suit against the District. On November 14, 1978, all parties to the litigation reached a settlement agreement under which the District paid \$3,327,500 to Westinghouse and received payments and credits totaling \$2,169,000 from other parties. This settlement resulted in a net credit to "Abnormal Generation Plant Maintenance" of approximately \$2,139,000 in 1978.

(2) The District and PGandE are in disagreement with the treatment, under the terms of the 1970 contract, of the matter referred to in (1) above and certain other matters affecting the billing of surplus power to PGandE. The District believes that the final resolution of these disputes will not have any material adverse effect on the accompanying financial statements.

(3) In June, 1976, PGandE filed a claim against the District alleging that the matters referred to above indicate that the Rancho Seco plant did not become commercially operable in April 1975 and that the rights and obligations of the parties continued to be controlled by an earlier contract. The claim seeks recovery of approximately \$50,000,000 alleged to be the difference between payments due under the two contracts, and also sought recovery of \$20,000,000, plus additional costs expected to occur after the filing of the claim to replace capacity and energy which it should have received from Rancho Seco. The District and PGandE have executed an agreement whereby PGandE has agreed that any award or judgment it receives based on its claim will be subordinated to the rights of holders of documents evidencing indebtedness of the District issued prior to the date of such award or judgment, and has further agreed that amounts, including interest, collected or offset by reason of such award or judgment during any month may not exceed six percent of the District's operating revenues from retail sales during the preceding month. On May 30, 1979, PGandE and the District signed an agreement submitting the claim to an arbitration panel. Under the agreement, PGandE has abandoned its claim for the \$20,000,000 and additional expenses alleged in the claim to have been incurred in the purchase of replacement capacity and energy. While the outcome of this dispute cannot be predicted with certainty, the District believes that it has meritorious defenses and, in addition, that an indemnity provision in the contract under which the District purchased the Rancho Seco turbine generator from the Westinghouse Electric Corporation obligates Westinghouse to pay any judgment which PGandE may obtain. The District also asserts rights of indemnity against Babcock & Wilcox Co. and Bechtel Power Corporation.

**NOTE 6. PURCHASED POWER RATE INCREASE** On May 25, 1978 and November 1, 1979, interim rate increases for power purchased from the Central Valley Project (CVP) were placed into effect by the U.S. Department of Energy. The estimated annual billing increase to the District under these interim rates is approximately \$7.7 million. The proposed rates are subject to further review by the Department of Energy and must then be approved by the Federal Energy Regulatory Commission. The District is presently paying into escrow that portion of each monthly bill representing the increase over the rates in effect before May 25, 1978 (at December 31, 1979, the balance in escrow was \$8,755,000), pending conclusion of a lawsuit filed against the District by the United States to obtain a judicial ruling on the District's contention that the criteria being used in the rate proceeding are not in accord with a rate modification formula in the contract under which the District purchases CVP power. On June 25, 1979, the United States District Court for the Eastern District of California granted a motion for summary judgment against the District. On July 20, 1979, the District filed notice of appeal to the United States Court of Appeals for the Ninth Circuit. The District cannot at this time estimate how much, if any, of the amounts paid into escrow will be returned to it if it is successful in the lawsuit. Currently, the entire billing increases are being included in Purchased Power Expense and recorded as a Purchased Power Rate Increase, current liability (at December 31, 1979, the balance of the current liability is \$11,797,000).



*Notes to  
Financial  
Statements*  
*(continued)*

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**NOTE 7. NUCLEAR PROPERTY AND LIABILITY INSURANCE** The District is required to maintain liability insurance and a Federal Government indemnity agreement for Rancho Seco to insure its maximum liability under the Price-Anderson Act for any third party personal injury and property damage claims arising from a nuclear incident. On June 26, 1978, the United States Supreme Court upheld the constitutionality of the provisions of the Price-Anderson Act which limit the liability of the owners of nuclear plants to a fixed dollar amount, presently \$560 million per nuclear incident. Recent amendments to the Price-Anderson Act provide that, in the event of a nuclear incident, licensees of operating reactors may be subject to a retrospective premium adjustment to satisfy a portion of the maximum liability limit. Commencing August 1, 1977, a nuclear reactor operator may be assessed \$5 million per reactor for a nuclear incident at any commercial power reactor facility in the United States with the assessment not to exceed \$10 million per reactor per year. Under this legislation, the retrospective premium program becomes effective only when the insurance limits of \$160 million obtained through the American Nuclear Insurers (ANI) and the Mutual Atomic Energy Liability Underwriters (MAELU) have been exhausted. In that instance, the District's maximum exposure would be \$10 million per year.

In connection with the incident which occurred at the Three Mile Island nuclear power plant on March 28, 1979, the District has been advised by the ANI's in-house claims counsel that ANI does not believe that the primary insurance limits (\$160 million) will be exceeded by ultimate judgments or settlements although special counsel retained by ANI has not yet completed its review of the legal and factual determinants of liability. Therefore, a provision for retrospective premium adjustments has not been made in the accompanying financial statements for the year ended December 31, 1979.

Nuclear property insurance for Rancho Seco is purchased from ANI and the Mutual Atomic Energy Reinsurance Pool (MAERP). The District maintains the maximum amount of financial protection available, currently \$300 million, subject to deductibles ranging from \$250,000 to \$1,350,000. Nuclear property insurance is an "all risk" coverage which omits the standard nuclear exclusion normally found in conventional property policies.

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**NOTE 8. RANCHO SECO SHUTDOWN** In accordance with a Nuclear Regulatory Commission Order, Rancho Seco was shut down from April 28, 1979 until early July, 1979. On July 6, 1979, the District was informally advised by PGandE that it intends to submit a bill for \$1,290,000 to cover costs incurred during May in obtaining capacity from the Bonneville Power Administration to maintain adequate and reliable service within the Northern California area. PGandE has indicated that the bill will be rendered under a provision of the District's 1970 Power Sale, Exchange and Integration Contract with PGandE which states that PGandE shall make capacity available to the District in the event of outages at no charge except to the extent that such outages cause PGandE to incur additional costs to obtain capacity from outside the Northern California area. PGandE has further indicated that the District may expect additional, similar billings based upon other purchases of capacity as a result of the Rancho Seco shutdown for the months of June, July and August of 1979. The District is investigating these potential claims, which have not yet been formally submitted; however, the District believes, on the basis of the information presently available, that PGandE's purchases of capacity were caused by delays in completing its own scheduled generating facilities and its consequent failure to maintain the reserves contemplated by the 1970 contract, rather than by the shutdown of Rancho Seco.

Management is unable to estimate the amount of the potential claims or predict what effect, if any, the ultimate outcome of these potential claims will have, but is of the opinion that the effect on the accompanying financial statements will not be material. Accordingly, the accompanying financial statements for the year ended December 31, 1979 do not reflect any provision for such PGandE billings.

*Notes to  
Financial  
Statements*  
*(continued)*

**NOTE 9. ANTITRUST SUIT** In November 1979, a lawsuit was filed in Federal court by 13 corporations engaged in the electrical contracting business charging the District with violation of the Federal antitrust laws. The suit alleges that the manner in which the District has supplied the markets for electrical distribution systems and street and outdoor lighting systems has been unlawful and unfair and has foreclosed and destroyed competition in those markets. It is claimed that, as a result of the alleged violation, plaintiffs have been injured in their business or property over the preceding four-year period and that their lost revenues and profits are presently estimated at \$17,800,000. The plaintiffs are seeking damages in the amount of \$53,400,000. Such amount is triple the estimated loss which is the legal criteria prescribed where a violation of the antitrust laws has occurred.

Management is unable to predict what effect, if any, the ultimate outcome of this lawsuit might have on future operations, but is of the opinion that the effect on the accompanying financial statements will not be material. In addition, outside counsel for the District has indicated that, based upon the present status of the proceeding, it is his opinion that the District has meritorious defenses in the case and that it is probable that the District will ultimately prevail in the outcome of the litigation.

**NOTE 10. RECLASSIFICATIONS** Certain amounts in the December 31, 1978 Balance Sheet and Statement of Changes in Financial Position have been reclassified to conform with the presentation used in the December 31, 1979 financial statements.

*Auditors' Report*

To the Board of Directors of Sacramento Municipal Utility District:

We have examined the balance sheets of Sacramento Municipal Utility District (a political subdivision of the State of California) as of December 31, 1979 and 1978, and the related statements of net revenue and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed further in Note 5 to the accompanying financial statements, Pacific Gas and Electric Company filed a claim against the District in June 1976, alleging that outages in 1975 and 1976 indicate that the Rancho Seco plant did not become commercially operable in April 1975, and that the rights and obligations of the parties continued to be controlled by an earlier contract. The claim seeks recovery of approximately \$50,000,000. The District believes its position on the claim will be upheld, but the outcome cannot be determined at this time.

Also, as discussed further in Note 6, during 1978 and 1979, the U.S. Department of Energy placed into effect interim rate increases. The District has recorded the related billings as purchased power expense and is currently placing the funds for payment in escrow because the District contends that the interim rate increases are not in accordance with its purchased power contract. The United States has filed a lawsuit against the District to obtain a judicial ruling on this matter. The District believes that its position will be upheld but cannot at this time determine how much, if any, of the \$11,797,000 liability will have to be paid.

In our opinion, subject to the effect of any adjustments that might have been required had the outcome of the matters discussed above been known, the financial statements referred to above present fairly the financial position of Sacramento Municipal Utility District as of December 31, 1979 and 1978, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

*Ten Year  
Summary*

<i>Operating statistics</i>	1979	1978
Customers at Year-End	324,438	309,735
KWH Sales (in thousands):		
Sales to Customers—		
Residential	2,678,806	2,458,990
Commercial, Industrial, and Other	2,792,225	2,691,876
Total	5,471,031	5,150,866
Sale of Surplus Power	3,533,885	3,081,911
Total	9,004,916	8,232,777
Revenue (in thousands of dollars):		
Sales to Customers—		
Residential	\$ 60,837	\$ 53,955
Commercial, Industrial, and Other	54,008	49,710
Total	\$ 114,845	\$ 103,665
Sale of Surplus Power	35,382	31,558
Total	\$ 150,227	\$ 135,223
Average KWH Sales per Residential Customer	9,446	9,091
Average Revenue per Residential KWH Sold	2.27 <sup>c</sup>	2.19 <sup>c</sup>
Power Supply (KWH in thousands):		
Hydroelectric Generation	1,673,322	1,705,497
Nuclear Generation	5,717,476	4,965,812
Purchases	1,890,289	1,866,937
System Peak Demand—KW	1,546,785	1,577,785
Equivalent Full-time Employees at Year-End	1,764	1,678
<i>Financial Statistics (in thousands of dollars):</i>		
<i>Total Operating Revenues</i>	\$ 150,227	\$ 135,223
<i>Operating Expenses</i>		
Purchased Power	\$ 14,972	\$ 11,740
Operation, Maintenance, and Taxes	68,424	54,472
Depreciation	22,695	21,769
Total operating expenses	\$ 106,091	\$ 87,981
Net operating revenue	\$ 44,136	\$ 47,242
<i>Other Income</i>	8,277	6,262
Gross income	\$ 52,413	\$ 53,504
<i>Interest and Other Income Deductions</i>	24,936	23,920
Net revenue for the year	\$ 27,477	\$ 29,584
Times Debt Service Earned	2.3	2.2
Bonds Repaid	\$ 16,047	\$ 15,566
Electric Utility Plant	\$ 829,455	\$ 771,499
Capitalization:		
Long-term Debt	\$ 526,737	\$ 493,205
Customers' Equity	\$ 386,271	\$ 358,794

1977	1976	1975	1974	1973	1972	1971	1970
296,541	282,621	273,259	264,159	254,646	245,449	234,128	224,679
2,222,908	2,102,704	2,034,017	1,903,777	1,873,373	1,732,798	1,611,792	1,437,918
2,544,239	2,504,313	2,376,723	2,227,059	2,334,503	2,204,425	2,038,245	1,953,273
4,767,237	4,607,017	4,410,740	4,130,836	4,207,876	3,937,223	3,650,037	3,391,191
2,923,955	159,196	1,835,952	—	—	—	—	—
7,691,192	4,766,213	6,246,692	4,130,836	4,207,876	3,937,223	3,650,037	3,391,191
\$ 44,497	\$ 40,553	\$ 35,188	\$ 32,497	\$ 29,686	\$ 26,624	\$ 23,302	\$ 19,711
43,157	41,405	35,497	32,430	30,957	28,048	24,373	21,566
\$ 87,654	\$ 81,958	\$ 70,685	\$ 64,927	\$ 60,643	\$ 54,672	\$ 47,675	\$ 41,277
33,570	20,988	28,551	—	—	—	—	—
\$ 121,224	\$ 102,946	\$ 99,236	\$ 64,927	\$ 60,643	\$ 54,672	\$ 47,675	\$ 41,277
8,597	8,491	8,500	8,244	8,416	8,116	7,928	7,365
2,00 <sup>c</sup>	1,93 <sup>c</sup>	1,73 <sup>c</sup>	1,71 <sup>c</sup>	1,58 <sup>c</sup>	1,54 <sup>c</sup>	1,45 <sup>c</sup>	1,37 <sup>c</sup>
209,717	1,038,936	2,023,803	2,584,467	1,853,006	1,591,129	1,664,528	1,893,027
5,870,832	2,181,261	2,472,624	207,223	—	—	—	—
1,904,428	1,855,626	2,016,288	1,603,556	2,586,927	2,636,552	2,240,277	1,737,889
1,353,589	1,329,983	1,272,389	1,201,188	1,173,588	1,099,188	1,020,389	908,388
1,559	1,442	1,447	1,375	1,302	1,242	1,166	1,036
\$ 121,224	\$ 102,946	\$ 99,236	\$ 64,927	\$ 60,643	\$ 54,672	\$ 47,675	\$ 41,277
\$ 7,780	\$ 7,643	\$ 8,050	\$ 8,059	\$ 9,914	\$ 10,600	\$ 8,661	\$ 8,396
55,032	36,367	38,838	16,811	14,504	13,153	11,435	10,604
20,795	20,552	18,227	8,010	7,698	7,337	6,483	6,000
\$ 83,607	\$ 64,562	\$ 65,115	\$ 32,880	\$ 32,116	\$ 31,090	\$ 26,579	\$ 25,000
\$ 37,617	\$ 38,384	\$ 34,121	\$ 32,047	\$ 28,527	\$ 23,582	\$ 21,096	\$ 16,277
5,270	5,254	8,986	29,976	23,377	15,017	10,098	7,048
\$ 42,887	\$ 43,638	\$ 43,107	\$ 62,023	\$ 51,904	\$ 38,599	\$ 31,194	\$ 23,325
24,568	24,946	25,226	25,762	22,524	18,658	13,105	8,088
\$ 18,319	\$ 18,692	\$ 17,881	\$ 36,261	\$ 29,380	\$ 19,941	\$ 18,089	\$ 15,237
1.9	1.8	1.7	1.9	2.1	2.0	2.0	1.9
\$ 16,657	\$ 15,648	\$ 15,145	\$ 11,053	\$ 6,607	\$ 6,237	\$ 5,898	\$ 5,759
\$ 739,185	\$ 729,178	\$ 722,081	\$ 705,812	\$ 649,036	\$ 571,896	\$ 466,091	\$ 348,155
\$ 469,225	\$ 484,827	\$ 478,159	\$ 494,165	\$ 509,671	\$ 420,093	\$ 340,565	\$ 206,908
\$ 329,210	\$ 310,892	\$ 292,200	\$ 274,319	\$ 238,059	\$ 208,679	\$ 188,738	\$ 170,648

## SMUD Information

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### Board of Directors

WILLIAM O. BAIRD, *President*  
 GARY HURSH, *Vice President*  
 PAUL W. CARR  
 RICHARD D. CASTRO  
 DONALD C. McCLAIN

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### Officers and Executives

WM. C. WALBRIDGE, *General Manager*  
 JOHN J. MATTIMOE, *Assistant General Manager and Chief Engineer*  
 WM. S. BOSSENMAIER, *Assistant General Manager and Controller*  
 WM. K. LATHAM, *Assistant General Manager, Operations*  
 KENNETH J. MELLOR, *Assistant General Manager and Treasurer*  
 DAVID S. KAPLAN, *Attorney and Secretary*

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### Department Managers

WILLIAM J. CONDON, *Data Processing*  
 MARLEN N. DAVIS, *Consumer Relations (Retired December 31, 1979)*  
 JOHN D. DUNN, *Transmission & Distribution Operations*  
 LEO A. FASSLER, *Distribution Planning*  
 GEORGE F. FRASER, *Distribution Construction*  
 EARL M. GABRIELLI, *Customer Services*  
 WILLIAM J. HAMMOND, *Services*  
 JOHN P. HILTZ, *Hydro Operations*  
 PHILLIP R. HOLLECK, *Conservation*  
 DONALD W. HOWTON, *Consumer Relations*  
 GORDON B. MERRILL, *Purchases & Stores*  
 JOHN H. MICHELMORE, *Accounting*  
 DALLAS G. RAASCH, *Generation Engineering*  
 JOHN L. RAVERA, *Engineering*  
 RONALD J. RODRIGUEZ, *Nuclear Operations*

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### Bond Counsel

ORRICK, HERRINGTON, ROWLEY & SUTCLIFFE, *San Francisco*

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### Trustee and Paying Agent

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, *San Francisco*

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### Paying Agents

CITIBANK, N.A., *New York*  
 HARRIS TRUST AND SAVINGS BANK, *Chicago*

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### Engineers

R. W. BECK AND ASSOCIATES, *Sacramento*

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### Auditors

ARTHUR ANDERSEN & CO., *San Francisco*

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### Financing Consultants

LEHMAN BROTHERS KUHN LOEB INCORPORATED, *New York*

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### Main Offices

SACRAMENTO MUNICIPAL UTILITY DISTRICT, 6201 S Street, Sacramento, California 95817