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NORTHERN CALIFORNIA POWER AGENCY

AND

ASSOCIATED POWER CORPORATIONS

Reports on Audit of Combined Financial Statements

For the Years Ended June 30, 2014 and 2013

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

Reports on Audit of Combined Financial Statements

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For the Years Ended June 30, 2014 and 2013

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

The Board of Commissioners
Northern California Power Agency and Associated Power Corporations

Report on the Financial Statements

We have audited the accompanying combined financial statements of Northern California Power Agency and Associated Power Corporations (the Agency), which comprise the combined statement of net position as of June 30, 2014 and 2013, and the related combined statements of revenue, expenses and change in net position, and 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 combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined 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 entity'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.

REPORT OF INDEPENDENT AUDITORS (continued)

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Northern California Power Agency and Associated Power Corporations as of June 30, 2014 and 2013, and the combined results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the combined financial statements. Such information, although not a part of the combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 combined financial statements, and other knowledge we obtained during our audit of the basic 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's combined financial statements. The combining statement of net position, combining statement of revenues, expenses and changes in net position and combining cash flows as of and for the year ended June 30, 2014 (combining financial statements) are presented for purposes of additional analysis and is not a required part of the combined financial statements.

The combining financial statements are the responsibility of management and are derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Moss Adams LLP

Portland, Oregon
October 29, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

The following management's discussion and analysis of the Northern California Power Agency (the Agency) and its financial performance provides an overview of the Agency's financial activities for the years ended June 30, 2014 and 2013. This discussion should be read in conjunction with the Agency's combined financial statements and accompanying notes, which follow this section.

BACKGROUND

The Northern California Power Agency is a joint powers agency formed by member public entities under the laws of the State of California. The Agency is responsible for purchasing, generating, transmitting, and selling electrical energy and for providing other related services to its members as each may require. The Agency provides a portion of certain of its members' power needs and certain of its members also self-provide and/or purchase power and transmission from other public and private sources.

The Agency is governed by a Commission comprised of one representative for each member. The Commission is responsible for the general management of the affairs, property, and business of the Agency. Under the direction of the General Manager, the staff of the Agency is responsible for providing various administrative, operating and planning services for the Agency.

The Agency's project construction and development programs have been individually financed by project revenue bonds that are collateralized by the Agency's assignment of all payments, revenues, and proceeds associated with its interest in each project. Each of the Agency's members may choose which projects it wishes to participate in, and is known as a "project participant" for each such project. Each project participant has agreed to pay its proportionate share of debt service and other costs of the related project; notwithstanding the suspension, interruption, interference, reduction or curtailment of output from the project for any reason (that is, the take-or-pay member agreements). Certain of the revenue bonds are additionally supported by municipal bond insurance credit enhancements.

Power sales by the Agency to its members for their resale include both sales of power to project participants generated by operating plants and power purchased from outside sources. Rates for power sales are designed to recover costs that include budgeted annual operating costs and debt service. Additional amounts for operating reserves or rate stabilization may be included in rates under the terms of bond indentures. The Agency's rates for electric service are not subject to the regulatory jurisdiction of the California Public Utilities Commission (CPUC) or the Federal Energy Regulatory Commission (FERC). Rather, the Agency's rates are established annually in connection with its budget, which is approved by its governing Commission.

Various legal and tax considerations caused the Agency to provide that separate not-for-profit corporations should be delegated by the Agency to own the geothermal electrical generating projects undertaken by the Agency ("the Associated Power Corporations"). The Associated Power Corporations, consisting of Northern California Municipal Power Corporation Nos. Two and Three, have delegated to the Agency the authority to construct, operate, and manage their respective geothermal plants and related assets. The Agency, in return for financing the costs of acquisition and construction, acquires all the capacity and energy generated by the plants.

Because the Agency is a separate, governmental and not-for-profit organization that serves its participating members, who are also the Agency's principal customers, the net results of operations flow through to its participating members as either net revenues or net expenses.

FINANCIAL REPORTING

For accounting purposes, the Agency is a special-purpose governmental entity that is engaged in a business-type activity, principally as a supplier of wholesale electricity and transmission to its member participants. As such, the Agency's financial statements are presented as an enterprise type fund.

The records of the Agency and the Associated Power Corporations are maintained substantially in accordance with the FERC Uniform System of Accounts. Accounting principles generally accepted in the United States of America are applied by the Agency in conformance with pronouncements of the Governmental Accounting Standards Board (GASB). The combined financial statements encompass the Agency and Associated Power Corporations on an accrual accounting basis. All significant intercompany balances and transactions have been eliminated from the combined amounts reported.

In accordance with GASB Statement of Government Accounting Standards No. 62, Codification of Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting (GASB No. 62), the Agency has recorded as regulatory assets and liabilities certain items of expense and revenue that otherwise would have been charged to operations as such items will be recovered in the future years' operations. The Agency expects to recover these items in rates over the term of the related debt obligations it has issued.

COMBINED STATEMENT OF NET POSITION, COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION, AND COMBINED STATEMENTS OF CASH FLOW

The combined statement of net position includes all the Agency's assets and liabilities, using the accrual method of accounting, as well as information about which assets can be used for general purposes and which assets are restricted as a result of bond covenants and other commitments. The combined statement of net position provides information about the nature and amount of resources and obligations at a specific point in time. The combined statements of revenues, expenses, and changes in net position report all the revenues and expenses during the time periods indicated. The combined statements of cash flow report the cash provided and used by operating activities, as well as other cash sources such as investment income and debt financing, and other cash uses, such as payments for debt service and capital additions.

FINANCIAL HIGHLIGHTS

The following is a summary of the Agency's combined financial position and results of operations for the years ended June 30, 2014, 2013, and 2012.

Condensed Statement of Net Position	June 30, (in thousands) 2014	2013	2012
Assets			
Current assets	$ 84,293	$ 78,502	$ 68,042
Restricted assets	215,718	213,807	221,700
Electric plant, net	648,857	676,070	684,399
Other assets	194,919	210,904	212,421
Total Assets	1,143,787	1,179,283	1,186,562
Deferred outflows of resources	69,586	76,773	83,688
	$ 1,213,373	$ 1,256,056	$ 1,270,250
Liabilities and Net Position			
Long-term debt, net	$ 855,672	$ 893,258	$ 927,380
Current liabilities	94,475	92,118	80,481
Non-current liabilities	148,869	139,507	149,505
Total Liabilities	1,099,016	1,124,883	1,157,366
Deferred inflows of resources	82,124	95,768	84,487
Net position:			
Net investment in capital assets	(60,797)	(55,630)	(51,007)
Restricted	66,326	64,737	52,873
Unrestricted	26,704	26,298	26,531
	$ 1,213,373	$ 1,256,056	$ 1,270,250

Condensed Statements of Revenues, Expenses and Changes in Net Position	Years Ended June 30, (in thousands) 2014	2013	2012
Sales for resale	$ 405,185	$ 340,968	$ 277,257
Operating expenses	(340,669)	(286,262)	(241,977)
Net operating revenues	64,516	54,706	35,280
Other expenses	(40,648)	(24,761)	(28,199)
Future recoverable (refundable) costs	(17,207)	(11,737)	6,105
Refunds to participants	(9,833)	(11,200)	(12,788)
Increase (decrease) in net position	(3,172)	7,008	398
Net position, beginning of year	35,405	28,397	27,999
Net position, end of year	$ 32,233	$ 35,405	$ 28,397

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current Assets

2014 Compared to 2013 - Current assets increased $5.8 million or 7.4% from the prior year, primarily due to cash provided by operating and investing activities, increases in inventory and prepaid expenses offset by reductions in both participant and other third party accounts receivable.

2013 Compared to 2012 - Current assets increased $10.5 million or 15.4% from the prior year, primarily due to cash provided by operating activities, offset by a reduction in accounts receivable.

Restricted Assets

2014 Compared to 2013 - Restricted assets increased $1.9 million or 0.9% from the prior year. This is primarily a result of increases in budgeted reserves of $7.2 million offset by $5.3 million in construction expenditures related to the Lodi Energy Center final closeout and Geothermal plant turbine modifications.

2013 Compared to 2012 - Restricted assets decreased $7.9 million or 3.6% from the prior year. This is primarily a result of Lodi Energy Center Project (LEC) construction expenditures of $8.8 million and reduced Agency debt service of $4.1 million, which were offset by an increase in budgeted reserves of $5.0 million.

Electric Plant, net

2014 Compared to 2013 - The Agency has invested approximately $648.9 million in plant assets and construction work in progress, net of accumulated depreciation, at June 30, 2014. Net utility plant makes up approximately 54.5% of the Agency's assets. The $27.2 million or 4.0% decrease from the prior year consists of $30.2 million in depreciation, offset by net capital expenditures of $3.2 million. For additional detail, refer to Note B – Significant Accounting Policies.

2013 Compared to 2012 - The Agency has invested approximately $676.1 million in plant assets and construction work in progress, net of accumulated depreciation, at June 30, 2013. Net utility plant makes up approximately 57.3% of the Agency's assets. The $8.3 million or 1.2% decrease from the prior year consists of $30.7 million in depreciation, net of retirements of $3.7 million, offset by net capital expenditures of $18.7 million.

Other Assets

2014 Compared to 2013 - Other assets decreased $16.0 million or 7.6% compared to 2013. This was primarily a result of the reduction of regulatory assets held for future recovery and the write-off of preliminary survey and investigation costs.

2013 Compared to 2012 - Other assets decreased $1.5 million or 0.7% compared to 2012. This was primarily due to the write-off of preliminary survey and investigation costs, and certain bond cost amortizations.

Deferred Outflows

2014 Compared to 2013 - Total deferred outflows of resources decreased $7.2 million due to the scheduled amortization of excess of cost on refunding of debt.

2013 Compared to 2012 - Total deferred outflows of resources decreased $6.9 million due to the scheduled amortization of excess of cost on refunding of debt.

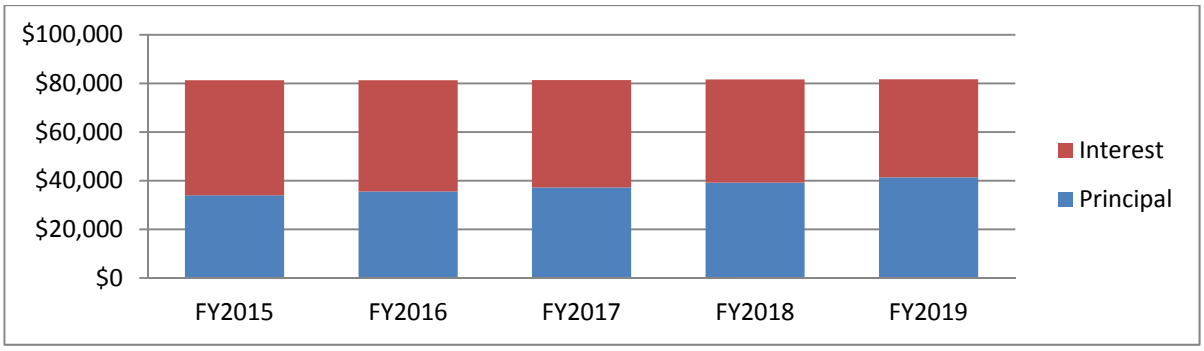
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

Long-Term Debt, net

2014 Compared to 2013 - Long-term debt, net decreased $37.6 million or 4.2% in 2014 as a result of scheduled principal payments of $34.4 million and net premium amortization of $3.5 million offset, by the net change in current portion of long-term debt of $0.4 million. For additional detail, refer to Note D – Projects and Related Financing.

2013 Compared to 2012 - The unamortized excess cost on refunding of debt was reclassified to Deferred Outflows of Resources in the Statement of Net Position for comparative purposes due to the implementation of GASB No. 65. After such reclassification, long-term debt, net decreased $34.1 million or 3.7% in 2013 as a result of scheduled principal payments of $29.4 million, the net change in current portion of long-term debt of $13.7 million and approximately $3.9 million amortization of net premium, offset by the issuance of $12.9 million of Geothermal bonds.

The following table shows the Agency's debt service requirements through FY 2019 as of June 30, 2014.



Current Liabilities

2014 Compared to 2013 - Current liabilities increased by $2.3 million or 2.5% in 2014. This is primarily due to increases in accounts payable of $3.2 million and additional operating reserves of $.9 million, offset by net decreases in member advances, interest payable, and current portion of long-term debt of $1.7 million.

2013 Compared to 2012 - Current liabilities increased by $11.6 million or 14.5% in 2013. This is primarily due to increases in current portion of long-term debt of $13.7 million and additional operating reserves for the LEC of $10.6 million along with reserve increases of $2.5 million, which are offset by decreases in accounts and retentions payable of $14.4 million related primarily to the LEC, and net decreases of approximately $0.8 million in accrued interest and advances.

Non-Current Liabilities

2014 Compared to 2013 - Non-current liabilities increased by a net of $9.4 million or 6.7% in 2014. This was primarily due to increases in operating reserves of $9.1 million and $0.3 million in the interest rate swap liability.

2013 Compared to 2012 - Non-current liabilities decreased by a net of $10.0 million or 6.7% in 2013. This was primarily due to decreases of $7.4 million and $2.6 million in the interest rate swap liability and in operating reserves and other deposits, respectively.

Deferred Inflows

2014 Compared to 2013 - Total deferred inflows of resources decreased $13.6 million due to the recognition of certain revenues related to the depreciation or use of assets originally funded through the rate-making process.

2013 Compared to 2012 - Total deferred inflows of resources increased $11.3 million due to the acquisition of certain assets funded through the rate-making process to be depreciated or expensed in future periods.

CHANGES IN NET POSITION

The Agency is intended to operate on a not-for-profit basis. Therefore, net position primarily represents differences between total revenues collected, using rates based on estimated operating expenses and debt service, and the total actual expenses incurred. In subsequent periods of operation, excess collections (net of encumbrances) may be refunded to participants or appropriated for other uses at the discretion of the Agency's governing Board of Commissioners. In the event the Agency incurs a net expense at year-end, the balance would be subject to recovery in participant rates under the terms of the related participating member agreements. See Notes A, B and D to the Combined Financial Statements.

Sales For Resale

2014 Compared to 2013 - Sales for resale revenues for fiscal year 2014 were approximately $64.2 million or 18.8% higher than in the prior fiscal year. This was the net result of the following: (1) higher sales for resale revenues from Agency participants of $29.4 million or 10.1%, which was caused by increased budget requirements of plant operations, specifically LEC which operated full year in FY 2014 compared to seven months in FY 2013; and, (2) increased other third party revenues of $34.8 million or 69.1%, which was primarily the result of increased energy sales into the ISO market from the LEC project.

2013 Compared to 2012 - Sales for resale revenues for fiscal year 2013 were approximately $63.7 million or 23.0% higher than in the prior fiscal year. This was the net result of the following: (1) higher sales for resale revenues from Agency participants of $41.2 million or 16.5%, which was caused by increased budget requirements of plant operations of $38.1 million primarily due to the LEC, which began operations in November 2012, along with increased transmission requirements of $11.9 million, which were offset by reduced power purchase requirements of $8.9 million due to the additional generation of the LEC project; and, (2) increased other third party revenues of $22.5 million or 81.0%, which was primarily the result of increased energy sales into the ISO market from the LEC project.

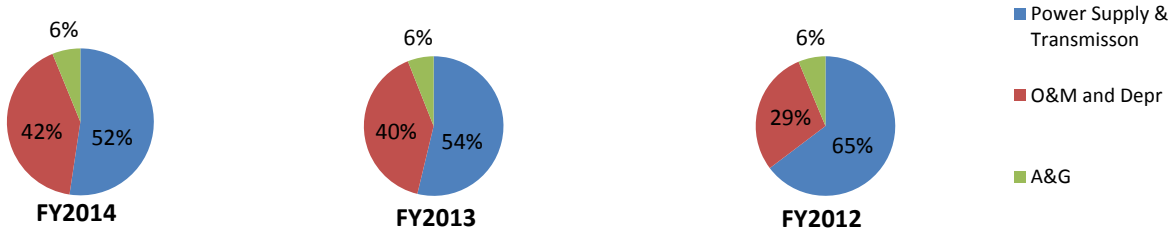
Operating Expenses

2014 Compared to 2013 - Operating expenses were $340.7 million in FY 2014, an increase of $54.4 million from FY 2013. Purchased power expense was $23.8 million higher in 2014 mainly due to higher average prices and larger volume as compared to 2013. Operations expense increased $22.5 million primarily due to increased fuel usage for the LEC. The LEC center operated the entire year compared to only seven months in FY 2013. Maintenance expenses were $4.1 million higher than in FY 2013 due to increased maintenance for the LEC, primarily related to costs of the project's long-term maintenance agreement, and Geothermal maintenance related to turbine generator projects. Additionally, increases in administrative and general and transmission costs of $4.4 million were offset by a decrease of depreciation expense of $0.4 million.

2013 Compared to 2012 - Operating expenses increased by approximately $44.3 million or 18.3% in FY 2013, as compared to 2012. This was the net result of the following: (1) operations expenses increased $26.8 million or 75.6% due to costs of the LEC, which began operation on November 27, 2012; (2) the maintenance cost component increased by $11.5 million or 107.8%, of which $6.7 million was due to the

LEC, including long-term maintenance agreement costs; and, $4.8 million of increased geothermal turbine generator maintenance projects; and (3) net increases in depreciation, administrative and general and transmission, offset by decreased purchased power expenses totaling approximately $6.0 million.

The following charts compare the components of Operating Expenses in fiscal years ending June 30, 2014, 2013, and 2012.



FINANCING ACTIVITIES

During 2014 and 2013 the Agency continued to implement strategies to further improve its competitive position and financial flexibility. These actions included: (1) monitoring current financial market conditions for financing or refinancing opportunities; (2) replacing the letter of credit provider related to outstanding variable rate bonds; and, (3) providing rating agencies annual updates on all project.

In September 2012, the Agency issued $12,910,000 of fixed rate tax exempt bonds for the purpose of providing funds to finance the costs of acquisition and construction of certain improvements to the Hydroelectric project, contributions to the Debt Service Reserve Account, and pay the costs of issuance of the 2012 Series A Bonds. Capital improvements financed include Plant 1 turbine upgrades for both Units 1 and 2 and modifications to the main steam line to reduce pressure losses and increase MW production. The bonds are of varying principal amounts ranging from $475,000 to $725,000 through July 1, 2022 and bear interest at 2.289%.

In February 2012, the Agency refunded $88,355,000 principal amount of 1998 Hydroelectric Refunding Revenue Bonds Series A maturing on July 1 in each of the years 2024 through 2032. The refunding was completed through the issuance of $76,665,000 fixed rate tax exempt debt (2012 Series A) and $7,120,000 fixed rate taxable debt (2012 Series B) with yields of 3.05% to 4.32% with varying principal maturities ranging from $4,475,000 to $13,040,000 through July 1, 2032. The refunding is estimated to have decreased project debt service by an estimated $14.4 million over the next 21 years, which results in an estimated economic gain to the Agency of approximately $9.4 million.

The Agency has issued variable rate 2008 Hydroelectric Refunding Series A ($85,160,000) bonds and 2008 Hydroelectric Refunding Series B ($3,165,000) bonds. To support this financing, the Agency entered into two irrevocable direct pay letter of credit agreements with Citibank N.A. The Citibank letters of credit were for a period of three years to expire on September 27, 2014.

On September 10, 2014, the irrevocable letter of credit agreements with Citibank N.A. were terminated. Replacement letters of credit with the Bank of Montreal were issued the same day. The Bank of Montreal letters of credit are for a period of five years and expire on September 9, 2019.

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

Each year the Agency has either informal discussions or sometimes formal presentations with each of the credit rating agencies in order to maintain ongoing communications. In November 2013, Moody's upgraded three of the Agency's projects: the Hydroelectric was upgraded to A1 stable from A2, while the LEC Issue #1 and the Capital Facilities were both upgraded to A2 stable from A3. In May of 2014, Fitch affirmed its current rating on all projects.

Ratings assigned to the Agency's outstanding project bonds as of June 30, 2014 are as follows:

Debt Credit Ratings:	Standard & Poor's	Fitch	Moody's
Geothermal	A-, stable	A+, stable	A1, stable
Hydroelectric	A+, stable	A+, stable	A1, stable
Capital Facilities	A-, stable	Not rated	A2, stable
Lodi Energy Center (Issue One)	A-, stable	A, stable	A2, stable
Lodi Energy Center (Issue Two)	AAA, stable	Not rated	Aa2, stable

SUMMARY

The management of the Agency is responsible for preparing the information in this management's discussion and analysis, combined financial statements and notes to the combined financial statements. Financial statements were prepared according to accounting principles generally accepted in the United States of America, and they fairly portray the Agency's financial position and results of operations. The notes to the financial statements are an integral part of the basic financial statements and provide additional financial information.

Agency Financials

COMBINED STATEMENTS OF NET POSITION

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

	June 30,	
	2014	2013
ASSETS	(in thousands)	
CURRENT ASSETS		
Cash and cash equivalents	$ 72,553	$ 59,511
Investments	-	7,452
Accounts receivable		
Participants	17	207
Other	2,742	3,103
Interest receivable	38	38
Inventory and supplies – at average cost	7,645	7,118
Prepaid expenses	1,298	1,073
TOTAL CURRENT ASSETS	84,293	78,502
RESTRICTED ASSETS		
Cash and cash equivalents	57,598	59,111
Investments	157,952	154,550
Interest receivable	168	146
TOTAL RESTRICTED ASSETS	215,718	213,807
ELECTRIC PLANT		
Electric plant in service	1,500,015	1,494,747
Less: accumulated depreciation	(851,199)	(831,144)
	648,816	663,603
Construction work-in-progress	41	12,467
TOTAL ELECTRIC PLANT	648,857	676,070
OTHER ASSETS		
Regulatory assets	194,919	210,625
Preliminary survey and investigation costs	-	279
TOTAL OTHER ASSETS	194,919	210,904
TOTAL ASSETS	1,143,787	1,179,283
DEFERRED OUTFLOWS OF RESOURCES		
Excess cost on refunding of debt	69,586	76,773
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,213,373	$ 1,256,056

See notes to combined financial statements

COMBINED STATEMENTS OF NET POSITION

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

	June 30,	
	2014	2013
LIABILITIES	(in thousands)	
CURRENT LIABILITIES		
Accounts payable	$ 29,814	$ 25,916
Accounts and retentions payable – restricted for construction	-	696
Member advances	993	1,158
Operating reserves	17,110	16,259
Current portion of long-term debt	34,000	34,365
Accrued interest payable	12,558	13,724
TOTAL CURRENT LIABILITIES	94,475	92,118
NON-CURRENT LIABILITIES		
Operating reserves and other deposits	133,574	124,515
Interest rate swap liability	15,295	14,992
Long-term debt, net	855,672	893,258
TOTAL NON-CURRENT LIABILITIES	1,004,541	1,032,765
TOTAL LIABILITIES	1,099,016	1,124,883
DEFERRED INFLOWS OF RESOURCES		
Regulatory credits	82,124	95,768
NET POSITION		
Net investment in capital assets	(60,797)	(55,630)
Restricted	66,326	64,737
Unrestricted	26,704	26,298
TOTAL NET POSITION	32,233	35,405
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 1,213,373	$ 1,256,056

See notes to combined financial statements

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

	Years Ended June 30,	
	2014	2013
	(in thousands)	
SALES FOR RESALE		
Participants	$ 320,052	$ 290,623
Other Third-Party	85,133	50,345
TOTAL SALES FOR RESALE	405,185	340,968
OPERATING EXPENSES		
Purchased power	125,325	101,517
Operations	84,709	62,168
Transmission	53,081	52,389
Depreciation	30,244	30,680
Maintenance	26,286	22,200
Administrative and general	21,024	17,308
TOTAL OPERATING EXPENSES	340,669	286,262
NET OPERATING REVENUES	64,516	54,706
OTHER (EXPENSES) REVENUES		
Interest expense	(44,296)	(37,772)
Interest income	737	792
Capitalized interest	-	6,320
Other	2,911	5,899
TOTAL OTHER EXPENSES	(40,648)	(24,761)
FUTURE RECOVERABLE AMOUNTS	(17,207)	(11,737)
REFUNDS TO PARTICIPANTS	(9,833)	(11,200)
INCREASE (DECREASE) IN NET POSITION	(3,172)	7,008
NET POSITION, Beginning of year	35,405	28,397
NET POSITION, End of year	$ 32,233	$ 35,405

See notes to combined financial statements

COMBINED STATEMENTS OF CASH FLOW

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

	Years Ended June 30,	
	2014	2013
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from participants	$ 304,933	$ 303,358
Received from others	87,071	48,918
Payments for employee services	(32,532)	(30,701)
Payments to suppliers for goods and services	(266,859)	(229,565)
NET CASH FROM OPERATING ACTIVITIES	92,613	92,010
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and sales of investments	192,307	251,609
Interest received on cash and investments	594	989
Purchase of investments	(188,136)	(270,779)
NET CASH FROM INVESTING ACTIVITIES	4,765	(18,181)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Expenditures for debt issuance costs	-	(173)
Acquisition and construction of electric plant	(3,031)	(16,828)
Interest paid on long-term debt	(41,529)	(42,067)
Principal repayment on long-term debt	(34,367)	(29,234)
Proceeds from bond issues	-	12,910
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(78,927)	(75,392)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Other proceeds	2,911	5,900
Refunds to participants	(9,833)	(11,200)
NET CASH FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES	(6,922)	(5,300)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,529	(6,863)
CASH AND CASH EQUIVALENTS		
Beginning of year	118,622	125,485
End of year	$ 130,151	$ 118,622

See notes to combined financial statements

COMBINED STATEMENTS OF CASH FLOW-Continued

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

	Years Ended June 30,	
	2014	2013
	(in thousands)	
RECONCILIATION OF NET OPERATING REVENUES TO NET CASH FROM OPERATING ACTIVITIES		
Net operating revenues	$ 64,516	$ 54,706
Adjustments to reconcile net operating revenues to net cash from operating activities:		
Depreciation	30,244	30,680
	94,760	85,386
CASH FLOWS IMPACTED BY CHANGES IN		
Accounts receivable	524	1,278
Inventory and prepaid expense	(752)	(1,302)
Preliminary survey and investigation costs	279	(26)
Operating reserves and other deposits	9,910	9,500
Member advances	(165)	1,000
Regulatory assets	(1,500)	(1,451)
Regulatory credits	(13,645)	12,021
Accounts payable	3,202	(14,396)
NET CASH FROM OPERATING ACTIVITIES	$ 92,613	$ 92,010
CASH AND CASH EQUIVALENTS AS STATED IN THE COMBINED STATEMENT OF NET POSITION		
Cash and cash equivalents - current assets	$ 72,553	$ 59,511
Cash and cash equivalents - restricted assets	57,598	59,111
End of year	$ 130,151	$ 118,622

NOTE A -- ORGANIZATION

The Agency Northern California Power Agency (Agency) was formed in 1968 as a joint powers agency of the State of California. The membership consists of eleven cities with publicly-owned electric utility distribution systems, one port authority, a transit authority, and two other associate member entities. The Agency is generally empowered to purchase, generate, transmit, distribute, and sell electrical energy. Members participate in the projects of the Agency on an elective basis.

Various legal and tax considerations caused the Agency to provide that separate not-for-profit corporations should be delegated by the Agency to own the geothermal electrical generating projects undertaken by the Agency ("the Associated Power Corporations"). The Associated Power Corporations, Northern California Municipal Power Corporations Nos. Two and Three, have delegated to the Agency the authority to construct, operate and manage their respective geothermal plants and related assets. The Agency, in return for financing the costs of acquisition and construction, acquires all the capacity and energy generated by the plants. See Note D – Projects and Related Financing.

The Agency is governed by a Commission comprised of one representative for each member. The Commission is responsible for the general management of the affairs, property, and business of the Agency. Under the direction of the General Manager, the staff of the Agency is responsible for providing various administrative, operating, and planning services for the Agency.

NOTE B -- SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Principles of Combination For accounting purposes, the Agency is a special-purpose governmental entity that is engaged in a business-type activity, principally as a supplier of wholesale electricity and transmission to its member participants. As such, the Agency's financial statements are presented as an enterprise type fund.

The records of the Agency and its Associated Power Corporations are maintained substantially in accordance with the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts. Accounting principles generally accepted in the United States of America are applied by the Agency in conformance with pronouncements of the Governmental Accounting Standards Board (GASB). The combined financial statements encompass the Agency and Associated Power Corporations on an accrual accounting basis. All significant intercompany balances and transactions have been eliminated from the combined amounts reported.

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 cash maintained in interest-bearing depository accounts, which are fully insured or collateralized in accordance with state law. Cash balances may be invested in either overnight repurchase agreements, which are fully collateralized by U.S. Government Securities, or in money market funds invested in short-term U.S. Treasury Securities. The Agency commingles operating cash for investment purposes only. Separate detailed accounting records are maintained for each account's related investments. All cash of the Agency is held by either the Agency's custodian or its primary bank and revenue bond trustee. The debt instruments are reported at amortized cost which approximates fair value.

Investments The Agency's investments are reported at fair value. Realized and unrealized gains and losses are included in interest income in the Statement of Revenue, Expenses and Changes in Net Position.

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

Accounts Receivable Accounts Receivable consists primarily of amounts due from participants and other governmental entities related to sales of energy and transmission. Amounts are deemed to be collectible and as such, no allowance for uncollectible accounts has been recorded.

Inventory and Supplies Inventory and supplies consist primarily of spare parts for the maintenance of plant assets and are stated at average cost.

Restricted Assets Cash and cash equivalents, investments and related accrued interest, which are restricted under terms of certain agreements, trust indentures or Commission actions limiting the use of such funds, are included in restricted assets.

Electric Plant Electric plant in service is recorded at historical cost. The cost of additions, renewals and betterments is capitalized; repairs and minor replacements are charged to operating expenses as incurred. The original cost of property retired, net of removal and salvage costs, is charged to accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets. The provision for depreciation was approximately 2.0% and 2.4% of the average electric plant in service for the Agency during 2014 and 2013, respectively. Depreciation is calculated using the following estimated lives:

Generation and Transmission	25 to 42 years
General Plant	5 to 25 years
Transportation Equipment	5 years

A summary of changes in electric plant for the year ended June 30, 2014 is as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
		(in thousands)		
Structures and Leasehold Improvements	$ 318,300	$ 763	$ (509)	$ 318,554
Reservoirs, Dams and Waterways	249,339	-	-	249,339
Equipment	752,930	14,694	(9,680)	757,944
Furniture and Fixtures	2,233	-	-	2,233
	1,322,802	15,457	(10,189)	1,328,070
Accumulated Depreciation	(831,144)	(30,244)	10,189	(851,199)
	491,658	(14,787)	-	476,871
Construction Work-In-Progress	12,467	1,554	(13,980)	41
Land and Land Rights	171,945	-	-	171,945
Electric Plant, Net	$ 676,070	$ (13,233)	$ (13,980)	$ 648,857

A summary of changes in electric plant for the year ended June 30, 2013 is as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
		(in thousands)		
Structures and Leasehold Improvements	$ 291,384	$ 26,916	$ -	$ 318,300
Reservoirs, Dams and Waterways	249,318	21	-	249,339
Equipment	357,408	399,258	(3,736)	752,930
Furniture and Fixtures	2,220	18	(5)	2,233
	900,330	426,213	(3,741)	1,322,802
Accumulated Depreciation	(804,203)	(30,680)	3,739	(831,144)
	96,127	395,533	(2)	491,658
Construction Work-In-Progress	416,327	20,635	(424,495)	12,467
Land and Land Rights	171,945	-	-	171,945
Electric Plant, Net	$ 684,399	$ 416,168	$ (424,497)	$ 676,070

Construction Work-In-Progress Construction work-in-progress (CWIP) includes the capitalized cost of land, material, equipment, labor, interest (net of interest income), certain other financing costs incurred to facilitate the projects and an allocated portion of general and administrative expenses related to the development of electric plant. In addition, CWIP ultimately includes costs incurred during the test and start-up phase of projects prior to commencement of commercial operations.

Preliminary Survey and Investigation Costs Expenditures for preliminary surveys, plans and investigations (PS&I) are deferred until the ultimate feasibility of the contemplated project is determined. When a project is continued, these expenditures are capitalized as part of construction work-in-progress and the related advances provided by members to fund such expenditures are repaid out of the permanent financing of the project. If a project is abandoned, such expenditures and related advances are included in operations when such determination is made.

Regulatory Assets/Credits In accordance with GASB No. 62, the Agency has deferred certain items of expense and revenue that otherwise would have been charged to operations because it is probable that such items will be recovered in future years' operations. The Agency expects to recover these items in rates over the term of the related debt obligations it has issued. On an ongoing basis, the Agency reviews its operations to determine the continued applicability of these deferrals under GASB No. 62.

The items of expense that have been deferred are those originally paid from bond proceeds, including depreciation, certain bond amortizations, and interest paid from bond proceeds. These amounts are recorded to future recoverable amounts. Revenues used to acquire electric plant have also been deferred to future years. As of June 30, 2014 and 2013, the Agency had accumulated regulatory assets, net of regulatory credits, of approximately $112,795,000 and $114,857,000, respectively.

Debt Related Costs Debt issuance costs are expensed as incurred. Excess costs on refunding of bonds are considered deferred outflows of resources as prescribed by GASB Statement No. 65 and amortized over the life of the refunding bonds, or the life of the refunded bonds, whichever is shorter. Amortization is computed using the effective interest method and included in interest expense.

Compensated Absences Accumulated unpaid compensated absences are accrued as the obligation is incurred. Compensated absences are included in current liabilities.

Long-Term Debt Long-term debt is stated net of unamortized discounts and premiums. Discounts and premiums are amortized over the term of the related obligation using the effective interest method. Amortization of debt discounts and premiums is included in total interest expense for the period. See Note D - Projects and Related Financing.

Operating Reserves The Agency has established various funded operating reserves, in accordance with various bond indentures, project agreements, and prudent utility practice, for anticipated periodic operating costs and related liabilities including, but not limited to, scheduled maintenance other than ordinary repairs and replacements. Certain amounts funded each year are charged to operating expense because the rates established by the Agency for power sales to its members include these costs on a prospective basis. Changes to operating reserve levels are periodically evaluated during the annual budgeting process. A non-project specific, individual participant controlled, general operating reserve is also maintained for participating Agency members.

Rates Power sales to participants for their resale include both power generated by operating plants and power purchased from outside sources. Rates for power sales are designed to recover costs that include budgeted annual operating costs and debt service. Additional amounts for operating reserves or rate stabilization may be included in rates under the terms of bond indentures. During fiscal years 2014 and 2013, no amounts were specifically collected for rate stabilization.

The Agency's rates for electric service are not subject to the regulatory jurisdiction of the California Public Utilities Commission (CPUC) or FERC. Rather, the Agency's rates are established annually in connection with its budget, which is approved by its governing Commission.

Power, Transmission and Fuel Forward Transactions In the normal course of its business, the Agency is required to manage loads, resources, and energy price risk on behalf of its members. Consequently, the Agency buys and sells power, transmission, and fuel in wholesale markets as required. The Agency does not enter into such agreements solely for trading purposes. All such transactions are normal purchases and sales subject to settlement at the agreed to contract prices for quantities delivered. While authorized to transact forward purchase contracts for terms of up to five years, forward contract purchases at fiscal year ended June 30, 2014 were for periods not greater than four and one half years duration beyond the current fiscal year. In the event of default, undelivered transactions are required to be marked-to-market subject to the following limitations. If the Agency, as buyer, is the defaulting entity, the Agency's termination settlement amount is capped at the agreed to contract cost for all future undelivered commodities. If the selling counterparty is the defaulting entity, the seller's termination settlement is not capped for all future undelivered commodities. The defaulting entity is also subject to resultant transmission charges, brokerage fees, attorney fees, and all other reasonable expenses. See Note G - Commitments and Contingencies, Power Purchase Contracts.

Fair Values of Financial Instruments The following methods and assumptions were used by the Agency in estimating its fair value disclosures for financial instruments:

Cash and Cash Equivalents - The carrying amount reported in the statements of net position for cash and cash equivalents approximates its fair value.

Investments - The fair values for investments are based on quoted market prices. See Note C- Investments.

Swaps - The fair values take into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that were received. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. While the current net mark to market values are negative, this valuation would be realized only if the swaps were terminated at the valuation date.

Long-Term Debt – The fair value of the Agency's long-term debt (including current maturities) as of June 30, 2014 and 2013 is estimated to be approximately $1,421,565,000 and $1,494,932,000. This estimate was developed using discounted cash flow analyses, based on current borrowing rates for tax-exempt securities with similar ratings and maturities.

Net Position The Agency classifies its net position into three components; net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net Investment in Capital Assets - This component consists of capital assets, net of accumulated depreciation reduced by outstanding debt balances, net of unspent bond proceeds.

Restricted - This component consists of net position with constraints placed on their use. Constraints include those imposed by debt indentures and other agreements; grants, laws and regulations of other governments or by the Agency's governing Board of Commissioners.

Unrestricted - This component consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

The Agency and the Associated Power Corporations are intended to operate on a not-for-profit basis. Therefore, any balance of net position represents differences between total revenues collected, using rates based on estimated operating expenses and debt service, and the total actual expenses incurred. In subsequent periods of operation, excess collections (net of encumbrances) that the participating members do not direct be held by or released to the Agency, are refunded to the participating members. Estimated encumbrances at June 30, 2014 and 2013 were $4,021,000 and $6,068,000, respectively. In the event the Agency incurs a negative net position balance, the balance would be subject to recovery in rates under the terms of the related take-or-pay member agreements. See Note D – Projects And Related Financing.

Deferred Outflows and Inflows of Resources In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The Agency only has one item that qualifies for reporting in this category, which is the excess cost on refunding of debt. The excess cost on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. This item had previously been reported as an offset to the long-term debt balance.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflows of resources (revenue) until that time. The Agency's deferred inflows of resources are comprised of regulatory credits intended to offset the effects of the rate-making process.

Recent Accounting Pronouncements 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 either (a) properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses/expenditures) or inflows of resources (revenues). The statement also limits the term "deferred" to items reported as deferred outflows of resources or deferred inflows of resources. This statement is effective for the Agency in fiscal year 2014.

At June 30, 2013, the Agency had $10.9 million in unamortized debt issuance costs. GASB No. 65 requires debt issuance costs, except any portion related to prepaid insurance costs to be recognized as an expense in the period incurred. The Agency elected to follow accounting for regulated operations and recorded the debt issuance costs as a regulatory asset. The implementation also impacted the Statement of Net Position, as certain liabilities were reclassified as deferred outflows. The Agency reclassified the June 30, 2013 Statement of Net Position and Statement of Revenue, Expenses and Changes for comparative purposes.

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 the Agency for fiscal year 2015. The Agency is currently assessing the financial statement impact of adopting this statement.

In April 2013, GASB issued SGAS No. 70 "Accounting and Financial Reporting for Non-exchange Financial Guarantees." The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive non-exchange financial guarantees. This statement becomes effective for periods beginning after June 15, 2013. The Agency is currently evaluating the impact on the financial statements.

Use of Estimates in the Preparation of Financial Statements 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications Debt issuance costs totaling $10.9 million in 2013 have been reclassified to regulatory assets to conform to the 2014 presentation. Loss on refundings of debt, net is shown as a deferred outflows rather than as a component of long-term debt. The effect of these reclassifications on the fiscal year 2013 Statement of Net Position is an increase of deferred outflows of resources and long-term debt of $69.6 million.

Additionally, Regulatory credits have been reclassified from non-current liabilities to deferred inflows of resources. The effect of this reclassification on the fiscal year 2013 Statement of Net Position is a decrease of liabilities and an increase of deferred inflows of resources of $95.8 million.

NOTE C -- INVESTMENTS

The Agency is authorized to invest in obligations of the U.S. Government and its agencies and instrumentalities, in certificates of deposit, commercial paper, banker's acceptances, repurchase agreements, passbook savings account demand deposits, municipal bonds, the State Treasurer's LAIF pool, and in other instruments authorized by applicable sections of the Government Code of the State of California. The Agency's investments are stated at fair value.

Investments at June 30, 2014 Description	Carrying Value	Market Value	Wtd. Avg Maturity (In years)
	(in thousands)		
U.S. Agencies	$ 157,952	$ 157,952	1.80
TOTAL INVESTMENTS	$ 157,952	$ 157,952	

Investments at June 30, 2013 Description	Carrying Value	Market Value	Wtd. Avg Maturity (In years)
	(in thousands)		
U.S. Agencies	$ 162,002	$ 161,139	1.96
TOTAL INVESTMENTS	$ 162,002	$ 161,139	

The Agency's investment policy requires investments that assure safety of the principal, liquidity to meet specific obligations of the Agency when due, and investment quality all in compliance with California State law and the Agency's revenue bond indentures. Generally, operating investment maturities are limited to one year and reserve funds to five year maturities, except for debt service reserve funds, which are allowed maturities up to fifteen years. All U.S. Government and U.S. Government Agency securities held by the Agency are either in effect or actually AA rated.

All securities owned by, or held on behalf of, the Agency are held by either the Agency's custodian, Union Bank of California, N.A., or its revenue bond trustee, U.S. Bank Trust, N.A.

The Agency's investment policy includes restrictions for investments relating to maximum amounts invested as a percentage of the portfolio and with a single issuer, maximum maturities, and minimum credit ratings.

Credit Risk To mitigate the risk that an issuer will not fulfill its obligation to the investment, the Agency limits investments to those rated, at a minimum, A or equivalent for long/medium term notes by a nationally recognized statistical rating organization.

Custodial Credit Risk This is the risk that in the event of a failure of a depository financial institution, the Agency's deposits may not be returned or the Agency will not be able to recover its deposits, investments, or collateral securities that are in the possession of another party.

Concentration of Credit Risk This is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Agency places no limit on the amounts invested in obligations of the U.S. Government and its agencies.

Interest Rate Risk Interest rate risk is the risk that changes in market interest rates may adversely affect the fair value of an investment. The Agency manages its exposure to interest rate risk by following a hold-to-maturity investment approach, purchasing a combination of shorter and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

NOTE D -- PROJECTS AND RELATED FINANCING

Financing Programs The Agency's project construction and development programs have been individually financed by project revenue bonds that are collateralized by the Agency's assignment of all payments, revenues, and proceeds associated with its interest in each project. Each project participant has agreed to pay its proportionate share of debt service and other costs of the related project, notwithstanding the suspension, interruption, interference, reduction or curtailment of output from the project for any reason (that is, the take-or-pay member agreements).

Certain of the revenue bonds are additionally supported by municipal bond insurance credit enhancements.

Long-term debt and stated rates at June 30:	2014	2013
	(in thousands)	
Geothermal Project		
2009 Series A		
Serial, 4.00-5.50% through 2025	$ 29,915	$ 31,895
2012 Series A		
Term, 2.289% due 2023	11,355	12,435
Total Geothermal Project	41,270	44,330
Hydroelectric Project		
1992 Refunding Series A		
Term, 6.30% due 2019	26,465	36,770
2008 Refunding Series A		
Term, adjustable rate-weekly reset, due 2033	85,160	85,160
2008 Refunding Series B (Taxable)		
Term, adjustable rate-weekly reset, due 2021	2,365	2,610
2008 Refunding Series C		
Serial, 4.00-5.00% through 2025	108,560	109,250
2010 Refunding Series A		
Serial, 4.00-5.00% through 2024	94,880	101,260
2010 Refunding Series B		
Serial, 2.75-3.25% through 2014	-	1,755
2012 Refunding Series A		
Serial, 5.00% through 2033	76,665	76,665
2012 Refunding Series B		
Serial, 4.32% through 2025	7,120	7,120
Total Hydroelectric Project	401,215	420,590

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Long-term debt and stated rates at June 30:	2014	2013
	(in thousands)	
Capital Facilities Project		
2010 Refunding Series A		
Serial, 2.00-5.25% through 2026	48,090	51,380
Total Capital Facilities Project	48,090	51,380
Lodi Energy Center, Issue One		
2010 Series A		
Serial, 3.00-5.00% through 2020	33,095	37,770
Term, 5.00% due 2025	36,020	36,020
2010 Series B (Federally Taxable – Direct Payment Build America Bonds)		
Term, 7.311% due 2040	176,625	176,625
Lodi Energy Center, Issue Two		
2010 Series A		
Serial, 3.00-5.00% through 2019	22,800	26,765
2010 Series B (Federally Taxable – Direct Payment Build America Bonds)		
Term, 4.63% due 2020	5,210	5,210
Term, 5.679% due 2035	105,015	105,015
Total Lodi Energy Center Project	378,765	387,405
Total Long-Term Debt Outstanding	869,340	903,705
Unamortized premium (discount), net	20,332	23,918
Less: Current portion	(34,000)	(34,365)
Total Long-Term Debt, Net	$ 855,672	$ 893,258

The Agency had the following long-term debt activity during FY 2014:

	Balance June 30, 2013	Additions	Payments & Amortizations	Balance June 30, 2014
	(in thousands)			
Revenue Bonds	$ 903,705	$ -	$ (34,365)	$ 869,340
Unamortized premiums and discounts	23,918	-	(3,586)	20,332
TOTAL	$ 927,623	$ -	$ (37,951)	$ 889,672

The Agency had the following long-term debt activity during FY 2013:

	Balance June 30, 2012	Additions	Payments & Amortizations	Balance June 30, 2013
	(in thousands)			
Revenue Bonds	$ 920,220	$ 12,910	$ (29,425)	$ 903,705
Unamortized premiums and discounts	27,795	-	(3,877)	23,918
TOTAL	$ 948,015	$ 12,910	$ (33,302)	$ 927,623

Debt service requirements for each of the next five years and in five-year cumulative increments thereafter as of June 30, 2014:

	Principal	Interest	Total
		(in thousands)	
2015	34,000	47,303	81,303
2016	35,615	45,728	81,343
2017	37,250	44,114	81,364
2018	39,230	42,399	81,629
2019	41,365	40,355	81,720
2020-2024	231,525	169,292	400,817
2025-2029	180,900	111,825	292,725
2030-2034	174,935	62,787	237,722
2035-2039	78,545	22,090	100,635
2040	15,975	1,168	17,143
	$ 869,340	$ 587,061	$ 1,456,401

Interest includes interest requirements for fixed rate debt at their stated rate and variable rate debt covered by interest rate swaps at their fixed swap rate.

Redemption Provisions As set forth in the bond indentures, the term bonds are subject to redemption prior to maturity in varying amounts at specific dates. At the option of the Agency, the bonds are also subject to early redemption at specific redemption prices and dates.

Defeased Debt Various bond refundings were undertaken to defease debt and realize future debt service savings. Debt was defeased by using the proceeds of the refunding issues and other available monies to irrevocably place in trust cash and U.S. Government Securities, which together with interest earned thereon, will be sufficient to pay both the interest and the appropriate maturity or redemption value of the refunded bonds as required.

Accordingly, these defeased debt issues have been considered extinguished for financial reporting purposes. At year-end, the following defeased debt remained outstanding:

		2014	2013
		(in thousands)	
Hydroelectric:	Project No. One, 1985 Series A	$ 12,150	$ 12,150
	Project No. One, 1986 Series A	36,960	36,960
	Total Defeased Debt Outstanding	$ 49,110	$ 49,110

Geothermal Project In addition to a federal geothermal leasehold, steam wells, gathering system and related facilities, the project consists of two electric generating stations (Plant 1 and Plant 2). Each plant has two 55 MW (nameplate rating) turbine generator units utilizing low temperature geothermal steam; associated electrical, mechanical and control facilities; a heat dissipation system; a steam gathering system, a transmission tap-line, and other related facilities. Geothermal steam for the project is derived from the geothermal property, which includes well pads, access roads, steam wells and re-injection wells.

In September 2012, the Agency issued $12,910,000 of fixed rate tax exempt bonds for the purpose of providing funds to finance the costs of acquisition and construction of certain improvements to the project as well as make a contribution to the Debt Service Reserve Account and to pay the costs of issuance of the 2012 Series A Bonds. The bonds are of varying principal amounts ranging from $475,000 to $725,000 through July 1, 2022 and bear interest at 2.289%.

Capital improvements financed include Plant 1 turbine upgrades for both Units 1 and 2 and modifications to the main steam line to reduce pressure losses and increase MW production.

Hydroelectric Project The Agency contracted to finance, manage, construct, and operate Hydroelectric Project Number One for the licensed owner, Calaveras County Water District. In exchange, the Agency has the right to the electric output of the project for 50 years from February 1982. The Agency also has an option to purchase power from the project in excess of the District's requirements for the subsequent 50 years, subject to regulatory approval.

In February 2012, the Agency refunded $88,355,000 principal amount of 1998 Hydroelectric Refunding Revenue Bonds Series A maturing on July 1 in each of the years 2024 through 2032. The refunding was completed through the issuance of $76,665,000 fixed rate tax exempt debt (2012 Series A) and $7,120,000 fixed rate taxable debt (2012 Series B) with yields of 3.05% to 4.32% with varying principal maturities ranging from $4,475,000 to $13,040,000 through July 1, 2032. The refunding is estimated to have decreased project debt service by an estimated $14.4 million over the next 21 years, which results in an estimated economic gain to the Agency of approximately $9.4 million.

As part of a refinancing plan in November 2004, the Agency entered into two forward starting interest rate swaps in an initial notional amount of $85,160,000 and $1,574,000. Payments under the swap agreements with Citigroup Financial Products, Inc. began on April 2, 2008. To complete the refinancing transaction and realize the debt service savings under the 2004 swap agreement, on April 2, 2008 the Agency completed a bond refunding of certain maturities of the 1998 Hydroelectric Refunding Series A bonds totaling

$85,870,000 maturing in 2023 to 2032. These fixed rate bonds were refinanced through the issuance of tax-exempt 2008 Hydroelectric Refunding Series A ($85,160,000) bonds and taxable 2008 Hydroelectric Refunding Series B ($3,165,000) bonds. Both issues are variable interest rate bonds bearing interest at weekly interest rates, payable semi-annually on July 1 and January 1 each year. To support this financing, the Agency has entered into two irrevocable direct pay letter of credit agreements with Citibank N.A. The Citibank letters of credit are for a period of three years and expire on September 27, 2014.

The payment of principal and interest on these issues are not covered by any financial guaranty insurance policies. This 2008 Hydroelectric Refunding and the associated interest rate swaps are estimated to have reduced project debt service by $11.8 million over the next 24 years providing the Agency with an estimated economic gain (difference between the present values of the old and new debt service payments) of approximately $5.9 million.

The Agency has entered into two separate pay-fixed, receive-variable interest rate swaps to produce savings or to result in lower costs over the life of each transaction than what the Agency would have paid using fixed-rate debt. While these derivative instruments carry additional risks, the Agency's swap policy and favorable negotiations have helped to reduce such risks.

	2008 Hydroelectric Refunding Revenue Bonds Forward Starting Swaps			
Associated Interest Rate Swaps starting April 2, 2008	Series A		Series B (Taxable)	
Counterparty to Interest Rate Swap	Citigroup Financial Products Inc.		Citigroup Financial Products Inc.	
Notional Value of Interest Rate Swap	$85,160,000		$1,320,505	
Fair Value--Due from (to) Counterparty	($15,577,025)		$282,191	
Credit Downgrade Required Collateral Posting:				
For Counterparty, Fair Value Above	$10 million		$10 million	
If S&P or Moody's Credit Rating falls to	A+/A1		A+/A1	
For Agency (Credit of Agency's Insurer National Public Finance Guarantee formerly MBIA), Fair Value Above	$10 million		$10 million	
If S&P or Moody's Credit Rating falls to	A+/A1		A+/A1	
Termination Date	July 1, 2032		July 1, 2032	
	Terms	Rates	Terms	Rates
Payments to (from) Counterparty	Fixed	3.819 %	Fixed	(5.548) %
Variable Payments (from) to Counterparty	54% LIBOR+.54%*	(0.665) %	100% of LIBOR*	0.228 %
Net Interest Rate Swap Payments		3.154 %		(5.320) %
Variable-Rate Bond Payments	SIFMA**	0.146 %	SIFMA**	0.523 %
Effective Interest Rate on Bonds		3.300 %		(4.797) %

Average to Date: *1-Month London Inter-Bank Offered Rate
**Securities Industry and Financial Market Association Municipal Swap Index (formerly the Bond Market Association Municipal Swap Index)

The total fair value of outstanding swap instruments was a net liability of $15,295,000 and $14,992,000 at June 30, 2014 and June 30, 2013, respectively. These amounts are reported as a non-current liability. The interest rate swaps beginning in FY 2013 are both ineffective hedges and considered investment derivative instruments. The change in fair value of ($0.3) million is recorded as interest expense in the Statement of Revenues, Expenses, and Changes in Net Position. The net settlement payments of interest on these investment derivative instruments total $2.6 million, which is recorded as interest expense in the Statement of Revenues, Expenses, and Changes in Net Position for both FY 2014 and FY 2013. The value of the swaps noted above reflects the estimated fair value of the swaps at June 30, 2014 as determined by the Agency's financial advisor. The fair value of the swaps will change due to notional amount, amortizations, and interest rate changes.

The following swap agreement risks are common to all the interest rate swaps. The interest rate swaps expose the Agency to basis risk should the relationship between LIBOR and SIFMA converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates moving to convergence, the expected cost savings of the swap may not be realized. The Agency is exposed to interest rate risk on its pay-fixed, receive variable interest rate swaps. Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the Agency's financial instruments or cash flows. As the LIBOR or SIFMA swap index decreases, the Agency's net payment on swaps increases. In addition, the Agency is exposed to interest rate risk if the counterparty to the swap defaults or if the swap is terminated. The Agency is also exposed to market access risk, the risk that it will not be able to enter credit markets or that credit will become more costly. The Agency's financial rating is tied to the credit strength of the major participants of the specific project for which each financial instrument is issued. The Agency is also exposed to market access risks caused by disruptions in the municipal bond market.

To mitigate the potential for credit risk, the swap counterparties are required by the agreement to post collateral should the fair value exceed certain thresholds as shown above. At June 30, 2014, credit ratings of the counterparties to the swaps were as follows:

Swap Counterparty & Agency's Insurer	Standard & Poor's	Moody's
Citigroup Financial Products Inc.	A	A2
National Public Finance Guarantee formerly MBIA (the Agency's insurer)	AA-	A3

The swaps utilized the International Swap Dealers Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. However, an additional provision under the Schedule to the ISDA Master Agreement allows the swap to be terminated by the Agency if the counterparty's credit rating falls below A- by Standard & Poor's or A3 by Moody's. If a swap is terminated, the applicable bonds would no longer carry a synthetic fixed interest rate. In addition, if a swap has a negative fair value at the time of an early termination, the Agency would be liable to the counterparty for a payment equal to the swap's fair value.

Combustion Turbine Project The original project consisted of five combustion turbine units, each nominally rated at approximately 25 megawatts. Concurrent with the final project bond maturity, two units located in Roseville were acquired by an Agency member. The remaining project consists of two units in Alameda and one in Lodi. The project provides capacity during peak load periods and emergency capacity reserves. Excess capacity and energy from the project are also sold to other entities from time to time.

Capital Facilities Project The project consists of one 49.9 megawatt natural gas-fired steam injected combustion turbine generator unit located in Lodi, California. Wastewater is reclaimed from the City of Lodi's White Slough water pollution control facility, processed to eliminate contaminants, and used in the turbine to produce steam for power enhancement and emissions control.

Lodi Energy Center(LEC) The Agency has constructed a new 296 MW base load, combined cycle, natural gas-fired, combustion turbine generating station (one gas turbine and one steam turbine) located in Lodi, California, next to the Capital Facilities Project discussed above. Construction began in August 2010 with commercial operation in November 2012. Pursuant to the Lodi Energy Center Power Sales Agreement, the Agency agreed to construct and operate the LEC and has sold all of the capacity and energy of the LEC to thirteen participants (including four non-members) in accordance with their respective Generation Entitlement Shares (GES). Each participant has agreed to unconditionally provide for its share of the costs of construction of the LEC, and all capital improvements, and to pay its share of the operation and maintenance expenses based on its GES. The LEC will be operated and maintained by the Agency under the direction of the LEC Project Management and Operations Agreement among the Agency and the LEC Project Participants.

Lodi Energy Center Revenue Bonds, Issue One provided financing for 11 project participants with 55.7857% GES. Lodi Energy Center Revenue Bonds, Issue Two provided financing for the California Department of Water Resources 33.5% GES. The Modesto Irrigation District elected to provide its own financing for its 10.7143% GES of the costs of construction of the project. Modesto Irrigation District is not liable for any Agency debt service obligations for the project.

The Issue One Series B and the Issue Two Series B bonds were issued as Taxable Subsidy Bonds constituting Build America Bonds (BABs) for the purposes of the American Recovery and Reinvestment Act of 2009. The Act provides for a direct payment to the Agency from the federal government equal to 35% of the interest costs. Such payments have been and may continue to be affected by the federal government budget sequestration.

NOTE E -- RETIREMENT PLAN

The Agency is a participating public employer in the California Public Employees Retirement System (CalPERS) Local Miscellaneous Employees' Retirement Plan, which is an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and Agency resolution. CalPERS issues a separate comprehensive annual financial report, which is available from the CalPERS' Executive Office, 400 P Street, Sacramento, California 95814.

The Agency makes the plan contributions required of its employees on their behalf and for their account. The Agency is required to contribute at an actuarially determined rate of annual covered payroll. The contribution requirements of plan members and the Agency are established and may be amended by CalPERS.

In 2012, the Public Employees' Pension Reform Act (PEPRA) became law that implemented new benefit formulas and final compensation period, as well as new contribution requirements for new employees hired on or after January 1, 2013 who meet the definition of new member under PEPRA. Employees hired prior to January 1, 2013, and those new employees not meeting the PEPRA definition of new member, are considered classic employees.

Summary of certain plan provisions and benefits in effect for fiscal year ended June 30, 2014:

Required service for eligibility	5 full-time years
Benefit payments (% of highest 36 consecutive months' annual salary)	Monthly for life
Minimum retirement age	50
Classic Members:	
Monthly benefit	2.00% @ age 50 to 2.50% @ age 55 & up
Required employee contribution rate (w/o employer pickup)	8.000%
New Members:	
Monthly benefit	2.00% @ age 60 to 2.50% @ age 67 & up
Required employee contribution rate	6.50%
Required employer contribution rates	10.204% normal service 17.401% amortization bases
Actuarial annual required contribution (based on estimated payroll)	$4,916,073

Prior to joining the CalPERS retirement system, the Agency agreed to pay (pick up) 50% of prior service cost for the then existing employees. In separate agreements, the Agency has also agreed to pay (pickup) a portion of the various employee groups' required annual contribution. Actual employer portion contributions to the plan totaled $509,529, $775,744, and $804,569 for fiscal years 2014, 2013, and 2012 respectively. The Agency's annual required contribution (based on actuarially established rates) was determined as part of a June 30, 2012, actuarial valuation using the entry age normal actuarial cost method. The primary actuarial assumptions included a 7.50% annual investment rate of return (net of administrative expenses); forecasted annual salary increases that vary by age, service and type of employment ranging from 3.30% to 14.20%; a 3.00% overall annual payroll growth; an individual salary growth of 2.75%; an annual production growth of .25%; and, an inflation component of 2.75%.

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

At fiscal year end June 30, 2014, the Agency had 152 eligible active employees and 100 retirees drawing benefits under this program.

Trend Information for Agency CalPERS Retirement Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2010	$ 3,320,661	100.0%	-
June 30, 2011	$ 3,842,787	100.0%	-
June 30, 2012	$ 4,825,514	100.0%	-
June 30, 2013	$ 4,965,785	100.0%	-
June 30, 2014	$ 4,916,073	100.0%	-

Funded Status of the Agency CalPERS Retirement Plan

Actuarial Valuation Date	Actuarial Accrued Liability (a)	Actuarial Value of Assets (b)	Actuarial Accrued Unfunded Liability (a) - (b)	Funded Ratio (b) / (a)	Annual Covered Payroll (c)	Unfunded Actuarial Accrued Liability as % of Payroll [(a) – (b)] / (c)
June 30, 2008	$ 66,571,897	$ 34,498,660	$ 32,073,237	51.8%	$ 15,930,785	201.3%
June 30, 2009	$ 80,909,833	$ 39,535,328	$ 41,374,505	48.9%	$ 16,871,454	245.2%
June 30, 2010	$ 92,905,054	$ 46,778,990	$ 46,126,064	50.4%	$ 16,258,205	283.7%
June 30, 2011	$100,525,265	$ 53,296,953	$ 47,231,312	53.0%	$ 17,682,597	267.1%
June 30, 2012	$106,400,959	$ 59,714,810	$ 46,686,149	56.1%	$ 16,805,905	277.8%

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. All changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methodology are amortized separately over a 20-year period. The average remaining amortization period at the June 30, 2012 valuation date was approximately 23 years.

In April 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy, which spread investment returns over a 15-year period, while gains and losses were amortized over a rolling 30-year period. Effective with the June 30, 2013 valuations, CalPERS will no longer use an actuarial value of assets and will employ an amortization and smoothing policy that will spread rate increases or decreases over a 5-year period, and amortize all gains and losses over a fixed 30-year period. CalPERS actuarial valuations become available approximately two years after the Agency's fiscal year-end.

NOTE F -- OTHER POST EMPLOYMENT BENEFITS (OPEB)

The Agency contracts with the CalPERS under the Public Employees' Medical and Hospital Care Act (PEMHCA) for employee medical insurance. In connection with this plan, the Agency provides medical insurance to all active employees and their families, as well as all qualified retirees (and spouses), subject to certain limitations. The Agency has maintained an actuarially based restricted fund for the sole purpose of paying medical insurance premiums for qualified retired employees (and spouses) participating in the CalPERS medical plan. In 2007, the Agency became a participant in the CalPERS California Employers' Retiree Benefit Trust (CERBT), a pre-funding OPEB plan, which is an irrevocable multi-employer trust and plan consisting of an aggregation of single-employer plans, with pooled administrative and investment functions. The Agency makes actuarially determined Annual Required Contributions (ARC) to this OPEB plan. The ARC represents the forecast funding level to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. Actuarial valuations of the fund are obtained every two years, as required by CalPERS.

Summary of certain plan provisions and benefits in effect during fiscal year ended June 30, 2014:

Required service for eligibility	10 full-time years
Minimum retirement age	50
Benefit payments	Monthly for life
Vesting for eligible employees	50% at 10 years; 5%/year after
Maximum monthly benefit	PERS Choice Premium

The annual required contribution and funded status of the OPEB plan were determined based on current cost trends of the CalPERS health plans in which the employees currently participate at the time of the actuarial valuation. The June 30, 2013 actuarial valuation was prepared on the basis of the OPEB assumption model, as prescribed by the CalPERS, in effect at the time of the valuation. At fiscal year-end June 30, 2014, the Agency had 152 active eligible employees and 111 retirees drawing benefits under this program.

Trend Information for the OPEB Plan

Fiscal Year Ending	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	$ 718,982	100.0%	-
June 30, 2010	$ 770,469	100.0%	-
June 30, 2011*	$ 961,896	100.0%	-
June 30, 2012	$ 1,016,826	100.0%	-
June 30, 2013	$ 1,049,873	100.0%	-

Funded Status of the OPEB Fund

Actuarial Valuation Date	Actuarial Accrued Liability (a)	Actuarial Value of Assets (b)	Actuarial Accrued Unfunded Liability (a) - (b)	Funded Ratio (b) / (a)	Annual Covered Payroll (c)	Unfunded Actuarial Accrued Liability as % of Payroll [(a) – (b)] / (c)
June 30, 2008	$ 16,114,250	$ 12,213,980	$ 3,900,270	75.8%	$ 15,491,511	25.2%
June 30, 2010	$ 18,936,156	$ 13,975,353	$ 4,960,803	73.8%	$ 16,355,901	30.3%
June 30, 2011*	$ 21,599,763	$ 14,464,987	$ 7,134,776	67.0%	$ 16,672,248	42.8%
June 30, 2013	$ 22,477,396	$ 17,529,070	$ 4,948,326	78.0%	$ 17,564,711	28.2%

* The discount rate was changed from 7.75%, which was used in all prior year's actuarial valuations, to 7.61% for the June 30, 2011 and later actuarial valuation, as prescribed by CalPERS.

The funded status of the plan and the annual required contributions are subject to periodic revision based on actual results, changes in assumptions or plan provisions, and new estimates of expected future circumstances. Future actuarial valuations will be performed every two years, as prescribed by CalPERS.

The Agency's annual required contribution (based on actuarially established rates) was determined as part of a June 30, 2013, actuarial valuation using the entry age normal actuarial cost method. The primary actuarial assumptions included: valuation using the Entry Age Normal Cost Method, 7.61% annual discount rate, overall payroll growth of 3.25%, 3.00% inflation, and 4.25% maximum employer contribution increase.

NOTE G -- COMMITMENTS AND CONTINGENCIES

Power Exchange Agreement On behalf of certain of its members, the Agency has a seasonal exchange agreement with Seattle City Light for 60 megawatts of summer capacity and 90,580 megawatt hours of energy in exchange for a return of 46 megawatts of capacity and 108,696 megawatt hours of energy in the winter. The agreement terminates in May 2018.

Power Purchase Contracts The Agency had commitments of approximately $49.1 million in connection with various power purchase contracts as of June 30, 2014. The contracts, extending through December 2016, are normal purchases at agreed to contract prices for fixed quantities of energy. Certain of the Agency's members have individually entered into certain other long-term contracts, which the Agency dispatches and schedules for them. See Note B - Significant Accounting Policies.

Combustion Turbine Fuel Supply Agreements The Agency has entered into the following agreements to provide natural gas fuel supply for use in the combustion turbine projects:

- A 30-year agreement terminating in November 2023 with the Pacific Gas Transmission Company and its partners in a gas pipeline between Alberta, Canada and northern California. The estimated minimum annual gas transmission commitment is approximately $1.5 million.

- On behalf of the participants in the Combustion Turbine Number One and the Capital Facilities project, the Agency entered into an agreement with EDF Trading North America, LLC (EDF) effective January 1, 2013 to provide gas supply and scheduling, nomination, balancing and settlement services for the management of the Agency's pipeline capacity. The contract automatically renews each year on January 1, unless terminated earlier by six-months written notice by either party. In June 2014, EDF provided the Agency with a six-month notice of termination related to the management services for the Agency's pipeline capacity, as a result of which the agreement will terminate on December 31, 2014. The Agency expects to negotiate a replacement agreement with another party to provide pipeline capacity management services prior to the termination of the agreement.
- The Agency and J.P. Morgan Ventures Energy Corporation have entered into an agreement to provide the gas supply and nomination, imbalance, and settlement services for the Agency's Lodi Energy Center project, which began operations at the end of November 2012. Subsequent to an initial one year term, the contract may be terminated with a six-month notice of termination.
- The Agency had approximately $15.8 million of gas purchase commitments at June 30, 2014. The commitments, extending through December 2017, are normal purchases at agreed to prices for fixed quantities of gas.

Western Area Power Administration Base Resource A number of the Agency's members, who have an aggregate 17.53465% share of the Base Resource Contract with the Western Area Power Administration to receive electric power from the Central Valley Project in California, have assigned their shares to the Agency in order to create a power resource portfolio for the mutual benefit of participating Agency members. The assignments terminate the earlier of December 31, 2024 or 60 days after Western approves a reassignment.

Geothermal Royalties Under terms of federal geothermal leasehold agreements, the Agency is required to pay royalties to the United States (U.S.) on the value of geothermal steam produced. Currently, the effective rate of such royalties is 3.6% of an amount based on the Agency's monthly weighted average cost of third-party wholesale electricity purchases made by Agency members participating in the Geothermal Project. The U.S. Department of the Interior, Office of Natural Resources Revenue maintains the right to periodically review and withdraw their approval or to change this methodology should operations, market conditions, or Federal regulations change.

Geothermal Steam Production & Decommissioning Steam for the Agency's geothermal plants comes from lands in the Geysers area, which are leased by the Agency from the federal government. The Agency operates these steam-supply areas. Operation of the geothermal plants at high generation levels, together with high steam usage by others in the same area, resulted in a decline in the steam production from the steam wells at a rate greater than expected. As a result, by April 1988, for the purpose of slowing the decline in the steam field capability, the Agency changed its steam field production from base-load to load-following and reduced average annual generation. These changes were effective in reducing the decline in steam production.

Beginning in 1991, along with other steam field operators in the area, the Agency began implementing various operating strategies to further reduce the rate of decline in steam production. The Agency has modified both steam turbine units at Plant 1 and the associated steam collection system to enable generation with lower pressure steam at higher mass-flow rates to optimize the utilization of the available steam resource.

The Agency also entered into agreements with other producers in the Geysers area to finance and construct the Southeast Geysers Effluent Pipeline Project, which was completed in September 1997 and began operating soon thereafter. The 26-mile pipeline collects wastewater from Lake County Sanitation District treatment plants at Clearlake and Middletown and delivers the wastewater to the Agency and the other Geysers steam field operators for injection into the steam field. A second pipeline enhancement project to further augment the wastewater injection program was completed in 2004.

Based on current operating protocols and forecasted operations, the Agency expects both the average and peak capacity to continue to decrease, reaching approximately 70 MWG (megawatts gross) by calendar year 2037.

Under terms of the federal geothermal leasehold agreements, which became effective August 1, 1974, the leasehold had a 10-year primary term with provision for renewal as long thereafter as geothermal steam is produced or utilized, but not longer than 40 years. At the expiration of that period, if geothermal steam is still being produced, the Agency has preferential right to renew the leasehold for a second term. The leasehold also requires the Agency to remove its leasehold improvements including the geothermal plants and steam gathering system when, and if, the Agency abandons the leasehold. These decommissioning costs are currently estimated to total approximately $24.1 million. The Agency has been collecting monies to pay the expected decommissioning costs since 2007 and currently holds approximately $10.2 million in a reserve for such purpose as of June 30, 2014.

CLAIMS AND LITIGATION

California Energy Crisis During 2000 and 2001, California experienced extreme fluctuations in the prices and supplies of natural gas and electricity in much of the State. While there has been progress in addressing these issues, uncertainty remains. As a result, no assurance can be given that measures undertaken, together with measures to be taken in the future, will prevent the recurrence of shortages, price volatility or other energy problems that have adversely affected California electric utilities in the past. The Agency has settled with the plaintiffs in related litigation, and while the settlement has been approved by FERC, there are still some claims by others that remain ongoing. Although the Agency considers these claims to be lacking in merit, no assurance thereof can be given until all proceedings are finally concluded.

Greenhouse Gas (GHG) Emissions The California Global Warming Solutions Act of 2006 (also known as California Assembly Bill 32 or AB 32) requires the gradual reduction of state-wide GHG emissions to the 1990 level by 2020. The California Air Resources Board (CARB) is the state agency charged with monitoring GHG levels and adopting regulations to implement and enforce AB 32. The CARB has approved various regulations, including regulations that established a state-wide, comprehensive ‘‘cap-and-trade’’ program that sets a gradually declining limit (or ‘‘cap’’) on the amount of GHGs that may be emitted by the major sources of GHG emissions each year. GHG emissions are measured in metric tons (MT) of carbon dioxide-equivalent greenhouse gases (CO_{2e}) per year. The cap and trade program’s first two-year compliance period, which began January 1, 2013, applies to the electricity generation and large industrial sectors. The next compliance period, from January 1, 2015 through December 31, 2017, will expand to include the natural gas supply and transportation sectors, effectively covering all the capped sectors until 2020.

The Agency’s Lodi Energy Center gas plant and electricity imports (purchased power) are subject to the compliance rules established by CARB for the cap-and-trade program. As such, the Agency participates in quarterly auctions to acquire sufficient carbon allowances to cover its compliance obligations or receives transfers of required carbon allowances from its project participants. At June 30, 2014, the Agency had a cumulative compliance obligation of 675,304 MT with 872,784 MT of acquired allowances to meet its compliance obligation.

Other Factors Affecting the Electric Utility Industry Electric industry market participants, such as the Agency and its members, continue to face numerous potential risks and uncertainties including, but not limited to, significant volatility in energy prices and increased transmission and ancillary services costs; new federal and state renewable energy, operating efficiency, and environmental standards; and, global pressures on economic and financial market conditions. The Agency and its members continue to study and to take various actions in an effort to mitigate and manage these risk and uncertainties. However, the Agency cannot predict either the ultimate outcome of these ongoing changes or whether such outcome will have a material adverse effect on its financial position or results of operations.

Other Legal Matters The Agency is engaged in various legal proceedings before federal and state courts and various administrative tribunals incidental to the Agency's operations.

Based on its review of the aforementioned proceedings with outside legal counsel, the Agency believes that the ultimate aggregate liability, if any, resulting from these proceedings will not have a materially adverse effect on the combined financial position or results of operations of the Agency.

NOTE H – SUBSEQUENT EVENTS

On September 10, 2014, the irrevocable direct pay letter of credit agreements with Citibank N.A. related to the 2008 Hydroelectric Refunding Series A and B bonds discussed in Note D were terminated. Replacement Letters of Credit with the Bank of Montreal were issued on the same day. The Bank of Montreal letters of credit are for a period of five years and expire on September 9, 2019.

Beginning July 2014, the Agency provides to employees hired after January 1, 2013 a 401(a) deferred compensation plan pursuant to Internal Revenue Code (IRC) Section 401(k). The plan was established to supplement new CalPERS pension limits for these new members. Contributions to the plan are to be made by the Agency at 4% of employee eligible salary and by employees, who make a one-time irrevocable election to contribute up to 20% of eligible salary. Employee contributions are vested immediately, while Agency contributions vest after 5 years of employee service. Such funds are held by a Trustee for the employees upon retirement from Agency service and, accordingly, are not subject to the general claims of Agency creditors.

The Agency and J.P. Morgan Ventures Energy Corporation (JPMorgan) have entered into an agreement to provide the gas supply and nomination, imbalance, and settlement services for the Agency's Lodi Energy Center project, which began operations at the end of November 2012. In March 2014, JPMorgan announced that it has entered into an agreement with Mercuria Energy Group Limited (MEG) whereby, MEG will acquire JPMorgan's physical commodities business, including the gas supply and nomination, imbalance and settlement services. The transaction closed in October 2014. The Agency anticipates a novation of the existing contract and continuing gas supply and nomination, imbalance, and settlement services for the LEC project.