

ELECTRIC UTILITY

As management of Glendale *Water & Power* (a department of the City of Glendale), we offer the readers of the City of Glendale Electric Enterprise Fund (Electric Utility) financial statements, a fund of the City, this narrative overview and analysis of the financial activities of the Electric Enterprise for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

Fiscal year 2004 was a year of mixed results for the Electric Utility. The retail sector showed excellent financial results from both a marked load growth and effective cost containment amid the increases in the energy costs and market volatility. The net retail operating revenue before transfers to the City was \$12,990 on revenues of \$136,664 less \$123,674 in expenses. The wholesale sector saw fewer opportunities that met the Electric Utility's risk-adjusted return thresholds, resulting in lower net revenue of \$3,755 on revenues of \$15,054 less \$11,299 in expenses. Total net assets increased by \$6,403 after adding net non-operating revenue of \$5,608 and less \$15,950 in Transfers to the City.

The assets of the Electric Utility exceeded its liabilities at the close of the most recent fiscal year by \$356,293. Of this amount, \$208,006 was unrestricted and may be used to meet the Fund's ongoing obligations to creditors and customers. At the end of the fiscal year, this unrestricted net assets represented 154% of annual operating expenses for 2004.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Glendale Electric Utility financial statements. The Electric Utility is a business-type activity of the City, and its activities are recorded in a separate enterprise fund. These financial statements include only the activities for the City of Glendale Electric Utility and provide comparative information for the last two fiscal years. Information on city-wide financial results is available in the City of Glendale's Comprehensive Annual Financial Report.

The City of Glendale Electric Utility's financial statements comprise two components: 1) financial statements and 2) notes to the financial statements. In addition, this report also

contains other supplementary information to provide the reader additional information about the Electric Utility, including sales statistics and other relevant data. Included as part of the financial statements are three separate statements that collectively provide an indication of the Electric Utility's financial health.

The **Balance Sheets** present information on assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial condition of the utility is improving or deteriorating.

The **Statements of Revenues, Expenses and Changes in Net Assets** present information showing how the Electric Utility's net assets changed during the most recent two fiscal years. Results of operations are recorded under the accrual basis of accounting whereby transactions are reported as underlying events occur, regardless of the timing of cash flows. Thus, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods, i.e. accounts payable and accounts receivable. The accrual basis of accounting is more fully described in the accompanying Notes to the Financial Statements.

The **Statements of Cash Flows** present the flows of cash and cash equivalents during the last two fiscal years, including certain restricted amounts.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 42 to 57 of this report.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Electric Utility's financial position. In the case of the Electric Utility, assets exceeded liabilities by \$356,293 at the close of the most recent fiscal year. A portion of the Utility's net assets (38.2%) reflects its investment in capital assets, such as production, transmission, and distribution facilities, less any related outstanding debt used to acquire those assets. The Electric Utility uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the capital assets themselves cannot be used to liquidate these long-term liabilities.

An additional portion of the Electric Utility's net assets (3.3%) represents resources that are subject to external restrictions on how they may be used. These restrictions are for items such as debt repayment and other legally restricted purposes.

The Unrestricted portion of the Utility's net assets (58.4%) may be used to meet the Electric Utility's ongoing obligations to creditors and customers.

Net Assets – Electric Utility

The Electric Utility's net assets as of June 30 are as follows:

	2004	2003
Current and other assets	237,493	246,829
Capital assets	203,390	184,558
Total assets	440,883	431,386
Long-term debt	67,614	68,434
Other liabilities	16,976	18,654
Total liabilities	84,590	87,088
Net assets:		
Invested in capital assets, net of related debt	136,340	115,918
Restricted	11,947	4,814
Unrestricted	208,006	223,568
Total net assets	356,293	344,299

The Electric Utility's net assets increased by \$6,403 during the current fiscal year. The increase is primarily a result of increased retail revenues from increased consumption.

Changes in Net Assets – Electric Utility

The Electric Utility's changes in net assets for the year ended June 30 are as follows:

	2004	2003
Revenues		
Retail sales, net	136,664	131,376
Fuel Adjustment Charge (FAC) adjustment	-	19,603
Wholesale sales	15,054	27,653
Interest income	1,916	8,294
Other revenues and grants	5,606	7,668
Capital contributions	1,803	1,054
Total revenues	161,043	195,648
Expenses		
Production	103,897	105,380
Transmission and distribution	14,317	14,862
Customer accounting and sales	5,469	4,979
Depreciation	11,290	11,453
Interest expense	3,716	2,438
Total expenses	138,689	139,111
Transfers to the City's general fund	15,950	14,288
Total expenses and transfers	154,639	153,399
Changes in net assets	6,403	42,249
Total net assets, beginning of year as restated	349,889	302,050
Total net assets, end of year	356,293	344,299

Revenues by Source – Electric Utility

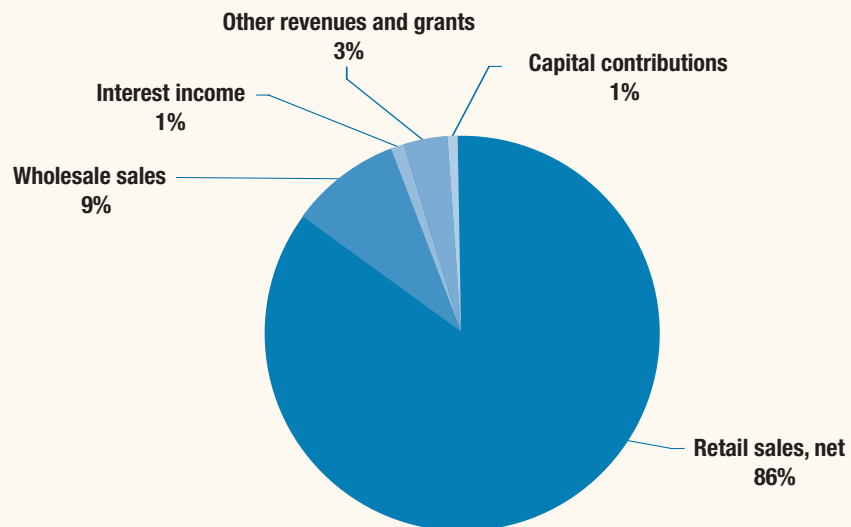
Retail sales (residential, commercial, industrial and other sales) continue to be the primary revenue source for the Electric Utility, making up 85% of total revenue. Retail sales showed an increase of 4% from the prior year due to a 5.7% load growth due to the increase in average consumption, offset by a decrease in accrued unbilled revenues.

In July 2003, the City Council adopted the Electric Cash Reserve Policy and established a rate stabilization fund accordingly. The Fuel Adjustment Charge (FAC) Adjustment used in prior years to recognize the over-collection or under-collection is replaced in fiscal year 2003-2004 by the utilization of the rate stabilization fund, a balance sheet account.

Wholesale sales decreased 46% below the prior year levels. The decrease from the prior year is primarily the result of the 64% decrease in the volume of excess power sales, although the prices received for excess power increased as a result of market conditions.

Investment income decreased by \$6,378, or 77% below the prior year level. The decrease is related to market conditions that continue to be poor, resulting in lower earnings for the Electric Utility's investment portfolio.

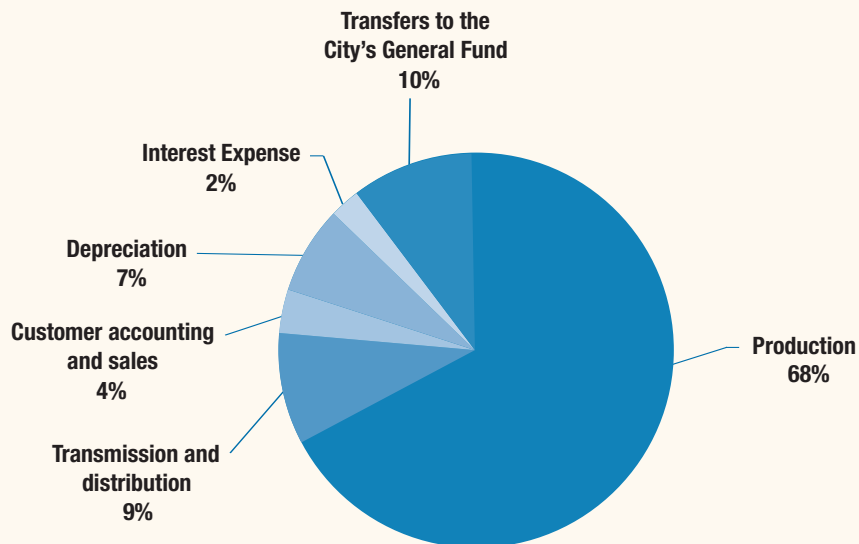
Capital contributions increased 71% from prior year levels. The increased amount over the prior year reflects an increased level of construction projects funded by others, primarily by retail customers.



Expenses by Source – Electric Utility

Total expenses for the Electric Utility remained flat despite the increase in energy costs resulting from significant upward movement in energy markets during the fiscal year. Production and transmission and distribution expenses were on par with prior year levels, the result of an effective energy risk management program and the intense focus on cost containment in operating expenses. Customer accounting and sales expenses increased by 9.8% after returning to the full staffing level. Depreciation expense remained flat. Interest expense increased by \$1,278, resulting from the additional interest payment on the newly issued 2003 Electric Revenue Bond.

Transfers to the City's general fund are based on a formula representing a certain percentage of total retail revenues. Transfers to various City's funds increased by \$1,662, reflecting increases in both the percentage and total retail revenues.



Capital Assets and Debt Administration

Capital Assets

As of June 30, 2004, the Electric Utility's investment in capital assets totals \$203,389 (net of accumulated depreciation). This includes investments in production, transmission, and distribution-related facilities, as well as in general items such as office equipment, furniture, etc. This fiscal year showed a 10% increase in capital assets over the prior year. The department activated and closed to depreciable capital assets a significant portion of distribution, transmission and general assets that had previously been accounted for as construction in progress. The most significant project completed during the fiscal year was the new 49-MW generation unit at Grayson Power Plant at approximately \$35,000.

The Electric Utility's capital assets as of June 30 are as follows:

	2004	2003
Production	101,421	89,729
Transmission and distribution	247,473	235,604
General	47,300	45,565
Less: accumulated depreciation	(192,804)	(186,341)
Total	203,390	184,557

Long-Term Debt

As of June 30, 2004, the Electric Utility had long-term debt outstanding of \$67,614. The debt is backed by the revenue of the utility (revenue bonds).

The Electric Utility's outstanding debt as of June 30 is as follows:

	2004	2003
Electric revenue bonds	67,845	68,640
Less: current portion	(820)	(820)
Unamortized bond premium	589	613
Total long-term debt	67,614	68,433

The Electric Utility maintains an “A+” credit rating from Standard & Poor’s and Fitch, Inc. for its revenue bonds and an A1 by Moody’s Investors Service. Additional information on the Electric Utility’s long-term debt can be found in Note 3 on pages 48 and 49 of this report.

Economic Factors and Rates

Although inflationary trends in the Glendale region remained relatively low, history has shown that certain costs, such as energy costs, can greatly exceed inflation. To hedge against the historically high energy prices, the Electric Utility has implemented a risk management program that resulted in stabilizing the rate amid significant market volatility. There was no rate increase during the last two fiscal years.

In addition, the Electric Cash Reserve Policy adopted by City Council in July 2003 provides the foundation for mitigating rate impact. The policy identifies and plans for meeting working capital and contingency needs during emergencies and disasters, as well as expected future capital needs for system expansion and long-term cost reduction initiatives.

Requests for Information

This financial report is designed to provide a general overview of the Electric Utility’s finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Director of Glendale *Water & Power* – 141 North Glendale Avenue, Level 4, Glendale, California 91206.