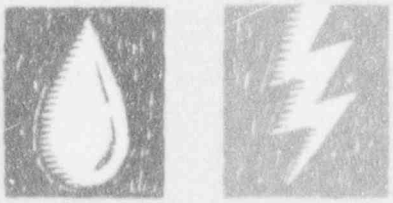
LOS ANGELES

DEPARTMENT OF WATER AND POWER

ANNUAL REPORT



1991 - 1992

GETTING THE JOB DONE

"GETTING THE JOB DONE"

In 1991-92, the City of Los Angeles was caught up in events that had profound implications for its future. A sixth year of drought across much of the state meant that the city continues on the knife's edge of water supply. Then, in April, a tragic civil disturbance rocked the city's social and economic foundations.

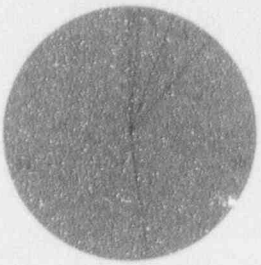
Both events held special significance for the Department of Water and Power -- in one case because providing water to the city's 3.5 million residents is our job, and in another because it exposed the vulnerability of our water and, particularly, our power infrastructures to manmade and natural disturbances. And it reminded us of other responsibilities we bear.

There were other challenges confronting us in 1991-92: earthquakes, financial pressures made worse by reduced sales in a soft economy, and the continuing need to maintain and improve the infrastructure to serve a growing population. But these problems are not unique to utilities. These are challenging and volatile times for everyone, and the DWP is no exception.

Throughout the turbulent events of last year, however, the DWP continued to do its job smoothly — serving its customers by supplying our city with adequate, reliable, low-cost supplies of water and electricity. Even when the city erupted into violence from April 29 to May 3, we got the job done.

We are proud of these achievements.

Water Revenue Dollar in Cents



1 Fire hydrant

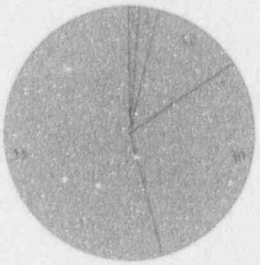
4 Other

5 Governmental

36 Residential

54 Commercial and industrial

Power Revenue Dollar in Cents



1 Street lighting

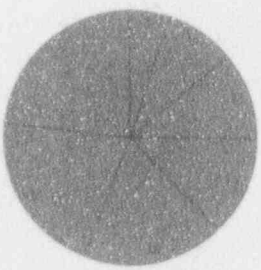
2 Other

12 Industrial

30 Residential

55 Commercial

Water Expenditure Dollar in Cents



5 Payments to the City

9 Retirement Plan costs related to operations

11 Capital improvements

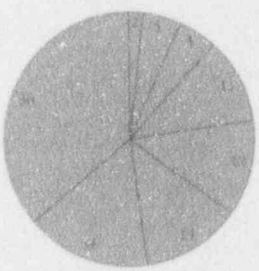
13 Debt service costs

18 Purchased water and energy

21 Operating salaries and wages

23 Other operating expenses

Power Expenditure Dollar in Cents



2 Capital improvements

5 Retirement Plan costs related to operations

5 Payments to the City

11 Debt service costs

12 Fuel

13 Operating salaries and wages

16 Other operating expenses

36 Purchased energy

Year ended June 30	Water 1992	Water 1991	Water % Increase (Decrease)	Power 1992	Power 1991	Power % Increase (Decrease)
SERVICE	Gallons in billions			Kilowatt hours in billions		
Sales	166.6	188.4	(11.6%)	21.7	21.9	(0.9%)
Customers — average number (thousands)	647.9	646.9	0.2%	1,362.8	1,361.2	0.1%
FINANCIAL	In millions			In millions		
Revenue (A)	$ 347.9	$ 356.0	(2.3%)	$ 1,852.7	$ 1,830.1	1.2%
Operating Costs (B)	234.1	252.2	(7.2%)	1,475.8	1,452.0	1.6%
Net Income	51.6	40.0	29.0%	74.2	95.9	(22.6%)
Payments to City of Los Angeles	17.4	17.4	—	90.6	92.5	(2.1%)
Capital additions, net	175.8	178.7	(1.6%)	462.7	399.0	16.0%
Net utility plant	1,566.3	1,426.1	9.8%	4,295.5	3,987.2	7.7%
Capitalization — equity and long-term debt	1,611.6	1,421.5	13.4%	4,453.3	4,207.6	5.8%

(A) Include other income – net

(B) Excluding depreciation expense

The past year presented the Department of Water and Power with more than its share of challenge and change. Among the events that made this an unusual year for the DWP were these:

— During a sixth year of drought, Los Angeles residents responded to the city's mandatory 15 percent water conservation program by cutting usage by nearly 25 percent from normal consumption.

— This response caused a decline in water revenues that resulted in sharp financial pressures for the Water System during most of the year.

— The Power System also faced fiscal pressures when its request for its first rate adjustment in more than three years was delayed several months.

— Even though snow levels in the Eastern Sierra, the main source of DWP water, again fell short last winter, the city could relax its conservation program in 1992 because water was available from the Colorado River, reservoirs in Southern California were high after heavy winter rains, and the city's conservation efforts had been so successful.

— Civil disturbances in Los Angeles in the spring of 1992 threw heavy operating burdens on the Power System, and the aftereffects and implications of these events continue to pose challenges for the entire DWP.

Those and other events of 1991-92 have prompted many changes within the Department. We have reorganized to deal more effectively with the changing operating environment in which we find ourselves. We imposed a hiring freeze to keep costs down. We are aggressively working to find more efficient ways to get the job done.

Above all, we are dedicated to continuously finding a better way of serving our customers. Part of the reorganization we implemented in 1991 included the establishment of a new, top-level customer service manager who will help reinforce our commitment to good customer service.

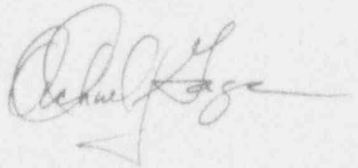
As the urban disturbances demonstrated once again, Los Angeles is a city in the midst of profound social and cultural change. The DWP, one of the largest employers in this metropolitan area, has a special responsibility to help keep these changes positive, and is developing programs and committing funds toward this end.

Even in a tumultuous year like 1991-92, the DWP cannot forget its responsibilities beyond our immediate urban concerns. Last year we continued to improve our environmental performance with investments in new electric transportation development and repowering of the Harbor Generating Station, among others.

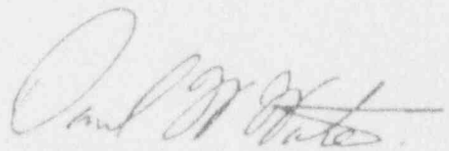
The remainder of this decade promises more of the challenge and change we have recently seen. We expect our population to grow another 250,000 by the year 2000. We have a big job ahead of us in building on and maintaining the city's water infrastructure and meeting ever-tightening water quality requirements. We face major investments in programs to help our power customers use energy more wisely and more efficiently.

These needs will challenge us in new ways; challenges we can meet only with the confidence of our customers and the support of the community and elected officials of the City of Los Angeles.

The Board of Water and Power Commissioners and the management of the Department thank you for your past support and look forward to serving you in the year ahead.



Michael Gage
President, Board of Water
and Power Commissioners



Daniel W. Waters
General Manager and
Chief Engineer

The Los Angeles Department of Water and Power (DWP) supplies water and electricity to the more than 3.5 million residents of the nation's second-largest city. As the largest municipally owned utility in the nation, DWP has more than 11,000 employees serving a 465-square-mile area ranging from the San Gabriel Mountains to the Pacific Ocean. It began municipal distribution of water in 1902 and electricity in 1916.

As a proprietary agency of the Los Angeles city government, the DWP receives no tax support. Its operations are financed entirely by the sale of water and electricity. Revenue bonds are its main source of external funding.

The DWP is administered by the Board of Water and Power Commissioners, whose five members are appointed by the Mayor and confirmed by the City Council for staggered terms of five years. The Board establishes water and electric rates which are subject to the approval of the City Council.

1992 BOARD OF WATER AND POWER COMMISSIONERS

Michael Gage
President

Rick J. Caruso
Vice President

Dorothy Green
Commissioner

Angel M. Echevarria
Commissioner

Constance L. Rice
Commissioner

DEPARTMENT OF WATER AND POWER

Daniel W. Waters
General Manager and
Chief Engineer

Eldon A. Cotton
Assistant General Manager
Power

James F. Wickser
Assistant General Manager
Water

Robert W. Carr
Executive Director of
Customer Services Organization

Phyllis E. Currie
Chief Financial Officer

Continuing uncertainty over future water supplies dominated operations of the Department in 1991-92. Although Southern California's winter rainfall was within historical parameters, the all-important Eastern Sierra snowpack — which supplies most of the city's water in "normal" years — measured only around 69 percent of average at the end of the precipitation season.

Thanks to customer conservation efforts, however, metered water usage in the city fell last year to 166.6 billion gallons, down from 188.4 billion gallons in 1990-91 and 208.8 billion gallons in 1989-90. Daily per capita sales among the DWP's 647,900 water accounts fell to 126.2 gallons, compared with 144.9 gallons in 1990-91 and 165.3 gallons in 1989-90.

Conservation also reduced the city's need for expensive purchased water, the cost of which totalled $49.6 million in 1991-92, compared with $69.9 million in 1990-91. The net result of these conservation efforts, coupled with the availability of supplemental supplies, was to permit the city to end mandatory water conservation in April 1992, about a year after it was instituted.

In the Power System, energy efficiency, the cool summer of 1991 and the business recession reduced electrical demand in 1991-92, despite continuing growth in the city's population.

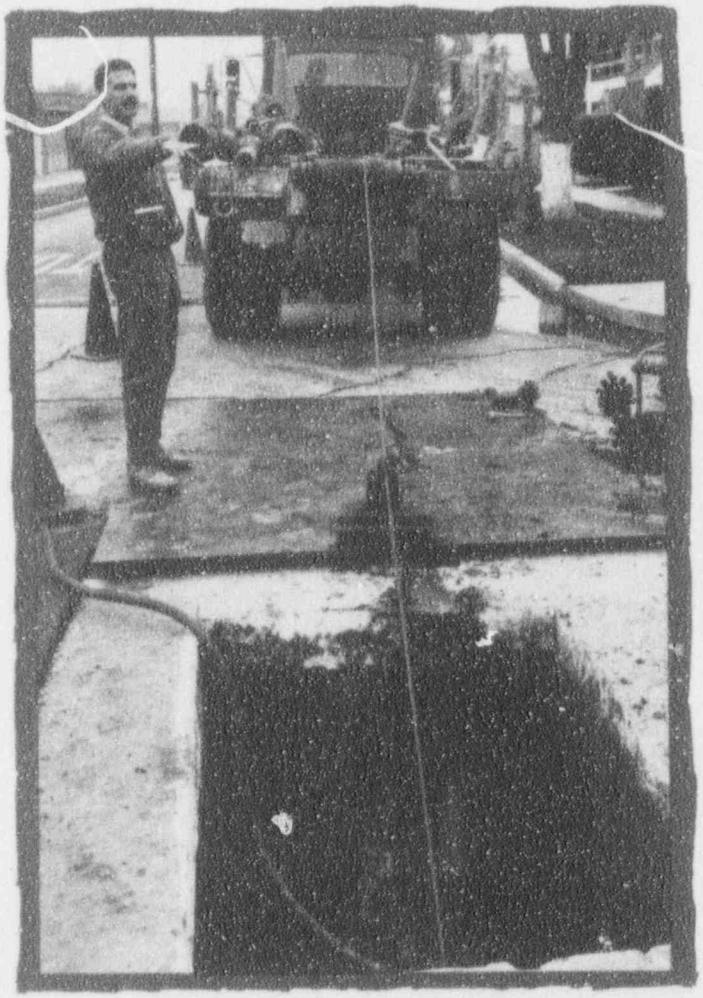
In 1991-92, the Power System sold 21.7 gigawatt-hours (billion kilowatt-hours) of electricity, vs. 21.9 gigawatt-hours in 1990-91, a decline of 0.9 percent. The System's customer base remained substantially unchanged with approximately 1,362,000 at June 30, 1992.

The Department was able to take advantage of the low-interest-rate market last year to conclude two bond refinancings totalling about $223 million that will save DWP rate payers more than $55 million in interest payments over the life of these instruments. Additional refinancings are planned in 1992-93.

Water supply and demand took center stage in Los Angeles again in 1991-92 as the city entered its sixth year of drought. DWP customers cut their water usage over 25 percent from normal consumption after the mandatory provisions of the Emergency Water Conservation Plan were passed by the City Council in March 1991.

At the same time, the Water System continued to invest in long-term programs designed to reduce water usage, such as ultra-low-flush toilet subsidies, and other programs to increase future supplies, such as developing water reclamation options.

But the sharp decline in water sales last year seriously reduced Water System cash flow, causing curtailment of its extensive capital program, extending the System's year-long hiring freeze and prompting an appeal for a rate adjustment. In January 1992, the City Council approved a 3.6 percent adjustment.



Cement-mortar lining extends the life of pipelines at a fraction of the cost of replacement, while improving water quality.

BLUE RIBBON COMMITTEE To develop a rate structure that minimizes future revenue fluctuations while providing for the Water System's long-term capital needs, the Mayor appointed a Blue Ribbon Committee on Water Rates which issued its report at the end of fiscal 1991-92. Among its recommendations, the report called for:

- A rate structure that rewards conservation and sets the marginal cost of water at the true cost of additional supplies (e.g., reclaimed water).
- Easier-to-understand water bills.
- More emphasis by the Water System on long-range planning and improved cost and supply projections.
- Sufficient revenues for needed water quality programs and capital improvements to assure that the Department continues to provide high quality water to all its customers.

Making Every Drop Count, Again and Again

As water becomes an increasingly scarce commodity throughout California, utilities across the state are looking for ways to recycle waste water to stretch supplies.

The DWP is committed to an aggressive water recycling program aimed at beneficially using about 40 percent of the city's waste water for large-scale irrigation projects. By the year 2000, this program will save as much as 10 percent (about 80,000 acre-feet) of the city's potable supply each year.

About 6,000 acre-feet per year of reclaimed water are currently being used to irrigate freeway landscaping and golf courses and for a decorative lake. Plans are completed and work has started to utilize another 1,600 acre feet of reclaimed water per year for the Los Angeles Greenbelt Project near Griffith Park, and 1,200 acre-feet in the Sepulveda Dam Basin in the San Fernando Valley.

Q: Is the drought over?

A: *Not really. Although most areas of Southern California received normal or above-normal precipitation during the last rainy season, our water supply situation remains tight. The Eastern Sierra Nevada mountains, where most of our water normally comes from, only got about 69 percent of normal snowfall last season. While there is enough overall supply to meet this year's needs, because of ongoing conservation, it was the sixth straight year in which precipitation there was below normal, and it will take two or three years of above-normal precipitation to truly "break" the drought.*

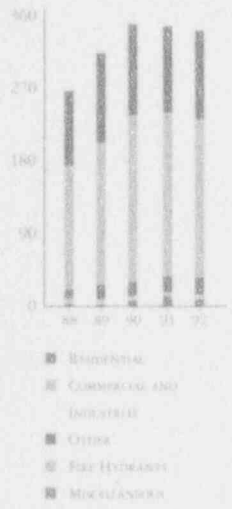
These projects utilize waste water that has been treated at the city's Department of Public Works water reclamation plants. The water, which would otherwise flow unused into the Los Angeles River and ultimately the ocean, is filtered and disinfected with chlorine to make it suitable for these uses. It is then carried to the irrigation site by a dedicated pipeline system.

The Department hopes eventually to use reclaimed water to recharge the groundwater supply in the San Fernando Valley. Since soil serves as a natural filter, the water will percolate through the earth and be blended with groundwater. The blended mixture would be suitable for drinking.

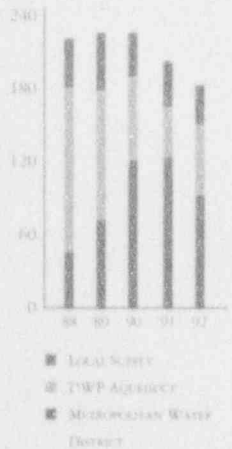
"We're trying to prepare for the future with recycled water that meets all government standards," explains Jerry Gewe, senior engineer of water resource planning.

"Although we're limited by the capital required to build pipelines, we're convinced that water reclamation is a key element in improving the reliability of our future water supply."

OPERATING REVENUES
$ in Millions



WATER SOURCES
In Billions of Gallons



The Board of Water and Power Commissioners has accepted the report, and now will review it to determine how and when to implement its various recommendations.

RECLAMATION PROJECTS With the opening of the Greenbelt Project in the fall of 1992, reclaimed water will become available to several large-turf customers along the Los Angeles River north of Griffith Park. Eventually, Greenbelt customers will receive 1,600 acre-feet per year of recycled water. This is the first in a series of water reclamation projects now under development by the DWP.

Reclaimed water is an important, and largely untapped, resource for easing the city's long-term water needs. Nearly 500,000 acre-feet a year of recoverable and reusable water flows into the ocean each year in Los Angeles. Efforts are underway to reuse this water to displace imported water and supplement potable water supplies.

The DWP plans to increase use of this water for irrigation purposes and for recharging the underground water table. Despite the revenue squeeze from reduced water sales last year, the Water System spent more than $4.2 million for reclamation programs in 1991-92.

Lake Balboa in the San Fernando Valley was filled with reclaimed water for boating and other recreation.

MONO BASIN/OWENS VALLEY Long-standing environmental issues surrounding the DWP's rights to water from the Mono Basin and other Eastern Sierra watersheds moved closer to resolution last

Insuring Water Quality

A critical element to getting the job done — and getting it done right — is to work closely with local communities in finding effective solutions to mutual problems.

Improving water quality is a good case in point. When the Department began looking for the best ways to insure water quality at its ten open urban reservoirs a few years ago, it turned to third-party mediation to make certain that community groups had a voice in the planning process.

"This is the first time a water utility has used mediation to build relations with the communities most affected by its decisions," reports Robert Yoshimura, assistant engineer in charge of the Water Quality Division. "Mediation has allowed us to cut through the barriers that can impede communications about a project, and we're delighted with the results."

The Department and community groups are discussing plans to build filtration plants at or near three open reservoirs: Encino, Stone Canyon and Hollywood. The projects will enable the DWP to comply with a new state rule calling for treatment of water at any surface reservoir lacking the extensive facilities needed to keep storm water from mixing with the water supply.

The plants, to be built at a total cost of around $400 million, will process 60 million gallons of water a day each — about a tenth of the amount handled by the Department's main filtration plant at Sylmar, which filters all Los Angeles Aqueduct water before it reaches the distribution system.

"The community is helping determine the style and exact location of the plants," Yoshimura notes. "Everyone wants the facilities to blend in with the surroundings and be as unobtrusive as possible."

Q: What is the DWP doing to ease the environmental impact of its water operations in places like the Owens Valley?

A: *Since it began importing water from the Owens Valley nearly 80 years ago, the DWP has recognized the importance of protecting the long-term ecological vitality of these areas. In recent years, as we have learned more about the environmental impact of our activities there, we have stepped up our efforts to protect the land, water and wildlife of the region. This means we are limiting our withdrawals of groundwater in drought years, keeping closer tabs on the health of the ecosystem and enhancing recreational use of DWP lands. Our 1990 agreement with Inyo County calls for even more sweeping environmental mitigation efforts in years to come.*

Mediation is also helping the Department come up with workable solutions for dealing with such water quality issues as taste, odor, bacteria and algae, which are common to open reservoirs.

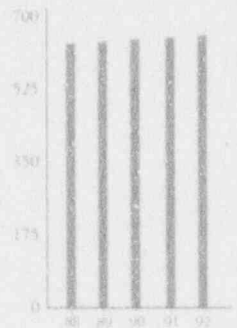
year. The final Environmental Impact Report (EIR) on the Owens Valley groundwater agreement between Los Angeles and Inyo County was released in August 1991, and another EIR is due in mid-1993 to assist the State Water Resources Control Board in developing new rules for Mono Basin water diversions.

The historic Owens Valley agreement includes sweeping environmental mitigation programs by the DWP, such as restoring flows in the lower Owens River, monitoring wildlife and plant populations and providing additional recreational opportunities. It also sets limits on the Department's use of Owens Valley groundwater.

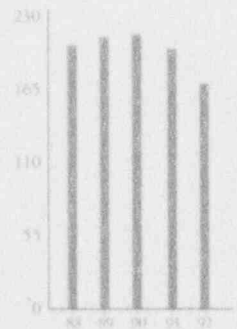
Unfortunately, court actions in 1991-92 cast a cloud over the settlement by permitting third parties, including state agencies and environmental organizations, to challenge the adequacy of the EIR. Final approvals and implementation of the agreement are being held up pending the outcome of these moves.

Mono Basin water diversions, which once represented 15 percent of Los Angeles' water supply, were halted by court order in 1989 until the level of Mono Lake reaches a point considered safe for wildlife. Meanwhile, the State Water Resources Control Board has been ordered to review the city's water diversion licenses and prepare an EIR, which the DWP will underwrite, on what would happen to the local ecosystem under various diversion scenarios.

AVERAGE NUMBER OF CUSTOMERS
In Thousands



GALLONS SOLD
In Billions



WATER QUALITY While the city grapples with problems of supply and demand, government regulatory bodies continue to tighten water quality standards, which will improve the safety and quality of our water supply but will also sharply increase Water System capital costs into the 21st century.

One of the early investments facing the DWP will be several hundred million dollars over the next several years to protect water quality at urban reservoirs. Meeting new state regulations pertaining to surface water treatment is likely to result in building filtration plants for three major reservoirs between 1996 and the year 2000.

In preparation for these improvements, the DWP will continue its successful community mediation efforts to work closely with the community on information sharing and cooperative decision-making. The goal of these efforts is to enable the DWP to meet water quality regulations and the needs of its customers while creating facilities that preserve the aesthetic value of these reservoirs.

In addition, the Water System is continuing its infrastructure improvement program, though capital constraints slowed its pace somewhat last year. The water infrastructure consists of the 7,000 miles of pipes and water mains that serve DWP customers from the north San Fernando Valley to the harbor.

Over time, these facilities have suffered

extensive deterioration from internal corrosion, resulting in leaks and lowered water quality. Last year the Water System was forced to curtail its infrastructure upgrade program by approximately 66 percent because funds ran short. At this rate, the citywide program would not be complete until the year 2025.

Water System Facts in Brief

Year ended June 30	1992	1991
USE OF WATER		
Average Los Angeles population served	3,606,000	3,563,000
Average daily use per capita (gallons)	126.2	144.9
Water sales for fiscal year (billion gallons)	166.6	188.4
Maximum daily demand (million gallons)	659.2	778.2
WATER SUPPLY *(in billions of gallons)*		
Local supply (groundwater)	30.5	29.8
Los Angeles Aqueduct (Owens Valley)	57.5	40.5
Metropolitan Water District (California and Colorado River Aqueducts)	95.1	130.8
Gross supply	183.1	201.1
Diversion from (to) local storage	(1.2)	0.3
Net supply to distribution systems	181.9	201.4

Mild weather and a weak regional economy, combined with improvements in customer energy efficiency, resulted in reduced electrical demand in the city last year for only the second time in 10 years. Sales to DWP customers in 1991-92 were 21.7 billion kilowatt hours, down about 0.9 percent from 21.9 billion kilowatt hours in 1990-91.

Even though electrical use declined in 1991-92, Power System revenues increased by about $17 million.

Revenue gains were offset, however, by the effects of increased operating costs since the Power System's last rate adjustment in 1988. The net result of these economic forces prompted the Water and Power Systems to seek rate increases during the fourth quarter of 1991. In January 1992, the Department received approval from the City Council for a 7 percent revenue increase for the Power System.

The increase is expected to boost power revenues by approximately $130 million in its first full year, and will raise average household electric bills by $2.90 per month. When adjusted for inflation, the average electric bill in Los Angeles today is 4.8 percent lower than it was in 1985.

Belt-tightening measures throughout the Power System last year also helped mitigate the effects of rising costs. A hiring freeze remained in effect throughout 1991-92, and other operating economies, such as deferring capital projects, resulted in an $84-million reduction in capital spending from the approved budget.

About 70,000 residential customers a year participate in the Better Idea Program geared to improving water and energy efficiency.

With the outbreak of civil disturbances in Los Angeles during the spring of 1992, the Power System faced one of its most serious tests in recent years. Electrical equipment such as power poles and transformers were widely damaged, and Power System resources responded quickly to restore power to the affected areas. (Please see page 18).

ENVIRONMENTAL EFFORTS Continuing its efforts

Even though air conditioners gobble up more energy during hot weather, refrigerators are the heaviest year-round users of electricity in the average household, accounting for about 20 percent of the homeowner's electric bill. Now the federal government, the appliance industry and electric utilities like the DWP have teamed up in an effort to curb the energy appetites of the modern "ice box" by encouraging development of "super-efficient" models.

They are also trying to find a substitute for chlorofluorocarbon-based coolants and insulation used in almost all refrigerators today. Chlorofluorocarbons (CFC's) are believed to be causing deterioration of the earth's ozone layer.

Q: What is the DWP doing to clean up the air in Los Angeles?

A: *Starting in the 1960s, we recognized that it would not be feasible from an air quality standpoint to increase our electrical generating capacity in the L.A. Basin to serve our growing population. So we began building our new power plants in remote areas of Utah, Arizona and Nevada, and we began importing power from the Pacific Northwest. We also began to improve the efficiencies of our generating plants in the Basin and to retrofit them with the latest clean-air technology — a process called "repowering." Today, though our local generating stations produce more electricity than ever, they produce less than a fifth of the pollutants they once did. Meanwhile, we continue to seek better ways to reduce the remaining pollution by generating more electricity with renewable, non-polluting resources like solar energy and encouraging customer energy efficiency.*

Federal standards for new refrigerators starting January 1, 1993 will require sharply lower energy use per cubic foot — down to 690 kilowatt hours a year for an 18-cubic foot model, from 955 kilowatt hours at present. Meanwhile, environmental pressures to eliminate CFC use by the year 2000 are increasing.

To encourage appliance makers to accelerate their research into these dual challenges, several utilities pooled their resources last year, and are offering a $30 million reward to the first company to come up with a practical CFC-free refrigerator that beats the 1993 federal conservation standards.

Another refrigerator program that also would help protect the environment while creating jobs is in the planning stage. Cash incentives would be given for recycling spare refrigerators. A refrigerator recycling center would create a new industry and jobs, especially in the inner city.

The program would help protect the environment by recycling useable materials and saving landfill space. It would also help to save natural resources and protect air quality by allowing DWP to meet energy demand by reducing electric load rather than building costly, polluting power facilities.

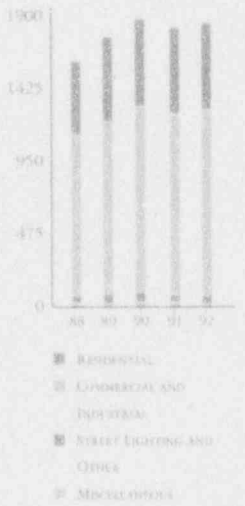
toward improving environmental quality in areas where it operates, the DWP entered into an agreement with the Bonneville Power Administration (BPA) that will reduce air pollutants in Los Angeles during smog-prone summer months.

The agreement calls for BPA to supply 200 megawatts of on-peak power to the Department from May through August. A similar amount of power is then returned to BPA during off-peak hours during winter months, when heating demands are greater in that region. The exchange thus takes advantage of seasonal differences between Southern California and the Pacific Northwest.

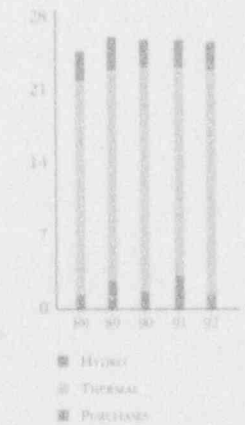
Energy efficiency remains a high priority for the Power System in meeting the energy needs of the Department's electric customers. Through its Customer Energy Efficiency (CEE) programs, the Department plans to offset the need to add approximately 500 megawatts of new generation during the next decade. Spending for energy efficiency programs in fiscal 1991-92 was around $20 million, with $40 million budgeted for fiscal 1992-93.

FUTURE DEMAND Power demand in Los Angeles is expected to grow at an annual rate of around 2 percent through the year 2011, with CEE programs anticipated to meet approximately 45 percent of the increase through greater efficiencies across the customer base.

OPERATING REVENUES
$ in Millions



ENERGY PRODUCTION
Kwh in Billions



The DWP estimates that renewable resources such as its solar and geothermal projects will fill another 30 percent of future demand increases. This means fuels such as nuclear, coal, oil and natural gas could provide a significantly lower share of the city's electrical generating capacity in 20 years.

PROJECTED SAVINGS IN POWER NEEDS FROM CUSTOMER ENERGY EFFICIENCY PROGRAMS

Year	Peak w/out CEE*	CEE Savings*	PEAK w/CEE*
1997	6,005	-290	5,715
2002	6,517	-537	5,980
2007	7,011	-696	6,315
2011	7,405	-720	6,685

**In megawatts*

CUSTOMER ENERGY EFFICIENCY PROGRAMS CEE represents the Power System's primary effort to reduce future customer demand over the remainder of this century. An aggressive and an expanded CEE effort was instituted at the beginning of 1991, including the development of several new programs:

- *A Better Idea.* Provides residential customers with compact fluorescent lights to replace incandescent bulbs, cleaning accessible refrigerator coils and installing water-saving devices. In addition, energy and water efficiency information is made available.
- *Energy Management Partnership.* Encourages higher energy efficiencies in large commercial and industrial buildings that are being remodeled or renovated, through financial incen-

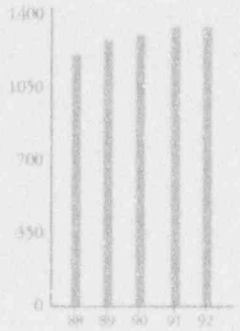
tives, technical and operational assistance, energy surveys and energy accounting.

- *Commercial New Construction.* Provides financial, technical and other incentives to encourage installation of "better-than-code" energy-efficient equipment and building practices in non-residential new construction.
- *Energy Marketing/Information.* Spreads the word to all customer classes about opportunities to participate in various energy efficiency programs sponsored by utilities, equipment manufacturers or governmental agencies.

CEE programs under development or about to be launched in fiscal 1992-93 include:

- *Residential New Construction.* Encourages construction of "better-than-code" energy efficient new housing, through financial or technical and other incentives to builders/owners.
- *Second Refrigerator Recycling.* This program would encourage residential customers to dispose of older, inefficient (but operating) second refrigerators. The DWP would engage a qualified contractor to establish an environmentally sound, cost-effective disposal arrangement for the old appliances.
- *Super-Efficient Refrigerators.* By providing incentives to manufacturers to "leap-frog" into advanced technologies, the Department and other agencies would accelerate the arrival of highly efficient refrigerators and freezers using coolants that don't harm the earth's ozone layer.
- *Small/Medium Commercial Incentives.* Provides financial and other incentives to small and medium-size commercial customers who install energy-efficient lighting, heating, air conditioning and building envelope improvements.

AVERAGE NUMBER OF CUSTOMERS
In Thousands



KILOWATT HOURS SOLD
In Billions

SUPPLY SIDE PROGRAM. Meanwhile, the Power System's supply-side program, to provide around 850 megawatts in new capacity that is expected to be needed by the year 2011, moved ahead in 1991-92. Highlights of these programs include:

- *Repowering L.A. Basin Generating Units.* This program involves upgrading existing DWP generating stations to make them more efficient and less polluting. The $170 million Harbor Repowering Project, first in the program, is due to be complete by the end of 1993. The Power System is currently investigating other repowering scenarios.
- *Coso Geothermal Project.* The DWP's first geothermal generation facility, on property 150 miles north of Los Angeles, is expected to begin production in 1995. The Coso project is expected to generate 150 megawatts of power when all phases are completed early in the next century.
- *Solar Central Receivers.* The Depart-

Days and Nights of Crisis

The civil disturbances that rocked Los Angeles last spring sent special shockwaves through the Department of Water and Power. During the three days of violence, nearly 100,000 calls — about four times normal — flooded the DWP's phone lines, triggering one of the most massive responses in the Department's history.

Since the disturbances, the DWP has instituted new programs to address some of the social problems those events underscored, including more community outreach, new affirmative action initiatives and steps to encourage business development in the area.

By the time the unrest was over on May 3, 1992, more than 51,000 customers had been without power because of partial or complete disruptions due to fire and other forms of vandalism to power poles, lines and transformers on hundreds of circuits.

Despite the widespread damage and by working 12-hour shifts around the clock, DWP crews had power totally restored to all areas by the fourth day after the disturbances broke out. This was accomplished despite repeated threats and violence directed toward the workers.

For a time, at the height of the violence, the DWP was unable to reach many of the trouble spots because of unruly crowds. Even with police escorts, the Power System crews were often forced to run a gauntlet of rocks and bottles thrown at their vehicles when they tried to enter the area.

The final damage to the DWP included 12 power lines knocked out, 44 circuits shut down, 159 power poles destroyed, and the DWP Central Avenue Branch Office destroyed by fire (with a temporary replacement in operation within two weeks). Nearly 46 million gallons of water was used to fight fires. In all, damages to DWP facilities and equipment were estimated at $14 million.

Q: Is my electric bill going to increase over the next few years?

A: *Electric rates in Los Angeles have been among the lowest of any major urban area of the United States, and will probably continue that way for the foreseeable future. This doesn't mean, however, that rates will never go up. Even though we are working hard to stay "lean," by improving productivity and postponing capital spending, it would not be prudent to neglect necessary maintenance and improvements that keep our system up-to-date and efficient. Since 1985, we have been able to keep our rate increases at or below inflation, and we hope to continue doing that throughout the 1990s.*

Recognizing its special role as an employer and provider of critical services, the DWP has increased its involvement in the affected community through greater outreach efforts with area schools and community groups. It has also joined the Rebuild L.A. effort, which aims at creating 50,000 new jobs in the area over the next five years, and has made its services more accessible to residential and commercial customers there.

The civil unrest of 1992 brought many of the community's underlying problems into sharper focus, and served as a reminder to the Department of Water and Power that planning and preparation are invaluable tools in time of crisis. Planning and a committed work force were the ingredients for a fast, effective response to restoring services under such adverse conditions.

ment is participating in the Solar Two demonstration project designed to show the feasibility of molten salt technology for storing heat to generate electricity. In this process, nitrate salts are melted with solar mirrors (heliostats), and the molten material is stored in tanks, retaining most of its heat for later use. Commercial use of this process could be possible by the year 2000.

- *Fuel Cells.* Along with several partners, the DWP is exploring the use of fuel cells for large-scale power generation. A two-megawatt demonstration carbonate fuel cell now under development is expected to be operational by 1995.

ELECTRIC TRANSPORTATION. The Power System's efforts toward encouraging the use of electric vehicles is being focused on developing the appropriate infrastructure to support the emerging electrical vehicle industry. Electric vehicles are seen by many as environmentally preferable to increasing the gasoline-powered fleet in the Los Angeles Basin as population increases in the next 20 years.

The Power System's 1991 Loads and Resources study reviews five different scenarios for electric vehicle usage in the Los Angeles Basin by the year 2011. The most optimistic of these assumes compliance with the California Air Resources Board requirement that 20 percent (or about 480,000) of the vehicles on the road in the DWP service area would be electric. The least optimistic projection assumes only 62,000 vehicles in the electric fleet by then.

All the scenarios would impose new requirements on the DWP, from meeting new demand peaks to assisting with development of new building regulations providing for recharging access. Changes in the rate structure to provide incentives for electric vehicle ownership would also be desirable.

Power System Facts in Brief

Year ended June 30	1992	1991
NUMBER OF CUSTOMERS		
Residential	1,169,000	1,165,800
Commercial	172,700	173,700
Industrial	18,300	18,900
All others	2,800	2,800
Total customers of all classes	1,362,800	1,361,200
POWER USE		
Sales to ultimate customers – kilowatt (kW) hours	21,551,713,000	21,659,758,000
Sales to other utilities – kW hours	145,311,000	210,592,000
Average annual kW hours per residential customer	5,083	5,166
Net dependable capacity, kilowatts	7,252,000	7,263,000

CUSTOMER SERVICE Building a customer-driven culture in an organization as large as the Department of Water and Power is not an overnight task, but important headway was achieved in 1991-92. For the first time in the Department's history, an executive-level manager is now giving this challenge his full-time and undivided attention.

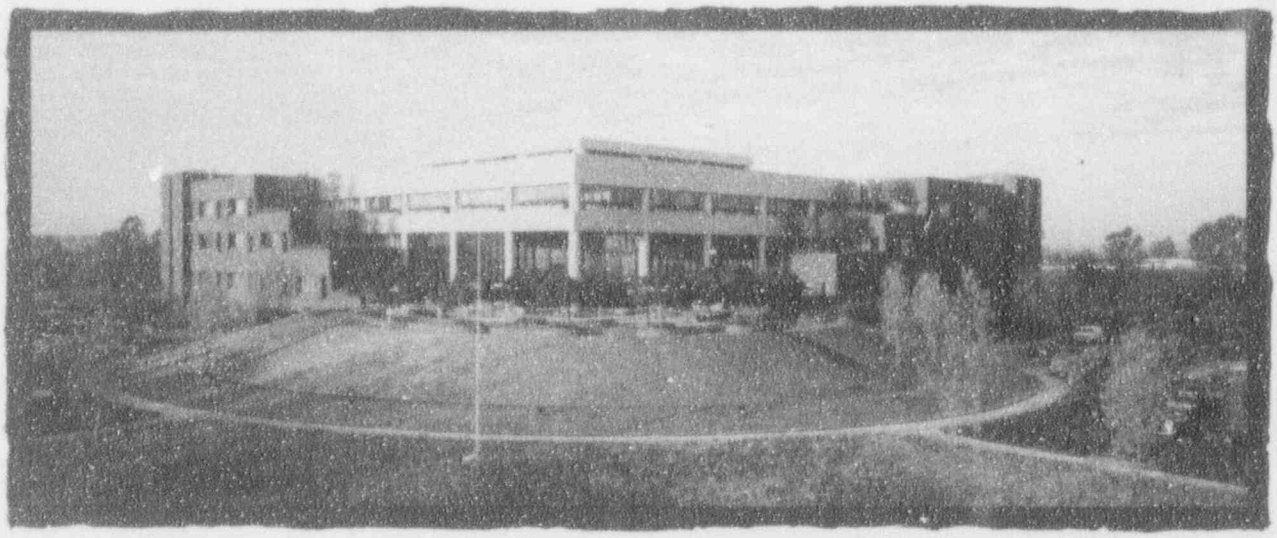
What is a customer-driven culture?

It takes many forms, says Robert W. Carr, the DWP's new Executive Director of the Customer Services Organization, and all of them must be nurtured and encouraged. It can be something as simple as returning a phone call or as complicated as helping a customer save thousands of dollars through better water and energy management.

"Our job is to get everybody thinking about satisfying our customers, whoever they are," says Carr, a 29-year veteran of the DWP. "We need to have people understand that customer satisfaction drives everything we do in this business."

In recent years, increased competition in the utilities industry has made it easier for major customers to "shop" their utility services. The trend seems likely to continue, and could soon give smaller customers the same option — putting greater emphasis on the need to keep our utility customers satisfied.

Last year, in a sweeping reorganization of the DWP, the customer service portfolio was lifted up to the top of the organization chart, where it has equal visibility and credibility with other systems. Now it's up to Carr to use this access to build teamwork with his fellow DWP executives.



A model of water and energy efficiency, the new Anthony Office Building houses 1,300 employees working in many divisions.

The Department's current state of readiness for a customer-driven culture will be sized up. A review of customer surveys to identify the strengths and weaknesses of the system then will

A Better Way of Doing Business

The DWP continues its long-term commitment to improving service and productivity throughout its operation. These objectives are being given added emphasis and scrutiny as the Department pursues better ways of doing business.

As part of this process, traditional employee-management relationships are being redefined, and extensive training is underway to aid managers and staff in sharing responsibilities. Here's how the old system compares with the better way.

Top Management	*New Directions*
"Top-down" control	Mutual trust; consensus decision-making
Pyramid chain of command	Shared vision, responsibility; consistent and broad flow of communications
Turf barriers	Teamwork; cross-system and cross-division access
Internally driven decisions	Customer-driven considerations
Vaguely defined quality objectives and responsibilities	Goal-setting with measurement systems and accountability for results
Program directed	Process directed
Change process slow and complicated	Low-cost innovation, ongoing improvements

be conducted. DWP will also be looking at what other utilities are doing to build customer service.

"We know from our surveys that our customers are pleased with our people and their courteousness," Carr says. "What we need to work on is our responsiveness — how long it takes us to meet the customer's needs."

Over the long run, Carr will oversee development of a plan to build an internal customer service culture that combines historical strengths with improvement strategies. He knows the going will not always be easy, but is encouraged that most DWP employees give customer service a high priority.

"There's still a gap between customer service as a priority and a genuine, deep-down commitment to the cause," he says. "Closing that gap is what we're all about."

People: Making the Difference The individual employee has become the cornerstone of Department efforts to promote productivity and achieve higher levels of customer satisfaction in a difficult operating environment. Two concepts that recognize the critical part individuals play in the Department's performance — employee empowerment and the need to balance work and family issues — were given special attention during the year.

The Key to Employee Involvement A DWP study group — comprised of major division heads and representatives of three major employee unions — recommended implementation of a far-reaching plan to involve employees more fully in quality improvement processes.

Such processes, aimed at strengthening service and furthering employee productivity, will be phased in over time under the direction of a steering team. The processes are designed to build a climate of teamwork and trust in which employees share in goal-setting and decision-making.

As part of this effort, senior management will be asked to articulate the Department's long-term vision of quality improvement and to guide staff in assuming greater responsibility for cost and for quality improvement. Extensive training at all levels will ease the transition to a better way of doing business that promises to sharpen the Department's competitive edge as it enters the 21st century.

A Delicate Balance Aware that family issues often interfere with workplace considerations and performance, the DWP gave increased emphasis to helping employees balance the demands of both.

During the civil disturbances last spring, for example, two of the Department's three child care centers were forced to shut down. One center, however, remained open extra hours and accommodated additional youngsters to assist parents who would be otherwise unable to report for work.

The Department's trauma response team, part of its Employee Assistance Program, swung into full tilt as specially trained peer counselors met with employees and their families to help them cope with the psychological effects of the unrest. Team members also assisted employees of other city departments.

Keeping Pace with Change Diversity in the workplace remained a primary concern during the year. Due to a cost-saving hiring freeze, there was little change in the composition of the Department's work force. More than half (51.7 percent) of the DWP's 11,000 employees are minority, and nearly a fourth (23.2 percent) are female.

The Department stepped up efforts last year to identify and eliminate barriers to the advancement of minorities and women. Training opportunities for women, for instance, were offered in the various craft occupations within the Department.

Reflecting the trend toward "telecommuting" — working from a remote location via FAX, computer modem and telephone — the DWP launched a

Q: What are you doing to make things better for your customers?

A: *The DWP has put customer satisfaction at the top of its agenda in recent years. Over the years we've interviewed hundreds of customers to learn what's on their minds and how they'd like us to change. As a result, we've taken many steps to strengthen our customer service area. We're trying to make bill payment easier, for example, by adding new payment centers throughout the city. We are looking into opportunities to create joint utility customer centers with other agencies. Our meter readers and customer service personnel are better trained to provide accurate and useful information on such topics as water and energy conservation. We have started a Major Accounts Group that works with large customers to help them solve problems and save money. And last year we named an executive-level customer service manager with broad authority to bring changes that will make us even more responsive. Our commitment to this area will continue to grow.*

To Your Health

One of the surest ways to cut business costs and spur productivity today is to develop a healthier work force, and the DWP's ambitious wellness program is designed to do exactly that.

During the year, the Department and its health insurance carriers joined forces to sponsor a series of health promotion fairs to help employees and their families stay well through better nutrition, exercise and preventive care. The Department also provided on-site blood, cholesterol and hearing tests, as well as mammography testing for female employees.

Recognizing the heavy toll that smoking takes on health and its budget, the DWP moved closer to establishing a smoke-free workplace, offering employees financial incentives, classes and the nicotine "patch" to help them kick the habit.

"With health care costs for our employees and retirees running over $61 million a year, it's like money in the bank for us to help them stay well," notes Beverly King, director of Human Resources. "A healthier work force with healthier families also means lower absenteeism and higher productivity."

pilot program in which 24 employees now work at home or satellite locations two days a week, delivering their work product electronically.

This use of computer technology not only saves participants the cost and strain of commuting, but helps reduce traffic and air pollution in the community.

Financial. Last year's steady decline in interest rates permitted the DWP to save several million dollars through refinancing part of its outstanding debt. The process is similar to refinancing a home mortgage, paying off old, higher-interest loans with money borrowed at more favorable rates.

In a single day last year, the DWP completed a refinancing of some $223 million in bonds — $63 million for the Water System and $160 million for Power — that will result in interest savings of some $56 million over the next 36 years. The DWP borrows these funds to partially finance its capital program.

The debt-refinancing effort will continue into 1992-93, and is expected to result in further significant debt service savings. In one offering in July 1992, the DWP was able to obtain its lowest interest rate in nearly 14 years — 6.114 percent per annum.

Despite the decline in Water System revenues last year, the overall financial position of the DWP remains strong, with the bond rating at the highest levels in the municipal utility field.

In June 1992, the Department named a new permanent Chief Financial Officer, Phyllis E. Currie, replacing Norman J. Powers, who retired the previous July. William G. Williams served as interim Chief Financial Officer during most of 1991-92.

Putting Energy Efficiency into Practice

When the DWP in 1988 began planning a new office building to ease overcrowding at its downtown headquarters, it used the opportunity to put into practice some of the energy efficiency techniques it urges its customers to adopt.

The newly completed DWP James H. Anthony Office Building in Sun Valley (named after the DWP engineer who was the major force behind the Intermountain Generating Station in Utah) features the latest technology in energy efficiency, as well as drought-resistant plants and other water saving devices.

A state-of-the-art thermal energy storage system, for example, allows the 315,000-square-foot building to run high-efficiency chillers during evening off-peak hours, when electricity is cheaper. During daytime on-peak hours, this chilled water is pumped through the building's heating, ventilating and air conditioning system to cool offices and equipment, including temperature-sensitive computers.

The four-story facility also makes use of "daylighting" — an energy-saving practice in which computer-assisted sensors measure the amount of ambient light and adjust artificial lighting accordingly, thus taking maximum advantage of natural light and saving appreciably on electrical use.

To minimize outdoor water use, the facility has been landscaped with such drought-resistant plants as lilies of the Nile, star jasmine, Japanese honeysuckle and more than 4,000 escallonias, which give the appearance of desert wildflower growth. Indoors, all rest rooms are equipped with ultra low-flush toilets and other water-saving fixtures.

Located on a 35.5-acre parcel of city-owned land, the building houses a modern water-quality lab and computer facilities, as well as office space for some 1,300 employees in Customer Service, Finance and Accounting, Commercial, Human Resources, Management Information Systems and Water Quality divisions, and the Telecommunications unit of the Power System Services division.

Architecturally compatible with surrounding structures, the Anthony Office Building has received an award for design excellence from the Los Angeles Cultural Affairs Commission.

Operations for fiscal year 1991-92 resulted in a 0.9 percent decrease in consumption of electric energy and a decrease of 11.6 percent in water consumption due to conservation.

Combined operating revenues for the Department's Water and Power Systems totaled approximately $2.2 billion, an increase of $12 million over the previous fiscal year.

The operating revenue of the Water System decreased from 1990-91 to a total of $342 million. Net income amounted to $52 million, or 29 percent above the previous fiscal year.

A total of $176 million was spent by the Water System on capital construction, most of which went toward the improvement of the water distribution and supply system, as well as water quality programs.

Increases in Power System operating and debt expenses reduced net income to $74 million, down 23 percent from the previous fiscal year.

The Power System invested $463 million in capital construction for the year. Major expenditures were additions and modifications to the electrical distribution, generation and transmission facilities.

Total assets of the Department at June 30, 1992, were approximately $6.8 billion, of which $5.1 billion relates to the Power System.

FINANCING ACTIVITIES During the year, the Power System sold two issues of revenue bonds in the amounts of $150 million each at average interest rates of 6.7 percent. The Water System sold two issues of revenue bonds in the amounts of $100 and $50 million at average interest rates of 6.6 percent. Outstanding bonds and revenue certificates at June 30, 1992 totaled $2.48 billion for the Power System and $580 million for the Water System. Both Systems met their maturing payments on bonds.

COSTS AND TRANSFERS In accordance with its basic fiscal policy, the Department pays all costs of operation, debt service and part of the cost of capital improvements from current revenues. The remainder of the cost of capital improvements is met through sales of revenue bonds or notes and from contributions in aid of construction.

Besides meeting all costs of operation from current revenues, the Department paid $108 million into the reserve fund of the City in support of general City government. More than 83 percent of that amount came from the Power Revenue Fund.

Operations of the Water and Power Systems are entirely self-supporting and no financial obligation or tax burden is placed on the citizens of Los Angeles.

WATER SYSTEM
STATEMENT OF INCOME

(In Thousands) Year ended June 30	1992	1991	1990
Operating Revenues			
Residential	$ 122,121	$ 119,156	$ 125,470
Commercial and industrial	183,331	189,518	191,236
Other	36,798	39,025	31,450
Total operating revenues	342,250	347,699	348,156
Operating Expenses			
Purchased water	49,607	69,911	71,814
Purchased energy	10,158	10,501	12,962
Other operating expenses	135,129	128,277	105,725
Maintenance	39,196	43,485	39,849
Depreciation	41,806	37,972	35,270
Total operating expenses	275,896	290,146	265,620
Operating Income	66,354	57,553	82,536
Other Income and Expenses, Net	5,635	8,281	6,428
Gain on Sale of Land to Power System	10,600	—	—
Income before debt expenses	82,589	65,834	88,964
Debt Expenses			
Interest on debt	37,325	29,098	28,578
Allowance for funds used during construction	(6,290)	(3,258)	(2,196)
Total debt expenses	31,035	25,840	26,382
Net Income	$ 51,554	$ 39,994	$ 62,582

STATEMENT OF RETAINED INCOME REINVESTED IN THE BUSINESS

(In Thousands) Year ended June 30	1992	1991	1990
Balance at beginning of year	$ 564,135	$ 541,549	$ 493,979
Net income for the year	51,554	39,994	62,582
	615,689	581,543	556,561
Less - Payments to the reserve fund of the City	17,385	17,408	15,012
Balance at end of year	$ 598,304	$ 564,135	$ 541,549

The accompanying notes are an integral part of these financial statements.

WATER SYSTEM BALANCE SHEET

(In Thousands)	June 30	1992	1991
ASSETS			
Utility Plant, at original cost			
Source of water supply		$ 255,301	$ 247,247
Pumping		73,931	59,927
Purification		157,245	149,422
Distribution		1,412,038	1,295,076
General		195,479	145,751
		2,093,994	1,897,423
Less - Accumulated depreciation		658,876	616,501
		1,435,118	1,280,922
Construction work in progress		131,229	145,159
Net utility plant		1,566,347	1,426,081
Current Assets			
Cash and investments		63,527	58,404
Customer and other accounts receivable, less $6,200 and $600 allowance for losses		50,897	47,032
Due from Power System		14,200	—
Accrued unbilled revenue		23,213	32,734
Materials and supplies, at average cost		14,772	19,318
Prepayments and other current assets		29,085	9,764
Total current assets		195,694	167,252
Total utility plant and assets		$ 1,762,041	$ 1,593,333
CAPITALIZATION AND LIABILITIES			
Capitalization			
Equity			
Retained income reinvested in the business		$ 598,304	$ 564,135
Contributions in aid of construction		446,526	427,096
		1,044,830	991,231
Long-term debt		566,806	430,313
Total capitalization		1,611,636	1,421,544
Current Liabilities			
Long-term debt due within one year		12,560	12,360
Accrued interest		11,613	9,401
Accounts payable and accrued expenses		70,668	79,321
Over-recovered purchased water and energy costs		12,681	27,716
Customer deposits		42,883	42,991
Total current liabilities		150,405	171,789
Commitments and Contingencies			
Total capitalization and liabilities		$ 1,762,041	$ 1,593,333

The accompanying notes are an integral part of these financial statements.

WATER SYSTEM STATEMENT OF CASH FLOWS

(In Thousands) Year ended June 30	1992	1991	1990
Cash Flows From Operating Activities:			
Net income	$ 51,554	$ 39,994	$ 62,582
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	41,806	37,972	35,270
Allowance for funds used during construction	(6,290)	(3,258)	(2,196)
Provision for losses on customer and other accounts receivable	7,870	1,802	1,496
Changes in current assets and liabilities:			
Customer and other accounts receivable	(11,735)	(7,422)	(10,621)
Due from/to Power System	(14,200)	16,972	4,907
Accrued unbilled revenue	9,521	(2,736)	(3,791)
Materials and supplies	4,546	941	(4,147)
Prepayments and other current assets	(19,321)	(190)	1,965
Accrued interest	2,212	1,131	(1,162)
Accounts payable and accrued expenses	(8,653)	(4,180)	29
Over-recovered purchased water and energy costs	(15,035)	19,323	11,242
Customer deposits	(108)	2,837	1,512
Net cash provided by operating activities	42,167	103,186	97,086
Cash Flows From Financing Activities:			
Sale of revenue bonds	148,540	74,254	—
Sale of advance refunding bonds	62,535	—	36,598
Contributions in aid of construction	19,430	16,718	33,779
Reduction of long-term debt	(11,847)	(11,518)	(19,967)
Amount deposited in escrow accounts and offset against advance refunding bonds	(62,535)	—	(36,598)
Payments to the reserve fund of the City	(17,385)	(17,408)	(15,012)
Net cash provided by (used in) financing activities	138,738	62,046	(1,200)
Cash Flows From Investing Activities:			
Additions to plant and equipment, net	(175,782)	(178,706)	(113,099)
Cash and investments:			
Net increase (decrease)	5,123	(13,474)	(17,213)
Beginning of year	58,404	71,878	89,091
End of year	$ 63,527	$ 58,404	$ 71,878
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$ 34,791	$ 36,880	$ 36,799

The accompanying notes are an integral part of these financial statements.

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Department — The Department of Water and Power of the City of Los Angeles exists under and by virtue of the City Charter enacted in 1925 as a separate proprietary agency of the City. The Water System is responsible for the quality and distribution of water for sale in the City.

Utility plant — The costs of additions to utility plant and replacements of retired units of property are capitalized. Costs include labor, materials and allocated indirect charges such as engineering, supervision, transportation and construction equipment, retirement plan contributions, and certain administrative and general expenses. The costs of repairs and minor replacements are charged to appropriate maintenance accounts. The original cost of property retired, plus removal cost, less salvage, is charged to accumulated depreciation.

Depreciation — Depreciation expense is computed by the straight-line method based on estimated service lives. Estimated service lives range from 10 to 50 years. Depreciation provision as a percentage of average depreciable util ty plant in service was 2.6%, 2.5% and 2.5% for fiscal years 1992, 1991 and 1990, respectively.

Cash and investments — The Department's cash is deposited with the City Treasurer who invests the funds in securities under the City Treasurer's pooled investment program. Under the program, available funds of the City and its independent operating departments are invested on a combined basis. These investments are valued at cost, which approximates market. At June 30, 1992 and 1991, cash and investments include $9 and $6 million, respectively, of restricted balances relating to bond redemption and interest funds and self-insurance fund. The Department considers all cash investments with a maturity of three months or less to be cash equivalents.

Contributions in aid of construction — Under the provisions of the City Charter, amounts received from customers and others for constructing utility plant are combined with retained income reinvested in the business to represent equity for purposes of computing the Water System's borrowing limits. Accordingly, contributions in aid of construction are shown in the accompanying balance sheet as an equity account and are not offset against utility plant.

Revenues — Revenues consist of billings to customers for water consumption and include amounts resulting from a purchased water and energy cost adjustment formula designed to permit the full recovery of purchased water, energy costs, and certain demand-side management and water reclamation expenditures. The Department projects these costs to establish the cost recovery component of customer billings and any difference between billed and actual costs, resulting in over- or under-recovery of these costs, is adjusted in subsequent billings.

The Water System recognizes purchased water and energy costs in the period incurred and accrues for estimated water sold but not yet billed.

The Water System's rates are established by a rate ordinance which is approved by the City Council. The Water System sells water to other Departments of the City at rates provided in the ordinance.

Debt expenses — Debt premium, discount and issue expenses are deferred and amortized to expense over the lives of the related issues.

Allowance for funds used during construction (AFUDC) — AFUDC represents the cost of borrowed funds used for the construction of utility plant. Capitalized AFUDC is shown as part of the cost of utility plant and as a reduction of debt expenses. The average AFUDC rates were 7.2%, 7.5% and 7.8% for fiscal years 1992, 1991 and 1990, respectively.

Reclassification — Certain financial statement items for fiscal years 1991 and 1990 have been reclassified to conform to the 1992 presentation.

NOTE B — LONG-TERM DEBT

Long-term debt outstanding at June 30, 1992, consisted of revenue bonds due serially in varying annual amounts through 2032. Interest rates, which vary among individual maturities, averaged approximately 6.8% and 7.1% at June 30, 1992 and 1991, respectively. The revenue bonds generally are callable ten years after issuance. Scheduled annual principal maturities during the five years succeeding June 30, 1992 are $13, $13, $13, $13 and $14 million, respectively. Revenue bonds are secured by the future revenues of the Water System. The Department has agreed to certain covenants with respect to bonded indebtedness, including the requirement that the Water System's net income, as defined, will be sufficient to pay certain amounts of future annual bond interest and of future annual aggregate bond interest and principal maturities.

In fiscal year 1992, the Water System sold advance refunding bonds totaling $63 million, which decreased its aggregate debt service payments by $14 million over the next 36 years and resulted in an economic gain (difference between the present value of the old and new debt service payments) of $5 million. The Water System also sold advance refunding bonds in prior years. The proceeds of the advance refunding bonds were placed in irrevocable trusts and will be used to redeem bonds currently included within long-term debt at scheduled call dates. Until the bonds to be refunded are called, interest on the advance refunding bonds is payable from interest earned on securities of the United States government purchased out of the proceeds of the sales and held in bank escrow accounts. At June 30, 1992, $167 million of these escrow accounts have been offset against the advance refunding bonds in the accompanying balance sheet. After the monies in the escrow accounts are applied to redeem bonds to be called, principally through 1998, interest on the advance refunding bonds will be payable from Water System revenues.

The Water System's long-term debt consisted of the following (amounts in millions):

Fiscal Years Maturing	Interest Rates	June 30, 1992	June 30, 1991
1992	2.1% – 12.6%	$ —	$ 12
1993 – 1997	2.7% – 9.6%	66	66
1998 – 2002	4.1% – 7.8%	78	67
2003 – 2007	5.1% – 7.8%	87	70
2008 – 2012	5.1% – 7.8%	97	74
2013 – 2017	5.2% – 7.8%	90	65
2018 – 2022	6.4% – 7.8%	76	51
2023 – 2027	6.4% – 7.8%	57	31
2028 – 2032	6.4% – 7.8%	37	13
Total principal amount		588	449
Unamortized premium and discount		(8)	(7)
Long-term debt due within one year		(13)	(12)
Total long-term debt		$ 567	$ 430

NOTE C — SHARED OPERATING EXPENSES

The Water System shares certain administrative functions with the Department's Power System. Generally, the costs of these functions are allocated on the basis of benefits provided to the Systems.

Operating expenses shared with the Power System were $295, $295 and $275 million for fiscal years 1992, 1991 and 1990, respectively, of which $89, $95 and $89 million were allocated to the Water System.

NOTE D — GAIN ON SALE OF LAND TO POWER SYSTEM

In fiscal year 1992, the Water System realized a gain of $10.6 million on sale of land when it charged the Power System for its share of the estimated fair market value of the land used in building a joint office facility.

NOTE E — EMPLOYEE BENEFITS

Retirement, disability and death benefit insurance plan — The Department has a funded contributory retirement, disability and death benefit insurance plan covering substantially all of its employees. Plan benefits are generally based on years of service, age at retirement and the employees' highest 12 consecutive months of salary before retirement. The Department funds the retirement plan on an entry age normal method as determined by the plan's independent actuary. For funding purposes, prior service costs relating to the plan are amortized generally over a 30-year period ending June 30, 2003. Total fiscal year benefit plan costs for the Water System include the following (amounts in millions):

	1992	1991	1990
Service cost	$ 12	$ 12	$ 12
Interest cost	51	47	40
Actual return on plan assets	(62)	(42)	(41)
Net amortization and deferral	28	11	14
Net retirement plan cost	29	28	25
Disability and death benefit plan costs and administrative expenses	5	5	5
Total benefit plan costs	$ 34	$ 33	$ 30

Employee contributions to the plan totaled $5, $4 and $4 million during 1992, 1991 and 1990, respectively. Total covered payroll during 1992, 1991 and 1990 was $120, $115 and $110 million, respectively.

The following schedule reconciles the funded status of the plan with amounts reported in the financial statements (amounts in millions):

	June 30, 1992	June 30, 1991
Actuarial present value of benefit obligations:		
Vested benefits	$ 609	$ 531
Non-vested benefits	1	1
Accumulated benefit obligation	610	532
Effect of projected future compensation level	120	99
Projected benefit obligation	730	631
Plan assets at fair value	597	520
Projected benefit obligation in excess of plan assets	133	111
Unrecognized prior service cost	(8)	—
Unrecognized net gain and effects of changes in assumptions	(39)	(13)
Unrecognized net obligation at July 1, 1987 being recognized over 15 years	(72)	(80)
Accrued pension liability	$ 14	$ 18

The discount rate used in determining the plan's projected benefit obligation was 7.25% and 8.0% in 1992 and 1991, respectively. The assumed rate of increase in future compensation levels was 6.0% in both 1992 and 1991. The long-term rate of return on plan assets was 8.0% in both 1992 and 1991. Plan assets consist primarily of corporate and government bonds, common stocks, mortgage-backed securities and short-term investments.

Health care costs — The Department provides certain health care benefits to active employees. The cost to the Water System of providing such benefits to active employees amounted to $11, $9 and $8 million for fiscal years 1992, 1991 and 1990, respectively. In addition, health care and life insurance are provided as postretirement benefits to retired employees and their dependents. The cost to the Water System of providing such benefits to retired employees amounted to $4, $3 and $3 million for fiscal years 1992, 1991 and 1990, respectively. The costs of providing these benefits are accounted for on the pay-as-you-go-method.

In December 1990, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The new statement requires systematic recognition of the costs of postretirement benefits over employees' service periods. The Department is required to implement this statement no later than fiscal year 1994 and does not expect adoption to have a material effect on results of operations.

NOTE F — COMMITMENTS AND CONTINGENCIES

Payments to the reserve fund of the City — Under the provisions of the City Charter, the Water System transfers funds at its discretion to the reserve fund of the City. The transfers may not be in excess of net income of the prior fiscal year. Such payments are not in lieu of taxes and are recorded as distributions of retained income. The Department expects to make payments of approximately $17 million in fiscal year 1993 from the Water System to the reserve fund of the City.

Litigation — A number of claims and suits are pending against the Department for alleged damages to persons and property and for other alleged liabilities arising out of its operations. In the opinion of management, any ultimate liability which may arise from these actions will not materially affect the Water System's financial position as of June 30, 1992.

REPORT OF INDEPENDENT ACCOUNTANTS

September 11, 1992

To the Board of Water and Power Commissioners
Department of Water and Power
City of Los Angeles

In our opinion, the accompanying balance sheet and the related statements of income, retained income reinvested in the business and of cash flows present fairly, in all material respects, the financial position of the Water System of the Department of Water and Power of the City of Los Angeles at June 30, 1992 and 1991, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 1992, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Department's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

Simpson & Simpson

Los Angeles, California

POWER SYSTEM
STATEMENT OF INCOME

(In Thousands) Year ended June 30	1992	1991	1990
Operating Revenues			
Residential	$ 535,496	$ 526,860	$ 519,339
Commercial and industrial	1,231,568	1,216,664	1,251,296
Other	62,011	68,431	79,258
Total operating revenues	1,829,075	1,811,955	1,849,893
Operating Expenses			
Fuel for generation	216,048	211,127	247,592
Purchased power	660,345	664,389	647,585
Other operating expenses	434,126	412,556	392,202
Maintenance	165,257	163,910	168,481
Depreciation	157,866	152,190	139,031
Total operating expenses	1,633,642	1,604,172	1,794,891
Operating Income	195,433	207,783	255,002
Other Income and Expenses, Net	23,578	18,157	16,835
Income before debt expenses	219,011	225,940	271,837
Debt Expenses			
Interest on debt	156,543	136,156	118,128
Allowance for funds used during construction	(11,692)	(6,143)	(2,757)
Total debt expenses	144,851	130,013	115,371
Net Income	$ 74,160	$ 95,927	$ 156,466

STATEMENT OF RETAINED INCOME REINVESTED IN THE BUSINESS

(In Thousands) Year ended June 30	1992	1991	1990
Balance at beginning of year	$1,974,709	$1,971,276	$1,900,628
Net income for the year	74,160	95,927	156,466
	2,048,869	2,067,203	2,057,094
Less - Payments to the reserve fund of the City	90,597	92,494	85,818
Balance at end of year	$1,958,272	$1,974,709	$1,971,276

The accompanying notes are an integral part of these financial statements.

POWER SYSTEM BALANCE SHEET

(In Thousands)	June 30	1992	1991
ASSETS			
Utility Plant, at original cost			
Production		$ 1,872,843	$ 1,850,965
Transmission		712,470	680,492
Distribution		2,584,714	2,404,479
General		546,154	446,484
		5,716,181	5,382,420
Less - Accumulated depreciation		1,790,020	1,688,976
		3,926,161	3,693,444
Construction work in progress		356,913	278,947
Nuclear fuel, at amortized cost		12,388	14,802
Net utility plant		4,295,462	3,987,193
Current Assets			
Cash and investments		226,928	237,663
Customer and other accounts receivable, less $7,800 and $3,600 allowance for losses		204,288	179,038
Receivable from Intermountain Power Agency		593	24,634
Accrued unbilled revenue		100,280	91,981
Materials and supplies, at average cost		113,373	115,216
Fuel inventory		99,950	107,226
Prepayments and other current assets		17,057	16,894
Total current assets		762,469	772,652
Total utility plant and assets		$ 5,057,931	$ 4,759,845
CAPITALIZATION AND LIABILITIES			
Capitalization			
Equity			
Retained income reinvested in the business		$ 1,958,272	$ 1,974,709
Contributions in aid of construction		161,272	141,823
		2,119,544	2,116,532
Long-term debt		2,333,803	2,091,020
Total capitalization		4,453,347	4,207,552
Current Liabilities			
Long-term debt due within one year		55,655	55,050
Revenue certificates payable		90,000	90,000
Accrued interest		49,357	38,606
Accounts payable and accrued expenses		229,939	214,259
Due to Water System		14,200	—
Over-recovered energy costs		61,464	50,319
Extension and other deposits		8,572	9,255
Deferred credit - Intermountain Power Agency		95,397	94,804
Total current liabilities		604,584	552,293
Commitments and Contingencies			
Total capitalization and liabilities		$ 5,057,931	$ 4,759,845

The accompanying notes are an integral part of these financial statements.

POWER SYSTEM STATEMENT OF CASH FLOWS

(In Thousands) Year ended June 30	1992	1991	1990
Cash Flows From Operating Activities:			
Net income	$ 74,160	$ 95,927	$ 136,466
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	157,866	152,190	139,031
Amortization of nuclear fuel	8,247	10,567	3,258
Allowance for funds used during construction	(11,692)	(6,143)	(2,757)
Provision for losses on customer and other accounts receivable	15,871	9,492	9,891
Changes in current assets and liabilities:			
Customer and other accounts receivable	(41,121)	(1,288)	(28,049)
Receivable from Intermountain Power Agency	24,041	39,922	(14,983)
Accrued unbilled revenue	(5,299)	17,930	(15,335)
Materials and supplies	1,843	(10,153)	(20,002)
Fuel inventory	7,276	(47,888)	1,383
Prepayments and other current assets	(163)	(1,373)	12,142
Accrued interest	10,751	3,537	(3,457)
Accounts payable and accrued expenses	15,680	(299)	(1,599)
Due from/to Water System	14,200	(16,972)	(4,907)
Over-recovered energy costs	11,145	30,947	(28,315)
Extension and other deposits	(683)	(6,530)	1,877
Deferred credit - Intermountain Power Agency	593	30,248	14,983
Net cash provided by operating activities	279,715	302,114	219,627
Cash Flows From Financing Activities:			
Sale of revenue bonds	297,497	346,673	247,929
Sale of advance refunding bonds	158,721	—	85,216
Amount received from escrow account	—	38,007	—
Contributions in aid of construction	19,449	6,610	12,172
Reduction of long-term debt	(54,109)	(51,733)	(51,198)
Amount deposited in escrow accounts and offset against advance refunding bonds	(158,721)	—	(85,216)
Long-term debt redeemed, including call premium	—	(38,007)	—
Payments to the reserve fund of the City	(90,597)	(92,494)	(85,818)
Net cash provided by financing activities	172,240	209,056	123,085
Cash Flows From Investing Activities:			
Additions to plant and equipment, net	(462,690)	(399,013)	(360,389)
Cash and investments:			
Net increase (decrease)	(10,735)	112,157	(17,677)
Beginning of year	237,663	125,506	143,183
End of year	$ 226,928	$ 237,663	$ 125,506
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$ 144,788	$ 136,656	$ 126,256

The accompanying notes are an integral part of these financial statements.

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Department — The Department of Water and Power of the City of Los Angeles exists under and by virtue of the City Charter enacted in 1925 as a separate proprietary agency of the City. The Power System is responsible for the generation, transmission and distribution of electric power for sale in the City.

Utility plant — The costs of additions to utility plant and replacements of retired units of property are capitalized. Costs include labor, materials and allocated indirect charges such as engineering, supervision, transportation and construction equipment, retirement plan contributions, and certain administrative and general expenses. The costs of repairs and minor replacements are charged to appropriate maintenance accounts. The original cost of property retired, plus removal cost, less salvage, is charged to accumulated depreciation.

Depreciation — Depreciation expense is computed by the straight-line method for all major projects completed after July 1, 1973 and for all office and shop structures, related furniture and equipment, and transportation and construction equipment. Depreciation for facilities completed prior to this date is computed by the 5% sinking fund method based on estimated service lives. Estimated service lives range from 10 to 70 years. Depreciation provision as a percentage of average depreciable utility plant in service was 3.2%, 3.2% and 3.1% for fiscal years 1992, 1991 and 1990, respectively.

Nuclear Decommissioning — Decommissioning of the Palo Verde Nuclear Generating Station, in which the Power System has an ownership interest, is projected to start sometime after 2022. Based upon a study performed by an independent engineering firm, the Department's share of the estimated decommissioning costs is $44 million in 1989 dollars. Decommissioning costs are charged as part of depreciation expense over the life of the nuclear power plant. A Nuclear Decommissioning Fund has been established and the Power System is setting aside funds for its share of estimated future decommissioning costs.

Nuclear fuel — Nuclear fuel is amortized and charged to Fuel for Generation on the basis of actual thermal energy produced relative to total thermal energy expected to be produced over the life of the fuel. Under the provisions of the Nuclear Waste Policy Act of 1982, the federal government assumed responsibility for the future disposal of spent nuclear fuel.

Cash and investments — The Department's cash is deposited with the City Treasurer who invests the funds in securities under the City Treasurer's pooled investment program. Under the program, available funds of the City and its independent operating departments are invested on a combined basis. These investments are valued at cost, which approximates market. At June 30, 1992 and 1991, cash and investments include $28 and $20 million, respectively, of restricted balances relating to bond redemption and interest funds, self-insurance fund and nuclear decommissioning fund. In addition, cash and investments at June 30, 1992 and 1991 includes $95 and $70 million, respectively, relating to the energy cost adjustment stabilization account. The Department considers all cash investments with a maturity of three months or less to be cash equivalents.

Fuel inventory — Coal inventories are stated at average cost. Fuel oil inventories are stated at cost, using the last-in, first-out method.

Contributions in aid of construction — Under the provisions of the City Charter, amounts received from customers and others for constructing utility plant are combined with retained income reinvested in the business

to represent equity for purposes of computing the Power System's borrowing limits. Accordingly, contributions in aid of construction are shown in the accompanying balance sheet as an equity account and are not offset against utility plant.

Revenues — Revenues consist of billings to customers for consumption of electric energy and include amounts resulting from an energy cost adjustment formula designed to permit the full recovery of energy costs plus funding requirements of nuclear plant decommissioning costs. The Department projects these costs to establish the energy cost recovery component of customer billings and any difference between billed and actual costs, resulting in over- or under-recovery of energy costs, is adjusted in subsequent billings.

The Power System recognizes energy costs in the period incurred and accrues for estimated energy sold but not yet billed.

The Power System's rates are established by a rate ordinance which is approved by the City Council. The Power System sells electric energy to other Departments of the City at rates provided in the ordinance.

Debt expenses — Debt premium, discount and issue expenses are deferred and amortized to expense over the lives of the related issues.

Allowance for funds used during construction (AFUDC) — AFUDC represents the cost of borrowed funds used for the construction of utility plant. Capitalized AFUDC is shown as part of the cost of utility plant and as a reduction of debt expenses. The average AFUDC rates were 7.2%, 7.2% and 7.7% for fiscal years 1992, 1991 and 1990, respectively.

Reclassification — Certain financial statement items for fiscal years 1991 and 1990 have been reclassified to conform to the 1992 presentation.

NOTE B — RECEIVABLE AND DEFERRED CREDIT — INTERMOUNTAIN POWER AGENCY

As of July 1, 1988, an amendment to an Intermountain Power Agency (IPA) bond resolution provided for the use of surplus construction funds from the Intermountain Power Project. As a member participant of this project, the Department's share of such surplus funds totaled $155 million through June 30, 1992, of which $154 million was collected from IPA and $.6 million remained as a receivable.

In fiscal 1989, $60 million of such surplus funds were used as an offset against the purchased power expense. Pursuant to a City Ordinance of January 2, 1991, the Department established an energy cost adjustment stabilization account in which the $95 million balance of the IPA surplus funds are accumulated. At the discretion of the Department's Chief Accounting Employee, funds may be transferred from this account to stabilize the effect of future purchased power expense on customer billings over a period not to exceed seven years from the time the funds are received.

NOTE C — JOINTLY-OWNED UTILITY PLANT

The Power System has undivided interests in several electrical generating stations and transmission systems which are jointly-owned with other utilities. Each project participant is responsible for financing its share of construction and operating costs. The following schedule shows the Power System's investment in each jointly-owned utility plant as included in the balance sheet at June 30, 1992 (dollar amounts in millions):

Project	Ownership Interest	Share of Capacity (megawatts)	Plant in Service: Cost	Plant in Service: Accumulated Depreciation	Work in Progress
Palo Verde Nuclear Generating Station (Note H)	5.7%	217	$ 498	$ 65	$ 15
Navajo Steam Generating Station	21.2%	477	188	88	3
Mohave Coal Generating Station	20.0%	316	95	37	3
Pacific Intertie DC Transmission System	40.0%	800	177	23	4
Other transmission systems	Various		76	19	1
			$ 1,034	$ 232	$ 26

The Power System will incur certain minimum operating costs on the jointly-owned facilities, regardless of the amount of energy generated or its ability to take delivery of its share of energy generated. The proportionate share of these expenses is included in the appropriate categories of operating expenses.

Note D — Revenue Certificates

At June 30, 1992 and 1991, the average interest rate of revenue certificates payable was 2.8% and 4.2% with various maturities of up to 120 and 150 days, respectively.

Note E — Long-Term Debt

Long-term debt outstanding at June 30, 1992, consisted of revenue bonds due serially in varying annual amounts through 2032. Interest rates, which vary among individual maturities, averaged approximately 6.6% and 6.8% at June 30, 1992 and 1991, respectively. The revenue bonds generally are callable ten years after issuance. Scheduled annual principal maturities during the five years succeeding June 30, 1992 are $56, $57, $58, $62 and $65 million, respectively. Revenue bonds are secured by the future revenues of the Power System. The Department has agreed to certain covenants with respect to bonded indebtedness, including the requirement that the Power System's net income, as defined, will be sufficient to pay certain amounts of future annual bond interest and of future annual aggregate bond interest and principal maturities.

In fiscal year 1992, the Power System sold advance refunding bonds totaling $160 million, which decreased its aggregate debt service payments by $42 million over the next 36 years and resulted in an economic gain (difference between the present value of the old and new debt service payments) of $17 million. The Power System also sold advance refunding bonds in prior years. The proceeds of the advance refunding bonds were placed in irrevocable trusts and will be used to redeem bonds currently included within long-term debt at scheduled call dates. Until the bonds to be refunded are called, interest on the advance refunding bonds is payable from interest earned on securities of the United States government purchased out of the proceeds of the sales and held in bank escrow accounts. At June 30, 1992, $256 million of these escrow accounts have been offset against the advance refunding bonds in the accompanying balance sheet. After the monies in the escrow accounts are applied to redeem bonds to be called, principally through 1998, interest on the advance refunding bonds will be payable from Power System revenues.

The Power System's long-term debt consisted of the following (amounts in millions):

Fiscal Years Maturing	Interest Rates	June 30, 1992	June 30, 1991
1992	2.2% – 10.4%	$ —	$ 55
1993 – 1997	3.0% – 10.4%	298	298
1998 – 2002	4.0% – 8.0%	355	334
2003 – 2007	4.9% – 8.0%	385	350
2008 – 2012	4.9% – 8.0%	414	370
2013 – 2017	5.2% – 8.0%	343	293
2018 – 2022	5.5% – 8.0%	260	209
2023 – 2027	6.4% – 8.0%	221	170
2028 – 2032	6.4% – 7.8%	137	85
Total principal amount		2,413	2,164
Unamortized premium and discount		(23)	(18)
Long-term debt due within one year		(56)	(55)
Total long-term debt		$ 2,334	$ 2,091

NOTE F — SHARED OPERATING EXPENSES

The Power System shares certain administrative functions with the Department's Water System. Generally, the costs of these functions are allocated on the basis of benefits provided to the Systems.

Operating expenses shared with the Water System were $295, $295 and $275 million for fiscal years 1992, 1991 and 1990, respectively, of which $206, $200 and $186 million were allocated to the Power System.

NOTE G — EMPLOYEE BENEFITS

Retirement, disability and death benefit insurance plan — The Department has a funded contributory retirement, disability and death benefit insurance plan covering substantially all of its employees. Plan benefits are generally based on years of service, age at retirement and the employees' highest 12 consecutive months of salary before retirement. The Department funds the retirement plan on an entry age normal method as determined by the plan's independent actuary. For funding purposes, prior service costs relating to the plan are amortized generally over a 30-year period ending June 30, 2003. Total fiscal year benefit plan costs for the Power System include the following (amounts in millions):

	1992	1991	1990
Service cost	$ 38	$ 38	$ 36
Interest cost	161	148	127
Actual return on plan assets	(195)	(134)	(130)
Net amortization and deferral	87	34	43
Net retirement plan cost	91	86	76
Disability and death benefit plan costs and administrative expenses	14	13	13
Total benefit plan costs	$ 105	$ 99	$ 89

Employee contributions to the plan totaled $16, $12 and $11 million during 1992, 1991 and 1990, respectively. Total covered payroll during 1992, 1991 and 1990 was $380, $360 and $350 million, respectively.

The following schedule reconciles the funded status of the plan with amounts reported in the financial statements (amounts in millions):

	June 30, 1992	June 30, 1991
Actuarial present value of benefit obligations:		
Vested benefits	$1,930	$1,683
Non-vested benefits	1	1
Accumulated benefit obligation	1,931	1,684
Effect of projected future compensation level	380	313
Projected benefit obligation	2,311	1,997
Plan assets at fair value	1,890	1,645
Projected benefit obligation in excess of plan assets	421	352
Unrecognized prior service cost	(22)	—
Unrecognized net gain and effects of changes in assumptions	(125)	(40)
Unrecognized net obligation at July 1, 1987 being recognized over 15 years	(230)	(253)
Accrued pension liability	$ 44	$ 59

The discount rate used in determining the plan's projected benefit obligation was 7.25% and 8.0% in 1992 and 1991, respectively. The assumed rate of increase in future compensation levels was 6.0% in both 1992 and 1991. The long-term rate of return on plan assets was 8.0% in both 1992 and 1991. Plan assets consist primarily of corporate and government bonds, common stocks, mortgage-backed securities and short-term investments.

Health care costs — The Department provides certain health care benefits to active employees. The cost to the Power System of providing such benefits to active employees amounted to $33, $29 and $24 million for fiscal years 1992, 1991 and 1990, respectively. In addition, health care and life insurance are provided as postretirement benefits to retired employees and their dependents. The cost to the Power System of providing such benefits to retired employees amounted to $13, $11 and $9 million for fiscal years 1992, 1991 and 1990, respectively. The costs of providing these benefits are accounted for on the pay-as-you-go-method.

In December 1990, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The new statement requires systematic recognition of the costs of postretirement benefits over employees' service periods. The Department is required to implement this statement no later than fiscal year 1994 and does not expect adoption to have a material effect on results of operations.

Note H — Commitments and Contingencies

Payments to the reserve fund of the City — Under the provisions of the City Charter, the Power System transfers funds at its discretion to the reserve fund of the City. The transfers may not be in excess of net income of the prior fiscal year. Such payments are not in lieu of taxes and are recorded as distributions of retained income. The Department expects to make payments of approximately $74 million in fiscal year 1993 from the Power System to the reserve fund of the City.

Long-term purchased power and transmission contracts — The Department has entered into a number of energy and transmission service contracts which involve substantial commitments. These include an agreement with the Intermountain Power Agency, a Utah State Agency, for purchase of energy from the Intermountain Power

Project (IPP) for which the Power System has served as the project manager and operating agent. The Department's total interest in IPP includes a 44.6% "take or pay" obligation and an excess power contract for 18.2% for a total of 62.8%. The Department also has two agreements with the Southern California Public Power Authority (SCPPA), a California Joint Powers Agency, for 67% of SCPPA's 5.9% entitlement to the energy generated at the Palo Verde Nuclear Generating Station and for 59.5% of the capacity of the Southern Transmission System, which transmits energy from IPP in Utah to Southern California. Significant data related to these agreements, which are scheduled to expire from 2022 to 2027, at June 30, 1992 are as follows:

	Total Bonds Outstanding (millions)	Department Share of Capacity (megawatts)
Palo Verde Nuclear Generating Station (through SCPPA)	$ 1,030	151
Intermountain Power Project	4,938	1,004
Southern Transmission System (for IPP power through SCPPA)	1,057	1,142

All these agreements require the Power System to make certain minimum payments, which are based upon debt service requirements. While these payments are fixed charges (of approximately $340 million in each of the next five years), the Department is also required to pay additional amounts (of approximately $140 million in each of the next five years) for operating and maintenance costs related to actual deliveries of energy under these agreements. Total payments under these contracts were approximately $510 million, $450 million and $530 million in fiscal years 1992, 1991 and 1990, respectively. These aggregate purchased power costs are recovered through the energy cost recovery component of customer billings.

The Department also has a contract through 2017 with the U.S. Department of Energy for the purchase of available energy generated at the Hoover Power Plant. The Department's share of capacity at Hoover is approximately 500 megawatts.

Nuclear insurance — As a participant in the Palo Verde Nuclear Generating Station, the Department could be subject to assessment of retrospective insurance premium adjustments in the event of a nuclear incident at Palo Verde or at any other licensed reactor in the United States.

Environmental matters — Numerous environmental laws and regulations affect the Power System's facilities and operations. Pursuant to recently amended regulations of the South Coast Air Quality Management District in Southern California, the Power System may be required to burn natural gas to the extent available, instead of fuel oil, and is committed to step down yearly the emission limits of its four steam generating stations in the Los Angeles Basin until the final limit is reached in the year 2000. The stations' boilers will likely be either repowered as combined cycles or retrofitted with NOx control systems that will reduce nitrous oxide emissions. The estimated capital cost of the retrofitting program, which will peak in the mid 1990s, is approximately $260 million. In addition, construction is in process to repower the Harbor Generating Station for an estimated cost of approximately $170 million and the Valley Generating Station may be repowered beginning in 1997 for an estimated cost of approximately $340 million. The above estimates are in 1992 dollars and may change as the requirements for use of future state-of-the-art technology are developed.

Litigation — A number of claims and suits are pending against the Department for alleged damages to persons and property and for other alleged liabilities arising out of its operations. In the opinion of management, any ultimate liability which may arise from these actions will not materially affect the Power System's financial position as of June 30, 1992.

REPORT OF INDEPENDENT ACCOUNTANTS

September 11, 1992

To the Board of Water and Power Commissioners
Department of Water and Power
City of Los Angeles

In our opinion, the accompanying balance sheet and the related statements of income, retained income reinvested in the business and of cash flows present fairly, in all material respects, the financial position of the Power System of the Department of Water and Power of the City of Los Angeles at June 30, 1992 and 1991, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 1992, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Department's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

Simpson & Simpson

Los Angeles, California

WATER SYSTEM SELECTED FINANCIAL DATA AND STATISTICS

($ Millions)	1992	1991	1990	1989	1988
Statement of Income					
Operating revenues					
Residential	$ 122.1	$ 119.2	$ 125.5	$ 110.1	$ 94.5
Commercial and industrial	183.3	189.5	191.2	166.5	142.4
Governmental and other	18.7	20.2	19.5	17.8	14.3
Fire hydrants	4.9	4.8	4.5	4.4	4.1
Miscellaneous	13.2	14.0	7.5	1.4	1.7
Total revenues	$ 342.2	$ 347.7	$ 348.2	$ 300.2	$ 257.0
Operating income	66.4	57.6	82.5	61.4	54.1
As % of revenues	19.4%	16.6%	23.7%	20.5%	21.1%
Net Income	$ 51.6	$ 46.0	$ 62.6	$ 42.3	$ 34.4
Balance Sheet					
Net utility plant	$1,566.3	$1,426.1	$1,282.1	$1,202.1	$1,114.7
Capital additions, net	175.8	178.7	113.1	118.1	97.8
Capitalization					
Equity	1,044.8	991.2	951.9	870.6	822.3
Long-term debt	566.8	430.3	367.5	379.7	350.2
Total capitalization	1,611.6	1,421.5	1,319.4	1,250.3	1,172.5
Debt as % of net utility plant [A]	36.2%	30.2%	28.7%	31.6%	30.2%
Interest on debt	37.3	29.1	28.6	27.6	23.7
Payments to City of L.A.	17.4	17.4	15.0	12.9	12.4
Operations					
Gallons sold (billions)	166.6	188.4	208.8	208.1	203.6
Customers — average number (thousands)	647.9	646.9	643.4	640.6	637.8
Average revenue per hundred cu. ft. sold (in cents)					
Residential	154.8	130.7	119.0	106.0	92.8
Commercial and industrial	141.5	134.2	124.2	107.9	93.6
Water supply (billions of gallons)					
Local supply	30.5	29.8	30.6	44.4	39.5
DWP Aqueduct	57.5	40.5	67.1	106.6	134.9
Metropolitan Water District	95.1	130.8	128.7	75.3	49.1
Gross supply	183.1	201.1	226.4	226.3	223.5
Diversion from (to) local storage	(1.2)	0.3	0.0	0.4	(0.1)
Net supply to distribution systems	181.9	201.4	226.4	226.7	223.4

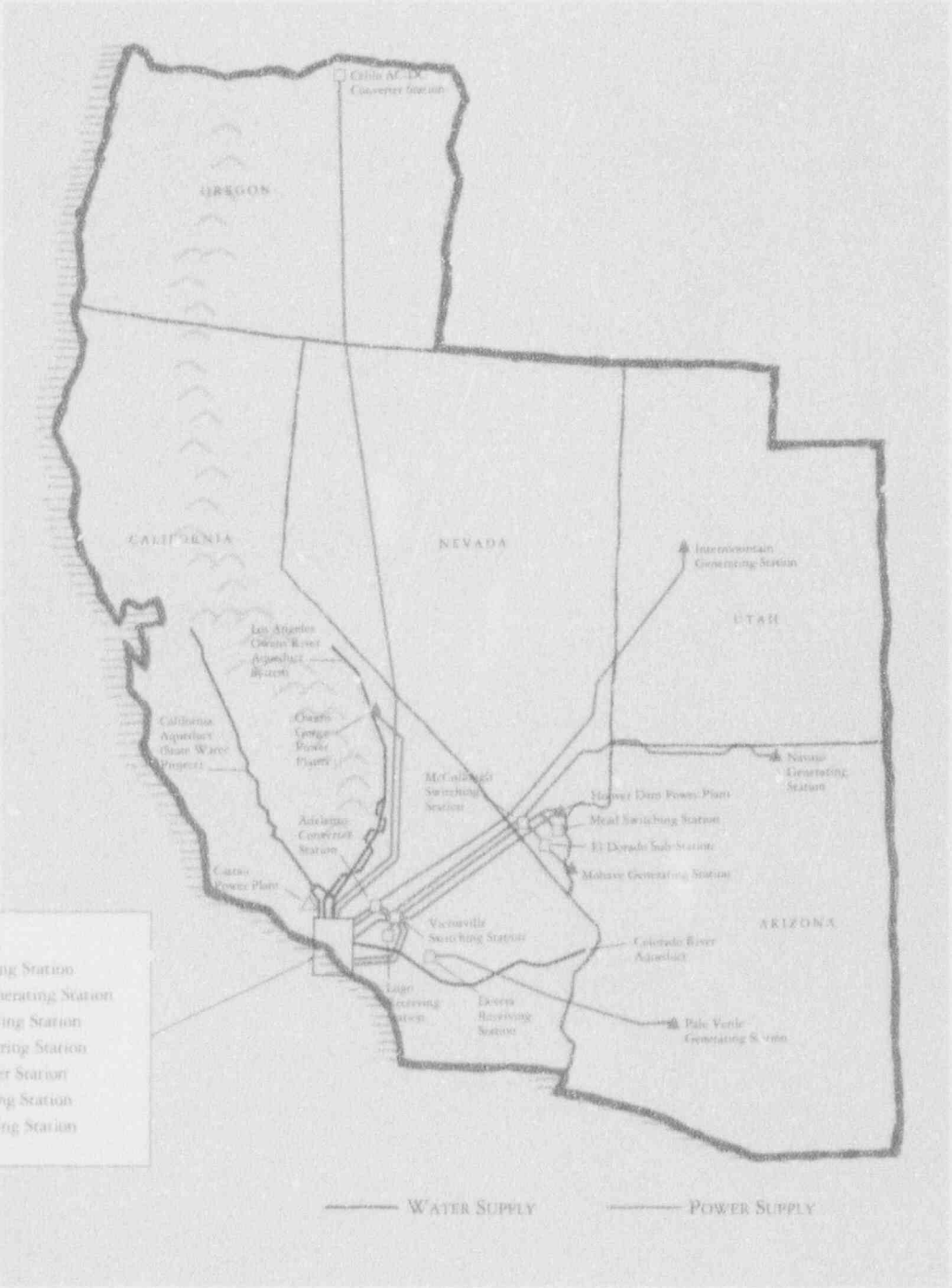
(A) Excludes revenue note and advance refunding revenue bonds.

POWER SYSTEM SELECTED FINANCIAL DATA AND STATISTICS

($ Millions)	1992	1991	1990	1989	1988
Statement of Income					
Operating revenues					
Residential	$ 535.5	$ 526.9	$ 519.3	$ 484.6	$ 430.7
Commercial and industrial	1,231.6	1,216.6	1,251.3	1,162.0	1,085.5
Street lighting and other	38.3	42.5	54.5	53.5	59.7
Miscellaneous	23.7	25.9	24.8	16.2	14.1
Total revenues	$ 1,829.1	$ 1,811.9	$ 1,849.9	$ 1,716.3	$ 1,570.0
Operating income	195.4	207.8	255.0	278.2	254.3
As % of revenues	10.7%	11.5%	13.8%	16.2%	16.2%
Net Income	$ 74.2	$ 95.9	$ 156.5	$ 193.4	$ 175.6
Balance Sheet					
Net utility plant	$ 4,295.5	$ 3,987.2	$ 3,744.8	$ 3,523.9	$ 3,324.9
Capital additions, net	462.7	399.0	360.4	336.2	317.3
Capitalization					
Equity	2,119.5	2,116.5	2,106.5	2,023.7	1,890.5
Long-term debt	2,333.8	2,091.0	1,797.9	1,602.4	1,554.2
Total capitalization	4,453.3	4,207.5	3,904.4	3,626.1	3,444.7
Debt as % of net utility plant [A]	54.3%	52.4%	48.0%	45.5%	46.7%
Interest on debt	156.5	136.2	118.1	110.3	102.4
Payments to City of L.A.	90.6	92.5	85.8	78.5	70.2
Operations					
Kilowatt hours sold (billions)	21.7	21.9	21.8	21.9	21.1
Customers — average number (thousands)	1,362.8	1,361.2	1,344.6	1,325.3	1,304.6
Average revenue per kwh sold (in cents)					
Residential	9.0	8.7	8.9	8.2	7.7
Commercial and industrial	8.1	8.0	8.3	7.7	7.3
Energy production (billion kwh)					
Hydro	1.4	1.3	1.4	1.8	1.8
Thermal	22.0	20.3	22.0	20.8 [B]	21.0 [B]
Total generation	23.4	21.6	23.4	22.6	22.8
Purchases	1.8	3.7	1.9	2.9 [B]	1.7 [B]
Total production	25.2	25.3	25.3	25.5	24.5
Net system capability (thousand megawatts)					
Hydro	1.4	1.4	1.4	1.4	1.4
Oil and gas owned	3.0	3.2	3.1	3.1	3.1
	4.4	4.6	4.5	4.5	4.5
Jointly-owned and firm purchases	3.1	2.9	2.9	2.8	2.8
	7.5	7.5	7.4	7.3	7.3

(A) Excludes revenue notes and advance refunding revenue bonds.

(B) Restated due to reclassification.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NEVADA
UTAH
ARIZONA
Intermountain Generating Station
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Hoover Dam Power Plant
Mead Switching Station
El Dorado Sub-Station
Mohave Generating Station
Victorville Switching Station
Colorado River Aqueduct
Pale Verde Generating Station
Los Angeles Owens River Aqueduct
California Aqueduct State Water Project
Oroville Complex Power Plants
McCullough Switching Station
Adelanto Converter Station
Castaic Power Plant
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