AND ASSOCIATED POWER CORPORATIONS

Reports on Audit of Combined Financial Statements

For the Years Ended June 30, 2012 and 2011

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

Reports on Audit of Combined Financial Statements

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MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying combined balance sheets of Northern California Power Agency and Associated Power Corporations (the Agency) as of June 30, 2012 and 2011 and the related combined statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Agency as of June 30, 2012 and 2011 and the combined results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *2* through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic 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 basic 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.

Moss Adams LLP

Portland, Oregon
October 29, 2012

Praxity

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, 2012 and 2011. This discussion should be read in conjunction with the Agency's 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 in which it wishes to participate, as to each such project in which an Agency member participates, that member is known as a "project participant." 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.

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

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) and, where not in conflict with GASB pronouncements, the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989. 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 FASB Accounting Standards Codification (ASC) 980, Regulated Operations, the Agency has deferred the net of 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 BALANCE SHEETS, COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS, AND COMBINED STATEMENTS OF CASH FLOW

The combined balance sheets include 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 balance sheets provide 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 assets 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.

NEW PROJECT

The Agency is currently developing a new Agency project – the Lodi Energy Center. The Lodi Energy Center (LEC) is a 280 MW base load, combined cycle, natural gas-fired, combustion turbine generating station (one gas turbine and one steam turbine) to be located in Lodi, California. Environmental review was completed through the Application For Certification Process (AFC) at the California Energy Commission in May 2010 and construction began in August 2010. Commercial operation is expected near the end of 2012. Pursuant to the Lodi Energy Center Power Sales Agreement, the Agency has 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. Estimated cost of construction for the project is $388.5 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

FINANCIAL HIGHLIGHTS

The following is a summary of the Agency's combined financial position and results of operations for the years ended June 30, 2012, 2011, and 2010.

Condensed Balance Sheets	June 30, (in thousands) 2012	2011	2010
Assets			
Current assets	$ 68,042	$ 65,552	$ 66,022
Restricted assets	221,700	312,148	508,400
Electric plant	684,399	584,928	410,304
Other assets and deferred charges	212,421	197,328	186,839
	$ 1,186,562	$ 1,159,956	$ 1,171,565
Liabilities and Net Assets			
Long-term debt, net	$ 843,692	$ 857,643	$ 866,874
Current liabilities	80,481	78,070	84,654
Non-current liabilities and deferred credits	233,992	196,244	186,256
Net assets	28,397	27,999	33,781
	$ 1,186,562	$ 1,159,956	$ 1,171,565

Condensed Statements of Revenues, Expenses and Changes in Net Assets	Years Ended June 30, (in thousands) 2012	2011	2010
Sales for resale	$ 277,257	$ 268,469	$ 304,345
Operating expenses	241,977	250,018	257,851
Net operating revenues	35,280	18,451	46,494
Other expenses	(28,608)	(27,423)	(29,903)
Future recoverable (refundable) costs	6,514	15,426	(5,251)
Refunds to participants	(12,788)	(12,236)	(9,573)
Increase (decrease) in net assets	398	(5,782)	1,767
Net assets, beginning of year	27,999	33,781	32,014
Net assets, end of year	$ 28,397	$ 27,999	$ 33,781

2012 Compared to 2011

ASSETS

Restricted Assets

Restricted assets decreased $90.4 million or 29.0% from the prior year. This is primarily a result of Lodi Energy Center Project expenditures related to construction of $99.3 million and debt service of $17.5 million, which were offset by (1) an increase of General Operating Reserve participant deposits of $7.8 million; (2) increases in the Capital Facilities Project debt service account of $2.3 million, Hydroelectric Project debt service and other reserve accounts of $5.8 million and $4.7 million, respectively, due to the effects of increased debt service requirements and the 2012A refunding; (3) an increase in budgeted reserves of $5.7 million; and, (4) a decrease in interest receivable of $0.1 million due to the declining LEC construction and debt service balances.

Electric Plant

The Agency has invested approximately $684.4 million in plant assets and construction work in progress, net of accumulated depreciation, at June 30, 2012. Net utility plant makes up approximately 57.7% of the Agency's assets. The $99.5 million increase from the prior year is a result of an increase in construction work in progress of $122.6 million primarily related to the Lodi Energy Center Project, offset by $24.0 million in depreciation, net of retirements of $0.9 million. For additional detail, refer to Note B.

Other Assets and Deferred Charges

Other assets and deferred charges increased $15.1 million compared to 2011. This was primarily due to reduced bond principal collections compared to scheduled asset depreciation and bond cost amortizations.

LIABILITIES

Long-Term Debt, net

Long-term debt decreased $14.0 million in 2012 as a result of scheduled principal payments of $11.2 million and the net change in current portion of long-term debt of $9.5 million offset by the effects of $3.7 million related to the refunding of certain Hydroelectric bonds and approximately $3.0 million in amortization of deferred losses on bond refunding and net discounts. For additional detail, refer to Note D.

Current Liabilities

Current liabilities increased by $2.4 million in 2012. This is primarily due to an increase in current portion of long-term debt of $9.5 million, which was offset by decreases in accounts and retentions payable - restricted of $6.0 million related primarily to the Lodi Energy Center Project, and net decreases of approximately $1.1 million in accrued interest, reserves and advances.

Non-Current Liabilities and Deferred Credits

Non-current liabilities and deferred credits increased by approximately $37.7 million in 2012. This was primarily due to (1) a $16.8 million increase in operating reserves and other deposits, including increases of $7.8 million in the General Operating Reserve, an increase in budgeted reserves of $4.9 million, and additional deposits of $4.1 million to meet Balancing Account and project O&M reserve requirements; (2) an $11.3 million increase of deferred revenues primarily related to the Lodi Energy Center Project; and, (3) a net increase of $9.6 million in the interest rate swap liability.

MANAGEMENT'S DISCUSSION AND ANALYSIS

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

2012 Compared to 2011 - Continued

CHANGES IN NET ASSETS

The Agency is intended to operate on a not-for-profit basis. Therefore, net assets primarily represent 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

Sales for resale revenues for fiscal year 2012 were approximately $8.8 million or 3.3% 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 $6.0 million or 2.5% which was caused primarily by increased budget requirements for steam drilling and scheduled debt service, which was offset by reduced power purchase requirements due to a decline in participant demand with a lower average cost of power and a reduction of budgeted management services requirements compared to 2011; and (2) higher other third-party revenues of $2.8 million or 11.3%, which was the result of increased drill rig rental activity of $3.1 million and additional solar rebates of $1.7 million. This additional revenue was offset by $2.0 million of lower market power sales, ancillary services and other revenues.

Operating Expenses

Operating expenses decreased by approximately $8.0 million or 3.2% in fiscal year 2012, as compared with the prior year. This was the net result of the following: (1) the cost of the purchased power component decreased by $7.3 million or 6.4%, largely due to the reduced need for power previously noted above; (2) the operations cost component increased by $3.5 million or 11.1% primarily due to increased steam field drilling expenses of $5.2 million offset by a net decrease in other projects of $1.7 million; and (3) decreases in maintenance expense, depreciation and administrative expenses totaling approximately $4.4 million.

2011 Compared to 2010

ASSETS

Restricted Assets

Restricted assets decreased $196.3 million or 38.6% from the prior year. This is primarily a result of expenditures related to the Lodi Energy Center Project of $147.1 million, a reduction of General Operating Reserve participant deposits of $11.3 million, reduction of geothermal construction funds of $3.0 million used for the completion of work on unit 4 turbine and steam path upgrades, and net reductions of approximately $34.9 million in debt service and reserve accounts resulting primarily from lower debt service requirements and the final maturities of certain Geothermal, Combustion Turbine and Transmission bond issues.

Electric Plant

The Agency has invested approximately $584.9 million in plant assets and construction work in progress, net of accumulated depreciation, at June 30, 2011. Net utility plant makes up approximately 50.4% of the Agency's assets. The $174.6 million increase from the prior year is a result of net capital additions of $21.4 million and an increase in construction work in progress of $178.8 million primarily related to the Lodi Energy Center Project, offset by $25.6 million in depreciation, net of retirements. Net capital additions were primarily related to the unit 4 turbine and steam path upgrades. For additional detail, refer to Note B.

2011Compared to 2010 - Continued

Other Assets and Deferred Charges

Other assets and deferred charges increased $10.5 million compared to 2010. This was primarily due to reduced bond principal collections compared to scheduled asset depreciation and bond cost amortizations.

LIABILITIES

Long-Term Debt, net

Long-term debt decreased $9.2 million in 2011 as a result of scheduled principal payments of $41.7 million offset by the net change in current portion of long-term debt of $30.3 million and approximately $2.2 million in amortization of deferred losses on bond refunding and net discounts. For additional detail, refer to Note D.

Current Liabilities

Current liabilities decreased by $6.6 million in 2011. This is primarily due to a decrease in current portion of long-term debt of $30.3 million, which was offset by increases in accounts and retentions payable - restricted of $21.4 million related to the Lodi Energy Center Project, and net increases of approximately $2.3 million in accrued interest, accounts payable, reserves and advances.

Non-Current Liabilities and Deferred Credits

Non-current liabilities and deferred credits increased by approximately $10.0 million in 2011. This was primarily due to a $20.8 million increase in deferred revenues related to the Lodi Energy Center Project offset by reductions of approximately $6.1 million in operating reserves and other deposits and $4.7 million of interest rate swap liability.

CHANGES IN NET ASSETS

The Agency is intended to operate on a not-for-profit basis. Therefore, net assets primarily represent 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 Combined Financial Statements.

Sales For Resale

Sales for resale revenues for fiscal year 2011 were approximately $35.9 million or 11.8% less than in the prior fiscal year. This was the net result of the following: (1) lower sales for resale revenues from Agency participants by approximately $51.2 million or 17.4%, which was caused by reduced revenue requirements due to: $33.4 million lower budgeted plant costs; reduced power purchase requirements of $9.4 million due to a decline in participant demand with a lower average cost of power; reduced natural gas pass through sales of $4.3 million; a $4.1 million reduction of management services costs compared to 2010; and (2) higher other third-party revenues from electric power and ancillary services by $15.3 million or 159.0%, which was primarily caused by increased availability of excess energy for sale from the Agency's power resources.

Operating Expenses

Operating expenses decreased by approximately $7.8 million or 3.0% in fiscal year 2011, as compared with the prior year. This was the net result of the following: (1) the cost of the purchased power component decreased by $12.3 million or 9.7%, largely due to the reduced need for power previously noted above; (2) the transmission cost component increased by $10.2 million or 26.2% primarily due to rate increases for transmission services from the Independent System Operator; and (3) decreases in operations expense and

MANAGEMENT'S DISCUSSION AND ANALYSIS

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

depreciation totaling approximately $9.4 million were offset by a slight increase of $3.5 million in maintenance and administrative expenses.

FINANCING ACTIVITIES

During 2012 the Agency continued to implement strategies to further improve its competitive position and financial flexibility. These actions included (1) the refunding of fixed rate debt for debt service savings and (2) replacing the letter of credit provider related to outstanding variable rate bonds.

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 Dexia Credit Local, which were to expire on April 2, 2013. Due to certain impacts on Dexia's credit rating and the resulting negative potential effect on NCPA's variable interest rate, on September 27, 2011, the irrevocable direct pay letter of credit agreements with Dexia Credit Local related to the 2008 Hydroelectric Refunding Series A and B bonds were terminated. Replacement letters of credit with Citibank N.A. were issued on the same day. The Citibank letters of credit are for a period of three years and expire on September 27, 2014.

Ratings assigned to the Agency's outstanding project bonds as of June 30, 2012 are as follows:

Debt Credit Ratings:	Standard & Poor's	Fitch	Moody's
Geothermal	A-, stable	A+, stable	A1, stable
Hydroelectric	A+, stable	A+, stable	A2, stable
Capital Facilities	A-, stable	Not rated	A3, stable
Lodi Energy Center (Issue One)	A-, stable	A, stable	A3, stable
Lodi Energy Center (Issue Two)	AAA, stable	Not rated	Aa2, stable

OUTLOOK

The Agency's vision is to provide reliable, affordable, and clean energy to our members in an environmentally responsible way. We partner with our state and federal governments to support forward thinking policies that promote clean energy sources, protect our environment, and reflect the interests of the consumers we serve.

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 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.

COMBINED BALANCE SHEETS

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

	June 30,	
	2012	2011
ASSETS	(in thousands)	
CURRENT ASSETS		
Cash and cash equivalents	$ 56,553	$ 57,518
Accounts receivable		
Participants	3,373	52
Other	1,215	1,124
Interest receivable	12	29
Inventory and supplies – at average cost	5,923	5,807
Prepaid expenses	966	1,022
TOTAL CURRENT ASSETS	68,042	65,552
RESTRICTED ASSETS		
Cash and cash equivalents	68,932	161,352
Investments	152,575	150,467
Interest receivable	193	329
TOTAL RESTRICTED ASSETS	221,700	312,148
ELECTRIC PLANT		
Electric plant in service	1,072,275	1,073,021
Less: accumulated depreciation	(804,203)	(781,848)
	268,072	291,173
Construction work-in-progress	416,327	293,755
TOTAL ELECTRIC PLANT	684,399	584,928
OTHER ASSETS AND DEFERRED CHARGES		
Deferred expenses to be recovered in future years	200,000	183,686
Unamortized debt issuance expenses	11,168	12,492
Preliminary survey and investigation costs	1,253	1,150
TOTAL OTHER ASSETS AND DEFERRED CHARGES	212,421	197,328
TOTAL ASSETS	$ 1,186,562	$ 1,159,956

See notes to combined financial statements

COMBINED BALANCE SHEETS

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

	June 30, 2012	June 30, 2011
LIABILITIES	(in thousands)	
CURRENT LIABILITIES		
Accounts payable	$ 21,715	$ 22,060
Accounts and retentions payable – restricted for construction	19,293	24,997
Member advances	2,158	1,954
Operating reserves	3,111	3,125
Current portion of long-term debt	20,635	11,175
Accrued interest payable	13,569	14,759
TOTAL CURRENT LIABILITIES	80,481	78,070
NON-CURRENT LIABILITIES AND DEFERRED CREDITS		
Operating reserves and other deposits	127,163	110,409
Deferred revenues – regulatory liability	84,487	73,141
Deferred interest rate swap liability	22,342	12,694
Long-term debt, net	843,692	857,643
TOTAL NON-CURRENT LIABILITIES AND DEFERRED CREDITS	1,077,684	1,053,887
TOTAL LIABILITIES	1,158,165	1,131,957
NET ASSETS		
Invested in capital assets, net of related debt	(51,007)	(49,429)
Restricted	52,873	50,652
Unrestricted	26,531	26,776
TOTAL NET ASSETS	28,397	27,999
TOTAL LIABILITIES AND NET ASSETS	$ 1,186,562	$ 1,159,956

See notes to combined financial statements

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

	Years Ended June 30,	
	2012	2011
	(in thousands)	
SALES FOR RESALE		
Participants	$ 249,439	$ 243,463
Other Third-Party	27,818	25,006
TOTAL SALES FOR RESALE	277,257	268,469
OPERATING EXPENSES		
Purchased power	107,158	114,428
Transmission	49,440	49,366
Operations	35,396	31,868
Depreciation	24,008	25,595
Administrative and general	15,296	16,001
Maintenance	10,679	12,760
TOTAL OPERATING EXPENSES	241,977	250,018
NET OPERATING REVENUES	35,280	18,451
OTHER (EXPENSES) REVENUES		
Interest expense	(45,966)	(46,063)
Interest income	1,229	1,940
Capitalized interest	15,984	15,637
Amortization of deferred charges	(410)	(464)
Other	555	1,527
TOTAL OTHER EXPENSES	(28,608)	(27,423)
FUTURE RECOVERABLE AMOUNTS	6,514	15,426
REFUNDS TO PARTICIPANTS	(12,788)	(12,236)
INCREASE (DECREASE) IN NET ASSETS	398	(5,782)
NET ASSETS, Beginning of year	27,999	33,781
NET ASSETS, End of year	$ 28,397	$ 27,999

COMBINED STATEMENTS OF CASH FLOW

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

	Years Ended June 30,	
	2012	2011
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from participants	$ 257,464	$ 264,747
Received from others	31,727	28,216
Payments for employee services	(30,592)	(29,894)
Payments to suppliers for goods & services	(180,746)	(181,245)
NET CASH FROM OPERATING ACTIVITIES	77,853	81,824
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and sales of investments	210,240	256,782
Interest received on cash and investments	1,799	3,282
Purchase of investments	(212,919)	(283,692)
NET CASH FROM INVESTING ACTIVITIES	(880)	(23,628)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Expenditures for debt issuance costs	(2,431)	(197)
Acquisition and construction of electric plant	(107,495)	(184,583)
Interest paid on long-term debt	(44,175)	(42,114)
Principal repayment on long-term debt	(11,175)	(41,475)
Proceeds from bond issues	94,108	-
Payments to refund debt	(87,059)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(158,227)	(268,369)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Advances from members	204	(154)
Other proceeds	556	1,527
Preliminary survey and investigation costs	(103)	(73)
Refunds to participants	(12,788)	(12,236)
NET CASH FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES	(12,131)	(10,936)
DECREASE IN CASH AND CASH EQUIVALENTS	(93,385)	(221,109)
CASH AND CASH EQUIVALENTS		
Beginning of year	218,870	439,979
End of year	$ 125,485	$ 218,870

See notes to combined financial statements

COMBINED STATEMENTS OF CASH FLOW-Continued

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

	Years Ended June 30,	
	2012	2011
	(in thousands)	
RECONCILIATION OF NET OPERATING REVENUES TO NET CASH FROM OPERATING ACTIVITIES		
Net operating revenues	$ 35,280	$ 18,451
Adjustments to reconcile net operating revenues to net cash from operating activities:		
Depreciation	24,008	25,595
	59,288	44,046
CASH FLOWS IMPACTED BY CHANGES IN		
Accounts receivable	(3,412)	1,552
Inventory and prepaid expense	(60)	(312)
Operating reserves and other deposits	16,740	(5,960)
Deferred revenues	11,346	20,777
Accounts payable	(6,049)	21,721
NET CASH FROM OPERATING ACTIVITIES	$ 77,853	$ 81,824
CASH AND CASH EQUIVALENTS AS STATED IN THE COMBINED BALANCE SHEETS		
Cash and cash equivalents - current assets	$ 56,553	$ 57,518
Cash and cash equivalents - restricted assets	68,932	161,352
End of year	$ 125,485	$ 218,870

NOTES TO COMBINED FINANCIAL STATEMENTS

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS June 30, 2012 and 2011

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) and, where not in conflict with GASB pronouncements, the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989. 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 Operating cash is maintained in interest-bearing depository accounts, which are fully collateralized, in accordance with state law. Cash balances are 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.

Cash Equivalents Cash equivalents are short-term investments purchased with original maturities of 90 days or less. Cash equivalents consist primarily of portions of guaranteed investment contracts, U.S. Treasury and Agency Securities, California State Treasurer's pooled Local Agency Investment Fund (LAIF), and money market mutual funds.

Restricted Cash and Investments Long-term debt and other agreements require the maintenance of certain restricted asset accounts. Cash and investments held in these accounts are restricted for specific uses, including project construction, operations, debt service, and special reserve requirements. Investments are stated at cost adjusted for amortization of premiums and accretion of discounts, which approximates market.

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% of the average electric plant in service for the Agency during 2012 and 2011. 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, 2012 is as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
		(in thousands)		
Structures and Leasehold Improvements	$ 292,944	$ 68	$ -	$ 293,012
Reservoirs, Dams and Waterways	249,449	79	(210)	249,318
Equipment	355,205	931	(1,614)	354,522
Furniture and Fixtures	3,478	-	-	3,478
	901,076	1,078	(1,824)	900,330
Accumulated Depreciation	(781,848)	(24,008)	1,653	(804,203)
	119,228	(22,930)	(171)	96,127
Construction Work-In-Progress	293,755	123,310	(738)	416,327
Land and Land Rights	171,945	-	-	171,945
Electric Plant, Net	$ 584,928	$ 100,380	$ (909)	$ 684,399

NOTES TO COMBINED FINANCIAL STATEMENTS - Continued

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

A summary of changes in electric plant for the year ended June 30, 2011 is as follows:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
		(in thousands)		
Structures and Leasehold Improvements	$ 292,661	$ 4,011	$ (3,728)	$ 292,944
Reservoirs, Dams and Waterways	249,436	13	-	249,449
Equipment	352,850	15,672	(13,317)	355,205
Furniture and Fixtures	1,853	1,701	(76)	3,478
	896,800	21,397	(17,121)	901,076
Accumulated Depreciation	(773,470)	(25,596)	17,218	(781,848)
	123,330	(4,199)	97	119,228
Construction Work-In-Progress	114,933	199,362	(20,540)	293,755
Land and Land Rights	172,041	-	(96)	171,945
Electric Plant, Net	$ 410,304	$ 195,163	$ (20,539)	$ 584,928

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 Surveys and Investigations 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.

Deferred Expenses/Revenues to be Recovered/Refunded in Future Years In accordance with FASB Accounting Standards Codification (ASC) 980, Regulated Operations, the Agency has deferred the net of 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 the 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 ASC 980.

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. Revenues used to acquire electric plant have also been deferred to future years. As of June 30, 2012 and 2011, the Agency had accumulated deferred expenses (net of deferred revenues) to be recovered in future years of approximately $115,513,000 and $110,545,000, respectively.

Unamortized Debt Issuance Expenses Debt issuance expenses are amortized over the term of the related issue. Amortization is computed using the effective interest method.

Unamortized Excess Cost on Advance Refunding of Debt Gains and losses on refunding of debt are included as a component of long-term debt and are amortized to interest expense using the effective interest method over the shorter of the term of the original debt refunded or the term of the refunding debt obligation.

Long-Term Debt Long-term debt is stated net of unamortized discounts and premiums and excess cost on advance refunding of debt. 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 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 authorized by the Agency's Commission during its 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 2012 and 2011, 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, 2012 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.

NOTES TO COMBINED FINANCIAL STATEMENTS - Continued

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

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 balance sheets for cash and cash equivalents approximates its fair value.

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

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.

Net Assets The Agency classifies its net assets into three components; invested in capital assets net of related debt, restricted and unrestricted. These classifications are defined as follows:

Invested in Capital Assets, Net of Related Debt – This component of net assets consists of capital assets, net of accumulated depreciation reduced by outstanding debt balances, net of unamortized debt expenses and unspent bond proceeds.

Restricted – This component consists of net assets 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 of net assets consists of net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted".

The Agency and the Associated Power Corporations are intended to operate on a not-for-profit basis. Therefore, any balance of net assets 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 for expenditure by the Agency are refunded to the participating members. Estimated encumbrances at June 30, 2012 and 2011 were $6,116,000 and $4,495,000, respectively. In the event the Agency incurs a negative net assets balance, the balance would be subject to recovery in rates under the terms of the related take-or-pay member agreements. See Note D.

Recent Accounting Pronouncements In June 2011, the Agency adopted GASB issued Statement No.64, Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB No. 53. GASB No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This statement is effective for the Agency in the current fiscal year. This statement had no material impact on the financial statements of the Agency.

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.

NOTES TO COMBINED FINANCIAL STATEMENTS - Continued

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

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 and reverse 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 cost adjusted for amortization of premiums and accretion of discounts, which approximates market.

Investments at June 30, 2012 Description	Carrying Value	Market Value	Wtd. Avg Maturity (In years)
	(in thousands)		
U.S. Agencies	$ 152,575	$ 152,780	1.01
TOTAL INVESTMENTS	$ 152,575	$ 152,780	

Investments at June 30, 2011 Description	Carrying Value	Market Value	Wtd. Avg Maturity (In years)
	(in thousands)		
U.S. Agencies	$ 149,431	$ 149,646	1.46
U.S. Treasury	1,036	1,036	.16
TOTAL INVESTMENTS	$ 150,467	$ 150,682	

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.

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:	2012	2011
	(in thousands)	
Geothermal Project		
2009 Series A		
Serial, 4.00-5.50% due 2012-2025	$ 33,790	$ 35,610
Total Geothermal Project	33,790	35,610
Hydroelectric Project		
1992 Refunding Series A		
Term, 6.30% due 2019	36,770	36,770
1998 Refunding Series A		
Term, 5.00-5.20% due 2024-2033	-	88,355
2008 Refunding Series A		
Term, adjustable rate, Effective rate 3.718% and 3.578% respectively, due 2033	85,160	85,160
2008 Refunding Series B (Taxable)		
Term, adjustable rate, Effective rate 3.718% and 3.578% respectively, due 2021	2,845	2,965
2008 Refunding Series C		
Serial, 4.00-5.00% due 2011-2025	118,345	126,980
2010 Refunding Series A		
Serial, 4.00-5.00% due 2014-2024	101,260	101,260
2010 Refunding Series B		
Serial, 2.75-3.25% due 2013-2014	8,025	8,025
2012 Refunding Series A		
Serial, 5.00% due 2025-2033	76,665	-
2012 Refunding Series B		
Serial, 4.32% due 2025	7,120	-
Total Hydroelectric Project	436,190	449,515

NOTES TO COMBINED FINANCIAL STATEMENTS - Continued

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

Long-term debt and stated rates at June 30:	2012	2011
	(in thousands)	
Capital Facilities Project		
2010 Refunding Series A		
Serial, 2.00-5.25% due 2013-2026	54,520	55,120
Total Capital Facilities Project	54,520	55,120
Lodi Energy Center, Issue One		
2010 Series A		
Serial, 3.00-5.00% due 2013-2020	42,310	42,310
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% due 2013-2019	30,540	30,540
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	395,720	395,720
Total Long-Term Debt Outstanding	920,220	935,965
Less: Unamortized net cost on advance refunding	(83,688)	(86,927)
Unamortized premium (discount), net	27,795	19,780
Current portion	(20,635)	(11,175)
Total Long-Term Debt, Net	$ 843,692	$ 857,643

The Agency had the following long-term debt activity during FY 2012:

	Balance June 30, 2011	Additions	Payments, Refundings & Amortizations	Balance June 30, 2012
	(in thousands)			
Revenue Bonds	$ 935,965	$ 83,785	$ (99,530)	$ 920,220
Unamortized premiums and discounts	19,780	10,324	(2,309)	27,795
Unamortized cost on advance refund of debt	(86,927)	-	3,239	(83,688)
TOTAL	$ 868,818	$ 94,109	$ (98,600)	$ 864,327

The Agency had the following long-term debt activity during FY 2011:

	Balance June 30, 2010	Additions	Payments, Refundings & Amortizations	Balance June 30, 2011
	(in thousands)			
Revenue Bonds	$ 977,440	$ -	$ (41,475)	$ 935,965
Unamortized premiums and discounts	23,235	-	(3,455)	19,780
Unamortized cost on advance refund of debt	(92,326)	-	5,399	(86,927)
TOTAL	$ 908,349	$ -	$ (39,531)	$ 868,818

Debt service requirements for each of the next five years and in five-year cumulative increments thereafter as of June 30, 2012:

	Principal	Interest	Total
	(in thousands)		
2013	$ 20,635	$ 47,254	$ 67,889
2014	32,960	48,960	81,920
2015	32,390	47,435	79,825
2016	33,905	45,955	79,860
2017	35,500	44,392	79,892
2018-2022	202,665	193,184	395,849
2023-2027	211,400	137,544	348,944
2028-2032	172,610	88,685	261,295
2033-2037	118,480	41,508	159,988
2038-2040	59,675	11,161	70,836
	$ 920,220	$ 706,078	$ 1,626,298

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.

NOTES TO COMBINED FINANCIAL STATEMENTS - Continued

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

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:

		2012	2011
		(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.

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 entered into two irrevocable direct pay letter of credit agreements with Dexia Credit Local, which were to expire on April 2, 2013. On September 27, 2011, the irrevocable direct pay letter of credit agreements with Dexia Credit Local related to the 2008 Hydroelectric Refunding Series A and B bonds were

terminated. Replacement Letters of Credit with Citibank N.A. were issued on the same day. 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		$1,420,686	
Fair Value--Due from (to) Counterparty	($22,779,600)		$437,523	
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	-5.334%
Variable Payments (from) to Counterparty	54% LIBOR+.54%*	-0.681%	100% of LIBOR*	0.245%
Net Interest Rate Swap Payments		3.138%		-5.088%
Variable-Rate Bond Payments	SIFMA **	0.580%	SIFMA **	1.314%
Effective Interest Rate on Bonds		3.718%		-3.774%

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)

NOTES TO COMBINED FINANCIAL STATEMENTS - Continued

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

The total fair value of outstanding swap instruments was a net liability of $22,342,000 and $12,694,000 at June 30, 2012 and June 30, 2011, respectively. These amounts are reported as a non-current liability. Consistent with hedge accounting treatment required for derivative instruments, fair value is reported as a component of deferred expenses to be recovered in future years on the balance sheets. For the swaps that were deemed investment instruments under GASB 53, the changes are reported in the statement of revenues, expenses and changes in net assets. The value of the swaps noted above reflects the estimated fair value of the swaps at June 30, 2012 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, 2012, 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	A3
National Public Finance Guarantee formerly MBIA (the Agency's insurer)	BBB	Baa2

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 The Agency is currently constructing a new base load, combined cycle, natural gas-fired, combustion turbine generating station (one gas turbine and one steam turbine) to be located in Lodi, California, next to the Capital Facilities Project discussed above. Although the LEC will be capable of operating at 296 MW, it is expected by the terms of the transmission interconnection agreement to operate at 280 MW. Construction began in August 2010. Commercial operation is expected by late 2012. Pursuant to the Lodi Energy Center Power Sales Agreement, the Agency has 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. Estimated cost of construction for the project is approximately $388.5 million. 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.

In June 2010, the Agency issued four series of bonds for the purpose of providing funds to finance the costs of acquisition and construction of the LEC project for all participants, except Modesto Irrigation District. In addition to the costs of construction, financing included interest costs during the construction period, as well as contributions to the Debt Service Reserve Fund, Operating and Maintenance Reserve Account and to pay the costs of issuance of the bonds.

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 current estimate of the costs of construction of the project. Modesto Irrigation District is not liable for any Agency debt service obligations for the project.

NOTES TO COMBINED FINANCIAL STATEMENTS - Continued

NORTHERN CALIFORNIA POWER AGENCY
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NOTE E -- RETIREMENT PLAN

The Agency is a participating public employer in the California Public Employees Retirement System (CalPERS) Local Miscellaneous 2.5% at Age 55 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.

Summary of certain plan provisions and benefits in effect for fiscal year ended June 30, 2012:

Required service for eligibility	5 full-time years
Benefit payments (% of highest 36 consecutive months' annual salary)	Monthly for life
Minimum retirement age	50
Monthly benefit	2.00% @ age 50 to 2.50% @ age 55 & up
Required employee contribution rate (w/o employer pickup)	8.000%
Required employer contribution rates	10.293% normal service 16.261% amortization bases
Actuarial annual required contribution (based on estimated payroll)	$4,825,514

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 $804,569 and $738,085 for fiscal years 2012 and 2011, respectively. The Agency's annual required contribution (based on actuarially established rates) was determined as part of a June 30, 2010, actuarial valuation using the entry age normal actuarial cost method. The primary actuarial assumptions included a 7.75% annual investment rate of return (net of administrative expenses); forecasted annual salary increases that vary by age, service and type of employment ranging from 3.55% to 14.45%; a 3.25% overall annual payroll growth; an individual salary growth of 3.00%; an annual production growth of .25%; and, an inflation component of 3.00%. A 15-year rate smoothed market approach is used to spread investment returns. At fiscal year end June 30, 2012, the Agency had 158 eligible active employees and 85 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, 2008	$ 2,692,579	100.0%	-
June 30, 2009	$ 2,890,336	100.0%	-
June 30, 2010	$ 3,320,661	100.0%	-
June 30, 2011	$ 3,842,787	100.0%	-
June 30, 2012	$ 4,825,514	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, 2006	49,211,093	23,829,467	25,381,626	48.4%	14,326,365	177.2%
June 30, 2007	54,443,624	28,955,468	25,488,156	53.2%	15,378,571	165.7%
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%

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, 2010 valuation date was approximately 25 years. Operating gains and losses of the plan are amortized over a 30-year rolling period, which results in an amortization of about 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period. CalPERS actuarial valuations become available approximately two years after the Agency's fiscal year-end.

NOTES TO COMBINED FINANCIAL STATEMENTS - Continued

NORTHERN CALIFORNIA POWER AGENCY
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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, 2012:

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, 2011 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, 2012, the Agency had 157 active eligible employees and 96 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, 2008	900,135	100.0%	-
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%	-

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, 2007	$ 17,232,609	$ 11,400,322	$ 5,832,287	66.16%	$ 14,740,187	39.6%
June 30, 2008	16,114,250	12,213,980	3,900,270	75.80%	15,491,511	25.2%
June 30, 2010	18,936,156	13,975,353	4,960,803	73.80%	16,355,901	30.3%
June 30, 2011*	21,599,763	14,464,987	7,134,776	66.97%	18,373,660	38.8%

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, 2011, 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.

* 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 actuarial valuation, as prescribed by CalPERS.

NOTES TO COMBINED FINANCIAL STATEMENTS - Continued

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

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 2014.

Power Purchase Contracts The Agency had commitments of approximately $77.9 million in connection with various power purchase contracts as of June 30, 2012. The contracts, extending through June 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 - Summary of 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, NCPA entered into an agreement with Constellation New Energy Gas Division to provide natural gas and act as the Agency's natural gas operating agent. The contract automatically renewed each January 1, unless terminated earlier by six months written notice by either party. On June 30, 2011, Constellation provided NCPA with a six-month notice of termination, as a result of which the Constellation Natural Gas Agreement terminated on December 31, 2011.

  NCPA entered into a replacement agreement with Sequent Energy Management, L.P. effective January 1, 2012 to provide gas supply, scheduling, nomination, balancing and settlement services for the management of NCPA's pipeline capacity. In June 2012, Sequent provided NCPA with a six-month notice of termination, as a result of which the Sequent Energy Management, L.P. agreements will terminate on December 31, 2012. NCPA expects to negotiate a replacement agreement with another party to provide gas supply and management services prior to the termination of the Agreement.
- NCPA and J.P. Morgan Ventures Energy Corporation have entered into an agreement to provide the gas supply and nomination, imbalance, and settlement services for NCPA's Lodi Energy Center project scheduled to begin operation at the end of 2012.
- The Agency had approximately $9.0 million of gas purchase commitments at June 30, 2012. The commitments, extending through December 2016, 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 operator 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 2036.

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 $6 million in a reserve for such purpose as of June 30, 2012.

NOTES TO COMBINED FINANCIAL STATEMENTS - Continued

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

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 that 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.

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

In September 2012, the Agency issued $12,910,000 of fixed rate tax exempt Geothermal Project No. 3 bonds for the purpose of providing funds to finance the costs of acquisition and construction of certain improvements to the Geothermal 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, payable semi-annually through July 1, 2022. The bonds have a coupon interest rate of 2.289%.