

Sacramento Municipal Utility District 1980 Annual Report

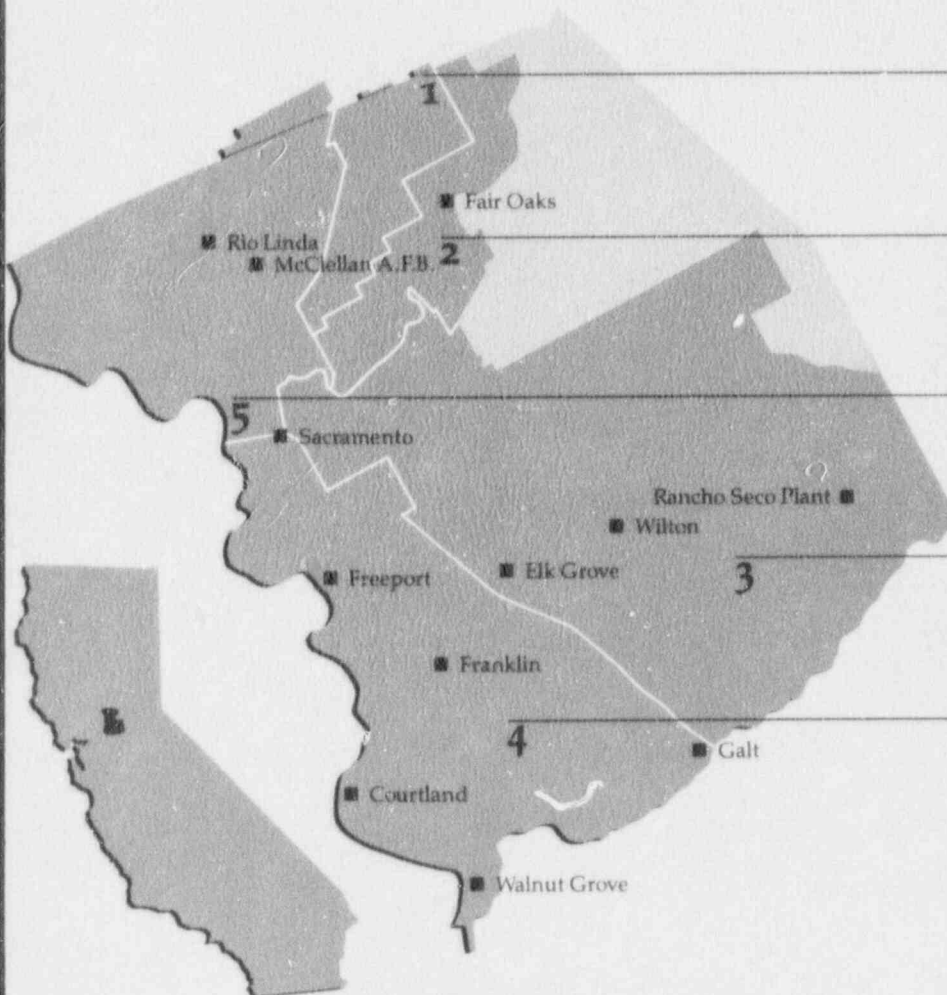


8104140434

John Wilson, Jr.,
owner of the neighborhood.
There is usually trouble.
On the other side is a
manchester for the
American Municipal
Lighting District. Working
closely with a 24-hour
dispatching center, people
like Bill respond rapidly
to calls from customers in
distressed homes and
provide the high degree
of specialized service
needed to restore a safe,
reliable electric system.
With service restored
and repairs completed,
Bill returns to new as-
signments. Most people
will never meet him; but,
where help is needed, he'll
be there. Throughout
this report, people meet
some of the many people
who make sure that this
community remains so
safe and secure.

SMUD Profile

Electricity for people in a 750 square mile area surrounding California's capital city is provided by the Sacramento Municipal Utility District. During 1980, SMUD's service area was expanded to include an additional portion of southeastern Sacramento County which surrounds the Rancho Seco nuclear power plant. Five directors serving staggered terms of four years each are elected by the people SMUD serves. The General Manager is appointed by the Board ■



Gary Hursh
Director, Ward 1



Ann L. Taylor
Director, Ward 1
(Elected Nov. 1980,
Named Vice Pres.
Jan. 1981.)



William O. Baird
Director, Ward 2



John T. Kehoe
Director, Ward 2
(Elected Nov.
1980.)



Richard D. Castro
Director, Ward 5



Paul W. Carr
President
Director, Ward 3



Donald C. McClain
Vice President
Director, Ward 4



William C. Walbridge
General Manager

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Nature's hand smoothed a year with many rough regulatory and economic edges as a blanket of white brought record hydroelectric output at a time when it was needed most.

This was 1980; the turbulent beginning of an exciting decade where planning and innovation will have greater importance than ever before ■

Sierra Snow Sets Record

More energy was produced by the District's hydroelectric generators in 1980 than in any previous year. A record 2.6 billion kilowatt-hour output eclipsed average water year production by more than 39 percent.

Record water years place special demands on the people who maintain hydroelectric facilities. Careful planning and control are required to obtain optimum use of these liquid assets. Good maintenance and closely followed schedules kept the project's 650 megawatts of capacity in service during 1980.

Of course, a banner water year generates more than power. It also generates recreation. A network of reservoirs, dams, and powerhouses form the Crystal Basin recreation area in the Sierra Nevada, 64 miles east of Sacramento. Waterways and camping sites are enjoyed by tens of thousands of outdoor enthusiasts each year ■

Climbing the Regulatory Mountain

Superior hydroelectric performance was especially vital in 1980. Increased government regulation of nuclear power plants reduced the output of Rancho Seco to 4.4 billion kilowatt-hours. This was 1.3 billion less than the 913-megawatt plant generated during the previous year.

Just as Rancho Seco helped meet demand for electricity during the drought of 1977, when area water supplies were at an historic low, hydroelectric resources came to the aid of consumers in 1980. This reaffirmed the importance of a strong domestic energy mix.

Significant plant modifications and operating changes were required of all United States nuclear plant licensees following the March 28, 1979, accident at Three Mile Island. Additions and modifications to Rancho Seco cost \$20 million in 1980. Further modifications totaling \$97 million are scheduled for 1981 and 1982.

Modifications performed in 1980, combined with routine refueling and maintenance, kept Rancho Seco out of service from January 12 through May 10. The plant was also stilled 22 days for turbine bearing repair work later in the year.

During 1980, a new long-term fund was established for decommissioning Rancho Seco. This fund will accumulate money over the remaining 25 years of the plant's life to pay for decommissioning. A total of \$3.7 million had been placed in this fund by year's end. Plant decommissioning is currently estimated to cost \$77.3 million. This figure will be reviewed and adjusted periodically ■

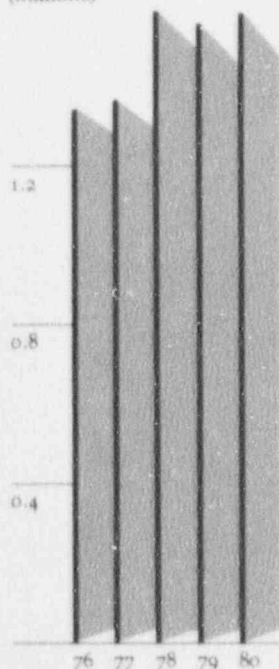
Tomorrow's Energy

Where energy is concerned, the future clearly belongs to the diversified with special emphasis on the renewable. Keeping this in mind, the District moved ahead with plans for a geothermal steam plant in Sonoma County, continued to search out new hydroelectric possibilities, shared in research to develop energy from geothermal hot water in Northern Nevada, and offered a unique proposal which could tap the sun for power. A major commitment for purchase of nuclear fuel was also approved during 1980.

On February 19, 1980, an Application for Certification to construct a geothermal steam power plant was submitted to the California Energy Commission. Final Commission approval of that application is scheduled for March 25, 1981.

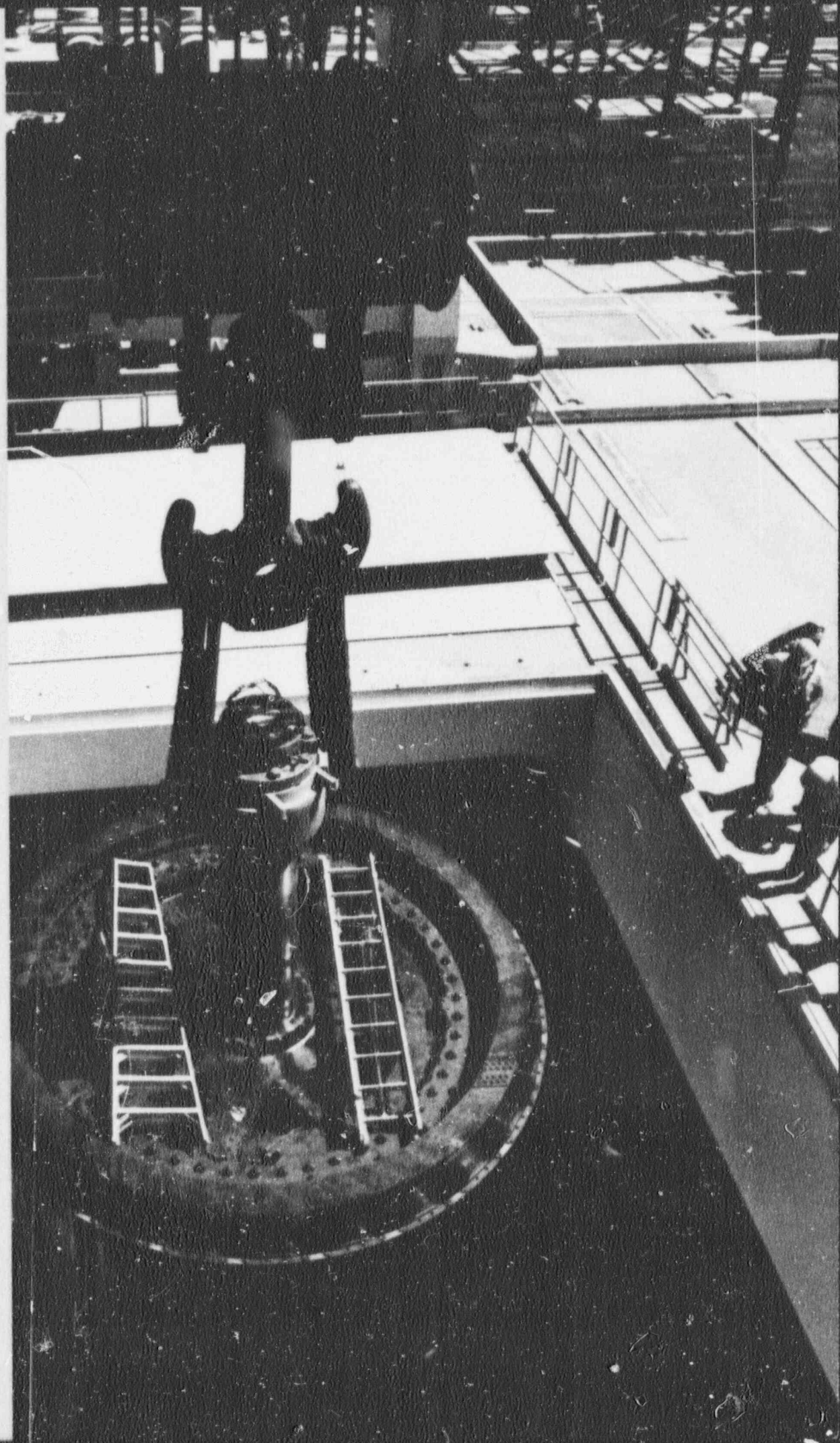
Most of the major components for this geothermal plant were ordered during 1980. The original design assumed a gross plant capacity of 55 megawatts; however, improvements to that design will upgrade the output to 72 megawatts.

KW Peak Demand
(millions)

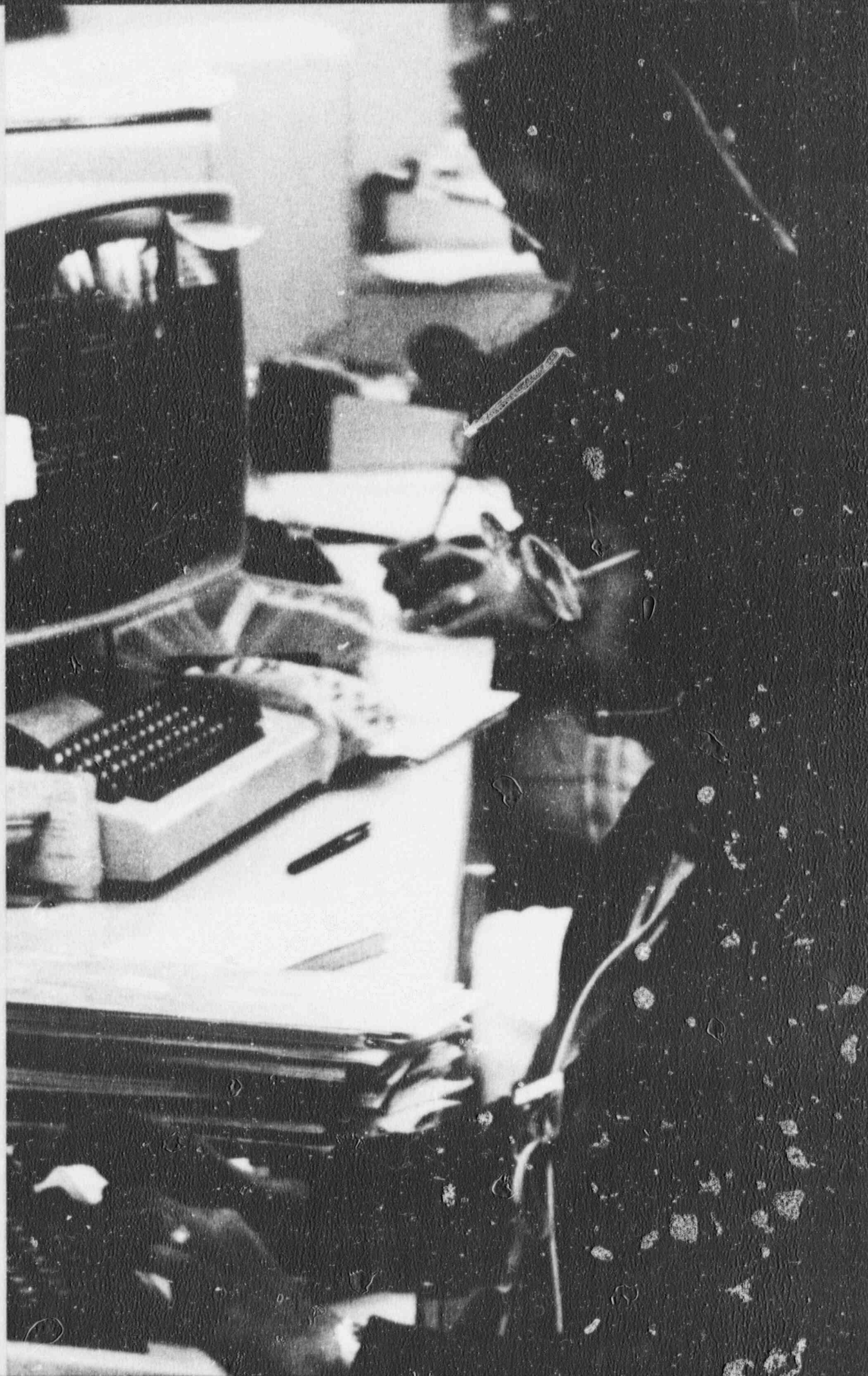


Over the course of a full
business day, a few
workers will be at
Don's. The work is
hard and the weather is
often cold. But the
work is worth it.

Maintenance season in
the high country doesn't
come easy. It comes cold,
wet and fast. Don's
people are making the
most of Nature's liquid
assets. Once this hydro-
electric generator is gin-
gerly reassembled, it will
serve the needs of 20,000
homes. Renewable
energy has the most
demanding schedule
of all. ■



High winds and a
variety of computer
models are all part of her
workday. But Ramona
Courtney's real assign-
ment is helping people.
High winds and tree
limbs can interrupt
service. Ramona and
other members of the
Customer Services De-
partment are on duty to
answer routine ques-
tions, but they can also
help anxious callers
whose power is out. In-
formation gathered here
becomes part of a compos-
ite picture of actual field
conditions ■



Construction of this geothermal plant is scheduled to begin during the second quarter of 1981 on a site in Sonoma County, surrounded by several existing geothermal generating stations. Steam supply for the plant will come from a geothermal leasehold in Sonoma and Lake Counties.

Plans for expansion of the District's existing hydroelectric project include a 400-kilowatt mini-generator to be installed on a fish water release valve at an existing dam at Slab Creek. The District received the Federal Energy Regulatory Commission license in 1980 and work is scheduled to begin on this unit during 1981. Preliminary work on a new 10-megawatt powerhouse, utilizing two existing reservoirs at Ice House and Union Valley, continued in 1980. Advance planning also continued on a project that would divert water from the Rubicon River into Loon Lake. The license applications for these two projects will be filed in 1981. These small hydro additions could net 40 million kilowatt-hours per year.

Other potential hydroelectric developments outside the existing project area are also being pursued. Voters in the South Sutter Water District overwhelmingly approved a bond issue in November to construct a powerhouse at the Camp Far West Dam. Although the project will be owned by South Sutter Water District, SMUD has agreed to participate in the design of this seven megawatt plant, scheduled to go into service in 1983. Once it is complete, the District will operate and purchase all power produced by the facility.

In 1980, the District submitted a competing application to the Federal Energy Regulatory Commission to take over the Rock Creek-Cresta hydroelectric project when the Pacific Gas and Electric (PG&E) Company's license expires in 1982. The project, located on the north fork of the Feather River, has a current capacity of 178 megawatts. The District proposes to uprate the plant's capacity to 202 megawatts if granted the license.

The sparsely populated deserts of Northern Nevada may be a source of power if a utility task force is successful. Geothermal hot water resources are known to exist in this region. Development of power plant systems capable of using this energy is the goal of the Northern Nevada Geothermal Group (NORNEV). The District is one of five utility members of this research group. A 10-megawatt, semi-portable power plant could go into commercial operation in the area as early as 1982. A generation station in the 55-megawatt range is also under review by the utility task force.

A unique proposal calling for construction of a 100-megawatt photovoltaic power station was submitted to the Department of Energy (DOE) by the District during 1980. Development of this commercial size solar power plant, to be located adjacent to Rancho Seco, awaits the approval of DOE.

Uranium to power Rancho Seco in the late 1980s will be received next year as a result of commitments made during 1980. Total expenditures for nuclear fuel will reach \$36.7 million ■

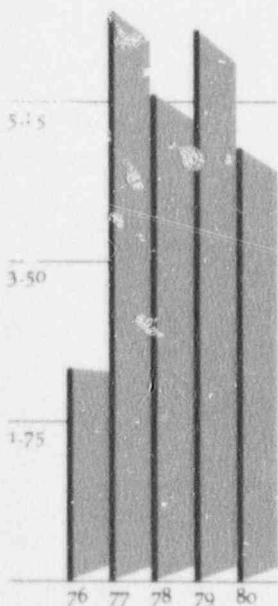
Today's Service

Work on a 230,000-volt underground transmission line from Carmichael substation to Orangevale substation was finished in June. With the completion of this project, the District tripled the size of its 230,000-volt underground transmission system.

Although thousands of miles of cable and millions of dollars in plant and equipment have been planned and constructed since 1970, the number of system disturbances has been kept to a minimum and the length of the average customer outage has been reduced. Several factors have contributed to this service record.

A voltage conversion program is upgrading the distribution system by replacing lower voltage lines with more efficient, 12,000-volt conductor. An apprenticeship program provides useful on-the-job training for field forces, and improved construction techniques continue to be implemented.

Nuclear Generation
(billions of kilowatt-hours in gross output)



Membership in "Underground Service Alert" is credited with reducing power interruptions resulting from accidental cable damage. Through this program, underground cable locations are marked before excavators begin digging ■

Employment

The average number of equivalent full-time employees was 1,810 during 1980. This was an increase of 103 over the previous year. Many of these additional employees will be working in conservation programs. A major contribution to the area's economy is made by the District's annual payroll which exceeded \$40 million.

Following a four-day strike, the first in the District's history, an agreement was reached in January on a two-year wage and benefits package for hourly rated employees represented by the International Brotherhood of Electrical Workers (IBEW). This settlement included a 10.25 percent wage increase effective January 1, 1980, and an agreement which resulted in an average 11.3 percent increase on January 1, 1981. Similarly, the bargaining unit represented by the Organization of SMUD Employees (OSE) negotiated a two-year agreement in June. This agreement also included a 10.25 percent wage increase effective July 1, 1980, with a second year adjustment to be based on increases in the cost of living. Improved employee health benefits and other fringes were included for both employee bargaining units ■

Trio of Factors

Mild weather, conservation, and economic decline combined to cause a reduction in kilowatt-hour sales from 5.5 billion in 1979 to 5.4 billion in 1980. Cooler than normal summer days and warmer winter evenings were the major factors contributing to a decline in usage of two percent. Reduced business activity was another factor holding down energy consumption. One visible sign of economic conditions was the marked reduction in new construction. While 14,703 new customers were added to the system in 1979, only 10,653 were added in 1980.

Sacramento's peak demand for power occurs during hot summer days. In 1980, a peak of 1,574 megawatts was recorded on July 31. This compares to 1,547 megawatts in 1979 and 1,578 megawatts in 1978 ■

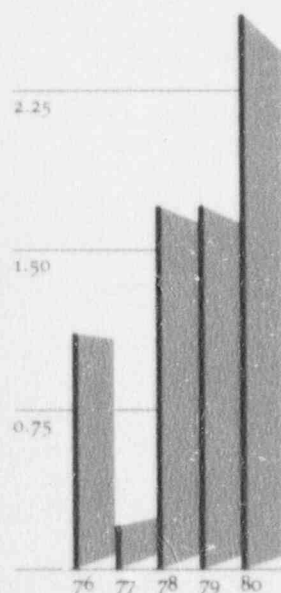
Conservation

While weather has always been a major force shaping energy use, conservation now is clearly playing a part. Historical consumption patterns are changing to meet the challenge of the energy crisis first posed in the early 1970s.

To aid consumers facing this challenge, many conservation programs have been established to ease the way for virtually every sector of the community. Expenditures during the year for activities and programs related to conservation were \$2.2 million, or 1.7 percent of total operating expenses.

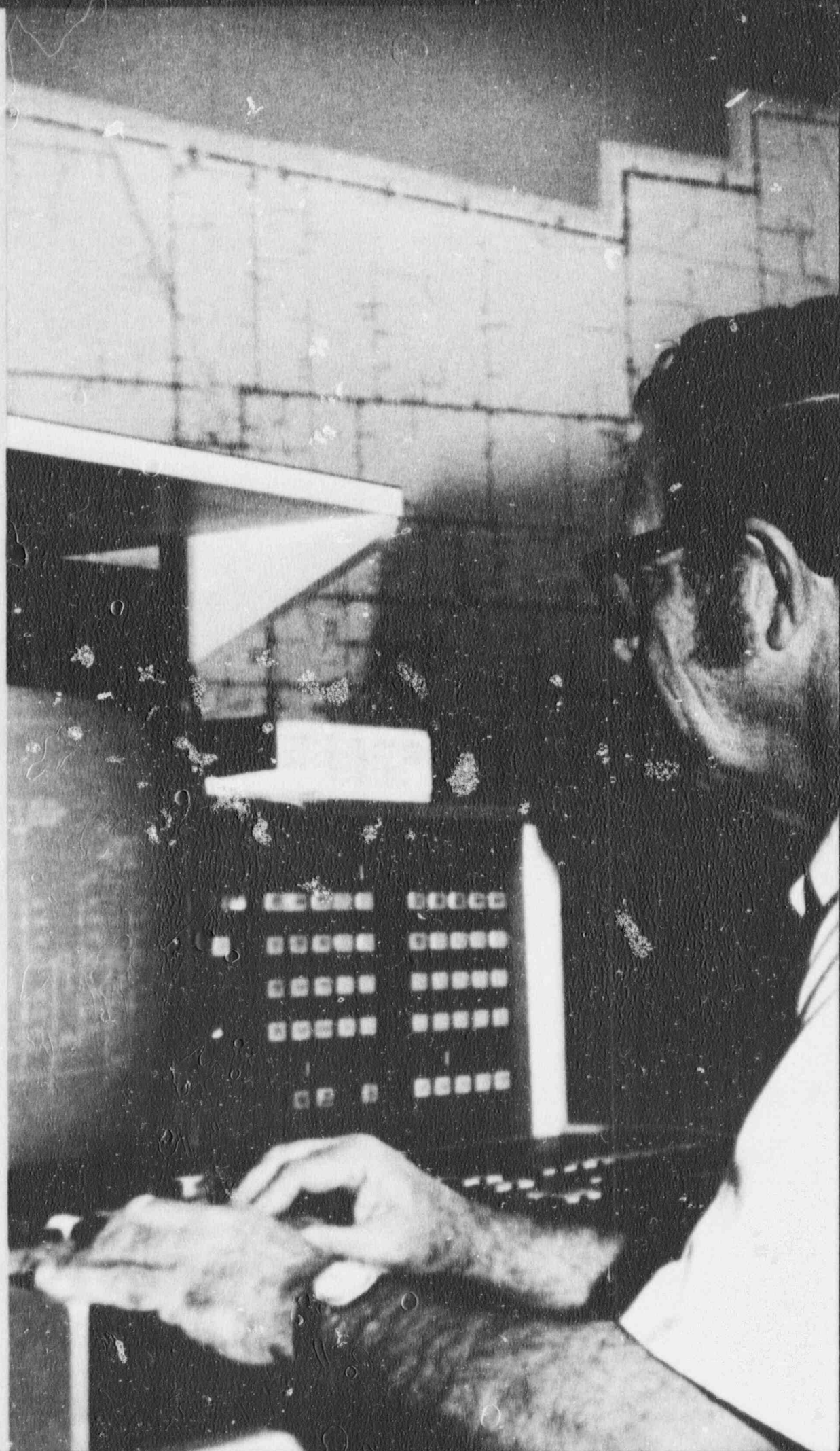
To be effective, conservation must be readily understood, and educating consumers is vital if they are to act decisively. With this in mind, educational programs on energy-related topics for groups and individuals of all ages were presented, and a mass media advertising campaign was employed. A "Residential Conservation Service" plan was also being developed during 1980 in accordance with the requirements of the National Energy Act.

Hydroelectric Generation
(billions of kilowatt-hours in
gross output)

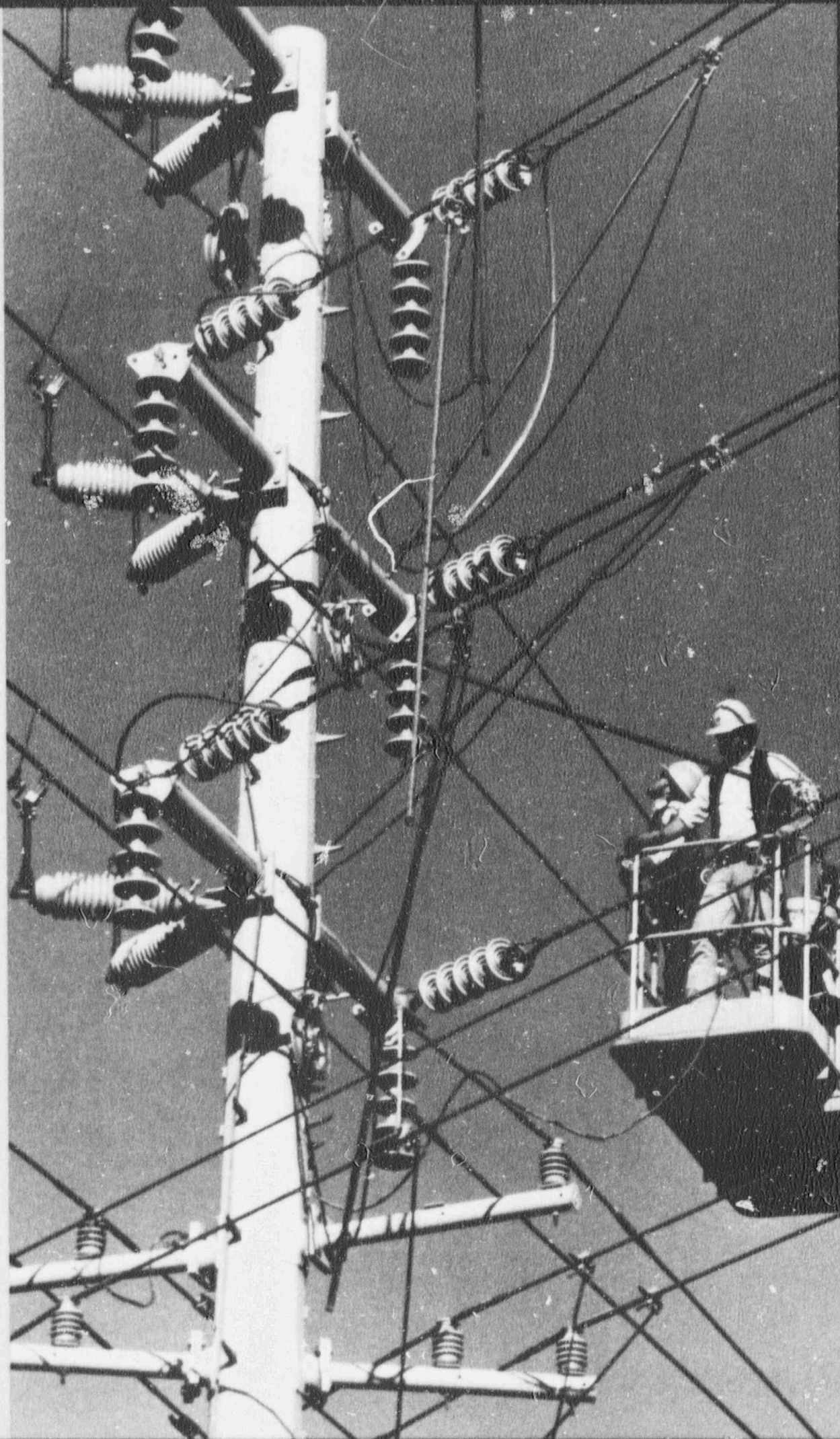


*Not everyone would be
able to do this job
for 24 hours a day.*

*Dispatchers like Bill
maintain the vital link
between all segments of
the electric system. They
control power output and
monitor its use. This
coordination of activity is
needed to assure the
safety of co-workers in
the field. The job goes on
24 hours a day ■*



In the work that Russ and his crew do, safety has to come first. Timing is also important. The power line this team is upgrading will meet the future needs of a fast-growing residential area ■



Saving energy throughout the year and reducing the demand for power during heavy use periods are goals of ongoing conservation programs.

Air conditioning cycling devices have been in use since 1977 when a group of 300 homeowners volunteered for a project designed to evaluate the effectiveness of available cycling equipment and gauge customer attitudes toward its use. Based on that experimentation, it was determined that electric demand is reduced by an average of one kilowatt per volunteer. Considering the vast number of homes using central air conditioning systems, this cycling could contribute significantly to future reductions in peak demand. Cycling devices were installed on 6,000 homes at the end of 1980, and the experiment became an operating program for the first time.

During 1980, a negotiable "Time-of-Day" power rate was approved by the District's Board of Directors. Huge pumps used for drainage by reclamation districts represent a substantial electric load, and this equipment is now operated during off-peak hours. The signing of the District's negotiated rate results in a peak reduction equal to 1,000 residential load cyclers ■

Legal Action

During 1979, the District and the Pacific Gas and Electric Company (PGandE) agreed to submit to arbitration the PGandE claim against the District resulting from plant outages at Rancho Seco in 1975 and 1976. Under the agreement, PGandE abandoned a portion of its claim so that the amount in dispute is now approximately \$50 million instead of approximately \$70 million. The arbitration hearing is scheduled to begin on April 6, 1981.

The Western Area Power Administration (WAPA), an agency which administers the power marketing functions of the Central Valley Project, put into effect an interim rate increase of approximately 95 percent effective May 25, 1978, and an additional increase of approximately 10 percent effective November 1, 1979. These increases are subject to review and approval by

the Federal Energy Regulatory Commission.

The District contended that the increases are not in accord with the rate modification formula in its power purchase contract, and the United States filed a lawsuit to resolve this dispute. On June 25, 1979, the United States District Court granted judgment in favor of the United States. The District has taken an appeal from this judgment to the United States Court of Appeals for the Ninth Circuit. Briefs have been filed by both parties, but the Court has not yet set a date for hearing the argument. Pending conclusion of the lawsuit, the District is paying into escrow all billings for Central Valley Project power in excess of those based on the pre-May 25, 1978, rates.

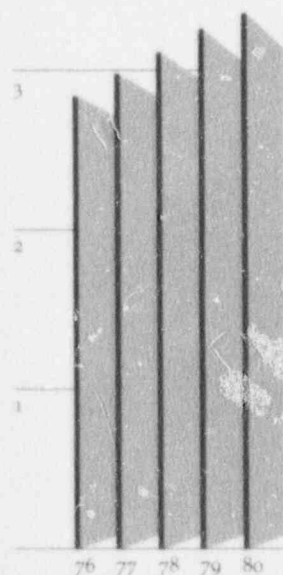
In November 1979, a group of electrical contractors filed a lawsuit charging the District with attempting to monopolize the markets for electric distribution systems and street and outdoor lighting systems in the District's territory. The contractors have asked for injunctive relief and for damages of approximately \$54 million. Both parties are conducting discovery, and a date for trial has not yet been set.

In October 1979, one of the District's employees filed a class action charging that the District had discriminated against women and minorities in its employment practices. The complaint sought injunctive relief and damages in an unspecified amount. That suit was settled during 1980 for an amount that was considerably less than litigation costs would have been if the case had proceeded to trial. The settlement did not constitute an admission by the District that its employment practices had been improper ■

Financial Firsts

During 1980, the District's total assets exceeded \$1 billion for the first time. Capitalization at year's end was \$931 million, of which 45.3 percent was customers' equity. Net revenue for the year was \$35.3 million. The revenue bond debt coverage ratio for 1980 was 2.51 times.

Customers at Year End
(hundreds of thousands)



Another financial first was also set: the District began issuing tax-exempt commercial paper under new authority of the California Municipal Utility District Act. Up to \$50 million may be issued in this manner. To date, \$40 million has been issued to finance the purchase of nuclear fuel. This paper is supported by a bank line of credit. It carries the highest ratings offered by Moody's Investors Service, Inc., and Standard & Poor's.

In December, the Board of Directors approved a \$321.8 million budget for 1981. This budget includes \$131 million for new construction projects, \$104 million for operating expenses, \$50.1 million for debt service, and \$36.7 million for nuclear fuel purchases.

Electric rates increased an average of 18% on March 1. Even with this increase, the District continued to offer one of the nation's lowest prices for power. Following the increase, residential customers paid 2.81 cents per kilowatt-hour. Their counterparts in San Francisco paid 4.47 cents, and in Los Angeles, 6.81 cents. Residential power bills were running four times as much in New York.

This rate adjustment was preceded by a number of hearings on 12 Federal rate standards held in response to passage of the National Energy Act of 1978. Reports from three citizens' committees, representing residential and business customers and environmental interests, were considered as were comments of individual members of the public. The committees were funded by the District to meet requirements of the Public Utility Regulatory Policy Act ■

Model Structure Takes Shape

Construction of the Foothill Service Center continued on schedule. The center will include warehousing facilities, a vehicle maintenance garage, and an administration building, all housed on a 27.6 acre site in the northern portion of Sacramento County.

Extensive use of passive and active solar systems and other conservation measures will make this new facility a model of energy efficiency in commercial construction. The facility will also improve the District's operating efficiency by reducing travel time for personnel and equipment serving the fast-growing northeast area.

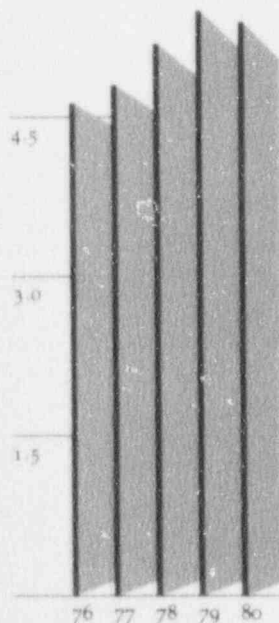
Foothill Service Center is scheduled to open during the second half of 1981. A bulk power substation will share the site later in the decade ■

Board Election

John Kehoe was elected to the SMUD Board of Directors in November 1980, representing Ward 2. His term on the SMUD Board began January 5, 1981, and expires in January 1985. His long career in public service includes a current appointment as Executive Vice President of the Sacramento Metropolitan Chamber of Commerce.

Ann Taylor was elected to the SMUD Board of Directors in November 1980, representing Ward 1. Her term on the SMUD Board began on January 5, 1981, and expires in January 1985. Currently, she serves as Board Vice President. While pursuing a career as a professional horsewoman, she has also maintained active involvement in numerous civic organizations and activities ■

KWH Sales (Billions)
Excludes Sales of
Surplus Power



Paul W. Carr

PAUL W. CARR
President

Wm. C. Walbridge

WM. C. WALBRIDGE
General Manager

Customers served by SMUD continued to enjoy one of the nation's lowest electric rates during 1980. The District's long-term commitment to domestic energy resources like hydro and nuclear kept bills for electricity down even in these highly inflationary times ■



Balance Sheets

12

December 31, 1980 and 1979

1980

1979

*Assets**Electric Utility Plant:*

Plant in service, at original cost	\$ 893,252,657	\$ 40,320,052
Less—Reserve for depreciation	183,973,944	162,547,313
	\$ 709,278,713	\$ 677,772,739
Construction work in progress	77,491,680	60,860,839
Nuclear fuel, at cost less amortization	113,398,987	90,821,386
	\$ 900,169,380	\$ 829,454,964

*Reserve funds, consisting of cash and securities
at cost which approximates market.*

For Revenue Bonds (Note 4)	\$ 27,570,228	\$ 27,983,898
For nuclear plant decommissioning (Note 1)	3,733,725	—
	\$ 31,303,953	\$ 27,983,898

Current Assets:

Cash and marketable securities, at cost which approximates market—		
General fund	\$ 28,566,364	\$ 52,591,937
For payment of debt service	13,930,301	13,877,949
Accrued interest receivable	1,647,297	2,429,975
Accounts receivable—net	10,352,095	9,977,269
Receivable from sale of surplus power	15,323,171	9,358,825
Materials and supplies, at average cost	18,500,643	13,157,849
Prepayments and special deposits	1,192,614	1,315,002
Purchased power rate increase—		
Escrow deposit (Note 6)	20,028,134	8,755,277
	\$ 109,540,619	\$ 111,464,083

Deferred Charges

	\$ 8,293,919	\$ 5,200,258
	\$ 1,049,307,871	\$ 974,103,203

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

1980

1979

*Customers' Equity and Liabilities**Capitalization:*

Customers' equity employed in the business—

Balance beginning of year	\$ 386,271,433	\$358,794,438
Net revenue for the year	35,251,381	27,476,995
Total customers' equity	\$ 421,522,814	\$386,271,433

Long-term debt (Note 2)	509,576,740	526,736,445
	\$ 931,099,554	\$913,007,878

Current Liabilities:

Commercial paper (Note 3)	\$ 39,936,608	\$ —
Accounts payable	17,492,178	15,748,734
Accrued salaries, wages and vacation pay	4,388,177	4,204,281
Long-term debt due within one year	17,216,453	16,484,774
Accrued interest payable	6,935,742	7,053,639
Customers' deposits	3,234,806	2,619,141
Purchased power rate increase (Note 6)	21,292,669	11,797,243
Other	3,977,959	3,187,513
	\$ 114,474,592	\$ 61,095,325

Reserve for Decommissioning (Note 1)	\$ 3,733,725	\$ —
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Commitments and Contingencies (Note 7)	—	—
	\$1,049,307,871	\$974,103,203

Statements of Net Revenue

14

Years ended December 31, 1980 and 1979

1980

1979

Operating Revenues:

Residential	\$ 68,446,205	\$ 60,856,900
Commercial and industrial	59,538,580	52,643,857
Sale of surplus power (Note 5)	50,053,138	35,382,315
Other	1,585,555	1,364,498
Total operating revenues	\$179,623,478	\$150,227,570

*Operating Expenses:**Operation—*

Purchased power (Note 6)	\$ 16,401,560	\$ 14,972,257
Nuclear fuel used for generation	19,601,196	21,212,516
Production	19,767,590	10,730,213
Other	24,759,756	20,528,354
Maintenance	23,129,117	15,953,421
Provision for depreciation and decommissioning (Note 1)	27,453,759	22,694,566

Total operating expenses	\$131,112,978	\$106,091,327
Net operating revenue	\$ 48,510,500	\$ 44,136,243

Other Income:

Allowance for equity funds used during construction (Note 1)	3,555,268	2,035,702
Interest income and other	8,958,281	6,241,335

Net revenue before interest expense	\$ 61,024,049	\$ 52,413,280
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Interest Expense:

Interest on debt	29,470,088	27,130,261
Allowance for borrowed funds used during construction—credit (Note 1)	(3,697,420)	(2,193,976)

Net revenue for the year	\$ 35,251,381	\$ 27,476,995
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The accompanying notes are an integral part of these statements.

Statements of Changes in Financial Position

15

Years ended December 31, 1980 and 1979

1980

1979

Funds provided from:

Operations—

Net revenue for the year	\$ 35,251,381	\$ 27,476,995
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Add non-cash charges—

Depreciation and decommissioning	27,453,759	22,694,566
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Write-offs of generation projects	76,018	2,491,945
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Add—Interest on debt	29,470,088	27,130,261
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Total available for revenue bond debt service	\$ 92,251,246	\$ 79,793,767
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Add—Nuclear fuel used for generation	19,601,196	21,212,516
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Total available for total debt service	\$111,852,442	\$101,006,283
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Sale of electric revenue bonds	\$ —	\$ 50,000,000
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Sale of commercial paper—net	39,936,608	—
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Decrease in working capital (excluding commercial paper)	15,366,123	—
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Total funds provided	\$167,155,173	\$151,006,283
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Funds used for:

Debt service—

Revenue bonds	\$ 36,802,255	\$ 34,040,486
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General obligation bonds	8,314,393	8,912,377
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Total debt service	\$ 45,116,648	\$ 42,952,863
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Additions to plant and nuclear fuel	116,211,971	103,707,051
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Increase in working capital	—	642,963
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Additions to reserve funds	3,320,055	2,919,015
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Interest on commercial paper	552,229	—
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Other	1,954,270	784,391
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Total funds used	\$167,155,173	\$151,006,283
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*Number of times debt service is covered
by funds available:*

Revenue bonds	2.51	2.34
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Total debt	2.48	2.35
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The accompanying notes are an integral part of these statements.

Notes to Financial Statements

16

December 31, 1980 and 1979

NOTE 1. Summary
of Significant
Accounting Policies

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

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

Depreciation, Amortization, and Decommissioning 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 1980 and 1979 were:

	1980	1979
Intangible plant	3.06%	3.06%
Generation-		
Hydro	1.53	1.43
Nuclear (excluding decommissioning)	3.44	3.30
Transmission	2.86	2.62
Distribution	2.94	3.00
General	5.04	5.47
Composite	2.93	2.85

The costs of replacement property units are charged to plant. Repair and maintenance costs are charged to expense, including such costs associated with refueling the Rancho Seco nuclear plant. Rancho Seco was refueled in 1980, but not in 1979.

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

Decommissioning of the nuclear power plant has been estimated at \$77.3 million in 1978 dollars. This amount will be reviewed and adjusted periodically to reflect the latest practices of plant decommissioning. The District established the decommissioning fund on January 1, 1980, to set aside decommissioning costs over the remaining 25 years of plant life. The \$77.3 million has been escalated for inflation through 1980, and is used to establish the reserve for decommissioning and to make cash deposits into the fund. Fund management is under District control.

Notes to Financial Statements (continued)

17

NOTE 1. Summary
of Significant
Accounting Policies
(continued)

Allowance for Funds Used During Construction: The total allowance for funds used during construction in 1980 and 1979 amounted to approximately 6.1% and 5.9%, respectively, of eligible nuclear fuel and plant under construction.

Retirement Plan: The District's employees are covered by a contributory retirement plan administered by the State of California Retirement System. The District's policy is to fund retirement costs as accrued and contributions for 1980

and 1979 amounted to \$6,642,000 and \$5,121,000, respectively. Reflecting improved benefits of the plan and actuarial studies, the District's rate of covered payroll contributed to the plan increased from 15.31% to 17.19% effective July 1, 1979, and to 17.51% effective July 1, 1980. The State Retirement System has reported that the District's share of the actuarially determined unfunded obligation as of June 30, 1980, was approximately \$62,000,000.

NOTE 2. Long-Term
Debt

Long-term debt outstanding at December 31, 1980 and 1979 was as follows:

	1980	1979
General Obligation Bonds—		
Electric Bonds, 2%, 1981 to 1990	\$ 5,424,000	\$ 6,144,000
Building Bonds		
4%-4¾%, 1981 to 1992	5,765,000	6,100,000
SMUD Bonds, Series C		
4½%, 1981	6,700,000	13,100,000
Revenue Bonds—		
Upper American River Project Refunding Bonds		
3½%-3¾%, 1981 to 1991	46,600,000	50,100,000
White Rock Project Bonds—		
Series A and B, 3¼%-3½%, 1981 to 2004	33,805,000	34,645,000
Series C and D, 6¼%-7%, 1981 to 2010	54,800,000	55,400,000
Electric System Bonds		
3%-3¾%, 1981 to 1983	2,855,000	4,000,000
Electric Revenue Bonds		
Series A-H, 4¾%-7%, 1981 to 2019	370,600,000	373,500,000
Total bonds	\$526,549,000	\$542,989,000
Purchase Agreement, 3¾%, 1981 to 2000	1,347,932	1,392,705
	\$527,896,932	\$544,381,705
Less—Bond discount, White Rock Project, Series C	1,103,739	1,160,486
Less—Amount due within one year	17,216,453	16,484,774
	\$509,576,740	\$526,736,445

Notes to Financial Statements (continued)

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NOTE 3. Commercial Paper

The District is authorized to issue commercial paper not to exceed \$50,000,000 with a term not to exceed 270 days.

The District first issued commercial paper on October 23, 1980. As of December 31, 1980, there was \$39,937,000 of the District's commercial paper outstanding at an effective interest rate of 8.19%. The maximum amount of commercial paper outstanding at any month-end during the year ended December 31, 1980, was \$39,937,000.

During the period from October 23, 1980, through December 31, 1980, the approximate effective interest rate for commercial paper was

7.37%, the approximate average commercial paper outstanding was \$33,085,000 and the average term was 30 days. The effective interest rates were computed on a daily basis weighted for the amount borrowed at each rate and include the dealer's and bank line-of-credit fees.

A line of credit is maintained to support the sale of commercial paper. The District compensates the bank for the line of credit by fee payments. During 1980, the District utilized the bank line of credit in the amount of \$5,000,000 for seven days at an effective interest rate of 8.47%.

NOTE 4. Reserve Funds for Revenue Bonds

Reserve funds for revenue bonds at December 31, 1980 and 1979 were as follows:

	1980	1979
Electric System Bonds	\$ 1,000,000	\$ 1,000,000
Electric Revenue Bonds	20,267,920	20,501,565
White Rock Project Bonds	929,986	929,986
All Parity Bonds	5,372,322	5,552,347
	<u>\$27,570,228</u>	<u>\$27,983,898</u>

NOTE 5. Rancho Seco Nuclear Plant

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

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

Notes to Financial Statements (continued)

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NOTE 5. *Rancho Seco
Nuclear Plant*

(continued)

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

On May 30, 1979, PGandE and the District signed an agreement submitting the claim to an arbitration panel. Under the agreement, PGandE has abandoned its claim for the \$20,000,000 and additional expenses alleged in the claim to have been incurred in the purchase of replacement capacity and energy. The hearing before the arbitration panel is scheduled to begin on April 6, 1981. While the outcome of this dispute cannot be predicted with certainty, the District believes that it has meritorious defenses and, in addition, that an indemnity provision in the contract under which the District purchased the Rancho Seco turbine generator from the Westinghouse Electric Corporation obligates Westinghouse to pay any judgment which PGandE may obtain. The District also asserts rights of indemnity against Babcock & Wilcox Co. and Bechtel Power Corporation.

In accordance with a Nuclear Regulatory Commission Order, Rancho Seco was shut down from April 28, 1979, until early July 1979. On April 30, 1980, Pacific Gas and Electric Company filed a claim against the District to recover a portion of the costs it incurred during the months of May through September 1979, in purchasing capacity from the Bonneville Power Administration. The claim is based upon a provision of the District's 1970 Power Sale, Exchange and Integration Contract with PGandE which states that PGandE shall make capacity available to the District in the event of outages at no charge except to the extent that such outages cause PGandE to incur additional costs to obtain capacity from outside the Northern California area. PGandE contends that its Bonneville purchases were made necessary by the Rancho Seco outage. The PGandE claim does not specify an amount, but, based upon informal discussions with PGandE representatives, the District's present understanding is that PGandE's position is that the claim will total approximately \$4,000,000. The District disagrees with the method by which PGandE has computed this amount and believes, on the basis of the information presently available to it, that most of PGandE's purchases were caused by delays in completing PGandE's scheduled generating facilities and by PGandE's consequent failure to maintain the reserves contemplated by the 1970 contract, rather than by the shutdown of Rancho Seco. The claim is now being informally discussed between the District and PGandE. At this time, the District is unable to predict in what manner or in what amount it will ultimately be settled.

Notes to Financial Statements (continued)

*NOTE 6. Purchased
Power Rate Increase*

On May 25, 1978, and November 1, 1979, interim rate increases for power purchased from the Central Valley Project (CVP) were placed into effect by the U.S. Department of Energy. The estimated annual billing increase to the District under these interim rates is approximately \$7.7 million. The proposed rates will not become final until they are confirmed and approved by the Federal Energy Regulatory Commission. The District is presently paying into escrow that portion of each monthly bill representing the increase over the rates in effect before May 25, 1978 (at December 31, 1980, the balance in escrow was \$20,028,000), pending conclusion of a lawsuit filed against the District by the United States to obtain a judicial ruling on the District's contention that the criteria being used in the

rate proceedings are not in accord with a rate modification formula in the contract under which the District purchases CVP power. On June 25, 1979, the United States District Court for the Eastern District of California granted a motion for summary judgment against the District. On July 20, 1979, the District filed a notice of appeal to the United States Court of Appeals for the Ninth Circuit. The District cannot at this time estimate how much, if any, of the amounts paid into escrow will be returned to it if it is successful in the lawsuit. Currently, the entire billing increase is included in Purchased Power Expense and as Purchased Power Rate Increase, a current liability. At December 31, 1980, the balance of the current liability is \$21,293,000.

*NOTE 7. Commitments
and Contingencies*

Estimated construction and nuclear fuel expenditures in 1981 are \$130,594,000 and \$36,746,000, respectively. The total cost of nuclear fuel under contracts for future reloads (covering the period 1981 to 1988) is estimated to be approximately \$176,616,000.

The District is a defendant in various actions including a suit filed by 13 electrical contractors alleging that the District's practice of constructing its own distribution facilities violates the antitrust laws. Management is unable to predict what effect, if any, the ultimate outcome of these suits might have on future operations. But, after evaluating this claim and discussing it with staff counsel and with the law firm retained to defend the District, management is of the opinion that the effect on the accompanying financial statements will not be material.

Auditors' Report

To the Board of Directors of Sacramento Municipal Utility District:

We have examined the balance sheets of Sacramento Municipal Utility District (a political subdivision of the State of California) as of December 31, 1980 and 1979, and the related statements of net revenue and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed further in Note 5 to the accompanying financial statements, Pacific Gas and Electric Company has filed two claims against the District resulting from unplanned shutdowns of the Rancho Seco Nuclear Plant. The first claim of approximately \$50,000,000 seeks recovery of differences in payments between a contract in effect prior to commercial operation and the current contract. The second claim seeks recovery of costs incurred to purchase capacity from other sources and is in the amount of approximately \$4,000,000. The District believes that its position on the larger claim will be upheld and that the amount of the second claim is greatly overstated, but the outcome of these claims cannot be determined at this time.

Also, as discussed further in Note 6, during 1978 and 1979, the U.S. Department of Energy placed into effect interim rate increases. The District has recorded the related billings of \$21,293,000 as purchased power expense but is currently placing funds for payment in escrow. The District contends that the interim rate increases are not in accordance with its purchased power contract. The United States has filed a lawsuit against the District to obtain a judicial ruling on this matter. The District cannot determine at this time how much, if any, of the \$20,028,000 which is now in escrow will be refunded if it is successful in this action.

In our opinion, subject to the effect of any adjustments that might have been required had the outcome of the matters discussed above been known, the financial statements referred to above present fairly the financial position of Sacramento Municipal Utility District as of December 31, 1980 and 1979, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

San Francisco, California
January 30, 1981

ARTHUR ANDERSEN & CO.

Ten-Year Summary

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<i>Operating Statistics</i>	1980	1979
Customers at Year-End	335,091	324,438
KWH Sales (in thousands):		
Sales to Customers—		
Residential	2,587,168	2,678,806
Commercial, Industrial, and Other	2,764,700	2,792,229
Total	5,351,868	5,471,031
Sale of Surplus Power	3,306,254	3,533,889
Total	8,658,122	9,004,916
Revenue (in thousands of dollars):		
Sales to Customers—		
Residential	\$ 68,446	\$ 60,837
Commercial, Industrial, and Other	61,124	54,008
Total	\$ 129,570	\$ 114,845
Sale of Surplus Power	50,053	35,382
Total	\$ 179,623	\$ 150,227
Average KWH Sales per Residential Customer	8,776	9,446
Average Revenue per Residential KWH Sold	2.65¢	2.27
Power Supply (KWH in thousands):		
Hydroelectric Generation	2,595,983	1,673,322
Nuclear Generation	4,408,698	5,717,476
Purchases	1,899,292	1,890,289
System Peak Demand—KW	1,573,967	1,546,789
Equivalent Full-time Employees at Year-End	1,868	1,764
<i>Financial Statistics (in thousands of dollars):</i>		
Total Operating Revenues	\$ 179,623	\$ 150,227
<i>Operating Expenses</i>		
Purchased Power	\$ 16,402	\$ 14,972
Operation, Maintenance, and Taxes	87,257	68,422
Depreciation and Decommissioning	27,454	22,695
Total operating expenses	\$ 131,113	\$ 106,091
Net operating revenue	\$ 48,510	\$ 44,136
Other Income	12,514	8,277
Net revenue before interest expense	\$ 61,024	\$ 52,413
Interest Expense	25,773	24,936
Net revenue for the year	\$ 35,251	\$ 27,477
Times Debt Service Earned—Revenue Bonds	2.5	2.3
Bonds Repaid	\$ 16,485	\$ 16,047
Electric Utility Plant	900,169	829,455
Capitalization:		
Long-Term Debt	\$ 509,577	\$ 526,737
Customers' Equity	\$ 421,523	\$ 386,271

1978	1977	1976	1975	1974	1973	1972	1971
309,735	296,541	282,621	273,259	264,159	254,646	245,449	234,128
2,458,990	2,222,998	2,102,704	2,034,017	1,903,777	1,873,373	1,732,798	1,611,792
2,691,876	2,544,239	2,504,313	2,376,723	2,227,059	2,334,503	2,204,425	2,038,245
5,150,866	4,767,237	4,607,017	4,410,740	4,130,836	4,207,876	3,937,223	3,650,037
3,031,911	2,923,955	159,196	1,835,952	—	—	—	—
8,232,777	7,691,192	4,766,213	6,246,692	4,130,836	4,207,876	3,937,223	3,650,037
\$ 53,955	\$ 44,497	\$ 40,553	\$ 35,188	\$ 32,497	\$ 29,686	\$ 26,624	\$ 23,302
49,710	43,157	41,405	35,497	32,430	30,957	28,048	24,373
\$ 103,665	\$ 87,654	\$ 81,958	\$ 70,685	\$ 64,927	\$ 60,643	\$ 54,672	\$ 47,675
31,558	33,570	20,988	28,551	—	—	—	—
\$ 135,223	\$ 121,224	\$ 102,946	\$ 99,236	\$ 64,927	\$ 60,643	\$ 54,672	\$ 47,675
9,091	8,597	8,491	8,500	8,244	8,416	8,116	7,928
2.19e	2.00e	1.93e	1.73e	1.71e	1.58e	1.54e	1.45e
1,705,497	209,717	1,038,936	2,023,803	2,584,467	1,853,606	1,591,129	1,664,528
4,965,812	5,870,832	2,181,261	2,472,624	207,223	—	—	—
1,866,937	1,904,428	1,855,626	2,016,288	1,603,556	2,586,927	2,636,552	2,240,277
1,577,785	1,353,589	1,329,983	1,272,389	1,201,188	1,173,588	1,099,188	1,020,389
1,678	1,559	1,442	1,447	1,375	1,302	1,242	1,166
\$ 135,223	\$ 121,224	\$ 102,946	\$ 99,236	\$ 64,927	\$ 60,643	\$ 54,672	\$ 47,675
\$ 11,740	\$ 7,780	\$ 7,643	\$ 8,050	\$ 8,059	\$ 9,914	\$ 10,600	\$ 8,661
54,472	55,032	26,367	38,838	16,811	14,504	13,153	11,435
21,769	20,795	21,552	28,227	8,010	7,698	7,337	6,483
\$ 87,981	\$ 83,607	\$ 64,562	\$ 65,115	\$ 32,880	\$ 32,116	\$ 31,090	\$ 26,579
\$ 47,242	\$ 37,617	\$ 38,384	\$ 34,121	\$ 32,047	\$ 28,527	\$ 23,582	\$ 21,096
6,262	5,270	5,254	8,986	29,976	23,377	15,017	10,098
\$ 53,504	\$ 42,887	\$ 43,638	\$ 43,107	\$ 62,023	\$ 51,904	\$ 38,599	\$ 31,194
23,920	24,568	24,946	25,226	25,762	22,524	18,658	13,105
\$ 29,584	\$ 18,319	\$ 18,692	\$ 17,881	\$ 36,261	\$ 29,380	\$ 19,941	\$ 18,089
2.2	1.9	1.8	1.7	1.9	2.1	2.0	2.0
\$ 15,556	\$ 16,657	\$ 15,648	\$ 15,145	\$ 11,053	\$ 6,607	\$ 6,237	\$ 5,898
\$ 771,499	\$ 739,185	\$ 729,178	\$ 722,081	\$ 705,812	\$ 649,036	\$ 571,896	\$ 466,091
\$ 493,205	\$ 469,225	\$ 484,827	\$ 478,159	\$ 494,165	\$ 509,671	\$ 420,093	\$ 340,565
\$ 358,794	\$ 329,210	\$ 310,892	\$ 292,200	\$ 274,319	\$ 238,059	\$ 208,679	\$ 188,738

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