SMUD™

DPG 14-122

June 19, 2014

U.S. Nuclear Regulatory Commission
Document Control Desk
Washington, DC 20555

Docket No. 50-312
Rancho Seco Nuclear Generating Station
License No. DPR-54

Docket No. 72-11
Rancho Seco Independent Spent Fuel Storage Installation
License No. SNM-2510

ANNUAL FINANCIAL REPORT

Attention: John Hickman and Chris Allen

In accordance with 10 CFR 50.71(b) and 10 CFR 72.80(b), we are submitting the 2013 Annual Financial Report for the Sacramento Municipal Utility District. If you or members of your staff have questions requiring additional information or clarification, please contact me at (916) 732-4817.

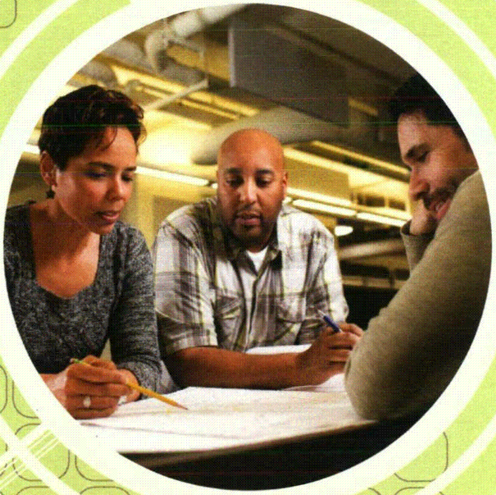
Sincerely,

Einar T. Ronningen
Superintendent, Rancho Seco Assets

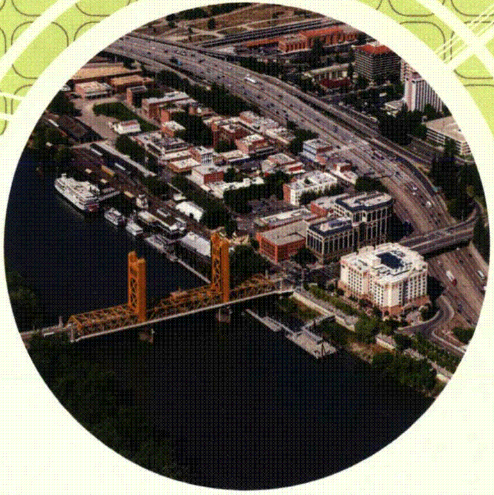
Cc: NRC, Region IV

FSME20
NMSS26
M004

Leading the Way



2013 ANNUAL REPORT



SMUD®

Sacramento Municipal Utility District

SMUD | OVERVIEW 2013

Service Area Population
1.4 million

Record Peak Demand
3,299 megawatts
on July 24, 2006

Total Authorized Budget
$1.35 billion

Number of Customers [YEAR END]
610,185

Employees [YEAR END]
2,073

Credit Rating

AA-	Standard & Poor's
A1	Moody's
A+	Fitch

Executive Management

John Di Stasio
General Manager &
Chief Executive Officer

Arlen Orchard
General Counsel

James A. Tracy
Chief Financial Officer

Paul Lau
Assistant General Manager,
Power Supply & Grid Operations

Frankie McDermott
Chief Customer Officer

Gary King
Chief Workforce & Technology Officer

Michael Gianunzio
Chief Legislative
& Regulatory Affairs Officer

Noreen Roche-Carter
Treasurer

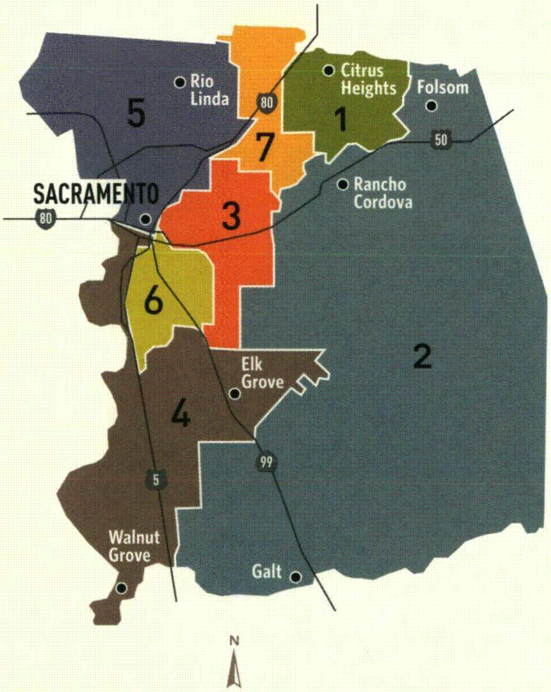
Sandra Moorman
Controller

SMUD Service Area and Board Member Wards

The Sacramento Municipal Utility District generates, transmits and distributes electricity to a 900-square-mile territory that includes California's capital city, Sacramento County and a small portion of Placer County. As a municipal utility, SMUD is governed by a seven-member of Board Directors selected by the voters to staggered four-year terms. The SMUD Board of Directors determines policy and appoints the chief executive officer/general manager, who is responsible for SMUD's day-to-day operations.

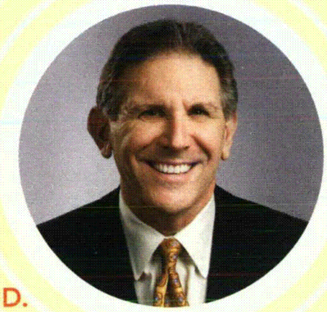
Board of Directors

- Renée Taylor
  Ward 1
- Nancy Bui-Thompson
  Ward 2
- Howard Posner
  Ward 3
- Genevieve Shiroma
  Ward 4
  Vice President 2013
  President 2014
- Michael Picker
  Ward 5 (Picker resigned seat in early 2014; Board appointed **Rob Kerth** to fill vacancy)
- Larry Carr
  Ward 6
  Vice President 2014
- Bill Slaton
  Ward 7
  President 2013



Produced by Communications, Marketing and Community Relations

Letter from the General Manager/CEO



In many respects, 2013 was a transformational year at SMUD. From reaping the benefits of the SmartSacramento® initiative to laying the groundwork for time-differentiated electric rates, we set a strong foundation that will serve our customers well in the years ahead.

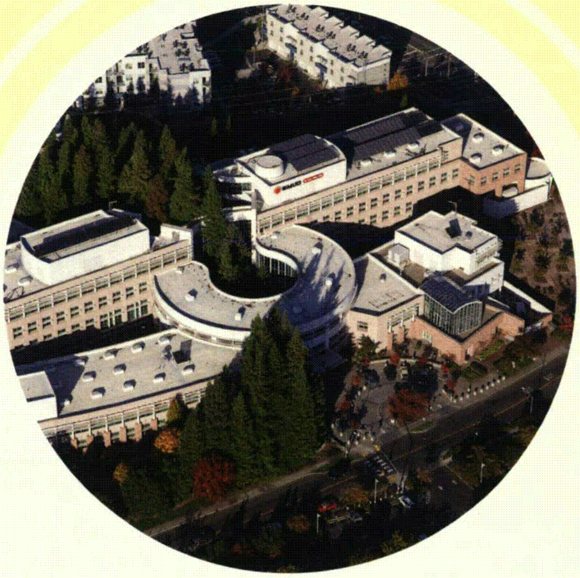
SMUD's finances are in good order. It helped that for the first time in several years, the economic news was positive. A long-awaited upturn meant the Sacramento region began recovering its financial footing. SMUD's increase in net income in 2013 was $69.7 million, $30 million higher than planned. Standard & Poor's raised SMUD's credit rating to AA-, the third upgrade we've received from one of the major credit agencies in the last three years.

SMUD's two most visible achievements in 2013 were a move to the new East Campus — Operations Center and the successful completion of the $308 million SmartSacramento project. These developments are closely connected and will help SMUD provide customers with more energy options and efficient service. The state-of-the-art control room at the East Campus features technology funded in part by the $127.5 million smart grid infrastructure grant SMUD received from the U.S. Department of Energy.

SMUD's two **most visible achievements in 2013** were a move to the new **East Campus — Operations Center** and the successful completion of the $308 million **SmartSacramento**® project.

SmartSacramento encompassed more than 40 projects in seven areas and was a success on all fronts. Federal energy officials are particularly interested in the

continued



results of SMUD's smart-pricing pilot. More than 8,000 customers participated in the largest study of its kind in the country.

In August, the SMUD Board of Directors voted unanimously to phase out tiered rates over the next four years and to begin preparing for time-of-use rates. The completion of residential rate restructuring will have long-lasting benefits for SMUD and the community. By aligning our costs with the true value of serving customers, we fundamentally changed the way we price our product. Extensive outreach efforts preceded the rate restructuring, and our customers were supportive of the changes.

SMUD continued in 2013 to increase its supply of renewable resources, keeping us on track to meet the state mandate of 33 percent by 2020. As part of our effort to integrate renewable resources such as wind and solar into the optimal operation of SMUD's distribution system, the SMUD Board approved a $35 million contract to perform geotechnical and engineering testing on a possible pumped-storage reservoir at Iowa Hill in our Upper American River Project. SMUD is investigating other storage options as well.

SMUD received **the highest** J.D. Power and Associates **customer satisfaction scores** of any California utility **for the 12th straight year.**

Last but certainly not least, I'm pleased to note that SMUD received the highest J.D. Power and Associates customer satisfaction scores of any California utility for the 12th straight year. We ranked second among large utilities nationally. Please take a few moments to read about the work we do to maintain our customers' trust.

This is the last annual report issued during my tenure as I will be retiring in April 2014. It has been an honor to serve our community and to lead this organization for the last five and a half years.

Sincerely,

John Di Stasio
General Manager/CEO | **Sacramento Municipal Utility District**

Year in review

SMUD experienced a banner year on several fronts in 2013. More than 95 percent of the SmartSacramento work associated with the $127.5 million federal smart grid grant was completed. One-third of SMUD's work force moved to the expansive East Campus – Operations Center. SMUD received a credit upgrade from one of the major rating agencies and remained the top-ranked California utility in terms of customer satisfaction. And even with a record-setting heat wave in late June and July that generated a high demand for electricity, SMUD exceeded its reliability targets for 2013.

These developments, and others, ensure that SMUD is on solid financial and organizational footing heading into the future. A look at some of the highlights:

Strong financial showing

With the regional economy beginning to rebound from the recession, electric sales were up, and SMUD finished 2013 with a change in net position of $69.7 million, $30 million more than planned. SMUD's fixed charge debt ratio for 2013 was 1.80, exceeding the target established by the Board of Directors. More good financial news came when Standard & Poor's raised SMUD's credit rating to AA-.

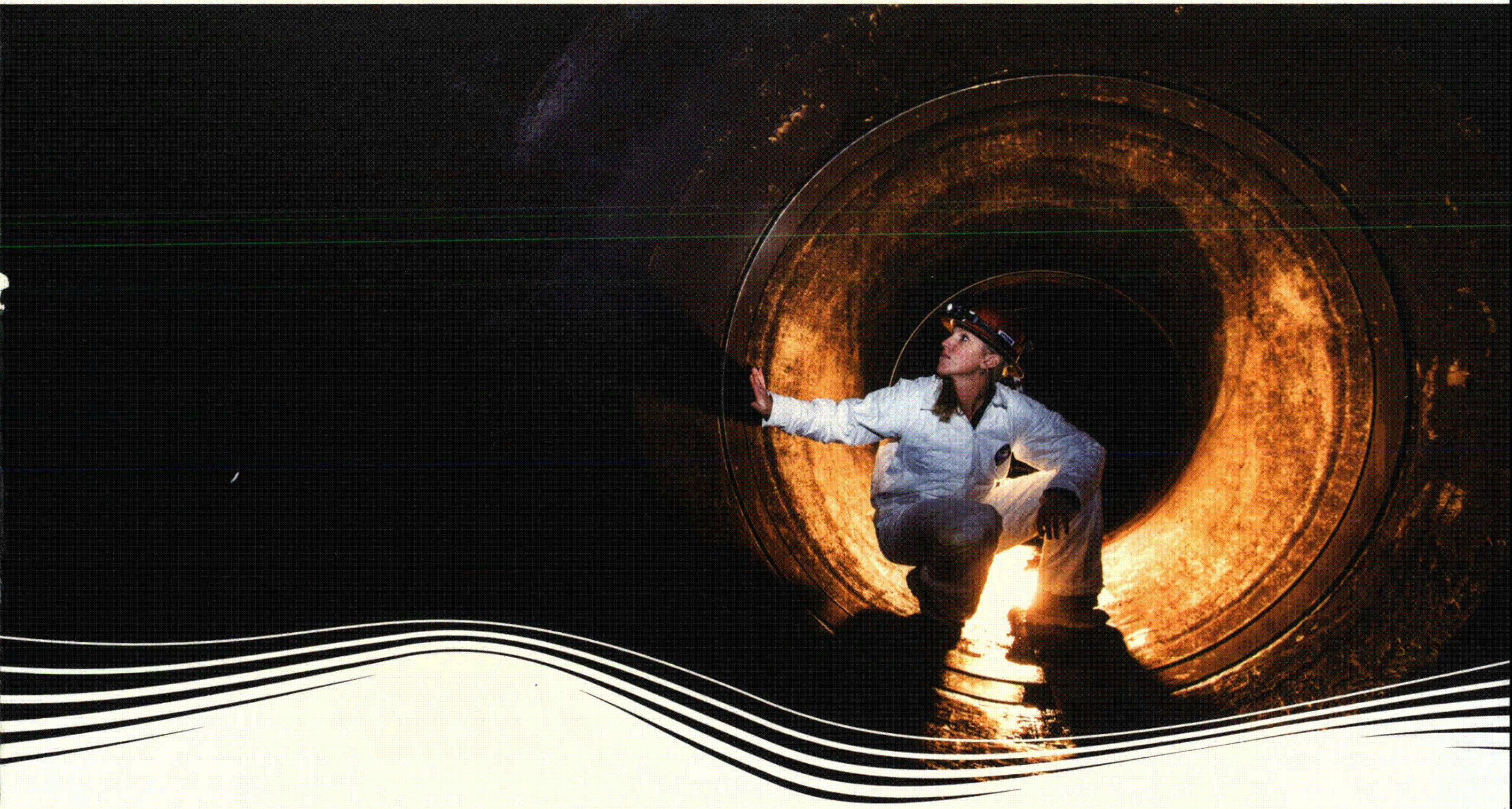
The numbers add up

1 million
THE NUMBER OF CALLS FIELDED BY SMUD CUSTOMER REPRESENTATIVES IN 2013

3 million
THE NUMBER OF EMAILS ANSWERED BY SMUD CUSTOMER REPRESENTATIVES IN 2013

65,000 → 610,000
THE NUMBER OF SMUD CUSTOMERS IN 1946 VS. THE NUMBER OF SMUD CUSTOMERS IN 2013

96% of customers
SMUD'S CUSTOMER SATISFACTION RATING IN 2013 AS TRACKED BY AN INDEPENDENT EVALUATOR



Senior Mechanical Engineer Karen Case inspects the turbine shut-off valve inside the Jaybird powerhouse in SMUD's Upper American River Project.

SmartSacramento

Three and a half years after receiving a $127.5 million smart grid infrastructure grant, the largest awarded to any California utility, SMUD met the U.S. Department of Energy's deadline for installing nearly all of the authorized smart-grid equipment.

East Campus — Operations Center

More than 650 SMUD employees moved into the East Campus — Operations Center in the late spring. Located on the corner of Kiefer Boulevard and Bradshaw Road, the East Campus replaced the outdated corporate yard on 59th Street. Construction of the East Campus generated more than 300 local jobs.

Approximately **one-third of SMUD's work force moved** into the East Campus — Operations Center (above). **Construction** of the new facility **generated more than 300 local jobs.**

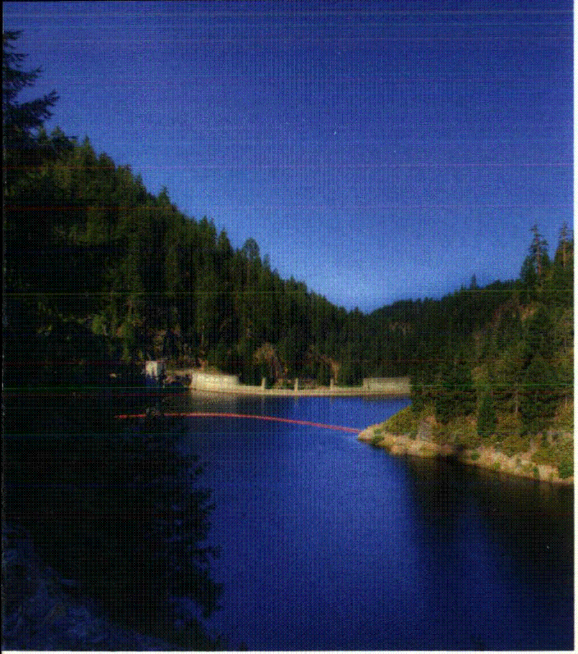
Rate restructuring

After conducting extensive community outreach, the SMUD Board of Directors voted in August to approve 2.5-percent rate increases in 2014 and 2015 and to begin phasing out residential billing tiers. The rate increase was necessitated by renewable energy costs and increased enrollment in SMUD's discounted rate for low-income customers. Even with the increase taking effect on Jan. 1, 2014, SMUD's residential rates remain among the lowest in the state.

The residential rate restructuring is part of an effort to better align charges with the true cost of serving customers. Under the current rates, kilowatt-hour pricing for base energy use does not fully cover SMUD's costs, while the base-plus price covers more than the full cost.

As a result, SMUD will reduce the price difference between base and base-plus energy use from 2014 to 2016. The tiers will be eliminated in 2017, to be replaced, pending a decision by SMUD's Board of Directors, by time-based residential rates.

Three and a half years after receiving a $127.5 million **smart grid infrastructure grant**, the **largest awarded** to any California utility, **SMUD met the U.S. Department of Energy's deadline** for installing nearly all of the authorized smart-grid equipment.



Renewable power and proposed Iowa Hill project

SMUD stayed on track to meet the state mandate requiring utilities to receive 33 percent of their power supply from renewable resources by 2020. The challenge in coming years will be to integrate intermittent generation such as wind and solar into an electric grid that continues providing customers with reliable, around-the-clock service.

To that end, the SMUD Board approved in 2013 a $35 million contract authorizing a geotechnical study to determine the feasibility of building the Iowa Hill pumped-storage facility in SMUD's Upper American River Project. A grant from the U.S. Department of Energy covers up to $5 million of the geotechnical work.

In addition to leading the state, SMUD had the second-highest customer satisfaction score of any large electric utility in the United States.

The Iowa Hill proposal involves construction of a new reservoir above the Slab Creek Reservoir. During off-peak hours, when power is inexpensive — or when SMUD has surplus renewable generation — water would be pumped up to the new reservoir for storage. During peak hours, when electricity is most expensive, water would be released from the bottom of the upper reservoir to flow into a new powerhouse.

Approving the geotechnical work doesn't mean the SMUD Board will approve the Iowa Hill project. The Board will assess the study and determine whether to proceed or not.

Handling the heat

SMUD's electric system and employees were up to the challenge when a record six straight 105-degree days in late June and early July led to high customer demand. The succession of high temperatures caused transformers to overheat and caused a number of heat-related outages, but overall, system upgrades and the dedicated work of SMUD's field crews kept customer disruption to a minimum.

Customer satisfaction

For the 12th straight year, SMUD had the highest residential customer satisfaction score of any California utility in the J.D. Power and Associates study. SMUD scored 692 out of a possible 1,000 points, well above the industry average of 639. In addition to leading the state, SMUD had the second-highest score of any large electric utility in the United States.

Monthly Average Residential Electric Bill
(at 750 kilowatt-hours per month)
EFFECTIVE JANUARY 1, 2014

UTILITY	MONTHLY BILL	% HIGHER THAN SMUD
SMUD	$ 91.96	
Roseville	$ 109.88	+ 19.5%
LADWP*	$ 115.60	+ 25.7%
Modesto	$ 134.15	+ 45.9%
SCE**	$ 138.51	+ 50.6%
PG&E	$ 142.06	+ 54.5%
SDG&E**	$ 152.73	+ 66.1%

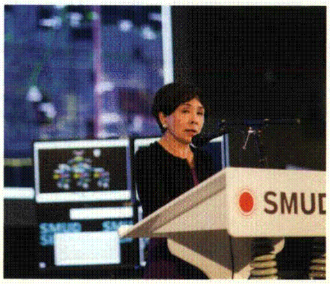
* Los Angeles Department of Water & Power
** Southern California Edison
*** San Diego Gas & Electric

SmartSacramento lays a strong foundation

The electric grid delivered power in the same fashion for more than a century.

Not anymore. Change is occurring, relatively speaking, in the blink of an eye.

The $308 million invested in SMUD's SmartSacramento initiative is a major step forward in the transformation



toward a smarter, more efficient electric grid. Just three and a half years after receiving a $127.5 million smart grid infrastructure grant, the largest federal grant awarded to any California utility, SMUD met the U.S. Department of Energy's deadline for installing nearly all of the authorized smart-grid equipment.

SmartSacramento featured more than 40 separate projects in seven sectors:

- Smart meters
- Distribution automation
- Smart pricing options
- Demand response
- Customer applications
- Technology infrastructure
- Cyber security

From installing 620,000 smart meters that provide two-way communication between SMUD and its customers, to installing electric vehicle charging stations on local college campuses, SmartSacramento brought many of the benefits of the smart grid to SMUD customers earlier than would have been possible otherwise.

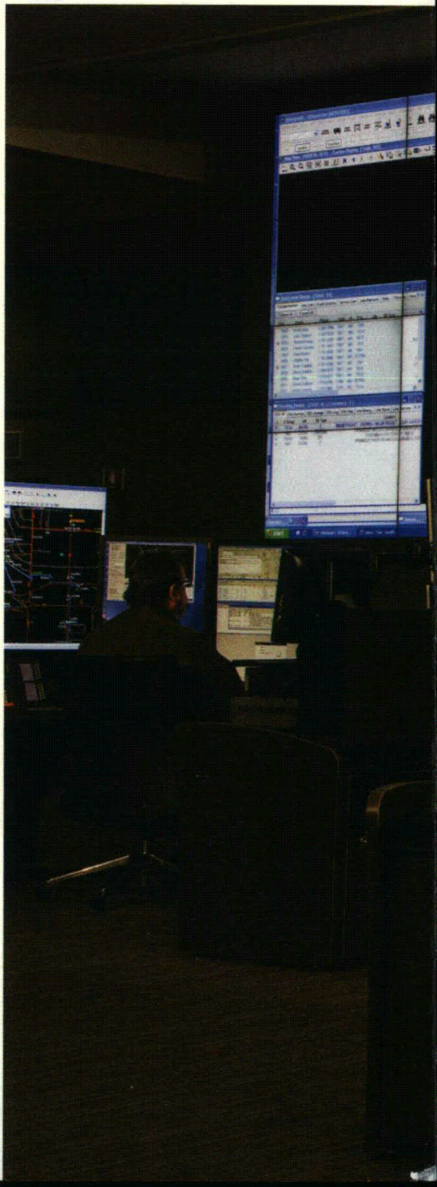
Those benefits include the ability to identify outages and restore power to customers more quickly from the smart grid's nerve center — the modernized Control Room at SMUD's new East Campus — Operations Center.

In applying for the federal grant, SMUD emphasized a collaborative, end-to-end approach. SMUD formed partnerships with some of the region's biggest organizations — Sacramento State, the California Department of General

"It transitions our system from a producer-controlled network to a consumer-controlled network. **We're showing the way** to the rest of the nation."

— U.S. Congresswoman Doris Matsui (above left)

Benefits of the modernized Control Room at the East Campus — Operations Center (right) include the **ability to identify outages and restore power** to customers more quickly.



Services, the County of Sacramento, the Los Rios Community College District, the Sacramento City Unified School District, and the Elk Grove Unified School District.

"This project exemplifies everything we're trying to achieve," said Patricia Hoffman, assistant secretary at the U.S. Department of Energy. "What SMUD has done is pull the community together. This is the business model for the future."

Hoffman's remarks were made during a 2013 event marking the completion of the SmartSacramento initiative and the opening of SMUD's East Campus — Operations Center. Rep. Doris Matsui also applauded SMUD for laying the groundwork for a smarter grid.

"This is one of the largest infrastructure commitments in our region," Matsui said. "It will completely change the way we think, use and interact with our energy grid. It transitions our system from a producer-controlled network to a consumer-controlled network. We're showing the way to the rest of the nation."

The $308 million invested in SMUD's SmartSacramento initiative is a major step forward in the transformation toward a smarter, more efficient electric grid.

Smart pricing

As SMUD continues building a smarter grid for its customers, the lessons learned in the SmartSacramento initiative will be used to design successful programs. To put it another way, evaluating those lessons will help SMUD give customers the most bang for their buck.

One of the most valuable SmartSacramento projects was Smart Pricing Options. Results from the pilot study were so encouraging that the SMUD Board set up a rate structure that could transition residential customers to time-of-use rates beginning in 2018.

SMUD's smart pricing pilot — which showed that customers are willing to reduce their peak energy use if hourly rates are designed to encourage off-peak use — received national attention.

"It was a very complex study, and no one has achieved the success, and the depth, and the quality of work that SMUD has done in this effort," said U.S. Department of Energy Assistant Secretary Patricia Hoffman.

The idea behind the study was to encourage customers to reduce their energy use during the peak hours of summer usage, when the cost of the electricity SMUD buys is at its highest. The study tested three different pricing plans with approximately 11,000 customers divided among seven test groups.

For example, customers participating in "critical peak pricing" were charged 75 cents per kilowatt-hour from 4 to 7 p.m. on 12 separate days during the summer months. Customers received notifications a day in advance that the higher price would kick in. The off-peak price was 8.5 cents per kilowatt-hour.

The results were unequivocal: Customers will reduce their peak energy use significantly — up to 26 percent under the critical peak pricing option. One of the biggest surprises of the study was that the vast majority of the customers who were automatically enrolled in the pilot program agreed to participate rather than exercise their right to opt out.

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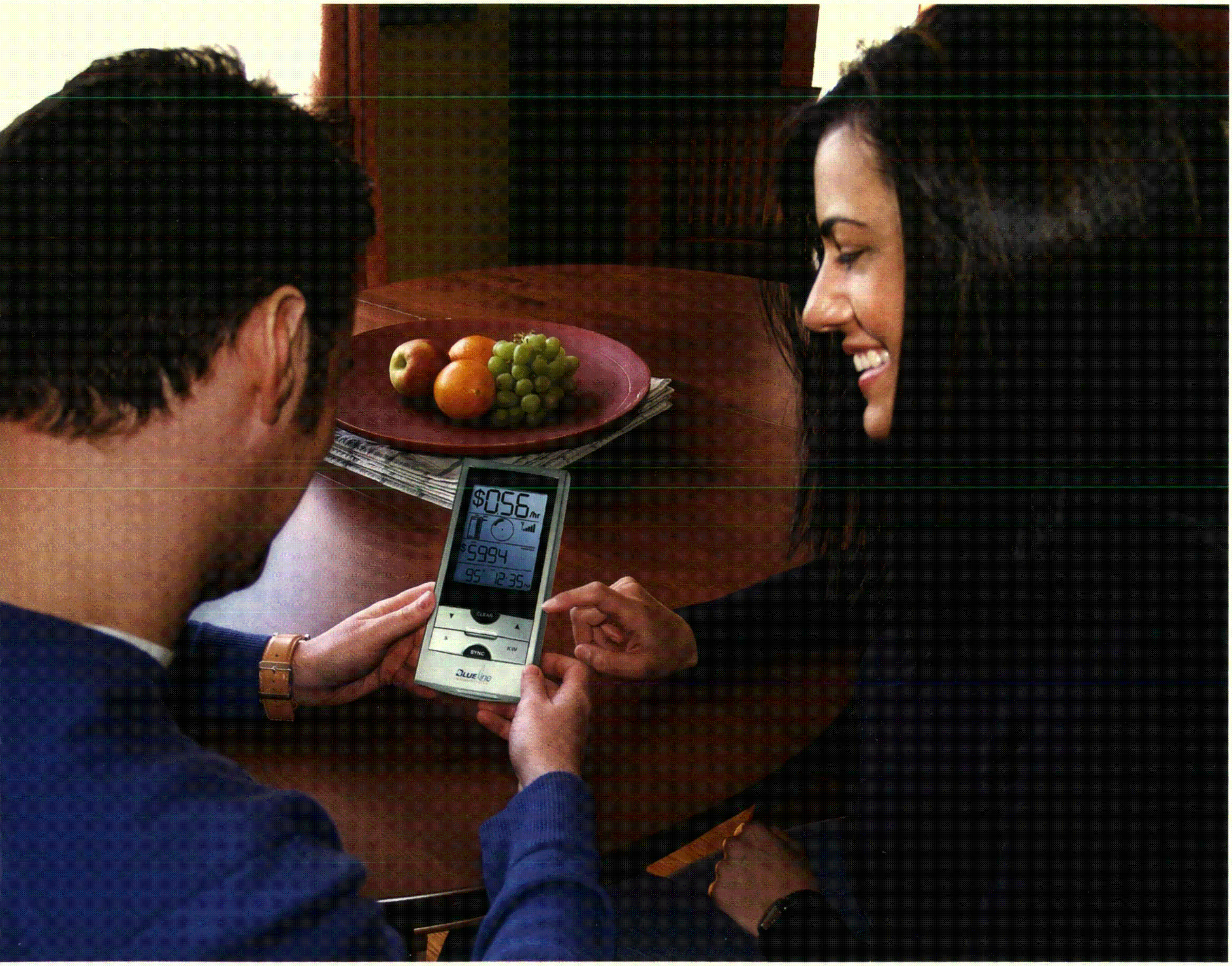
Buying extra power on the open market during the sizzling days of summer is not just financially costly. Summer peak is also harmful to the environment because SMUD and other utilities have to fire up less-efficient plants to meet the increased demand for peak electricity.

By encouraging customers to reduce their peak energy use through time-differentiated rates, SMUD can avoid having to buy extra power on the open market while also improving the region's air quality.

The results were unequivocal: Customers will reduce their peak energy use significantly — up to 26 percent under the critical peak pricing option.



LEED-ing the way

Ground was broken on SMUD's East Campus — Operations Center in September 2011. A different sort of ground was broken when the innovative project was completed in 2013.

In addition to providing nearly one-third of SMUD's work force with a modern, expansive place to work, the East Campus offers a blueprint of what's possible in energy efficiency.

The one-time gravel mine provided SMUD a broad canvas to work with. The East Campus was built to be a net-zero-energy site, meaning it's capable of producing as much energy as it consumes on an annual basis.

In November, the U.S. Green Building Council announced that SMUD's new campus received LEED Platinum status. LEED stands for Leadership in Energy & Environmental Design, and platinum represents the highest level of achievement in the council's rating system. The Green Building Council looks for efficient use of energy, water, recycled materials and other factors.

The most noticeable feature of the East Campus is the 1.1-megawatt photovoltaic system built above the employee parking lot. LED lighting throughout the facility will greatly reduce energy and maintenance costs. Many of the innovations occur out of sight, from a geothermal heat pump system to radiant cooling and heating inside concrete slabs.

In November, the U.S. Green Building Council announced that **SMUD's new campus received LEED Platinum status.**

The administration building, the site's six-story, 203,000-square-foot centerpiece, uses less than half the energy consumed in traditional office buildings.

One of SMUD's primary objectives in building the East Campus was to provide a model for other customers to follow. Large buildings consume large amounts of energy, and the measures SMUD took at the East Campus can be affordably replicated elsewhere.

In many respects, the move to the East Campus was long overdue. The 19-acre corporate yard on 59th Street opened in 1946, when SMUD had just 60,000 customers. With SMUD now serving 610,000 customers, the 51-acre East Campus site provides much more space, and its location is favorable since the Highway 50 corridor will be one of the region's greatest areas of population growth. The operational efficiencies at the East Campus are expected to save SMUD about $3 million a year.

U.S. GREEN BUILDING COUNCIL LEED USGBC

One of SMUD's **primary objectives** in building the East Campus was to **provide a model** for other customers to follow. **The facility offers a blueprint of what's possible** in energy efficiency.

The operational efficiencies at the East Campus are expected to save SMUD about $3 million a year.

Milking a prodigious energy source

The typical dairy cow produces six to seven gallons of milk each day. She also generates 120 pounds of manure and urine every day.

Neither product nor byproduct goes to waste at the New Hope Van Warmerdam dairies in Galt. With SMUD's assistance, the dairies installed anaerobic digesters that convert cow manure into clean, renewable electricity. SMUD received approximately $5.5 million from the U.S. Department of Energy and the California Energy Commission to help fund the construction of the digesters at the local dairies.

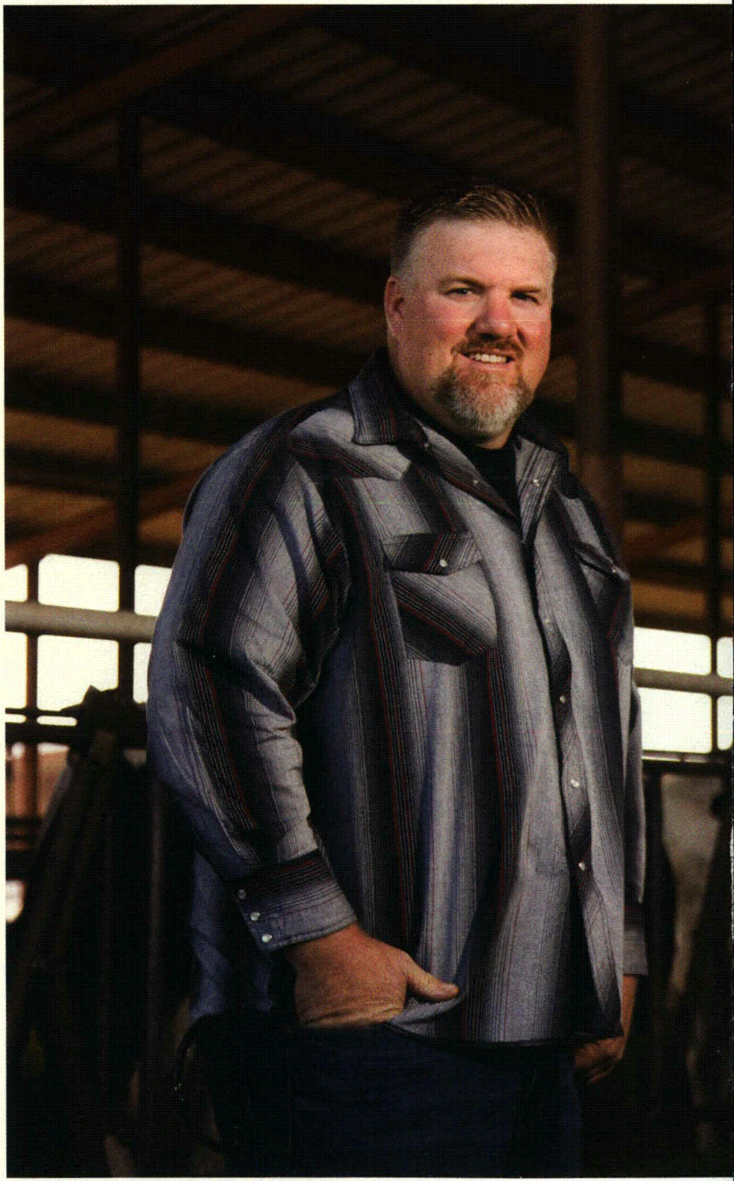
At the New Hope dairy, the collected manure is pumped into a concrete and steel tank, where biogas (primarily methane) accumulates and is then transferred to an engine-generator that produces clean electricity. New Hope also uses a scrape system rather than a flush system to collect the manure, greatly reducing the use of fresh water at the dairy. At the Van Warmerdam dairy, the waste decomposes in a covered lagoon rather than in an above-ground tank.

Together, the two dairy digesters are capable of producing 4.3 gigawatt-hours of electricity annually — enough to power roughly 450 single-family homes.

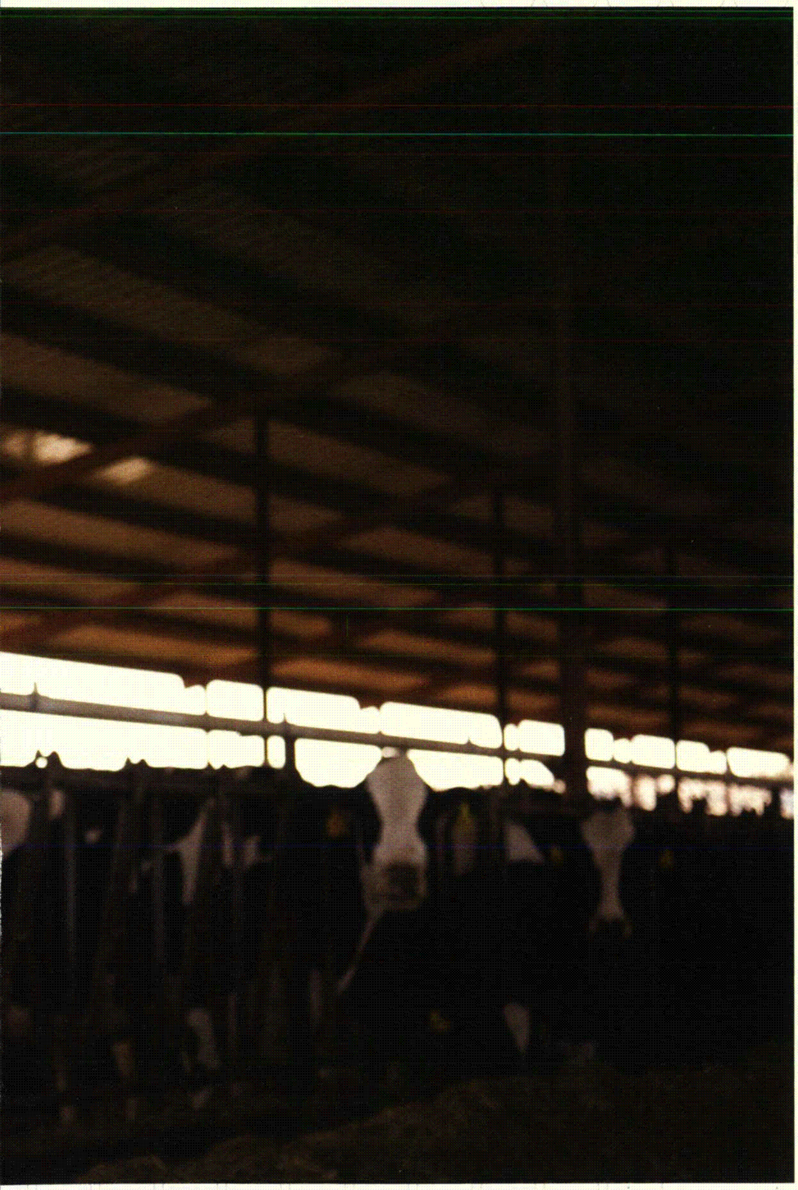
There are now four dairy digesters operating in SMUD's service territory, representing about 31 percent of California's total. The benefits are numerous. Dairy digesters keep climate-changing greenhouse gases out of the atmosphere while creating a revenue source for the farmers and supplying renewable energy to SMUD. The digesters also reduce odors and flies compared to conventional open lagoon storage. The effluent is used as liquid fertilizer for crops.

When most people think of renewable power, they generally think of wind and solar. But biomass accounts for roughly 50 percent of SMUD's renewable portfolio. SMUD is leading the way to have more small-scale biomass projects built. The Galt dairies are producing what's known in the business as "base load" renewable energy — power that's not contingent on the sun shining or the wind blowing.

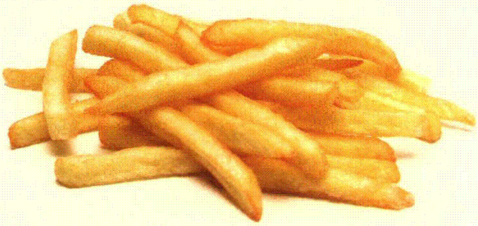
With SMUD's assistance, the dairies installed anaerobic digesters that convert cow manure into clean, renewable electricity.



Dairy digesters keep **climate-changing greenhouse gases out of the atmosphere** while creating a **revenue source for the farmers** and supplying **renewable energy to SMUD.**



Arlin Van Groningen's dairy cows at New Hope Dairy produce more than just milk.



Also in 2013, **SMUD teamed** with the Sacramento County Regional Sanitation District to build a **"leftover to lights"** biogas facility that **converts fats, oils, grease** and liquid food waste **into clean energy.**

Active members of the community

Perhaps it's no surprise that SMUD, a community-owned utility, has employees who care about their community.

What might come as a surprise is just how deep that commitment runs among SMUD's 2,000 employees. Eighty-five percent of SMUD employees volunteered

for at least one event or cause in 2013. SMUD employees participate in numerous fundraising walks and runs, neighborhood events, community clean-ups and Earth Day celebrations. They help Habitat for Humanity build homes in disadvantaged neighborhoods. More than 40 employees carried the SMUD banner in the Martin Luther King Jr. Day event.

On Thanksgiving, SMUD's 90-person team participated in the Run to Feed the Hungry event at the same time another 100 employees and family members were delivering holiday meals and gifts for Meals on Wheels.

SMUD's Community Relations & Events group is responsible for handling the hundreds of sponsorship, volunteer and trade show requests that come in each year. In 2013, SMUD partnered with more than 250 organizations on 630 community events, investing almost $1 million in time and funds.

In December, representatives from 200 community and non-profit groups attended the Sponsorship Orientation and Community Breakfast, where they learned about SMUD's guidelines for considering sponsorship and volunteer requests.

These partnerships help SMUD, too. Community events boost public awareness of SMUD programs and services, advance the economic development of the Sacramento region, and connect with thousands of customers on a personal basis.

For more information, visit www.smud.org/sponsorships.

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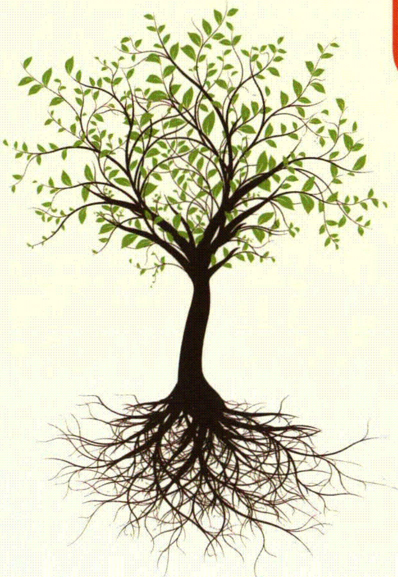


Eighty-five percent of SMUD employees volunteered for an event or cause in 2013.

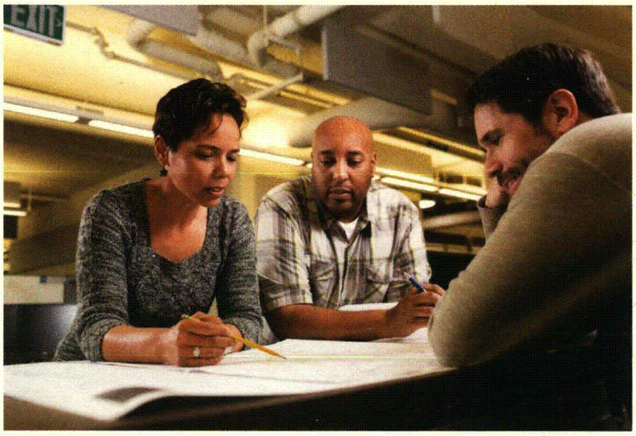

SMUD
SMUD
SMUD
SMUD

Assisting small businesses

SMUD serves about 30,000 small- and medium-sized business customers. Every SMUD customer interacts with these businesses on a daily basis — at grocery stores, gas stations, restaurants, auto repair shops, movie theaters, schools and hair salons.

Since these businesses are an integral part of the community and the regional economy, SMUD recognizes the need to help them manage their energy costs. Because small businesses have vastly different energy needs and are often too busy running their day-to-day operations to closely analyze their electricity use, SMUD expanded its program offerings in 2013.

With SMUD's Complete Energy Solutions program, small- and medium-sized business customers are able to save up to 80 percent of the cost of installing high-efficiency



lighting, heating, air conditioning, refrigeration, and more. Participants receive a free analysis and recommendations for better managing their electricity use from an energy expert, who then helps the customer select a certified contractor to perform the energy-saving improvements.

When Christian Brothers High School participated in the Complete Energy Solutions program, an energy audit recommended interior and exterior lighting upgrades as well as refrigeration improvements. The lighting upgrades will save Christian Brothers $6,500 a year, and SMUD provided a rebate that covered a substantial portion of the project cost.

Ashwani Mayer (right), the owner of Vic's Supermarket in South Land Park, participated in SMUD's Complete Energy Solutions program. By retrofitting the store's lighting and refrigeration motors, SMUD helped him save valuable energy and money.

For more energy-savvy business customers, SMUD's Express Energy Solutions program offers rebates across a wide range of energy efficiency measures through more of a "do-it-yourself" approach.

While these programs help business customers reduce their energy costs, SMUD's Supplier Education and Economic Development (SEED) program helps them increase their revenues. The SEED program offers incentives for small businesses to participate in SMUD's competitive bid process. In 2013, 25 percent of SMUD's contracting business went to certified small businesses — more than $55 million.

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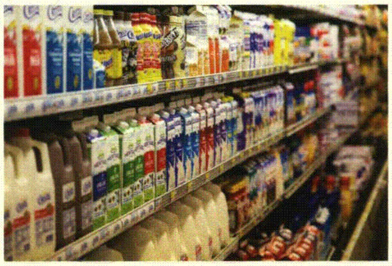

Since small businesses are an **integral part** of the community and the regional economy, SMUD recognizes **the need to help them manage** their energy costs.

Charging ahead on electric transportation

Sacramento's heavy traffic, urban driving conditions and poor air quality make California's capital region an optimal environment for plug-in electric vehicles, or PEVs. SMUD has supported electric transportation for more than 20 years as part of its commitment to improve the region's air quality.

Over the past year, SMUD took several significant steps forward on the PEV front. SMUD launched an EV Innovators pilot rate program in which electric-vehicle owners could choose between two pricing plans: a whole house plan and a dedicated meter plan. The pilot program filled up quickly, with more than 200 customers registering.

The whole house plan was designed to integrate the customer's home and vehicle electricity use into one pricing plan. Under this plan, customers are rewarded for charging their electric vehicle during off-peak times such as late night. The dedicated meter plan requires a sub-meter and rewards customers for off-peak charging. Both plans offer the lowest EV charging rates charged by any California utility.

The pilot programs run through 2014, at which point SMUD will evaluate its PEV program and further develop low-cost pricing plans that encourage off-peak charging. The pricing plans remained available after registration for the pilot program closed, and there are currently about 400 SMUD customers taking advantage of PEV pricing plans.

CO_2

SMUD supports electric transportation in a variety of ways, including the installation of public charging stations, increasing the number of electric vehicles in its transportation fleet, and giving truck drivers the option to plug in while they idle their rigs.

In addition, SMUD expanded parking places at the 49er Travel Plaza Electrified Truck Stop from 16 electrified stalls to 30. Plugging in the big rigs helps reduce carbon emissions and air pollution.

Most recently, SMUD opened a fast-charging station next to its headquarters building on S Street. The DC Fast Charger allows most electric vehicles to get fully charged

in less than 30 minutes. Funding for the station came from the sale of SMUD's carbon credits in California's cap-and-trade market. Three more fast-charging stations will be installed through this pilot program.

Greenhouse gas emissions from an electric car are typically 70 percent lower than those released from gasoline combustion engines. As SMUD's electricity mix gets cleaner and cleaner with more renewable resources added in, the difference becomes even more pronounced. Plus, electricity is a cheaper transportation fuel than gasoline. The electric-to-gasoline comparison is about $2 per gallon at the fast-charging station.

SMUD opened a **fast-charging station** next to its headquarters building on S Street. The DC Fast Charger gives most electric vehicles **a full charge in less than 30 minutes.**

2013 FINANCIAL STATEMENTS

5 YEAR SUMMARY (Unaudited)

Operating Statistics (i)	2013	2012	2011	2010	2009
Customers at year-end	610,185	604,053	599,826	597,097	595,076
KWH Sales (thousands)					
Sales to customers –					
Residential	4,651,219	4,640,238	4,587,205	4,486,241	4,707,104
Commercial, industrial & other	5,795,408	5,814,531	5,797,808	5,798,569	5,984,803
Subtotal	10,446,627	10,454,769	10,385,013	10,284,810	10,691,907
Sales of surplus power	2,072,396	2,442,090	2,492,975	1,836,957	2,133,049
Total	12,519,023	12,896,859	12,877,988	12,121,767	12,824,956
Revenues (thousands of dollars)					
Sales to customers –					
Residential	$ 572,701	$ 569,210	$ 559,424	$ 526,860	$ 514,320
Commercial, industrial & other	696,439	695,379	692,959	669,489	631,251
Subtotal	1,269,140	1,264,589	1,252,383	1,196,349	1,145,571
Sales of surplus power	78,316	60,033	70,370	59,493	58,626
Sales of surplus gas	52,814	48,679	88,202	59,998	61,331
Total (ii)	$1,400,270	$1,373,301	$1,410,955	$1,315,840	$1,265,528
Average kWh sales per residential customer	8,634	8,699	8,652	8,497	8,955
Average revenue per residential kWh sold (cents)	12.47	12.38	12.33	11.91	11.07
Power supply (thousands of kWh)					
Hydroelectric	1,018,659	1,425,443	2,823,979	1,926,783	1,442,015
Cogeneration	5,880,239	5,276,572	4,762,183	5,468,825	5,166,669
Windpower	237,410	230,149	221,067	236,352	173,775
Photovoltaic	51	295	1,627	1,952	2,236
Purchases	5,846,971	6,440,277	5,599,183	5,013,814	6,534,376
Net system peak demand – 1 hour (kW)	3,014,000	2,954,000	2,840,000	2,990,000	2,848,001
Equivalent Full Time Employees at year-end	2,073	2,028	2,034	2,064	2,113
Financial Statistics (thousands of dollars)					
Operating revenues	$1,428,395	$1,382,274	$1,360,008	$1,323,288	$1,293,337
Operating expenses –					
Purchased and interchanged power	273,596	241,847	237,360	255,523	339,310
Operation and maintenance	794,728	735,201	744,446	733,377	687,558
Depreciation and amortization	180,718	165,460	169,987	162,708	150,811
Regulatory amounts collected in rates	6,140	10,574	10,047	4,704	421
Total operating expenses	1,255,182	1,153,082	1,161,840	1,156,312	1,178,100
Operating income	173,213	229,192	198,168	166,976	115,237
Other income	22,441	57,319	12,797	3,843	(16,428)
Income before interest charges	195,654	286,511	210,965	170,819	98,809
Interest charges	125,956	126,453	140,837	140,069	110,594
Change in net position before extraordinary income	$ 69,698	$ 160,058	$ 70,128	$ 30,750	$ (11,785)
Extraordinary Income	$ –	$ –	$ 134	$ 3	$ 17,170
Change in net position	$ 69,698	$ 160,058	$ 70,262	$ 30,753	$ 5,385
Funds available for revenue bond debt service	$ 437,414	$ 521,627	$ 472,367	$ 336,451	$ 257,011
Revenue bond debt service	$ 176,270	$ 160,757	$ 167,271	$ 170,318	$ 164,355
Revenue bond debt service coverage ratio	2.48	3.24	2.82	1.98	1.56
Electric utility plant – net	$3,322,977	$3,339,709	$3,248,294	$3,004,216	$2,978,623
Capitalization					
Long-term debt	$3,075,802	$3,091,405	$3,012,935	$3,156,447	$3,007,908
Net Position	$ 846,705	$ 777,007	$ 616,949	$ 546,687	$ 515,934

i Financial information is consolidated (except the debt service information).
ii Prior to the net deferral/transfer of revenues to/from the Rate Stabilization Fund and net deferral/recognition of Public Good, Senate Bill 1, and Assembly Bill 32 revenues.

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BAKER TILLY

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Sacramento Municipal Utility District, Sacramento, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Sacramento Municipal Utility District and its blended component units, which comprise the Consolidated Statements of Net Position as of December 31, 2013 and 2012, and the related Consolidated Statements of Revenues, Expenses and Changes in Net Position, and Consolidated Statements of Cash Flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the Sacramento Municipal Utility District's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sacramento Municipal Utility District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sacramento Municipal Utility District and its blended component units at December 31, 2013 and 2012, and the changes in their financial position and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

continued

Emphasis of Matter

As discussed in Note 3, Sacramento Municipal Utility District and its blended component units adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective January 1, 2013. The prior year has been restated for this change. Our opinion is not modified with respect to this matter.

Other Matter

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of Sacramento Municipal Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sacramento Municipal Utility District's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
February 21, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

This management discussion and analysis provides a summary of the financial performance of the Sacramento Municipal Utility District (SMUD) and its component units for the years ending December 31, 2013 and 2012. Please read this discussion in conjunction with the consolidated financial statements and notes, which begin on page 34.

BACKGROUND

Under provisions of California's Municipal Utility District Act, the citizens of Sacramento voted in 1923 to form their own electric utility – SMUD. The community-owned utility began operations on December 31, 1946.

Governed by an elected board of directors (Board), SMUD has the rights and powers to fix rates and charges for commodities and services it furnishes, incur indebtedness, and issue bonds or other obligations. SMUD is responsible for the acquisition, generation, transmission and distribution of electric power to its service area – most of Sacramento County and small, adjoining portions of Placer and Yolo counties.

Setting Rates

The Board has independent authority to set SMUD's rates and charges. Changes in rates require a public hearing and formal action by the Board.

In August 2013, the Board approved the following average system rate increases:
- 2.5 percent, effective January 1, 2014
- 2.5 percent, effective January 1, 2015

In the years 2014 through 2017, the two-tiered rate structure shall converge by modifying the Base Usage kWh allowance to reduce the price spread between the two tiers. By 2017, the increase in Base Usage allowance will cover all usage and therefore a single price per kWh will apply to residential customers.

In June 2009, the Board approved an average system rate increase of 2.25 percent starting January 2011.
In August 2011, the Board approved a revenue-neutral rate restructuring that would
- encourage energy efficiency,
- promote the development of renewable energy resources, and
- equitably allocate costs across and within customer classes

Effective January 2012, various components of the rates were adjusted to achieve the Board's objectives. The impact of the changes covers the years 2012 through 2017.

In April 2013 and 2012, $6.6 million and $6.4 million, respectively, were transferred from the Hydro Rate Stabilization Fund (HRSF) to revenue as a result of lower precipitation.

In December 2013 and 2012, $1.8 million and $0.6 million, respectively, were transferred to the Rate Stabilization Fund (RSF) due to increased energy deliveries by the Western Area Power Administration (Western).

Financial Reporting

SMUD maintains its accounting records in accordance with Generally Accepted Accounting Principles (GAAP) for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). SMUD's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission, except as it relates to accounting for contributions of utility property in aid of construction.

In accordance with GASB Statement No. 63, "***Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position***," the Statements of Net Position present SMUD's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position for the years ended December 31, 2013 and 2012.

GASB Concept Statement No. 4, "***Elements of Financial Statements***," defines deferred outflows of resources as the consumption of net assets in one period that are applicable to future periods. Deferred inflows of resources are defined as the acquisition of net assets that are applicable to future reporting periods. The Statements of Net Position report net position as the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. The components of net position are classified as investments in capital assets, net of related debt, restricted, and unrestricted. Unrestricted indicates the funds are available for operations. As of December 31, 2013 and 2012, there were $149.1 million and $222.8 million, respectively, of deferred outflows of resources for hedging derivatives and unamortized bond losses, and $691.0 million and $715.0 million, respectively, of deferred inflows of resources for hedging derivatives, regulatory credits, and financing obligations reported in the Statements of Net Position.

In accordance with GASB No. 62, "***Regulated Operations***," the Board has taken regulatory actions for ratemaking that result in the deferral of expense or revenue recognition.

As of December 31, 2013, SMUD had total regulatory costs for future recovery of $192.2 million, a net decrease of $35.1 million from 2012. The decrease is due primarily to a decrease in the valuation of derivative financial instruments of $27.7 million, deferred TANC operations costs of $8.3 million, and an adjustment of the U.S. Bureau of Reclamation costs of $6.2 million, offset by a $7.7 million increase in Senate Bill 1 deferred costs for investments in solar.

As of December 31, 2013, SMUD also had Regulatory Credits of $403.2 million, a net increase of $3.6 million from 2012. The increase is primarily due to the $11.5 million deferral of precipitation hedges, $1.8 million transfer to the RSF due to increased energy deliveries by Western offset by a $6.6 million transfer from the HRSF due to lower precipitation, $1.1 million reduction in deferred revenues for AB-32 programs, and a $3.0 million reduction in Senate Bill 1 (SB-1) deferred revenue for investments in solar.

The regulatory costs and regulatory credits will be recognized in the Consolidated Statements of Revenues, Expenses and Changes in Net Position in future periods as determined by the Board for ratemaking purposes.

Contents of this report

This annual financial report reflects SMUD activities that are funded primarily through the sale of energy, transmission, and distribution services to its customer-owners and is divided into the following sections.

- Management discussion and analysis.
- The consolidated financial statements, which offer both short-term and long-term information on SMUD's financial status.
  - The Consolidated Statements of Net Position provide information about the nature and amount of resources and obligations at a specific point in time.
  - The Consolidated Statements of Revenues, Expenses and Changes in Net Position report all of SMUD's revenues and expenses for the periods shown.
  - The Consolidated Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources, such as investment income and debt financing. They also report other cash uses such as payments for bond principal and capital additions and improvements.
- Notes to the consolidated financial statements.

FINANCIAL HIGHLIGHTS

Condensed Consolidated Statements of Net Position	2013	December 31, 2012 *(Restated)**	2011
		(millions of dollars)	
Assets			
Electric Utility Plant – net	$ 3,323	$ 3,340	$ 3,248
Restricted and Designated Assets	174	233	241
Current Assets	1,052	911	694
Noncurrent Assets	794	862	754
Total Assets	$ 5,343	$ 5,346	$ 4,937
Deferred Outflows of Resources	149	223	216
Total Assets and Deferred Outflows of Resources	$ 5,492	$ 5,569	$ 5,153
Liabilities			
Long-Term Debt – net	$ 3,076	$ 3,092	$ 3,013
Current Liabilities	584	643	737
Noncurrent Liabilities	294	342	786
Total Liabilities	$ 3,954	$ 4,077	$ 4,536
Deferred Inflows of Resources	691	715	-0-
Net Position:			
Net Investment in Capital Assets	345	412	414
Restricted	116	127	110
Unrestricted	386	238	93
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 5,492	$ 5,569	$ 5,153

**See Note 3 of the financial statements for discussion on the restatement of the December 31, 2012 Statement of Net Position for comparative purposes.*

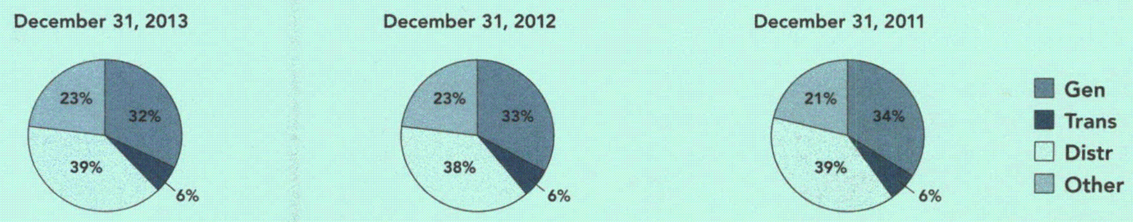
ASSETS & DEFERRED OUTFLOWS OF RESOURCES

Utility Plant – net

2013 compared to 2012 SMUD has invested approximately $3,323.0 million in electric utility plant assets and construction work in progress (CWIP) after accumulated depreciation at December 31, 2013. Electric Utility Plant – net makes up about 62 percent of SMUD's Total Assets, which is the same percentage as the previous year. In 2013, SMUD capitalized approximately $171.0 million of additions to electric utility plant in SMUD's Consolidated Statements of Net Position. The additions were primarily due to distribution line work, hardware and software upgrades, the East Campus Operations Center, and distribution and transmission substation upgrades and modifications.

2012 compared to 2011 SMUD has invested approximately $3,339.7 million in electric utility plant assets and construction work in progress (CWIP) after accumulated depreciation at December 31, 2012. Electric Utility Plant – net makes up about 62 percent of SMUD's Total Assets, approximately 4 percent less than the previous year. In 2012, SMUD capitalized approximately $270.0 million of additions to electric utility plant in SMUD's Consolidated Statements of Net Position. The capital additions were primarily for the Solano Wind Phase 3 project, East Campus Operations Center and Smart Grid projects such as smart meters, distribution automation, and AMI software, as well as the purchase of line trucks, and the Microgrid project.

The following charts show the breakdown of Electric Utility Plant – net by major plant category – Generation (Gen), Transmission (Trans), Distribution (Distr), and Other:



Restricted and Designated Assets

2013 compared to 2012 SMUD's restricted and designated assets decreased by $58.7 million during 2013. The decrease was due to $28.7 million related to the component units' overhaul and operating funds, $14.5 million in the nuclear decommissioning fund, $11.0 million in the revenue bond reserves due to the refunding of Series R03 and S03, and $4.8 million in the RSF (including the HRSF) as a result of lower precipitation and higher energy deliveries from Western. These decreases were offset by a $0.3 million increase in the escrow fund.

2012 compared to 2011 SMUD's restricted and designated assets decreased by $7.2 million during 2012. There was a decrease of $5.7 million in the RSF (including the HRSF) as a result of lower precipitation and higher energy deliveries from Western. The year also ended with a higher current portion of restricted and designated assets. This was offset by a $7.6 million increase in Revenue bond, debt service, and construction reserves due to a $9.0 million transfer from unrestricted funds for payment of debt service and $8.7 million from operations, offset by a $10.1 million decrease in reserve funds due to the bond refunding of Series Q02 and R03 with the issuance of 2012 Series Y Electric Revenue Refunding Bonds.

Current Assets

2013 compared to 2012 Current assets increased by $141.1 million in 2013 primarily due to increases in the following: $249.5 million in unrestricted investments, $32.5 million in the current portion of restricted and designated cash and $10.6 million in the current portion of prepayments. This is partially offset by decreases in the following: $71.5 million in unrestricted cash and cash equivalents, $71.4 million in net receivables, $5.0 million in the current portion of regulatory costs, and $5.0 million in credit support collateral deposits.

2012 compared to 2011 Due to the implementation of GASB No. 65 in 2013, some items were reclassified for comparative purposes. Current assets increased by $216.4 million in 2012 mainly due to increases in the following: $106.5 million in unrestricted cash and cash equivalents, $56.3 million in net receivables, $55.8 million in unrestricted investments, $11.7 million in inventories and prepayments, and $9.6 million in the current portion of restricted and designated cash, cash equivalents and investments. This is partially offset by a decrease of $20.0 million in credit support collateral deposits and $3.5 million in regulatory costs to be recovered within one year.

Noncurrent Assets

2013 compared to 2012 Total noncurrent assets decreased by $69.0 million mainly due to the following decreases: $30.2 million in regulatory costs for future recovery, $25.0 million in gas, power and other prepaid costs, $10.5 million in hedging derivative instruments, and $3.3 million in energy efficiency loans – net.

2012 compared to 2011 Total noncurrent assets increased by $108.4 million mainly due to the following increases: $142.8 million of prepaid power and capacity, $42.9 million in prepayments and other, and $7.5 million in regulatory costs for future recovery. These increases were partially offset by the following decreases: $29.2 million in credit support and collateral deposits, $26.9 million of unamortized debt issuance costs reclassified to a regulatory asset due to the implementation of GASB 65, $21.6 million in prepaid gas, and $9.1 million in energy efficiency loans – net.

Deferred Outflows of Resources

2013 compared to 2012 Total deferred outflows of resources decreased $73.6 million due to $61.9 million in the fair value of hedging derivative instruments and $11.7 million in unamortized bond losses.

2012 compared to 2011 There was a $7.0 million increase due to reclassified unamortized bond losses of $58.5 million due to the implementation of GASB No. 65, offset by a $51.5 million decrease in the fair value of hedging derivatives.

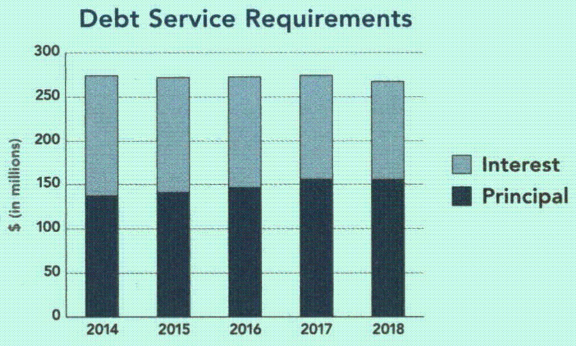
LIABILITIES

Long-term debt – net

2013 compared to 2012 In May 2013, SMUD issued $118.6 million of 2013 Series B Electric Revenue Refunding Bonds. The proceeds from the issuance along with $6.7 million of available funds were used to refund $141.5 million of the outstanding 2003 Series R and 2004 Series T revenue bonds through a legal defeasance. In August 2013, SMUD issued $57.8 million of 2013 Series C Electric Revenue Refunding Bonds. The proceeds from the issuance along with $4.3 million of available funds were used to refund $65.9 million of the outstanding 2003 Series S bonds through a legal defeasance.

2012 compared to 2011 Unamortized bond losses were reclassified to Deferred Outflows of Resources in the Statement of Net Position due to the implementation of GASB No. 65. In May 2012, SMUD issued $196.9 million of 2012 Series Y Electric Revenue Refunding Bonds. The proceeds from the issuance along with $10.0 million of available funds were used to refund $219.9 million of the outstanding 2002, 2003, and 2004 revenue bonds through a legal defeasance.

The following table shows SMUD's future debt service requirements through 2018 as of December 31, 2013:



As of December 31, 2013, SMUD had an underlying rating of "AA-" from Standard & Poor's, "A+" from Fitch, and "A1" from Moody's. Some of SMUD's bonds are insured and are rated by the rating agencies at the higher of the insurer's rating or SMUD's underlying rating.

Current Liabilities

2013 compared to 2012 Current liabilities decreased by $59.0 million during 2013. The decrease is primarily due to the following: investment and hedging derivative instruments maturing within one year of $77.5 million, $11.5 million in customer deposits and other, and $3.7 million in accounts payable. These decreases were partially offset by $18.4 million increase in long-term debt due within a year and $13.5 million in accrued decommission costs.

2012 compared to 2011 Current liabilities decreased by $94.0 million during 2012. The decrease is primarily due to the following: $67.3 million in accounts payable, $36.4 million in hedging derivative instruments maturing within one year, and $18.5 million in regulatory credits due within one year reclassified to Deferred Inflows of Resources due to the implementation of GASB 65. These decreases were offset by a $10.5 million increase in customer deposits and other and a $16.7 million in long-term debt due within one year.

Noncurrent Liabilities

2013 compared to 2012 Noncurrent liabilities decreased by $48.0 million during 2013. The decrease was due to $14.0 million in accrued decommissioning costs, $14.9 million in investment derivative instruments, $8.3 million due to affiliated entity, $6.2 million due to U.S. Bureau of Reclamation, and $7.8 million in self-insurance. These decreases were offset by a $3.2 million increase in hedging derivative instruments.

2012 compared to 2011 Noncurrent liabilities decreased by $443.6 million during 2012. The decrease was mainly due to reclassification of regulatory credits and deferred credits to Deferred Inflows of Resources due to the implementation of GASB No. 65.

Deferred Inflows of Resources

2013 compared to 2012 Total deferred inflows of resources decreased $24.0 million due to a decrease of $18.6 million in financing obligations and $9.0 million in accumulated increase in fair value of hedging derivatives. These decreases were offset by a $3.6 million increase in regulatory credits.

2012 compared to 2011 Due to the implementation of GASB No. 65 in 2013, some items were reclassified to Deferred Inflows of Resources in the Statement of Net Position for comparative purposes, including financing obligations, accumulated increase in fair value of hedging derivatives, and regulatory credits. These reclassifications account for the increase from 2012 compared to 2011.

Condensed Consolidated Statements of Revenues, Expenses and Changes in Net Position

	December 31,		
	2013	2012 *(Restated)**	2011
		(millions of dollars)	
Operating revenues	$ 1,428	$ 1,382	$ 1,360
Operating expenses	(1,255)	(1,153)	(1,162)
Operating income	173	229	198
Other revenues	22	57	13
Interest charges	(125)	(126)	(141)
Change in net position	70	160	70
Net position – beginning of year	777	617	547
Net position – end of year	$ 847	$ 777	$ 617

**See Note 3 of the financial statements for discussion on the restatement of the December 31, 2012 Consolidated Statements of Revenues, Expenses and Changes in Net Position.*

CHANGES IN NET POSITION

Operating Revenues

2013 compared to 2012 Operating revenues were $1,428.4 million in 2013, an increase of $46.1 million from 2012. Sales to retail customers were $1,252.4 million in 2013, an increase of $6.9 million, which was about 1 percent higher than 2012. The number of customers increased from 604,053 in 2012 to 610,185 at the end of 2013, at an average revenue per kilowatt hour that remained flat.

SMUD transferred $1.8 million to the RSF in 2013 as compared to a $0.6 million transfer to the fund in 2012. SMUD also transferred $6.6 million from the HRSF during 2013 as compared to a $6.4 million transfer from the fund in 2012. Additionally, SMUD spent more than it collected in SB-1 revenues and has recorded a regulatory asset of $7.7 million.

Wholesale revenues are composed of both surplus gas and energy sales. In 2013, surplus gas sales were $52.8 million as compared to $48.7 million in 2012. Surplus gas sales were 8 percent higher and the average sales price was higher than the previous year. Surplus energy sales in 2013 were $18.3 million higher than in 2012 as a result of higher prices offset by lower volumes.

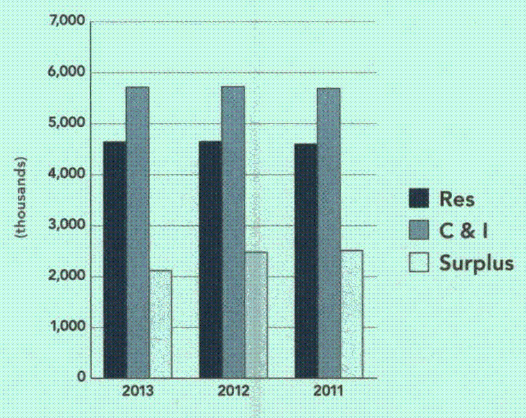
2012 compared to 2011 Operating revenues were $1,382.3 million in 2012, an increase of $22.3 million from 2011. Sales to retail customers were $1,245.5 million in 2012, an increase of $8.0 million, which was about 1 percent higher than 2011. The number of customers increased from 599,826 in 2011 to 604,053 at the end of 2012, at an average revenue per kilowatt hour that remained flat.

SMUD transferred $0.6 million to the RSF in 2012 as compared to a transfer to the RSF of $10.1 million in 2011. SMUD also transferred $6.4 million from the HRSF during 2012 as compared to a $40.4 million transfer to the fund in 2011. Additionally, SMUD spent more than it collected in SB-1 revenues and has reduced the regulatory credit by $3.2 million.

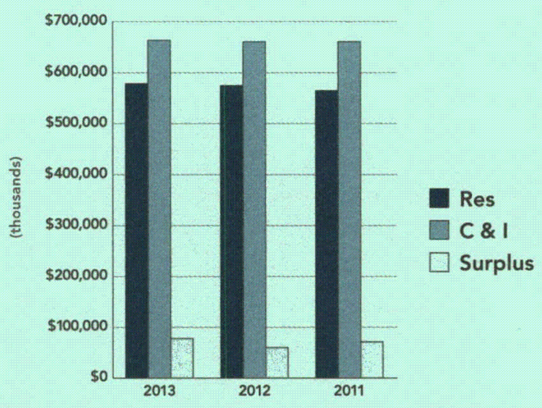
Wholesale revenues are composed of both surplus gas and energy sales. In 2012, surplus gas sales were $48.7 million as compared to $88.2 million in 2011. The amount of surplus gas sold was 45 percent lower and was sold at lower average prices than previous year. Surplus energy sales in 2012 were $10.3 million lower than in 2011 due to lower volumes and lower prices.

The following charts show the megawatt hour (MWh) sales, and sales revenue in 2013, 2012, and 2011, by surplus energy sales (Surplus), commercial and industrial (C&I) and residential (Res) customers.

MWh Sales



Sales Revenues



Operating Expenses

2013 compared to 2012 Operating expenses were $1,255.2 million in 2013, an increase of $102.1 million from 2012. Purchased power expense was $31.7 million higher in 2013, mainly due to higher average prices offset by lower volume as compared to 2012. Approximately 9 percent less energy was purchased in 2013 at prices that averaged 24 percent higher than in 2012.

In 2013, net fuel costs for generation, a component of production costs, were approximately $257.2 million (inclusive of ineffective hedges reported as investment expense), or $12.6 million lower than 2012. Fuel usage increased 10 percent primarily due to higher production at the component unit generation plants. Average net fuel prices were lower by 14 percent in 2013 as compared to 2012. In both 2013 and 2012, respectively, power supply costs made up approximately 54 percent of total operating expenses.

Depreciation expense increased by $15.3 million due to higher depreciation related to software and hardware, general structures and improvements, Solano Wind plant, and distribution assets. The $4.4 million decrease in regulatory amounts collected in rates is due to the final year of amortization of North City Substation remediation obligations offset by higher decommissioning costs.

Administrative, general, and customer expenses were $14.6 million higher in 2013 than in 2012, mainly due to higher expense in various customer programs.

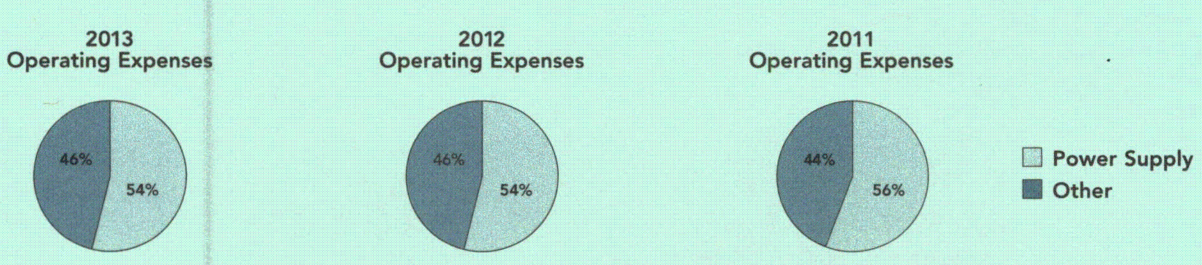
2012 compared to 2011 Operating expenses were $1,153.1 million in 2012, a decrease of $8.8 million from 2011. Purchased power expense was $4.5 million higher in 2012, mainly due to higher volumes offset by lower average prices as compared to 2011. Approximately 15 percent more energy was purchased in 2012 at prices that averaged 11 percent lower than in 2011.

In 2012, net fuel costs for generation, a component of production costs, were approximately $269.7 million (inclusive of ineffective hedges reported as investment expense), or $11.2 million lower than 2011. Fuel usage increased 11 percent primarily due to higher production at the component unit generation plants. Average net fuel prices were lower by 13 percent in 2012 as compared to 2011. In 2012, power supply costs made up approximately 54 percent of total operating expenses as compared to 56 percent for 2011.

Depreciation expense decreased by $4.5 million due to fully depreciated meters and a reduction in the component units' plant in service due to the Fru-Con settlement (see Note 2).

Administrative, general and customer expense, were $9.3 million higher in 2012 than in 2011, mainly due to higher expense in various customer programs and reclassification of some items due to implementation of GASB 65.

The following charts compare the relative cost of purchased power, production expenses, and depletion of the Rosa gas field (power supply costs) to all other operating expenses in 2013, 2012, and 2011:



Other Revenues (Expenses)

2013 compared to 2012 Other revenues were $38.9 million lower in 2013 as compared to 2012. Interest income is lower by $29.7 million mainly due to the Fru-Con settlement related to the Cosumnes Power Plant litigation (see Note 2). Grant revenue net of pass through expenditures is lower by $13.0 million due to lower costs from grant programs, and other income – net was lower by $4.8 million. In addition, there was a $12.6 million decrease in investment expense related to ineffective hedges.

2012 compared to 2011 Other revenues were $44.5 million higher in 2012 as compared to 2011. Interest income and Other Income – net was higher by $19.2 million and $14.8 million, respectively, mainly due to the Fru-Con settlement related to the Cosumnes Power Plant litigation (see Note 2). Also Grant revenue and pass through expenditures increased $6.1 million and there was a $4.4 million decrease in investment expense related to ineffective hedges.

Interest Charges

2013 compared to 2012 Total interest charges were $0.5 million lower in 2013 compared to 2012.

2012 compared to 2011 Due to the implementation of GASB No. 65, some items were reclassified for comparative purposes. Total interest charges were $14.4 million lower in 2012 compared to 2011.

CONSOLIDATED STATEMENTS OF NET POSITION

Assets	Year Ended December 31, 2013	(Restated) 2012
	(thousands of dollars)	
Electric Utility Plant		
Plant in service	$ 5,353,712	$ 5,006,208
Less accumulated depreciation and depletion	(2,166,120)	(2,000,987)
Plant in service – net	3,187,592	3,005,221
Construction work in progress	135,385	334,488
Total electric utility plant – net	3,322,977	3,339,709
Restricted and Designated Assets		
Revenue bond and debt service reserves	133,472	126,383
Nuclear decommissioning trust fund	31,137	31,077
Rate stabilization fund	81,474	86,231
Other funds	55,773	84,115
Less current portion	(127,524)	(94,773)
Total restricted and designated assets	174,332	233,033
Current Assets		
Unrestricted cash and cash equivalents	296,679	368,186
Unrestricted investments	305,296	55,809
Restricted and designated cash and cash equivalents	42,425	42,189
Restricted and designated investments	85,099	52,584
Receivables – net:		
Retail customers	152,821	152,450
Wholesale	8,390	9,311
Other	39,464	110,284
Regulatory costs to be recovered within one year	12,483	17,389
Investment derivative instruments maturing within one year	279	19
Hedging derivative instruments maturing within one year	5,799	4,293
Inventories	49,866	51,752
Prepaid gas to be delivered within one year	22,720	21,626
Credit support collateral deposits	-0-	4,873
Prepayments	30,475	19,890
Total current assets	1,051,796	910,655
Noncurrent Assets		
Regulatory costs for future recovery	179,755	209,945
Prepaid gas	340,504	363,225
Prepaid power and capacity	145,362	154,637
Investment derivative instruments	147	35
Hedging derivative instruments	29,784	40,310
Energy efficiency loans - net	36,378	39,722
Credit support collateral deposits	-0-	27
Prepayments and other	61,568	54,605
Total noncurrent assets	793,498	862,506
Total Assets	5,342,603	5,345,903
Deferred Outflows of Resources		
Accumulated decrease in fair value of hedging derivatives	102,356	164,267
Unamortized bond losses	46,790	58,527
Total deferred outflows of resources	149,146	222,794
Total Assets and Deferred Outflows of Resources	$ 5,491,749	$ 5,568,697

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

CONSOLIDATED STATEMENTS OF NET POSITION

Liabilities	Year Ended December 31, 2013	(Restated) 2012
	(thousands of dollars)	
Long-Term Debt – net	$ 3,075,802	$ 3,091,405
Current Liabilities		
Commercial paper notes	200,000	200,000
Accounts payable	72,012	75,685
Purchased power payable	19,448	20,894
Credit support collateral obligation	160	160
Long-term debt due within one year	137,600	119,210
Accrued decommissioning	19,759	6,300
Interest payable	44,345	42,861
Accrued salaries and compensated absences	36,089	34,226
Investment derivative instruments maturing within one year	3,878	16,236
Hedging derivative instruments maturing within one year	16,212	81,368
Customer deposits and other	34,512	46,035
Total current liabilities	584,015	642,975
Noncurrent Liabilities		
Accrued decommissioning	158,807	172,828
Investment derivative instruments	20,874	35,846
Hedging derivative instruments	86,144	82,899
Due to affiliated entity	841	9,186
Due to U.S. Bureau of Reclamation	391	6,576
Self insurance, unearned revenue and other	27,213	34,981
Total noncurrent liabilities	294,270	342,316
Total Liabilities	3,954,087	4,076,696
Deferred Inflows of Resources		
Accumulated increase in fair value of hedging derivatives	35,583	44,604
Regulatory credits	403,197	399,602
Financing obligation and other	252,177	270,788
Total deferred inflows of resources	690,957	714,994
Net Position		
Net investment in capital assets	345,493	411,545
Restricted	115,632	127,149
Unrestricted	385,580	238,313
Total Net Position	846,705	777,007
Commitments and Contingencies (Notes 17 and 18)		
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 5,491,749	$ 5,568,697

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

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended December 31,	
		(Restated)
	2013	2012
	(thousands of dollars)	
Operating Revenues		
Residential	$ 572,701	$ 569,210
Commercial and industrial	663,356	662,026
Street lighting and other	33,083	33,353
Wholesale	131,130	108,712
Senate Bill – 1 revenue	10,711	3,240
AB-32 revenue	12,656	-0-
Rate stabilization fund transfers	4,758	5,733
Total operating revenues	1,428,395	1,382,274
Operating Expenses		
Operations:		
Purchased power	273,596	241,847
Production	388,139	362,346
Transmission and distribution	57,312	54,515
Administrative, general and customer	168,522	153,895
Public good	77,098	68,675
Maintenance	92,573	80,997
Depreciation	180,718	165,460
Depletion	11,084	14,773
Regulatory amounts collected in rates	6,140	10,574
Total operating expenses	1,255,182	1,153,082
Operating Income	173,213	229,192
Non-Operating Revenues and Expenses		
Other revenues and (expenses)		
Interest income	7,457	37,115
Investment expense	(21,678)	(34,296)
Revenue – Grants	16,323	34,567
Pass through expenditures - Grants	(8,308)	(13,524)
Other income – net	28,647	33,457
Total other revenues and (expenses)	22,441	57,319
Interest charges		
Interest on debt	128,959	134,909
Allowance for funds used during construction	(3,003)	(8,456)
Total interest charges	125,956	126,453
Change in Net Position	69,698	160,058
Net Position – Beginning of Year	777,007	616,949
Net Position – End of Year	$ 846,705	$ 777,007

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
		(Restated)
	2013	2012
	(thousands of dollars)	
Cash Flows From Operating Activities		
Receipts from retail customers	$ 1,264,147	$ 1,258,903
Receipts from surplus power sales	80,569	59,036
Receipts from surplus gas sales	52,432	49,361
Receipts from steam sales	5,411	7,189
Settlement proceeds	-0-	36,345
Other receipts	19,282	12,273
Payments/receipts for credit support collateral	4,900	48,950
Issuance/repayment of energy efficiency loans, net	3,413	10,315
Payments to employees – payroll and other	(229,287)	(218,345)
Payments for wholesale power	(274,952)	(233,202)
Payments for gas purchases	(273,386)	(278,631)
Payments to vendors/others	(258,482)	(262,071)
Payments for decommissioning	(15,036)	(4,362)
Net cash provided by operating activities	379,011	485,761
Cash Flows From Noncapital Financing Activities		
Repayment of debt	(21,795)	(21,975)
Receipts from federal and state grants	23,011	82,277
Pass through payments for federal and state grants	(9,424)	(13,050)
Interest on debt	(15,977)	(16,829)
Net cash provided by (used in) noncapital financing activities	(24,185)	30,423
Cash Flows From Capital and Related Financing Activities		
Proceeds from Solano Wind Phase 3 financing obligation	63,147	20,869
Construction expenditures	(184,046)	(333,866)
Settlement proceeds	-0-	34,394
Contributions in aid of construction	8,523	12,955
Net proceeds from bond issues	353,521	375,833
Repayments and refundings of debt	(309,763)	(314,525)
Interest on debt	(118,425)	(120,875)
Net cash used in capital financing activities	(187,043)	(325,215)
Cash Flows From Investing Activities		
Sales and maturities of securities	199,382	78,296
Purchases of securities	(431,509)	(217,712)
Interest and dividends received	6,313	7,665
Investment revenue/expenses, net	(21,677)	(34,293)
Net cash used in investing activities	(247,491)	(166,044)
Net increase (decrease) in cash and cash equivalents	(79,708)	24,925
Cash and cash equivalents at the beginning of the year	468,248	443,323
Cash and cash equivalents at the end of the year	$ 388,540	$ 468,248
Cash and cash equivalents included in:		
Unrestricted cash and cash equivalents	$ 296,679	$ 368,186
Restricted and designated cash and cash equivalents	42,425	42,189
Revenue bond and debt service reserves (a component of the total of $133,472 and $126,383 at December 31, 2013 and 2012, respectively)	49,436	57,873
Cash and cash equivalents at the end of the year	$ 388,540	$ 468,248

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

SUPPLEMENTAL CASH FLOW INFORMATION

A reconciliation of the consolidated statements of cash flows operating activities to operating income is as follows:

	Year Ended December 31, 2013	(Restated) 2012
	(thousands of dollars)	
Operating income	$ 173,213	$ 229,192
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	180,718	165,460
Depletion	11,084	14,773
Regulatory amortization	6,140	10,574
Amortization of advance capacity & other	1,972	2,769
Amortization of prepaid gas supply	21,627	21,194
Revenue (recognized from) deferred to regulatory credits, net	(16,579)	(4,422)
Settlement proceeds	-0-	36,345
Payments for credit support collateral, net	4,900	48,950
Other receipts/payments	5,976	(431)
Changes in operating assets and liabilities:		
Customer and wholesale receivables	1,500	1,310
Energy efficiency loans	3,413	10,315
Other assets	(8,417)	(41,169)
Payables and accruals	8,500	(4,737)
Decommissioning	(15,036)	(4,362)
Net cash provided by operating activities	$ 379,011	$ 485,761

The supplemental disclosure of noncash financing and investing activities is as follows:

	Year Ended December 31, 2013	(Restated) 2012
	(thousands of dollars)	
Amortization of debt related costs	(6,787)	(4,265)
Unrealized holding gain or (loss)	(389)	302
Change in valuation of derivative financial instruments	80,593	103,627
Amortization of revenue for assets contributed in aid of construction	16,156	14,194
Allowance for funds used during construction	3,003	8,456
Construction costs included in accounts payable	20,216	30,531
Solano Wind Phase 3 financing obligation	-0-	(229,158)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION

The Sacramento Municipal Utility District (SMUD) was formed and operates under the State of California Municipal Utility District Act (Act). The Act gives SMUD the rights and powers to fix rates and charges for commodities or services it furnishes, and to incur indebtedness and issue bonds or other obligations.

As a community-owned utility, SMUD is not subject to regulation or oversight by the California Public Utilities Commission.

SMUD is responsible for the acquisition, generation, transmission, and distribution of electric power to its service area, which includes most of Sacramento County and small adjoining portions of Placer and Yolo Counties. The Board of Directors (Board) determines SMUD's rates.

SMUD is exempt from payment of federal and state income taxes and, under most circumstances, real and personal property taxes. SMUD is not exempt from real and personal property taxes on assets it holds outside of California. In addition, SMUD is responsible for the payment of a portion of the property taxes associated with its real property in California that lies outside of its service area.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting. SMUD's accounting records are maintained in accordance with Generally Accepted Accounting Principles (GAAP) for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). SMUD's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission (FERC), except as it relates to the accounting for contributions of utility property in aid of construction. SMUD's Consolidated Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Electric revenues and costs that are directly related to the acquisition, generation, transmission, and distribution of electricity are reported as operating revenues and expenses. All other revenues and expenses are reported as non-operating revenues and expenses.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Financial Reporting Entity. These Consolidated Financial Statements include SMUD and its component units. Although the component units are legally separate from SMUD, they are blended into and reported as part of SMUD because of the extent of their operational and financial relationships with SMUD. All significant inter-component transactions have been eliminated in consolidation.

Component Units. The component units include the Central Valley Financing Authority (CVFA), the Sacramento Cogeneration Authority (SCA), the Sacramento Power Authority (SPA), the Sacramento Municipal Utility District Financing Authority (SFA), and the Northern California Gas Authority No. 1 (NCGA). The primary purpose of CVFA, SCA, SPA and SFA is to own and operate electric utility plants that supply power to SMUD. The primary purpose of NCGA is to prepay for natural gas and to sell the natural gas to SMUD. SMUD's Board comprises the Commissions that govern these entities (see Note 6).

Plant in Service. The cost of additions to Plant in Service and replacement property units is capitalized. Repair and maintenance costs are charged to expense when incurred. When SMUD retires portions of its Electric Utility Plant, retirements are recorded against Accumulated Depreciation and the retired portion of Electric Utility Plant is removed from Plant in Service. The costs of removal and the related salvage value, if any, are charged or credited as appropriate to Accumulated Depreciation. SMUD generally computes depreciation on Plant in Service on a straight-line, service-life basis. The consolidated average annual composite depreciation rates for 2013 and 2012 were 3.6 and 3.54 percent, respectively. Depreciation is calculated using the following estimated lives:

Generation	7 to 80 years
Transmission and Distribution	7 to 50 years
Gas Pipeline	5 to 90 years
General	5 to 50 years

At December 31, 2013 and 2012, capital assets are generally defined by SMUD as tangible assets with an initial, individual cost of more than three thousand dollars and one thousand dollars, respectively, and an estimated useful life in excess of two years.

Investments in Joint Power Agency (JPA). SMUD's investment in the Transmission Agency of Northern California (TANC) is accounted for under the equity method of accounting and is reported as a component of Plant in Service. SMUD's share of the TANC debt service costs and operations and maintenance expense, inclusive of depreciation, is included in Transmission and Distribution expense in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

SMUD's investment in Balancing Authority of Northern California (BANC) is accounted for under the equity method of accounting. SMUD's share of the BANC operations and maintenance expense is included in Transmission and Distribution expense in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

Investments in Gas Properties. SMUD has an approximate 20 percent non-operating ownership interest in the Rosa Unit gas properties in New Mexico of which, SMUD's portion of the extracted gas is transported for use in its component unit natural gas-fired power plants (see Note 6). SMUD uses the successful efforts method of accounting for its investment in gas producing properties. Costs to acquire mineral interests in gas properties, to drill and equip exploratory wells that find proved reserves, and to drill and equip development wells are capitalized as a component of Plant in Service on the Consolidated Statements of Net Position. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed. SMUD has purchased proven reserves and has not participated in exploratory drilling. Capitalized costs of producing gas properties, after considering estimated residual salvage values, are depleted by the unit-of-production method based on the estimated future production of the proved developed producing wells. SMUD's investment in gas properties is reported as a component of Plant in Service.

Restricted and Designated Assets. Cash, cash equivalents, and investments, which are restricted under terms of certain agreements for payments to third parties or Board actions limiting the use of such funds, are included as restricted assets. When SMUD restricts funds for a specific purpose, and both restricted and unrestricted resources are available for use, it is SMUD's policy to use restricted resources first, then unrestricted resources as they are needed.

Restricted Bond Funds. SMUD's Indenture Agreements (Indenture) and Bond Resolutions require the maintenance of minimum levels of reserves for debt service and certain construction costs intended by the related debt offerings.

Nuclear Decommissioning Trust Fund. SMUD made annual contributions to its Nuclear Decommissioning Trust Fund (Trust Fund) through 2008 to cover the cost of its primary decommissioning activities associated with the Rancho Seco facility. Primary decommissioning excludes activities associated with the spent fuel storage facility after 2008 and most non-radiological decommissioning tasks. SMUD determined early in 2008 that there were enough funds in the trust to complete the radiological decommissioning of the Rancho Seco nuclear plant site, and stopped contributing to the Trust Fund (see Note 13).

Interest earnings on the Trust Fund assets are recorded as Interest Income and are accumulated in the Trust Fund. Annual Decommissioning Expense is made up of the annual interest earned on the Trust Fund and fuel storage costs that cannot be taken from the Trust Fund.

Accrued Decommissioning. SMUD accrues decommissioning costs related to Utility Plant when an obligation to decommission facilities is legally required. Adjustments are made to such liabilities based on estimates by SMUD staff in accordance with FASB ASC 410, *Asset Retirement and Environmental Obligations* (FASB ASC 410). For active plants, such costs are included in the Utility Plant's cost and included as a component of Operating Expense over the Utility Plant's life. Expenditures for decommissioning activities are recorded as reductions to Accrued Decommissioning liability. Changes in the Rancho Seco decommissioning liability estimates arising from inflation, annual accretion, and other changes to the cost assumptions are recorded to Accrued Decommissioning with a corresponding adjustment to the related regulatory deferral. The current portion of the Accrued Decommissioning liability represents SMUD's estimate of actual expenditures in the next year, as set forth in the annual budget.

SMUD has identified potential retirement obligations related to certain generation, distribution and transmission facilities. SMUD's non-perpetual leased land rights generally are renewed continuously because SMUD intends to utilize these facilities indefinitely. Since the timing and extent of any potential asset retirements are unknown, the fair value of any obligations associated with these facilities cannot be reasonably estimated. Accordingly, a liability has not been recorded.

At December 31, 2013 and 2012, SMUD's Accrued Decommissioning balance in the Consolidated Statements of Net Position relating to Rancho Seco was \$169.1 million and \$170.0 million, respectively (see Note 13). The Accrued Decommissioning balance in the Consolidated Statements of Net Position relating to other electricity generation and gas production facilities totaled \$9.4 million and \$9.1 million as of December 31, 2013 and 2012, respectively.

Cash and Cash Equivalents. Cash and cash equivalents include all debt instruments purchased with an original maturity of 90 days or less, all investments in the Local Agency Investment Fund (LAIF), and money market mutual funds. LAIF has an equity interest in the State of California (State) Pooled Money Investment Account (PMIA). PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters, and maximum maturity of investments. SMUD's deposits with LAIF comprise cash representing demand deposits up to \$50.0 million maximum, and cash equivalents representing amounts above \$50.0 million which may be withdrawn once per month after a thirty-day period. The debt instruments and money market mutual funds are reported at amortized cost which approximates fair value, and the LAIF is reported at the value of its pool shares.

Investments. SMUD's investments held for more than one year are reported at fair value. Realized and unrealized gains and losses are included in Other Income – net in the Consolidated Statements of Revenues, Expenses and Changes in Net Position. Premiums and discounts on zero coupon bonds are amortized using the effective interest method. Premiums and discounts on other securities are amortized using the straight-line method, which approximates the effective interest method.

Electric Operating Revenues. Electric revenues are billed on the basis of monthly cycle bills and are recorded as revenue when the electricity is delivered. SMUD records an estimate for unbilled revenues earned from the dates its retail customers were last billed to the end of the month. At December 31, 2013 and 2012, unbilled revenues were $73.6 million and $69.1 million, respectively.

Purchased Power Expenses. A portion of SMUD's power needs are provided through power purchase agreements. Expenses from such agreements, along with associated transmission costs paid to other utilities, are charged to Purchased Power expense on the Consolidated Statements of Revenues, Expenses and Changes in Net Position in the period the power is received. The costs, or credits, associated with energy swap agreements (gas and electricity) or other arrangements that affect the net cost of Purchased Power are recognized in the period in which the underlying power delivery occurs. Contract termination payments and adjustments to prior billings are included in Purchased Power expense once the payments or adjustments can be reasonably estimated.

Advanced Capacity Payments. Some long-term agreements to purchase energy or capacity from other providers call for up-front payment. Such costs are generally recorded as an asset and amortized over the length of the contract.

Credit and Market Risk. SMUD enters into forward purchase and sales commitments for physical delivery of gas and electricity with utilities and power marketers. SMUD is exposed to credit risk related to nonperformance by its wholesale counterparties under the terms of these contractual agreements. In order to limit the risk of counterparty default, SMUD has a wholesale counterparty risk policy which includes using the credit agency ratings of SMUD's counterparties, credit enhancements for counterparties that do not meet an acceptable risk level, and the use of standardized agreements that allow for the netting of positive and negative exposures associated with a single counterparty. SMUD is also subject to similar requirements for many of its gas and electricity purchase agreements. SMUD uses a combination of cash, securities and a letter of credit facility to satisfy its collateral requirements to counterparties. SMUD has a $50 million letter of credit facility to support collateral requirements under SMUD's various energy and natural gas purchase, sale and swap agreements, with $50 million available at December 31, 2013 and $40 million available at December 31, 2012. The letter of credit facility will expire on January 17, 2014, at which time SMUD may continue to use cash and securities to satisfy collateral requirements. At December 31, 2013 and 2012, SMUD held $0.2 million on deposit by counterparties. The amount is recorded as unrestricted cash with an associated current liability. At December 31, 2013 and 2012, SMUD had $0 and $4.9 million, respectively, cash collateral posted with counterparties.

Accounts Receivable and Allowance for Doubtful Accounts. Accounts Receivable is recorded at the invoiced amount and does not bear interest, except for accounts related to energy efficiency loans. SMUD recognizes an estimate of uncollectible accounts for its receivables related to electric service, energy efficiency loans, and other non-electric billings, based upon its historical experience with collections and current energy market conditions. For large wholesale receivable balances, SMUD determines its bad debt reserves based on the specific credit issues for each account. SMUD records bad debts for its estimated uncollectible accounts related to electric service as a reduction to the related operating revenues in the Consolidated Statements of Revenues, Expenses and Changes in Net Position. SMUD records bad debts for its estimated uncollectible accounts related to energy efficiency loans and other non-electric billings in Administrative, General and Customer expense in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

The summarized activity of the changes in the allowance for doubtful accounts during 2013 and 2012 is presented below:

	Balance at beginning of Year	Additions	Write-offs and (Recoveries)	Balance at end of Year
		(thousands of dollars)		
Other Non-Electric:				
December 31, 2013	$ 1,239	$ 1,374	$ 267	$ 2,346
December 31, 2012	$ 1,376	$ 277	$ 414	$ 1,239
Retail Customers:				
December 31, 2013	$ 3,310	$ 7,530	$ 6,646	$ 4,194
December 31, 2012	$ 3,903	$ 5,106	$ 5,699	$ 3,310
Energy Efficiency Loans:				
December 31, 2013	$ 2,362	$ (358)	$ (100)	$ 2,104
December 31, 2012	$ 2,716	$ (573)	$ (219)	$ 2,362

Regulatory Deferrals. The Board has the authority to establish the level of rates charged for all SMUD services. As a regulated entity, SMUD's financial statements are prepared in accordance with GASB No. 62, Regulated Operations, which requires that the effects of the rate-making process be recorded in the financial statements. Accordingly, certain expenses and credits, normally reflected in Change in Net Position as incurred, are recognized when included in rates and recovered from, or refunded to, customers. SMUD records various regulatory assets and credits to reflect rate-making actions of the Board (see Note 8).

Materials and Supplies. Materials and supplies are stated at average cost, which approximates the first-in, first-out method.

Compensated Absences. SMUD accrues vacation leave and compensatory time when employees earn the rights to the benefits. SMUD does not record sick leave as a liability until it is taken by the employee, since there are no cash payments for sick leave made when employees terminate or retire. At December 31, 2013 and 2012, the total estimated liability for vacation and other compensated absences was $21.9 million and $22.0 million, respectively.

Public Good. Public Good expenses consist of non-capital expenditures for energy efficiency programs, low income subsidies, renewable energy resources and technologies, and research and development.

Gains/Losses on Bond Refundings. Gains and losses resulting from bond refundings are included as a component of Deferred Inflows of Resources or Deferred Outflows of Resources on the Consolidated Statements of Net Position and amortized as a component of Interest on Debt in the Consolidated Statements of Revenues, Expenses and Changes in Net Position over the shorter of the life of the refunded debt or the new debt using the effective interest method.

Gains/Losses on Bond Defeasances or Extinguishments. Gains and losses resulting from bond defeasances or extinguishments that were not financed with the issuance of new debt are included as a component of Interest on Debt in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

Allowance for Funds Used During Construction (AFUDC). SMUD capitalizes, as an additional cost of Construction Work In Progress (CWIP), AFUDC, which represents the cost of borrowed funds used for such purposes. The amount capitalized is determined by a formula prescribed by FERC. The AFUDC rate for 2013 and 2012 was 3.5 percent and 3.7 percent, of eligible CWIP, respectively.

Derivative Financial Instruments. SMUD records derivative financial instruments (interest rate swap and gas price swap agreements, certain wholesale sales agreements, certain electricity purchase agreements and option agreements) at fair value on its Consolidated Statements of Net Position. SMUD does not enter into agreements for speculative purposes. Fair market value is estimated by comparing contract prices to forward market prices quoted by third party market participants and/or provided in relevant industry publications. SMUD is exposed to risk of nonperformance if the counterparties default or if the swap agreements are terminated. SMUD reports derivative financial instruments with remaining maturities of one year or less and the portion of long-term contracts with scheduled transactions over the next twelve months as current on the Consolidated Statements of Net Position (see Note 9).

Interest Rate Swap Agreements. SMUD enters into interest rate swap agreements to modify the effective interest rates on outstanding debt (see Notes 9 and 10).

Gas and Electricity Price Swap and Option Agreements. SMUD uses forward contracts to hedge the impact of market volatility on gas commodity prices for its gas-fueled power plants and for energy prices on purchased power for SMUD's retail load (see Note 9).

Solano Wind Sale. SMUD entered into an agreement to sell the Solano Wind Phase 3 plant in December 2011 with a corresponding Power Purchase Agreement for all the output of the plant. In April 2012, under the terms of the Construction Management Agreement, SMUD, on behalf of the purchaser, completed construction of the plant, with the revenue recognition from the transaction, which was accounted for as a financing agreement, to occur over the life of the contracts. Pursuant to the Facility Administration Agreement, SMUD will perform services at the facility under the direction and for the benefit of the purchaser. Pursuant to the ground and property lease, SMUD is leasing the site to the purchaser for a term of twenty years with an option to extend for five additional years.

The sale proceeds have been recorded as Deferred Inflows of Resources on the Consolidated Statements of Net Position and will be amortized as Purchased Power Expense on the Consolidated Statement of Revenues, Expenses, and Changes in Net Position over the life of the agreement. Sale proceeds in the amount of $63.1 million were received in 2013. The prepayment for purchased power over the life of the contract has been recorded as Prepaid Power and Capacity on the Consolidated Statements of Net Position and will be amortized as Purchased Power Expense on the Consolidated Statement of Revenues, Expenses, and Changes in Net Position over the life of the agreement (see Note 17 for language about the Power Purchase Agreement).

Precipitation Hedge Agreements. SMUD enters into non-exchange traded precipitation hedge agreements to hedge the cost of replacement power caused by low precipitation years (Precipitation Agreements). SMUD records the intrinsic value of the Precipitation Agreements on the Consolidated Statements of Net Position. Settlement of the Precipitation Agreements is not performed until the end of the period covered (water year ended September 30). The intrinsic value of a Precipitation Agreement is the difference between the expected results from a monthly allocation of the cumulative rainfall amounts, in an average rainfall year, and the actual rainfall during the same period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Insurance Programs. SMUD records liabilities for unpaid claims at their present value when they are probable in occurrence and the amount can be reasonably estimated. SMUD records a liability for unpaid claims associated with general, auto, workers' compensation, and short-term and long-term disability based upon estimates derived by SMUD's claims administrator or SMUD staff. The liability comprises the present value of the claims outstanding, and includes an amount for claim events incurred but not reported based upon SMUD's experience (see Note 16).

Assembly Bill 32. California Assembly Bill 32 (AB-32) is an effort by the State of California to set a 2020 greenhouse gas emissions reduction goal into law. The goal is to reach a statewide emission limit of 427 million metric tons of carbon dioxide equivalent of greenhouse gases (GHG). Central to this initiative is the implementation of a cap and trade program, which covers major sources of GHG emissions in the State including power plants. The cap and trade program includes an enforceable emissions cap that will decline over time. The State will distribute allowances, which are tradable permits, equal to the emissions allowed under the cap. Sources under the cap will need to surrender allowances and offsets equal to their emissions at the end of each compliance period. SMUD is subject to AB-32. SMUD participated in the first program auction in 2012 and subsequent auctions in 2013. SMUD expects its free allocation of allowances from the Air Resources Board will cover its compliance costs associated with electricity delivered to its retail customers. SMUD expects to recover compliance costs associated with wholesale power sales costs through its wholesale power sales revenues. SMUD is monitoring legislation and proposed programs that would impact AB-32 (see Note 8).

Net Position. SMUD classifies its net position into three components as follows:

- Net investment in capital assets – This component of net position consists of capital assets, net of Accumulated Depreciation, reduced by the outstanding debt balances, net of unamortized debt expenses. Deferred inflows and outflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are also included.
- Restricted – This component of net position consists of assets with constraints placed on their use, either externally or internally. Constraints include those imposed by debt indentures (excluding amounts considered in net capital, above), grants or laws and regulations of other governments, or by law through constitutional provisions or enabling legislation or by the Board. These restricted assets are reduced by liabilities and deferred inflows of resources related to those assets.
- Unrestricted – This component of net position consists of net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that do not meet the definition of "Net investment in capital assets" or "Restricted."

Contributions in Aid of Construction (CIAC). SMUD records CIAC from customer contributions, primarily relating to expansions to SMUD's distribution facilities, as Other Income – Net in the Consolidated Statements of Revenues, Expenses and Changes in Net Position. Contributions of capital are valued at estimated market cost. For rate-making purposes, the Board does not recognize such revenues when received; rather, CIAC is included in revenues as such costs are amortized over the estimated useful lives of the related distribution facilities.

Revenues and Expenses. SMUD distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with SMUD's principal ongoing operations. The principal operating revenues of SMUD are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Grants. SMUD receives grant proceeds from federal and state assisted programs for its advanced and renewable technologies, electric vehicle, and energy efficiency programs. SMUD also periodically receives grant proceeds from federal or state assistance programs as partial reimbursements for costs it has incurred as a result of storm damages. Additionally, SMUD received several large American Recovery and Reinvestment Act (ARRA) grants in 2009. When applicable, these programs may be subject to financial and compliance audits pursuant to regulatory requirements. SMUD considers the possibility of any material disallowances to be remote. During 2013, SMUD recorded $5.0 million of grant proceeds and recognized $16.3 million as a component of Revenue – Grants, in the Consolidated Statements of Revenues, Expenses and Changes in Net Position, $6.4 million as a Regulatory Credit (Note 8), and a $17.7 million decrease in unearned revenue as a component of Customer Deposits and Other on the Consolidated Statements of Net Position. During 2012, SMUD recorded $59.9 million of grant proceeds and recognized $34.6 million as Revenue - Grants, in the Consolidated Statements of Revenues, Expenses and Changes in Net Position, $20.6 million as a Regulatory Credit (see Note 8), and $4.7 million as unearned revenues as a component of Self Insurance, Unearned Revenue and Other on the Consolidated Statements of Net Position.

In 2010, SMUD issued taxable Build America Bonds. SMUD receives an interest subsidy from the federal government equal to 35 percent of the interest paid (see Note 10). SMUD received a reduced subsidy payment in November 2013 due to budget sequestration by the federal government. In 2013 and 2012, SMUD recognized $9.5 million and $9.8 million, respectively, in revenues for its Build America Bonds, as a component of Other Income – Net, in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

Pollution Remediation. In December 2009, SMUD identified a pollution remediation obligation at its North City Substation. This substation was built on a former landfill, and the site requires remediation. As part of the 2010 Budget Resolution, the Board authorized SMUD to defer the expense for rate-making purposes, and SMUD recorded a pollution remediation liability of $12.0 million and a corresponding regulatory asset for the remediation project. SMUD expensed $6.0 million, the remaining balance of the regulatory asset costs in 2012.

Customer Sales and Excise Taxes. SMUD is required by various governmental authorities, including states and municipalities, to collect and remit taxes on certain customer sales. Such taxes are presented on a net basis and excluded from revenues and expenses in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

Termination Benefits. Termination benefits are benefits provided to employees as an incentive to hasten the termination of services, as a result of a voluntary early termination, or as a consequence of involuntary early termination.

As of December 31, 2013 SMUD did not have separation packages or retention programs with employees. At December 31, 2012 various positions had separation packages and talent retention programs which were outlined with employees. Benefits provided included up to 12 weeks of paid leave, plus pay in lieu of benefits for up to 12 weeks. As of December 31, 2012, one employee had a retention agreement, and seven employees had termination benefits, the total of $0.3 million, was recorded as a component of Customer Deposits and Other on the Consolidated Statements of Net Position.

Fru-Con Settlement. In August 2003, SMUD entered into a contract with Fru-Con Construction Corporation (Fru-Con) to construct the Cosumnes Power Plant (CPP). In February 2005, SMUD terminated its contract with Fru-Con on the basis of breach of contract by Fru-Con and took steps to complete the CPP project. SMUD filed suit against Fru-Con. In January 2006, SFA issued bonds, which were used to purchase the plant from SMUD. The total project cost of $417.7 million was transferred to SFA from SMUD, of which $127.2 million was contributed by SMUD. Under the Asset Sales agreement between SMUD and SFA, any Fru-Con litigation proceeds were to be kept by SMUD. In October 2012, SMUD received a $70.7 million settlement of the Fru-Con case, of which $28.8 million was recorded in Interest Income in the Consolidated Statements of Revenues, Expenses and Changes in Net Position, and $7.5 million was recorded as Other Income – Net in the Consolidated Statements of Revenues, Expenses and Changes in Net Position, and the remainder of $34.4 million was recorded as a reduction in member contributions to SFA. SFA recorded the $34.4 million as a reduction in Member Contribution, and a reduction in Plant in Service. On the Consolidated Statements of Net Position, the $34.4 million was recorded as a reduction to Plant in Service.

Subsequent events. Subsequent events for SMUD have been evaluated through February 21, 2014, which is the date that the financial statements were available to be issued.

Reclassifications. Certain amounts in the 2012 Consolidated Financial Statements have been reclassified in order to conform to the 2013 presentation.

Recent Accounting Pronouncements. In December 2009, GASB issued SGAS No. 57, "***OPEB Measurements by Agent Employers and Agent Multiple – Employer Plans***" (GASB No. 57). GASB No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer OPEB plans. This statement amends previous GASB statements on OPEB plans, and will improve the consistency of reporting for OPEB plans. This statement was effective for SMUD for 2012. SMUD has assessed the financial statement impact of adopting this statement, and its impact is not material.

In June 2011, GASB issued SGAS No. 64, "***Derivative Instruments: Application of Hedge Accounting Termination Provisions, An Amendment of GASB Statement No. 53***" (GASB No. 64). GASB No. 64 provides clarification of whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement was effective for SMUD for 2012. SMUD has assessed the financial statement impact of adopting this statement, and its impact is not material.

In June 2011, GASB issued SGAS No. 63, "***Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position***" (GASB No. 63). GASB No. 63 provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). GASB 63 provides guidance on reporting deferred inflows and outflows of resources. This statement will standardize the presentation of deferred inflows and outflows of resources and their effect on a government's net position. The statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities, and to reflect the residual measure in the statement of financial position as net position, rather than net assets. This statement was effective for SMUD for 2012. The impact of adopting the new statement was limited to name changes to accounts and financial statements.

In March 2012, GASB issued SGAS No. 66 "***Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62***" (GASB No. 66). GASB No. 66 requires governments to base their decisions about fund type classification on the nature of the activity to be reported. This statement also modifies the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. This statement is effective for SMUD for 2013. SMUD has assessed the financial statement impact of adopting this statement, and its impact is not material.

In June 2012, GASB issued SGAS No. 68 "***Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27***" (GASB No. 68). The primary objective of GASB No. 68 is to improve accounting and financial reporting by state and local governments for pensions. This statement establishes standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources, and expenses. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. This statement is effective for SMUD for 2015. SMUD is currently assessing the financial statement impact of adopting this statement.

In January 2013, GASB issued SGAS No. 69, "***Government Combinations and Disposals of Government Operations***" (GASB No. 69). GASB No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This statement is effective for SMUD in 2014. SMUD is currently assessing the financial statement impact of adopting this statement, but does not believe that its impact will be material.

In April 2013, GASB issued SGAS No. 70, "***Accounting and Financial Reporting for Nonexchange Financial Guarantees***" (GASB No. 70). The objective of GASB No. 70 is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. GASB No. 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. This statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, GASB No. 70 requires new information to be disclosed by governments that receive nonexchange financial guarantees. This statement is effective for SMUD in 2014. SMUD is currently assessing the financial statement impact of adopting this statement, but does not believe that its impact will be material.

In November 2013, GASB issued SGAS No. 71, "***Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68***" (GASB No. 71). GASB No. 71 addresses an issue regarding application of the transition provisions of GASB No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. GASB No. 71 amends paragraph 137 of GASB No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. This statement is effective for SMUD in 2015, to be applied simultaneously with the provisions of GASB No. 68. SMUD is currently assessing the financial statement impact of adopting this statement.

NOTE 3. ACCOUNTING CHANGE

In November 2010, GASB issued SGAS No. 61, "***The Financial Reporting Entity – Omnibus – An Amendment of GASB Statements No. 14 and No. 34***" (GASB No. 61). GASB No. 61 modifies requirements for inclusion of component units and amends criteria for reporting of component units. This statement also clarifies the reporting of equity interests in legally separate organizations. This statement is effective for SMUD for 2013. SMUD has revised its footnotes to disclose the rationale for including each component unit in SMUD's financial statements. SMUD has also added the Condensed Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows to Note 6. Component Units.

In March 2012, GASB issued SGAS No. 65, "***Items Previously Reported as Assets and Liabilities***" (GASB No. 65). GASB No. 65 establishes accounting and financial reporting standards that reclassify certain items previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or as outflows of resources or inflows of resources. This statement also limits the use of the term deferred in financial statement presentations. This statement is effective for SMUD for 2013.

At December 31, 2012 SMUD had $23.3 million in unamortized debt issuance costs which included prepaid insurance costs. The statement requires debt issuance costs, except any portion related to prepaid insurance costs to be recognized as an expense in the period incurred. The prepaid bond insurance portion of debt issuance costs was reclassified to a prepaid asset. SMUD elected to follow accounting for regulated operations and recorded the debt issuance costs as a regulatory asset. The prepaid bond insurance and the regulatory asset will be amortized using the straight line method over the remaining life of the associated bonds and recorded in Administrative, General and Customer and Regulatory Amounts Collected in Rates, respectively, in the Consolidated Statements of Revenues, Expenses and Changes in Net Position. The implementation also impacted the Statement of Net Position, as certain assets and liabilities were reclassified as deferred outflows or deferred inflows. SMUD restated the December 31, 2012 Consolidated Statement of Net Position and Consolidated Statement of Revenues, Expenses and Changes in Net Position for comparative purposes.

The reclassifications to SMUD's 2012 financial statements are presented below:

Consolidated Statements of Net Position

	December 31, (Restated) 2012	2012
	(thousands of dollars)	
Assets		
Current Assets		
Regulatory costs to be recovered within one year	$ 17,389	$ 16,363
Prepayments	19,890	19,259
Noncurrent Assets		
Regulatory costs for future recovery	209,945	194,727
Unamortized debt issuance costs	-0-	23,307
Prepayments and other	54,605	45,768
Deferred Outflows of Resources		
Accumulated decrease in fair value of hedging derivatives	164,267	119,663
Unamortized bond losses	58,527	-0-
Liabilities		
Long-Term Debt – net	3,091,405	3,030,485
Current Liabilities		
Regulatory credits to be recognized within one year	-0-	17,233
Customer deposits and other	46,035	56,797
Noncurrent Liabilities		
Regulatory credits	-0-	382,369
Self insurance, unearned revenue and other	34,981	295,007
Deferred Inflows of Resources		
Accumulated increase in fair value of hedging derivatives	44,604	-0-
Regulatory credits	399,602	-0-
Financing obligation and other	270,788	-0-
Net Position		
Net investment in capital assets	411,545	435,596
Restricted	127,149	122,268
Unrestricted	238,313	219,131

Consolidated Statements of Revenue, Expenses and Changes in Net Position

	December 31,	
	(Restated) 2012	2012
	(thousands of dollars)	
Operating Expenses		
Administrative, general and customer	$ 153,895	$ 152,109
Regulatory amounts collected in rates	10,574	9,611
Non-Operating Revenues and Expenses		
Interest on debt	134,909	137,670
Change in Net Position	160,058	160,046

NOTE 4. UTILITY PLANT

The summarized activity of SMUD's utility plant during 2013 is presented below:

	Balance December 31, 2012	Additions	Transfers and Disposals	Balance December 31, 2013
		(thousands of dollars)		
Nondepreciable Utility Plant:				
Land	$ 117,051	$ 1,549	$ (68)	$ 118,532
CWIP	334,488	168,869	(367,972)	135,385
Total nondepreciable utility plant	451,539	170,418	(368,040)	253,917
Depreciable Utility Plant:				
Generation	1,629,761	28,390	(3,836)	1,654,315
Transmission	287,990	2,023	418	290,431
Distribution	1,839,348	104,619	(750)	1,943,217
Investment in gas properties	204,951	1,207	-0-	206,158
Investment in JPAs	13,100	1,741	-0-	14,841
Intangibles	210,519	26,795	-0-	237,314
General	703,488	203,995	(18,579)	888,904
	4,889,157	368,770	(22,747)	5,235,180
Less: accumulated depreciation and depletion	(1,996,213)	(194,184)	29,365	(2,161,032)
Less: accumulated amortization on JPAs	(4,774)	(314)	-0-	(5,088)
	(2,000,987)	(194,498)	29,365	(2,166,120)
Total depreciable plant	2,888,170	174,272	6,618	3,069,060
Total Utility Plant – net	$3,339,709	$ 344,690	$ (361,422)	$3,322,977

The summarized activity of SMUD's utility plant during 2012 is presented below:

	Balance December 31, 2011	Additions	Transfers and Disposals	Balance December 31, 2012
		(thousands of dollars)		
Nondepreciable Utility Plant:				
Land	$ 116,221	$ 830	$ -0-	$ 117,051
CWIP	417,819	266,020	(349,351)	334,488
Total nondepreciable utility plant	534,040	266,850	(349,351)	451,539
Depreciable Utility Plant:				
Generation	1,439,938	202,713	(12,890)	1,629,761
Transmission	270,705	17,889	(604)	287,990
Distribution	1,831,281	83,850	(75,783)	1,839,348
Investment in gas properties	200,730	4,221	-0-	204,951
Investment in JPAs	12,770	330	-0-	13,100
Intangibles	191,338	19,023	158	210,519
General	684,931	24,556	(5,999)	703,488
	4,631,693	352,582	(95,118)	4,889,157
Less: accumulated depreciation and depletion	(1,912,978)	(179,994)	96,759	(1,996,213)
Less: accumulated amortization on JPAs	(4,461)	(313)	-0-	(4,774)
	(1,917,439)	(180,307)	96,759	(2,000,987)
Total depreciable plant	2,714,254	172,275	1,641	2,888,170
Total Utility Plant – net	$3,248,294	$ 439,125	$ (347,710)	$3,339,709

NOTE 5. INVESTMENT IN JOINT POWERS AGENCY

TANC. SMUD and fourteen other California municipal utilities are members of TANC, a JPA. TANC, along with the other California municipal utilities, own and operate the California-Oregon Transmission Project (COTP), a 500-kilovolt transmission line between central California and southern Oregon. SMUD is obligated to pay approximately 30.0 percent of TANC's COTP debt service and operations costs in exchange for entitlement to approximately 419 megawatts (MW) of TANC's 1,390 MW transfer capability. Additionally, SMUD has a 48 MW share of TANC's 300 MW firm, bi-directional transmission over Pacific Gas and Electric's (PG&E) system between PG&E's Tesla and Midway substations (SOT).

In December 2009, SMUD entered into a long-term reallocation agreement with TANC and the City of Santa Clara. Effective January 2010 through July 1, 2013, SMUD had an additional 30 MW entitlement share of the SOT. This agreement expired July 1, 2013.

The long-term debt of TANC, which totals $343.2 million (unaudited) at December 31, 2013, is collateralized by a pledge and assignment of net revenues of TANC supported by take or pay commitments of SMUD and other members. Should other members default on their obligations to TANC, SMUD would be required to make additional payments to cover a portion of such defaulted payments, up to 25 percent of its current obligation.

Copies of the TANC annual financial reports may be obtained from SMUD at 6201 S Street, P.O. Box 15830, Sacramento, California 95852.

SMUD recorded transmission expenses related to TANC of $18.9 million and $17.9 million in 2013 and 2012, respectively.

Summary financial information for TANC is presented below:

	December 31, 2013 (Unaudited)	December 31, 2012 (Unaudited)
	(thousands of dollars)	
Total Assets	$ 415,468	$ 450,348
Total Liabilities	$ 399,353	$ 438,985
Total Net Position	16,115	11,363
Total Liabilities and Net Position	$ 415,468	$ 450,348
Changes in Net Position for the Six Months Ended December 31	$ 2	$ 6

Balancing Authority of Northern California (BANC). SMUD, City of Redding, City of Roseville, Modesto Irrigation District and Trinity Public Utilities District are members of BANC, a JPA formed in 2009. In 2011, operational control of Balancing Authority (BA) operations was transferred from SMUD to BANC. BANC performs FERC approved BA reliability functions that are managed by North American Electric Reliability Corporation (NERC), nationally, and by Western Electricity Coordinating Council functions (WECC) in the west.

Copies of the BANC annual financial reports may be obtained from SMUD at 6201 S Street, P.O. Box 15830, Sacramento, California 95852.

SMUD recorded expenses related to BANC of $0.7 million in 2013 and $0.7 million in 2012.

Summary financial information for BANC is presented below:

	December 31, 2013 (Unaudited)	December 31, 2012 (Audited)
	(thousands of dollars)	
Total Assets	$ 392	$ 304
Total Liabilities	$ 392	$ 304
Total Net Position	-0-	-0-
Total Liabilities and Net Position	$ 392	$ 304
Changes in Net Position for the Year Ended December 31	$ -0-	$ -0-

NOTE 6. COMPONENT UNITS

CVFA Carson Cogeneration Project. CVFA is a JPA formed by SMUD and the Sacramento Regional County Sanitation District. CVFA operates the Carson Project, a 65 MW (net) natural gas-fired cogeneration facility and a 43 MW (net) natural gas-fired simple cycle peaking plant. The revenue stream to pay the CVFA bonds' debt service is provided by a take or pay purchase power agreement between SMUD and CVFA.

SCA Procter & Gamble Cogeneration Project. SCA is a JPA formed by SMUD and the SFA. SCA operates the Procter & Gamble Project, a 136 MW (net) natural gas-fired cogeneration facility and a 50 MW (net) natural gas-fired simple cycle peaking plant. The revenue stream to pay the SCA bonds' debt service is provided by a take or pay purchase power agreement between SMUD and SCA.

SFA Cosumnes Power Plant Project. SFA is a JPA formed by SMUD and the Modesto Irrigation District. SFA operates the Cosumnes Power Plant Project (CPP Project), a 501 MW (net) natural gas-fired, combined cycle facility. The revenue stream to pay the SFA bonds' debt service is provided by a take and pay power purchase agreement between SMUD and SFA.

SPA Campbell Soup Cogeneration Project. SPA is a JPA formed by SMUD and the SFA. SPA operates the Campbell Soup Project, a 160 MW (net) natural gas-fired cogeneration facility, and the McClellan Project, a 72 MW (net) natural gas-fired simple cycle peaking plant. The revenue stream to pay the SPA bonds' debt service is provided by a take and pay power purchase agreement between SMUD and SPA.

NCGA. NCGA is a JPA formed by SMUD and the SFA. NCGA has a prepaid gas contract with Morgan Stanley Capital Group (MSCG) expiring in 2027, which is financed primarily by NCGA revenue bonds. SMUD has contracted with NCGA to purchase all of the gas delivered by MSCG to NCGA, based on market prices. NCGA is obligated to pay the principal and interest on the bonds. Neither SMUD nor SFA is obligated to make debt service payments on the bonds. NCGA can terminate the prepaid gas contract under certain circumstances, including a failure by MSCG to meet its gas delivery obligation to NCGA or a drop in MSCG's credit rating below a specified level. If this occurs, MSCG will be required to make a termination payment to NCGA based on the unamortized prepayment proceeds received by MSCG.

As described in Note 2, all of the activities and balances of the component units are blended into and reported as part of SMUD because of the extent of their operational and financial relationships with SMUD. Copies of CVFA's, SCA's, SFA's, SPA's and NCGA's annual financial reports may be obtained from their Executive Office at 6201 S Street, P.O. Box 15830, Sacramento, California 95852.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The summarized activity of SMUD's component units for 2013 is presented below:

CONDENSED STATEMENTS OF NET POSITION

December 31, 2013

(thousands of dollars)

	CVFA	SCA	SFA	SPA	NCGA
Electric Utility Plant – Net	$ 63,014	$ 90,446	$ 269,117	$ 83,832	$ -0-
Restricted and Designated Assets	-0-	-0-	56,383	14,652	-0-
Current Assets	14,788	22,058	52,755	25,371	40,958
Noncurrent Assets	193	258	3,708	920	342,009
Total Assets	77,995	112,762	381,963	124,775	382,967
Deferred Outflows of Resources	1,463	1,832	-0-	1,988	-0-
Total Assets and Deferred Outflows of Resources	$ 79,458	$ 114,594	$ 381,963	$ 126,763	$ 382,967
Liabilities					
Long-term Debt – Net	$ 30,156	$ 42,229	$ 239,652	$ 72,956	$ 342,480
Current Liabilities	11,184	15,766	47,723	20,318	26,219
Noncurrent Liabilities	7,890	-0-	-0-	-0-	-0-
Total Liabilities	49,230	57,995	287,375	93,274	368,699
Net Position	30,228	56,599	94,588	33,489	14,268
Total Liabilities and Net Position	$ 79,458	$ 114,594	$ 381,963	$ 126,763	$ 382,967

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

December 31, 2013

(thousands of dollars)

	CVFA	SCA	SFA	SPA	NCGA
Operating Revenues	$ 40,269	$ 66,725	$ 242,511	$ 65,310	$ 37,912
Operating Expenses	39,566	62,308	220,460	58,168	21,826
Operating Income	703	4,417	22,051	7,142	16,086
Non-Operating Revenues and Expenses					
Other Revenues	53	5	143	26	611
Interest Charges and Other	(1,725)	(2,296)	(11,295)	(4,024)	(15,767)
Change in Net Position Before Distributions and Contributions	(969)	2,126	10,899	3,144	930
Distribution to Member	(3,000)	(7,500)	(37,000)	(2,000)	(672)
Member Contributions and Adjustments	-0-	-0-	-0-	-0-	75
Change in Net Position	(3,969)	(5,374)	(26,101)	1,144	333
Net Position – Beginning of Year	34,197	61,973	120,689	32,345	13,935
Net Position – End of Year	$ 30,228	$ 56,599	$ 94,588	$ 33,489	$ 14,268

CONDENSED STATEMENTS OF CASH FLOWS
December 31, 2013
(thousands of dollars)

	CVFA	SCA	SFA	SPA	NCGA
Net Cash Provided by Operating Activities	$ 6,588	$ 10,819	$ 38,273	$ 12,930	$ 37,950
Net Cash Used by Noncapital Financing Activities	(1,825)	(7,500)	(37,000)	(2,000)	(38,444)
Net Cash Used by Capital Financing Activities	(5,710)	(7,033)	(34,023)	(11,308)	-0-
Net Cash Provided (Used) by Investing Activities	2	6	20,258	(72)	610
Net Increase (Decrease) in Cash and Cash Equivalents	(945)	(3,708)	(12,492)	(450)	116
Cash and Cash Equivalents at the Beginning of the Year	5,700	10,446	65,793	14,256	14,594
Cash and Cash Equivalents at the End of the Year	$ 4,754	$ 6,738	$ 53,301	$ 13,806	$ 14,710

The summarized activity of SMUD's component units for 2012 is presented below:

CONDENSED STATEMENTS OF NET POSITION
December 31, 2012
(thousands of dollars)

	CVFA	SCA	SFA	SPA	NCGA
Assets					
Electric Utility Plant – Net	$ 68,379	$ 97,163	$ 277,826	$ 89,941	$ -0-
Restricted and Designated Assets	-0-	-0-	85,512	14,258	-0-
Current Assets	17,637	27,576	56,159	24,169	39,788
Noncurrent Assets	225	297	3,939	1,038	364,851
Total Assets	86,241	125,036	423,436	129,406	404,639
Deferred Outflows of Resources	1,877	2,275	-0-	2,415	-0-
Total Assets and Deferred Outflows of Resources	$ 88,118	$ 127,311	$ 423,436	$ 131,821	$ 404,639
Liabilities					
Long-term Debt - Net	$ 34,604	$ 47,429	$ 249,958	$ 80,522	$ 364,860
Current Liabilities	11,958	17,909	52,789	18,954	25,844
Noncurrent Liabilities	7,359	-0-	-0-	-0-	-0-
Total Liabilities	53,921	65,338	302,747	99,476	390,704
Net Position	34,197	61,973	120,689	32,345	13,935
Total Liabilities and Net Position	$ 88,118	$ 127,311	$ 423,436	$ 131,821	$ 404,639

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

December 31, 2012
(thousands of dollars)

	CVFA	SCA	SFA	SPA	NCGA
Operating Revenues	$ 38,994	$ 70,792	$ 261,893	$ 57,916	$ 38,493
Operating Expenses	38,178	67,257	239,734	49,262	21,398
Operating Income	816	3,535	22,159	8,654	17,095
Non-Operating Revenues and Expenses					
Other Revenues	1,127	7	361	72	620
Interest Charges and Other	(1,861)	(2,570)	(11,668)	(4,664)	(16,618)
Change in Net Position Before Distributions and Contributions	82	972	10,852	4,062	1,097
Distribution to Member	-0-	(1,500)	(4,700)	(1,700)	(704)
Member Contributions and Adjustments	-0-	-0-	(34,380)	-0-	80
Change in Net Position	82	(528)	(28,228)	2,362	473
Net Position – Beginning of Year	34,115	62,501	148,917	29,983	13,462
Net Position – End of Year	$ 34,197	$ 61,973	$ 120,689	$ 32,345	$ 13,935

CONDENSED STATEMENTS OF CASH FLOWS

December 31, 2012
(thousands of dollars)

	CVFA	SCA	SFA	SPA	NCGA
Net Cash Provided by Operating Activities	$ 6,389	$ 11,023	$ 42,051	$ 14,906	$ 38,580
Net Cash Used by Noncapital Financing Activities	-0-	(1,571)	(4,700)	(1,700)	(39,508)
Net Cash Used by Capital Financing Activities	(5,733)	(6,910)	(25,731)	(11,316)	-0-
Net Cash Provided by Investing Activities	4	8	373	40	627
Net Increase (Decrease) in Cash and Cash Equivalents	660	2,550	11,993	1,930	(301)
Cash and Cash Equivalents at the Beginning of the Year	5,040	7,897	53,800	12,326	14,895
Cash and Cash Equivalents at the End of the Year	$ 5,700	$ 10,447	$ 65,793	$ 14,256	$ 14,594

NOTE 7. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Equivalents and Investments. SMUD's investment policy is governed by the California State and Municipal Codes and its Indenture, which allow SMUD's investments to include: obligations which are unconditionally guaranteed by the United States (U.S.) Government or its agencies or instrumentalities; direct and general obligations of the State or any local agency within the State; bankers' acceptances; commercial paper; certificates of deposit; repurchase agreements; corporate notes; and taxable government and tax-exempt money market portfolios. SMUD's investment policy includes restrictions for investments relating to maximum amounts invested as a percentage of total portfolio and with a single issuer, maximum maturities, and minimum credit ratings.

Credit Risk. To mitigate the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, SMUD limits investments to those rated, at a minimum, "A-1" or equivalent for commercial paper and "A" or equivalent for medium-term corporate notes by a nationally recognized rating agency.

Custodial Credit Risk. This is the risk that, in the event of the failure of a depository financial institution or counterparty to a transaction, SMUD's deposits may not be returned or SMUD will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of another party. SMUD does not have a deposit policy for custodial credit risk.

As of December 31, 2013 and 2012, $5.7 million and $8.3 million in deposits were uninsured, respectively. The bank balance is also, per a depository pledge agreement between SMUD and SMUD's bank, collateralized at 124 percent and 829 percent of the collective funds on deposit (increased by the amount of accrued but uncredited interest, reduced by deposits covered by FDIC) at December 31, 2013 and 2012, respectively. At December 31, 2013 and 2012, SMUD had money market deposit accounts and mutual funds of $101.3 million and $111.9 million which were uninsured, respectively. SMUD's investments and money market mutual funds are held in SMUD's name.

Concentration of Credit Risk. This is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. SMUD places no limit on the amounts invested in any one issuer for repurchase agreements and federal agency securities. The following are the concentrations of risk greater than five percent in either year:

	December 31, 2013	December 31, 2012
Investment Type:		
Federal National Mortgage Association (Fannie Mae)	11%	9%
Federal Home Loan Banks	10%	11%
Freddie Mac	8%	3%
Federal Farm Credit Bank	7%	7%

Interest Rate Risk. This is the risk of loss due to the fair value of an investment falling due to interest rates rising. Though SMUD has restrictions as to the maturities of some of the investments, it does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The following schedules indicate the credit and interest rate risk at December 31, 2013 and 2012. The credit ratings listed are from Standard & Poors (S&P). (N/A is defined as not applicable to the rating disclosure requirements).

At December 31, 2013, SMUD's cash, cash equivalents, and investments consist of the following:

Description	Credit Rating	Remaining Maturities (in years) Less Than 1	1–5	More than 5	Total Fair Value
		(thousands of dollars)			
Cash and Cash Equivalents:					
Cash	Not Rated	$ 4,358	$ -0-	$ -0-	$ 4,358
LAIF	Not Rated	270,749	-0-	-0-	270,749
Money Market Mutual Funds	AAAm/N/A	94,317	-0-	-0-	94,317
Money Market Deposit Account	N/A	6,990	-0-	-0-	6,990
Deposit at Notice	N/A	1,414	-0-	-0-	1,414
Commercial Paper	A-1	10,712	-0-	-0-	10,712
Total cash and cash equivalents		388,540	-0-	-0-	388,540
Investments:					
Fannie Mae	AA+	10,650	85,606	-0-	96,256
Federal Farm Credit Bank	AA+	30,032	37,577	-0-	67,609
Federal Home Loan Bank	AA+	65,995	27,813	-0-	93,808
Freddie Mac	AA+	2,005	71,658	-0-	73,663
US Treasury	N/A	25,059	3,103	-0-	28,162
Corporate Notes	AA+/A+/A1/A/A-	52,714	48,588	-0-	101,302
Municipal Bonds	A1/SP-1+	8,067	2,508	-0-	10,575
Commercial Paper	A-1	43,916	-0-	-0-	43,916
Total investments		238,438	276,853	-0-	515,291
Total cash, cash equivalents, and investments		$ 626,978	$ 276,853	$ -0-	$ 903,831

At December 31, 2012, SMUD's cash, cash equivalents, and investments consist of the following:

Description	Credit Rating	Remaining Maturities (in years) Less Than 1	1–5	More than 5	Total Fair Value
		(thousands of dollars)			
Cash and Cash Equivalents:					
Cash	Not Rated	$ 3,616	$ -0-	$ -0-	$ 3,616
LAIF	Not Rated	337,341	-0-	-0-	337,341
Money Market Mutual Funds	AAAm/N/A	111,906	-0-	-0-	111,906
Commercial Paper	A-1+/A-1	15,385	-0-	-0-	15,385
Total cash and cash equivalents		468,248	-0-	-0-	468,248
Investments:					
Fannie Mae	AA+	-0-	65,314	-0-	65,314
Federal Farm Credit Bonds	AA+	-0-	50,091	-0-	50,091
Federal Home Loan Banks	AA+	-0-	81,964	-0-	81,964
Freddie Mac	AA+	-0-	21,079	-0-	21,079
US Treasuries	N/A	50,124	-0-	-0-	50,124
Commercial Paper	AA+	14,981	-0-	-0-	14,981
Total investments		65,105	218,448	-0-	283,553
Total cash, cash equivalents, and investments		$ 533,353	$ 218,448	$ -0-	$ 751,801

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SMUD's cash, cash equivalents, and investments are classified in the Consolidated Statements of Net Position as follows:

	December 31, 2013	December 31, 2012
	(thousands of dollars)	
Total Cash, Cash Equivalents, and Investments:		
Revenue bond reserve and debt service funds:		
Revenue bond reserve fund	$ 9,844	$ 20,859
Debt service fund	69,815	51,707
Component unit bond reserve and debt service funds	53,813	53,817
Total revenue bond reserve and debt service funds	133,472	126,383
Nuclear decommissioning trust fund	31,137	31,077
Rate stabilization fund	81,474	86,231
Component unit other restricted funds	54,519	83,161
Other restricted funds	1,254	954
Unrestricted funds	601,975	423,995
Total cash, cash equivalents, and investments	$ 903,831	$ 751,801

NOTE 8. REGULATORY DEFERRALS

The Board has taken various regulatory actions that result in differences between the recognition of revenues and expenses for rate-making purposes and their treatment under generally accepted accounting principles for non-regulated entities. These actions result in regulatory assets and liabilities, which are summarized in the tables below. Changes to these balances, and their inclusion in rates, occur only at the direction of the Board.

Regulatory Assets (Costs)

Decommissioning. SMUD's regulatory asset relating to the unfunded portion of its decommissioning liability is being collected through interest earnings on the Trust Fund. Nuclear fuel storage costs and non-radiological decommissioning costs have been collected in rates since 2009.

TANC Operations Costs. SMUD's regulatory asset relating to deferred TANC costs comprises the difference between its cash payments made to TANC and its share of TANC's accrual-based costs of operations. This regulatory asset is being collected in rates over the life of TANC's assets during the period that cash payments to TANC exceed TANC's accrual-based costs.

U.S. Bureau of Reclamation. In December 2004, SMUD established a regulatory asset to defer recognizing the expense related to the U.S. Bureau of Reclamation (Bureau). This regulatory asset will be collected in rates over the period SMUD is committed to making rate payments to the Bureau.

Derivative Financial Instruments. SMUD's regulatory costs and/or credits relating to Investment Derivative Instruments are intended to defer the net difference between the fair value of derivative instruments and their cost basis, if any. Investment Derivative Instruments are reflected in rates at contract cost and as such, the balance is charged or credited into rates as the related asset or liability is utilized (see Note 9).

Senate Bill 1. SMUD implemented a per kilowatt hour solar surcharge, effective January 1, 2008 in order to fund investments in solar required by Senate Bill 1 (SB-1). The difference between the surcharge revenues received and the funds spent on solar initiatives will be recognized or deferred into future years. In 2013, SMUD spent more than it collected in SB-1 revenues, and has recorded a regulatory asset.

Debt Issuance Costs. SMUD established a regulatory asset for costs incurred in connection with the issuance of debt obligations, principally underwriter fees and legal costs. The regulatory asset will be collected in rates over the life of the bonds. Debt issuance costs after December 31, 2013 will be expensed.

SMUD's total regulatory costs for future recovery are presented below:

	December 31, 2013	December 31, 2012
	(thousands of dollars)	
Regulatory Costs for Future Recovery:		
Decommissioning	$ 142,485	$ 143,300
TANC operations costs	841	9,186
U.S. Bureau of Reclamation	391	6,576
Derivative financial instruments	24,326	52,029
Senate Bill 1	7,729	-0-
Debt Issuance Costs	16,466	16,243
Total regulatory costs	192,238	227,334
Less: regulatory costs to be recovered within one year	(12,483)	(17,389)
Total regulatory costs for future recovery – net	$ 179,755	$ 209,945

Regulatory Credits

CIAC. In 2013 and 2012 SMUD added CIAC totaling $10.6 million and $13.0 million, respectively, to Regulatory Credits in the Consolidated Statements of Net Position and recorded $10.0 million and $9.4 million of amortization, respectively, to Other Income – Net in the Consolidated Statements of Revenues, Expenses and Changes in Net Position. SMUD's regulatory credit relating to CIAC is intended to offset the revenue and expense associated with this accounting treatment. Thus, this regulatory credit is being amortized into rates over the depreciable lives of the related assets in order to offset the earnings effect of these non-exchange transactions.

Rate Stabilization. SMUD's regulatory credit relating to Rate Stabilization is intended to defer the need for future rate increases when costs exceed existing rates. At the direction of the Board, amounts may be either transferred into this fund (which reduces revenues), or amounts are transferred out of this fund (which increases revenues). The Board authorizes Rate Stabilization Fund (RSF) transfers on an event driven basis. In 2013, $1.8 million was transferred from revenue to the RSF as a result of higher than budgeted energy deliveries from Western Area Power Administration (Western).

Hydro Rate Stabilization. The Hydro Rate Stabilization Fund (HRSF) was established through the Hydro Generation Adjustment (HGA) mechanism, which helps manage volatility in energy costs. The HGA mechanism applies a formula based on precipitation and wholesale electricity prices to calculate needed withdrawals from or deposits to the HRSF. The maximum balance of the HRSF is 5 percent of the budgeted retail revenue and the maximum annual transfer in or out of the HRSF is 4 percent of budgeted retail revenue. If the HRSF is depleted SMUD will apply a hydro rate surcharge to customers' bills up to 4 percent. When the HRSF is fully replenished, a wet year can trigger a hydro rebate or credit on the customers' bills. In 2013, $6.6 million was transferred from the HRSF to revenue as a result of below average precipitation. No additional rate adjustments were necessary.

Assembly Bill 32. In 2012, SMUD participated in the first carbon allowance auction under AB-32, the Global Warming Solutions Act (see Note 2). In 2012, the Board authorized the deferral of AB-32 auction proceeds to match the revenue recognition with the related expenses. The difference between the auction proceeds received and the funds spent on AB-32 programs will be deferred into future years. In 2013, SMUD spent less than it collected in AB-32 revenues, and has recorded a regulatory credit.

Grant Revenues. In 2009, SMUD was awarded several large grants under the ARRA, which provided large amounts of reimbursements for capital expenditures. In 2010, the Board authorized the deferral of grant income for capital expenditures as regulatory liabilities. Thus, this regulatory credit will be deferred to match the depreciable lives of the related capital assets in order to offset the earnings effect of these non-exchange transactions.

Precipitation Hedges. Settlements of Precipitation Agreements are included in rates in the year settled and accordingly, the intrinsic value of open precipitation hedges is deferred as regulatory assets or liabilities.

SMUD's total regulatory credits for future revenue recognition are presented below:

	December 31, 2013	December 31, 2012
	(thousands of dollars)	
Regulatory Credits:		
CIAC	$ 231,612	$ 230,971
Rate stabilization	54,070	52,224
Hydro rate stabilization	27,404	34,008
Assembly Bill 32	3,441	4,551
Grant revenues	75,123	74,867
Precipitation hedge	11,547	-0-
Senate Bill 1	-0-	2,981
Total regulatory credits	$ 403,197	$ 399,602

NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS

To help provide stable electric rates and to meet the forecasted power needs of its retail customers reliably, SMUD enters into various physical and financial fixed price purchase contracts for electricity and natural gas. These fixed price contracts and swap agreements are intended to hedge the exposure due to highly volatile commodity prices. SMUD also enters into interest rate swap agreements to reduce interest rate risk, or to enhance the relationship between the risk and return regarding SMUD's assets or debt obligations. SMUD utilizes these derivative financial instruments to mitigate its exposure to certain market risks associated with ongoing operations. SMUD has established policies set by an executive committee for the use of derivative financial instruments for trading purposes. These contracts are evaluated pursuant to GASB No. 53 to determine whether they meet the definition of derivative instruments, and if so, whether they effectively hedge the expected cash flows associated with interest rate and commodity price risk exposures.

SMUD applies hedge accounting for derivatives that are deemed effective hedges. Under hedge accounting, the increase or (decrease) in the fair value of a hedge is reported as a Deferred Inflow or Deferred Outflow on the Consolidated Statements of Net Position. Derivatives that do not meet the effectiveness tests are deferred for rate-making purposes as regulatory assets or liabilities on the Consolidated Statements of Net Position (see Note 8).

SMUD implemented GASB No. 53 in 2010. During 2013 and 2012, SMUD executed numerous new gas and power related purchase agreements, some of which are recorded as hedging or investment derivatives and are therefore included in the table below. All hedging or investment derivatives are recorded at fair value on the Consolidated Statements of Net Position.

For electricity and gas derivatives, fair values are estimated by comparing contract prices to forward market prices quoted by an independent external pricing service. When external quoted market prices are not available for derivative contracts, SMUD uses an internally developed valuation model utilizing short term observable inputs. For interest rate derivatives, SMUD subscribes to a financial information service that it uses to verify fair value estimates obtained from its counterparties.

The following is a summary of the fair values, changes in fair value and notional amounts of derivative instruments, grouped by trading strategy, outstanding at December 31, 2013 (amounts in thousands; gains shown as positive amounts, losses as negative):

	2013 Changes in Fair Value		Fair Value at December 31, 2013		
Cash Flow Hedges:	**Current Amount**	**NonCurrent Amount**	**Current Amount**	**NonCurrent Amount**	**Notional**
		(thousands of dollars)			(thousands of Dekatherms (Dth))
Asset: Investment Derivative Instruments					
Gas – Commodity	$ 272	$ 112	$ 272	$ 147	3,235 Dth
Gas – Storage	(12)	-0-	7	-0-	78 Dth
Total Investment Derivative Instruments	$ 260	$ 112	$ 279	$ 147	
Asset: Hedging Derivative Instruments					
Gas – Basis	$ 523	$ 655	$ 523	$ 655	10,950 Dth
Gas – Transportation	335	975	335	975	16,425 Dth
Gas – Commodity	1,975	(677)	1,975	176	13,373 Dth
Gas – Storage	(514)	-0-	21	-0-	148 Dth
Interest Rate	(813)	(11,479)	2,945	27,978	$ 131,030
Total Hedging Derivative Instruments	$ 1,506	$ (10,526)	$ 5,799	$ 29,784	
Liability: Investment Derivative Instruments					
Gas – Transportation	$ 7	$ -0-	$ -0-	$ -0-	
Gas – Commodity	10,994	19	37	314	2,938 Dth
Gas – Storage	4	-0-	2	-0-	78 Dth
Interest Rate	1,353	14,953	3,839	20,560	$ 380,995
Total Investment Derivative Instruments	$ 12,358	$ 14,972	$ 3,878	$ 20,874	
Liability: Hedging Derivative Instruments					
Gas – Basis	$ 85	$ -0-	$ -0-	$ -0-	
Gas – Transportation	88	-0-	-0-	-0-	
Gas – Commodity	65,367	(3,245)	15,818	86,144	111,618 Dth
Gas – Storage	(384)	-0-	394	-0-	1,428 Dth
Total Hedging Derivative Instruments	$ 65,156	$ (3,245)	$ 16,212	$ 86,144	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the fair values, changes in fair value and notional amounts of derivative instruments outstanding at December 31, 2012 (amounts in thousands; gains shown as positive amounts, losses as negative):

	2012 Changes in Fair Value		Fair Value at December 31, 2012		
Cash Flow Hedges:	Current Amount	NonCurrent Amount	Current Amount	NonCurrent Amount	Notional
		(thousands of dollars)			(thousands of Dth)
Asset: Investment Derivative Instruments					
Gas – Commodity	$ (634)	$ 35	$ -0-	$ 35	645 Dth
Gas – Storage	(105)	-0-	19	-0-	75 Dth
Total Investment Derivative Instruments	$ (739)	$ 35	$ 19	$ 35	
Asset: Hedging Derivative Instruments					
Gas – Commodity	$ (591)	$ 853	$ -0-	$ 853	12,330 Dth
Gas – Storage	429	(74)	535	-0-	1,537 Dth
Interest Rate	424	1,121	3,758	39,457	$ 131,030
Total Hedging Derivative Instruments	$ 262	$ 1,900	$ 4,293	$ 40,310	
Liability: Investment Derivative Instruments					
Gas – Transportation	$ 7	$ -0-	$ 7	$ -0-	225 Dth
Gas – Commodity	(1,069)	4,290	11,031	333	6,287 Dth
Gas – Storage	206	-0-	6	-0-	148 Dth
Interest Rate	100	4,737	5,192	35,513	$ 380,995
Total Investment Derivative Instruments	$ (756)	$ 9,027	$ 16,236	$ 35,846	
Liability: Hedging Derivative Instruments					
Gas – Basis	$ (10)	$ -0-	$ 85	$ -0-	1,980 Dth
Gas – Transportation	224	-0-	88	-0-	3,825 Dth
Gas – Commodity	36,077	57,504	81,185	82,899	106,796 Dth
Gas – Storage	103	-0-	10	-0-	903 Dth
Total Hedging Derivative Instruments	$ 36,394	$ 57,504	$ 81,368	$ 82,899	

Objectives and terms of hedging derivative instruments. The objectives and terms of SMUD's hedging derivative instruments that were outstanding at December 31, 2013 are summarized in the table below. The table is aggregated by the trading strategy. Credit ratings of SMUD's counterparties can be found in the table under Credit Risk. Details of SMUD's interest rate derivative instruments can be found in Note 10.

	Notional Amount Dth	Beginning Date	Ending Date	Minimum Price/Dth	Maximum Price/Dth
Gas – Basis	10,950	01/01/14	12/31/15	$ (0.74)	$ (0.62)
Gas – Commodity	130,293	01/01/08	12/31/22	3.83	7.17
Gas – Storage	1,576	01/01/14	03/31/14	.17	4.71
Gas – Transportation	16,425	01/01/14	12/31/15	(0.36)	(0.10)

The objectives and terms of SMUD's hedging derivative instruments that were outstanding at December 31, 2012 are summarized in the table below. The table is aggregated by the trading strategy.

	Notional Amount Dth	Beginning Date	Ending Date	Minimum Price/Dth	Maximum Price/Dth
Gas – Basis	1,980	01/01/13	03/31/13	$ (0.25)	$ (0.25)
Gas – Commodity	126,058	01/01/08	12/31/22	3.36	7.65
Gas – Storage	2,663	01/01/13	04/30/13	0.32	4.32
Gas – Transportation	4,050	01/01/13	03/31/13	(0.08)	0.05

SMUD hedges its interest costs. The interest rate swaps are designed to synthetically fix the cash flows associated with variable rate bonds (see Note 10).

SMUD hedges its power and natural gas costs so that it can offer predictable rates to its retail electric customers and support its credit rating. SMUD maintains a risk management program to control the price, credit, and operational risks arising from its power and natural gas market activities. Under the program, authorized SMUD employees assemble a portfolio of swaps, futures, and forward contracts over time with the goal of making SMUD's purchased power and fuel budget more predictable.

These hedged risks include those related to interest rate and commodity price fluctuations associated with certain forecasted transactions, including interest rate risk on long-term debt, and forward purchases of gas and electricity to meet load.

Derivatives not designated as hedging instruments

Gas and Electric Contracts. SMUD utilizes certain gas swap and electric swap agreements under GASB No. 53 not designated as hedging derivative instruments to mitigate exposure to changes in the market price of natural gas and electricity. The fair value of each agreement, excluding the actual settlements to be paid or received as of the end of the period, is recorded in either Current or Noncurrent Assets, Investment Derivative Instruments on the Consolidated Statements of Net Position if in an asset position or Current or Noncurrent Liabilities, Investment Derivative Instruments on the Consolidated Statements of Net Position if in a liability position. An offsetting amount is included in Current or Noncurrent Regulatory Costs or Regulatory Credits for future recovery in the Consolidated Statements of Net Position. The actual settlement payable is recorded in Accounts Payable on the Consolidated Statements of Net Position, and the actual settlement receivable is recorded in Receivables – Net – Other on the Consolidated Statements of Net Position. The payments and receipts of the actual settlement are recorded as Investment Expense in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

Interest Rate Contracts. SMUD utilizes certain interest rate swap agreements not designated as hedging derivative instruments under GASB No. 53 to mitigate exposure to changes in the fair value of variable rate debt resulting from fluctuations in interest rates. The fair value of each agreement, excluding the balance of interest to be paid or received as of the end of the period, is recorded in either Current or Noncurrent Assets, Investment Derivative Instruments on the Consolidated Statements of Net Position if in an asset position or Current or Noncurrent Liabilities, Investment Derivative Instruments on the Consolidated Statements of Net Position if in a liability position. An offsetting amount is included in Current or Noncurrent Regulatory Costs or Deferred Outflows or Inflows of Resources in the Consolidated Statements of Net Position. The interest receivable is recorded in Receivables – Net – Other on the Consolidated Statements of Net Position, and the accrued interest is recorded in Interest Payable on the Consolidated Statements of Net Position. The payments or receipts of the actual settlement are recorded as Investment Expense in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

The Board has deferred recognition of the effects of reporting the fair value of Investment Derivative Instruments for rate-making purposes, and maintains regulatory accounts to defer the accounting impact of these accounting adjustments (see Note 8). Market values may have changed significantly since December 31, 2013.

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of SMUD's interest rate swaps. SMUD is exposed to interest rate risk on its interest rate swaps.

Basis risk. Basis risk is the risk that arises when a hedged item and a derivative that is attempting to hedge that item are based on different indices. SMUD is exposed to basis risk when it hedges its natural gas purchases, which are priced at various locations, with NYMEX futures contracts, which settle based on the price in Henry Hub, Louisiana. SMUD enters into basis swaps to hedge against this risk.

Termination risk. Termination risk is the risk that a derivative will terminate prior to its scheduled maturity due to a contractual event. Contractual events include bankruptcy, illegality, default, credit events upon merger, and other events. One aspect of termination risk is that SMUD would lose the hedging benefit of a derivative that becomes subject to a termination event. Another aspect of termination risk is that, if at the time of termination the mark to market value of the derivative was a liability to SMUD, SMUD could be required to pay that amount to the counterparty. Termination risk is associated with all of SMUD's derivatives up to the fair value amounts.

Credit Risk. Credit risk is the risk of loss resulting when the counterparty is unable or unwilling to fulfill its present and future financial obligations. SMUD can be exposed to significant counterparty credit risk on all derivative instruments. SMUD seeks to minimize credit risk by transacting with creditworthy counterparties. SMUD has established and maintained strict counterparty credit guidelines. SMUD continuously monitors counterparty credit risk and utilizes numerous counterparties to diversify the exposure to potential defaults. Under certain conditions as outlined in SMUD's credit risk management policy, SMUD may require additional credit support under its trading agreements.

Some of SMUD's derivative master agreements contain credit contingent provisions that enable SMUD to maintain unsecured credit as a result of positive investment quality credit ratings from each of the major credit rating agencies. If SMUD's debt were to be downgraded, there could be a step-down in SMUD's unsecured credit thresholds, and SMUD's counterparties would require additional collateral. If SMUD's debt were to decrease below investment grade, SMUD's unsecured credit thresholds would be reduced to zero, and counterparties to the derivative instruments would demand ongoing full collateralization on derivative instruments in net out of the money positions (See Note 2).

The counterparties' current credit rating at December 31, 2013 is shown in the table below.
The credit ratings listed are from S&P or Moody's:

Counterparty	Counterparty Credit Rating
Gas Contracts:	
Barclays Bank PLC	A2
Bank of Montreal	A+
BNP Paribas Energy Trading GP	A+
Citigroup Inc.	Baa2
Deutsche Bank AG	A2
EDF Trading North America LLC	A+
J.P. Morgan Ventures Energy Corp.	A3
Macquarie Bank Limited	A
Bank of America Corp	Baa2
Morgan Stanley Capital Group, Inc.	Baa2
Powerex Corp.	Aaa
Interest Rate Contracts:	
Goldman Sachs Capital Markets, L.P.	A-
Goldman Sachs Mitsui Marine Derivative Products L.P.	AA+
Morgan Stanley Capital Services, Inc	A-

NOTE 10. LONG-TERM DEBT

SMUD's total long-term debt is presented below:

	December 31, 2013	December 31, 2012
	(thousands of dollars)	
Electric revenue bonds, 3.0%-5.9%, 1997-2041	$ 1,971,390	$ 1,943,130
Subordinated electric revenue bonds, index rates, 2008-2041	347,850	347,850
Total electric revenue bonds	2,319,240	2,290,980
Component unit project revenue bonds, 2.25%-5.50%, 2005-2030	399,295	423,915
Gas supply prepayment bonds, index rates, 2007-2027	364,860	386,655
Total long-term debt outstanding	3,083,395	3,101,550
Bond premiums – net	130,007	109,065
Total long-term debt	3,213,402	3,210,615
Less: amounts due within one year	(137,600)	(119,210)
Total long-term debt – net	$ 3,075,802	$ 3,091,405

The summarized activity of SMUD's long-term debt during 2013 is presented below:

	December 31, 2012	Additions	Payments or Amortization	December 31, 2013	Amounts Due Within One Year
			(thousands of dollars)		
Electric revenue bonds	$ 1,943,130	$ 308,415	$ (280,155)	$ 1,971,390	$ 89,595
Subordinate electric revenue bonds	347,850	-0-	-0-	347,850	-0-
Component unit project revenue bonds	423,915	-0-	(24,620)	399,295	25,625
Gas supply prepayment bonds	386,655	-0-	(21,795)	364,860	22,380
Total	3,101,550	308,415	(326,570)	3,083,395	$ 137,600
Unamortized premiums – net	109,065	45,106	(24,164)	130,007	
Total long-term debt	$ 3,210,615	$ 353,521	$ (350,734)	$ 3,213,402	

The summarized activity of SMUD's long-term debt during 2012 is presented below:

	December 31, 2011	Additions	Payments or Amortization	December 31, 2012	Amounts Due Within One Year
			(thousands of dollars)		
Electric revenue bonds	$ 2,022,995	$ 196,945	$ (276,810)	$ 1,943,130	$ 72,795
Subordinate electric revenue bonds	197,850	150,000	-0-	347,850	-0-
Component unit project revenue bonds	447,520	-0-	(23,605)	423,915	24,620
Gas supply prepayment bonds	408,630	-0-	(21,975)	386,655	21,795
Total	3,076,995	346,945	(322,390)	3,101,550	$ 119,210
Unamortized premiums – net	103,972	28,888	(23,795)	109,065	
Total long-term debt	$ 3,180,967	$ 375,833	$ (346,185)	$ 3,210,615	

At December 31, 2013 scheduled annual principal maturities and interest are as follows:

	Principal	Interest	Total
		(thousands of dollars)	
2014	$ 137,600	$ 137,061	$ 274,661
2015	141,200	131,223	272,423
2016	148,390	125,206	273,596
2017	156,680	118,320	275,000
2018	156,770	110,917	267,687
2019 – 2023 (combined)	797,265	460,206	1,257,471
2024 – 2028 (combined)	745,790	300,735	1,046,525
2029 – 2033 (combined)	371,730	163,013	534,743
2034 – 2038 (combined)	342,855	50,561	393,416
2039 – 2041 (combined)	85,115	6,638	91,753
Total Requirements	$ 3,083,395	$ 1,603,880	$ 4,687,275

Interest in the preceding table includes interest requirements for fixed rate debt at their stated rates, variable rate debt covered by interest rate swaps at their fixed rate, and variable rate debt not covered by interest rate swaps using the debt interest rate of 0.03 percent and 0.04 percent in effect at December 31, 2013 for the issues.

The following bonds have been issued and are outstanding at December 31, 2013:

Date	Issue	Final Maturity	Interest Rate	Original Amount	Outstanding Amount
Electric Revenue Bonds:					
06/15/1997	1997 Series K Bonds	07/01/2024	5.25% – 5.9%	$ 131,030,000	$ 131,030,000
06/04/2003	2003 Series R Bonds	08/15/2015	3.25% – 5.0%	481,275,000	49,345,000
05/26/2004	2004 Series T Bonds	05/15/2024	5.0% – 5.25%	130,950,000	13,095,000
06/09/2008	2008 Series U Bonds	08/15/2028	3.125% – 5.0%	521,730,000	507,090,000
05/15/2009	2009 Series V Bonds	05/15/2036	6.322%	200,000,000	200,000,000
07/29/2010	2010 Series W Bonds	05/15/2036	6.156%	250,000,000	250,000,000
10/04/2011	2011 Series X Bonds	08/15/2028	3.0% – 5.0%	325,550,000	317,245,000
05/31/2012	2012 Series Y Bonds	08/15/2033	3.0% – 5.0%	196,945,000	195,170,000
05/21/2013	2013 Series A Bonds	08/15/2041	3.75% – 5.0%	132,020,000	132,020,000
05/21/2013	2013 Series B Bonds	08/15/2033	3.0% – 5.0%	118,615,000	118,615,000
08/20/2013	2013 Series C Bonds	08/15/2017	5.0%	57,780,000	57,780,000
JPA Electric Revenue Bonds:					
08/19/2009	2009 CVFA Bonds	07/01/2020	3.5% – 5.25%	$ 48,920,000	33,260,000
08/19/2009	2009 SCA Bonds	07/01/2021	5.0% – 5.25%	57,530,000	44,790,000
01/19/2006	2006 SFA Bonds	07/01/2030	3.75% – 5.25%	300,375,000	242,765,000
04/20/2005	2005 SPA Bonds	07/01/2022	3.75% – 5.5%	122,960,000	78,480,000
05/31/2007	2007B NCGA#1 Bonds	07/01/2027	Index Rate	668,470,000	364,860,000
Subordinated Electric Revenue Bonds:					
08/14/2008	2008 Series J Bonds	08/15/2028	Index Rate	$ 120,000,000	$ 120,000,000
08/14/2008	2008 Series K Bonds	08/15/2028	Index Rate	77,850,000	77,850,000
02/29/2012	2012 Series L Bonds	08/15/2041	Index Rate	75,000,000	75,000,000
02/29/2012	2012 Series M Bonds	08/15/2041	Index Rate	75,000,000	75,000,000

2013 Bond Refundings and Redemptions. In May 2013, SMUD issued $118.6 million of 2013 Series B Electric Revenue Refunding Bonds (2013 Series B bonds). Proceeds from the 2013 Series B bonds and $6.7 million of available funds were used to refund $141.5 million of the outstanding 2003 Series R, and 2004 Series T bonds through a legal defeasance, and accordingly, the liability for the defeased bonds has been removed from Long-Term Debt in the Consolidated Statements of Net Position. The refunding resulted in the recognition of a deferred accounting gain of $2.0 million, which is being amortized over the life of the refunding issue. The 2013 Series B refunding reduced future aggregate debt service payments by $33.8 million and resulted in a total economic gain of $22.5 million, which is the present value of the difference between the old and new debt service payments.

In August 2013, SMUD issued $57.8 million of 2013 Series C Electric Revenue Refunding Bonds (2013 Series C bonds). Proceeds from the 2013 Series C bonds and $4.3 million of available funds were used to refund $65.9 million of the outstanding 2003 Series S bonds through a legal defeasance, and accordingly, the liability for the defeased bonds has been removed from Long-Term Debt in the Consolidated Statements of Net Position. The refunding resulted in the recognition of a deferred accounting loss of $0.3 million, which is being amortized over the life of the refunding issue. The 2013 Series C refunding reduced future aggregate debt service payments by $12.1 million and resulted in a total economic gain of $6.2 million, which is the present value of the difference between the old and new debt service payments.

2012 Bond Refundings and Redemptions. In May 2012, SMUD issued $196.9 million of 2012 Series Y Electric Revenue Refunding Bonds. Proceeds from the 2012 bonds and $10.0 million of available funds were used to refund $219.9 million of the outstanding 2002, 2003, and 2004 revenue bonds through a legal defeasance, and accordingly, the liability for the defeased bonds has been removed from Long-Term Debt in the Consolidated Statements of Net Position. The refunding resulted in the recognition of a deferred accounting loss of $6.9 million, which is being amortized over the life of the refunding issue. The 2012 Series Y refunding reduced future aggregate debt service payments by $36.3 million and resulted in a total economic gain of $21.5 million, which is the net present value of the difference between the old and new debt service payments.

Interest Rate Swap Agreements. A summary of SMUD's three interest rate swap agreements are as follows. The credit ratings listed are from S&P:

Initial Notional Amount (thousands)	SMUD Pays	Fixed Rate	Floating Rate	Termination Date	Counterparty Credit Rating
$ 131,030	Variable	5.154%	SIFMA	07/01/24	A-
269,095	Fixed	4.345%	70% of LIBOR	08/15/18	AA+
111,900	Fixed	2.894%	63% of LIBOR	08/15/28	A-

SMUD has a fixed-to-variable interest rate swap agreement with an initial notional amount of $131.0 million, which is equivalent to the principal amount of SMUD's 1997 Series K Electric Revenue Bonds. Under this swap agreement, SMUD pays a variable rate equivalent to the SIFMA Index (0.06 percent at December 31, 2013) and receives fixed rate payments of 5.154 percent. In connection with the swap agreement, SMUD has a put option agreement, also with an initial notional amount of $131.0 million, which gives the counterparty the right to sell to SMUD, at par, either the 1997 Series K Bonds, or a portfolio of securities sufficient to defease the 1997 Series K Bonds. The exercise of the option terminates the swap at no cost to SMUD. The term of both the swap and the put is equal to the maturity of the 1997 Series K Bonds.

Additionally, SMUD has two variable-to-fixed interest rate swap agreements with a combined initial notional amount of $381.0 million originally entered into for the purpose of fixing the effective interest rate associated with certain of its subordinated bonds that were refunded during 2008. The notional values of the two swaps are amortized over the life of the respective swap agreements. SMUD can terminate all swap agreements at any time, with payment or receipt of the fair market value of the swaps as of the date of termination. The obligations of SMUD under the swap agreements are not secured by a pledge of revenues of SMUD's electric system or any other property of SMUD.

Component Unit Interest Rate Swap Agreements. NCGA has three interest rate swap agreements, which are summarized as follows. The credit ratings listed are from S&P:

Initial Notional Amount (thousands)	NCGA Pays	Fixed Rate	Floating Rate	Termination Date	Credit Support Provider Credit Rating
$ 100,385	Fixed	4.062%	67% of LIBOR +.60%	07/01/17	A-
65,865	Fixed	4.144%	67% of LIBOR +.63%	07/01/19	A-
198,610	Fixed	4.304%	67% of LIBOR +.72%	07/01/27	A-

At December 31, 2013 NCGA has three variable-to-fixed interest rate swap agreements with a counterparty for the purpose of fixing the effective interest rate associated with the 2007 Series B Bonds. NCGA pays the counterparty a fixed rate on the notional amount and receives a floating rate equal to 67 percent of the three month LIBOR (0.25 percent at December 31, 2013) plus an interest rate spread, as specified in each swap agreement. The total notional amount of the three swaps at December 31, 2012 was $364.9 million and was equivalent to the outstanding principal balance on the NCGA Bonds. The swaps are amortized over the life of their respective swap agreements in a manner corresponding to the principal repayment schedule of the NCGA Bonds. Early termination of the swaps would occur upon termination of the prepaid agreement for any reason. Upon early termination, the swaps would have no value to either party.

Subordinated Electric Revenue Bonds. Payment of and interest on the Subordinated Electric Revenue Bonds is subordinate to the payment of the principal and interest on SMUD's Electric Revenue Bonds.

Variable Rate Bonds. SMUD's Variable Rate Bonds bear interest at weekly rates, ranging from 0.03 percent to 0.04 percent at December 31, 2013. SMUD can elect to change the interest rate period or fix the interest rate, with certain limitations. SMUD's Variable Rate Bonds can be put to SMUD's Trustee by the bondholders; however, SMUD has in place a reimbursement agreement with Bank of America to enable SMUD to pay off the bonds over five years if the bonds are put. Accordingly, SMUD has recorded such bonds as Long-Term Debt, less amounts scheduled for redemption within one year.

Component Unit Bonds. The component units of SMUD have each issued bonds to finance their respective projects. The revenue stream to pay the SPA, NCGA and SFA bonds' debt service is provided by a take and pay purchase agreement. Principal and interest associated with these bonds are paid solely from the component units' revenues and receipts collected in connection with the operation of the projects. Most operating revenues earned by the component units are collected from SMUD in connection with the sale of gas or electricity to SMUD. The ability to service debt for SPA and SFA is dependent upon the successful availability of operations, and for NCGA is dependent on various parties (particularly MSCG, as gas supplier) meeting their contractual obligations. The ability of SCA and CVFA to service their debt is not dependent upon the successful operation of the project, as SMUD is required, under a "take or pay" contract to make payments sufficient to pay principal and interest and all other payments required to be made under CVFA and SCA's indenture of trust, regardless of the continued successful operation of the Project.

Callable Bonds. SMUD has $797.9 million of Electric System Revenue Bonds that are currently callable, $450.0 million of which are fixed rate Build America Bonds debt and $347.9 million of subordinate Variable Rate Demand Notes (VRDN's). SMUD also has $1,078.5 million of bonds that become callable from 2014 through 2024, and these bonds can be called until maturity.

Collateral. The principal and interest on SMUD's bonds are payable exclusively from, and are collateralized by a pledge of, the net revenues of SMUD's electric system. Neither the credit nor the taxing power of SMUD is pledged to the payment of the bonds and the general fund of SMUD is not liable for the payment thereof.

Covenants. SMUD's bond resolutions contain various covenants that include requirements to maintain minimum debt service coverage ratios, certain other financial ratios, stipulated minimum funding of revenue bond reserves, and various other requirements including a rate covenant to raise rates to maintain minimum debt service coverage.

SMUD has pledged future net electric revenues, component unit net project revenues, and net gas supply prepayment revenues to repay, in electric revenue, component unit project revenue, and gas supply prepayment revenue bonds issued from 1993 through 2013. Proceeds from the bonds provided financing for various capital improvement projects, component unit capital projects, and the prepayment of a twenty-year supply of natural gas. The bonds are payable solely from the net revenues generated by SMUD's electrical sales, component unit project revenues, and gas supply prepayment revenues and are payable through 2041 at December 31, 2013.

GASB Statement No. 48, "***Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues***," disclosures for pledged revenues are as follows:

	December 31, 2013	2012
	(thousands of dollars)	
Pledged future revenues	$3,083,395	$ 3,101,550
Principal and interest payments for the year ended	$ 253,612	$ 240,224
Total net revenues for the year ended	$ 893,158	$ 951,132
Total remaining principal and interest to be paid	$4,687,275	$ 4,694,432
Annual principal and interest payments as a percent of net revenues For the year ended	28%	25%

NOTE 11. COMMERCIAL PAPER NOTES

SMUD issues Commercial Paper Notes (Notes) to finance or reimburse capital expenditures. At December 31, 2013 and 2012 Notes outstanding totaled $200.0 million. The effective interest rate for the Notes outstanding at December 31, 2013 was 0.1 percent and the average term was 90 days. SMUD has a $204.9 million letter of credit agreement, and there have not been any term advances under it.

The summarized activity of SMUD's Notes during 2013 and 2012 is presented below:

	Balance at beginning of Year	Additions	Reductions	Balance at end of Year
		(thousands of dollars)		
December 31, 2013	$ 200,000	$ -0-	$ -0-	$ 200,000
December 31, 2012	$ 200,000	$ -0-	$ -0-	$ 200,000

NOTE 12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate the value:

Investments. The fair values of investments, including cash equivalents, are based upon quoted market prices.

Long-Term Debt. The fair value of Long-Term Debt, which includes the short-term portion, was calculated for all fixed rate debt by determining the present value of each individual maturity's cash flow using a discount rate from a representative yield curve. All yield curves were obtained from Bloomberg, L.P. or calculated using linear interpolation from data obtained from the Bloomberg yield curves. With the exception of SMUD's Build America Bonds (BABS) both insured and uninsured SMUD debt was valued using the yield curve for "A" rated municipal power bonds. SMUD's rating is higher than the bond insurers and therefore the yield curve for insured municipal bonds was not used for insured SMUD debt. SMUD's BABS bonds are "A+" rated and therefore use the "A" rated BABS yield curve, the closest, conservative yield curve available. Both SCA and CVFA bonds are rated at the same level as SMUD and were valued at the yield curve for "A" rated municipal power bonds. SFA and SPA are both "BBB" rated and therefore use the "BBB" rated Muni Revenue yield curve, the closest, conservative yield curve available. The SMUD 2008 Series J and K, the SMUD 2012 Series L and M, and the NCGA 2007B bonds are included in the fair value total at par as they are variable rate obligations.

Interest Rate Swap and Put Agreements. The fair values of interest rate swap and put agreements are based on values provided by counterparties.

Gas and Electricity Related Derivatives. The fair values of gas and electricity price swap agreements and electricity option agreements are based on forward prices from established indexes for the applicable regions. The fair values of gas and electricity purchase agreements are based on forward prices from established indexes from applicable regions and discounted using established interest rate indexes.

Asset Retirement Obligation. SMUD values its ARO for Rancho Seco based on significant unobservable inputs (Level 3). During 2013, the ARO was updated to reflect new information and revise the estimated costs. The information used to develop the inputs was a combination of actual historical costs and published data with contingencies to account for uncertainties in future costs. There was no change in the methodology used from the prior estimate.

The estimated fair values of SMUD's financial instruments are presented below. Of the items listed below, all are required to be recorded at fair market value except for the long-term debt. Market values may have changed significantly since December 31, 2013.

	December 31, 2013	
	Recorded Value	Fair Value
	(thousands of dollars)	
Investments, including cash and cash equivalents	$ 903,997	$ 903,997
Long-term debt	(3,083,395)	(3,434,819)
Interest rate swap and put agreements – net	6,524	6,524
Gas and electricity related derivatives – net	(97,623)	(97,623)
Asset Retirement Obligation	(169,124)	(169,124)

	December 31, 2012	
	Recorded Value	Fair Value
	(thousands of dollars)	
Investments, including cash and cash equivalents	$ 751,801	$ 751,801
Long-term debt	(3,101,550)	(3,571,833)
Interest rate swap and put agreements – net	2,510	2,510
Gas and electricity related derivatives – net	(174,202)	(174,202)
Asset Retirement Obligation	(169,980)	(169,980)

NOTE 13. RANCHO SECO DECOMMISSIONING LIABILITY

Background. The Rancho Seco decommissioning liability relates to the nuclear decommissioning of the former 913 MW nuclear power plant, which terminated commercial operations in 1989 and the separately licensed Independent Spent Fuel Storage Facility (ISFSI). Nuclear decommissioning is the process of safely removing nuclear facilities from service and reducing residual radioactivity to a level that permits termination of the Nuclear Regulatory Commission (NRC) license, and release of the property for unrestricted use. The NRC has approved SMUD's decommissioning plan for the nuclear power plant, which delineates a phased process, and the first phase of physical work was completed in 2008. Decommissioning of the ISFSI will occur after the Department of Energy (DOE) removes the spent nuclear fuel and high level waste from the site.

In 2009, the NRC released all of the land under the Part 50 license for unrestricted use with the exception of the 1 acre fenced area around the Interim Onsite Storage Building that houses the stored class B and C wastes. This waste is scheduled for disposal by the end of 2014. The facility operating license will be terminated after the waste is removed and the decommissioning process is completed for the storage facility.

The DOE, under the Nuclear Waste Policy Act of 1982, is responsible for permanent disposal of spent nuclear fuel and high-level radioactive waste which are currently in storage at the ISFSI. SMUD has a contract with the DOE for the removal and disposal of spent nuclear fuel and high-level (greater than class "C": GTCC) radioactive waste. All of SMUD's spent fuel and GTCC waste are currently stored in sealed canisters in the ISFSI. However, the date when fuel and GTCC waste removal will be complete is uncertain. In 2010, the DOE formally withdrew the application for licensing of Yucca Mountain as a high-level waste repository, essentially removing Yucca Mountain as an option for disposal of SMUD's used nuclear fuel. The DOE also announced in January 2010 the creation of a Blue Ribbon Commission to study alternatives for developing a repository for the nation's used nuclear fuel. The Commission provided a final report on alternatives in January 2012. The DOE evaluated the recommendations and published the report "Strategy for the Management and Disposal of Used Nuclear Fuel and High-Level Radioactive Waste" in January 2013. The next phase of the process will be for Congress and the President of the United States to consider the recommendations and enact legislation to implement the recommendations. At this time, there is no credible information available to determine when the DOE would remove the used nuclear fuel from the Rancho Seco facility. The ISFSI will remain under the regulation of the NRC until the nuclear fuel and GTCC radioactive waste are removed and the site is decommissioned.

Asset Retirement Obligations. These financial statements reflect SMUD's current estimate of its obligation for the cost of decommissioning (including the cost of managing the Storage Facility until it can be decommissioned) under the requirements of FASB ASC 410, based on studies completed each year. Each year, SMUD evaluates the estimate of costs of decommissioning and there was a decrease in costs in the 2013 study. The ARO estimate assumes all spent nuclear fuel will be removed from the site by 2028.

Rancho Seco's ARO is presented below:

	December 31, 2013	December 31, 2012
	(thousands of dollars)	
Active decommissioning	$ 33,872	$ 35,250
Spent fuel management	135,252	134,730
Total ARO	$ 169,124	$ 169,980
Less: current portion	(19,759)	(6,300)
Total Non-current portion of ARO	$ 149,365	$ 163,680

The summarized activity of the Rancho Seco ARO during 2013 and 2012 are presented below. The annual adjustments include a savings computed as the difference between the fair value of the obligation as if the decommissioning activities were performed by a third party and the amount actually incurred by SMUD performing the decommissioning activities.

	December 31, 2013	December 31, 2012
	(thousands of dollars)	
ARO at beginning of year	$ 169,980	$ 168,633
Accretion	8,331	8,253
Expenditures	(5,160)	(3,553)
Change in Study	(1,967)	22
Annual adjustments	(2,060)	(3,375)
ARO at end of year	$ 169,124	$ 169,980

NOTE 14. PENSION PLANS

Defined Benefit Pension Plan. SMUD participates in the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State. Benefit provisions and all other requirements are established by State statute and SMUD policies. The pension plan provides retirement benefits, survivor benefits, and death and disability benefits based upon employees years of credited service, age, and final compensation. Copies of PERS' annual financial report may be obtained from their Executive Office at 400 Q Street, Sacramento, California 95814.

Funding Policy. Participants are required to contribute approximately seven percent of their annual covered salary. SMUD makes partial contributions required of SMUD employees on their behalf and for their account. SMUD is currently required to contribute 11 percent of payroll to the plan. The contribution requirements of plan members and SMUD are established by PERS. On January 1, 2013, the public Employee's Pension Reform Act of 2013 (PEPRA) took effect, requiring a public employer's contribution to a defined benefit plan, in combination with employee contributions to that defined benefit plan, shall not be less than the normal cost rate.

Annual Pension Cost. PERS payments made by SMUD in 2013 were $34.1 million. The Annual Pension Cost for 2013 was $31.1 million, and $0.6 million was paid by employees for purchase of additional service credits and $2.4 million was paid by employees for their contribution to PERS. Overall, SMUD paid $31.1 million, and employees paid $3.0 million. PERS payments made by SMUD in 2012 were $33.5 million. The Annual Pension Cost for 2012 was $32.0 million, and $0.5 million was paid by employees for purchase of additional service credits and $1.0 million was paid by employees for their contribution to PERS. Overall, SMUD paid $32.0 million, and employees paid $1.5 million. Contributions are determined by actuarial valuations, which are performed based on the entry age normal actuarial cost method. The contribution for the first half of 2013 was determined by PERS as part of the annual actuarial valuation as of June 30, 2011; the contribution for the second half of 2013 was determined by PERS as part of the annual actuarial valuation as of June 30, 2012. The actuarial assumptions included: (a) a 7.5 percent investment rate of return (net of administrative expenses) for 2013 and 2012, (b) projected annual salary increases that vary by duration of service, and (c) a 3.0 percent per year payroll growth. Both (a) and (b) also included an inflation component of 2.75 percent. The actuarial value of PERS' assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over different periods. All changes in liability due to plan amendments, and changes in actuarial assumptions or methodology are amortized separately over a 20-year period. All gains or losses are amortized over a rolling 30-year period, with the exception of special gains and losses for the 2009, 2010, and 2011 annual valuations. These fiscal years gains and losses will be amortized over fixed and declining 30-year periods. If a plan's accrued liability exceeds the actuarial value of assets, the annual contribution with respect to the total unfunded liability may not be less than the amount produced by a 30-year amortization of the unfunded liability.

Three-year trend information for PERS is presented below:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contribution
	(thousands of dollars)	
06/30/13	$ 31,215	100%
06/30/12	$ 32,064	100%
06/30/11	$ 30,217	100%

Funded Status and Funding Progress. As of June 30, 2012, the most recent actuarial valuation date, the plan was 92.2 percent funded. The actuarial accrued liability for benefits was $1,693.6 million, and the actuarial value of assets was $1,561.6 million, resulting in an unfunded actuarial accrued liability (UAAL) of $132.0 million. The covered payroll (annual payroll of active employees covered by the plan) was $177.8 million, and the ratio of the UAAL to the covered payroll was 74.2 percent. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Other Plans. SMUD provides its employees with two cash deferred compensation plans: one pursuant to Internal Revenue Code (IRC) Section 401(k) [401(k) Plan] and one pursuant to IRC Section 457 (457 Plan) (collectively, the Plans). The Plans are contributory plans in which SMUD's employees contribute the funds. Each of SMUD's eligible full-time or permanent part-time employees may participate in either or both Plans, and amounts contributed are vested immediately. Such funds are held by a Trustee in trust for the employees upon retirement from SMUD service and, accordingly, are not subject to the general claims of SMUD's creditors. SMUD is responsible for ensuring compliance with IRC requirements concerning the Plans and has the duty of reasonable care in the selection of investment alternatives, but neither SMUD, nor its Board or officers have any liability for market variations in the Plans' asset values. SMUD employees are responsible for determining how their funds are to be invested and pay all ongoing fees related to the Plans. The Plans are currently not subject to discrimination testing, nor the requirements of the Employee Retirement Income Security Act of 1974. SMUD employees participating in the Plans are allowed to contribute a portion of their gross income not to exceed the annual dollar limits prescribed by the IRC.

SMUD makes annual contributions to the 401(k) Plan on behalf of certain employees pursuant to a memorandum of understanding with both of its collective bargaining units. SMUD does not match employee contributions, nor make contributions on behalf of its employees to the 457 Plan. Participating employees made contributions into the Plans totaling $16.2 million in 2013 and $16.0 million in 2012. SMUD made contributions into the Plans of $1.6 million in 2013 and $1.1 million 2012.

NOTE 15. OTHER POSTEMPLOYMENT BENEFITS

SMUD provides postemployment healthcare benefits, in accordance with SMUD policy and negotiated agreements with employee representation groups in a single employer defined benefit plan, to all employees who retire from SMUD, and their dependents. SMUD also provides postemployment healthcare benefits to covered employees who are eligible for disability retirement. SMUD contributes the full cost of coverage for retirees hired before January 1, 1991, and a portion of the cost based on credited years of service for retirees hired after January 1, 1991. SMUD also contributes a portion of the costs of coverage for these retirees' dependents. Retirees are required to contribute the portion that is not paid by SMUD. The benefits, benefit levels, retiree contributions and employer contributions are governed by SMUD and can be amended by SMUD through its personnel manual and union contracts. At June 30, 2013, 5,068 postemployment participants, including retirees, spouses of retirees, surviving spouses, and eligible dependents, were eligible to participate in SMUD's healthcare benefits program.

OPEB arises from an exchange of salaries and benefits for employee services rendered, and refers to postemployment benefits other than pension benefits such as post employment healthcare benefits. SMUD considers the following benefits to be OPEB: Medical, Dental and Long-Term Disability.

Plan Description. SMUD is a member of the California Employers Retiree Benefit Trust (CERBT) for prefunding of OPEB obligations. The CERBT Fund is an IRC Section 115 Trust set up for the purpose of receiving employer contributions to prefund health and other postemployment benefits for retirees and their beneficiaries. The plan is an agent multiple employer plan administered by PERS, which provides medical, dental and long-term disability benefits for retirees and their beneficiaries. Any changes to these benefits would be approved by SMUD's Board and union contracts. To obtain a CERBT report, please contact PERS at 888-CALPERS.

The funding of a plan occurs when the following events take place: the employer makes payments of benefits directly to or on behalf of a retiree or beneficiary; the employer makes premium payments to an insurer; or the employer irrevocably transfers assets to a trust or other third party acting in the role of trustee, where the plan assets are dedicated to the sole purpose of the payments of the plan benefits, and creditors of the government do not have access to those assets.

Funding Policy. SMUD has elected to net fund to PERS, so the contributions are the Annual Required Contribution (ARC) less the estimated cash flow for retiree benefit costs for each year. SMUD can elect to put in additional contributions into the trust, and in 2012 funded an additional $35.0 million to the CERBT, which consisted of $4.8 million related to the restated ARC, and $30.2 million in additional contributions. In 2013 and 2012, the net ARC contribution to the CERBT was $8.6 and $4.0 million, respectively. During 2013 and 2012, SMUD made the following healthcare benefit contributions by paying actual medical costs of $22.2 million and $20.9 million, respectively.

Funding Status and Funding Progress. At June 30, 2013 and 2012, SMUD estimates that the actuarially determined accumulated postemployment benefit obligation was approximately $492.7 and $424.7 million, respectively. At June 30, 2013 and 2012, the plan was 21.0 and 12.4 percent funded, respectively. The covered payroll (annual payroll of active employees covered by the plan) at June 30, 2013 and 2012, was $179.7 and $174.6 million, respectively. The ratio of the UAAL to covered payroll was 216.7 percent at June 30, 2013.

Annual OPEB Cost. The annual OPEB cost (expense) is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of SGAS No. 45, "***Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.***" The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. For 2013, SMUD's annual OPEB Cost (expense) was $29.1 million.

The following table shows the components of SMUD's annual OPEB cost for the year, the amount actually paid in premiums, and changes in the net OPEB obligation:

	Year Ended December 31, 2013	2012
	(thousands of dollars)	
Annual required contribution	$ 29,665	$ 26,123
Interest on net OPEB obligation	(2,671)	-0-
Annual required contribution adjustment	2,153	-0-
Annual OPEB cost	29,147	26,123
Contributions made	(30,788)	(59,911)
Increase/(Decrease) in net OPEB obligation	(1,641)	(33,788)
Net OPEB (asset), beginning of year	(35,101)	(1,313)
Net OPEB (asset), end of year	$ (36,742)	$ (35,101)

SMUD's Net OPEB Obligation (asset) is recorded for 2013 as a component of Prepayments and other on the Consolidated Statements of Net Position.

SMUD's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years is as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB (Asset)
	(thousands of dollars)		
December 31, 2013	$ 29,147	106%	(36,742)
December 31, 2012	$ 26,123	229%	(35,101)
December 31, 2011 **restated*	$ 25,423	96%	(1,313)

**All amounts in 2011, except for contributions made, have been restated to match the revised Actuary report*

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The entry age normal was used in the June 30, 2013 and 2012 actuarial valuation. Actuarial assumptions used a 7.36 percent investment rate of return (net of administrative expenses), and a 3.0 percent inflation assumption. For 2013, the actuarial assumptions for an annual healthcare cost trend growth rate ranged from 6.01 to 27.69 percent for the current year, 8.0 to 8.5 percent for 2014, and 7.5 to 8.0 percent for 2015. The UAAL will be amortized as a percentage of payroll over an open 30-year period. At June 30, 2013 and 2012 the actuarial value of the assets was $103.3 and $52.7 million, respectively.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 16. INSURANCE PROGRAMS AND CLAIMS

SMUD is exposed to various risks of loss related to torts, theft of and destruction to assets, errors and omissions, and natural disasters. In addition, SMUD is exposed to risks of loss due to injuries to, and illnesses of, its employees. SMUD carries commercial insurance coverage to cover most claims in excess of specific dollar thresholds, which range from $5 thousand to $2.5 million per claim with total excess liability insurance coverage for most claims of $120.0 million. SMUD's property insurance coverage is based on the replacement value of the asset. There have been no significant reductions in insurance coverage, and in some cases, certain coverages increased. In 2013, 2012 and 2011, the insurance policies in effect have adequately covered all settlements of the claims against SMUD. No claims have exceeded the limits of property or liability insurance in any of the past three years.

The claims liability is included as a component of Self Insurance, Unearned Revenue and Other in the Consolidated Statements of Net Position.

SMUD's total claims liability, comprising claims received and claims incurred but not reported, at December 31, 2013, 2012 and 2011 is presented below:

	2013	2012	2011
		(thousands of dollars)	
Workers' compensation claims	$ 11,291	$ 9,352	$ 9,454
General and auto claims	669	573	626
Short- and long-term disability claims	391	168	185
Claims liability	$ 12,351	$ 10,093	$ 10,265

Changes in SMUD's total claims liability during 2013, 2012, and 2011 is presented below:

	2013	2012	2011
		(thousands of dollars)	
Claims liability, beginning of year	$ 10,093	$ 10,265	$ 12,685
Add: provision for claims, current year	4,105	1,941	1,943
Increase in provision for claims in prior years	3,433	4,205	1,804
Less: payments on claims attributable to current & prior years	(5,280)	(6,318)	(6,167)
Claims liability, end of year	$ 12,351	$ 10,093	$ 10,265

NOTE 17. COMMITMENTS

Electric Power and Gas Supply Purchase Agreements. SMUD has numerous power purchase agreements with other power producers to purchase capacity, transmission, and associated energy to supply a portion of its load requirements. SMUD has minimum take-or-pay commitments for energy on some contracts. Certain contracts allow SMUD to exchange energy received primarily in the summer months, when SMUD most needs the energy and to return energy during the winter months, or other subsequent periods. SMUD has numerous long-term natural gas supply, gas transportation and gas storage agreements with Canadian and U.S. companies to supply a portion of the consumption needs of SMUD's natural gas-fired power plants, which expire through 2040.

At December 31, 2013, the approximate minimum obligations for the take or pay contracts over the next five years are as follows:

	Electric	Gas
	(thousands of dollars)	
2014	$ 47,912	$ 16,533
2015	36,006	16,727
2016	30,774	16,993
2017	31,266	17,287
2018	31,266	17,933

At December 31, 2013, the approximate minimum obligations for the remaining contracts, assuming the energy or gas is delivered over the next five years, are as follows:

	Electric	Gas
	(thousands of dollars)	
2014	$ 146,677	$ 147,272
2015	116,745	121,136
2016	108,908	100,688
2017	109,906	116,241
2018	101,747	99,462

Contractual Commitments beyond 2018 – Electricity. Several of SMUD's purchase power and transmission contracts extend beyond the five-year summary presented above. These contracts expire between 2019 and 2033 and provide for power under various terms and conditions. SMUD estimates its annual minimum commitments under the take or pay contracts range between $31.3 million in 2019 and $5.3 million in 2033. SMUD estimates its annual minimum commitments under the remaining contracts, assuming the energy is delivered, range between $85.5 million in 2019 and $10.4 million in 2032. SMUD's largest purchase power source is the Western Base Resource contract, whereby SMUD receives 31.25 percent of the amount of energy made available by Western, after meeting Central Valley Project use requirements, in any given year at a 31.25 percent share of their revenue requirement. On January 1, 2015, SMUD's percentage share changes to approximately 25 percent. The Western contract expires on December 31, 2024.

Contractual Commitments beyond 2018 – Gas. Several of SMUD's natural gas supply, gas transportation and gas storage contracts extend beyond the five-year summary presented above. These contracts expire between 2019 and 2040 and provide for transportation and storage under various terms and conditions. SMUD estimates its annual minimum commitments under the take or pay contracts range between $17.9 million in 2019 and $7.2 million in 2040. SMUD estimates its annual minimum commitments under the remaining contracts, assuming the gas is delivered, range between $86.5 million in 2019 and $19.7 million in 2040.

Additional Contracts. SMUD has entered into one additional power contract that has phase two excluded from the table above due to an unknown start date. Phase two of this contract is based on generation that has not been built and is expected online between 2015 and 2016. Because of the uncertainty of the start date, it has been excluded from the table above.

Solano Wind. In December 2011, SMUD entered into an agreement to sell the Solano Wind Phase 3 project (see Note 2). SMUD will buy all output from the plant under the terms of the Power Purchase Agreement. The plant began commercial operation in April 2012 and SMUD receives all output generated. Under the terms of the various agreements, SMUD has the option to buy the plant back at certain discrete future dates.

Gas Price Swap Agreements. SMUD has entered into numerous variable to fixed rate swaps with notional amounts totaling 158,180,000 Dth for the purpose of fixing the rate on SMUD's natural gas purchases for its gas-fueled power plants and gas indexed electric contracts. These gas price swap agreements result in SMUD paying fixed rates ranging from $3.83 to $7.17 per Dth. The swap agreements expire periodically from January 2014 through December 2022.

Gas Transport Capacity Agreements. SMUD has numerous long-term natural gas transport capacity agreements with Canadian and U.S. companies to transport natural gas to SMUD's natural gas-fired power plants from the supply basins in Alberta to the California-Oregon border and from supply basins in the southwest and Rocky Mountains to the Southern California border. These gas transport capacity agreements provide for the delivery of gas into SMUD-owned pipeline capacity within California. The gas transport capacity agreements provide SMUD with 56,000 Dth per day (Dth/d) of natural gas pipeline capacity from the North, including the Canadian Basins through 2023 and 54,000 Dth/d from the Southwest or Rocky Mountain Basins through at least 2018.

Gas Storage Agreements. SMUD also has an agreement for the storage of up to 2.0 million Dth of natural gas at regional facilities through March 2014, dropping to 1.0 million Dth through March 2015.

NOTE 18. CLAIMS AND CONTINGENCIES

FERC Administrative Proceedings. SMUD is involved in a number of FERC administrative proceedings related to the deregulation of the California electric utility industry. While these proceedings are complex and numerous, they generally fall into three categories: (i) filings initiated by the California Independent System Operator (CAISO) (or other market participants) to adopt/modify the CAISO Tariff and/or establish market design and behavior rules; (ii) filings initiated by existing transmission owners (i.e. PG&E and the other Investor Owned Utilities (IOUs)) to pass-through CAISO related costs to their existing wholesale transmission customers; and (iii) filings initiated by FERC on market participants to establish market design and behavior rules or to complain about or investigate market behavior by certain market participants.

Construction Matters. SMUD contracts with various firms to design and construct facilities for SMUD. Currently, SMUD is party to various claims, legal actions and complaints relating to such construction projects. SMUD's management believes that the ultimate resolution of these matters will not have a material adverse effect on SMUD's financial position, liquidity or results of operations.

Environmental Matters. SMUD was one of many potentially responsible parties that had been named in a number of actions relating to environmental claims and/or complaints. SMUD has resolved these environmental claims and/or complaints and entered into settlement agreements and/or consent orders. These settlement agreements and consent orders have statutory reopener provisions which allow regulatory agencies to seek additional funds for environmental remediation under certain limited circumstances. While SMUD believes it is unlikely that any of the prior settlement agreements or consent orders will be reopened, the possibility exists. If any of the settlement agreements or consent orders is reopened, SMUD management does not believe that the outcome will have a material adverse impact on SMUD's financial position, liquidity or results of operations.

North City Remediation. In 1950, SMUD purchased property (North City Site) from the City of Sacramento and the Western Railroad Company. Portions of the North City Site prior to the sale had been operated as a municipal landfill by the City of Sacramento. SMUD currently operates a bulk substation on the North City Site. SMUD intends to assure compliance with State standards at closed landfill sites and is in the process of determining the appropriate remediation for the North City Site. In 2009, SMUD established a regulatory asset to defer recognition of the expense related to the investigation, design and remediation necessary for the North City Site, and recorded a liability for the full $12.0 million estimated for the project. At December 31, 2012, the regulatory asset was fully amortized (See Note 8). As the owner of the North City Site, SMUD will have a role in the remediation selection and activities, as may those who operated or used the North City Site for landfill purposes. SMUD has estimated its exposure to such costs based on its proportionate share of the remedy. However, should others become unable to participate due to insolvency or otherwise unable to pay their share of the costs, SMUD's share of remediation costs would increase. SMUD's management does not believe this will occur. Even if SMUD were to ultimately be responsible for all remediation costs associated with the North City Site, SMUD management believes that the outcome of these remediation costs will not have a material adverse impact on SMUD's financial position, liquidity or results of operations.

Former Community Linen Rental Services (Community) Property. In 1981, SMUD purchased property from Community located at 1824 and 1826 61st Street (Site). That same year, Community sold its linen business and equipment to Mission Laundry (Mission). SMUD continued to lease portions of the property to Mission until 1985. SMUD settled with these businesses and waived a potential future legal claim for cleanup funding. The property to the north of the Site was owned by Kramer Carton Company (Kramer) and used for 60 years as a carton manufacturing facility. In 2009, Kramer filed for bankruptcy protection from its creditors. The Kramer property was encumbered by a first and second deed of trust, where the second deed of trust was held by Willamette Capital Management, Ltd. (Willamette). Willamette purchased the note on the first deed of trust. In 2011, Willamette foreclosed on the Kramer property and now holds title to the Kramer property. Based on environmental investigations, it has been determined that there is contamination at the Kramer property, at the Site, and at areas south of the Kramer property. The contamination appears to emanate primarily from the Site, with some contribution from the Kramer property. Preliminary environmental investigations of the Kramer property, the Site and areas south of the Kramer property indicate that total remediation costs may exceed $3.0 million. SMUD does not believe that it is the source of the contamination. Nonetheless, since Kramer is bankrupt and Willamette contends it is exempt from liability under a secured creditor exemption, it is unclear whether it would be beneficial for SMUD to take legal action for contribution. SMUD has estimated its exposure to such costs based on its proportionate share of the remedy. However, should others become unable to participate due to insolvency or otherwise refuse to pay their entire share of the costs, SMUD's share of remediation costs would increase; alternatively, SMUD could potentially acquire the Kramer property at a nominal or greatly reduced cost, giving SMUD an asset with value that will materialize after the cleanup. Even if SMUD were to ultimately be responsible for all remediation costs associated with the Site, SMUD's management believes that the remediation of the Site will not have a material adverse impact on SMUD's financial position, liquidity or results of operations.

East Campus – Operations Center Dispute (Turner Construction Company). In December 2010, SMUD entered into the East Campus – Operations Center Design-Build Agreement (Agreement) for $112.0 million with Turner Construction Company (Turner) to construct the East Campus – Operations Center (EC-OC) design-build project (Project). In April 2013, SMUD provided Turner with notice of substantial completion of the Project. Section 18.4(a) of the Agreement requires SMUD to purchase a project errors and omissions policy (Project E&O Policy) for the Project. Turner has alleged that SMUD has breached the Agreement because the Project E&O Policy purchased by SMUD does not comply with Section 18.4(a) of the Agreement for two reasons: (1) the Project E&O Policy does not cover "all claims" for design defects, because the Project E&O Policy's insured vs. insured exclusion prohibits Turner from recovering under the policy for design defects on the part of other insureds, and (2) SMUD purchased extended (tail) coverage for only five, rather than the required ten years. Turner asserts claims arising from the breach of the Agreement total $3.5 million. Thus far, Turner and SMUD are in discussion regarding potential resolution; though neither party has triggered the dispute resolution process within the Agreement. SMUD's management believes the claims are without merit. In any event, SMUD's management believes that the outcome of this matter will not have a material adverse impact on SMUD's financial position, liquidity or results of operations.

Other Matters. Currently, SMUD is party to various claims, legal actions and complaints relating to its operations, including but not limited to: property damage and personal injury, contract disputes, torts, and employment matters. SMUD's management believes that the ultimate resolution of these matters will not have a material adverse effect on SMUD's financial position, liquidity or results of operations.

Schedules of Funding Progress

PERS Pension. The schedule of funding progress for PERS is presented below for the three most recent years for which SMUD has available data:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
			(thousands of dollars)			
06/30/2012	$ 1,561,647	$ 1,693,613	$ 131,966	92.2%	$ 177,772	74.2%
06/30/2011	$ 1,528,294	$ 1,634,178	$ 105,884	93.5%	$ 182,872	57.9%
06/30/2010	$ 1,469,218	$ 1,577,200	$ 107,982	93.2%	$ 185,018	58.4%

OPEB. The schedule of funding progress for the other post-employment benefit healthcare plan is presented below for the three recent years for which SMUD has available data:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
			(thousands of dollars)			
06/30/2013	$ 103,251	$ 492,651	$ 389,400	21.0%	$ 179,733	216.7%
06/30/2012	$ 52,724	$ 424,738	$ 372,014	12.4%	$ 174,618	213.0%
06/30/2011	$ 47,843	$ 362,469	$ 314,626	13.2%	$ 171,411	183.6%

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