

Visions of the Future



**Pasadena Water & Power
Annual Report 2002–2003**

Letter from the General Manager

Perhaps more than at any other time since Pasadena Water and Power was founded, the year 2003 was about the future.

With strong financial footing and a steady handle on our daily operations, PWP was free in 2003 to look up from the pipes and power lines, conduit, nuts and bolts and set our sights on the decades ahead. With new spirit, a new set of tools and new dreams, we began laying the foundation for a very bright future for all Pasadenans.

Our list of advancements is impressive. By launching construction of the \$82 million Glenarm Power Plant and securing a healthy share in Burbank's Magnolia Power Plant, PWP locked in a reliable supply of power for our customers for years to come. At the same time, PWP put the finishing touches on an 18-year Water System Master Plan, which outlines \$234 million in improvements that will bring our aging pipes, wells and reservoirs back to top shape.

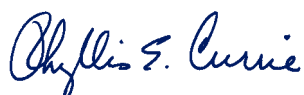
In 2003 PWP became an even more dynamic advocate for the environment, actively promoting conservation and clean power through countless community programs. Our aim is to give our customers the tools, knowledge and incentives they need to protect the earth for future generations.

As always, in 2003 PWP tapped into great new ideas and technology to improve service for each and every one of our customers – providing everything from on-line account management to high-tech meter retrofits to a new Geographic Information System that will transform our daily operations.

Today we are making sure that our children and grandchildren will enjoy the very things we take for granted: dependable water and power, superior service, the promise of competitive rates, clean air and a healthy place to live.

As you read through our 2003 Annual Report, I hope you will become as excited as I am about the years to come. Working together, we can look forward to a very bright future indeed.

Sincerely,



Phyllis E. Currie
General Manager
Pasadena Water and Power



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Table of Contents

| | | |
|---|-------|-------|
| Introduction | 3 | |
| A Future of Security | 4-6 | |
| The Glenarm Power Plant / Magnolia Power Plant Agreement / Water System Master Plan / High-Tech Water Quality Testing / Maintaining Our Resources / Undergrounding for Beautiful Vistas | | |
| A Future That's Green | 7-9 | |
| Green Power / Solar Power / Co-Generation / A Community Model / Cool Trees / Energy Conservation / Water Conservation | | |
| A Future of Satisfaction | 10-11 | |
| Round-the-Clock Service / Simple Rates and a Healthy Refund / The Best of New Technology / Face-to-Face In the Community | | |
| A Future of Prosperity | 12-13 | |
| Operating Engineers / Caltech / Lake Avenue Church / Winston Apartments / Parkway Grill | | |
| A Future for the Next Generation | 14-15 | |
| LivingWise / Children Investigate the Environment / Cool Schools / PasadenaLEARNS / A Work of Art | | |
| PWP's Business Units | 16-17 | |
| Customer Care / Finance and Administration / Power Supply / Power Delivery / Water Services | | |
| Financials | 18-35 | |
| Water Financial Narrative | | 18 |
| Water Division – Financial Statements..... | | 19-25 |
| Power Financial Narrative | | 26 |
| Power Division – Financial Statements | | 27-33 |
| Notes to the Financial Statements | | 34-35 |
| 2002-03 Pasadena City and Utility Officials | 36 | |
| Important Contact Information | 37 | |



Introduction

From the minute we fired up the first street lamps at the turn of the 20th century, lighting the way for adventurers in horseless carriages, Pasadena Water and Power has striven to be not only a source of electricity, but a source of pride for Pasadena. Over nearly a century of service, PWP has risen far beyond the magic of those first flickering street lamps, growing to become a vital organization that powers this creative, vibrant and progressive city.



(Top) Exterior of original Glenarm Steam Plant, circa 1915.

(Bottom) Aerial view of the Glenarm complex today.

Today, PWP serves approximately 38,000 water customers in Pasadena and unincorporated county areas, who rely on more than 32 million gallons of water every day. Our power delivery system now spans more than 24 square miles, providing dependable energy to approximately 59,600 meters. We are truly proud of these numbers, and honored to provide Pasadenans with the resources they need to live, work and play.

customers. PWP's revenue is used not to fatten investors' wallets, but to fund initiatives that guarantee reliability, quick service, low rates, safety and environmental stewardship.

But beyond the light switches and taps, PWP is delighted to have remained at the heart of Pasadena since 1906. As a community-owned utility for the past 97 years, our only goals are to please our customers and give back to the community that has helped us grow so strong.

As the newspapers were filled with headlines about the mergers and scandals of private companies, the benefits of our community-owned utility became even more apparent in 2003. PWP's board of directors is our local City Council, our shareholders are our customers and residents, and our bottom line is to provide profits back into the community. Our priority is not to maximize profits, but to cut costs and stabilize rates on behalf of our

While the city was threatened with a turbulent state budget, in fiscal year 2003 PWP was able to transfer \$13.927 million to the city's general fund to support Pasadena libraries, parks, police and fire protection and other vital services on which our residents depend. Of that \$13.927 million, \$2.1 million was invested in the project to preserve our historic City Hall as the ultimate symbol of Pasadena's beauty, strength and staying power. The project will provide a full restoration and seismic upgrade of the 77-year-old landmark, and PWP's contribution will provide state-of-the-art energy efficiency upgrades.

Unlike investor-owned utilities that are governed by corporate boards, PWP is controlled locally by the City

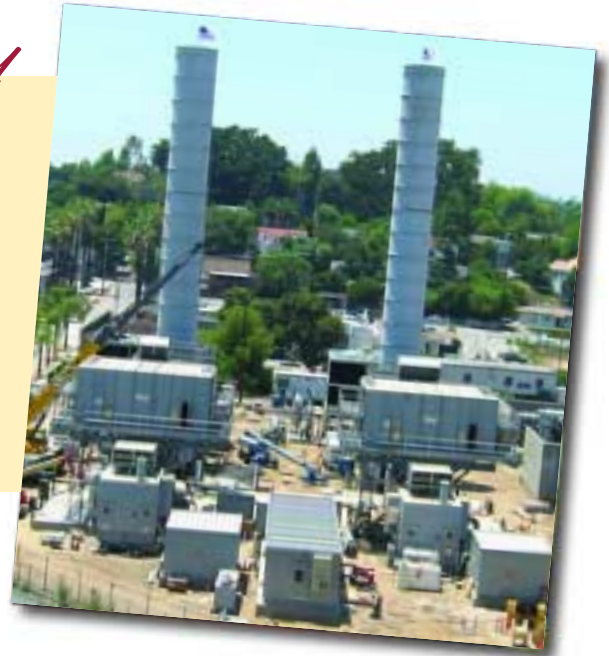
Council, which sets our rates and policies. This gives our citizens great input and insight into Pasadena's water and energy issues.

Just as our citizens remain active in PWP's daily operations, PWP is pleased to have remained an active part of Pasadena's diverse and vibrant neighborhoods. Through countless community partnerships and special events, and ongoing assistance to our most disadvantaged customers, PWP works daily to nurture the health, economy, schools, diversity, work force and cultural resources of our city.

Our customers can look forward to even more of these community benefits in the years to come. We are pleased to present our plans.

A Future of Security

With the support and confidence of the City Council and the citizens of Pasadena, PWP threw itself wholeheartedly into some of its most ambitious capital projects in 2003. We remain convinced that by investing our efforts, talents and resources today, PWP will have the sound infrastructure, financial strength and technology it needs to please generations of future customers.



The new \$82 million Glenarm Plant, shown above during construction, will give PWP much more flexibility to ensure the city's power generation needs well into the future.

The Glenarm Power Plant

The most exciting project was the launch of construction of the \$82 million Glenarm Power Plant, a new facility designed with two 45-megawatt high-efficiency combustion turbines. The plant will give PWP much more flexibility to meet the city's constantly changing electric loads, free us from dependence on market prices and transmission lines, and provide emergency backup during unexpected outages outside of Pasadena.

The project also furthers PWP's goal of protecting the environment. The new turbines will replace two 45-year-old units that were retired in January 2003. Much more efficient, the new turbines will reduce nitrous oxide emission rates by 98 percent versus the retired equipment, and meet the air emission limits set by the South Coast Air Quality Management District.

Most important, the new facility will stand as evidence of PWP's ongoing commitment to maintain the city's infrastructure in top shape and to do all it can to help strengthen the city's economic base.

Magnolia Power Plant Agreement

At the height of the state energy crunch earlier this decade, PWP vowed to add 25 megawatts of low-cost, fixed-price power to its portfolio to help stabilize rates for customers.

PWP moved much closer to this goal in 2003 by securing a 6.13 percent share in the 310-megawatt natural gas-fueled Magnolia Power Plant, now under construction at 164 W. Magnolia Blvd. in Burbank. Expected to open by mid-2005, the \$234 million facility is the



To commemorate the start of MPP construction, SPPA presented individualized mementoes to each project city. Accepting the commemorative pieces are Burbank Mayor Stacey Murphy (left), Anaheim Public Utilities Board Chair Stephen Faessel, Glendale Mayor Frank Quintero, Pasadena Mayor Bill Bogaard, Cerritos Mayor Gloria Kappe and Colton Mayor Deirdre Bennett.



PWP General Manager Phyllis E. Currie and Pasadena Mayor Bill Bogaard at the June 30 Magnolia Power Plant ground breaking event.

first major Southern California power generation plant to be licensed by the California Energy Commission and South Coast Air Quality Management District.

Pasadena is now in partnership with Anaheim, Burbank, Cerritos, Colton and Glendale in funding the innovative project, which utilizes state-of-the-art combined-cycle electric generation technology to provide high efficiency and low lifetime fuel use. With its share, PWP has agreed to a \$36.6 million investment in the project, which will guarantee Pasadena 14.8 megawatts of power and up to 19 megawatts during peak periods. With the increase, PWP anticipates that Magnolia will serve 8 to 9 percent of Pasadena's electric needs, reducing PWP's reliance on more expensive options. PWP expects to pay just 3 cents to 4.5 cents per kilowatt hour, well below market value, passing savings on to customers.

The project will also boost PWP's clean energy portfolio, as the natural gas-fueled plant will produce 50 times less nitrogen oxide emissions and substantially reduce emissions of sulfur dioxide and particulates.

Water System Master Plan

In 2003, PWP began a concerted effort to begin work on its 18-year, \$234 million Water System Master Plan, approved by the City Council to ensure the steady delivery of water for generations to come. Completed in late 2002, the document thoroughly evaluates Pasadena's current water system, addresses infrastructure upgrade needs and analyzes demand, supply and quality issues for water through the year 2020.

While Pasadena's water infrastructure has performed dutifully, the fact remains that much of this system was built before World War II, and PWP's water pipelines, wells and reservoirs are nearing the end of their useful lives. At the same time, PWP



Along with their billing statements, PWP customers received a pamphlet titled "We're Fixing Pasadena's Water System Before It Breaks." The pamphlet discussed how Pasadena's water system is aging and what PWP is doing to get it back into prime shape.

engineers have determined that demand for water is expected to increase by 10 percent by the year 2020.

The Water System Master Plan lays out solutions for meeting this increasing demand, for compliance with an ever-expanding list of water quality regulations and for maintaining our water system infrastructure in top shape.

Most significantly, the plan calls for a \$140 million investment in the replacement or rehabilitation of 230 miles of old pipelines. The plan also calls for a list of remedies for low pressure problems, booster station upgrades, expansion of the water Supervisory Control and Data Acquisition (SCADA) system and meter

replacements. As for water supply, the plan outlines ideas for maximizing the use of local water and minimizing dependence on imported water through the rehabilitation and replacement of wells and through water-treatment projects that will bring additional wells on-line.

The Master Plan became much more than paper and ink in 2003 as PWP quickly began the first phases of remediation, including the testing of older pipelines citywide and a comprehensive seismic study of PWP's reservoir system to assess their



A large amount of water samples are analyzed at the city's Water Quality Laboratory. The laboratory is capable of testing water for minerals, metals, and bacteria.

structural condition and ability to withstand future earthquakes and meet future demand. Watch for steady progress in the years to come.

High-Tech Water Quality Testing

PWP gained much more control over Pasadena's water quality with the purchase of a gas chromatograph/mass spectrometer (GC/MS) in 2003. The \$100,000 table-top machine allows chemists at PWP's Water Quality Laboratory to detect and measure organic compounds in Pasadena's water much more efficiently.

By separating chemical mixtures and identifying components at a molecular level, the new machine allows PWP chemists to test weekly samples from

city reservoirs and wells to detect chemical byproducts from industrial processes and petroleum production, and chemicals from urban runoff, gas stations and septic systems. While PWP once sent specimens to an outside lab for testing, the GC/MS offers same-day results, allowing PWP to monitor and correct any contamination problems much more quickly.

Maintaining Our Resources

PWP continued to invest its time, resources and elbow grease in 2003 into maintaining existing infrastructure. Regular maintenance continues to be an important means of reducing service interruptions, eliminating the need for expensive emergency repairs and safeguarding equipment for the future.

A recent example was the rebuilding of two aging transformers at PWP's TM-Goodrich Receiving Station, a two-week job that required round-the-clock work by PWP's power crews. The equipment is vital as it transforms power imported via interstate transmission lines from 220,000 volts to 34,500 volts so it can be used on Pasadena's grid.

PWP's Electrical Construction and Maintenance team quickly went to work rebuilding the tap changers and selector switches, which change the transformers' voltage output during the day as the city's energy demands go up. The crew also removed the radiators to repair leaks and change out gaskets.

This is just one example of daily work that goes into extracting the longest, least expensive and most efficient use from the city's existing resources.

Undergrounding for Beautiful Vistas

Our bright future will include sweeping views of the San Gabriel Mountains, thanks to PWP's ongoing



PWP Troubleshooters on the job.

effort to move overhead power lines underground. An Underground Surcharge set to appear on all PWP bills in July 2003 – less than \$2.50 for a typical residential customer – will generate approximately \$3.8 million per year to step up the popular program.

A city priority since the 1970s, burying our utility lines helps beautify Pasadena, creates a safer system and keeps utility lines from tangling with city street trees.

As part of the ongoing project, PWP is working with Public Works to first remove the overhead lines from major streets. About 30 percent have been completed, including 21 miles of Pasadena's arterial streets. The year 2003 included the major overhaul of Avenue 64 from Colorado Boulevard to the south city line and Fair Oaks Avenue from the 210 Freeway north.

Another 26 miles, and more than \$30 million worth of work, has yet to be completed. To maximize our efforts, the City Council adopted new priorities in 2003, which include streets where overhead lines need replacement, power



lines are in conflict with trees or buildings, there is a higher risk of fire, major street work is planned, and new or expanded power facilities are needed. In addition, the council prioritized all principal and minor arterial and collector streets – those that are heavily used, near civic areas, city landmarks and recreation areas, and/or have a heavy concentration of power lines.

Co-Generation

To demonstrate the benefits of co-generation facilities, PWP assisted Pasadena City College with the installation of two Capstone MicroTurbines® to produce clean, on-campus power in 2003. With this innovative project, PCC gained a steady supply of power while reducing its reliance on the city grid.

The new low-emission equipment generates 2,880 kilowatt hours per day using the natural gas that was previously dedicated to two large heaters for the campus swimming pool. While exhaust from the microturbines heats the pool, the machines produce enough electricity to power all of the campus' swimming pool equipment, a food service facility, public restrooms and the Facilities Services building.

A Community Model

PWP was excited in 2003 to assist with the opening of Pasadena's first "green" facility, the Tricom Building at 2812 E Walnut St. A project of Yorkshire Development, the prototype building was designed from roof to floor with dozens of earth-friendly features – from recycled insulation and flooring, to double-pane windows, dual and low-flow toilets, a 30 kW on-site solar generation system and faucet aerators.



Heat from the Capstone® microturbines is captured to warm PCC's swimming pool.

The building is expected to receive certification from the Leadership in Energy and Environmental Design (LEED) program of the U.S. Green Building Council, which emphasizes state-of-the-art strategies for water and energy efficiency, materials selection and indoor environmental quality.

Cool Trees

PWP helped add to Pasadena's "community forest" in 2003 by introducing the popular new Cool Trees Program, which rewards customers for planting any one of 37 varieties of shade trees. Customers can receive rebates of up to \$40 per tree, to a maximum of \$200. Once the trees mature, participants may enjoy a drop in their heating and cooling costs by as much as 20 percent. To promote the new program, PWP also provided tree planting demonstrations, giving our customers tree selection and planting tips, maintenance schedules and rebate applications. In partnership with PWP, volunteers from Outward Bound helped promote the program, planted trees and assisted at Cool Trees events.

At the same time, PWP's Power Delivery crews helped Pasadena secure a 2003 Tree Line USA Award from the National Arbor Day Foundation, an honor that "recognizes utilities across the nation that demonstrate practices that protect and enhance America's urban forests." PWP crews are specially



(Top) In addition to tree planting demonstrations and other promotional events, PWP customers were alerted to the Cool Trees program through ads in local papers and at bus stop shelters.

(Bottom) PWP's 2003 Tree Line USA Award from the National Arbor Day Foundation is shown off by, left to right: Jeff Barber, PWP Overhead Supervisor; Phyllis E. Currie, PWP General Manager; Glenn Boggs, PWP Overhead Crew Supervisor; John Melvin, Forestry Assistant, Urban & Community Forestry, State of California; and George Wilson, PWP Director of Power Delivery.

trained in techniques that keep Pasadena's trees manicured and healthy while safely trimming branches away from high-voltage lines.

Energy Conservation

A bright future doesn't require megawatts of power. On the contrary, PWP worked in 2003 to equip customers with energy-saving appliances and ideas for reducing the city's electric load. Not only do these ongoing efforts

help customers trim their monthly utility bills, in the long run they help Pasadena reduce its reliance on imported energy, stabilizing rates for the future. Following are just a few of PWP's energy-saving efforts:

Through a partnership with the Los Angeles Urban League, PWP's Refrigerator Replacement Program supplied nearly 1,000 low-income Pasadena families with new energy-efficient refrigerators and lower monthly bills. The team also arranged for the old appliances to be picked up for safe recycling from the 951 customers who live in Section 8 low-income housing.

Through PWP's Performance 4 Plus program, 261 PWP customers received full home energy use evaluations and personalized tips for saving electricity and water at no charge. Homeowners were eligible to receive up to \$3,000 in rebates for the installation of energy-efficient improvements and appliances. Participants earned nearly \$300,000 in rebates, and energy savings will amount to nearly 700,000 kilowatt hours every year .

Customers arrived on foot and by bike, stroller, cab, car and church van to a PWP event at which low-income customers had the opportunity to swap old halogen floor lamps with new energy-saving compact fluorescent



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models. More than 900 lamps were exchanged and 200 customers were recruited for PWP's Utility Assistance and Lifeline programs.

Exactly 2,471 residential customers took advantage of PWP's Energy Star rebate program, which provides incentives of up to \$100 for the purchase of energy-efficient ceiling fans, window air conditioning units, dishwashers, refrigerators and clothes washers. Another 46 customers received PWP rebates for installing whole-house and energy-efficient fans, and solar-powered attic vents.

Finally, through a light-hearted advertising campaign, PWP continued to urge customers to conserve energy and water. The campaign, titled "You Have the Power to Conserve," earned a third-place ranking during 3CMA's (City-County Communications and Marketing Association's) prestigious national Savvy Awards program. Six months after the campaign started, energy usage in Pasadena dropped by 12 percent and EnergyStar rebate applications increased by 22 percent.

Water Conservation

Faced with dry weather and uncertainty surrounding California's future water supply, PWP redoubled its efforts in 2003 to promote water conservation. Through an aggressive outreach campaign that included billboards, brochures, flyers, bill stuffers, bus-shelter ads, web site content and more, PWP offered residential and commercial customers valuable tips and incentives for paring their water use.

Through PWP's popular landscaping workshops, more than 70 home gardeners learned to create beautiful gardens using drought-tolerant and native plants. The free four-hour workshops, co-funded by the Metropolitan Water District, covered landscape design, native plants, irrigation systems, watering and



Customers arrived on foot and by bike, stroller, cab, car and church van to a PWP event at which low-income customers had the opportunity to swap old halogen floor lamps with new energy-saving compact fluorescent models.

fertilizing.

PWP commercial customers received countless ideas for saving water and money at PWP's 2003 Water Forum at Art Center College of Design. Co-funded by MWD, the half-day event demonstrated state-of-the-art water conservation technologies, and offered business owners information on PWP's latest rebate programs and other ways to contain costs.

And PWP continued to expand its list of money-saving rebates, enticing customers to retrofit their homes and businesses with the latest in water-saving fixtures. More than 1,800 residential and commercial customers received rebates for installing ultra low flush toilets, dual-flush toilets, zero consumption urinals, water brooms, low-flow pre-rinse sprayers, high-efficiency washing machines and cooling tower conductivity controllers.

A Future of Satisfaction

From the time PWP was founded, our customers have been overwhelmingly generous in their support of PWP's expansions, initiatives and programs. We are committed to earning that support well into the future by giving customers the very best possible service, lowest possible rates, valuable incentives and the convenience and efficiency drawn from the latest technology.

Round-the-Clock Service

Life doesn't end after 5 p.m., and neither should PWP's service. In 2003, PWP made a number of advancements that provide customers with top-notch service at any time of day or night. Customer service phone hours were extended from 7 a.m. to 7 p.m. Monday through Friday and 8 a.m. to 4 p.m. on Saturday, providing a friendly voice for help with billing questions, high-bill investigations, service connections and payment assistance.

PWP also launched interactive web and voice response programs that allow customers to complete a variety of customer service functions using a touchtone phone or computer. By calling (626) 744-4005 or visiting www.PWPweb.com, customers can report outages, water quality concerns or water main breaks, pay their bills by credit card and more. Phone users can also request service starts or stops.

As always, PWP's popular web site, www.PWPweb.com, is updated daily to provide customers with the latest news on PWP's services and incentives, downloadable applications, on-line account management, rate and water quality information, conservation tips and much more.

Simple Rates and a Healthy Refund

To streamline our electric billing

and make rates much easier to understand, the City Council approved a rate restructuring in fiscal year 2002-03. The changes lowered most customers' bills by more accurately reflecting the cost of delivering power and by eliminating a temporary surcharge. The changes also help promote the efficient use of energy.

At the same time, PWP eliminated the Stranded Investment Surcharge (SIS) and offered all customers reimbursement retroactive to July 1, 2001. (The SIS was created in 1997 to help PWP remain competitive in the deregulated marketplace.) The remaining SIS funds – about \$150 million – were set aside to subsidize customers' power rates by 1.26 cents per kilowatt hour for all of our customers, dropping the cost from 12.40 cents to 11.14 cents per kilowatt hour. This adds up to about a \$75 savings for a typical residential customer each year, and the fund is expected to be available until 2023.

**The many faces of
PWP Customer Service.**



The Best of New Technology

PWP's meter installation crew is preparing Pasadena for a future of more accurate bills, and safe, reliable service with an ongoing meter replacement program and the roll-out of new Automatic Meter Readers (AMRs). For the next 10 years, PWP will replace 4,000 50 and 60-year-old meters each year, for a total of 40,000, in addition to adding meters for the growing numbers of new customers. The new metering system will use radio frequency for automation and will be linked to the city's satellite-based Global Positioning System (GPS). At the same time, PWP redesigned its meter routes in 2003 to help meter readers make the most of their time in the field, while ensuring that routes and billing remain balanced.

PWP also began a concerted effort in 2003 to implement a state-of-the-art Geographic Information System (GIS). GIS will display our utility facilities and infrastructure on top of the city's electronic map, giving us new perspectives on how we can better serve our customers. GIS will improve record keeping and coordination of

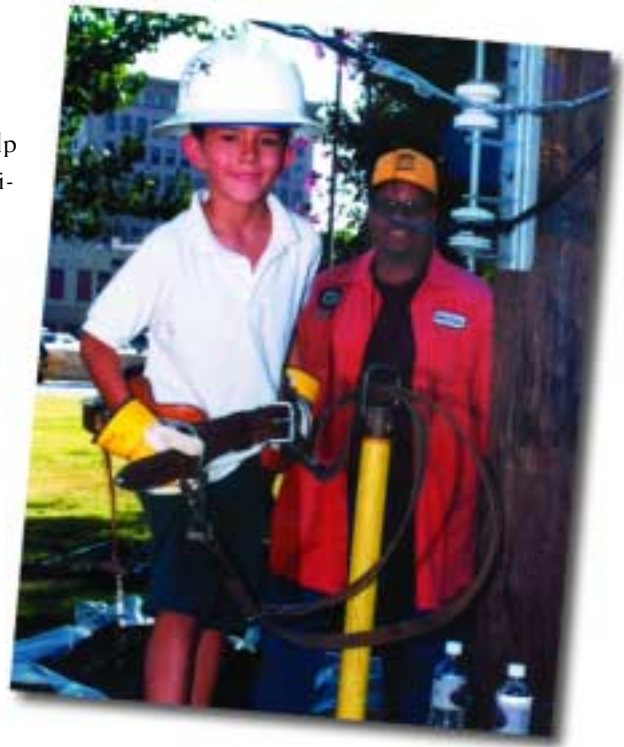
services, provide better preventive maintenance records of PWP equipment, help PWP crews work faster and more efficiently, and help us plan for the future use and distribution of resources.

PWP also plowed forward on the expansion of its Supervisory Control and Data Acquisition (SCADA) system, completing the installation at half of PWP's power substations. When the multiyear project is complete, PWP's Dispatch Center will be able to control nearly 300 breakers and monitor several thousand status and numeric telemetry points by remote. SCADA will protect the safety of PWP employees, provide a quick response to customer needs and collect vital diagnostic data much more efficiently.

Finally, two invaluable tools were added to PWP's web site that allow residential and commercial customers to conduct on-line energy audits. The easy-to-use, interactive programs lead users through a series of questions, providing detailed lists of practical and personalized recommendations for reducing energy costs.

Face-to-Face in the Community

As always, PWP took great pleasure in 2003 in remaining front-and-center during city events and celebrations, sharing ideas and camaraderie with thousands of customers.



A Power Line Mechanic shows a young customer the ropes at Public Power Day.

PWP promoted the many benefits of our hometown utility during our annual Public Power celebration in October. Guests were treated to photo opportunities with PWP's line mechanics, pole climbing demonstrations, an up-close look at electric vehicles, fun PWP giveaways and refreshments. Revelers could also count on finding a colorful PWP booth at other community events, from Pasadena's Cherry Blossom Festival, to the Black History Festival, Cinco de Mayo celebration, Earth Day, New Year's Day events and many more. PWP staffers provided the crowds with fun giveaways, information on our many rebate programs and conservation tips.

Customers who didn't catch us in person were able to learn about PWP's low-income assistance programs and upcoming water system improvements on Pasadena's very own cable television channel, 55 KPAS.

Buy an ENERGY STAR® product, and we'll reward you with up to \$200.

Save energy and money, while you help protect the environment. If you're in the market for a new refrigerator, dishwasher, washing machine, window air conditioner or ceiling fan, now is a terrific time to buy. With PWP's updated Energy Star program, you can receive a valuable rebate when you purchase any one of the five PWP approved, energy-efficient Energy Star appliances. Buy from a Pasadena retailer and get even more savings back!

Discover the details of the Energy Star Program at www.PWPweb.com. Or call our Answer Line at 926-744-8776.

PASADENA Water & Power
SERVING THE COMMUNITY SINCE 1916

A Future of Prosperity

PWP takes great pride in partnering with its commercial customers to help them make the most of their resources. Through personalized account manager support, on-line tips and tools, conservation rebates, in-person energy-use audits by PWP experts and much more, PWP continued to help its most valuable customers streamline their operations. Here are just a few examples.

Operating Engineers

With help from PWP, owners of the Operating Engineers Trust Funds building at 301 N. Lake Ave. made a dramatic change-out to a new high-efficiency chiller, using a helicopter to set the new equipment atop the 12-story building. The 325-ton variable speed driven model more efficiently meets the cooling needs of the 13-year-old building. Including peripheral upgrades, the project has reduced the energy use of the building by some 565,045 kilowatt hours per year and cut peak demand by some 70 kilowatts. Operating Engineers received a generous PWP rebate and put itself in a



The crew of the Operating Engineers Trust Funds building at 301 N. Lake Ave. prepares to replace a 325-ton chiller with help from a helicopter.

great position to take advantage of PWP's new time-of-use rates that took effect July 1, 2003.

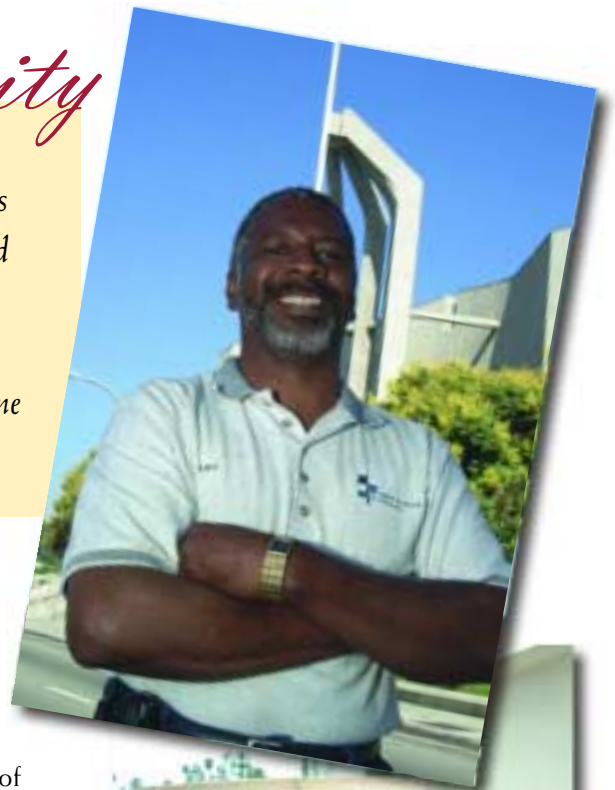
Caltech

The California Institute of Technology continued to be one of PWP's most avid proponents of water and energy conservation. Under the direction of Campus Operations and Maintenance Manager Reza Ohadi, the school has adopted hundreds of innovations campus-wide, including variable frequency drives, LED exit signs, energy-saving T-8 tube lighting, occupancy sensors and dual-flush toilets. A new Energy Management System that employs two Pentium III computers and 121 new electric meters to provide better understanding of campus-wide energy consumption and simplify load shedding.

"The city of Pasadena has been a great help to me. Some of PWP's incentive programs encouraged me to undertake these projects," Ohadi said. For his efforts, Ohadi was named 2002 Energy Manager of the Year by the Association of Energy Engineers Southern California Chapter.

Lake Avenue Church

At the suggestion of PWP, Pasadena's historic Lake Avenue Church became one of the first institutions in the city to convert campus restrooms to



(Top) Lake Avenue Church Director of Operations Levi Heidelberg.

(Bottom) Caltech Campus Operations and Maintenance Manager Reza Ohadi.

new zero consumption urinals, saving the church nearly 1.2 million gallons each year. After rave reviews from a pilot project, the church approved the installation of 26 zero consumption urinals in LAC's Hutchins Hall, Family Life Center and Worship Center. With a \$120 per-unit rebate from PWP, the project cost less than \$600, including a few extra alterations.



Mr. Lambert Giessinger, owner of the 24-unit Winston Apartments at 405 S. Los Robles Ave., took advantage of a number of PWP programs to upgrade a number of appliances and systems for his tenants, including installing a new rooftop high-efficiency air conditioning unit.

"My tenants have been very happy to see their electric bills go down considerably," he said. His investments have also paid off in lower maintenance costs, fewer repair bills, rebates from PWP and no more middle-of-the-night repair calls.

"My objective is to provide the most favorable level of maintenance service, quality and safety on time and at a responsible cost," said LAC Director of Operations Levi Heidelberg. But at the same time, "we want the community to know that we are trying to do our part to conserve. We want to minimize the drain of resources so they're available to all of Pasadena."

Winston Apartments

Tenants of the Winston Apartments at 405 S. Los Robles Ave. are enjoying lower utility bills, thanks to the efforts of building owner Lambert M. Giessinger and PWP. Giessinger replaced the building's refrigerators with energy-saving models, installed compact fluorescent light bulbs to illuminate hallways, replaced a "dying" washing machine with a new water-saving appliance and switched to natural gas heaters for the building's clothes dryers. He also replaced original heaters with high-efficiency heat pumps.



Parkway Grill

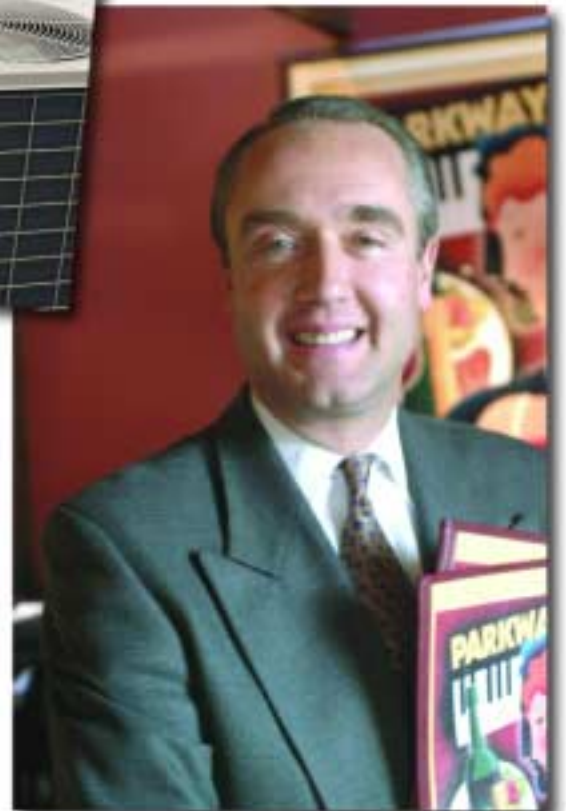
After a successful 18 years in Pasadena, Parkway Grill took advantage of PWP's free efficiency audit program in 2003. After a five-hour tour of the facility, a PWP expert handed General Manager Dave Williams a list of ideas for saving the business more than 36,000 kilowatt hours, 500,000 gallons of water and \$6,500 each year. Ideas ranged from new programmable thermostats, new LED exit

"Being energy conscious and environmentally aware, we are glad to do our part in conserving our natural resources."

– Parkway Grill General Manager Dave Williams

signs and a more efficient make-up air cooler, to the addition of a water-saving pre-rinse sprayer and new energy efficient lighting indoors and out.

"PWP was very helpful," Williams said. "Being energy conscious and environmentally aware, we are glad to do our part in conserving our natural resources."



Parkway Grill General Manager Dave Williams.

A Future for the Next Generation

While PWP worked hard to secure a bright future for the next generations, we also took time to make sure our youngest customers are enjoying the present. By teaming up with several school and community organizations, PWP had the pleasure of interacting with our up-and-coming customers while planting the seeds for conservation.



LivingWise

A new program called LivingWise® gave Pasadena teachers a turn-key set of classroom activities and home projects to share with their students. Nearly 1,000 sixth graders took home kits from PWP containing home efficiency devices to install with help from family members, with the aim of shaping new habits and building awareness throughout the entire household. The program offered participating families invaluable suggestions for conserving up to 8.2 million kilowatt hours of electricity, 400,000 therms of gas and 36 million gallons of water and wastewater.

Children Investigate the Environment

Thousands of Pasadena fourth-graders have explored science and art since 1986 through "Children Investigate the Environment," a hands-on program sponsored by PWP, the Pasadena Unified School District and the Armory Center for the Arts. Using concepts from the school district's science curriculum, the fourth-graders explored Pasadena's natural areas using drawing, painting, sculpture and expressive writing. Each eight-week session is taught by a professional artist together with a classroom teacher, guest poets, naturalists and engineers. More than 40 classes participate each year,

which includes 1,320 students or half of the entire PUSD fourth-grade population.

Cool Schools

PWP is poised to help Pasadena Unified schools shave up to 25 percent off their cooling bills through the Cool Reflective Film Program. Over the next three years, PWP will help eligible schools install reflective film on sunny windows, helping reduce the demand on school air conditioning systems and cut energy costs.

PWP's new Cool School Trees Program also offers grants to Pasadena schools that plant shade trees. Participating campuses can choose from a long list of varieties to help cool classrooms, cafeterias, playgrounds and parking lots, and reduce air conditioning costs. Teachers are invited to include the new trees in their science curriculum to teach students about environmental and energy benefits.

PWP's Energy Star Appliance Grant Program provided Pasadena schools with generous rebates for the purchase of energy-saving equipment, such as computers, faxes, refrigerators, wall-unit air conditioners and more. Through this partnership with the Pasadena Unified School District, energy saving equipment has been installed citywide.



PasadenaLEARNS

By inviting customers to donate their SIS refunds to PasadenaLEARNS, PWP helped a highly regarded after-school program stay afloat in 2003. With its focus on academics, athletics and the arts, the program also promotes leadership, personal responsibility and college preparation. Upon PWP's

invitation, more than 500 residents from every Pasadena zip code contributed to the program. Businesses and institutions also contributed, with a total of \$133,000 raised.

A Work of Art

Through two partnerships with the venerable Armory Center for the Arts, PWP tapped into the creativity of Pasadena's youngsters to promote clean energy and conservation.



(Left) The Cool School Trees program planting at Muir High School.

(Middle) Pasadena schoolchildren learned about solar energy by constructing "solar gizmos."

(Bottom) McKinley Elementary School Student Keisha Shante's watercolor was one of two winners in the MWD "Water is Life" poster contest.



Pasadena will appear in a 2004 water conservation calendar, and others were used in a traveling art show, at events and in posters, T-shirts, postcards and more.

Meanwhile, PWP assisted a group of budding filmmakers in spreading the word about water conservation, helping students from Pasadena High School's Visual Arts and Design Academy develop a 30-second public service announcement. The commercial, ending with the tagline "Don't be a suspect. Conserve water," aired on KLRN, Channel 64, in Pasadena.

Through the "Solar Gizmo" course funded by PWP and taught by artist Joseph Herring, Pasadena middle schoolers designed and built colorful "gizmos" powered by the sun. The children used abstract panels attached to lightweight motors equipped with tiny solar cells that made the objects spin and hop when placed in the sun. The workshops helped further the Armory Center's goal of providing cross-curricular education – linking art with science, technology and other subjects.

PWP also joined the Armory Center in encouraging Pasadena Unified School District students to create masterpieces for the Metropolitan Water District's "Water is Life" poster contest. Two winning entries from



PWP's Business Units

Customer Care

Into the future, PWP's Customer Care Business Unit is committed to keeping a finger on the pulse of the wants and needs of both residential and commercial customers. Under the leadership of Interim Customer Care Director Scott Ushijima, this division is responsible for customer service and marketing, keeping a close watch on customer values and interests and aggressively promoting PWP's products and services.

By using the very best technology available and with a relentless pursuit of accuracy, Customer Care has streamlined PWP's meter reading, billing and collections services to provide customers with predictable billing that is easy to understand. This simplicity allows customers to compare year-to-year usage, spot opportunities for water and energy savings and trim monthly expenses. Customer Care also provides personalized account management for large commercial customers, long-term commercial contracts and water and energy management.

By administering PWP's Public Benefits Programs, Customer Care ensures that public benefit revenue is put to work for the good of the entire community, from shade tree rebates to halogen lamp exchange programs. Customer Care also administers and promotes PWP's water conservation and EnergyStar® rebate programs, working aggressively to reward Pasadenans who do their part to conserve vital resources.

And as always, Customer Care is pleased to execute a variety of community outreach programs and special events throughout the year to keep PWP staff directly in touch with our valuable customers.



For more information, contact:
Scott Ushijima
Interim Director of
Customer Care
(626) 744-3739

Finance and Administration

PWP's Finance and Administration Business Unit manages PWP's financial resources and provides the invaluable financial data, administrative and technical support PWP's other business units rely upon for their daily operations and future planning.

This business unit is charged with preparing PWP's operating budgets, financial reporting, cost accounting, rate management, strategic planning, risk management and bond issuance. The unit is also responsible for quality assurance, payroll, personnel administration, safety and loss control, information systems and technology, procurement and distribution.

Finance and Administration was key in 2003 in restructuring PWP's electric rates to more accurately reflect the cost of delivering power. The restructuring lowered most customers' bills, made electric bills easier to understand and helped promote the efficient use of energy. This unit also oversaw the elimination of the Stranded Investment Surcharge (SIS) and the retroactive reimbursement of \$17.755 million to all electric customers.

The Finance and Administration Business Unit will continue to emphasize sound financial decision-making and data integrity to ensure PWP a strong future.



For more information, contact:
Jay Panzica
Director of Finance
and Administration
(626) 744-4515

Power Supply

The Power Supply Business Unit is charged with providing Pasadena with a safe, reliable supply of high-quality power at the lowest possible price into the future.

Approximately 65 percent of Pasadena's energy is secured by the Power Supply Business Unit through long-term energy contracts. The remainder is produced through local generation and spot market purchases, depending upon market conditions. The Power Supply Business Unit made great strides in 2003 to enhance our share of low-cost, locally generated power by beginning construction of Pasadena's Glenarm Power Plant and by securing a healthy share in the Magnolia Power Plant in Burbank. Power Supply also upgraded PWP's "green power" portfolio with a new long-term share in the High Winds plant.

In addition to generating and purchasing the city's power, this unit is also charged with making the best

possible use of city resources to maximize revenues. Power Supply sells surplus energy, transmission, ancillary services and natural gas to wholesale customers outside Pasadena, including the California Independent System Operator (Cal ISO), to generate revenues and optimize its energy portfolio. Power Supply staff also remain active in regional joint project committees to help control the cost of Pasadena's external resources.

The Power Supply Business Unit also operates the local power distribution system, ensuring reliable delivery and quick response to outages within the city on a 24-hours-a-day, seven-days-a-week basis.



For more information, contact:
Eric Klinkner
Director of Power Supply
(626) 744-4478

Power Delivery

PWP's Power Delivery Business Unit is responsible for operating and maintaining Pasadena's vast power distribution system, as well as for protecting the city's telecommunication fiber optic network.

PWP's service area includes over 24 square miles, with more than 59,600 meters, 11 substations, two receiving stations, more than 14,000 poles and more than 440 miles of overhead and underground conductors. Power Delivery ensures system reliability and plans the capital improvements that will provide reliable service in the most economical way. In 2003, Power Delivery completed nearly 620 new

construction jobs and wrote 706 new work orders for new customer projects, including nearly a million square feet of commercial property and 205 apartments and condominiums. The business unit installed service for 1,275 new commercial and residential properties, and reinstalled service for 622 commercial and residential meters, taking in payments of more than \$2.7 million.

All the while, Power Delivery works to ensure the safety of its customers and employees, and prevent any power outages that disrupt daily life. When inevitable service outages do occur, Power Delivery aims to repair them quickly and to minimize the number of affected customers. This vigilance has prevented numerous disruptions and placed PWP among the top 10 percent of over 50 utilities nationwide for system reliability.

The Power Delivery Business Unit includes five divisions: Overhead Distribution, Underground Distribution, Meter Test & Substation Maintenance, Power Engineering, and Outage Response. Their products and services include high voltage sub-transmission and distribution, infrastructure construction, outage response, operations and maintenance for power-delivery infrastructure and fiber optic



telecommunications infrastructure.

For more information, contact:
George Wilson
Director of Power Delivery
(626) 744-4481

Water Delivery

Pasadena's water delivery system consists of nearly 500 miles of pipeline, 23 pressure zones, 14 storage reservoirs holding 110 million gallons of water, 19 booster stations and 16 groundwater wells. The Water Delivery Business Unit operates and maintains this water distribution system, overseeing reliability, capital improvements, water quality, and many other functions.

PWP's Water Quality Laboratory ensures that Pasadena's water continually complies with all state and federal quality standards by testing daily for more than 170 contaminants. This includes daily testing for organic chemicals, minerals, metals and bacteria, with samples drawn from 300 locations throughout the city.

The Water Delivery Business Unit also maintains the local water supply, and works closely with the Metropolitan Water District (MWD), state water, health and related agencies. It provides water system infrastructure maintenance such as backflow device monitoring and inspections, valve exercising, meter replacement and water quality testing.

Most importantly, this unit responds quickly to customer concerns, questions and water emergencies. It also issues PWP's Annual Drinking Water Quality Report each June so all customers can feel confident about the water they drink.



For more information, contact:
Shan Kwan
Director of Water Delivery
(626) 744-4416

2003 Water Financial Narrative

Water operating revenues increased to \$28.9 million in FY 2003 from \$26.5 million, an increase of \$2.4 million or 9.1%. The increased operating revenue was due mainly to a new Capital Improvement Charge (CIC) established during the year and an increase in water sales from 15,163,255 billing units to 16,137,398, a 6.4% increase. The CIC revenue was designed to provide funds to cover future capital construction and upgrades in the water system.

Non-operating revenue decreased by \$0.2 million or 17.3% due mainly to a 65.9% decrease in interest income resulting from shortage of cash. A loan of \$4 million was taken from the Power Fund to the Water Fund to meet cash requirements at year-end.

Direct operating expenses increased by \$1.2 million or 7.0% to \$18.3 million in FY 2003 from \$17.1 million in FY 2002. Purchased water expenses increased to \$11.2 million in FY 2003 from \$9.8 million in FY 2002 due to higher water sales and increased cost of

purchased water from MWD. Total purchased water increased from 22,940 acre-feet last year to 24,581 acre-feet this year, an increase of about 1,641 acre-feet or 7.2%. Purchased water as a percent of total water production was 65.8% in FY 2003, compared with 61.1% in FY 2002. Fuel and purchased power decreased by \$0.5 million or 20.8% to \$1.9 million in FY 2003 from \$2.4 million in FY 2002 due to the closure of some contaminated wells.

Water treatment expenses increased to \$0.9 million in FY 2003, an increase of about \$0.2 million or 28.6% over \$0.7 million in FY 2002. Pumping expenses slightly decreased to \$0.6 million in FY 2003 from \$0.7 million in FY 2002 or 14.3%, and transmission and distribution expenses increased to \$3.1 million in FY 2003 from \$2.9 million in FY 2002 or 6.9%. There was a slight decrease of expenses for source of supply by a modest 4.4% or \$0.03 million for FY 2003.

Administrative and general expenses increased to \$3.9 million from \$3.5 million or by \$0.4 million or 11.4%. This was partially offset by a decrease of \$0.09 million or 4.0% in customer account expenses. Depreciation expenses increased slightly by \$0.04 million or 2.0%. Interest expense on long-term debt decreased by \$0.07 million or 4.9%. This was as a result of the completion of some amortization and some bonds maturing during the year. Long-term debt was reduced during the year to \$22.8 million from \$23.9 million. Contribution to the General Fund, which is based on previous year's net operating revenue increased by about \$0.08 million or 5.4% to \$1.607 million from \$1.524 million.

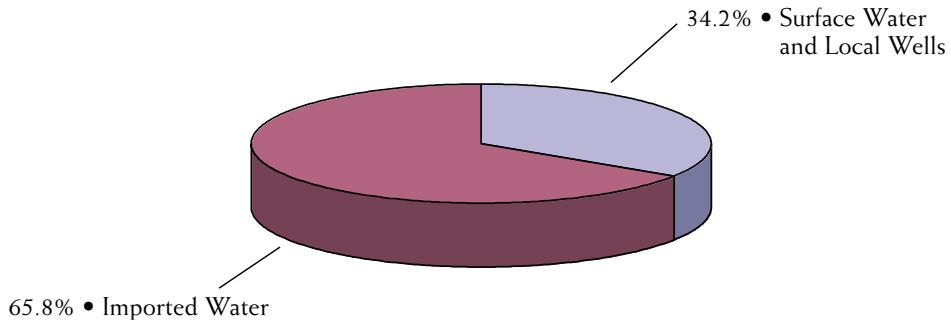
Capital expenditures totaled \$5.3 million for the year, compared to \$6.5 million in FY 2002, a decrease of about \$1.2 million or 18.5%. Cash and cash equivalents decreased by \$0.3 million or 5.3% to \$5.4 million from \$5.7 million. The decrease was mainly due to the combined effects of cash flow used for capital and related financing activities and was partially offset by cash flow provided by operating activities, and cash borrowed from other funds.



PWP is committed to providing reliable, clean, fresh water for now and for future generations.

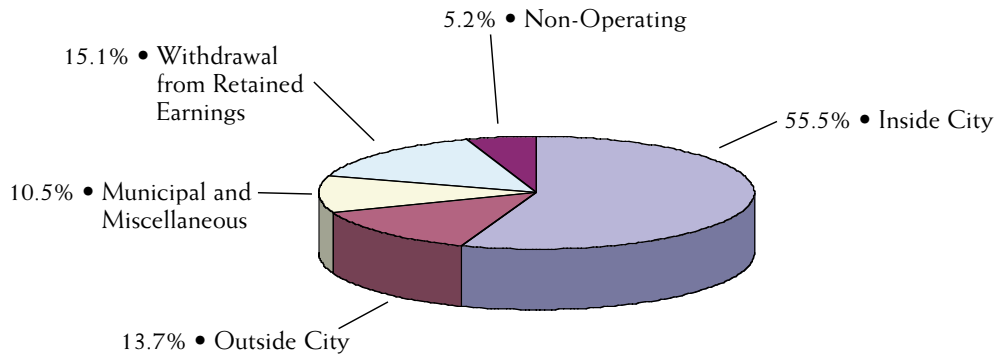
WATER RESOURCES

Total = 37,353 Acre-Feet



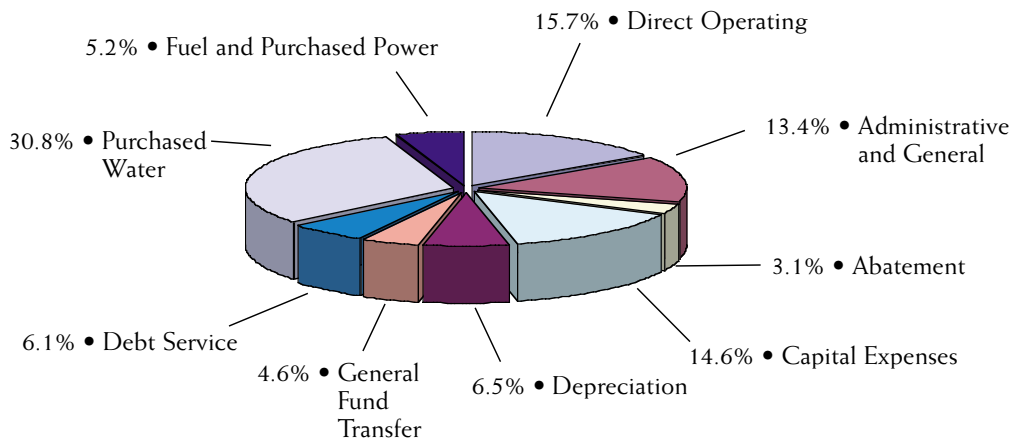
SOURCES OF FUNDS – WATER SERVICE

Total = \$36,331,426



USES OF FUNDS – WATER SERVICE

Total = \$36,331,426



WATER DIVISION — STATEMENT OF INCOME, EXPENSES, AND CHANGES IN RETAINED EARNINGS

| | 2003 | 2002 |
|--|---------------------|---------------------|
| REVENUES | | |
| Sales –Within City Limits | \$20,163,121 | \$20,037,814 |
| – Outside City Limits | 4,964,317 | 4,728,953 |
| Municipal and Miscellaneous Other Sales | 3,830,458 | 1,752,049 |
| Total Operating Revenues | <u>\$28,957,896</u> | <u>\$26,518,816</u> |
| EXPENSES | | |
| Purchased Water | \$11,192,378 | \$9,803,906 |
| Fuel and Purchased Power | 1,901,665 | 2,384,223 |
| Sources of Supply | 618,461 | 647,044 |
| Pumping | 629,817 | 664,366 |
| Water Treatment | 933,710 | 721,534 |
| Transmission and Distribution | 3,053,260 | 2,901,576 |
| Total Direct Operating Expenses | <u>18,329,291</u> | <u>17,122,649</u> |
| Administrative and General Expenses | 3,924,909 | 3,541,572 |
| Customer Accounts | 2,072,172 | 2,157,816 |
| Depreciation | 2,367,634 | 2,321,892 |
| Total Expenses | <u>\$26,694,006</u> | <u>\$25,143,929</u> |
| Earnings from Operations | 2,263,890 | 1,374,887 |
| Non-Operating Income and Expenses | | |
| Interest Income | 141,312 | 415,565 |
| Net Changes in Fair Value of Investments | (4,555) | 25,064 |
| Interest Expense | (1,301,632) | (1,368,959) |
| (Loss) on Disposal of Fixed Assets | 33,614 | (11,895) |
| Other Nonoperating Revenues (Expenses) | 1,149,707 | 1,135,646 |
| Total Non-Operating Income | <u>18,446</u> | <u>195,421</u> |
| NET INCOME BEFORE OPERATING TRANSFERS | <u>\$2,282,336</u> | <u>\$1,570,308</u> |
| Capital Contributions | 544,978 | 290,635 |
| Transfers In-General Fund | 19,847 | – |
| Transfers Out –Capital Projects | (83,227) | – |
| Transfers Out –Hahamongna | (450,000) | (450,000) |
| Transfers Out –Contribution to General Fund | (1,606,863) | (1,524,176) |
| Net Income | <u>\$707,071</u> | <u>\$(113,233)</u> |
| Net assets at beginning of year, as restated | 53,554,286 | 53,667,519 |
| Net assets at end of year | <u>\$54,261,357</u> | <u>\$53,554,286</u> |

WATER DIVISION STATEMENT OF NET ASSETS

| | 2003 | 2002 |
|---|--------------|--------------|
| ASSETS | | |
| Utility Plant at Original Cost | | |
| Land and Land Rights | \$1,409,106 | \$1,418,055 |
| Sources of Water Supply | 7,045,890 | 7,017,966 |
| Pumping | 7,163,156 | 7,147,831 |
| Water Treatment | 2,169,065 | 2,131,065 |
| Transmission and Distribution | 75,800,298 | 72,368,620 |
| General Plant | 8,688,261 | 8,301,521 |
| Construction Work in Progress | 10,822,000 | 9,578,102 |
| Total Fixed Assets | 113,097,776 | 107,963,160 |
| Accumulated Depreciation | (42,264,007) | (40,072,298) |
| Net Fixed Assets | 70,833,769 | 67,890,862 |
| Current assets: | | |
| Cash and investments | 3,067,330 | 3,364,097 |
| Accounts receivable | 5,002,971 | 4,712,970 |
| Less allowance for uncollectible amounts | (156,556) | (113,675) |
| Inventories | 5,515,917 | 5,555,389 |
| Prepayments and other assets | 653,828 | 681,126 |
| Total current assets | 14,083,490 | 14,199,907 |
| Restricted assets – cash and investments: | | |
| Other restricted cash and investments | 2,381,985 | 2,383,949 |
| Total assets | \$87,299,244 | \$84,474,718 |
| LIABILITIES AND EQUITY | | |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$5,065,791 | \$6,036,082 |
| Deposits | 153,647 | 160,902 |
| Due to other funds | 4,000,000 | – |
| Deferred revenue | – | – |
| Revenue bonds – current | 965,000 | 905,000 |
| Total current liabilities | 10,184,438 | 7,101,984 |
| Long-term liabilities: | | |
| Revenue bonds – long-term | 22,885,000 | 23,850,000 |
| Unamortized premium (discount) | (31,551) | (31,552) |
| Total long-term liabilities | 22,853,449 | 23,818,448 |
| Total liabilities | \$33,037,887 | \$30,920,432 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | \$46,983,769 | \$43,167,414 |
| Restricted: | | |
| Restricted – Other | 6,525,801 | 6,479,090 |
| Unrestricted | 751,787 | 3,907,782 |
| Total Net Assets | \$54,261,357 | \$53,554,286 |

WATER DIVISION CASH FLOW STATEMENT

| | 2003 | 2002 |
|---|--------------------|--------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$28,720,954 | \$26,860,114 |
| Cash payments to suppliers for goods and services | (17,289,854) | (13,974,971) |
| Cash payments to employees for services | (7,010,861) | (6,544,118) |
| Cash payments to other funds for services | (880,909) | (818,174) |
| Other nonoperating revenues (expenses) | 1,149,707 | 1,075,646 |
| Net cash provided by (used for) operating activities | <u>4,689,037</u> | <u>6,598,497</u> |
| | | |
| Cash Flow from Noncapital Financing Activities | | |
| Transfers from other funds | 19,847 | – |
| Operating transfers out (General City Contribution) | (2,140,090) | (1,974,177) |
| Cash received (paid) on loans to other funds | 4,000,000 | – |
| Intergovernmental revenue | – | 60,000 |
| Net cash provided by (used for) noncapital financing activities | <u>1,879,757</u> | <u>(1,914,177)</u> |
| | | |
| Cash Flow from Capital and Related Financing Activities | | |
| Acquisition and construction of capital assets | (5,310,545) | (6,480,782) |
| Cash received from developers | 544,978 | 290,635 |
| Principal paid on debt | (905,000) | (850,000) |
| Interest paid on debt | (1,323,542) | (1,390,869) |
| Net cash used for capital and related financing activities | <u>(6,994,109)</u> | <u>(8,431,016)</u> |
| | | |
| Cash Flow from Investing Activities | | |
| Interest and Dividends on Investment Earnings | 126,583 | 430,450 |
| | | |
| Net Increase/(Decrease) in Cash and Cash Equivalents | (298,732) | (3,316,246) |
| Cash and Cash Equivalents, Beginning of Year | 5,748,047 | 9,064,293 |
| Cash and Cash Equivalents, End of Year | <u>\$5,449,315</u> | <u>\$5,748,047</u> |

**WATER DIVISION RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED BY (USED FOR) OPERATING ACTIVITIES**

| | 2003 | 2002 |
|---|--------------------|--------------------|
| Operating income (loss) | \$2,263,890 | \$1,374,888 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | |
| Depreciation | 2,367,634 | 2,321,892 |
| Other Non-Operating Revenues (Expenses) | 1,149,707 | 1,075,646 |
| Gain (Loss) on Disposal of Assets | 33,614 | (11,895) |
| (Increase) Decrease in Accounts Receivable | (279,823) | 361,783 |
| Increase (Decrease) in Allowance for Uncollectible | 42,881 | (20,486) |
| (Increase) Decrease in Inventories | 39,472 | 110,238 |
| (Increase) Decrease in Prepaids and Other Assets | 27,299 | 34,772 |
| Increase (Decrease) in Accounts Payable and Accrued Liabilities | (948,381) | 1,391,195 |
| Increase (Decrease) in Deferred Assets | - | - |
| Increase (Decrease) in Deposits Payable | (7,256) | (39,536) |
| Increase (Decrease) in Unamortized Discount | | |
| Total Adjustments | 2,425,147 | 5,223,609 |
| Net cash provided by (used for) operating activities | <u>\$4,689,037</u> | <u>\$6,598,497</u> |
| Noncash investing, capital and financing related activity: | | |
| Noncash changes in market value of investments | <u>\$(4,555)</u> | <u>\$25,064</u> |

WATER DIVISION TEN-YEAR OPERATIONS SUMMARY

| Fiscal Year | 02-03 | 01-02 | 00-01 | 99-00 | 98-99 | 97-98 | 96-97 | 95-96 | 94-95 | 93-94 |
|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|

FINANCIAL DATA (THOUSANDS)

| | | | | | | | | | | |
|---------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Operating Revenue | \$28,958 | \$26,519 | \$25,174 | \$24,668 | \$22,458 | \$21,919 | \$23,909 | \$22,506 | \$20,115 | \$18,880 |
| Other Income | 1,864 | 1,856 | 2,318 | 1,255 | 1,630 | 1,920 | 1,434 | 1,261 | 1,563 | 1,656 |
| Total Revenues | 30,822 | 28,375 | 27,492 | 25,923 | 24,088 | 23,839 | 25,343 | 23,767 | 21,678 | 20,536 |
| Purchased Water | 11,192 | 9,804 | 10,412 | 9,627 | 6,978 | 6,838 | 7,179 | 5,947 | 5,824 | 4,853 |
| Other Sources of Supply | 618 | 647 | 801 | 999 | 714 | 555 | 590 | 532 | 578 | 470 |
| Pumping | 2,532 | 3,049 | 2,149 | 2,279 | 2,384 | 1,892 | 2,023 | 2,253 | 1,488 | 2,509 |
| Water Treatment | 934 | 722 | 646 | 687 | 685 | 839 | 779 | 671 | 606 | 891 |
| Transmission and Distribution * | 3,503 | 3,352 | 2,608 | 2,321 | 2,068 | 2,402 | 2,410 | 2,554 | 2,586 | 2,803 |
| Administrative & | | | | | | | | | | |
| General Expenses | 3,925 | 3,549 | 3,102 | 2,842 | 2,816 | 3,836 | 4,792 | 4,463 | 4,288 | 4,367 |
| Commercial Expenses | 2,072 | 2,158 | 2,282 | 1,676 | 1,913 | 953 | 282 | 516 | 477 | 428 |
| Depreciation | 2,367 | 2,322 | 2,459 | 2,260 | 2,325 | 2,212 | 2,016 | 1,832 | 1,394 | 1,194 |
| Interest Expense | 1,302 | 1,369 | 1,415 | 1,463 | 1,501 | 1,538 | 1,576 | 1,612 | 1,648 | 1,507 |
| Transfer to General Fund | 1,670 | 1,516 | 1,486 | 1,345 | 1,315 | 1,428 | 1,347 | 1,203 | 1,129 | 979 |
| Total Expenses | 30,115 | 28,488 | 27,360 | 25,499 | 22,699 | 22,493 | 22,994 | 21,583 | 20,018 | 20,001 |
| Net Income | \$707 | \$(113) | \$132 | \$424 | \$1,389 | \$1,346 | \$2,349 | \$2,184 | \$1,660 | \$535 |
| Earnings Invested | | | | | | | | | | |
| in the Business | \$54,261 | \$53,554 | \$41,434 | \$41,437 | \$41,013 | \$39,628 | \$38,626 | \$36,276 | \$34,093 | \$32,432 |
| Total Debt | | | | | | | | | | |
| Outstanding | \$23,850 | \$24,755 | \$25,605 | \$26,410 | \$27,165 | \$27,885 | \$28,565 | \$29,150 | \$29,700 | \$28,100 |

OPERATING AND CONSUMPTION DATA

(THOUSANDS OF BILLING UNITS)

| | | | | | | | | | | |
|---------------------|--------|----------|--------|--------|--------|--------|--------|--------|--------|--------|
| Production | | | | | | | | | | |
| Gravity Water | – | – | – | – | – | 14 | 16 | 21 | 14 | 37 |
| Pumped Water | 5,564 | 6,371 | 4,895 | 8,300 | 9,757 | 7,825 | 8,465 | 9,419 | 7,078 | 1,761 |
| Purchased Water | 10,707 | 9,993 | 10,245 | 9,205 | 6,755 | 7,019 | 8,324 | 6,832 | 7,004 | 13,735 |
| Total Production | 16,271 | 16,364 | 15,140 | 17,505 | 16,512 | 14,844 | 16,789 | 16,251 | 14,082 | 15,496 |
| Water Sold | 16,113 | 15,832 | 15,737 | 16,166 | 14,984 | 13,933 | 15,981 | 15,238 | 14,133 | 14,539 |
| Water System Losses | 158 | 532 | (597) | 1,339 | 1,528 | 911 | 808 | 1,013 | (51) | 957 |
| Number of Services | 37,933 | 37,643** | 37,353 | 37,515 | 37,348 | 37,294 | 37,227 | 37,195 | 37,180 | 37,181 |

* Transmission and Distribution includes Hahamongna transfer of \$450

** 01-02 Number of Services was revised in 2003

WATER DIVISION SALES COMPARISON

| | Inside | Outside | City | Fire Service and Miscellaneous* | Total |
|-----------------------------|--------------|-------------|-------------|---------------------------------------|--------------|
| Revenue from Sales of Water | | | | | |
| Year Ended June 30 | | | | | |
| 2003 | \$20,163,121 | \$4,964,317 | \$1,044,017 | \$2,786,442 | \$28,957,897 |
| 2002 | 20,037,814 | 4,728,953 | 966,329 | 785,720 | 26,518,816 |
| Increase (Decrease) | \$125,307 | \$235,364 | \$77,688 | \$2,000,722 | \$2,439,081 |
| Percent Change | 0.625% | 4.977% | 8.039% | 254.635% | 9.198% |

| | Inside | Outside | City | Fire Service and Miscellaneous* | Total |
|------------------------------|------------|-----------|---------|---------------------------------------|------------|
| Units of 100 Cubic Feet Sold | | | | | |
| Year Ended June 30 | | | | | |
| 2003 | 13,057,262 | 2,478,579 | 577,436 | – | 16,113,277 |
| 2002 | 12,951,730 | 2,314,300 | 566,444 | – | 15,832,474 |
| Increase (Decrease) | 105,532 | 164,279 | 10,992 | – | 280,803 |
| Percent Change | 0.815% | 7.098% | 1.941% | – | 1.774% |

| | Inside | Outside | City | Fire Service and Miscellaneous* | Total |
|--|-----------|-----------|---------|---------------------------------------|---------|
| Average Billing Price per 100 Cubic Feet | | | | | |
| Year Ended June 30 | | | | | |
| 2003 | \$1.544 | \$2.003 | \$1.808 | – | \$1.797 |
| 2002 | 1.547 | 2.043 | 1.706 | – | 1.675 |
| Increase (Decrease) | \$(0.003) | \$(0.040) | \$0.102 | – | \$0.122 |
| Percent Change | – 0.194% | – 1.958% | 5.979% | – | 7.284% |

| | Inside | Outside | City | Fire Service and Miscellaneous* | Total |
|----------------------------|--------|---------|--------|---------------------------------------|--------|
| Average Number of Services | | | | | |
| Year Ended June 30 | | | | | |
| 2003 | 30,832 | 6,830 | 271 | – | 37,933 |
| 2002 | 30,199 | 6,356 | 266 | – | 36,821 |
| Increase (Decrease) | 633 | 474 | 5 | – | 1,112 |
| Percent Change | 2.096% | 7.458% | 1.880% | – | 3.020% |

| | Inside | Outside | City | Fire Service and Miscellaneous* | Total |
|----------------------------------|---------|---------|--------|---------------------------------------|---------|
| Average Annual Use per Service** | | | | | |
| Year Ended June 30 | | | | | |
| 2003 | 423 | 363 | 2131 | – | 425 |
| 2002 | 429 | 364 | 2,129 | – | 430 |
| Increase (Decrease) | (6) | (1) | 2 | – | (5) |
| Percent Change | –1.418% | –0.275% | 0.094% | – | –1.163% |

*Includes

| | | |
|---------------------|-------------|----------------------|
| a) Unbilled Revenue | \$130,032 | 71,596 billing units |
| b) Misc Revenues | 138,763 | |
| c) Fire Protection | 673,173 | |
| d) PWAC | 1,291,405 | |
| e) CIC | 553,069 | |
| Total | \$2,786,442 | |

**Usage in billing units. One billing unit equals 100 cubic feet of water, or about 748 gallons.

2003 Power Financial Narrative

Operating revenues increased to \$126.4 million in FY 2003 from \$116.6 million in FY 2002, an increase of about \$9.8 million or 8.4%. This increase was primarily due to the newly restructured electric rates and the change in accounting for energy and transmission cost. The change involved Energy Cost Adjustment Charge (ECAC) which was replaced in FY 2003 by two new rate charges known as Energy Services Charge (ESC) and Transmission Services Charge (TSC). These new rates were designed to capture fluctuations in the cost of obtaining energy and transmission services.

Sales to other utilities decreased to \$8.1 million from \$12.9 million or 37.2%. Public Benefit Charge revenue increased to \$5.5 million from \$3.8 or 44.7%. Other operating revenues decreased to \$0.5 million from \$0.8 million or 37.5%. The decrease was due mainly to a reduction in the amount of a grant received from the California Energy Commission for energy efficien-

cy and peak load reduction program. The grant amount was reduced from \$0.4 million to \$0.02 million this year. Service fees collection also decreased from \$0.4 to \$0.2 million.

Non-operating revenue decreased to \$16.3 from \$17.2 million or 5.2%. The significant change was due to the decrease in net changes in fair value of investments, which decreased to \$0.6 million from \$2.7 million or 77.8%. The decrease in non-operating revenue was partially offset by contribution in aid of construction, which increased to \$2.6 million from \$1.4 million or 85.7% and other non-operating income that increased to \$1.1 million from \$0.9 million or 22.2%.

Total direct operating expenses decreased to \$86.7 million from \$94.2 million or 8.0%. Fuel costs decreased to \$11.3 million from \$15.6 million or 27.6%. The decrease was due to lower market prices, and less local generation used for sales. Purchased power

decreased to \$63.2 million from \$66.9 million or 5.5%. However, other production, hydroelectric power generation, and transmission and distribution expenses increased to \$12.1 million or 4.3% from \$11.6 million the year before.

Administrative and general expenses decreased to \$8.1 million from \$8.7 million or 6.9%. Commercial expenses decreased to \$5.6 million from \$6.8 million or 17.6%. Depreciation expense as a function of fixed assets increased to \$8.9 million from \$8.4 million, a 6.0% increase. Contribution to General Fund increased to \$11.7 million from \$6.3 million or 85.7%, due to a transfer of \$3.2 million from Power Fund and a transfer of \$2.1 million from Public Benefit Fund to the City Hall Seismic Retrofit Project.

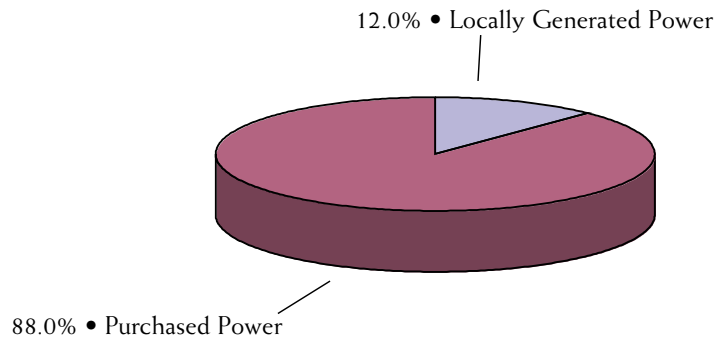
During FY 2003, long-term debt increased to \$133.5 million from \$62.5 million or 113.6%. The increase in long term debt was due to the issuance of an \$82.3 million electric revenue bond to finance the construction of two new generators as part of the Local Generation Repowering Project. Capital expenditures for the year increased to \$61.8 million from \$28.9 million or 113.8%, due to the ongoing installation of two new 45-megawatt combustion turbines under construction. Cash and cash equivalents increased to \$220.6 million during the year from \$183.0 million in the prior year.



The new \$82 million Glenarm Plant, shown early during the construction process.

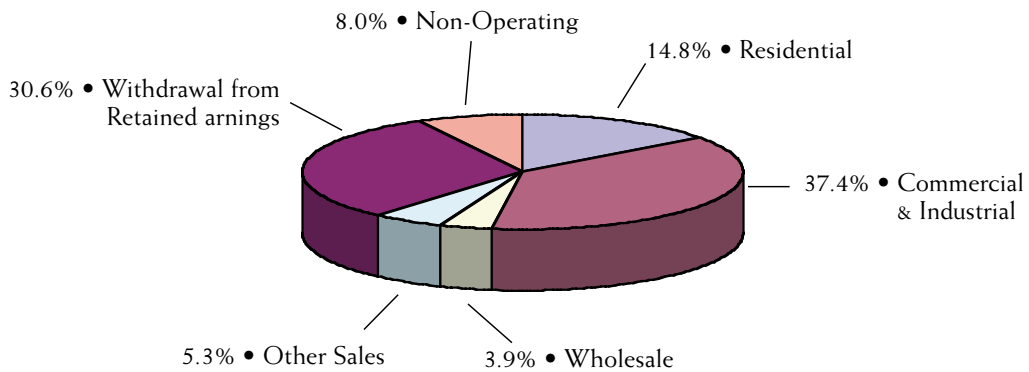
POWER RESOURCES

Total = 1,319,796 Megawatt Hours



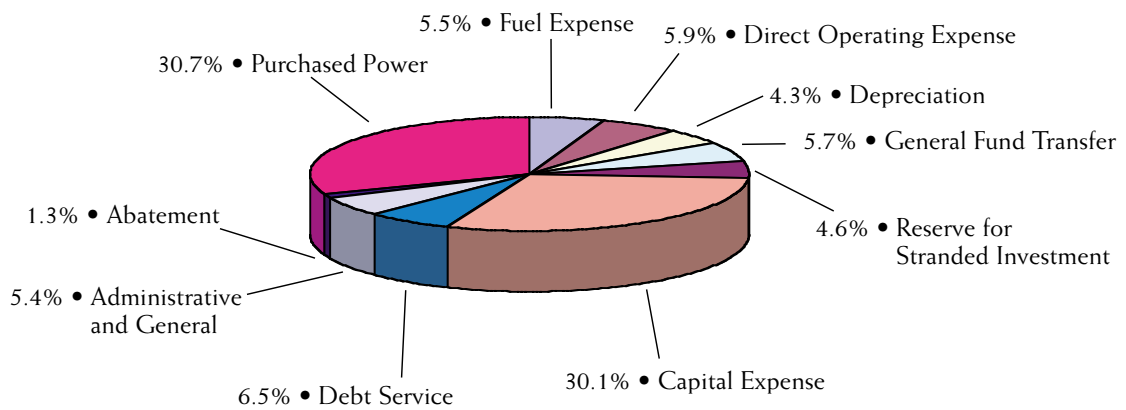
SOURCES OF FUNDS - ELECTRIC SERVICE

Total = \$205,702,794



USES OF FUNDS - ELECTRIC SERVICE

Total = \$205,702,794



**POWER DIVISION — STATEMENT OF INCOME, EXPENSES,
AND CHANGES IN RETAINED EARNINGS**

| | 2003 | 2002 |
|--|----------------------|----------------------|
| REVENUES | | |
| Operating Revenue | \$32,322,604 | \$31,237,019 |
| Recovered Energy Cost | 84,934,144 | 97,565,045 |
| Energy Costs (Over)/Under Collected | (4,861,552) | (29,743,053) |
| Public Benefit Charge | 5,478,173 | 3,832,787 |
| Sales to Other Utilities | 8,065,379 | 12,873,914 |
| Other Operating Revenues | 486,749 | 797,864 |
| Total Revenues | <u>\$126,425,497</u> | <u>\$116,563,576</u> |
| EXPENSES | | |
| Energy Costs | | |
| Fuel – Retail | \$11,270,309 | \$9,465,104 |
| Fuel – Wholesale | 44,092 | 6,181,871 |
| Purchased Power—Retail | 61,940,090 | 66,356,887 |
| —Wholesale | 1,279,449 | 582,090 |
| Total Energy Costs | <u>74,533,940</u> | <u>82,585,952</u> |
| Other Production | 5,168,370 | 5,200,842 |
| Hydro-electric Power Generation | 110,170 | 49,261 |
| Transmission and Distribution | 6,909,900 | 6,378,624 |
| Total Direct Operating Expenses | <u>86,722,380</u> | <u>94,214,678</u> |
| Administrative and General Expenses | 8,143,083 | 8,713,734 |
| Commercial Expenses | 5,568,121 | 6,786,337 |
| Depreciation | 8,869,163 | 8,441,912 |
| Total Expenses | <u>\$109,302,747</u> | <u>\$118,156,662</u> |
| Earnings from Operations | 17,122,750 | (1,593,086) |
| Non-Operating Income and Expenses | | |
| Interest Income | 11,969,009 | 11,916,415 |
| Net Changes in Fair Value of Investments | 583,022 | 2,770,486 |
| Interest Expense | (6,057,701) | (3,123,211) |
| (Loss) on Disposal of Fixed Assets | (19,859) | (2,299) |
| Other Non-operating Revenues (Expenses) | 1,119,681 | 959,207 |
| Total Non-Operating Income | <u>7,594,152</u> | <u>12,520,598</u> |
| NET INCOME BEFORE OPERATING TRANSFERS & CONTRIBUTIONS | <u>\$24,716,902</u> | <u>\$10,927,513</u> |
| Capital Contributions | 2,623,378 | 1,447,908 |
| Transfers Out – Contribution to General Fund | (11,787,776) | (6,256,898) |
| Transfers In | 36,860 | – |
| Net Income | <u>\$15,589,364</u> | <u>\$6,118,522</u> |
| Net assets at beginning of year, as restated | 341,505,937 | 335,387,415 |
| Net assets at end of year | <u>\$357,095,301</u> | <u>\$341,505,937</u> |

POWER DIVISION STATEMENT OF NET ASSETS

| | 2003 | 2002 |
|---|---------------|---------------|
| ASSETS | | |
| Utility Plant at Original Cost | | |
| Production | \$68,544,074 | \$68,302,656 |
| Transmission | 51,626,082 | 51,447,047 |
| Distribution | 190,600,728 | 184,354,225 |
| General | 12,878,656 | 11,934,159 |
| Construction Work in Progress | 82,345,300 | 28,459,757 |
| Total Fixed Assets | 405,994,840 | 344,497,843 |
| Accumulated Depreciation | (184,426,855) | (175,897,685) |
| Net Fixed Assets | 221,567,985 | 168,600,158 |
| Current assets: | | |
| Cash and investments | 72,302,646 | 56,496,718 |
| Accounts receivable | 17,623,631 | 20,231,480 |
| Less allowance for uncollectible amounts | (746,155) | (721,554) |
| Notes receivable | – | 8,017 |
| Due from other funds | 4,040,737 | 40,738 |
| Inventories | 3,342,648 | 3,447,714 |
| Advances to component units | – | – |
| Other deferred debits | 4,625,078 | 4,861,553 |
| Prepayments and other assets | – | 4,742,048 |
| Total current assets | 101,188,585 | 89,106,714 |
| Restricted assets – cash and investments: | | |
| To finance stranded investments | 149,269,244 | 158,623,712 |
| Other restricted cash and investments | 25,789,818 | 5,507,707 |
| Total restricted assets – cash and investments | 175,059,062 | 164,131,419 |
| Non-current assets: | | |
| Accounts receivable from Independent System (ISO) | 24,088,717 | 22,952,927 |
| Less allowance for uncollectible amounts from ISO | (7,606,563) | (7,606,563) |
| Total non-current assets | 16,482,154 | 15,346,364 |
| Total assets | \$514,297,786 | \$437,184,655 |
| LIABILITIES AND FUND EQUITY | | |
| LIABILITIES: | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$10,408,309 | \$22,493,266 |
| Deposits | 916,744 | 1,003,310 |
| Deferred revenue | 91,561 | 3,452,134 |
| Revenue bonds – current | 7,020,000 | 3,085,000 |
| Total current liabilities | 18,436,614 | 30,033,710 |
| Long-term liabilities: | | |
| Accounts payable due to ISO | 3,303,978 | 2,942,227 |
| Revenue bonds – long-term | 133,495,000 | 62,510,000 |
| Unamortized premium (discount) | 1,966,893 | 192,807 |
| Total long-term liabilities | 138,765,871 | 65,645,034 |
| Total liabilities | \$157,202,485 | \$95,678,744 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | \$81,052,985 | \$102,812,377 |
| Restricted: | | |
| Restricted – Stranded investments | 149,269,244 | 158,623,712 |
| Restricted – Other | 23,367,044 | 19,724,023 |
| Unrestricted | 103,406,028 | 60,345,825 |
| Total Net Assets | \$357,095,301 | \$341,505,937 |

POWER DIVISION CASH FLOW STATEMENT

| | 2003 | 2002 |
|---|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$129,303,632 | \$167,332,738 |
| Cash payments to suppliers for goods and services | (90,198,110) | (88,675,226) |
| Cash payments to employees for services | (18,766,134) | (16,992,639) |
| Cash payments to other funds for services | (1,183,345) | (1,167,878) |
| Other nonoperating revenues (expenses) | 998,719 | 759,207 |
| Net cash provided by (used for) operating activities | <u>20,154,762</u> | <u>61,256,202</u> |
| Cash Flow from Noncapital Financing Activities | | |
| Transfers from other funds | 36,860 | |
| Operating transfers out (General City Contribution) | (11,787,776) | (6,256,899) |
| Cash received (paid) on loans to other funds | (3,991,982) | 81,787 |
| Intergovernmental revenue | 120,962 | 200,000 |
| Net cash provided by (used for) noncapital financing activities | <u>(15,621,936)</u> | <u>(5,975,112)</u> |
| Cash Flow from Capital and Related Financing Activities | | |
| Proceeds from long term debt | 82,320,000 | - |
| Acquisition and construction of capital assets | (61,836,966) | (28,873,350) |
| Cash received from developers | 2,623,378 | 1,447,908 |
| Principal paid on debt | (7,400,000) | (1,760,000) |
| Interest paid on debt | (6,057,701) | (3,123,211) |
| Net cash used for capital and related financing activities | <u>9,648,711</u> | <u>(32,308,653)</u> |
| Cash Flow from Investment Activities | | |
| Interest and Dividends on Investments | <u>12,552,034</u> | <u>14,686,901</u> |
| Net Increase/(Decrease) in Cash and Cash Equivalents | 26,733,571 | 37,659,338 |
| Cash and Cash Equivalents, Beginning of Year | 220,628,137 | 182,968,798 |
| Cash and Cash Equivalents, End of Year | <u>\$247,361,708</u> | <u>\$220,628,136</u> |

**POWER DIVISION RECONCILIATION OF OPERATING INCOME (LOSS)
TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES**

| | 2003 | 2002 |
|---|--------------|---------------|
| Operating income (loss) | \$17,122,750 | \$(1,593,086) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | |
| Depreciation | 8,869,163 | 8,441,912 |
| Gain (Loss) on Disposal of Assets | (19,860) | (2,299) |
| Other Non-operating Revenues (Expenses) | 998,719 | 759,207 |
| (Increase) Decrease in Accounts Receivable | 1,472,059 | 23,291,693 |
| Increase (Decrease) in Allowance for Uncollectible Accounts | 24,601 | (314,271) |
| (Increase) Decrease in Other Deferred Assets | 236,475 | 28,183,982 |
| (Increase) Decrease in Inventories | 105,066 | (264,349) |
| (Increase) Decrease in Prepaids and Other Assets | 4,742,048 | 288,290 |
| Increase (Decrease) in Accounts Payable and Accrued Liabilities | (11,723,206) | 3,101,642 |
| Increase (Decrease) in Deferred Revenue | (3,360,573) | (392,241) |
| Increase (Decrease) in Deposits Payable | (86,566) | (235,481) |
| Increase (Decrease) in Unamortized Discount | 1,774,086 | (8,797) |
| Total Adjustments | 3,032,012 | 62,849,288 |
| Net cash provided by (used for) operating activities | \$20,154,762 | \$61,256,202 |
| Noncash Investing, Capital and Financing Related Activity: | | |
| Noncash Changes in Market Value of Investments | \$583,022 | \$2,770,486 |

POWER DIVISION TEN-YEAR OPERATIONS SUMMARY

| Fiscal Year | 02-03 | 01-02 | 00-01 | 99-00 | 98-99 | 97-98 | 96-97 | 95-96 | 94-95 | 93-94 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| FINANCIAL DATA (THOUSANDS) | | | | | | | | | | |
| Operating Revenue | \$118,360 | \$103,690 | \$168,726 | \$137,491 | \$129,867 | \$119,204 | \$106,964 | \$102,527 | \$105,550 | \$98,141 |
| Sales to Other Utilities | 8,065 | 12,874 | 132,891 | 33,335 | 6,633 | 6,274 | 7,115 | 4,185 | 4,316 | 3,904 |
| Other Income | 16,275 | 17,091 | 25,741 | 8,008 | 6,232 | 7,129 | 5,060 | 5,257 | 4,338 | 7,478 |
| Total Revenues | 142,700 | 133,655 | 327,358 | 178,834 | 142,732 | 132,607 | 119,139 | 111,969 | 114,204 | 109,523 |
| Fuel-Retail | 11,270 | 9,465 | 16,652 | 7,194 | 8,675 | 6,450 | 6,067 | 7,227 | 8,546 | 10,089 |
| -Wholesale | 44 | 6,182 | 12,685 | 2,988 | 165 | - | 2,866 | - | - | - |
| Purchased Power-Retail | 61,940 | 66,357 | 103,753 | 74,536 | 66,118 | 64,353 | 61,163 | 56,205 | 57,866 | 55,136 |
| -Wholesale | 1,279 | 582 | 60,430 | 8,412 | 2,731 | 2,534 | - | 350 | 508 | 494 |
| Other Production and | | | | | | | | | | |
| Hydroelectric Generation | 5,278 | 5,250 | 6,107 | 3,887 | 3,478 | 3,818 | 3,839 | 5,144 | 5,717 | 5,520 |
| Transmission and Distribution | 6,910 | 6,379 | 5,939 | 5,099 | 4,413 | 5,123 | 7,044 | 5,508 | 5,909 | 6,046 |
| Administrative and | | | | | | | | | | |
| General Expenses | 8,143 | 8,714 | 7,429 | 6,293 | 7,086 | 8,944 | 9,214 | 8,317 | 8,197 | 7,922 |
| Commercial Expenses | 5,568 | 6,786 | 14,219 | 5,711 | 3,760 | 2,259 | 1,095 | 1,313 | 1,322 | 1,094 |
| Depreciation | 8,869 | 8,442 | 8,684 | 8,653 | 8,583 | 8,055 | 8,049 | 7,524 | 6,540 | 6,339 |
| Interest Expense | 6,058 | 3,123 | 3,198 | 3,278 | 2,995 | 3,677 | 3,883 | 4,065 | 4,276 | 4,484 |
| Transfer to General Fund (Net) | 11,751 | 6,257 | 5,620 | 5,626 | 5,438 | 6,571 | 8,268 | 8,527 | 9,183 | 9,870 |
| Total Expenses | 127,110 | 127,537 | 244,716 | 131,677 | 113,442 | 111,784 | 111,488 | 104,180 | 108,064 | 106,994 |
| Net Income | \$15,590 | \$6,118 | \$82,642 | \$47,157 | \$29,290 | \$20,823 | \$7,651 | \$7,789 | \$6,140 | \$2,529 |
| Earnings Invested in the Business | \$357,095 | \$341,506 | \$312,676 | \$229,396 | \$182,240 | \$152,951 | \$134,854 | \$127,204 | \$119,417 | \$113,277 |
| Total Debt Outstanding | \$140,515 | \$65,595 | \$67,355 | \$69,045 | \$70,635 | \$64,495 | \$67,830 | \$70,970 | \$74,355 | \$74,305 |
| OPERATING AND USAGE DATA (MWH) | | | | | | | | | | |
| Energy Generated | 166,673 | 106,184 | 290,831 | 239,910 | 297,074 | 150,473 | 140,179 | 186,699 | 235,102 | 265,286 |
| Energy Purchased | 1,153,123 | 1,129,807 | 1,401,289 | 1,215,609 | 1,158,249 | 1,162,664 | 1,235,657 | 1,068,013 | 973,504 | 963,856 |
| Total Energy Delivered | 1,319,796 | 1,235,991 | 1,692,120 | 1,455,519 | 1,455,323 | 1,313,137 | 1,375,836 | 1,254,712 | 1,208,606 | 1,229,142 |
| Total Retail Energy Sales | 1,160,272 | 1,086,146 | 1,140,029 | 1,155,475 | 1,143,789 | 1,124,707 | 1,119,046 | 1,120,566 | 1,103,034 | 1,079,472 |
| Total Wholesale | | | | | | | | | | |
| Energy Sales | 50,249 | 144,715 | 150,214 | 77,006 | 101,443 | 110,810 | 117,306 | 46,245 | 34,197 | 40,845 |
| Total Energy Sales | 1,210,521 | 1,230,861 | 1,290,243 | 1,232,481 | 1,245,232 | 1,235,517 | 1,236,352 | 1,166,811 | 1,137,231 | 1,120,317 |
| System Peak (MW) | 270 | 270 | 275 | 275 | 295 | 274 | 270 | 270 | 274 | 259 |
| Number of Services | 59,601 | 58,519 | 59,354 | 58,389 | 58,370 | 58,222 | 58,070 | 57,964 | 57,818 | 57,681 |
| Average Annual Residential Usage (KWH) | 5,566 | 5,320 | 5,734 | 5,593 | 5,866 | 5,808 | 5,645 | 5,778 | 5,611 | 5,321 |

POWER DIVISION SALES COMPARISON

Retail Electricity Sales

| | Wholesale Sales to Other Utilities | Retail Electricity Sales | | | | | | | Total Sales | |
|---|------------------------------------|--------------------------|-------------------------|---------------------------------|----------------|------------------------------------|---------------|--------------|---------------|---------------|
| | | Residential | Commercial & Industrial | Street Lights & Traffic Signals | Commercial | Public Street & Highway/Industrial | Lighting | Other* | | |
| Revenue from Sales of Electricity | | | | | | | | | | |
| Year Ended June 30 | | | | | | | | | | |
| 2003 | \$8,065,379 | \$30,534,245 | \$76,966,474 | \$1,570,704 | – | – | – | \$9,288,691 | \$118,360,114 | \$126,425,493 |
| 2002 | 12,873,914 | 28,893,645 | – | – | 15,630,341 | 66,029,182 | 1,341,722 | –8,205,234 | 103,689,656 | 116,563,570 |
| Increase (Decrease) | \$(4,808,535) | \$1,640,600 | \$76,966,474 | \$1,570,704 | \$(15,630,341) | \$(66,029,182) | \$(1,341,722) | \$17,493,925 | \$14,670,458 | \$9,861,923 |
| Percent Change | –37.351% | 5.678% | NA | NA | NA | NA | NA | 213.204% | 14.148% | 8.461% |
| Megawatt-Hours Sold | | | | | | | | | | |
| Year Ended June 30 | | | | | | | | | | |
| 2003 | 50,249 | 287,717 | 815,701 | 16,488 | – | – | – | 40,366 | 1,160,272 | 1,210,521 |
| 2002 | 144,714 | 268,803 | – | – | 141,376 | 625,409 | 36,613 | 13,944 | 1,086,145 | 1,230,859 |
| Increase (Decrease) | (94,465) | 18,914 | 815,701 | 16,488 | (141,376) | (625,409) | (36,613) | 26,422 | 74,127 | (20,338) |
| Percent Change | –65.277% | 7.036% | NA | NA | NA | NA | NA | 189.487% | 6.825% | –1.652% |
| Average Billing Price per Kilowatt-Hour | | | | | | | | | | |
| Year Ended June 30 | | | | | | | | | | |
| 2003 | \$0.161 | \$0.106 | \$0.094 | \$0.095 | – | – | – | \$0.230 | \$0.102 | \$0.104 |
| 2002 | 0.089 | 0.107 | – | – | 0.111 | 0.106 | 0.037 | –0.588 | 0.095 | 0.095 |
| Increase (Decrease) | \$0.072 | \$(0.001) | \$0.094 | \$0.095 | \$(0.111) | \$(0.106) | \$(0.037) | \$0.818 | \$0.007 | \$0.009 |
| Percent Change | 80.899% | –0.935% | NA | NA | NA | NA | NA | 139.116% | 7.368% | 9.474% |
| Average Number of Customers | | | | | | | | | | |
| Year Ended June 30 | | | | | | | | | | |
| 2003 | 9 | 51,696 | 7,904 | 4 | – | – | – | – | 59,604 | 59,613 |
| 2002 | 18 | 50,530 | – | – | 6,889 | 1,100 | 178 | – | 58,697 | 58,715 |
| Increase (Decrease) | (9) | 1,166 | 7,904 | 4 | (6,889) | (1,100) | (178) | – | 907 | 898 |
| Percent Change | –50.000% | 2.308% | NA | NA | NA | NA | NA | – | 1.545% | 1.529% |
| Average Annual Use (KWH) per Customer | | | | | | | | | | |
| Year Ended June 30 | | | | | | | | | | |
| 2003 | – | 5,566 | 103,201 | 4,121,897 | – | – | – | – | 19,466 | 20,306 |
| 2002 | – | 5,320 | – | – | 20,522 | 568,554 | 205,691 | – | 18,504 | 20,963 |
| Increase (Decrease) | – | 246 | 103,201 | 4,121,897 | (20,522) | (568,554) | (205,691) | – | 962 | (657) |
| Percent Change | – | 4.622% | NA | NA | NA | NA | NA | – | 5.199% | –3.134% |

*Includes usage: (MWH)

| | | |
|---------------------------|-------------|---------|
| a) Unbilled revenue | \$(272,178) | (2,425) |
| b) Public Benefits Charge | 5,478,172 | |
| c) Governmental | 3,595,951 | 40,366 |
| d) SB5X and intrafund | 486,745 | |
| Total | \$9,288,691 | 37,941 |

NOTES TO THE FINANCIAL STATEMENTS

Note A: Summary of Significant Accounting Principles

The financial statements of Pasadena Water and Power are presented in conformance with generally accepted accounting principles prescribed by the Federal Energy Regulatory Commission (FERC) and the Uniform System of Accounts of the Public Utilities Commission (PUC) of the state of California.

Utility Plant and Depreciation

Additions to Utility Plant are recorded at cost. These costs include materials, supplies, labor, and associated overhead expenses. Depreciation is calculated by the straight-line method based on the estimated life of the assets.

Contribution and Construction

Amounts received from customers for construction of Utility Plant are combined with retained income reinvested in the business to represent equity and are not offset against Utility Plant.

Revenues

Revenues are recognized as customers are billed. Billings are on a cyclical basis, and accrued revenues for energy delivered but not billed are recorded at the end of the fiscal period.

Variable Costs

By ordinance, Pasadena Water and Power is required to recover the Power Division's total cost of fuel and purchased power through the Energy Services Charge Fund (ESCF) and Transmission Services Charge Fund (TSCF). These charges are calculated and passed on to all customers as a pass-through energy charge.

Shared Operating Expenses

Pasadena Water and Power shares certain administrative functions with other departments of the City, and is billed for these services monthly, both as direct charges for services rendered and as predetermined charges based on cost-of-service studies.

Debt Expenses

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

Reserve for Stranded Investments

The Reserve for Stranded Investments was established in FY 1998 to mitigate impact of deregulation. As of June 30, 2003, the balance was \$149,269,244.

Contributed Capital

GASB 34 eliminated the need to itemize contributed capital. At the start of FY 2002, Pasadena Water and Power stopped recognizing depreciation on fixed assets acquired by capital grants and began recognizing capital contribution as an integral part of net income.

Note B: A Summary of the City of Pasadena's "Take or Pay" Contracts,
Related Projected, and Contingent Liabilities at June 30, 2003 (in millions)

| | Principal | Interest | Combined Principal and Interest | Pasadena Water and Power Participation | Pasadena Water and Power Obligation |
|-----------------------------------|----------------|----------------|---------------------------------------|--|---|
| Intermountain Power Project | \$3,804 | \$2,181 | \$5,985 | 6.000% | \$359 |
| SCPPA – Palo Verde (1) | 266 | 106 | 372 | 4.400% | 16 |
| SCPPA – IPP Southern Transmission | 972 | 574 | 1,546 | 5.883% | 91 |
| SCPPA – Mead Adelanto | 246 | 135 | 381 | 8.589% | 33 |
| SCPPA – Mead Phoenix | 78 | 42 | 120 | 13.806% | 17 |
| SCPPA – Magnolia | 300 | 347 | 647 | 6.131% | 40 |
| Total | \$5,666 | \$3,385 | \$9,051 | | \$555 |

NOTE C: Equity Reserve Funds of the Department

| | Water Division | Power Division |
|-----------------------------------|--------------------|----------------------|
| Reserve For Stranded Investment | – | \$149,269,244 |
| Reserve For City Contribution | 1,738,909 | 8,805,147 |
| Reserve For Equipment Replacement | 925,642 | 212,042 |
| Reserve For Bond Reserve Fund | 2,216,015 | 6,906,624 |
| Reserve For Cip | 108,952 | 820,577 |
| Reserve For Debt Service | – | 4,844,701 |
| Reserve For Public Benefit Fund | 1,536,284 | 1,777,954 |
| Total Reserves | \$6,525,801 | \$172,636,288 |

NOTE D: Status of Power Division Bonds and Interest as of June 30, 2003

| Issue (thousands) | Principal Payable | Paid to Date | Outstanding 6/30/03 | Payable FY 2004 |
|-------------------|----------------------|-----------------|------------------------|--------------------|
| Principal | | | | |
| 1998 | \$70,635 | \$8,125 | \$62,510 | \$3,210 |
| 2002 | 82,320 | 4,315 | 78,005 | 3,810 |
| Total | \$152,955 | \$12,740 | \$140,515 | \$7,020 |
| Interest | | | | |
| 1998 | \$47,147 | \$14,461 | \$32,686 | \$2,926 |
| 2002 | 42,065 | 2,282 | 39,783 | 3,388 |
| Total | \$89,212 | \$16,743 | \$72,469 | \$6,314 |

NOTE E: Status of Water Division Bonds and Interest as of June 30, 2003

| Issue (thousands) | Principal Payable | Paid to Date | Outstanding 6/30/03 | Payable FY 2004 |
|-------------------|----------------------|-----------------|------------------------|--------------------|
| Principal | | | | |
| 1991 * | \$3,400 | \$3,400 | – | – |
| 1993 | 25,000 | 2,850 | 22,150 | 885 |
| 1994 | 2,115 | 415 | 1,700 | 80 |
| Total | \$30,515 | \$6,665 | \$23,850 | \$965 |
| Interest | | | | |
| 1991 * | \$2,352 | \$2,352 | – | – |
| 1993 | 23,358 | 11,081 | 12,277 | 1,202 |
| 1994 | 1,767 | 860 | 907 | 99 |
| Total | \$27,477 | \$14,293 | \$13,184 | \$1,301 |

* Original Issue – \$10,250; Refunded July 1993

2002-2003 Pasadena City and Utility Officials

CITY OF PASADENA

CITY COUNCIL

Bill Bogaard Mayor
Sidney F. Tyler, Jr. Vice Mayor
Victor M. Gordo Council Member
Steve Haderlein Council Member
Chris Holden Council Member
Paul Little Council Member
Steve Madison Council Member
Joyce Streator Council Member

Cynthia J. Kurtz City Manager

PASADENA WATER AND POWER

Phyllis E. Currie General Manager
Jay Panzica Director of Finance and
Administration
Scott Ushijima Interim Director of
Customer Care
George C. Wilson, Jr. Director of Power Delivery
Eric R. Klinkner Director of Power Supply
Shan Kwan Director of Water Delivery

UTILITY ADVISORY COMMISSION

William A. Sullivan Chair
Jody D. Gerstner Vice Chair
Sandra Ell Member
Joseph Feinblatt Member
Donald Garrett Member
Brian S. Russell Member
Sam Southard, Jr. Member

Important Contact Information

PWP AnswerLine (626) 744-6970

PWP Customer Service (626) 744-4005

City Directory (626) 744-4000

Water Emergency (626) 744-4138

Power Emergency (626) 744-4673

PWP Website www.PWPweb.com

PWP Administrative Offices 150 S. Los Robles Ave.
Suite 200
Pasadena, CA 91101



P A S A D E N A

Water & Power

SERVING THE COMMUNITY SINCE 1906