Northern California Energy Authority

Financial Statements
and Independent Auditors' Report
December 31, 2023 and 2022

NORTHERN CALIFORNIA ENERGY AUTHORITY
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Independent Auditors' Report

To the Board of Directors of
Northern California Energy Authority

Opinion

We have audited the accompanying financial statements of the Northern California Energy Authority (Agency), a component unit of the Sacramento Municipal District, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2023 and 2022, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Baker Tilly US, LLP

Madison, Wisconsin
February 23, 2024

NORTHERN CALIFORNIA ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Using this Financial Report

This annual financial report for Northern California Energy Authority (Agency) consists of management's discussion and analysis and the financial statements, including notes to the financial statements. The basic Financial Statements consist of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows.

The Agency's accounting records are maintained in accordance with Generally Accepted Accounting Principles for proprietary funds as prescribed by the Governmental Accounting Standards Board. The Agency's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission.

Overview of the Financial Statements

The following discussion and analysis of the financial performance of the Agency provides an overview of the financial activities for the years ended December 31, 2023 and 2022. This discussion and analysis should be read in conjunction with the Agency's financial statements and accompanying notes, which follow this section.

The Statements of Net Position provides information about the nature and amount of resources and obligations at a specific point in time.

The Statements of Revenues, Expenses and Changes in Net Position reports all of the Agency's revenues and expenses during the period indicated.

The Statements of Cash Flows reports 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.

The Notes to Financial Statements provide additional detailed information to support the financial statements.

Organization and Nature of Operations

The Agency is a joint powers authority (JPA) formed by the Sacramento Municipal Utility District (SMUD) and the Sacramento Municipal Utility District Financing Authority (SFA) in 2018. SFA is a JPA formed by SMUD and the Modesto Irrigation District. The Agency was formed for the purpose of prepaying for a fixed quantity supply of natural gas and electricity to be delivered over a thirty-year period by J. Aron & Company LLC (J. Aron) under a Prepaid Commodity Sales Agreement between the Agency and J. Aron. The Agency then sells the natural gas and electricity to SMUD. The Agency issued bonds in December 2018 and commenced gas sales in June 2019.

SMUD purchases all the natural gas and electricity delivered to the Agency pursuant to the Commodity Supply Contract between SMUD and the Agency. The Agency has no employees and SMUD contributes to the Agency the actual costs of providing general and administrative services.

The Agency's Commission is comprised of SMUD's Board of Directors. The Agency is a separate legal entity; however, due to the extent of its operational and financial relationship with SMUD, it is included in the financial statements of SMUD.

FINANCIAL POSITION

The following table summarizes the financial position as of December 31 (in thousands).

CONDENSED STATEMENT OF NET POSITION

	2023	2022	2021
Assets			
Current assets	$ 43,765	$ 36,148	$ 28,879
Noncurrent assets	509,358	524,549	528,808
Total assets	$ 553,123	$ 560,697	$ 557,687
Liabilities			
Long-term debt - net	$ 525,193	$ 544,562	$ 551,815
Current liabilities	27,630	20,537	12,276
Noncurrent liabilities	248	208	161
Total liabilities	553,071	565,307	564,252
Net position			
Restricted	8,931	3,484	8,697
Unrestricted	(8,879)	(8,094)	(15,262)
Total net position	52	(4,610)	(6,565)
Total liabilities and net position	$ 553,123	$ 560,697	$ 557,687

TOTAL ASSETS

Total assets in 2023 decreased $7.6 million or 1.4% over 2022, primarily due to the following:

- An increase of $1.3 million in restricted cash and cash equivalents due to higher reserve for long-term debt due within one year.
- A decrease of $3.7 million in gas sales to Member receivable primarily due to a lower gas price index.
- A decrease of $4.3 million in prepaid gas supply due to the amortization for gas delivered in 2023.

Total assets in 2022 increased $3.0 million or 0.5% over 2021, primarily due to an increase of $5.9 million in gas sales to Members receivable due to higher gas price index, offset by a decrease of $3.7 million in prepaid gas supply due to amortization for gas delivered in 2022.

TOTAL LIABILITIES & NET POSITION

Total liabilities in 2023 decreased $12.2 million or 2.2% over 2022, primarily due to the following:

- A decrease of $7.2 million in long-term debt primarily due to $2.3 million principal payment and a $4.8 million amortization of bond premium.
- A decrease of $5.1 million in accrued interest and other liabilities primarily due to a decrease in net gas price swap resulting in decrease in net gas swap settlement due to J. Aron.

Net position in 2023 increased $4.7 million or 101.1% over 2022, based on results of operations.

Total liabilities in 2022 increased $1.1 million or 0.2% over 2021, primarily due to an increase of $5.9 million in accrued interest and other liabilities primarily due to an increase in net gas price swap resulting in an increase in net gas swap settlement due to J. Aron, offset by a decrease of $4.9 million in long-term debt.

Net position in 2022 increased $2.0 million or 29.8% over 2021, based on results of operations.

RESULTS OF OPERATIONS

The following table summarizes the operating results for the years ended December 31 (in thousands).

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

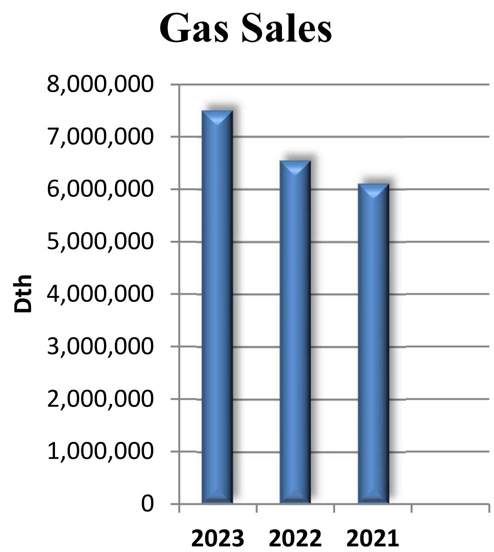
	2023	2022	2021
Operating revenues	$ 26,303	$ 22,955	$ 21,406
Operating expenses	(4,366)	(3,845)	(3,573)
Operating income	21,937	19,110	17,833
Interest income - net	552	466	458
Interest on debt	(16,831)	(16,820)	(16,773)
Change in net position before distributions and contributions	5,658	2,756	1,518
Distributions to Member	(1,103)	(941)	(843)
Member contributions	107	140	79
Change in net position	4,662	1,955	754
Net position - beginning of year	(4,610)	(6,565)	(7,319)
Net position - end of year	$ 52	$ (4,610)	$ (6,565)

OPERATING REVENUES

Total operating revenues were $26.3 million for 2023, an increase of $3.3 million or 14.6% over 2022. The gas dekatherm (Dth) sales increased 14.6% compared to 2022. Gas sales to Member increased $12.8 million as a result of higher gas price index and volume, offset by an increase of $9.4 million in gas swap settlement - net due to higher net swap price and volume.

Total operating revenues were $23.0 million for 2022, an increase of $1.5 million or 7.2% over 2021. The gas Dth sales increased 7.2% compared to 2021. Gas sales to Member increased $23.0 million, primarily as a result of higher gas price index, offset by a decrease of $21.5 million in gas swap settlement – net, primarily due to lower net swap price.

The following chart shows gas sales in 2023, 2022 and 2021.



<u>**OPERATING EXPENSES**</u>

Total operating expenses were $4.4 million for 2023, an increase of $0.5 million or 13.5% over 2022, primarily due to an increase of $0.5 million in amortization of the prepaid gas supply.

Total operating expenses were $3.8 million for 2022, an increase of $0.3 million or 7.6% over 2021, primarily due to an increase of $0.3 million in amortization of the prepaid gas supply.

Requests for Information

For more information about the Northern California Energy Authority, visit our website at www.smud.org or contact us at customerservices@smud.org.

NORTHERN CALIFORNIA ENERGY AUTHORITY
STATEMENTS OF NET POSITION

	December 31, 2023	December 31, 2022
ASSETS		
CURRENT ASSETS		
Restricted cash and cash equivalents	$ 3,815,126	$ 2,558,586
Restricted investments	18,489,411	19,350,323
Receivables:		
Gas sales to Member	6,239,891	9,951,000
Prepaid gas supply	15,191,708	4,258,793
Prepayments	29,365	29,481
Total current assets	43,765,501	36,148,183
NONCURRENT ASSETS		
Prepaid gas supply	509,357,581	524,549,289
Total noncurrent assets	509,357,581	524,549,289
TOTAL ASSETS	$ 553,123,082	$ 560,697,472
LIABILITIES AND NET POSITION		
LONG-TERM DEBT - net	$ 525,193,431	$ 544,562,185
CURRENT LIABILITIES		
Long-term debt due within one year	14,505,000	2,320,000
Accrued interest and other	13,125,197	18,217,473
Total current liabilities	27,630,197	20,537,473
NONCURRENT LIABILITIES		
Arbitrage rebate liability	247,927	207,739
Total noncurrent liabilities	247,927	207,739
TOTAL LIABILITIES	553,071,555	565,307,397
NET POSITION		
Restricted	8,931,413	3,483,697
Unrestricted	(8,879,886)	(8,093,622)
TOTAL NET POSITION	51,527	(4,609,925)
COMMITMENTS AND CONTINGENCIES (Notes 6 and 7)		
TOTAL LIABILITIES AND NET POSITION	$ 553,123,082	$ 560,697,472

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

NORTHERN CALIFORNIA ENERGY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended December 31, 2023	2022
OPERATING REVENUES		
Gas sales to Member	$ 61,129,300	$ 48,370,760
Gas swap settlement, net	(34,826,177)	(25,416,162)
Total operating revenues	26,303,123	22,954,598
OPERATING EXPENSES		
Prepaid gas amortization	4,258,793	3,716,894
Administrative and general	106,858	127,972
Total operating expenses	4,365,651	3,844,866
OPERATING INCOME	21,937,472	19,109,732
NON-OPERATING REVENUES (EXPENSES)		
Interest income - net	551,828	466,549
Interest on debt	(16,831,096)	(16,819,995)
Total non-operating revenues (expenses)	(16,279,268)	(16,353,446)
CHANGE IN NET POSITION BEFORE DISTRIBUTIONS AND CONTRIBUTIONS	5,658,204	2,756,286
Distributions to Member	(1,103,493)	(941,183)
Member contributions	106,741	139,953
CHANGE IN NET POSITION	4,661,452	1,955,056
NET POSITION - BEGINNING OF YEAR	(4,609,925)	(6,564,981)
NET POSITION - END OF YEAR	$ 51,527	$ (4,609,925)

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

NORTHERN CALIFORNIA ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from gas sales to Member	$ 64,840,409	$ 42,429,920
Other receipts/payments - net	(39,860,454)	(19,475,322)
Net cash provided by operating activities	24,979,955	22,954,598
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Repayment of long-term debt	(2,320,000)	-0-
Interest payments on long-term debt	(21,752,850)	(21,752,850)
Distributions to Member	(1,103,493)	(941,183)
Net cash used in noncapital financing activities	(25,176,343)	(22,694,033)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments	22,541,625	11,816,872
Purchase of investments	(21,680,713)	(20,908,970)
Interest received	592,016	513,614
Net cash provided by (used in) investing activities	1,452,928	(8,578,484)
Net increase (decrease) in cash and cash equivalents	1,256,540	(8,317,919)
Cash and cash equivalents - beginning of year	2,558,586	10,876,505
Cash and cash equivalents - end of the year	$ 3,815,126	$ 2,558,586
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 21,937,472	$ 19,109,732
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization of prepaid gas supply	4,258,793	3,716,894
Changes in operating assets and liabilities:		
Receivables	3,711,109	(5,940,840)
Prepaid expenses	116	(11,981)
Payables and accruals	(4,927,535)	6,080,793
Net cash provided by operating activities	$ 24,979,955	$ 22,954,598
SUPPLEMENTAL DISCLOSURE OF NONCASH AND RELATED FINANCING ACTIVITIES		
Amortization of debt related premiums	$ 4,863,754	$ 4,932,855
Contributions from Member	106,741	139,953

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

NOTE 1. ORGANIZATION AND OPERATIONS

The Northern California Energy Authority (Agency) is a joint powers authority (JPA) formed by the Sacramento Municipal Utility District (SMUD) and the Sacramento Municipal Utility District Financing Authority (SFA) pursuant to the California Government Code (collectively, Members). SFA is a JPA formed by SMUD and the Modesto Irrigation District. The purpose of the Agency is to prepay for a supply of a fixed quantity of natural gas and electricity (commodity) to be delivered over a thirty-year period (Commodity Project) by J. Aron & Company LLC (J. Aron) under a Prepaid Commodity Sales Agreement (Prepaid Agreement) between the Agency and J. Aron. The Prepaid Agreement terminates on May 31, 2049. J. Aron is obligated to make payments to the Agency for any shortfall of commodity not delivered or taken under the Prepaid Agreement for any reason, including force majeure.

The Agency has entered into a Commodity Supply Contract (CSC) with SMUD that provides for the sale of all commodities delivered to the Agency over the term of the Prepaid Agreement. SMUD is obligated to pay the Agency for the quantities of commodity delivered under the CSC and to pay damages for commodity that SMUD fails to take pursuant to the terms of the CSC. SMUD has no obligation to pay for commodity that the Agency fails to deliver. The Agency anticipates that SMUD will be the only project participant with respect to the Commodity Project during the term of the Prepaid Agreement. However, in the event of a default by SMUD under the CSC, the Agency has agreed to terminate the CSC and may enter into a replacement CSC with one or more municipal utilities on substantially the same terms as the CSC.

The Agency has no employees. The Commodity Project is operated by SMUD's staff. SMUD is obligated to contribute to the Agency the actual costs of providing administrative and general services. SMUD contributed $0.1 million both in 2023 and 2022.

The JPA agreement will remain in effect until terminated by a supplemental written agreement of the parties; provided, that in no event shall the JPA agreement terminate while any contracts between the Agency and either of the parties or other parties are in effect, or while any bonds or notes of the Agency are outstanding. Commodity Project revenues and the subsequent payments of principal and interest related to the Agency's long-term debt are dependent upon the continued delivery of commodity to the Commodity Project under the Prepaid Agreement. Various termination events are specified in the Prepaid Agreement. Upon the occurrence of any such event, the Prepaid Agreement may be terminated by the Agency or J. Aron. If the Prepaid Agreement is terminated, J. Aron will be required to pay a scheduled termination payment to the Agency. Any termination of the Prepaid Agreement will result in the extraordinary mandatory redemption of the Agency's long-term debt. Neither SFA nor SMUD has any obligation or liability to the Agency beyond that specifically provided for in the JPA agreement or the Commodity Project agreement.

The Agency's Commission is comprised of SMUD's Board of Directors. The Agency is a separate legal entity; however, it is included in the financial statements of SMUD as a component unit because of the extent of its operational and financial relationships with SMUD.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting. The accounting records of the Agency are maintained in accordance with Generally Accepted Accounting Principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). The Agency's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Commodity sale revenues, gas swap payments and purchase costs that are directly related to delivery of commodity are reported as operating revenues and expenses. All other revenues and expenses are reported as non-operating revenues and expenses.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S.) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

Restricted Assets. The Agency's restricted assets are comprised of U.S. government securities and guaranteed investment contracts which use is limited for specific purposes pursuant to the Indenture of Trust (Indenture) requirements. The Indenture specifies the flow of cash into the various Agency funds and dictates when they may become unrestricted.

Cash and Cash Equivalents. Cash and cash equivalents include all debt instruments purchased with an original maturity of 90 days or less, obligations which are unconditionally guaranteed by the U.S. Government or its agencies or instrumentalities; direct and general obligations of the State or any local agency within the State; bankers' acceptances; commercial paper; certificates of deposit; repurchase and reverse repurchase agreements; medium term corporate notes; Local Agency Investment Fund; and money market funds.

Investments. The Agency's investments consist of guaranteed investment contracts and are measured at cost.

Receivable from Member. The Agency records as a Receivable from Member the amounts due from SMUD for the purchase of commodity from the Commodity Project.

Prepaid Gas Supply. The Agency has prepaid for delivery of a natural gas supply with the proceeds from revenue bonds. The Agency provides for amortization on the historical cost of the Prepaid gas supply on a net present value (NPV) basis in which the change in the NPV of the Prepaid Agreement for the remaining term of its contract life from the beginning of the period to the end of the period is the amortization charged for the period. When the Agency amortizes its Prepaid gas supply, the amortization is recorded against the current portion of Prepaid gas supply.

Derivative Instruments. The Agency enters into a forward contract (commodity price swap agreement) to manage its exposure to market volatility of commodity prices. The Agency does not enter into these agreements for trading purposes. Due to the termination provisions of these agreements, they have no fair value, and therefore, there is no mark-to-market and the Agency does not record these derivative instruments on its Statements of Net Position. The Agency is exposed to the risk of early termination of the Prepaid Agreement if the counterparties default or if the swap agreements are terminated. Net swap payments received or paid are reported as a component of Operating Revenues in the Statements of Revenues, Expenses and Changes in Net Position.

Amortization of Bond Premiums. Bond premiums are amortized over the life of the bonds using the scientific amortized cost procedure gross method. Unamortized premiums are netted with Long-term debt - net on the Statements of Net Position.

Commodity Price Swap Agreement. The Agency uses a forward contract to hedge the impact of market volatility on gas commodity prices for its CSC.

Net Position. The Agency classifies its Net Position into two components as follows:

- Restricted - This component of net position consists of assets with constraints placed on their use, either externally or internally. Constraints include those imposed by debt indentures, grants or laws and regulations of other governments, by law through constitutional provisions or enabling legislation, or by the Commission. These restricted assets are reduced by liabilities related to those assets.
- Unrestricted - This component of net position consists of net amount of the assets and liabilities that do not meet the definition of "Restricted."

Gas Sales to Member. Gas sales to Member are recorded as revenues when the natural gas is delivered.

Operating Expenses. Operating expenses include the cost of sales and services, administrative expenses and amortization on Prepaid gas supply assets and are recorded when incurred.

Distributions to Member. Amounts paid to SMUD from surplus funds are recorded as Distributions to Member.

Member Contributions. Amounts contributed by SMUD for the actual costs of providing administrative and general services are recorded as Member contributions.

Subsequent Events. Subsequent events for the Agency have been evaluated through February 23, 2024 which is the date that the financial statements were available to be issued.

Recent Accounting Pronouncements, not yet adopted. In June 2022, GASB issued SGAS No. 100, "***Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62***" (GASB No. 100), to enhance accounting and financial reporting requirements for accounting changes and error corrections. The statement defines accounting changes and sets forth requirements for reporting changes and error corrections in the financial statements. In addition, the statement contains requirements for disclosure in notes to financial statements of information about accounting changes and error corrections. Furthermore, for periods that are earlier than those included in the financial statements, information presented in required supplementary information and supplementary information should be restated for error corrections, but not for changes in accounting principles. This statement is effective for the Agency in 2024. The Agency is currently assessing the financial statement impact of adopting this statement.

In December 2023, GASB issued SGAS No. 102 ***"Certain Risk Disclosures"*** (GASB No. 102), to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. A *concentration* is defined as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A *constraint* is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. This statement requires a government to assess whether a concentration or constraint could cause a substantial impact if the event occurred or has begun to occur prior to the issuance of financial statements. If a government determines that the criteria for disclosure have been met, it should disclose information in notes to financial statements in sufficient detail to enable financial statements users to understand the nature of the circumstances and the government's vulnerability to the risk of a substantial impact. This statement is effective for the Agency in 2025. The Agency is currently assessing the financial statement impact of adopting this statement.

NOTE 3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Equivalents and Investments. The Agency's investment policy is governed by the California State and Municipal Codes and its Indenture, which allow Agency investments to include: obligations which are unconditionally guaranteed by the U.S. Government or its agencies or instrumentalities; direct and general obligations of the State or any local agency within the State; bankers' acceptances; commercial paper; certificates of deposit; repurchase and reverse repurchase agreements; medium term corporate notes; Local Agency Investment Fund; and money market funds. The Agency's investment policy also includes restrictions for investments relating to maximum amounts invested as a percentage of total portfolio and with a single issuer, maximum maturities, and minimum credit ratings. The Agency uses the credit rating of The Goldman Sachs Group Incorporated (Goldman Sachs), the parent company of J. Aron as they do not have an individual credit rating.

Credit Risk. This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. To mitigate the risk, the Agency limits investments to those rated at least, at the credit rating of the commodity supplier, or, if the commodity supplier is not rated, the guarantor of the commodity supplier which is currently Goldman Sachs.

Custodial Credit Risk. This is the risk that in the event of the failure of a depository financial institution or counterparty to a transaction, the Agency's deposits may not be returned or the Agency will not be able to recover the value of its deposits, investments or securities that are in the possession of another party. The Agency does not have a deposit or investment policy for custodial credit risk. At December 31, 2023 and 2022, the Agency had money market funds of $3.8 million and $2.6 million which were uninsured and were held in trust for the benefit of the Agency. At December 31, 2023 and 2022, the Agency had no investments subject to custodial credit risk.

Concentration of Credit Risk. This is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Agency places no limit on the amounts invested in any one issuer for federal agency securities. The Agency has concentrations of risk greater than five percent invested in J. Aron of 100 percent at December 31, 2023 and 2022.

Interest Rate Risk. This is the risk that investments are exposed to fair value losses arising from increasing interest rates. Though the Agency has restrictions as to the maturities of some of the investments, it does not have a formal policy for interest rate risk. The Agency had no investments subject to this risk at December 31, 2023 and 2022. At December 31, 2023 and 2022, all investment funds were in guaranteed investment contracts that will terminate on June 30, 2024.

Investment Agreement. The Agency has entered into guaranteed investment contracts in which it has agreed to invest the debt service fund for a fixed rate of return of 3.4 percent, and the debt service reserve and the working capital funds for a guaranteed fixed rate of return of 3.6 percent with J. Aron. The agreements terminate on June 30, 2024.

The following schedules present credit risk by type of security held at December 31, 2023 and 2022. The credit ratings listed are from Standard & Poor's.

The Agency's cash, cash equivalents, and investments consist of the following:

	Credit Rating	December 31, 2023	December 31, 2022
Cash and cash equivalents:			
Money market funds	AAAm	$ 3,815,126	$ 2,558,586
Total cash and cash equivalents		3,815,126	2,558,586
Investments:			
Guaranteed investment contracts	BBB+	18,489,411	19,350,323
Total investments		18,489,411	19,350,323
Total cash, cash equivalents, and investments		$ 22,304,537	$ 21,908,909

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

	December 31, 2023	December 31, 2022
Cash, cash equivalents, and investments:		
Debt service funds	$ 19,304,537	$ 18,898,077
Total debt service funds	19,304,537	18,898,077
Other restricted funds:		
Working capital fund	3,000,000	3,000,000
Revenue fund	-0-	10,832
Total other restricted funds	3,000,000	3,010,832
Total cash, cash equivalents, and investments	$ 22,304,537	$ 21,908,909

NOTE 4. PREPAID GAS SUPPLY

The Agency's prepaid gas supply is presented below:

	December 31, 2023	December 31, 2022
Prepaid gas supply	$ 524,549,289	$ 528,808,082
Less: amounts due within one year	(15,191,708)	(4,258,793)
Total prepaid gas supply - noncurrent portion	$ 509,357,581	$ 524,549,289

The following summarizes prepaid gas supply activity for the year ended December 31, 2023:

	January 1, 2023	Terminations	Amortization	December 31, 2023
Prepaid gas supply	$ 528,808,082	$ -0-	$ (4,258,793)	$ 524,549,289

The following summarizes prepaid gas supply activity for the year ended December 31, 2022:

	January 1, 2022	Terminations	Amortization	December 31, 2022
Prepaid gas supply	$ 532,524,976	$ -0-	$ (3,716,894)	$ 528,808,082

The prepaid gas supply is the discounted NPV of the fixed monthly natural gas prices per million British Thermal Units (MMBtu) as specified in, and over the remaining term of, the Prepaid Agreement.

NOTE 5. LONG-TERM DEBT

The Agency issued $539.6 million of 2018 Commodity Supply Revenue Bonds (Bonds) in December 2018 maturing in June 2049, with a mandatory tender purchase in June 2024. The Bonds have fixed interest rates of 4.0 percent to 5.0 percent.

The Agency's long-term debt is presented below:

	December 31,	
	2023	2022
2018 Commodity supply revenue bonds, fixed rates 4.0% - 5.0%, 2024-2049	$ 537,295,000	$ 539,615,000
Unamortized premiums	2,403,431	7,267,185
Total long-term debt	539,698,431	546,882,185
Less: amounts due within one year	(14,505,000)	(2,320,000)
Total long-term debt - net	$ 525,193,431	$ 544,562,185

The following summarizes long-term debt activity for the year ended December 31, 2023:

	January 1, 2023	Additions	Payments/ Amortizations	December 31, 2023
2018 Commodity supply revenue bonds	$ 539,615,000	$ -0-	$ (2,320,000)	$ 537,295,000
Unamortized premiums	7,267,185	-0-	(4,863,754)	2,403,431
Total long-term debt	$ 546,882,185	$ -0-	$ (7,183,754)	$ 539,698,431

The following summarizes long-term debt activity for the year ended December 31, 2022:

	January 1, 2022	Additions	Payments/ Amortizations	December 31, 2022
2018 Commodity supply revenue bonds	$ 539,615,000	$ -0-	$ -0-	$ 539,615,000
Unamortized premiums	12,200,040	-0-	(4,932,855)	7,267,185
Total long-term debt	$ 551,815,040	$ -0-	$ (4,932,855)	$ 546,882,185

At December 31, 2023 scheduled annual principal maturities and interest are as follows:

Year	Principal	Interest	Total
2024	$ 14,505,000	$ 21,636,850	$ 36,141,850
2025	17,300,000	20,911,600	38,211,600
2026	16,710,000	20,219,600	36,929,600
2027	17,660,000	19,551,200	37,211,200
2028	20,250,000	18,844,800	39,094,800
2029-2033 (combined)	80,870,000	82,756,800	163,626,800
2034-2038 (combined)	105,170,000	66,569,400	171,739,400
2039-2043 (combined)	100,825,000	45,940,400	146,765,400
2044-2048 (combined)	133,230,000	22,666,400	155,896,400
2049	30,775,000	1,231,000	32,006,000
Total	$ 537,295,000	$ 320,328,050	$ 857,623,050

Interest in the preceding table includes interest requirements at current fixed rate coupon of 4.0 percent to 5.0 percent until mandatory remarketing date on July 1, 2024, and an assumed 4.0 percent fixed rate after mandatory remarketing. Principal in the preceding table includes known principal payments until mandatory remarketing date and the amortization schedule after mandatory remarketing date.

The Agency had pledged future net revenues to repay $537.3 million and $539.6 million at December 31, 2023 and 2022, respectively for Bonds issued in December 2018. Proceeds from the Bonds were used to purchase the Commodity Project from J. Aron at a price of $541.9 million with the remaining amounts used to fund the appropriate accounts for the Agency. The Bonds, payable through 2049, are secured solely by a pledge of and lien on the trust estate under the Indenture which includes bond proceeds, rights under the CSC, revenues, any termination payment and any investment income. Annual principal and interest payments on the Bonds are expected to require approximately 100 percent of the Agency's net revenues. The total principal and interest remaining to be paid on the Bonds is $857.6 million and $881.7 million at December 31, 2023 and 2022, respectively. Debt service payments on the Bonds are made semi-annually on January 1 and July 1. The Agency paid the first Bond principal payment in 2023 in the amount of $2.3 million. Interest paid was $21.8 million for both 2023 and 2022. Total gross revenues were $26.9 million and $23.4 million for 2023 and 2022, respectively.

The ability of the Agency to pay related principal and interest payments associated with the Bonds is contingent upon the continued successful operation of the Commodity Project. If the Prepaid Agreement were to terminate, a termination payment would be received into the trust estate from J. Aron. The amount of the termination payment, together with the amounts required to be on deposit in certain funds and accounts held by the trustee, has been calculated to provide a sum sufficient to pay the redemption price of the Bonds upon early termination of the Prepaid Agreement. The amount of termination payment declines over time as J. Aron performs its commodity delivery obligations under the Prepaid Agreement. The Members are not obligated to pay debt service costs if the Commodity Project is unable to operate pursuant to the Prepaid Agreement or if revenues generated by the Commodity Project are insufficient to meet debt service obligations.

Terms of Debt Indenture. The debt indenture contains a provision that in an event of default, the holders of the majority of the debt outstanding are entitled to declare the outstanding amounts due immediately.

NOTE 6. COMMITMENTS

Commodity Price Swap Agreement. The Agency has entered into a floating-to-fixed natural gas and electricity commodity price swap agreement (Commodity Swap Agreement) with a counterparty for the purpose of fixing the variable price on the Agency's commodity sales to SMUD under the CSC. The Agency pays an index-based commodity price over the thirty-year period and receives a fixed commodity price as specified in the Commodity Swap Agreement, for notional quantities of commodity at a pricing point corresponding to the daily contract quantity and the delivery point under the Prepaid Agreement. The Commodity Swap Agreement terminates on July 1, 2049. The total notional amount of the Commodity Swap Agreement remaining at December 31, 2023 was 90.2 million MMBtu and 9.9 million MWh. Presently, the Commodity Swap Agreement is an average of 20,400 MMBtu per calendar day. Actual daily commodity deliveries will vary from month to month, changing on the first day of the month. Early termination of the Commodity Swap Agreement would occur upon termination of the Prepaid Agreement for any reason whatsoever. Upon early termination, the Commodity Swap Agreement would have no value to either party.

NOTE 7. CONTINGENCIES

General Contingencies. The Agency's ability to make principal and interest payments on its Bonds is contingent upon the continued delivery of commodity to the Commodity Project under the Prepaid Agreement. The Members are not obligated to make principal and interest debt service payments in the event the Commodity Project does not operate and there are insufficient funds to pay the bondholders. The Agency expects that the commodity will continue to be delivered as planned.

In the normal operation of business, the Agency is party to various claims, legal actions and complaints. Management and the Agency's legal counsel believe that there are no material loss contingencies that would have a material adverse impact on the financial position of the Agency.