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NORTHERN CALIFORNIA POWER AGENCY

AND ASSOCIATED POWER CORPORATIONS

Reports on Audit of Combined Financial Statements

For the Year Ended June 30, 2011 and 2010

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

Reports on Audit of Combined Financial Statements

Table of Contents

For the Year Ended June 30, 2011 and 2010

	Page
Independent Auditor's Report	1
Management's Discussion and Analysis – Required Supplementary Information	2
Combined Financial Statements:	
Combined Balance Sheets	10
Combined Statements of Revenues, Expenses and Changes in Net Assets	12
Combined Statements of Cash Flow	13
Notes to Combined Financial Statements	15

2011 NCPA ANNUAL REPORT HOME | FINANCIALS | MEMBERS' ROSTER | MEMBER STATS | STORY

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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, 2011 and 2010 and the related combined statements of revenues, expenses and changes in net assets and cash flow 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, 2011 and 2010 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.

The management's discussion and analysis preceding the combined financial statements is not a required part of the basic combined financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Moss Adams LLP

Portland, Oregon
October 27, 2011

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, 2011 and 2010. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, was implemented in fiscal year 2010. This accounting standard requires that all derivative financial instruments be reported at fair value on the balance sheets and tested for effectiveness. Ineffective hedges are deemed investment instruments under GASB 53, for which changes are reported in the statement of revenues, expenses and changes in net assets. The primary derivative instruments currently used by the Agency are interest rate swaps, which are used to reduce rate risk for variable rate debt. GASB Statement No. 53 and its impact on the financial statements are addressed in Note D – Projects and Related Financing.

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 by summer 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

improvements and to pay its share of the operation and maintenance expenses based on its GES. Estimated cost of construction for the project is $375.3 million.

FINANCIAL HIGHLIGHTS

The following is a summary of the Agency's combined financial position and results of operations for the years ended June 30, 2011, 2010, and 2009.

Condensed Balance Sheets	June 30, (000's omitted) 2011	2010	2009 (as restated)
Assets			
Current assets	$ 65,552	$ 66,022	$ 73,916
Restricted assets	312,148	508,400	196,508
Electric utility plant, net	584,928	410,304	335,481
Other assets and deferred charges	197,328	186,839	218,760
	$ 1,159,956	$ 1,171,565	$ 824,665
Liabilities and Net Assets			
Long-term debt	$ 857,643	$ 866,874	$ 503,030
Current liabilities	78,070	84,654	134,145
Non-current liabilities and deferred credits	196,244	186,256	155,476
Net assets	27,999	33,781	32,014
	$ 1,159,956	$ 1,171,565	$ 824,665

Condensed Statements of Revenues, Expenses and Changes in Net Assets	Years Ended June 30, (000's omitted) 2011	2010	2009 (as restated)
Sales for resale	$ 268,469	$ 304,345	$ 350,755
Operating expenses	250,018	257,851	301,251
Net operating revenues	18,451	46,494	49,504
Other expenses	(27,423)	(29,903)	(30,475)
Future recoverable (refundable) costs	15,426	(5,251)	(2,871)
Refunds to participants	(12,236)	(9,573)	(10,048)
Increase (decrease) in net assets	(5,782)	1,767	6,110
Net assets, beginning of year	33,781	32,014	25,904
Net assets, end of year	$ 27,999	$ 33,781	$ 32,014

MANAGEMENT'S DISCUSSION AND ANALYSIS

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

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 Utility Plant, Net
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.

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
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 $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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

2011 Compared to 2010 - 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 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 depreciation totaling approximately $9.4 million were offset by a slight increase of $3.6 million in maintenance and administrative expenses.

2010 Compared to 2009

ASSETS

Current Assets
The Agency's current assets decreased $7.9 million or 10.7% during 2010 primarily due to cash used by operating, and non-capital financing activities offset by increases in accounts receivable.

Restricted Assets
Restricted assets increased $311.9 million or 158.7% from the prior year. This is primarily a result of Lodi Energy Center Project funds of $316.1 million received from the sale bonds and a net increase of $19.9 million in General Operating Reserve participant deposits, which were offset by reductions of geothermal construction funds of $12.4 million used for the completion of the Bear Canyon solar array and continuing work on unit 4 steam path upgrades, and net reductions of approximately $11.7 million in debt service and reserve accounts resulting primarily from lower debt service requirements and the refunding of certain Hydroelectric and Capital Facilities bonds.

MANAGEMENT'S DISCUSSION AND ANALYSIS

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

2010 Compared to 2009- Continued

Electric Utility Plant, Net
The Agency has invested approximately $410.3 million in plant assets and construction work in progress, net of accumulated depreciation, at June 30, 2010. Net utility plant makes up approximately 32.5% of the Agency's assets. The $74.8 million increase from the prior year is a result of net capital additions of $10.6 million and an increase in construction work in progress of $98.0 million primarily related to the Lodi Energy Center Project, offset by $33.8 million in depreciation, net of retirements. Net capital additions were primarily related to the Bear Canyon photovoltaic array. For additional detail, refer to Note B.

Other Assets and Deferred Charges
Other assets and deferred charges decreased $31.9 million compared to 2009. This was primarily due to a $31.0 million transfer of Lodi Energy Center preliminary survey and investigation costs to construction work in progress.

LIABILITIES

Long-Term Debt
Long-term debt increased $363.8 million in 2010 as a result of the 2010 Lodi Energy Center Project bond issuance, which was offset by the effects of the refunding of certain Hydroelectric, Capital Facilities bonds and scheduled principal payments of $39.9 million. For additional detail, refer to Note D.

In January 2010, the Agency refunded all of 1999 Capital Facilities Refunding Revenue Bonds Series A totaling $62,525,000. The refunding was completed through the issuance of $3,640,000 fixed rate tax exempt debt (2010 Series A) and $51,480,000 fixed rate debt (2010 Series B) with yields of 0.95% to 4.70% with varying principal maturities ranging from $600,000 to $5,390,000 through August 1, 2025. The refunding is estimated to have decreased project debt service by an estimated $4.0 million over the next 15 years, which results in an estimated economic gain (difference between the present values of the old and new debt service payments) to the Agency of approximately $3.8 million.

In April 2010, the Agency refunded $109,145,000 principal amount of 1998 Hydroelectric Refunding Revenue Bonds Series A maturing on July 1 in each of the years 2011 through 2018 and in the year 2023. The refunding was completed through the issuance of $101,260,000 fixed rate tax exempt debt (2010 Series A) and $8,025,000 fixed rate taxable debt (2010 Series B) with yields of 1.62% to 4.31% with varying principal maturities ranging from $1,755,000 to $15,230,000 through July 1, 2023. The refunding is estimated to have decreased project debt service by an estimated $6.8 million over the next 14 years, which results in an estimated economic gain to the Agency of approximately $6.5 million.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

2010 Compared to 2009- Continued

Lodi Energy Center Revenue Bonds, Issue One provided financing for 11 project participants with 55.7857% GES. This financing consisted of $78,330,000 of fixed rate tax exempt bonds (Series A) and $176,625,000 of fixed rate federally taxable direct payment Build America Bonds (Series B). The bonds are of varying principal amounts ranging from $4,540,000 to $15,975,000 through June 1, 2040. The tax exempt bonds yield interest at rates from 1.95% to 4.75% through 2025. The Build America Bonds bear interest at 7.311%, with 35% interest subsidy payments due from the Federal Government semiannually, providing for net interest costs of 4.7522%, maturing on June 1, 2040.

Lodi Energy Center Revenue Bonds, Issue Two provided financing for the California Department of Water Resources' 33.5% GES. This financing consisted of $30,540,000 of fixed rate tax exempt bonds (Series A) and $110,225,000 of fixed rate federally taxable direct payment Build America Bonds (Series B). The bonds are of varying principal amounts ranging from $3,775,000 to $8,915,000 through June 1, 2035. The tax exempt bonds yield interest at rates from 0.96% to 2.86% through 2019. The Build America Bonds bear interest at rates of 4.63% to 5.679%, with 35% interest subsidy payments due from the Federal Government semiannually, providing for net interest costs of 3.671%, maturing on June 1, 2035.

Current Liabilities
Current liabilities decreased by $49.5 million in 2010. This is primarily due to; a net decrease in member advances of $40.1 million, which is primarily the refunding of Lodi Energy Center Phase 2 advances, and a decrease in accounts payable of $8.4 million.

Non-Current Liabilities and Deferred Credits
Non-current liabilities and deferred credits increased by $30.8 million in 2010. This was primarily due to: (1) a $17.0 million increase in operating reserves and other deposits; (2) a $9.9 million increase from the recognition of deferred revenues; and (3) a $3.9 increase in 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 2010 were approximately $46.4 million or 13.2% 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 $34.7 million or 10.5%, which was caused by reduced revenue requirements due to: $5.1 million lower budgeted plant costs; reduced power purchase requirements of $24.6 million due to a decline in participant demand with a lower average cost of power; reduced transmission costs of $4.8 million; and a $0.5 million reduction of management services costs compared to 2009; and (2) lower other third-party revenues from electric power and ancillary services by $11.7 million or 54.9%, which was primarily caused by reduced availability of excess energy for sale from the Agency's power resources.

2011 NCPA ANNUAL REPORT HOME | FINANCIALS | MEMBERS' ROSTER | MEMBER STATS | STORY

MANAGEMENT'S DISCUSSION AND ANALYSIS

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

2010 Compared to 2009- Continued

Operating Expenses
Operating expenses decreased by approximately $43.4 million or 14.4% in fiscal year 2010, as compared with the prior year. This was the net result of the following: (1) the cost of the purchased power component decreased by $28.7 million or 18.5%, largely due to the reduced need for power previously noted above; (2) the transmission cost component decreased by $10.8 million or 21.6% primarily due to the reduced need for transmission services from the Independent System Operator; and (3) decreases in maintenance and administrative and depreciation totaling approximately $4.1 million were offset by a slight increase of $0.1 million in operations expense.

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, 2011	June 30, 2010
ASSETS	(000's omitted)	
CURRENT ASSETS		
Cash and cash equivalents	$ 57,518	$ 43,342
Investments	-	13,376
Accounts receivable		
Participants	52	559
Other	1,124	2,169
Interest receivable	29	59
Inventory and supplies – at average cost	5,807	5,630
Prepaid expenses	1,022	887
TOTAL CURRENT ASSETS	65,552	66,022
RESTRICTED ASSETS		
Cash and cash equivalents	161,352	396,637
Investments	150,467	110,707
Interest receivable	329	1,056
TOTAL RESTRICTED ASSETS	312,148	508,400
ELECTRIC PLANT		
Electric plant in service	1,073,021	1,068,841
Less: accumulated depreciation	(781,848)	(773,470)
	291,173	295,371
Construction work-in-progress	293,755	114,933
TOTAL ELECTRIC PLANT	584,928	410,304
OTHER ASSETS AND DEFERRED CHARGES		
Deferred expenses to be recovered in future years	183,686	173,003
Unamortized debt issuance expenses	12,492	12,759
Preliminary survey and investigation costs	1,150	1,077
TOTAL OTHER ASSETS AND DEFERRED CHARGES	197,328	186,839
TOTAL ASSETS	$ 1,159,956	$ 1,171,565

See notes to combined financial statements

COMBINED BALANCE SHEETS

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

	June 30, 2011	June 30, 2010
LIABILITIES	(000's omitted)	
CURRENT LIABILITIES		
Accounts payable	$ 22,060	$ 21,789
Accounts and retentions payable – restricted for construction	24,997	3,547
Member advances	1,954	2,108
Operating reserves	3,125	2,981
Current portion of long-term debt	11,175	41,475
Accrued interest payable	14,759	12,754
TOTAL CURRENT LIABILITIES	78,070	84,654
NON-CURRENT LIABILITIES AND DEFERRED CREDITS		
Operating reserves and other deposits	110,409	116,513
Deferred revenues	73,141	52,364
Deferred interest rate swap liability	12,694	17,379
Long-term debt, net	857,643	866,874
TOTAL NON-CURRENT LIABILITIES AND DEFERRED CREDITS	1,053,887	1,053,130
TOTAL LIABILITIES	1,131,957	1,137,784
NET ASSETS		
Invested in capital assets, net of related debt	(49,429)	(107,396)
Restricted	50,652	122,188
Unrestricted	26,776	18,989
TOTAL NET ASSETS	27,999	33,781
TOTAL LIABILITIES AND NET ASSETS	$ 1,159,956	$ 1,171,565

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, 2011	2010
	(000's omitted)	
SALES FOR RESALE		
Participants	$ 243,463	$ 294,689
Other Third-Party	25,006	9,656
TOTAL SALES FOR RESALE	268,469	304,345
OPERATING EXPENSES		
Purchased power	114,428	126,743
Transmission	49,366	39,103
Operations	31,868	32,974
Depreciation	25,595	33,897
Administrative and general	16,001	14,393
Maintenance	12,760	10,741
TOTAL OPERATING EXPENSES	250,018	257,851
NET OPERATING REVENUES	18,451	46,494
OTHER (EXPENSES) REVENUES		
Interest expense	(46,063)	(31,555)
Interest income	1,940	2,274
Capitalized interest	15,637	461
Amortization of deferred charges	(464)	(1,451)
Other	1,527	369
TOTAL OTHER EXPENSES	(27,423)	(29,903)
FUTURE RECOVERABLE AMOUNTS	15,426	(5,251)
REFUNDS TO PARTICIPANTS	(12,236)	(9,573)
(DECREASE) INCREASE IN NET ASSETS	(5,782)	1,767
NET ASSETS, Beginning of year	33,781	32,014
NET ASSETS, End of year	$ 27,999	$ 33,781

COMBINED STATEMENTS OF CASH FLOW

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

	Years Ended June 30, 2011	2010
	(000's omitted)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from participants	$ 264,747	$ 304,237
Received from others	28,216	5,648
Payments for employee services	(29,894)	(28,111)
Payments to suppliers for goods & services	(181,245)	(183,884)
NET CASH FROM OPERATING ACTIVITIES	81,824	97,890
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and sales of investments	256,782	255,325
Interest received on cash and investments	3,282	1,710
Purchase of investments	(283,692)	(228,481)
NET CASH FROM INVESTING ACTIVITIES	(23,628)	28,554
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Expenditures for debt issuance costs	(197)	(7,125)
Acquisition and construction of electric plant	(184,583)	(75,838)
Interest paid on long-term debt	(42,114)	(39,910)
Principal repayment on long-term debt	(41,475)	(31,511)
Proceeds from bond issues	-	578,522
Payments to refund debt	-	(171,387)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(268,369)	252,751
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Advances from members	(154)	(40,121)
Other proceeds	1,527	368
Preliminary survey and investigation costs	(73)	(159)
Refunds to participants	(12,236)	(9,573)
NET CASH FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES	(10,936)	(49,485)
INCREASE IN CASH AND CASH EQUIVALENTS	(221,109)	329,710
CASH AND CASH EQUIVALENTS		
Beginning of year	439,979	110,269
End of year	$ 218,870	$ 439,979

COMBINED STATEMENTS OF CASH FLOW-Continued

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

	Years Ended June 30, 2011	2010
	(000's omitted)	
RECONCILIATION OF NET OPERATING REVENUES TO NET CASH FROM OPERATING ACTIVITIES		
Net operating revenues	$ 18,451	$ 46,494
Adjustments to reconcile net operating revenues to net cash from operating activities:		
Depreciation	25,595	33,897
	44,046	80,391
CASH FLOWS IMPACTED BY CHANGES IN		
Accounts receivable	1,552	(569)
Inventory and prepaid	(312)	(102)
Operating reserves	(5,960)	16,709
Deferred revenues	20,777	9,907
Accounts payable	21,721	(8,446)
NET CASH FROM OPERATING ACTIVITIES	$ 81,824	$ 97,890
CASH AND CASH EQUIVALENTS AS STATED IN THE COMBINED BALANCE SHEETS		
Cash and cash equivalents - current assets	$ 57,518	$ 43,342
Cash and cash equivalents - restricted assets	161,352	396,637
End of year	$ 218,870	$ 439,979

See notes to combined financial statements

2011 NCPA ANNUAL REPORT HOME | FINANCIALS | MEMBERS' ROSTER | MEMBER STATS | STORY

COMBINED STATEMENTS OF CASH FLOW-Continued

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

	Years Ended June 30, 2011	2010
	(000's omitted)	
RECONCILIATION OF NET OPERATING REVENUES TO NET CASH FROM OPERATING ACTIVITIES		
Net operating revenues	$ 18,451	$ 46,494
Adjustments to reconcile net operating revenues to net cash from operating activities:		
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Cash and cash equivalents - restricted assets	161,352	396,637
End of year	$ 218,870	$ 439,979

See notes to combined financial statements

14

NOTES TO COMBINED FINANCIAL STATEMENTS - Continued

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

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% and 3% of the average electric plant in service for the Agency during 2010 and 2009, 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, 2011 is as follows:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
	(000's omitted)			
Land and Land Rights	$ 172,041	$ -	$ (96)	$ 171,945
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
Total	1,068,841	21,397	(17,217)	1,073,021
Construction Work-In-Progress	114,933	199,362	(20,540)	293,755
Accumulated Depreciation	(773,470)	(25,596)	17,218	(781,848)
Electric Plant, Net	$ 410,304	$ 195,163	$ (20,539)	$ 584,928

2011 NCPA ANNUAL REPORT HOME | FINANCIALS | MEMBERS' ROSTER | MEMBER STATS | STORY

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, 2010 is as follows:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
	(000's omitted)			
Land and Land Rights	$ 172,041	$ -	$ -	$ 172,041
Structures and Leasehold Improvements	292,129	447	(4)	292,661
Reservoirs, Dams and Waterways	249,325	111	-	249,436
Equipment	343,016	10,011	(88)	352,850
Furniture and Fixtures	1,708	145	-	1,853
Total	1,058,219	10,714	(92)	1,068,841
Construction Work-In-Progress	16,928	106,695	(8,690)	114,933
Accumulated Depreciation	(739,666)	(33,897)	93	(773,470)
Electric Plant, Net	$ 335,481	$ 83,512	$ (8,689)	$ 410,304

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, 2011 and 2010, the Agency had accumulated deferred expenses (net of deferred revenues) to be recovered in future years of approximately $110,545,000 and $120,639,000, 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 2011 and 2010, 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, 2011 were for periods not greater than two 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.

2011 NCPA ANNUAL REPORT HOME | FINANCIALS | MEMBERS' ROSTER | MEMBER STATS | STORY

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, 2011 and 2010 were $4,495,000 and $6,602,000, 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.

NOTES TO COMBINED FINANCIAL STATEMENTS - Continued

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

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 Interest expense and income totaling $461 thousand in the prior year was reclassified to capitalized interest to conform to the 2011 presentation. Additionally, certain accounts payable totaling $3.5 million were reclassified to accounts and retentions payable – restricted. There was no effect of these reclassifications on total current liabilities in the 2010 Combined Balance Sheets or in total other expenses in the Combined Statements of Revenues, Expenses and Changes in Net Assets.

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, 2011

Description	Carrying Value	Market Value	Wtd. Avg Maturity (In years)
	(000's omitted)		
U.S. Agencies	$ 149,431	$ 149,646	1.46
U.S. Treasury	1,036	1,036	.16
TOTAL INVESTMENTS	$ 150,467	$ 150,682	

Investments at June 30, 2010

Description	Carrying Value	Market Value	Wtd. Avg Maturity (In years)
	(000's omitted)		
U.S. Agencies	$ 85,769	$ 85,847	.81
Guaranteed Investment Contracts	21,073	21,073	.00
U.S. Treasury	17,241	17,244	.16
TOTAL INVESTMENTS	$ 124,083	$ 124,164	

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.

NOTES TO COMBINED FINANCIAL STATEMENTS - Continued

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

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:	2011	2010
	(000's omitted)	
Geothermal Project		
1993 Refunding Series A		
and Series B (relating to a like amount		
of Special Revenue Bonds)		
Serial, 5.80-5.85% due 2011	$ -	$ 27,560
2009 Series A		
Serial, 4.00-5.25% due 2012-2025	35,610	35,610
Total Geothermal Project	35,610	63,170
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	88,355
2008 Refunding Series A		
Term, adjustable rate,		
Initially 1.51% due 2033	85,160	85,160
2008 Refunding Series B (Taxable)		
Term, adjustable rate,		
Initially 2.87% due 2021	2,965	3,065
2008 Refunding Series C		
Serial, 4.00-5.00% due 2011-2025	126,980	128,005
2008 Refunding Series D (Taxable)		
Serial, 4.05% due 2011	-	7,855
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
Total Hydroelectric Project	449,515	458,495

2011 NCPA ANNUAL REPORT HOME | FINANCIALS | MEMBERS' ROSTER | MEMBER STATS | STORY

NOTES TO COMBINED FINANCIAL STATEMENTS - Continued

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

Long-term debt and stated rates at June 30:	2011	2010
	(000's omitted)	
Capital Facilities Project		
2010 Refunding Series A		
Serial, 2.00-5.25% due 2011-2025	55,120	55,120
Total Capital Facilities Project	55,120	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		
Term, 7.311% due 2040 (Federally		
Taxable-Build America Bonds)	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		
Term, 4.63% due 2035 (Federally		
Taxable-Build America Bonds)	110,225	110,225
Total Lodi Energy Center	395,720	395,720
Combustion Turbine Project		
1998 Refunding Series A		
Serial, 5.00% due 2011	-	4,060
Transmission Project		
1998 Refunding Series A		
Serial, 4.125-4.25% due 2011	-	875
Total Long-Term Debt Outstanding	935,965	977,440
Less: Unamortized net cost on advance refunding	(86,927)	(92,326)
Unamortized net (discount) and premium	19,780	23,235
Current portion	(11,175)	(41,475)
Total Long-Term Debt, Net	$ 857,643	$ 866,874

NOTES TO COMBINED FINANCIAL STATEMENTS - Continued

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

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

	Balance June 30, 2010	Additions	Payments, Refundings & Amortizations	Balance June 30, 2011
	(000's omitted)			
Revenue Bonds	$ 977,440	$ -	$ (41,475)	$ 935,965
Unamortized premiums and discounts	23,235	-	(2,257)	20,978
Unamortized cost on advance refund of debt	(92,326)	-	5,399	(86,927)
TOTAL	$ 908,349	$ -	$ (38,333)	$ 870,016

The Agency had the following long-term debt activity during FY 2010:

	Balance June 30, 2009	Additions	Payments, Refundings & Amortizations	Balance June 30, 2010
	(000's omitted)			
Revenue Bonds	$ 628,895	$ 560,125	$ (211,580)	$ 977,440
Unamortized premiums and discounts	5,866	18,397	(1,028)	23,235
Unamortized cost on advance refund of debt	(91,821)	(5,418)	4,913	(92,326)
TOTAL	$ 542,940	$ 573,104	$ (207,695)	$ 908,349

Debt service requirements for each of the next five years and in five-year cumulative increments thereafter as of June 30, 2011:

	Principal	Interest	Total
	(000's omitted)		
2012	$ 11,175	$ 54,879	$ 66,054
2013	28,950	50,064	79,014
2014	33,285	48,960	82,245
2015	32,775	47,375	80,150
2016	34,360	45,829	80,189
2017-2021	196,865	202,150	399,015
2022-2026	217,260	147,632	364,892
2027-2031	179,630	96,089	275,719
2032-2036	141,990	44,261	186,251
2037-2041	59,675	11,161	70,836
	$ 935,965	$ 748,400	$ 1,684,365

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:

		2011	2010
		(000's omitted)	
Geothermal:	Project No. Three, 1993 Series A	$ -	$ 27,210
Hydroelectric:	Project No. One, 1985 Series A	12,150	12,150
	Project No. One, 1986 Series A	36,960	36,960
	Project No. One, 1998 Series A	-	109,145
		49,110	158,255
	Total Defeased Debt Outstanding	$ 49,110	$ 185,465

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.

Recent capital improvements include: MW photovoltaic solar array at the Middletown Treatment Plant; and, a 1 MW photovoltaic solar array located at the Clearlake Southeast Treatment Plant, both in Lake County, California. These improvements reduce the power needs for the existing pump stations, which are part of the Southeast Geysers Effluent Pipeline that delivers approximately 9 million gallons of treated wastewater daily to the Geysers Geothermal Project for injection into the steam field.

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 April 2010, the Agency refunded $109,145,000 principal amount of 1998 Hydroelectric Refunding Revenue Bonds Series A maturing on July 1 in each of the years 2011 through 2018 and in the year 2023. The refunding was completed through the issuance of $101,260,000 fixed rate tax exempt debt (2010 Series A) and $8,025,000 fixed rate taxable debt (2010 Series B) with yields of 1.62% to 4.31% with varying principal maturities ranging from $1,755,000 to $15,230,000 through July 1, 2023. The refunding is estimated to have decreased project debt service by an estimated $6.8 million over the next 14 years, which results in an estimated economic gain to the Agency of approximately $6.5 million.

NOTES TO COMBINED FINANCIAL STATEMENTS - Continued

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

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 expire on April 2, 2013. 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		$1,465,863	
Fair Value--Due from (to) Counterparty	($12,979,775)		$285,269	
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	-5.330%
Variable Payments (from) to Counterparty	54% LIBOR+.54%*	-0.690%	100% of LIBOR*	0.265%
Net Interest Rate Swap Payments		3.129%		-5.064%
Variable-Rate Bond Payments	SIFMA **	0.448%	SIFMA **	0.948%
Effective Interest Rate on Bonds		3.578%		-4.117%

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 $12,694,000 and $17,379,000 at June 30, 2011 and June 30, 2010, 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, 2011 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, 2011, 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+	A1
National Public Finance Guarantee formerly MBIA (the Agency's insurer)	BBB	Baa1

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.

NOTES TO COMBINED FINANCIAL STATEMENTS - Continued

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

Transmission Project The project was undertaken to meet certain obligations of the Agency under the Agency/PG&E Interconnection Agreement. The project includes an ownership interest in PG&E's 230 kV Castle Rock to Lakeville Substation Transmission Line in Sonoma County, additional firm transmission rights in that Transmission Line, and a central scheduling and dispatch facility in service at the Agency's headquarters in Roseville, California.

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.

In January 2010, the Agency refunded $62,525,000 principal amount of 1999 Capital Facilities Refunding Revenue Bonds Series A maturing on August 1 in each of the years 2010 through 2016 and in the year 2025. The refunding was completed through the issuance of $3,640,000 fixed rate tax exempt debt (2010 Series A) and $51,480,000 fixed rate debt (2010 Series B) with yields of 0.95% to 4.70% with varying principal maturities ranging from $600,000 to $5,390,000 through August 1, 2025. The refunding is estimated to have decreased project debt service by an estimated $3.9 million over the next 15 years, which results in an estimated economic gain (difference between the present values of the old and new debt service payments) to the Agency of approximately $3.8 million.

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 summer 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 $375 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. This financing consisted of $78,330,000 of fixed rate tax-exempt bonds (Series A) and $176,625,000 of fixed rate federally taxable direct payment Build America Bonds (Series B). The bonds are of varying principal amounts ranging from $4,540,000 to $15,975,000 through June 1, 2040. The tax-exempt bonds yield interest at rates from 1.95% to 4.75% through 2025. The Build America Bonds bear interest at 7.311%,

NOTES TO COMBINED FINANCIAL STATEMENTS - Continued

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

with 35% interest subsidy payments due from the Federal Government semiannually, providing for net interest costs of 4.7522%, maturing on June 1, 2040.

Lodi Energy Center Revenue Bonds, Issue Two provided financing for the California Department of Water Resources' 33.5% GES. This financing consisted of $30,540,000 of fixed rate tax-exempt bonds (Series A) and $110,225,000 of fixed rate federally taxable direct payment Build America Bonds (Series B). The bonds are of varying principal amounts ranging from $3,775,000 to $8,915,000 through June 1, 2035. The tax-exempt bonds yield interest at rates from 0.96% to 2.86% through 2019. The Build America Bonds bear interest at rates of 4.63% to 5.679%, with 35% interest subsidy payments due from the Federal Government semiannually, providing for net interest costs of 3.671%, maturing on June 1, 2035.

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
AND ASSOCIATED POWER CORPORATIONS**

NOTE E -- RETIREMENT PLAN

The Agency was a participating public employer in the California Public Employees Retirement System (CalPERS) Local Miscellaneous 2% at Age 60 Employees' Retirement Plan, which is an agent multiple-employer public employee defined benefit pension plan. However, in December 2009 the Agency changed to the CalPERS 2.5% at Age 55 Employees' Retirement 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, 2011:

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	10.063% normal service
	12.986% amortization bases
Actuarial annual required contribution (based on estimated payroll)	$3,842,787

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 $738,085 and $927,538 for fiscal years 2011 and 2010, respectively. The Agency's annual required contribution (based on actuarially established rates) was determined as part of a June 30, 2009, 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, 2011, the Agency had 162 eligible active employees and 77 retirees drawing benefits under this program.

NOTES TO COMBINED FINANCIAL STATEMENTS - Continued

**NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS**

Trend Information for Agency CalPERS Retirement Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2007	$ 2,539,145	100.0%	-
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%	-

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, 2005	$44,110,675	$17,734,386	$26,376,289	40.2%	$14,101,610	187.0%
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%

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, 2009 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
AND ASSOCIATED POWER CORPORATIONS

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, 2011:

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, 2011, the Agency had 161 active eligible employees and 88 retirees drawing benefits under this program.

2011 NCPA ANNUAL REPORT HOME | FINANCIALS | MEMBERS' ROSTER | MEMBER STATS | STORY

NOTES TO COMBINED FINANCIAL STATEMENTS - Continued

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

Trend Information for the OPEB Plan

Fiscal Year Ending	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
June 30, 2007	$ 979,797	100.0%	-
June 30, 2008	900,135	100.0%	-
June 30, 2009	718,982	100.0%	-
June 30, 2010	770,469	100.0%	-
June 30, 2011*	960,896	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	38.83%

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 $95.1 million in connection with various power purchase contracts as of June 30, 2011. The contracts, extending through June 2014, 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 combustion turbines:

- 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.
- 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 renews 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 will terminate on December 31, 2011. NCPA expects to negotiate a replacement agreement with another party to provide gas supply and management services prior to the termination of the Agreement. The Agency had approximately $2.2 million of gas purchase commitments at June 30, 2011. The commitments, extending through September 2012, 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, Minerals Management Service maintains the right to periodically review and withdraw their approval or to change this methodology should operations, market conditions, or Federal regulations change.

NOTES TO COMBINED FINANCIAL STATEMENTS - Continued

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

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 62 MWG (megawatts gross) by calendar year 2035.

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 $4 million in a reserve for such purpose as of June 30, 2011.

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.

NOTES TO COMBINED FINANCIAL STATEMENTS - Continued

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

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 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 discussed in Note D 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.