

**Sacramento
Municipal
Utility
District**

1978 Annual Report



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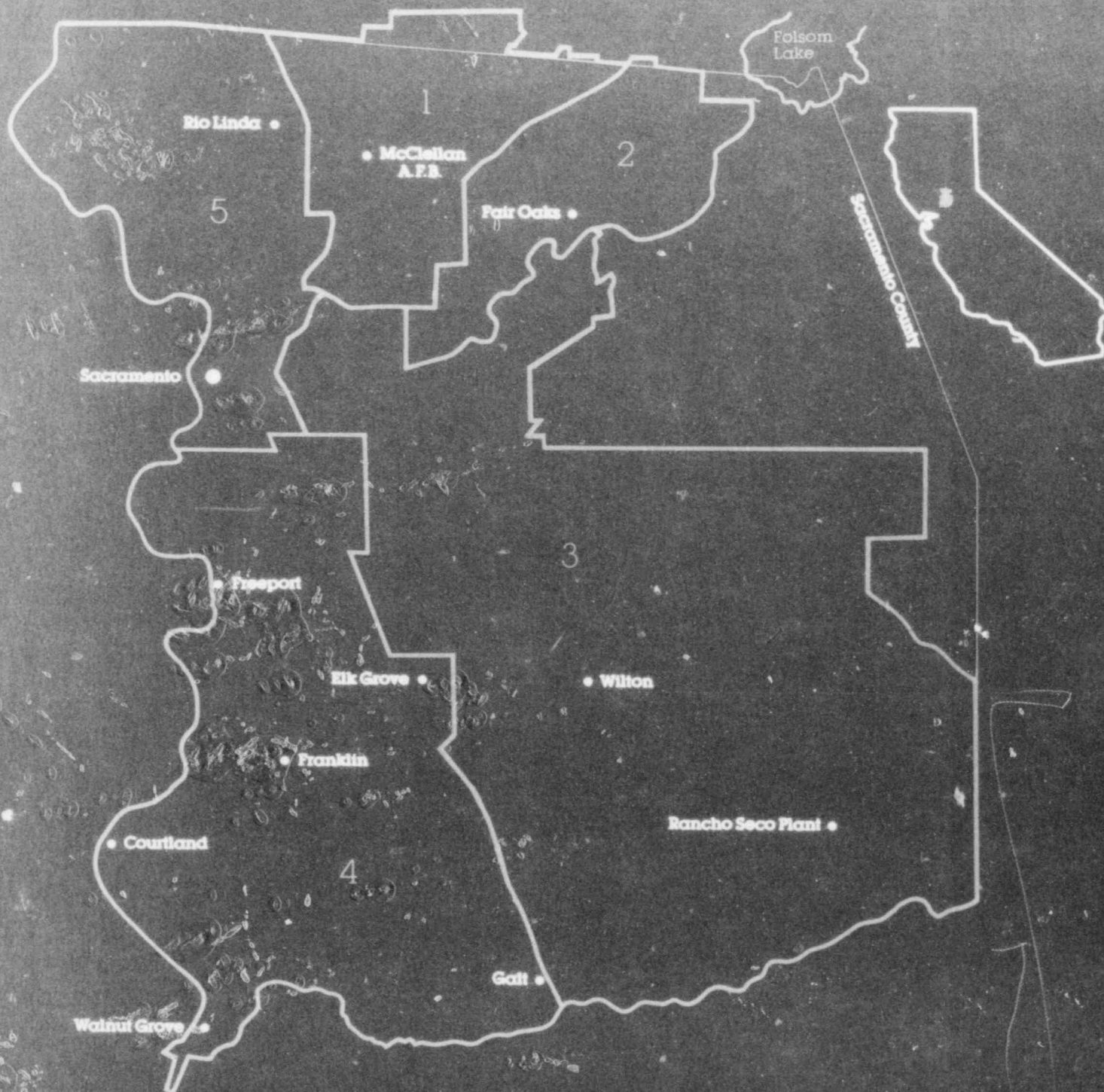
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RECORDS FACILITY BRANCH

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Board Elections

Frederick E. Anderson, Jr., a member of the SMUD Board of Directors since 1971, announced that he would not run for reelection in 1978. Paul W. Carr, a Sacramento area businessman, was elected to a four-year term to succeed Mr. Anderson.

Courtland rancher, Donald C. McClain, was reelected to the SMUD Board for a four-year term. Mr. McClain has served as a Director since 1974.



Donald C. McClain
President, Ward 4



Richard Castro
Vice President, Ward 5



Gary Hursh
Ward 1 (elected Vice
President January, 1979)



William O. Baird
Ward 2 (elected President
January, 1979)



Frederick E. Anderson, Jr.
Ward 3



Paul Carr
(elected Director Ward 3
November, 1978)



William C. Walbridge
General Manager

Highlights of 1978

13,194 new service connections were made during 1978, bringing the total number of customers served to over 300,000 for the first time...

Peak demand rose to 1,578 megawatts during a prolonged heat wave, and total energy sales increased to 5,150,866,000 kilowatt hours* during 1978...

Net revenue rose to \$29,584,000 for 1978, and construction expenditures totaled \$68,172,000, up 39.9 percent over the previous year...

SMUD's capitalization at year-end stood at \$851,999,000.

*Excludes sales of surplus power.

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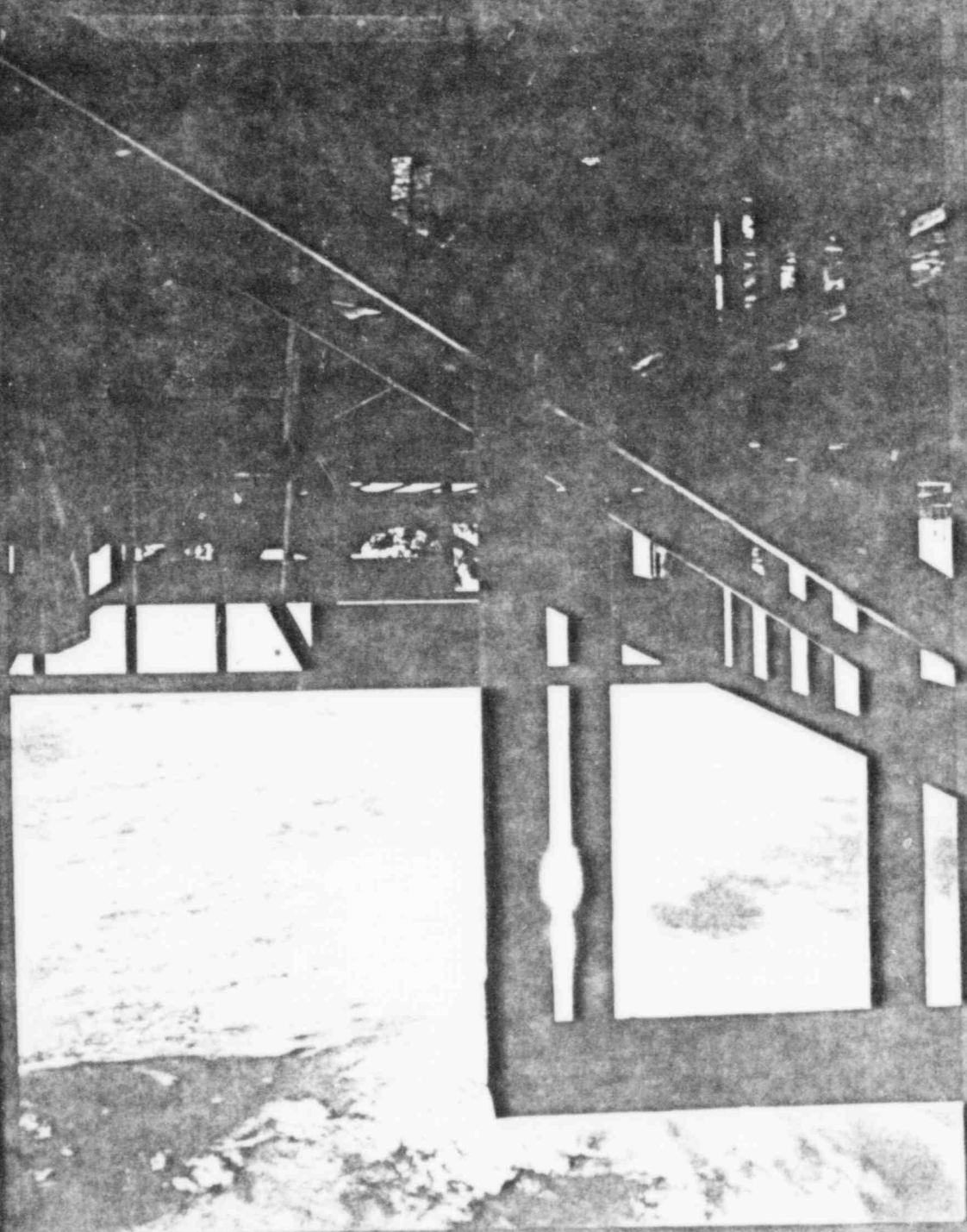
On The Cover

Sails on Rancho Seco Lake symbolize the rich recreational potential which Northern Californians enjoy and illustrate how Sacramento's need for energy is met while keeping other basic community needs in mind.

Cover photo by: Robert Miller, Sacramento.

Customers At Year End
(Thousands)
1974 1975 1976 1977 1978

264 273 283 297 310



Operations

Record growth and extensive new construction were experienced in SMUD's service area during 1978. 13,194 new customers were added, and for the first time in its history, SMUD served over 300,000. Large increases were recorded in both the residential and commercial customer groups.

The geographic boundaries of SMUD's potential service area were expanded substantially during the year as a result of annexation of a sparsely populated area adjacent to the District's existing boundaries. Residents in a 100-square mile section of southeastern Sacramento County voted to join SMUD. This set in motion plant evaluation studies and negotiations for the eventual purchase of the distribution facilities in the area.

SMUD also began to provide electric service to the Delta community of Walnut Grove which had previously been served by the Alex Brown Electric Company. This included service to an area of approximately one square mile, annexed to the District in 1977.

Customer growth and an extended period of very hot weather contributed to a record peak demand of 1,578 megawatts on Wednesday, August 9. On that same day SMUD set a new, 24-hour energy use record of 26,465,800 kilowatt-hours. This record was 20.8 percent above the top kilowatt-hour consumption day during the previous year.

Meeting these record system totals with a reliable supply of electricity was made possible by SMUD generation resources.

SMUD's largest single source of power is the 913-megawatt Rancho Seco nuclear power plant. Although a transformer failure cut this plant's capacity back to 70 percent during the first seven months of 1978, it still generated 5.0 billion kilowatt-hours during the year. Rancho Seco was returned to full power operation in time to help meet the record peak summer period. Rancho Seco's second refueling was

started on November 15, 1978 and completed on December 21, 1978. This period of 36 days 8 hours established a new record for a plant of this size. We are proud of this accomplishment.

SMUD's hydroelectric project in the Sierra returned to full service during 1978 following the drought of the previous year. During 1977, only 0.2 billion kilowatt-hours were generated by SMUD hydroelectric plants. This contrasts with a 1.7 billion kilowatt-hour total for 1978. Return of more normal weather conditions made it possible for hydroelectricity to once again play a major role in supplying area energy requirements. The District purchased capacity and energy from the California Central Valley Project, owned and operated by the Federal Government. Energy purchases in 1978 totaled 1.9 billion kilowatt-hours from this source.

Conservation

Conservation programs developed by SMUD are another means the utility employs to manage energy use through reductions in waste.

SMUD works with all types of energy consumers, even those whose greatest impact on the electric service is yet to come. For example, a mobile energy road show travels to area schools taking the message of conservation to tomorrow's customers.

During the year, new home buyers received copies of an award winning SMUD booklet on proper landscaping and its importance in conserving energy. SMUD sponsored neighborhood home energy conservation workshops and continued to offer home economic services and its attic insulation program, consisting of inspections, installation and low-cost financing.

SMUD analysts work with a variety of firms of all sizes. Energy management seminars were conducted for businesses, as were on-site energy analyses of many commercial and industrial customers.

Over 275,000 people attended Sacramento's third annual Energy Expo. SMUD was a primary sponsor of this conservation trade show. Interest in solar energy was heightened by the first "Solar Fair" for Sacramento area residents at the SMUD headquarters building, and by the District's sponsorship of a solar home "open house." Such programs make it possible for consumers to see the latest in methods and products which can assist them in their conservation efforts.

A residential solar domestic water heating program was begun during the year, and a load management experiment was expanded. The experiment involves control of air conditioning on approximately 900 test homes during peak use summer months.

A residential incentive program aimed at both new construction and the remodeling market was prepared during the fourth quarter of the year, and is scheduled to begin in January, 1979. The program encourages heat pumps and other energy saving construction features.

Construction

Expansion of the distribution system serving SMUD consumers required an expenditure of \$22,559,000 during the year. SMUD has a long-standing policy of constructing all new residential distribution circuits underground. This fact, accompanied by increased building activity, required SMUD to lay an estimated 647 miles of underground cable.

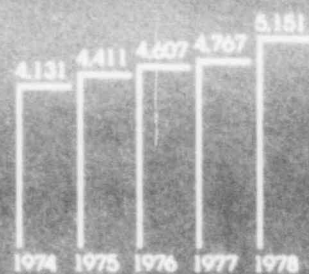
Construction of a 6.25 mile transmission line connecting central city bulk power substations proceeded on schedule during 1978. The 115,000-volt line will, when completed in 1979, increase system reliability for a major share of the consumers served by SMUD. Construction of two trans-

mission lines linking the new Carmichael substation with existing stations serving the northern portions of Sacramento County continued during the year. These 230,000-volt lines will combine both overhead and underground construction to minimize their impact on the area's residential neighborhoods. Completion of these facilities is scheduled for 1980. Costs associated with the central city and north area transmission projects under construction during 1978 totaled \$1.3 million.

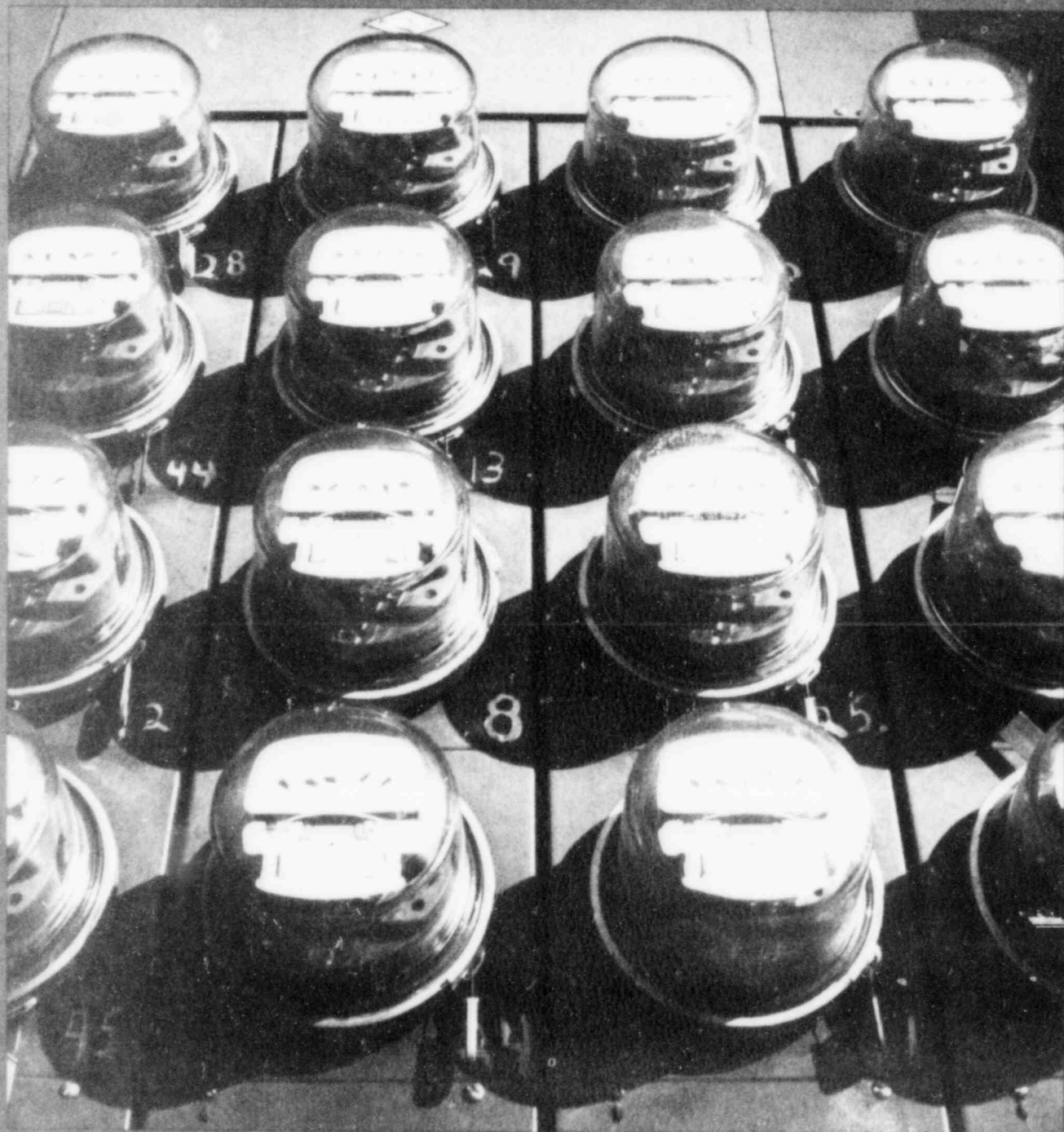
Sacramento's northeastern communities will be served by a new bulk power substation and operating headquarters scheduled for completion in the early 1980s. While fulfilling the need for additional electrical capacity for the area, the complex will also serve as a base of operations for various support forces serving the northeastern county. Approval of an environmental impact report on this multimillion-dollar project marked the first step in its development as a SMUD resource for the future.

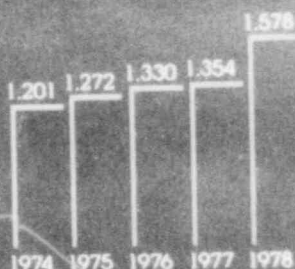
The initial phase of a multistage transmission expansion project designed to increase system capacity at various points was approved by the SMUD Board of Directors during 1978. Work related to this first stage will include construction of new transmission lines in several areas throughout Sacramento County and the adjoining region. In some cases, existing facilities will be expanded, while in others, new lines must be constructed. This first phase of the transmission expansion project has an estimated cost of \$6.75 million. Facilities included are scheduled to go into service beginning in 1980.

Construction of advanced security and fire protection systems for the Rancho Seco nuclear power facility, necessitated major



KWH Sales
(Millions)
excludes sales of surplus
power





Peak Demand
(MW)



payment by SMUD of \$1.2 million.

The District and the Pacific Gas and Electric Company are continuing to work towards arbitration of a \$70 million claim filed by PGandE in 1976 as a result of plant outages at Rancho Seco.

Purchased Power

The Western Area Power Administration (WAPA), an agency of the Department of Energy which administers the power marketing functions of the Central Valley Project, put into effect an interim rate increase for Central Valley Project power of approximately 95 percent effective May 25, 1978, pending completion of an administrative proceeding to determine an ultimate rate. WAPA is proposing two alternative rate structures, one of which would result in rates to SMUD approximately 15 percent higher than the interim rates. The second would reduce the interim rate by about 9 percent.

In addition to the administrative proceedings the United States has a lawsuit on file against the District seeking a judicial ruling on the CVP contract provisions which SMUD contends limits rate increases to less than those proposed by WAPA. The United States and the District have agreed that until final judgment is rendered in that lawsuit the District may pay into escrow all billings for Central Valley Project power in excess of those based on the pre-May 25, 1978, rates.

Financial

Total operating revenues for the year were \$135,223,000, an increase of 11.5 percent over 1977. Increased revenues were derived from an 8.0 percent growth in sales and a 14.4 percent rate increase adopted by the Board of Directors which

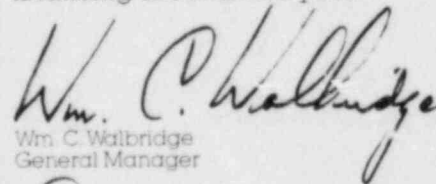
became effective on May 2. The rate increase was the first in two years.

Following negotiations with the Organization of SMUD Employees (OSE), monthly-rated personnel received a 6.25 percent wage increase in June. SMUD employees represented by the International Brotherhood of Electrical Workers (IBEW) received a 7.0 percent wage increase in December following separate negotiations with that bargaining unit. SMUD's average number of equivalent full-time employees rose to 1,611 during 1978, and the annual payroll exceeded \$31.3 million.

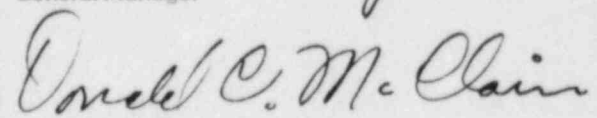
In October the District completed a \$40 million, long-term revenue bond sale (Electric Revenue Bonds, Series G). This issue is rated AA by Moody's and Standard & Poor's, as are all previous District bonds. The District has maintained debt equity ratios, debt service coverage ratios and a healthy financial climate in order to retain this high quality rating. The Series G Bonds were sold at a total effective interest rate of 6.015 percent.

The District capitalization at year-end was \$852 million, of which 42.1 percent was equity. Net revenue for the year was \$29.6 million, providing a revenue bond debt service coverage ratio of 2.45 times.

At year-end, SMUD's Board adopted a 1979 budget totaling \$209 million of which \$64.1 million was earmarked for capital expenditures and \$39.2 million for nuclear fuel purchases. The budget calls for no rate increase during the year, but does show need for an additional \$50 million outside financing around mid-year.



Wm. C. Walbridge
General Manager



Donald C. McClain
President

outlays of time and money during 1978. Both the security and fire systems are being retrofitted to SMUD's existing plant to meet new, more stringent requirements placed on all commercial nuclear power plants by the Federal Nuclear Regulatory Commission (NRC).

Security upgrading for the Rancho Seco site has an estimated cost of \$5.5 million. Construction related directly to this project began during 1978, and is scheduled for completion in 1979.

Installation of improved fire protection systems was begun during the year. This retrofitting is scheduled for completion early in 1979, at a cost of approximately \$1.25 million.

Resource Planning

Planning to meet future needs took on special meaning for SMUD during 1978. While working with existing customers to aid in the efficient use of electric energy, SMUD also continued the search for new generation resources to meet tomorrow's energy requirements.

Expansion of SMUD's existing hydroelectric project in the Sierra Nevadas was under review during 1978. Three separate expansion projects have been proposed which could net more than 40 million additional kilowatt-hours annually.

When the existing hydroelectric project was constructed in the 1950s and 1960s, none of the expansion now being considered was economically viable, but increasing fuel costs and growing demand for energy require that these options be reviewed. Feasibility studies begun in 1978 must be completed before a decision on the expansion of existing hydroelectric resources can be made.

SMUD has joined with other western

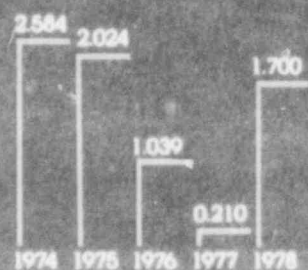
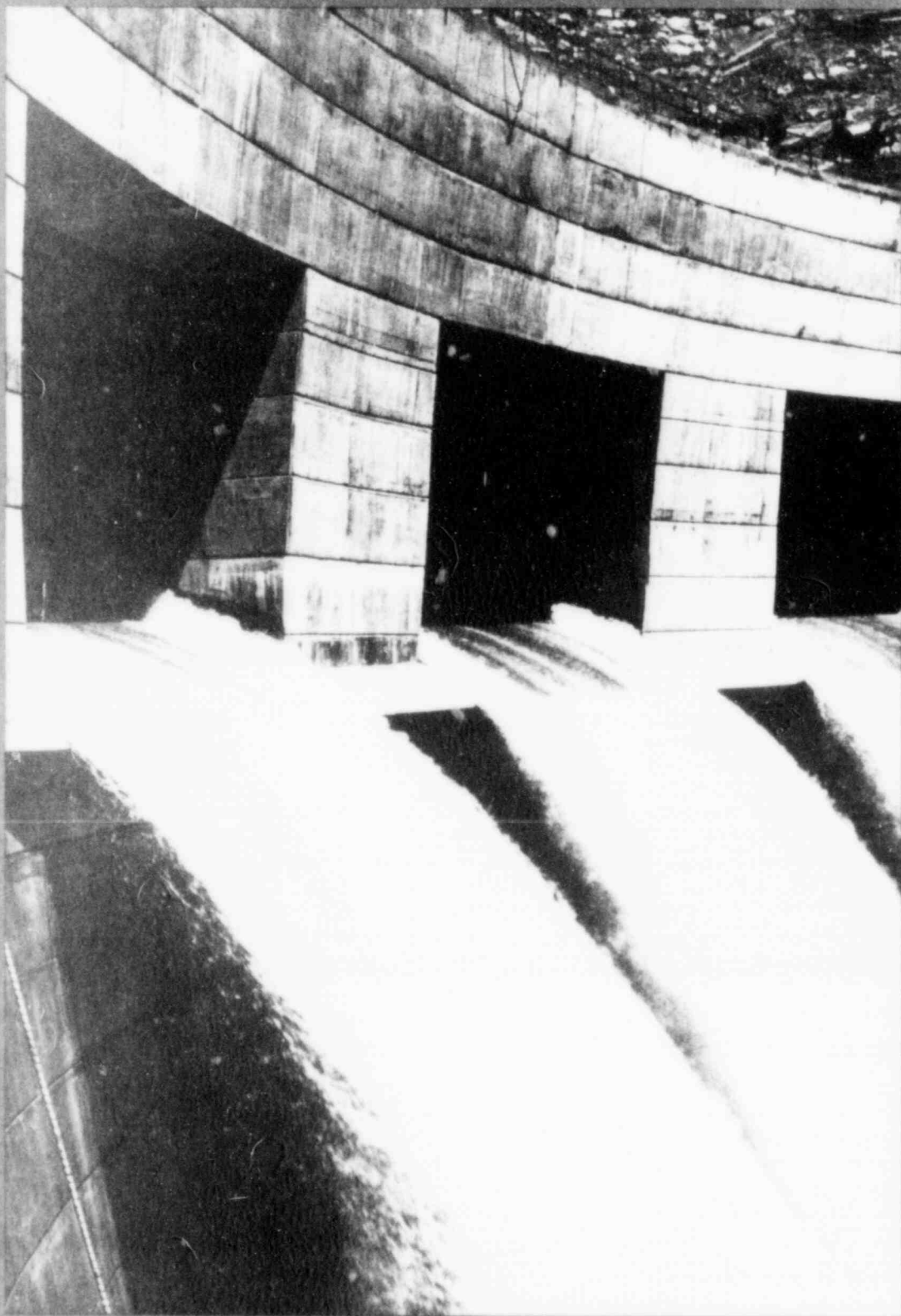
utilities to study the feasibility of developing geothermal resources in northern Nevada. Plans have been announced for a three-phase project with the goal of developing the hot water geothermal potential already known to exist in the area. SMUD allocated \$125,000 as its share of the first phase. Phase one will include a nine-month study to locate a desirable site and to investigate environmental, regulatory and cost questions.

Solar energy will be converted directly to electricity which will be fed into the existing electrical grid at Rancho Seco if a proposal submitted by SMUD and a project contractor is accepted by the Federal Department of Energy (DOE). The \$3 million project has been selected as one of the finalists for DOE funding. Should the proposed 0.1-megawatt photovoltaic plant be approved by DOE, construction could begin as early as June 1979. The ultimate goal of the project is to gain firsthand knowledge of how this space age technology might be brought back to earth as a future energy resource.

At year's end, the SMUD Board of Directors approved an emission offset program to clean up air pollution as a prerequisite to the potential construction of a combined cycle power plant in the Sacramento Valley. The proposed 160-megawatt combined cycle plant would be oil-fired. Plans call for its construction adjacent to the existing Rancho Seco facility.

Litigation

During 1978, a settlement was reached on the \$6.7 million claim filed by Westinghouse Corporation with SMUD regarding repair work on the Rancho Seco steam turbine. The turbine's two low pressure rotors failed and were replaced in 1975. The negotiated settlement called for payment of \$3.3 million of the contested amount to Westinghouse. SMUD received payment of \$2.1 million from insurance carriers and other parties resulting in a net



SMUD Hydro Generation
(Billions of KWH)

BALANCE SHEETS

December 31, 1978 and 1977

Assets		1978	1977
Electric utility plant:	Plant in service, at original cost	\$817,258,348	\$791,480,908
	Less — Reserve for depreciation	141,535,467	125,342,161
		<hr/>	<hr/>
		\$675,722,881	\$666,138,747
	Construction work in progress	30,704,640	30,587,929
	Nuclear fuel, at cost less amortization	65,071,127	42,458,321
		<hr/>	<hr/>
		\$771,498,648	\$739,184,997
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Segregated funds, consisting of cash and securities, at cost which approximates market:	For construction purposes (Note 4)	\$ 64,169,265	\$ 37,178,421
	In reserve funds for Revenue Bonds (Note 3)	25,064,883	23,582,678
		<hr/>	<hr/>
		\$ 89,234,148	\$ 60,761,099
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Current assets:	Cash	\$ 377,412	\$ 231,959
	Segregated cash and securities for payment of debt service	13,702,665	13,558,233
	Accrued interest receivable	1,884,899	1,581,610
	Accounts receivable, less reserves of \$242,873 and \$199,037, respectively	9,499,541	6,842,243
	Receivable from sale of surplus power	3,316,362	6,798,493
	Materials and supplies, at average cost	11,361,013	9,766,828
	Prepayments and special deposits	697,852	1,185,330
		<hr/>	<hr/>
		\$ 40,839,744	\$ 39,964,696
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Deferred charges		\$ 5,709,646	\$ 6,477,988
		<hr/>	<hr/>
		\$907,282,186	\$846,388,780
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Liabilities and Customers' Equity

	1978	1977
Capitalization:		
Customers' equity employed in the business—		
Balance beginning of year	\$329,210,379	\$310,891,798
Net revenue for the year	29,584,059	18,318,581
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Total customers' equity	\$358,794,438	\$329,210,379
Long-term debt (Note 2)	493,204,534	469,224,885
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	\$851,998,972	\$798,435,264
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Current liabilities:		
Accounts payable	\$ 19,848,065	\$ 19,367,344
Accrued salaries, wages and vacation pay	3,668,639	3,207,396
Long-term debt due within one year	16,055,829	15,608,905
Accrued interest on long-term debt	6,351,888	6,060,974
Customers' deposits	2,288,346	2,012,548
Purchased power rate increase (Note 6)	4,037,451	—
Other	3,032,996	1,696,349
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	\$ 55,283,214	\$ 47,953,516
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	\$907,282,186	\$846,388,780
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The accompanying notes are an integral part of these balance sheets.

STATEMENTS OF NET REVENUE

Years ended December 31, 1978 and 1977

Sacramento Municipal Utility District

		1978	1977
Operating revenues:	Residential	\$ 53,955,315	\$ 44,497,194
	Commercial and industrial	48,446,174	42,011,519
	Sale of surplus power (Note 5)	31,557,976	33,570,126
	Other	1,263,368	1,145,407
	Total operating revenues	\$135,222,833	\$121,224,246
Operating expenses:	Operation—		
	Purchased power (Note 6)	\$ 11,739,904	\$ 7,779,698
	Nuclear fuel used for generation	13,507,470	16,267,672
	Production	8,627,324	8,359,550
	Other	17,126,324	15,131,059
	Abnormal generation plant maintenance (Note 5)	(2,139,463)	—
	Other maintenance	17,350,450	15,274,430
	Provision for depreciation (Note 1)	21,768,744	20,795,106
	Total operating expenses	\$ 87,980,753	\$ 83,607,515
	Net operating revenue	\$ 47,242,080	\$ 37,616,731
Other income:	Allowance for equity funds used during construction (Note 1)	900,787	539,843
	Interest income and other	5,360,885	4,730,164
	Gross income	\$ 53,503,752	\$ 42,886,738
Interest expense:	Interest on long-term debt	25,032,873	25,081,778
	Allowance for borrowed funds used during construction—credit (Note 1)	(1,113,180)	(513,621)
	Net revenue for the year	\$ 29,584,059	\$ 18,318,581

The accompanying notes are an integral part of these statements

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 1978 and 1977

Sacramento Municipal Utility District

	1978	1977
Funds provided from:		
Operations—		
Net revenue for the year	\$ 29,584,059	\$ 18,318,581
Add—Depreciation	21,768,744	20,795,106
Interest on long-term debt	25,032,873	25,081,778
Total available for revenue bond debt service	\$ 76,385,676	\$ 64,195,465
Add—Nuclear fuel used for generation	13,507,470	16,267,672
Total available for total debt service	\$ 89,893,146	\$ 80,463,137
Sale of Electric Revenue Bonds, Series G	40,000,000	—
Reductions in working capital	6,454,650	7,703,783
Reductions in segregated construction funds	—	970,620
Reductions in reserve funds	—	265,773
Other	698,330	848,832
Total funds provided	\$137,046,126	\$ 90,252,145
Funds used for:		
Debt service—		
Revenue bonds	\$ 31,136,192	\$ 29,561,694
General obligation bonds	9,264,523	11,978,805
Total debt service	\$ 40,400,715	\$ 41,540,499
Additions to plant	68,172,362	48,711,646
Additions to segregated construction fund	26,990,844	—
Additions to reserve funds	1,482,205	—
Total funds used	\$137,046,126	\$ 90,252,145
Number of times debt service is covered by funds available:		
Revenue bonds	2.45	2.17
Total debt	2.23	1.94

The accompanying notes are an integral part of these statements

Notes to Financial Statements

December 31, 1978 and 1977

1. Summary of Significant Accounting Policies

ORGANIZATION AND EXEMPTION FROM INCOME TAXES

The Sacramento Municipal Utility District was formed and operates under the Municipal Utility District Act. The Act confers upon the District the rights and powers to fix rates and charges for commodities or services furnished, to incur indebtedness and issue bonds or other obligations and, under certain circumstances, to levy and collect ad valorem property taxes. The District is exempt from payment of federal and state income taxes.

METHOD OF ACCOUNTING

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

DEPRECIATION AND AMORTIZATION METHODS

The District provides for depreciation on the historical cost of electric properties on a straight-line basis at rates determined by engineering studies. The average annual depreciation rates for District plant in 1978 and 1977 were:

	1978	1977
Intangible plant	3.06%	3.06%
Generation—		
Hydro	1.53	1.52
Nuclear	3.35	3.29
Transmission	2.62	2.87
Distribution	3.01	2.98
General	5.92	5.76
Composite	2.91	2.87

The District amortizes the cost of nuclear fuel on a unit-of-production method, based on the cost of nuclear fuel plus estimated disposal and/or reprocessing costs.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

Effective January 1, 1977, the Federal Energy Regulatory Commission (FERC) prescribed a formula to be used to compute separately the maximum amount of the allowance applicable to borrowed funds and to equity funds. In the Statement of Net Revenue, the allowance applicable to borrowed funds is reported as a reduction of Interest Expense and the allowance applicable to equity funds is reported as Other Income.

The total allowance for funds used during construction in 1978 and 1977 amounted to approxi-

mately 5.5% and 6.5%, respectively, of eligible plant under construction.

RETIREMENT PENSION PLAN

The District's employees are covered by a contributory retirement plan administered by the State of California. Contributions by the District for 1978 and 1977 amounted to \$4,084,000 and \$3,259,000, respectively. Reflecting recently improved benefits of the plan and actuarial studies, the District's rate of covered payroll contributed to the plan increased from 12.38% to 12.46% effective January 1, 1977; to 13.46% effective July 1, 1977; and to 15.31% effective July 1, 1978.

2. Long-Term Debt

Long-term debt outstanding at December 31, 1978 and 1977, was as follows:

	1978	1977
General Obligation Bonds—		
Power Bonds of 1938,		
including premium, 5%, 1979	\$ 640,359	\$ 1,268,705
Electric Bonds, 2%, 1979 to 1990	6,864,000	7,584,000
Building Bonds, 4% 4-3/4%,		
1979 to 1992	6,420,000	7,090,000
SMUD Bonds, Series C,		
3-3/4% 4-1/10%, 1979 to 1981	19,200,000	25,000,000
Revenue Bonds—		
Upper American River Project		
Refunding Bonds, 3-1/10%—		
3-3/10%, 1979 to 1991	53,500,000	56,800,000
White Rock Project Bonds—		
Series A and B, 3-1/4%—		
3-1/2%, 1979 to 2004	35,475,000	36,300,000
Series C and D, 6-1/4%—		
7%, 1979 to 2010	55,800,000	56,200,000
Electric System Bonds,		
3%-3-3/20%, 1979 to 1983	5,145,000	6,290,000
Electric Revenue Bonds,		
Series A-G, 4-3/4%-7%,		
1979 to 2018	326,000,000	288,100,000
Total bonds	\$509,044,359	\$484,632,705
Purchase Agreements, 3-3/4%—		
6-3/4%, 1979 to 2000	1,433,817	1,476,639
	\$510,478,176	\$486,109,344
Less—Bond discount, White		
Rock Project, Series C	1,217,813	1,275,554
Less—Amount due within		
one year	16,055,829	15,608,905
	\$493,204,534	\$469,224,885

3. Reserve Funds for Revenue Bonds

Reserve funds for revenue bonds at December 31, 1978 and 1977, were as follows:

	1978	1977
Electric System Bonds	\$ 1,056,672	\$ 1,043,800
Electric Revenue Bonds	16,865,376	15,312,160
White Rock Project Bonds	929,986	929,986
All Parity Bonds	6,212,849	6,296,732
	\$25,064,883	\$23,582,678

4. Construction Program and Nuclear Fuel Purchases

Estimated construction and nuclear fuel expenditures in 1979 are \$64,000,000 and \$39,000,000, respectively.

5. Rancho Seco Nuclear Plant

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

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

(1) In 1975 the District recorded \$5,850,000, consisting of the \$9,350,000 turbine rotor replacement cost less \$3,500,000 of anticipated insurance recovery, as "Abnormal Generation Plant Maintenance." The \$9,350,000 turbine rotor replacement cost included billings from Westinghouse Electric Corporation which the District had not paid. On October 4, 1977, Westinghouse filed suit against the District. On November 14, 1978, all parties to the litigation reached a settlement agreement under which the District paid \$3,337,500 to Westinghouse and received payments and credits totaling \$2,169,000 from other parties. This settlement resulted in a net credit to "Abnormal Generation Plant Maintenance" of approximately \$2,139,000 in 1978.

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

(3) In June, 1976, PGandE filed a claim against the District alleging that the matters referred to above indicate that the Rancho Seco plant did not become commercially operable in April 1975 and that the rights and obligations of the parties continued to be controlled by an earlier contract. The claim seeks recovery of approximately \$50,000,000 alleged to be the difference between payments due under the two contracts, and also seeks recovery of \$20,000,000, plus additional costs expected to occur after the filing of the claim to replace capacity and energy which it should have received from Rancho Seco. The District and PGandE have executed an agreement whereby PGandE has agreed that any award or judgment it receives based on its claim will be subordinated to the rights of holders of documents evidencing indebtedness of the District issued prior to the date of such award or judgment, and has further agreed that amounts, including interest, collected or offset by reason of such award or judgment during any month may not exceed 6 percent of the District's operating revenues from retail sales during the preceding month. While the outcome of any litigation that may be based on the PGandE claim cannot be predicted with certainty, the District believes that it has meritorious defenses and, in addition, that an indemnity provision in the contract under which the District purchased the Rancho Seco turbine generator from the Westinghouse Electric Corporation obligates Westinghouse to pay any judgment which PGandE may obtain.

6. Purchased Power Rate Increase

On May 25, 1978, an interim rate increase for power purchased from the Central Valley Project (CVP) was placed into effect by the U.S. Department of Energy. The estimated annual billing increase to the District under the new interim rate is approximately \$7 million. It is anticipated that the portion of each monthly bill representing the increase will be paid into escrow pending conclusion of a lawsuit filed against the District by the United States to obtain a judicial ruling on the District's contention that the criteria being used in the rate proceeding are not in accord with a rate modification formula in the contract under which the District purchases CVP power. The District cannot at this time estimate how much, if any, of the amounts paid into escrow will be returned to it if it is successful in the lawsuit. Currently, these amounts are being included in purchased power expense and recorded as a Purchased Power Rate Increase, current liability.

Auditors' Report

TEN YEAR SUMMARY

To the Board of Directors of
Sacramento Municipal Utility District:

We have examined the balance sheets of Sacramento Municipal Utility District as of December 31, 1978 and 1977, and the related statements of net revenue and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 5 to the accompanying financial statements, Pacific Gas and Electric Company filed a claim against the District in June, 1976, alleging that outages in 1975 and 1976 indicate that the Rancho Seco plant did not become commercially operable in April, 1975 and that the rights and obligations of the parties continued to be controlled by an earlier contract. The claim seeks recovery of approximately \$70,000,000. The District believes its position on the claim will be upheld, but the outcome cannot be determined at this time.

Also, as discussed in Note 6, during 1978 the U.S. Department of Energy placed into effect an interim rate increase. The District has recorded the related billings as purchased power expense and anticipates placing the funds for payments in escrow because the District contends that the interim rate increase is not in accordance with its purchased power contract. The United States has filed a lawsuit against the District to obtain a judicial ruling on this matter. The District believes that its position will be upheld but cannot at this time determine the outcome or financial effect, if any.

In our opinion, subject to the effect of any adjustments that may result from the matters discussed above, the financial statements referred to above present fairly the financial position of Sacramento Municipal Utility District as of December 31, 1978 and 1977, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co

San Francisco, California
January 26, 1979

Operating statistics	1978	1977
Customers at Year-End	309,735	296,541
KWH Sales (in thousands):		
Sales to Customers —		
Residential	2,458,990	2,222,998
Commercial, Industrial, and Other	2,691,876	2,544,239
Total	5,150,866	4,767,237
Sale of Surplus Power	3,081,911	2,923,958
Total	8,232,777	7,691,192
Revenue (in thousands of dollars):		
Sales to Customers —		
Residential	\$ 53,955	\$ 44,497
Commercial, Industrial and Other	49,710	43,157
Total	\$ 103,665	\$ 87,654
Sale of Surplus Power	31,558	33,570
Total	\$ 135,223	\$ 121,224
Average KWH Sales per Residential Customer	9,091	8,597
Average Revenue per Residential KWH Sold	2.19¢	2.00
Power Supply (KWH in thousands):		
Hydroelectric Generation	1,705,497	209,717
Nuclear Generation	4,965,812	5,870,832
Purchases	1,866,937	1,904,428
System Peak Demand-KW	1,577,785	1,353,589
Equivalent Full-time Employees at Year-End	1,678	1,559
Financial Statistics (in thousands of dollars)		
Total Operating Revenues	\$ 135,223	\$ 121,224
Operating Expenses		
Purchased Power	\$ 11,740	\$ 7,780
Operation, Maintenance, and Taxes	54,472	55,032
Depreciation	21,769	20,795
Total operating expenses	\$ 87,981	\$ 83,607
Net operating revenue	\$ 47,242	\$ 37,617
Other Income	6,262	5,270
Gross income	\$ 53,504	\$ 42,887
Interest and Other Income Deductions	23,920	24,568
Net revenue for the year	\$ 29,584	\$ 18,319
Times Debt Service Earned	2.2	1.9
Bonds Repaid	\$ 15,566	\$ 16,657
Electric Utility Plant	\$ 771,499	\$ 739,185
Capitalization:		
Long-term Debt	\$ 493,205	\$ 469,225
Customers' Equity	\$ 358,794	\$ 329,210

1976	1975	1974	1973	1972	1971	1970	1969
282,621	273,259	264,159	254,646	245,449	234,128	224,679	216,408
2,102,704	2,034,017	1,903,777	1,873,373	1,732,798	1,611,792	1,437,918	1,354,488
2,504,313	2,376,723	2,227,059	2,334,503	2,204,425	2,038,245	1,953,273	1,952,288
4,607,017	4,410,740	4,130,836	4,207,876	3,937,223	3,650,037	3,391,191	3,306,776
159,196	1,835,952	—	—	—	—	—	—
4,766,213	6,246,692	4,130,836	4,207,876	3,937,223	3,650,037	3,391,191	3,306,776
\$ 40,553	\$ 35,188	\$ 32,497	\$ 29,686	\$ 26,624	\$ 23,302	\$ 19,711	\$ 18,692
41,405	35,497	32,430	30,957	28,048	24,373	21,566	21,133
\$ 81,958	\$ 70,685	\$ 64,927	\$ 60,643	\$ 54,672	\$ 47,675	\$ 41,277	\$ 39,825
20,988	28,551	—	—	—	—	—	—
\$ 102,946	\$ 99,236	\$ 64,927	\$ 60,643	\$ 54,672	\$ 47,675	\$ 41,277	\$ 39,825
8,491	8,500	8,244	8,416	8,116	7,928	7,365	7,179
1.93c	1.73c	1.71c	1.58c	1.54c	1.45c	1.37c	1.38c
1,038,936	2,023,803	2,584,467	1,853,006	1,591,129	1,664,528	1,893,027	2,546,344
2,181,261	2,472,624	207,223	—	—	—	—	—
1,855,626	2,016,288	1,603,556	2,586,927	2,636,552	2,240,277	1,737,889	981,575
1,329,983	1,272,389	1,201,188	1,173,588	1,099,188	1,020,389	908,388	855,589
1,442	1,447	1,375	1,302	1,242	1,166	1,036	963
\$ 102,946	\$ 99,236	\$ 64,927	\$ 60,643	\$ 54,672	\$ 47,675	\$ 41,277	\$ 39,825
7,643	\$ 8,050	\$ 8,059	\$ 9,914	\$ 10,600	\$ 8,661	\$ 8,396	\$ 6,158
36,367	38,838	16,811	14,504	13,153	11,435	10,604	9,078
20,552	18,227	8,010	7,698	7,337	6,483	6,000	5,749
\$ 64,562	\$ 65,115	\$ 32,880	\$ 32,116	\$ 31,090	\$ 26,579	\$ 25,000	\$ 20,985
\$ 38,384	\$ 34,121	\$ 32,047	\$ 28,527	\$ 23,582	\$ 21,096	\$ 16,277	\$ 18,840
5,254	8,986	29,976	23,377	15,017	10,098	7,048	3,550
\$ 43,638	\$ 43,107	\$ 62,023	\$ 51,904	\$ 38,599	\$ 31,194	\$ 23,325	\$ 22,390
24,946	25,226	25,762	22,524	18,658	13,105	8,088	5,299
\$ 18,692	\$ 17,881	\$ 36,261	\$ 29,380	\$ 19,941	\$ 18,089	\$ 15,237	\$ 17,091
1.8	1.7	1.9	2.1	2.0	2.0	1.9	2.7
\$ 15,648	\$ 15,145	\$ 11,053	\$ 6,607	\$ 6,237	\$ 5,898	\$ 5,759	\$ 81,876
\$ 729,178	\$ 722,081	\$ 705,812	\$ 649,036	\$ 571,896	\$ 466,091	\$ 348,155	\$ 296,190
\$ 484,827	\$ 478,159	\$ 494,165	\$ 509,671	\$ 420,093	\$ 340,565	\$ 206,908	\$ 154,921
\$ 310,892	\$ 292,200	\$ 274,319	\$ 238,059	\$ 208,679	\$ 188,738	\$ 170,648	\$ 155,411

Officers
Donald C. Smith, President
Richard Green, Vice President

Gary Hursh
William O. Smith
Frederick E. Anderson, Jr.

Officers

William C. Weinbagen, General Manager
John J. Mattimoe, Assistant General
Manager and Chief Engineer
Duane C. Browning
Assistant General Manager, Operations
William S. Bossenmaier, Assistant General
Manager and Controller
David S. Kaplan
General Counsel and Secretary
Kenneth J. Mellor, Treasurer

Paying Agents

Bank of America National Trust and
Savings Association, San Francisco
Citibank N.A., New York
Harris Trust and Savings Bank, Chicago

Auditors

Arthur Andersen & Co., San Francisco

Department Managers

William J. Condon, Data Processing
Marlen N. Davis, Consumer Relations
John D. Dunn, Transmission &
Distribution Operations
Leo A. Fassler, Distribution Planning
George F. Fraser, Distribution Construction
Earl M. Gabrielli, Customer Services
William J. Hammond, Personnel General
Services
John P. Hiltz, Hydro Operations
Phillip R. Hollick, Conservation
William K. Latham, Engineering
John H. Micheltore, Accounting
Dallas G. Raasch, Generation Engineering
John L. Ravera, Purchases & Sales
Ronald J. Rodriguez, Nuclear Operations

Headquarters Office

Sacramento Municipal Utility District
6201 S Street, P.O. Box 15830
Sacramento, California 95813
(916) 452-3211



SMUD

SACRAMENTO MUNICIPAL UTILITY DISTRICT
YOUR ELECTRIC SERVICE