NEW ISSUE – FULL BOOK-ENTRY ONLY **RATINGS: (See "RATINGS" herein.)**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to NCPA, based on an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Issue Two 2010 Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). In the further opinion of Bond Counsel, interest on the Issue Two 2010 Series A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Issue Two 2010 Series Bonds is exempt from State of California personal income taxes. Bond Counsel observes that interest on the 2010 Series B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other federal or state tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Issue Two 2010 Series Bonds. See "TAX MATTERS" herein.

$140,765,000
NORTHERN CALIFORNIA POWER AGENCY
LODI ENERGY CENTER REVENUE BONDS,
ISSUE TWO (CALIFORNIA DEPARTMENT OF WATER RESOURCES)

$30,540,000
2010 SERIES A
(Tax-Exempt)

$110,225,000
2010 SERIES B
(Federally Taxable – Direct Payment Build America Bonds)

Dated: Date of Delivery **Due: June 1, as shown on the inside cover**

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of the Issue Two 2010 Series Bonds. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined will have the meanings set forth herein.

The Issue Two 2010 Series Bonds will be issued by Northern California Power Agency pursuant to an Indenture of Trust, dated as of June 1, 2010, between NCPA and U.S. Bank National Association for the purpose of financing the share of the State of California Department of Water Resources of the Costs of Construction of the Lodi Energy Center, a 280 MW combined cycle power plant, natural gas-fueled electric generation station to be constructed in Lodi, California and related purposes. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The Issue Two 2010 Series Bonds will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. DTC will act as securities depository for the Issue Two 2010 Series Bonds. Individual purchases of the Issue Two 2010 Series Bonds will be made in book-entry form only. Interest on the Issue Two 2010 Series Bonds will be payable on each June 1 and December 1, beginning on December 1, 2010. Principal will be payable on June 1 of the years set forth on the inside cover page hereof. The Issue Two 2010 Series Bonds will be delivered in denominations of $5,000 and any integral multiple thereof. Principal, premium, if any, and interest on the Issue Two 2010 Series Bonds will be payable by the Trustee to DTC, which is obligated in turn to remit such principal of, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Issue Two 2010 Series Bonds. See "APPENDIX D – BOOK-ENTRY ONLY SYSTEM" hereto.

The Issue Two 2010 Series A Bonds are not subject to redemption prior to maturity. The Issue Two 2010 Series B Bonds are subject to redemption prior to maturity as described herein

The Issue Two 2010 Series Bonds will be special, limited obligations of NCPA payable solely from amounts available from the Trust Estate, and secured solely by a pledge of the Trust Estate, consisting primarily of payments from

THE STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES

and the funds held by the Trustee under the Indenture. The Issue Two 2010 Series Bonds will not constitute a charge against the general credit of NCPA. The Issue Two 2010 Series Bonds are not debts, liabilities or obligations of the State of California, any public agency thereof (other than the special limited obligations of NCPA), any member of NCPA, any Participant, and neither the faith and credit nor the taxing power of any of the foregoing (including NCPA) is pledged for the payment of the Issue Two 2010 Series Bonds. NCPA has no taxing power.

MATURITY SCHEDULE
(see inside cover)

The Issue Two 2010 Series Bonds are offered when, as and if issued and delivered to the Underwriters, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel to NCPA, and certain other conditions. Certain legal matters will be passed upon for NCPA by Meyers, Nave, Riback, Silver & Wilson, Sacramento, California, General Counsel to NCPA, by Spiegel & McDiarmid LLP, Washington, D.C., Washington Counsel to NCPA and by Orrick, Herrington & Sutcliffe LLP, Disclosure Counsel to NCPA. Certain legal matters will be passed upon for the Underwriters by Chapman and Cutler LLP, Salt Lake City, Utah, Counsel to the Underwriters. It is expected that the Issue Two 2010 Series Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York, by Fast Automated Securities Transfer (FAST) on or about June 24, 2010.

Goldman, Sachs & Co.

Citi **De La Rosa & Co.** **J.P. Morgan**

Morgan Stanley **Stone & Youngberg**

Dated: June 10, 2010

$30,540,000
Northern California Power Agency
Lodi Energy Center Revenue Bonds,
Issue Two (California Department of Water Resources)
2010 Series A
(Tax-Exempt)

MATURITY SCHEDULE

Maturity Date (June 1)	Principal Amount	Interest Rate	Yield	CUSIP No. †
2013	$3,775,000	5.000%	0.960%	664845 DH4
2014	3,965,000	5.000	1.410	664845 DJ0
2015	4,160,000	5.000	1.770	664845 DK7
2016	4,370,000	5.000	2.160	664845 DL5
2017	4,585,000	3.000	2.460	664845 DM3
2018	4,725,000	5.000	2.660	664845 DN1
2019	4,960,000	5.000	2.860	664845 DP6

$110,225,000
Northern California Power Agency
Lodi Energy Center Revenue Bonds,
Issue Two (California Department of Water Resources)
2010 Series B
(Federally Taxable – Direct Payment
Build America Bonds)

MATURITY SCHEDULE

Maturity Date (June 1)	Principal Amount	Interest Rate	Yield	CUSIP No. †
2020	$5,210,000	4.630%	4.630%	664845 DF8

$105,015,000 5.679% Term Bonds due June 1, 2035 - Yield 5.679% CUSIP No.† 664845 DG6

† Copyright 2010, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. The CUSIP data herein is provided by the CUSIP Service Bureau, managed on behalf of the American Bankers Association by Standard & Poor's. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the Agency and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the Issue Two 2010 Series Bonds. Neither the Agency nor the Underwriters take responsibility for the accuracy of the CUSIP numbers.

No dealer, broker, salesperson or any other person has been authorized by NCPA, CDWR or the Underwriters to give any information or to make any representation, other than the information and representations contained herein, in connection with the offering of the Issue Two 2010 Series Bonds and, if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of, the Issue Two 2010 Series Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the Issue Two 2010 Series Bonds.

Statements contained in this Official Statement that include estimates, forecasts or matters of opinion are intended solely as such and are not to be construed as representations of fact. The information set forth herein has been furnished by NCPA, CDWR or other sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

U.S. Bank National Association accepts its duties as Trustee for the Issue Two 2010 Series Bonds. Notwithstanding the foregoing, however, the Trustee has not reviewed this Official Statement and makes no representations as to the information contained herein, including, but not limited to, any representations as to the financial feasibility of NCPA or the Participants, the Lodi Energy Center or any related activities.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE ISSUE TWO 2010 SERIES BONDS THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE ISSUE TWO 2010 SERIES BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the captions "THE LODI ENERGY CENTER," "RATE REGULATION" and "LITIGATION – California Energy Market Refund Dispute and Related Litigation" in this Official Statement and in the description of CDWR's operations set forth in APPENDIX B hereto. Forward-looking statements in this Official Statement are subject to risks and uncertainties, including particularly those relating to the successful completion of construction of the Lodi Energy Center within NCPA's budgeted Costs of Construction, natural gas costs and

availability, wholesale and retail electric energy and capacity prices, federal and state legislation and regulations, competition and industry restructuring, and the economies of the service areas of the CDWR's Water Contractors.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. NCPA does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

NCPA maintains a website. However, the information presented therein is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the Issue Two 2010 Series Bonds.

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Michael Siminski .....Mayor, Lompoc
Yiaway Yeh.....Councilmember, Palo Alto
Vacant ..... Port of Oakland
Douglas Crane..... Councilmember, Ukiah
Roger Frith .....Mayor, Biggs
Larry Weis.....General Manager, Turlock Irrigation District
John McCahan..... Commissioner, Public Utilities Board, City of Alameda
Gary Plass, Vice Chairman .....Councilmember, Healdsburg
Mary Stegall..... Councilmember, Redding
Joe Kornder..... Councilmember, Santa Clara
John Hillstrom .. Board Member, Truckee Donner Public Utility District
Daniel Kenney ..... Vice President, Board of Directors, Plumas-Sierra Rural Electric Cooperative, (Associate Member)
Carol Garcia.....Councilmember, Roseville
Owen Stiles..... Energy Commissioner, Gridley
Frank Schultz..... Energy Manager, San Francisco Bay Area Rapid Transit District

Management

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Assistant General Manager, Finance and Administrative Services;
Chief Financial Officer ..... Donna I. Stevener
Assistant General Manager, Legislative & Regulatory.....Jane Dunn Cirrincione
Assistant General Manager, Business Development.....Donald Dame
Assistant General Manager, Power Management .....David Dockham
Assistant General Manager, Generation Services..... Ken Speer
Human Resources Manager .....Lynn Bianchi-Rossi

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Los Angeles, California

Auditor
Moss Adams LLP
Portland, Oregon

Trustee
U.S. Bank National Association
New York, New York

Financial Advisor
Public Financial Management, Inc.
San Francisco, California

Lodi Energy Center
Generation Entitlement Share Percentages ("GES")

Participant	*Generation Entitlement Share Percentage*
California Department of Water Resources	33.5000%
City of Azusa	2.7857
City of Biggs	0.2679
City of Gridley	1.9643
City of Healdsburg	1.6428
City of Lodi	9.5000
City of Lompoc	2.0357
City of Santa Clara	25.7500
City of Ukiah	1.7857
Modesto Irrigation District	10.7143
Plumas-Sierra Rural Electric Cooperative	0.7857
Power and Water Resources Pooling Authority	2.6679
San Francisco Bay Area Rapid Transit District	6.6000
Total	100.0000%

SUMMARY STATEMENT

This Summary Statement is subject in all respects to more complete information contained in this Official Statement and should not be considered a complete statement of the facts material to making an investment decision. The offering of the Issue Two 2010 Series Bonds to potential investors is made only by means of the entire Official Statement. Certain terms used herein are defined in APPENDIX A to this Official Statement.

NCPA	Northern California Power Agency is a joint exercise of powers agency formed under the Act and the Joint Powers Agreement now among Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Oakland (acting through its Board of Port Commissioners), Palo Alto, Redding, Roseville, Santa Clara, Ukiah, TID, Truckee Donner, and BART as members, and Plumas-Sierra, as an associate member (herein collectively referred to as the "Members"). NCPA has successfully completed the construction of and operates a number of electric generating facilities, including a large hydroelectric project, a geothermal project and two natural gas-fueled units. See "NORTHERN CALIFORNIA POWER AGENCY" and "OTHER NCPA PROJECTS."
Lodi Energy Center	The Lodi Energy Center consists of a 280 MW combined cycle, natural-gas-fueled electric generation station and related facilities to be located in Lodi, California. The material permits and governmental approvals required in connection with the acquisition and construction of the Lodi Energy Center have been obtained and the major components of the Lodi Energy Center have been ordered. NCPA expects to commence construction of the Lodi Energy Center in the Summer of 2010 with commercial operation expected in the Summer of 2012. The Lodi Energy Center uses modern generation and emissions control to minimize the environmental impact of the facility while producing energy in an efficient and cost-effective manner. NCPA expects that the facility will be among the most competitive of the natural gas-fired plants in the region. The Lodi Energy Center has a designed heat rate of 6,804 Btu/kWh at 94 degrees F. This low heat rate means that this plant is very efficient and utilizes less natural gas than most gas-fired plants to generate energy. NCPA also believes that based on an historical evaluation of the market, the Lodi Energy Center will operate approximately 80% of the time. See "LODI ENERGY CENTER."
Operation of the Lodi Energy Center	NCPA is to operate and maintain the Lodi Energy Center in accordance with the Power Sales Agreement and the Project Management and Operations Agreement among NCPA and the Participants.

The Power Sales Agreement.....	Pursuant to the Power Sales Agreement, NCPA has agreed to construct and operate the Lodi Energy Center and has sold all of the capacity and energy of the Lodi Energy Center to the thirteen Participants in accordance with their respective generation entitlement shares ("GES"). Each Participant has agreed to provide for its share of the Costs of Construction of the Lodi Energy Center and all Capital Improvements and to pay its share of the Operation and Maintenance Expenses based in its GES. See "POWER SALES AGREEMENT." The Power Sales Agreement also provides for the application of Project Revenues received by NCPA in connection with the Lodi Energy Center. See "SECURITY AND SOURCES OF PAYMENT – Application of Project Revenues."
Participants.....	The thirteen California public entities that are Lodi Energy Center Participants and their respective GES are set forth on page (ii) of this Official Statement, which GES is subject to adjustment as provided in the Power Sales Agreement.
California Department of Water Resources	The State of California Department of Water Resources is a department within the California Natural Resources Agency of the State of California and is responsible for the planning, construction and operation of the State Water Resources Development System (which consists principally of the State Water Project, and includes the Davis-Grunsky Act program and the San Joaquin Valley Drainage Program). CDWR is also responsible for, among other things, the operation of programs for the safety of dams, flood management, local assistance and subventions, other water-related matters and the operation of the Power Supply Program. The State Water Project is a complex of dams, water storage facilities, aqueducts, pumping stations and electric generation facilities, which have been constructed by CDWR for the purposes of developing a water supply and conveying water to areas in need within the State and providing flood control, recreation, fish and wildlife enhancement, hydroelectric power and other benefits. All 647 miles of the initially planned aqueduct system have been completed. The 444-mile main stem California Aqueduct runs from a point near Stockton southward to a terminus in Riverside County. The dependable annual water supply available for delivery by the State Water Project will vary yearly depending on hydrologic conditions and regulatory mandates. See "CALIFORNIA DEPARTMENT OF WATER RESOURCES."

Plan of Finance.....	The Power Sales Agreement divides the Participants into three Indenture Groups: Group A (identified under "PLAN OF FINANCE"), Group B (the California Department of Water Resources) and Group C (the Modesto Irrigation District). NCPA is to issue bonds for the initial estimate of the Costs of Construction of the Lodi Energy Center allocated to CDWR (the Issue Two 2010 Series Bonds) and all Costs of Construction allocated to the Indenture Group B Participant. MID is to pay its share of initial estimate of the Costs of Construction of the Lodi Energy Center with a Capital Contribution funded with proceeds of a financing by MID. Each Participant in each Indenture Group is responsible for the payment of amounts due under Financing Contracts such as bonds, notes and other evidences of indebtedness issued by NCPA, with respect to such Indenture Group Participants' share of the Costs of Construction of the Lodi Energy Center and Financed Capital Improvements based on such Participant's indenture cost share within such Indenture Group (such Participant's "ICS"). The obligations of each Indenture Group are independent and no Participant in an Indenture Group is liable for any such payments with respect to obligations of another Indenture Group. See "PLAN OF FINANCE – Indenture Groups Under Power Sales Agreement."
Payments Under Power Sales Agreement.....	All revenues (other than those revenues attributable to Central Valley Project Revenue Bond financed facilities) received by CDWR from the sale, use and delivery of water and power from the State Water Resources Development System are deposited in the California Water Resources Development Bond Fund. Revenues deposited in the California Water Resources Development Bond Fund are used to make payments in priority order as specified in the Water Code, with the first priority being the payment of the reasonable costs of the annual maintenance and operation of the System. Such first priority payments for maintenance and operation costs include payments for the purchase of electric power, including payments to be made to NCPA under the Power Sales Agreement. See "CALIFORNIA DEPARTMENT OF WATER RESOURCES – Source of CDWR Payments under Power Sales Agreement."
Participant's Obligations under Power Sales Agreement.....	Each Participant's payment obligation under the Power Sales Agreement is a special obligation payable only from the Enterprise Revenues of such Participant's Enterprise payable, except for Capital Contributions, as an operating expense of such Enterprise. See "POWER SALES AGREEMENT – Payments an Operating Expense of Enterprise." Each Participant's payment obligation under the Power Sales Agreement from its Enterprise Revenues is absolute and unconditional, is required to be made whether or not any capacity

	or energy is made available from the Lodi Energy Center, and, except for credits available under the Power Sales Agreement, is a net payment obligation not subject to reduction by offset, counterclaim or otherwise. See "POWER SALES AGREEMENT – Unconditional Payment Obligation."
OandM Step-Up	In the event of a Payment Default by a Participant that results in a deficiency in the amount available to pay Operation and Maintenance Expenses, the amounts payable by the Non-Defaulting Participants for Operation and Maintenance Expenses shall ratably increase beyond such Participants' GES to cure such deficiency. See "POWER SALES AGREEMENT – Increase in Non-Defaulting Participants' OandM Payments."
Security and Sources of Payment for Bonds.....	The Issue Two 2010 Series Bonds will be special, limited obligations of NCPA. The Issue Two 2010 Series Bonds will be payable solely from amounts available from the Trust Estate, and secured solely by a pledge of the Trust Estate. Amounts available from the Trust Estate will consist primarily of the amounts paid by the Indenture Group B Participant pursuant to the Power Sales Agreement (after the payment of the Indenture Group B Participant's share of the Operation and Maintenance Expenses and reserves therefor) and the amounts held by the Trustee under the Indenture. No Participants other than the Indenture Group B Participant are obligated to make any payments with respect to the Issue Two 2010 Series Bonds. **The Issue Two 2010 Series Bonds will not constitute debts, liabilities or obligations of the State of California, any public agency thereof (other than special, limited obligations of NCPA), any Member of NCPA or any Participant and neither the faith and credit nor the taxing power of any of the foregoing (including NCPA) is pledged for the payment of the Issue Two 2010 Series Bonds. NCPA has no taxing power.** See "SECURITY AND SOURCES OF PAYMENT."
Issue Two 2010 Series Debt Service Reserve Account.....	No proceeds of the Issue Two 2010 Series Bonds will be deposited in the Issue Two 2010 Series Debt Service Reserve Account. The Indenture does not require the Issue Two 2010 Series Debt Service Reserve Account to be funded.
Subsidy Contingency Fund	An amount from the proceeds of the Issue Two 2010 Series B Bonds equal to the Subsidy Contingency Requirement will be deposited in the Subsidy Contingency Fund to be applied to make up any deficiency in amounts in the Issue Two 2010 Series B Debt Service Account if the expected amount of the Subsidy with respect to the Issue Two 2010 Series B Bonds is not received by any Interest Payment Date. See "SECURITY AND SOURCES OF PAYMENT – Subsidy Contingency Fund."

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OFFICIAL STATEMENT
of
NORTHERN CALIFORNIA POWER AGENCY

Relating to its

$140,765,000
LODI ENERGY CENTER REVENUE BONDS,
ISSUE TWO (CALIFORNIA DEPARTMENT OF WATER RESOURCES)

$30,540,000	**$110,225,000**
2010 SERIES A	**2010 SERIES B**
(Tax-Exempt)	***(Federally Taxable – Direct Payment Build America Bonds)***

INTRODUCTION

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the Issue Two 2010 Series Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used in this Official Statement and not otherwise defined herein will have the respective meanings assigned to them in APPENDIX A – GLOSSARY OF TERMS."

Purpose

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to set forth certain information concerning (i) the Northern California Power Agency; (ii) the Lodi Energy Center to be constructed and operated by NCPA; (iii) the Power Sales Agreement pursuant to which NCPA has sold all of the capacity and energy of the Lodi Energy Center to the Participants; (iv) the State of California Department of Water Resources ("CDWR") the sole Indenture Group B Participant; and (v) NCPA's Lodi Energy Center Revenue Bonds, Issue Two, 2010 Series A and NCPA's Lodi Energy Center Revenue Bonds, Issue Two, 2010 Series B.

Authority for Issuance of Issue Two 2010 Series Bonds

The Issue Two 2010 Series Bonds are being issued pursuant to the provisions of Article 4 of the California Joint Exercise of Powers Act and under and in accordance with an Indenture of Trust to be dated as of June 1, 2010, between NCPA and U.S. Bank National Association, as trustee.

The Issue Two 2010 Series Bonds

The terms of the Issue Two 2010 Series A Bonds and the Issue Two 2010 Series B Bonds are described under the caption "THE ISSUE TWO 2010 SERIES BONDS." The Issue Two 2010 Series B Bonds are being issued as direct payment Taxable Subsidy Bonds constituting Build America Bonds for purposes of the American Recovery and Reinvestment Act of 2009. All Subsidy payments in connection with the Issue Two 2010 Series B Bonds shall be received by NCPA and deposited in the Issue Two 2010 Series B Debt Service Account. The Issue Two 2010 Series Bonds and any future Lodi Energy Center Revenue Bonds, Issue Two Outstanding under the Indenture are referred to herein as the "Bonds."

The Issue Two 2010 Series Bonds are the initial series of Bonds to be issued with respect to CDWR's share of the Costs of Construction of the Lodi Energy Center. See "PLAN OF FINANCE" herein.

The Issue Two 2010 Series Bonds are being issued by NCPA for the purpose of financing CDWR's share of the Costs of Construction of the Lodi Energy Center. A portion of the proceeds of the Issue Two 2010 Series Bonds will also be used to fund the Subsidy Contingency Fund for the Issue Two 2010 Series B Bonds, pay capitalized interest for the Issue Two 2010 Series Bonds, partially fund the Operating Reserve Fund and pay costs of issuance of the Issue Two 2010 Series Bonds.

Security and Sources of Payment for the Issue Two 2010 Series Bonds

The Issue Two 2010 Series Bonds will be special, limited obligations of NCPA. The Issue Two 2010 Series Bonds will be payable solely from amounts available from the Trust Estate, and secured solely by a pledge of the Trust Estate. Amounts available from the Trust Estate will consist primarily of the amounts paid by CDWR as the sole Indenture Group B Participant, pursuant to the Power Sales Agreement after the payment of the Indenture Group B Participant's share of the Operation and Maintenance Expenses of the Lodi Energy Center and reserves therefor and the amounts held by the Trustee under the Indenture. See "SECURITY AND SOURCES OF PAYMENT" herein. No Participant other than CDWR is obligated to make any payments with respect to the Issue Two 2010 Series Bonds.

The Issue Two 2010 Series Bonds will not constitute debts, liabilities or obligations of the State of California, any public agency thereof (other than special, limited obligations of NCPA), any Member of NCPA or any Participant and neither the faith and credit nor the taxing power of any of the foregoing (including NCPA) is pledged for the payment of the Issue Two 2010 Series Bonds. NCPA has no taxing power.

Risk Factors

For a description of certain risks associated with the purchase of the Issue Two 2010 Series Bonds, see "SECURITY AND SOURCES OF PAYMENT – Limitations on Remedies," "The LODI ENERGY CENTER – Timeline and Milestones; Costs of Construction," "RATE REGULATION," "CONSTITUTIONAL CHANGES IN CALIFORNIA," and "LITIGATION" herein.

Continuing Disclosure

NCPA and CDWR will each agree, pursuant to separate Continuing Disclosure Agreements with the Trustee, to provide to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access System a copy of their respective annual audited financial statements, as well as certain operating data relating to the Lodi Energy Center and CDWR's Enterprise, the State Water Resources Development System. See "CONTINUING DISCLOSURE" herein.

Other Matters

The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report or instrument. The capitalization of any word not conventionally capitalized or otherwise defined herein indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given to it in such agreement or document. In preparing this Official Statement, NCPA has relied upon certain information relating to CDWR furnished to NCPA by CDWR.

Attached to this Official Statement is a summary of certain provisions of the Indenture. For a summary of the Power Sales Agreement, see "POWER SALES AGREEMENT" herein. Copies of the Indenture, the Power Sales Agreement, the PMOA and the Continuing Disclosure Agreements are

available for inspection at the offices of NCPA in Roseville, California, and will be available upon request and payment of duplication costs from the Trustee.

THE LODI ENERGY CENTER

General Description

The Lodi Energy Center is designed to provide base, peak load and ancillary power services to assist in meeting the electric generation demand and reliability requirements of the Participants by providing cost effective power and energy through modern generation and emissions control technologies that are designed to mitigate effects on the environment.

The Lodi Energy Center has a designed net heat rate of 6,804 Btu/kWh at 94 degrees F. This heat rate is low in comparison to other natural gas-fired generating facilities, and means that this plant will be very efficient and will utilize less natural gas than most gas-fired plants to generate electric energy. Even when gas prices are high, NCPA believes that the Lodi Energy Center will be competitive to other, less-efficient, gas-fired plants in the region. NCPA also believes that based on an historical evaluation of the market, the Lodi Energy Center will operate approximately 80% of the time.

The Lodi Energy Center will be a natural gas-fired, combined-cycle power generation plant to be located in the City of Lodi, San Joaquin County, California. The plant is capable of operating at 296 MW (it has been permitted to operate at this level and it has arranged for the equipment necessary to operate at this level) but is expected to operate at 280 MW under the terms of the transmission interconnection agreement with the California Independent System Operator and PG&E. The electric generation components (the "Power Island") of the Lodi Energy Center will consist of the following components: (1) one natural gas-fired Siemens STGS-5000F combustion turbine-generator ("CTG"), with an evaporative cooling system and dry low-NOx combustors to control air emissions; (2) one 3-pressure heat recovery steam generator ("HRSG"), (3) a selective catalytic reduction ("SCR") and carbon monoxide (CO) catalyst to further control NOx and CO emissions, respectively; (4) one Siemens SST-900RH condensing steam turbine generator ("STG"); (5) one natural gas-fired auxiliary boiler; (6) one 7-cell draft evaporative cooling tower; and (7) associated support equipment.

The site for the Lodi Energy Center is 4.4 acres of land owned by the City of Lodi, six miles west of the Lodi city center and two miles north of the City of Stockton. On the east side of the site is Lodi's White Slough Water Pollution Control Facility ("WPCF"). The WPCF's treatment and holding ponds are located to the north. An existing NCPA electric generating plant (one unit of NCPA's Combustion Turbine Project as described under "OTHER NCPA PROJECTS – Capital Facilities Project") (the "NCPA Lodi Unit") is located to the west. A 230-kV Pacific Gas and Electric overhead electrical transmission line is aligned further to the west. A San Joaquin County Mosquito and Vector Control facility is to the south.

The Lodi Energy Center is a Siemens "Flex Plant 30," which employs rapid startup technology, which reduces the startup times of the unit and emissions during startup. The facility is expected to have an overall annual availability of more than 95%. The CTG and associated equipment include modern control technology to limit emissions of criteria pollutants and hazardous air pollutants. An SCR system using ammonia injection will help control NOx and volatile organic compounds. The exclusive use of natural gas as the fuel for the Lodi Energy Center is the "best available control technology" standard set in the San Joaquin Valley Air Pollution Control District permit for particulate matter (PM_{10}) and sulfur oxide (SO_x) emissions.

Need for and Benefits of the Lodi Energy Center

As a part of the services it provides to its Members, NCPA undertakes long-range evaluations of the Members' power supply requirements and resources. One result of these evaluations was the identification of the need for a thermal generating resource to supplement the hydroelectric power supplies utilized by most of the Members and to provide a long-term resource to reduce their exposure to the wholesale power markets. NCPA recommended that various Members consider participating in the Lodi Energy Project and nine of them (all of which are Indenture Group A Participants) elected to participate in the Lodi Energy Center. Four non-member entities, Azusa, CDWR, Modesto, and PWRPA, also elected to participate in the Lodi Energy Center, which enabled NCPA to undertake a larger project with the associated economies of scale.

NCPA selected the site for the Lodi Energy Center based on a number of factors including (1) an existing industrial land use zoning, (2) its proximity to the transmission facilities controlled by the California Independent System Operator (the "ISO") and to major gas pipelines, (3) the availability of recycled water from Lodi's WPCF for the operations of the Lodi Energy Center's evaporative cooling system and (4) the existing NCPA-operated and staffed combustion turbine located at the site, which will provide experienced plant operators and a more efficient staffing plan than a stand-alone unit.

NCPA expects that the Lodi Energy Center will provide a number of benefits to the Participants. In addition to the strategic location of the Lodi Energy Center, NCPA expects the Lodi Energy Center will provide a range of additional benefits including (1) a highly efficient generating unit that will be economically dispatched before other gas-fired units in the region, resulting in a highly competitive power cost, (2) a flexible generating unit capable of fast start-ups and highly efficient operations across a broad range of conditions that will complement existing and future power supplies from hydroelectric and renewable energy resources, and (3) a range of 28% to 70% less greenhouse gas emissions as compared to power supply resources presently being used by certain of the Participants, as well as other emissions that are well below all current standards set by applicable regulatory bodies.

Timeline and Milestones

NCPA expects to commence construction of the Lodi Energy Center in the Summer of 2010 with commercial operation expected in the Summer of 2012. The following represents an expected milestone timeline for the construction of the Lodi Energy Center:

Milestone	Date
Construction Commences	July 2010
Steam Turbine On Site	November 2011
OandM Training Begins	January 2012
Testing Begins	March 2012
Commercial Operation Date	June 2012

The estimated construction schedule for the plant is consistent with the industry standard construction time of 20-24 months for a combined cycle plant.

NCPA has executed a Project Labor Agreement ("PLA") which creates certainty around the availability and cost of labor required to complete the project. Among other things, the PLA eliminates the ability for unions and union employees to strike or create any work stoppage or slowdowns.

A number of factors, some of which may be outside the control of NCPA, could affect the timely completion of the Lodi Energy Center. These factors include timely selection of and performance by various contractors and subcontractors, the performance of equipment suppliers to meet contractual commitments, services not yet contracted for, labor disputes, contract disputes, the implementation of mitigation measures or meeting conditions contained in permits and governmental approvals, changes in law and regulations and other uncontrollable forces and unforeseen circumstances.

Costs of Construction*

The estimated Costs of Construction of the Lodi Energy Center are approximately $375 million. Below is a breakdown of such estimated costs:

	Cost ($mm)
Materials	$182.3
General Construction Contract	99.2
Development/Interconnection and Fees	56.1
Engineering	17.9
Contingency	19.8
TOTAL CONSTRUCTION COST	**$375.3**

Approximately 86% of the estimated Costs of Construction are under contract. All of the major contracts in place are fixed price. Costs may increase due to a variety of factors, including change orders from the contractors. At the time the request for bids for the General Construction Contract was issued, detailed engineering was approximately 44% complete. NCPA believes that the contingency amount of $19.8 million that is included in the construction budget of the Lodi Energy Center will be adequate to cover unexpected increases in construction costs. However, various factors could affect the Costs of Construction of the Lodi Energy Center including the actual costs of materials, services and labor not yet contracted for, delays in the current construction schedule, contract bid protests and other contract disputes and other factors which may be outside of the control of NCPA. Pursuant to the provisions of the Power Sales Agreement, in the event that higher than expected Costs of Construction exceed the contingency amount provided in the current construction budget, NCPA and the Participants will determine whether to fund the additional Costs of Construction through Capital Contributions and/or additional financings.

Engineering Agreement

NCPA has contracted with WorleyParsons Group, Inc. (the "Engineer") for the detailed engineering and design of the Lodi Energy Center. The Engineer's responsibilities include, but are not limited to: (i) all engineering and design required for a 1x1 combined cycle power plant, (ii) integration of the Power Island (as defined below), (iii) design of support equipment and systems, (iv) preparation of specifications for equipment and systems purchases and construction, (v) review of vendor and contractor proposals, (vi) on-site engineering support during construction, and (vii) construction management services. NCPA shall pay the Engineer a fixed price for all services described above. As of the date of this Official Statement, the engineering and design of the Lodi Energy Center are approximately 48% complete.

Siemens Agreement for Power Island

NCPA has entered into a Purchase Agreement (the "Siemens Agreement") with Siemens Energy, Inc. ("Siemens") for the purchase of the Power Island components for the Lodi Energy Center, at a fixed price. Such price is subject to adjustment as provided in the Siemens Agreement, including adjustments for change orders, delays caused by NCPA or other contractors and force majeure. The Siemens

* The information contained in this subsection is dated June 17, 2010.

Agreement provides for deliveries of major components which are consistent with the schedule of milestones under "Timeline and Milestones" above. The Power Island components and services provided under the Siemens Agreement are expected to represent approximately 40% of the total Costs of Construction of the Lodi Energy Center.

In the Siemens Agreement, Siemens makes certain performance, emissions, sound and start-up performance guarantees under specified conditions and tolerances. These guarantees are satisfied by the testing procedures contained in the Siemens Agreement. The performance guarantees provide for a net power output of 284 MW and a heat rate of 6,632 Btu/kWh for the Power Island components. The Siemens Agreement also provides for start-up and operational emissions guarantees which are within the levels permitted for the Lodi Energy Center.

The Siemens Agreement provides for $60,000 per Btu/kWh in liquidated damages for failure to satisfy the heat rate performance guarantee and $600 per kW in liquidated damages for failure to satisfy the net power performance guarantee, with a separate limit of $14,709,732 for each such guarantee and a combined limit of $22,064,598 for both performance guarantees. A $7,354,866 limit applies to a failure to achieve the start-up performance guarantee.

In the event the Lodi Energy Center does not satisfy the emissions guarantees, and Siemens determines it cannot reduce emissions to satisfy such guarantees, the Siemens Agreement provides that NCPA and Siemens will explore alternative solutions to address the higher emissions level and will negotiate a mutually agreeable remedy. Such remedy includes retrofitting a larger SCR catalyst, NCPA applying to the relevant government agency to amend the emissions limits or other conditions in the relevant permit or payment of mutually agreeable liquidated damages. The Siemens Agreement provides that in all events Siemens's liability for performance or nonperformance thereunder shall not exceed the contract price.

General Construction Contract*

The Lodi Energy Center will be constructed pursuant to a General Construction Contract (the "General Construction Contract") between NCPA and ARB, Inc. (the "Construction Contractor").

Under the General Construction Contract the Construction Contractor's responsibilities include, but are not limited to: (i) performing and completing all of the work, without any defects, and furnishing the equipment and materials and labor to provide an operable Lodi Energy Center, (ii) receiving, handling, installing, testing and other tasks with respect to incorporating the Power Island into the Lodi Energy Center, (iii) constructing the Lodi Energy Center so that it is capable of operation, at the design levels specified in the General Construction Contract, (iv) providing appropriate installation and start-up representatives from major subcontractors and major vendors, all necessary supervising personnel, all equipment, tools, construction and temporary material, and all labor for start-up, commissioning and testing in order to ensure that the Lodi Energy Center achieves completion by the guaranteed completion date, and (v) start-up, commissioning and any related testing.

The General Construction Contract provides that NCPA will suffer damages if construction of the Lodi Energy Center is not complete by the guaranteed completion date. If construction is not complete by the guaranteed completion date, the General Construction Contract provides for liquidated damages of $25,000 per day for the first 30 days of delay, $35,000 per day for days 31-60 of delay, and $50,000 per day for each day of delay thereafter.

Bids for the General Construction Contract were received on May 3, 2010; however, due to technical compliance issues under the public works bidding process, NCPA elected to reject all bids, revise its bid specifications and re-bid the General Construction Contract. Bids were received on June 14,

* The information contained in this subsection is dated June 17, 2010.

2010 and the lowest bid from the Construction Contractor of $99.2 million was approximately 9% greater than the engineering estimate. As shown in the table under "Costs of Construction," this $8.2 million increase over the engineering estimate was partially offset by a $3.5 million reduction in materials costs, resulting in a reduction in the project contingency amount from $24.5 million to $19.8 million. NCPA awarded the General Construction Contract to the Construction Contractor on June 17, 2010. As described under "Costs of Construction," if higher than expected Costs of Construction exceed the contingency amount provided in the current construction budget, NCPA and the Participants will determine whether to fund the additional Costs of Construction through Capital Contributions and/or additional financings pursuant to the Power Sales Agreement.

Fuel Supply

Natural gas will be delivered to the Lodi Energy Center through a new off-site pipeline (about 2.7 miles long) running parallel to a 2.7-mile existing natural gas pipeline owned by Pacific Gas and Electric that services the NCPA Lodi Unit.

The NCPA Fuel Management Contract will govern fuel related activities. This contract is currently being negotiated by NCPA and potential counterparties and is expected to be finalized by July 2010. The NCPA Fuel Management Contract will call for purchase of fuel at short-term rates. Additionally, the NCPA Fuel Management Contract will be considered non-exclusive, namely that NCPA and each of the Participants will retain the right to purchase its fuel requirements outside of such NCPA Fuel Management Contract.

NCPA presently procures services to schedule, balance and supply up to 78,000 MMBtu/day of natural gas and 5,400 MMBtu/day of pipeline capacity for the benefit of various Members. See "OTHER NCPA PROJECTS – Gas Purchase Contracts" below.

Water Supply and Wastewater Discharge

Recycled water will be used for cooling needs for the Lodi Energy Center and will be provided by a new pipeline in the utility corridor connecting the Lodi Energy Center and Lodi's WPCF. Potable water for sanitary and domestic use would be provided by new on-site potable water well.

The Lodi Energy Center will produce no non-reclaimable process wastewater. Process wastewater will be disposed of by using a new Class I underground injection well, with the existing Class 1 underground injection well at the NCPA Lodi Unit available as a backup.

Transmission and Power Delivery

The output of Lodi Energy Center is to be transmitted to the power grid via a proposed 1,100 foot in length, transmission/generation tie-line to the adjacent NCPA Lodi Unit 230 kilovolt ("kV") switchyard substation adjacent to the Lodi Energy Center.

Operation

NCPA will operate and maintain the Lodi Energy Center. NCPA manages and operates seven power plant sites with a capacity of approximately 540 megawatts-including geothermal steam, hydroelectric and natural gas-fired facilities and is responsible for state of the art operations and asset management of all NCPA plants.

NCPA is to operate the Lodi Energy Center under the general direction of the Participants pursuant to the Power Sales Agreement and the PMOA. The PMOA addresses areas such as fuel procurement and energy dispatch of the Lodi Energy Center. Modifications to the PMOA may be made pursuant to the Power Sales Agreement.

Projected Operating Cost

NCPA has prepared a preliminary operating budget for the Lodi Energy Center for the Fiscal Year ending June 30, 2013, the projected first full year of operation for the facility. The preliminary operating budget projects the Lodi Energy Center will operate at an 80% capacity factor. A summary of the preliminary operating budget, excluding debt service costs (which will vary by Indenture Group), appears in the table below.

LODI ENERGY CENTER
Projected Annual Operating Cost

	FY 2013 Proposed	Cost per MWh
Routine Operations and Maintenance	$ 11,659,774	$ 5.94
Fuel (assumed $7 per mmbtu for gas)	93,732,280	47.77
Other Costs	5,004,986	2.55
Total Annual Operating Budget	110,397,041	56.26
Capital and Maintenance Projects	951,500	0.48
Total Project Cost	$ 111,348,541	$56.75
Net Annual Generation (MWh)	1,962,240	
Net Annual Operating Cost to Participants ($/MWh)	$56.75	

Permits, Licenses and Approvals

The material permits and governmental approvals required in connection with the acquisition, construction and operation of the Lodi Energy Center have been obtained. These permits and governmental approvals in connection with the acquisition and construction of the facility include, but are not limited to, (i) San Joaquin Valley Air Pollution Control District Final Determination of Compliance, (ii) Biology Habitat Conservation Plan/Incidental Take Permit, (iii) Underground Injection Well Permit, (iv) Land Use Applicability for Gas Line, and (v) California Energy Commission (CEC) License.

POWER SALES AGREEMENT

General

Under the Power Sales Agreement, NCPA has agreed to construct and operate the Lodi Energy Center and has sold all of the capacity and energy of the Lodi Energy Center to the thirteen Participants in accordance with their respective GES to the Capacity and Energy of the Lodi Energy Center. In return, each Participant has agreed to provide for its share of the Costs of Construction of the Lodi Energy Center and all Capital Improvements and to pay its share of the Operation and Maintenance Expenses based in its GES.

Unconditional Payment Obligation

The Power Sales Agreement provides that each Participant shall pay NCPA the amount of its Participant Monthly Power Costs set forth in Billing Statements. See "Participant Monthly Power Costs" below. Each Participant acknowledges and agrees that its payment obligation for amounts due under the

Power Sales Agreement from its Enterprise Revenues is the absolute and unconditional obligation of such Participant. The obligations of each Participant to make all payments required to be made by such Participant under the Power Sales Agreement from Enterprise Revenues are absolute and unconditional. Each Participant agrees to make all payments required to be made by such Participant under the Power Sales Agreement whether or not the Project or any part thereof is developed, constructed, is operable, operating or retired, and whether or not any Capacity or Energy is made available or furnished to such Participant at all times or at all, and notwithstanding the suspension, interruption, interference, reduction or curtailment of Project output in whole or in part for any reason whatsoever. Except for credits allowed pursuant to the Power Sales Agreement, all payments required to be made by a Participant thereunder shall be absolutely net, free of any deductions, and are not subject to any reduction, whether by offset, recoupment, counterclaim or otherwise. Each Participant shall make all payments required to be made by such Participant under the Power Sales Agreement notwithstanding the occurrence of any act or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California, or any political subdivision of either of these, or any failure of any person to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with the Power Sales Agreement, any applicable Financing Agreement or any other agreement.

Payments an Operating Expense of Enterprise

The obligations of each Participant to make payments to NCPA under the Power Sales Agreement (other than Capital Contributions and Contributions in Aid of Construction) shall constitute a cost of purchased electric capacity and energy and be payable as an operating expense of the Participant's Enterprise (and with respect to CDWR, as a maintenance and operation cost of CDWR's Enterprise, the State Water Resources Development System, pursuant to California Water Code Section 12937(b)(1)). Each Participant will annually during the term of the Power Sales Agreement include in its Enterprise budget, as an Enterprise operating expense, whether or not any other items are included, an appropriation or commitment from its Enterprise Revenues sufficient to satisfy all payments required to be made by the Participant in such fiscal year under the Power Sales Agreement (other than Capital Contributions and Contributions in Aid of Construction) which are not paid from other available funds of the Participant until all such payments required to be made by the Participant under the Power Sales Agreement have been paid in full.

Rate Covenant

Each Participant covenants and agrees that it will fix rates and charges for the commodities and services provided by its Enterprise which will provide the Participant at all times with Enterprise Revenues which will be sufficient, together with other funds available to make such payments, to meet when due its obligations under the Power Sales Agreement and all other obligations payable from the Enterprise Revenues on a basis prior to or on a parity with such obligations. For more information relating to electric rates see "RATE REGULATION."

Special Obligation

The obligation of each Participant to make any and all payments under the Power Sales Agreement is a special obligation of such Participant which the Participant is obligated to make solely from its Enterprise Revenues. The obligation of each Participant to make payments thereunder does not constitute a debt of such Participant or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction, nor a pledge of the full faith and credit and taxing power of such Participant or any other entity. Nothing in the Power Sales Agreement shall be construed as prohibiting any Participant, in its sole discretion, from using any funds other than Enterprise Revenues for the purpose of satisfying any provisions of the Power Sales Agreement, or from entering into contracts or incurring other obligations payable from its Enterprise

Revenues on parity with such Participant's obligation to make payments under the Power Sales Agreement.

Participant Monthly Power Costs

The amount of the Total Monthly Power Costs to be paid by each Participant for a particular month (i.e., the Participant Monthly Power Costs) shall be the sum of the following:

- Each Participant's GES multiplied by the Operating Cost Component of the Total Monthly Power Costs for such month.

- Each Participant's GES multiplied by the Fuel Cost Component of the Total Monthly Power Costs for such month unless an alternate billing procedure is included in the PMOA as provided in the Power Sales Agreement, in which case each Participant shall be billed for Fuel Costs as provided in the PMOA.

- Each Participant's ICS multiplied by the Indenture Cost Component of the Total Monthly Power Cost for the Indenture Group of such Participant for such month.

- Each Participant's GES multiplied by the Non-Financed Capital Cost Component of the Total Monthly Power Costs for such month.

- Each Non-Defaulting Participant's OandM Step-up Share multiplied by the OandM Step-Up Component of the Total Monthly Power Costs for such month.

Billing Statement

NCPA shall invoice each Participant for the amount of its Participant Monthly Power Costs by providing such Participant with a Billing Statement for such Participant Monthly Power Costs. Subject to any available credits, such Billing Statement shall be paid in full by each Participant by the 30th day after the date of such Billing Statement. The Participant Committee may recommend the adoption of an alternative Billing Statement procedure in connection with each Participant's Billing Statement with respect to the Total Monthly Power Costs and associated agreements and obligations. Any such recommended alternative Billing Statement implementation shall satisfy the requirements of each Financing Agreement, shall be fiscally prudent and shall assure coverage of all anticipated and actual Project related costs and obligations of NCPA.

Enterprise

Each Participant shall operate and maintain its Enterprise in a business-like fashion and in accordance with Prudent Utility Practice.

Participants' Obligations Several

Each Participant shall be solely responsible and liable for its performance under the Power Sales Agreement and for the maintenance and operation of its Enterprise. The obligation of each Participant to make payments under the Power Sales Agreement is a several obligation and not a joint obligation with the other Participants.

Increase in Non-Defaulting Participant's OandM Payments

In the event of a payment default by a Participant which causes a deficiency in the amount available in the Operating Fund to pay all Operation and Maintenance Expenses then due, each Non-Defaulting Participant is to increase its payments with respect to Operation and Maintenance Expenses by its pro rata share (based on GES) of the amount of the resulting OandM Step-Up.

Transfer, Sale or Assignment

Each Participant has the right, with certain exceptions, to make transfers and sales of its interests in Project Capacity and Energy and rights thereto; provided that no such transfer or sale shall adversely affect the Tax Status of the Bonds issued under the Indenture. No such transfer or sale shall relieve the Participant of its obligations under the Power Sales Agreement.

Project Management and Operations Agreement

The PMOA sets forth the agreement among the Participants on the management and operation of the Lodi Energy Center. The responsibilities of the Project Participant Committee established under the Power Sales Agreement are provided in the PMOA and include actions relating to the operations of the Lodi Energy Center. The PMOA also dictates the principles and guidelines to be followed relating to economic operations and fuel procurement with respect to operating the Lodi Energy Center.

PLAN OF FINANCE

Power Sales Agreement

Under the Power Sales Agreement each Participant is responsible for providing for its share of the Costs of Construction of the Lodi Energy Center and each Capital Improvement based on its GES. The initial GES of each Participant is set forth in the introductory sections of this Official Statement. CDWR's GES is subject to adjustment as a result of a GES Lay-Off.

Indenture Groups Under Power Sales Agreement

For purposes of providing for the Costs of Construction of the Lodi Energy Center and each Financed Capital Improvement, the Power Sales Agreement divides the Participants into three Indenture Groups: Indenture Group A, Indenture Group B and Indenture Group C. The Participants in each Indenture Group can discharge such responsibility for Costs of Construction (on an Indenture Group basis) by authorizing NCPA to issue bonds for such Costs of Construction or by making a Capital Contribution in the amount of such Costs of Construction. NCPA bonds issued for an Indenture Group Participants' share of the Costs of Construction are to be payable from the Project Revenues related to the Indenture Group Participants available under the Power Sales Agreement and not from any other Project Revenues. See "SECURITY AND SOURCES OF PAYMENT – Application of Project Revenues" herein.

Each Participant in each Indenture Group is responsible for the payment of bonds, notes and other evidences of indebtedness issued by NCPA with respect to such Indenture Group Participants' share of the Costs of Construction of the Lodi Energy Center and Financed Capital Improvements based on such Participant's ICS. The obligations of each Indenture Group are independent and no Participant in an Indenture Group is liable for any such payments with respect to obligations of another Indenture Group.

California Department of Water Resources

The sole Indenture Group B Participant, CDWR, has authorized NCPA to issue its bonds payable from the Project Revenues related to its GES that are available under the Power Sales Agreement for the current estimate of the Costs of Construction of the Lodi Energy Center. The Issue Two 2010 Series Bonds are the first bonds to be issued for CDWR's share of the Costs of Construction and are to provide all of CDWR's share of the current estimate of the Costs of Construction of the Lodi Energy Center.

If requested by CDWR, NCPA is also to issue additional bonds payable from Project Revenues related to CDWR's GES for CDWR's share of any additional Costs of Construction of the Lodi Energy Center and any Financed Capital Improvements; provided that CDWR has the obligation to pay such Costs of Construction with Capital Contributions if it has not requested NCPA to issue bonds for such purpose in accordance with the Power Sales Agreement.

Indenture Group A Participants

The Participants in Indenture Group A consist of the California Cities of Azusa, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Santa Clara, and Ukiah, together with the San Francisco Bay Area Rapid Transit District, the Power and Water Resources Pooling Authority and the Plumas-Sierra Rural Electric Cooperative. The Indenture Group A Participants have authorized NCPA to issue its bonds payable from the Project Revenues related to the Indenture Group A Participants' GES that are available under the Power Sales Agreement for all Costs of Construction of the Lodi Energy Center and each Financed Capital Improvement. Contemporaneously with the offering of the Issue Two 2010 Series Bonds, NCPA is offering two series of bonds to pay the Indenture Group A Participants' GES of the current estimate of the Costs of Construction of the Lodi Energy Center. NCPA expects proceeds of such bonds to be available in the necessary amount at the time of delivery of the Issue Two 2010 Series Bonds. Such bonds will not be issued pursuant to the Indenture and will not be payable from amounts available from, or secured by, the Trust Estate pledged under the Indenture.

Modesto Irrigation District

The sole Indenture Group C Participant, Modesto, has elected to pay its GES of the current estimate of the Costs of Construction of the Lodi Energy Center with a Capital Contribution. Contemporaneously with the offering of the Issue Two 2010 Series Bonds, Modesto, acting through its joint powers financing authority, is offering electric system revenue bonds to pay Modesto's GES of the current estimate of the Costs of Construction of the Lodi Energy Center. Modesto has reported to NCPA that it expects proceeds of such revenue bonds to be available in the necessary amount at the time of delivery of the Issue Two 2010 Series Bonds. Such electric system revenue bonds will not be issued pursuant to the Indenture and will not be payable from amounts available from, or secured by, the Trust Estate pledged under the Indenture.

If requested by Modesto, NCPA is to issue its bonds payable from Project Revenues related to the Indenture Group C Participant's GES for Modesto's share of any additional Costs of Construction of the Lodi Energy Center and any Financed Capital Improvements; provided that Modesto has the obligation to pay such Costs of Construction with Capital Contributions if it has not requested NCPA to issue bonds for such purpose in accordance with the Power Sales Agreement.

ESTIMATED SOURCES AND USES OF FUNDS

As discussed above, the proceeds of the Issue Two 2010 Series Bonds is only a portion of the money used to finance the Lodi Energy Center. The total estimated cost of the Lodi Energy Center is approximately $375 million.

The estimated sources and uses of funds with respect to the Issue Two 2010 Series Bonds are as follows:

	Issue Two 2010 Series A Bonds	Issue Two 2010 Series B Bonds	Total
Sources of Funds			
Par amount	$30,540,000	$110,225,000	$140,765,000
Original Issue Premium	4,078,674		4,078,674
Total	$34,618,674	$110,225,000	$144,843,674
Uses of Funds			
Deposit to Construction Fund	$25,108,583	$100,253,327	$125,361,910
Deposit to Reserve Funds[1]	3,400,000	1,085,879	4,485,879
Net Capitalized Interest	5,855,533	7,747,681	13,603,214
Costs of Issuance[2]	254,558	1,138,113	1,392,671
Total	$34,618,674	$110,225,000	$144,843,674

(1) Includes deposit to the Issue Two Subsidy Contingency Fund and the Operating Reserve Fund.
(2) Costs of issuance include legal, financing and consulting fees, underwriters' discount, fees of the trustee, rating agency fees, printing costs and other miscellaneous expenses.

THE ISSUE TWO 2010 SERIES BONDS

The following is a summary of certain provisions of the Issue Two 2010 Series Bonds. Reference is made to the Indenture for a more detailed description of such provisions. The discussion herein is qualified by such reference.

The Issue Two 2010 Series A Bonds

General

The Issue Two 2010 Series A Bonds will be issued in the aggregate principal amount indicated on the inside cover page of this Official Statement, will mature on June 1 in the years and in the amounts, and will bear interest at the rates per annum as shown on the inside cover page of this Official Statement. The Issue Two 2010 Series A Bonds will be dated their date of delivery. Interest on the Issue Two 2010 Series A Bonds will be payable on June 1 and December 1 of each year, commencing December 1, 2010 (calculated on the basis of a 360-day year comprised of twelve 30-day months). Ownership interests in the Issue Two 2010 Series A Bonds will be issued in authorized denominations of $5,000 and any integral multiple thereof.

The Issue Two 2010 Series A Bonds will be issued in fully registered form, and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York,

New York, such registered owner of Issue Two 2010 Series A Bonds being hereinafter referred to as the "Owner." DTC will act as securities depository for the Issue Two 2010 Series A Bonds. Ownership interests in the Issue Two 2010 Series A Bonds may be purchased in book-entry form only. Purchasers will not receive securities certificates representing their interests in the Issue Two 2010 Series A Bonds purchased. Payments of principal of, premium, if any, and interest on the Issue Two 2010 Series A Bonds will be paid by the Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Issue Two 2010 Series A Bonds. See "APPENDIX D – BOOK-ENTRY ONLY SYSTEM" hereto.

Redemption of the Issue Two 2010 Series A Bonds

The Issue Two 2010 Series A Bonds are not subject to redemption prior to their stated maturities.

The Issue Two 2010 Series B Bonds

General

The Issue Two 2010 Series B Bonds will be issued in the aggregate principal amount indicated on the inside cover page of this Official Statement, will mature on June 1 in the years and in the amounts, and will bear interest at the rates per annum as shown on the inside cover page of this Official Statement. The Issue Two 2010 Series B Bonds will be dated their date of delivery. Interest on the Issue Two 2010 Series B Bonds will be payable on June 1 and December 1 of each year, commencing December 1, 2010 (calculated on the basis of a 360-day year comprised of twelve 30-day months). Ownership interests in the Issue Two 2010 Series B Bonds will be issued in authorized denominations of $5,000 and any integral multiple thereof.

The Issue Two 2010 Series B Bonds will be issued in fully registered form, and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York, such registered owner of Issue Two 2010 Series B Bonds being hereinafter referred to as the "Owner." DTC will act as securities depository for the Issue Two 2010 Series B Bonds. Ownership interests in the Issue Two 2010 Series B Bonds may be purchased in book-entry form only. Purchasers will not receive securities certificates representing their interests in the Issue Two 2010 Series B Bonds purchased. Payments of principal of, premium, if any, and interest on the Issue Two 2010 Series B Bonds will be paid by the Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Issue Two 2010 Series B Bonds. See "APPENDIX D – BOOK-ENTRY ONLY SYSTEM" hereto.

Build America Bonds

The Issue Two 2010 Series B Bonds are being issued as direct payment Taxable Subsidy Bonds constituting Build America Bonds for purposes of the American Recovery and Reinvestment Act of 2009. All Subsidy payments in connection with the Issue Two 2010 Series B Bonds shall be received by NCPA and deposited in the Issue Two 2010 Series B Debt Service Account.

Redemption of the Issue Two 2010 Series B Bonds

Optional Redemption at option of NCPA.

The Issue Two 2010 Series B Bonds are subject to redemption prior to their stated maturities, at the option of NCPA, in whole or in part, on any date, at a redemption price equal to the greater of (i) 100% of the principal amount of the Issue Two 2010 Series B Bonds, or portions thereof, to be redeemed or (ii) the Discounted Value thereof, except that for purposes of calculating such Discounted Value, the Discount Yield shall be equal to the Blended Treasury Yield plus 0.25%, plus unpaid accrued interest thereon to the redemption date. All calculations and determinations referred to in this subsection will be made by a financial advisor selected by NCPA.

"Discounted Value" is defined under the Indenture as, with respect to the Issue Two 2010 Series B Bonds of each maturity thereof to be redeemed, the sum of the amounts obtained by discounting all remaining scheduled payments of principal and interest (exclusive of interest accrued to the date of redemption) on such Issue Two 2010 Series B Bonds from their respective scheduled payment dates to the applicable redemption date, at a yield (computed on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months) equal to the applicable Discount Yield.

"Blended Treasury Yield" is defined under the Indenture as, with respect to the Issue Two 2010 Series B Bonds of each maturity to be redeemed, the yield computed by the linear interpolation of two Market Treasury Yields such that the theoretical maturity that corresponds to the interpolated Market Treasury Yield equals the date that corresponds to the remaining average life of the Issue Two 2010 Series B Bonds of such maturity to be redeemed. The first Market Treasury Yield will be based on an actively traded U.S. Treasury security or U.S. Treasury index whose maturity is closest to but no later than the date corresponding to the remaining average life of the Issue Two 2010 Series B Bonds of such maturity to be redeemed; and the second Market Treasury Yield will be based on an actively traded U.S. Treasury security or U.S. Treasury index whose maturity is closest to but no earlier than the date corresponding to the remaining average life of the Issue Two 2010 Series B Bonds of such maturity to be redeemed. Notwithstanding the foregoing, if the date that corresponds to the remaining average life of the Issue Two 2010 Series B Bonds of a particular maturity to be redeemed is later than the latest maturity of any actively traded U.S. Treasury security or U.S. Treasury index, then the Blended Treasury Yield shall be the Market Treasury Yield of the actively traded U.S. Treasury security or U.S. Treasury index having such latest maturity.

"Market Treasury Yield" is defined under the Indenture as, with respect to the Issue Two 2010 Series B Bonds, that yield, assuming semiannual compounding based upon a 360-day year consisting of twelve 30-day months, which is equal to:

(i) the yield for the applicable maturity of an actively traded U.S. Treasury security, reported, as of 11:00 a.m., New York City time, on the Valuation Date on the display designated as "Page PX1" of the Bloomberg Financial Markets Services Screen (or, if not available, any other nationally recognized trading screen reporting on-line intraday trading in U.S. Treasury securities); or

(ii) if the yield described in (i) above is not reported as of such time or the yield reported as of such time is not ascertainable, the most recent yield data for the applicable U.S. Treasury maturity index from the Federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m., New York City time, on the Valuation Date; or

(iii) if the yields described in (i) and (ii) above are not reported as of such time or the yields reported as of such time are not ascertainable, the yield for the applicable maturity of an actively traded U.S. Treasury security shall be based upon the average of yield

quotations for such security (after excluding the highest and lowest quotations) as of 3:30 p.m., New York City time, on the Valuation Date received from no less than five primary dealers in U.S. government securities selected by NCPA.

Each yield quotation for each actively traded U.S. Treasury security required in (i) and (iii) above shall be determined using the average of the bid and ask prices for that security.

"Valuation Date" shall mean, with respect to Issue Two 2010 Series B Bonds to be redeemed, the Business Day preceding the date on which notice of such redemption is given.

Optional Redemption following an Extraordinary Event.

The Issue Two 2010 Series B Bonds are subject to redemption prior to their stated maturities, at the option of NCPA, in whole or in part on any date following the occurrence of an Extraordinary Event, at a redemption price equal to the greater of (i) 100% of the principal amount of the Issue Two 2010 Series B Bonds, or portions thereof, to be redeemed or (ii) the Discounted Value thereof, except that for purposes of calculating such Discounted Value, the Discount Yield shall be equal to the Blended Treasury Yield plus 1.00%, plus unpaid accrued interest thereon to the redemption date. All calculations and determinations referred to in this subsection will be made by a financial advisor selected by NCPA.

"Extraordinary Event" is defined under the Indenture as the determination by an Authorized NCPA Representative that a material adverse change has occurred to Section 54AA or Section 6431 of the Code (as such Sections were added by Section 1531 of the American Recovery and Reinvestment Act of 2009 pertaining to "Build America Bonds") or there is any guidance published by the IRS or the United States Treasury with respect to such Sections or any other determination by the IRS or the United States Treasury, which determination is not the result of any act or omission by NCPA to satisfy the requirements to qualify to receive the thirty-five percent cash Subsidy payment from the U.S. Treasury, pursuant to which NCPA's thirty-five percent cash Subsidy payment from the U.S. Treasury is reduced or eliminated.

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Mandatory Sinking Fund Redemption.

The Issue Two 2010 Series B Bonds maturing on June 1, 2035 are subject to redemption prior to their stated maturity, in part, on each June 1 on or after June 1, 2021, from sinking fund installments established for such Issue Two 2010 Series B Bonds, at a redemption price equal to the principal amount of Issue Two 2010 Series B Bonds called for redemption, without premium, in the following principal amounts:

Mandatory Redemption Date (June 1)	**Amount**
2021	$5,365,000
2022	5,565,000
2023	5,770,000
2024	5,985,000
2025	6,205,000
2026	6,430,000
2027	6,670,000
2028	6,915,000
2029	7,170,000
2030	7,435,000
2031	7,710,000
2032	7,995,000
2033	8,290,000
2034	8,595,000
2035*	8,915,000

* Final Maturity

Selection of Bonds for Redemption

If less than all of the Issue Two 2010 Series Bonds of like Series and maturity shall be called for prior redemption, except as otherwise provided in the Representation Letter, the particular Issue Two 2010 Series Bonds or portions of Issue Two 2010 Series Bonds to be redeemed shall, subject to any limitations with respect thereto contained in any applicable provision of the Indenture (including any Supplemental Indenture), be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate; provided, however, that (i) the portion of any Issue Two 2010 Series Bond of a denomination greater than the minimum Authorized Denomination for the Series of which such Issue Two 2010 Series Bond is a part shall be redeemed in part only in Authorized Denominations; (ii) in selecting portions of Issue Two 2010 Series Bonds for redemption, the Trustee shall treat each Issue Two 2010 Series Bond of a Series as representing that number of Issue Two 2010 Series Bonds of the minimum Authorized Denomination for such Series which is obtained by dividing the principal amount of such Issue Two 2010 Series Bond by the minimum Authorized Denomination for the Issue Two 2010 Series Bonds of such Series; and (iii) if less than all of the Issue Two 2010 Series B Bonds of a maturity shall be called for redemption, such Issue Two 2010 Series B Bonds of a maturity shall be redeemed in part, on a pro rata basis; provided that, so long as the Issue Two 2010 Series B Bonds are held in book-entry-only form, the selection for redemption of such Issue Two 2010 Series B Bonds of a maturity shall be made in accordance with the operational arrangements of DTC then in effect, and, if the DTC operational arrangements do not allow for redemption on a pro rata basis, the Issue Two 2010 Series B Bonds will be selected for redemption in accordance with DTC procedures, by lot or in such other manner as is in accordance with applicable DTC operational arrangements. Neither NCPA nor the Underwriters can provide any assurance that DTC, DTC's direct and indirect participants, or any other intermediary will allocate partial redemptions among beneficial owners of the Issue Two 2010 Series B Bonds of a maturity on a pro rata basis.

Notice of Redemption

The Indenture requires the Trustee to give notice of any redemption of the Issue Two 2010 Series Bonds by mailing a notice of redemption of such Issue Two 2010 Series Bonds, first-class mail, postage prepaid, not less than 30 days before the redemption date, to the owners of any Issue Two 2010 Series Bonds or portions thereof which are to be redeemed, at their last address appearing upon the bond register, but receipt of such notice shall not be a condition precedent to such redemption and failure of any owner of the Issue Two 2010 Series Bonds to receive any such notice or any defect in such notice shall not affect the validity of the proceedings for redemption of the Issue Two 2010 Series Bonds. Among, other things, such notice shall state that on the redemption date interest on such Issue Two 2010 Series Bonds, or the portions thereof to be redeemed, shall cease to accrue and be payable. Notice of redemption may also be given to depositories and information services designated by NCPA to the Trustee; but failure to give such notice, or any defect therein, shall not affect the proceedings for redemption of the Issue Two 2010 Series Bonds.

The notice with respect to any redemption of Issue Two 2010 Series Bonds at the option of NCPA, unless at the time of giving of notice the Issue Two 2010 Series Bonds to be redeemed shall be deemed to have been paid within the meaning of the Indenture, shall state that such redemption is conditional upon the receipt by the Trustee, on or prior to the date fixed for such redemption, of moneys sufficient too pay the principal of, and premium, if any, and unpaid accrued interest to the redemption date on, such Issue Two 2010 Series Bonds to be redeemed and that if such moneys shall not have been so received said notice shall be of no force and effect and NCPA shall not be required to redeem such Issue Two 2010 Series Bonds. In the event a notice of redemption of Issue Two 2010 Series Bonds contains such a condition and such money are not so received, the redemption of the Issue Two 2010 Series Bonds as described in the conditional notice of redemption shall not be made and the Trustee shall, within a reasonable time after the date on which such redemption was to occur, give notice to the persons and in the manner in which the notice of redemption was given, that such moneys were not so received and that there will be no redemption of Issue Two 2010 Series Bonds pursuant to the notice of redemption.

So long as the Issue Two 2010 Series Bonds are in book-entry form, such notice of redemption by the Trustee to the Owners will be mailed only to DTC (or its nominee).

SECURITY AND SOURCES OF PAYMENT

Pledge Effected by the Indenture

The Bonds, including the Issue Two 2010 Series Bonds, will be special, limited obligations of NCPA. The principal amount and redemption price of, and interest on, the Bonds are payable solely from the funds available from the Trust Estate and are secured by a pledge of the Trust Estate; provided, however, that the pledge of that portion of the Trust Estate constituting the Pledged Power Sales Agreement Rights shall be on a parity with any pledge of the Pledged Power Sales Agreement Rights securing the payment of Parity Debt. The Bonds do not constitute a charge against the general credit of NCPA. The Bonds are not secured by a legal or equitable pledge of, or lien or charge upon, any property of NCPA or any of its income or receipts except the Trust Estate subject to the provisions of the Power Sales Agreement and the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein. Neither the faith and credit nor the taxing power of the State of California or any public agency thereof or any member of NCPA or any Participant is pledged to the payment of the principal or redemption price of, or interest on, the Bonds. Neither the payment of the principal or redemption price of, or interest on, the Bonds constitutes a debt, liability or obligation of the State of California or any public agency thereof (other than the special limited obligation of NCPA) or any member of NCPA or any Participant. Neither the members of the NCPA Commission nor any officer or employee of NCPA shall be individually liable on the Bonds, or the interest thereon, or in respect of any undertakings by NCPA under the Indenture.

Each Participant in each Indenture Group is responsible for the payment of bonds, notes and other evidences of indebtedness issued by NCPA with respect to such Indenture Group Participants' share of the Costs of Construction of the Lodi Energy Center and Financed Capital Improvements based on such Participant's ICS. The obligations of each Indenture Group are independent and no Participant in an Indenture Group is liable for any such payments with respect to obligations of another Indenture Group.

Application of Project Revenues

All revenues in connection with NCPA's ownership or operation of the Project are to be deposited in the applicable Revenue Account established under the Power Sales Agreement with respect to the Indenture Group related to such Project Revenues. The following flow chart is a graphic representation of the flow of funds of the Project Revenues under the Power Sales Agreement, the Indenture, the indenture of trust for bonds to be issued by NCPA on behalf of the Indenture Group B Participant and under the indenture of trust for bonds to be issued by the Indenture Group C Participant (Note: Rectangular boxes represent funds established and maintained under the Power Sales Agreement and circular boxes represent funds established and maintained under the Indenture and such indentures):

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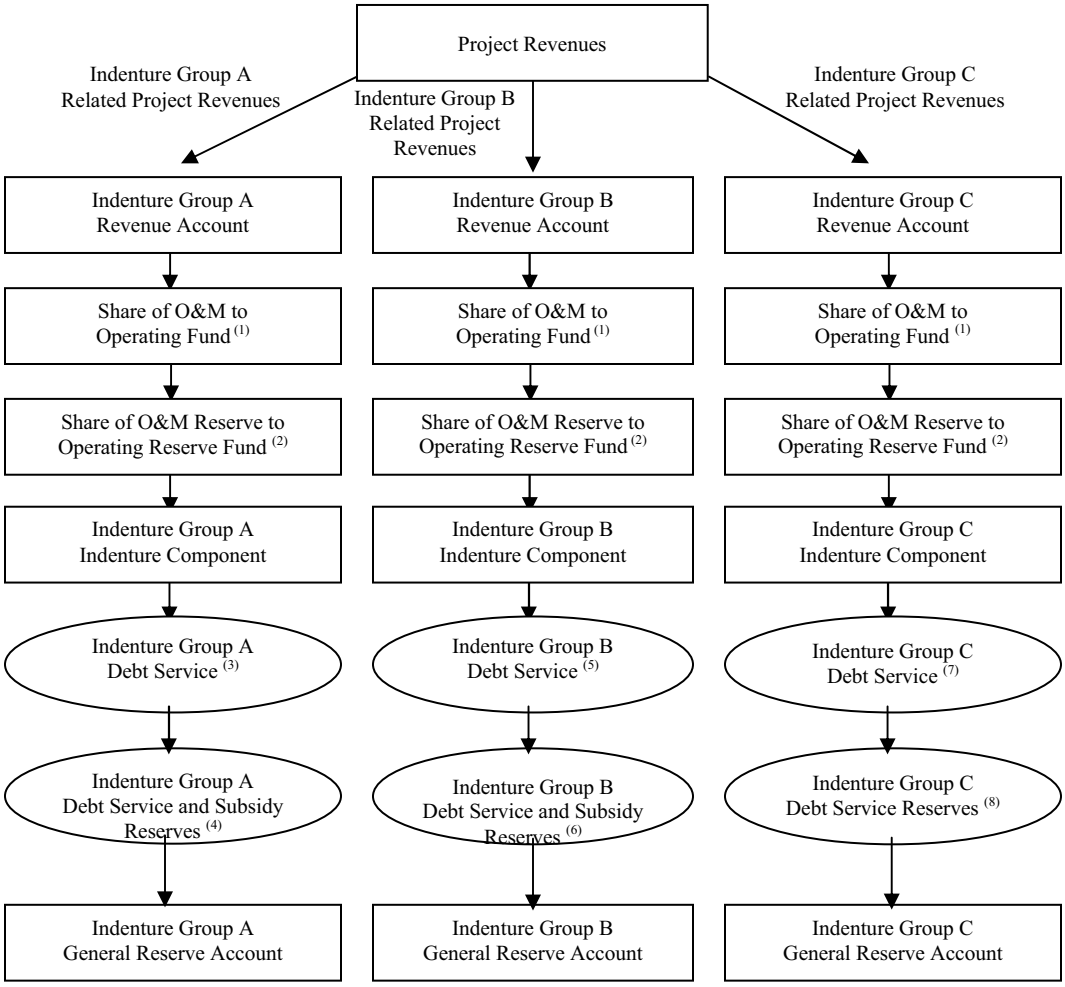
APPLICATION OF PROJECT REVENUES



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(1) For the payment of Operation and Maintenance Expenses, based on each Participant's Billing Statement, including amounts due for OandM Step-Ups.

(2) As provided in each Participant's Billing Statement.

(3) Each debt service fund for bonds and other NCPA obligations payable from the Indenture Group A Revenue Account.

(4) Each debt service reserve fund, if any, and subsidy contingency fund, if any, for bonds and other obligations payable from the Indenture Group A Revenue Account.

(5) The Debt Service Fund under the Indenture and each debt service fund for Parity Debt, if any, and subordinate NCPA obligations, if any, payable from the Indenture Group B Revenue Account.

(6) Issue Two 2010 Series Debt Service Reserve Account and the Subsidy Contingency Fund under the Indenture and each debt service reserve fund for Parity Debt, if any, and subordinate obligations payable from the Indenture Group B Revenue Account. The Debt Service Reserve Requirement for the Issue Two Series 2010 Bonds is zero and thus the Debt Service Reserve Account will not be funded.

(7) Each debt service fund for bonds and other NCPA obligations payable from the Indenture Group C Revenue Account. Does not include amounts with respect to non-NCPA obligations.

(8) Each debt service reserve fund for bonds and other obligations payable from the Indenture Group C Revenue Account. Does not include amounts with respect to non-NCPA obligations.

Pursuant to the Power Sales Agreement, NCPA is to establish and maintain as long as the Power Sales Agreement remains in effect, as funds separate and apart from all other funds and moneys of NCPA, the following funds: the Revenue Fund, the Default Mitigation Sale Fund, the Operating Fund, the Operating Reserve Fund and the General Reserve Fund:

Revenue Fund. The Revenue Fund shall consist of three accounts: the Indenture Group A Revenue Account, with respect to the Indenture Group A Participants; the Indenture Group B Revenue Account, with respect to the Indenture Group B Participant; and the Indenture Group C Revenue Account, with respect to the Indenture Group C Participant. Upon receipt thereof NCPA shall deposit: (i) in the Indenture Group A Revenue Account, all Project Revenues received in connection with the Indenture Group A Participants' GES; (ii) in the Indenture Group B Revenue Account, all Project Revenues received in connection with the Indenture Group B Participant's GES; and (iii) in the Indenture Group C Revenue Account, all Project Revenues received in connection with the Indenture Group C Participant's GES; provided, however, that the proceeds of Default Mitigation Sales shall be deposited directly into the applicable account within the Default Mitigation Sale Fund as provided in the Indenture. Moneys in the Revenue Fund shall be applied as described below.

Operating Fund. Not later than the last day of each month, NCPA shall transfer from each Revenue Account to the Operating Fund the amount specified in the applicable Indenture Group Participants' Billing Statements for the immediately preceding month that is attributable to Operation and Maintenance Expenses. Moneys in the Operating Fund shall be applied by NCPA to the Operation and Maintenance Expenses of the Project.

Operating Reserve Fund. Not later than the last day of each month, after making the required transfer to the Operating Fund, NCPA shall transfer from each Revenue Account to the Operating Reserve Fund the amount specified in the applicable Indenture Group Participants' Billing Statements for the immediately preceding month that is attributable to the Operating Reserve Requirement. NCPA shall transfer to each Revenue Account from the Operating Reserve Fund the pro rata amount (based on the GES attributable to each Indenture Group) by which the amount on deposit in the Operating Reserve Fund exceeds the Operating Reserve Requirement.

Financing Agreement Transfers. Not later than the last day of each month, after making the required transfers to the Operating Fund and the Operating Reserve Fund, NCPA shall transfer from each Revenue Account to the applicable trustee or trustees under each Financing Agreement related to such Revenue Account the amount specified in the applicable Indenture Group Participants' Billing Statements for the immediately preceding month attributable to amounts due under each such Indenture. In the event the amount available in an account in the Revenue Fund is not sufficient to make all payments in such month required by all Financing Agreements relating to the Indenture Group with respect to such account, available amounts in such account shall be applied as provided in the applicable Financing Agreements.

General Reserve Fund. The General Reserve Fund shall consist of three accounts: the Indenture Group A General Reserve Account, with respect to the Indenture Group A Participants; the Indenture Group B General Reserve Account, with respect to the Indenture Group B Participant; and the Indenture Group C General Reserve Account, with respect to the Indenture Group C Participant. Not later than the last day of each month, after making the required transfers to the Operating Fund, the Operating Reserve Fund, and the trustees under the Financing Agreements, NCPA shall (i) transfer all moneys remaining in the Indenture Group A Revenue Account to the Indenture Group A General Reserve Account; (ii) transfer all moneys remaining in the Indenture Group B Revenue Account to the Indenture Group B General Reserve Account, and (iii) transfer all moneys remaining in the Indenture Group C Revenue Account to the Indenture Group C General Reserve Account. Amounts in each account in the General Reserve Fund shall be applied (i) first as provided in each Financing Agreement related to the Indenture Group for

which such account was established and (ii) second, as shall be approved by the Indenture Group for which such account was established.

Indenture Payments from Indenture Group B Revenue Account

The Indenture provides that as soon as practicable in each month, but in any case no later than the last Business Day of such month, after making the required transfers from the Indenture Group B Revenue Account to the Operating Fund and the Operating Reserve Fund, NCPA shall withdraw moneys from the Indenture Group B Revenue Account and deposit in the following Funds and Accounts, in the following order, the amounts set forth below:

First: (i) (A) in the Participating Bonds Debt Service Account the amount necessary so that the balance in said Account shall equal the Debt Service to accrue on the Participating Bonds to the last day of such month; (B) in the Issue Two 2010 Series Bonds Debt Service Account the amount necessary so that the balance in said Account shall equal the Debt Service to accrue on the Issue Two 2010 Series Bonds to the last day of such month; and (C) in each Account in the Debt Service Fund established for a Series of Future Bonds the amount, if any, required so that the balance in said Account shall equal the Debt Service to accrue on such Series of Future Bonds to the last day of such month; provided that, for the purposes of computing the amount on deposit in any such Account, there shall be excluded from the balance of such Account: (1) the amount, if any, set aside in such Account from the proceeds of Bonds for the payment of the principal, redemption price, or interest on Bonds, less that amount of such proceeds to be applied in accordance with the Indenture to the payment of the principal, redemption price or interest accrued and unpaid and to accrue on applicable Bonds to the last day of the then current calendar month; and (2) the amount, if any, set aside in any such Account for the payment of Principal Installments or redemption price of, or interest on, the applicable Bonds which are then due and payable; and (ii) deposit in any fund or account created to pay debt service on Parity Debt the amount, if any, required so that the balance therein shall equal the payments coming due therein to the last day of such month; provided that if the amount available in the Indenture Group B Revenue Account in any month is insufficient to make all deposits required by this subsection (a), then the available amounts in the Indenture Group B Revenue Account shall be deposited in each Account in the Debt Service Fund and the funds or accounts created to pay debt service on Parity Debt pro rata based on the amounts due.

Second: (i) Subject to the provisions relating to the deposit of a Financial Guaranty, in each Account in the Debt Service Reserve Fund, the amount, if any, required so that the amount in such Account is equal to the applicable Debt Service Reserve Requirement and the amount, if any, necessary to reimburse each drawing on a Financial Guaranty related to each Account in the Debt Service Reserve Fund and to pay any interest or other amounts due with respect to a Financial Guaranty related to each Account in the Debt Service Reserve Fund; and (ii) and to deposit in the debt service reserve, if any, established for Parity Debt the amount required to be deposited in such debt service reserve pursuant to the instrument or proceedings authorizing such Parity Debt; provided that if the amount available in the Indenture Group B Revenue Account in any month is insufficient to make all deposits to be made to such reserves, then the available amounts in the Indenture Group B Revenue Account shall be deposited into each Account in the Debt Service Reserve Fund and the debt service reserves for Parity Debt pro rata based on the amounts due.

Third: In the Subsidy Contingency Fund, the amount, if any, required so that the amount in such Fund is equal to the Subsidy Contingency Requirement.

NCPA Rate Covenant

Pursuant to the Indenture, NCPA has covenanted to establish rates and charges, and cause to be collected amounts in connection with the Project and the Power Sales Agreement, as shall be required to provide Project Revenues in the Revenue Fund at least sufficient in each Fiscal Year, together with other available funds, for the payment of all Operation and Maintenance Expenses, including OandM Step-ups, during such Fiscal Year and the maintenance of the Operating Reserve Fund at the amount required by the Power Sales Agreement.

In addition NCPA has covenanted to establish rates and charges, and cause to be collected amounts in connection with the Project and the Power Sales Agreement from the Indenture Group B Participants as shall be required to provide Project Net Revenues in the Indenture Group B Revenue Account at least sufficient in each Fiscal Year, together with other available funds, for the payment of all of the following:

(1) Debt Service on the Bonds and payments due with respect to Parity Debt for such Fiscal Year;

(2) The amount, if any, to be paid during such Fiscal Year into each Account in the Debt Service Reserve Fund and in each debt service reserve fund for Parity Debt;

(3) The amount, if any, to be paid during such Fiscal Year into the Subsidy Contingency Fund;

(4) The amounts payable by NCPA as fees, expenses, indemnification and other charges to the Trustee under the Indenture and to any trustee or custodian for Parity Debt and each other person under or in connection with Parity Debt;

(5) All other amounts payable by NCPA to any person under on in connection with the Indenture or any of the documents and proceedings authorizing or controlling any outstanding Parity Debt; and

(6) All other charges or other amounts payable out of the Project Net Revenues in the Indenture Group B Revenue Account during such Fiscal Year.

See "APPENDIX E – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Rate Covenant" hereto.

Issue Two 2010 Series Debt Service Reserve Account

Upon issuance of the Issue Two 2010 Series Bonds, the Debt Service Reserve Requirement for the Issue Two 2010 Series Bonds will be zero dollars. No proceeds of the Issue Two 2010 Series Bonds will be deposited into the Issue Two 2010 Series Debt Service Reserve Account concurrently with the issuance of the Issue Two 2010 Series Bonds. The Indenture does not require the Issue Two 2010 Series Debt Service Reserve Account to be funded. Amounts on deposit after the issuance of the Issue Two 2010 Series Bonds in the Issue Two 2010 Series Debt Service Reserve Account, if any, will be applied to make up any deficiency in the Debt Service Accounts for the payment of principal of and interest on the Series of Issue Two 2010 Series Bonds.

Pursuant to the Indenture, in lieu of the required deposits and transfers of money to the Issue Two 2010 Series Debt Service Reserve Account, NCPA may cause to be deposited to the Issue Two 2010

Series Debt Service Reserve Account a Financial Guaranty or Financial Guaranties in an amount equal to the difference between the applicable Debt Service Reserve Requirement and the funds, if any, then on deposit in the Issue Two 2010 Series Debt Service Reserve Account or being deposited in the Issue Two 2010 Series Debt Service Reserve Account concurrently with such financial Guaranty or Guaranties. "Financial Guaranty" means one or more of the following to be delivered to the Trustee pursuant to the Indenture: (i) an irrevocable, unconditional and unexpired letter of credit issued by a banking institution with credit ratings not below the credit ratings of the Issue Two 2010 Series Bonds at the time such letter of credit is issued; or (ii) an irrevocable, unconditional policy of insurance in full force and effect issued by a municipal bond insurer with credit rating not below the credit ratings of the Issue Two 2010 Series Bonds at the time such policy of insurance is issued; in each case providing for the payment thereunder of sums for the payment of principal installments with respect to, and interest on, Bonds as required by the Indenture.

See "APPENDIX E – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Debt Service Reserve Fund" hereto.

Subsidy Contingency Fund

The Subsidy Contingency Fund is created to ensure money is available to pay interest costs on the 2010 Series B Bonds in the event the Subsidy is not paid in full by the United States on the Interest Payment Date. If on any Interest Payment Date, the Subsidy for such Interest Payment Date has not been received by the Trustee, the Trustee will transfer amounts from the Subsidy Contingency Fund equal to the expected amount of the Subsidy that had not been received to the Issue Two 2010 Series B Debt Service Account in the Debt Service Fund. Upon issuance of the Issue Two 2010 Series Bonds, the Subsidy Contingency Requirement for the Issue Two 2010 Series B Bonds will be $1,085,879.35. A portion of the proceeds of the Issue Two 2010 Series B Bonds will be deposited into the Subsidy Contingency Fund concurrently with the issuance of the Issue Two 2010 Series B Bonds in an amount equal to the Subsidy Contingency Requirement. In the event the Subsidy is not paid in full on the Interest Payment Date, amounts on deposit in the Subsidy Contingency Fund will be applied to make up any deficiency in the Issue Two 2010 Series B Debt Service Account in the Debt Service Fund for the payment of interest on the Issue Two 2010 Series B Bonds.

See "APPENDIX E – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Subsidy Contingency Fund" hereto.

Additional Bonds and Parity Debt

NCPA may issue Bonds under and secured by the Indenture to (i) refund Bonds previously issued and outstanding thereunder; (ii) finance all or a portion of the costs of any Financed Capital Improvement to the Lodi Energy Center; and (iii) may enter into or issue Financing Agreements, including indentures of trust, resolutions, loan agreements, standby bond purchase agreements, reimbursement agreements, Public Finance Contracts or other applicable debt instruments or financing documents providing for the issuance of, or otherwise relating to, NCPA bonds ("Parity Debt") in accordance with the requirements of the Indenture. For further information, "APPENDIX E – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Additional Bonds," "–Refunding Bonds" and "–Parity Debt" hereto.

Limitations on Remedies

The rights of the owners of the Issue Two 2010 Series Bonds are subject to the limitations on legal remedies against cities and other public agencies in the State. Additionally, enforceability of the rights and remedies of the owners of the Issue Two 2010 Series Bonds, and the obligations incurred by

the NCPA and the Indenture Group B Participant, may become subject to the following: the Federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Issue Two 2010 Series Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

The Indenture provides that upon the occurrence of an Event of Default, the Trustee may, and shall at the direction of the Owners of a majority in principal amount of the Outstanding Bonds, by written notice to NCPA, declare the principal of the Outstanding Bonds to be immediately due and payable, whereupon the principal of the Outstanding Bonds and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable. However, no such declaration or acceleration shall be permitted if and for so long as CDWR is in compliance with all of its payment obligations under the Power Sales Agreement. See "APPENDIX E – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Events of Default; Remedies" hereto.

NORTHERN CALIFORNIA POWER AGENCY

Background

NCPA is a joint exercise of powers agency formed under the Act and the Joint Powers Agreement now among Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Oakland (acting through its Board of Port Commissioners), Palo Alto, Redding, Roseville, Santa Clara, Ukiah, Truckee Donner, TID[1], and BART as members, and Plumas-Sierra, as an associate member (herein collectively referred to as the "Members" and individually as a "Member").

Under the terms of the Joint Powers Agreement entered into by all Members, NCPA possesses the general powers to acquire, purchase, generate, transmit, distribute and sell electrical capacity and energy. Specific powers include the power to enter into contracts, acquire and construct electric generating facilities, set rates, issue revenue bonds and notes and acquire property by eminent domain.

The Member Services Agreements, dated as of February 12, 1981, and the Facilities Agreement, dated as of September 22, 1993, provide for the development of all projects undertaken by NCPA in three separate phases: (i) the initial phase of general investigation funded by NCPA's general fund; (ii) the second phase whereby Members of NCPA electing to participate in the project execute a project agreement to provide for the cost of development of the project (now referred to as an "NCPA Project"); and (iii) the third phase during which all remaining aspects, including financing, construction and operation of the NCPA Project are undertaken.

Members of NCPA have no financial or other responsibility or liability associated with the acquisition, construction, maintenance, operation or financing of any NCPA project pursuant to the Joint Powers Agreement. Members become obligated for payments with respect to a NCPA project only as participants with respect to such project as set forth in an agreement with NCPA separate from the Joint Powers Agreement.

[1] TID has provided its notice to withdraw from NCPA.

NCPA has supplied many services to its Members in the past and expects to continue to do so in the future. NCPA has been instrumental in litigating and negotiating with Pacific Gas and Electric Company ("PG&E"), the ISO and the Western Area Power Administration of the federal government ("Western") to keep wholesale power and transmission and other ancillary services rates at levels which have resulted in substantial savings when compared to rates sought by each of those suppliers. It is anticipated that NCPA will continue to litigate and/or negotiate on behalf of its Members to maintain rates at levels which will result in continued advantage to its Members.

NCPA's audited financial statements for the fiscal year ended June 30, 2009 are attached hereto as APPENDIX C. The Issue Two 2010 Series Bonds will be special, limited obligations of NCPA payable solely from amounts available from the Trust Estate, and secured solely by a pledge of the Trust Estate, consisting primarily of payments from the Indenture Group B Participants and the funds held by the Trustee under the Indenture.

Organization and Management

NCPA's governing body (the "Commission") is composed of one representative from each Member, each such representative being designated a Commissioner. The Commission is given the general management of the affairs, property and business of NCPA and is vested with all powers of NCPA. Under the Joint Powers Agreement, associate Members do not have a voting seat on the Commission.

The management of NCPA is responsible for various areas of administration and planning of NCPA's operations and affairs. The overall management is under the direction of NCPA's General Manager, who serves at the discretion of the Commission. NCPA is organized into four separate divisions: (i) generation services, (ii) power management, (iii) legislative and regulatory, and (iv) administrative services.

Set forth below is a brief biography of each of NCPA's senior managers.

JAMES H. POPE, General Manager, was appointed General Manager of NCPA in January 2004. Prior to the appointment Mr. Pope served as the Director of Electric Utility for the City of Santa Clara since December 1996. Mr. Pope has experience in the electric and gas industry with a background in general management, operations, engineering and construction for PG&E serving as Vice President, Technical and Construction Services; Vice President for Sacramento Valley Region; and Manager, Gas Transmission and Distribution Construction. Mr. Pope has been in various public power leadership roles, including positions as Chairman and Vice Chairman of the Transmission Agency of Northern California (TANC) where he started the process to get Path 15 built. Mr. Pope now serves on the Board of Governors of the California Municipal Utilities Association (CMUA), and the Board of Directors of the California Foundation on the Environment and the Economy (CFEE). He also served as a member of the Board of Governors of the ISO. In March 2002, he was appointed by Secretary of Energy Spencer Abraham to serve on the Secretary's Electricity Advisory Board.

Mr. Pope has a Bachelor of Science degree from Oregon State University and a Masters of Science degree in Civil Engineering from Stanford University. He attended the Harvard University Business School (Program for Management Development) Executive Program.

DONNA I. STEVENER, Assistant General Manager, Finance/Administrative Services, Chief Financial Officer, received a Bachelor of Science degree in Business Administration/Accounting with high honors from California Baptist University in 1982. Ms. Stevener is a retired Certified Public Accountant in the State of California and has over 27 years of finance experience, including 18 years

specializing in the power industry. Before joining NCPA in April 2005, Ms. Stevener was employed by Riverside Public Utilities as a member of the executive management team. At NCPA, Ms. Stevener oversees the Administrative Services division which includes finance, accounting, power settlements, information technology and facilities management and performs as the Chief Financial Officer of NCPA.

JANE DUNN CIRRINCIONE, Assistant General Manager, Legislative and Regulatory, received a Masters degree in Public Administration from the University of Southern California, and a Bachelor of Science degree in Political Science from the University of Santa Clara in Santa Clara, California and the London School of Economics. Ms. Cirrincione has over 22 years of experience in the energy and environmental policy arena. Prior to joining NCPA, she was a Senior Government Relations Representative for the American Public Power Association ("APPA") in Washington, D.C. APPA is the national trade association representing the country's over 2,000 public power systems. Before joining APPA, she was the Director of Legislative Programs for the National Hydropower Association, representing all sections of the U.S. hydroelectric industry. She also spent several years on Capitol Hill as a Legislative Assistant for Congressman Don Edwards working on environmental and wildlife issues impacting the San Francisco Bay. Before moving to Washington, D.C., she worked for the U.S. Fish and Wildlife Service at the Sacramento National Wildlife Refuge. Ms Cirrincione was the 2006 recipient of the Robert E. Roundtree Rising Star Award recognizing future leaders of public power systems.

DAVID DOCKHAM, Assistant General Manager, Power Management, has worked in the electric utility industry since 1982 on a broad range of utility industry projects, activities and issues. Mr. Dockham's experience includes contract development and negotiation, engineering design, system planning, policy and procedure development, public presentations to boards, commissions and industry work groups; and participation in regional and state level policy and technical working groups. From 2001 through 2007, Mr. Dockham has managed NCPA's activities and interactions with the ISO and associated regulatory proceedings on behalf of the NCPA's Members utilizing services under the Second Amended and Restated NCPA Metered Subsystem Aggregation Agreement and the NCPA-PG&E Interconnection Agreement. He currently manages planning, contracts, fuel purchases, and pooling arrangements for NCPA. Mr. Dockham has a Bachelor of Science degree in Electrical and Electronic Engineering from California State University, Sacramento, a Masters degree in Business Administration from the University of California, Davis and is a registered Professional Engineer in the State of California.

DONALD DAME, Assistant General Manager, Business Development, received his Bachelor's degree in Economics with honors from the University of California in 1975, and a Master's degree in Regulatory Economics from the University of Wyoming in 1978. Mr. Dame joined NCPA in November 1992. Prior to that time, he worked in various gas and power planning and contracting positions at the California Department of Water Resources, PacifiCorp, Bonneville Power Administration, and the Colorado Interstate Gas Company. His primary focus at NCPA is to assist its Members as a member liaison and to meet with other public agencies to find mutually beneficial business opportunities to expand or more fully utilize NCPA service capabilities for the enhancement and advancement of public power in northern California.

KEN SPEER, Assistant General Manager, Generation Services, has over 30 years of experience in the generation resource management field, having also managed significant generation facilities for the City of Santa Clara (Silicon Valley Power) and PG&E. Mr. Speer also served as the Director of Capital Investment for Duke Energy North America, where he oversaw the capital investment program for the company's California-based assets. Mr. Speer has a Bachelor of Science degree in Mechanical and Nuclear Engineering from the University of California, Berkeley, and is a Registered Mechanical Engineer.

LYNN BIANCHI-ROSSI, Human Resources Manager received a Bachelor of Science degree from the school of Business and Public Administration at California State University, Sacramento in 1979. Ms. Bianchi-Rossi has over 29 years of experience in human resources in a variety of industries, with over 26 of those years in a management role. Ms. Bianchi-Rossi assumed her duties with NCPA in May 2001. Prior to joining NCPA, she was the Corporate Services Director for Jones & Stokes Environmental Consulting. She also has prior work experience with the County of Sacramento and a nation-wide gas company.

NCPA Power Pool

NCPA operates a power pool that includes the following Members: Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Port of Oakland, Palo Alto, Plumas-Sierra, and Ukiah (each, an "NCPA Pool Member"). The ten NCPA Pool Members' service areas are connected to the ISO-controlled grid. NCPA operates a central dispatch facility (the "Central Dispatch Center") at NCPA's headquarters. The Central Dispatch Center balances loads and resources pursuant to the Second Amended and Restated NCPA Metered Subsystem Aggregation Agreement (the "MSSA") with the ISO (as described below) for the ten NCPA Pool Members, and Santa Clara. The Central Dispatch Center separately coordinates with Roseville to schedule Roseville's entitlement to output from NCPA projects across the ISO-controlled grid as requested by Roseville. The Central Dispatch Center also monitors and controls load and voltage levels, operates generating facilities, enters into buy and sell transactions with other utilities throughout the western United States and Canada and regulates hydroelectric facilities in coordination with the ISO to maintain a safe and reliable interconnected system.

NCPA operates according to the terms and conditions of the ISO tariff and the MSSA, the original form of which was approved by FERC in 2002 and was amended and restated to conform to the market restructuring that became effective in 2009. The MSSA identifies operational terms and conditions that vary from the ISO tariff, largely allowing NCPA Members to continue to operate as a vertically integrated utility by generally self-providing for resources and services otherwise procured through the ISO's markets. In conjunction with the execution of the MSSA, NCPA and PG&E entered into an Interconnection Agreement (the "NCPA-PG&E Interconnection Agreement") that provided for the terms and conditions for connecting NCPA resources and member loads to the ISO-controlled grid, where such ISO-controlled grid facilities are owned by PG&E and transferred to ISO operational control through a Transmission Control Agreement between PG&E and the ISO.

In April 2009, the ISO implemented a complete overhaul of its tariff, replacing the market design embodied under the former ISO tariff with an updated market design and tariff which has been entitled the Market Redesign and Technology Upgrade ("MRTU"). This overhaul largely changes how generation units are scheduled, transmission rights are allocated, and wholesale energy, capacity and ancillary service costs are allocated to NCPA and its Members. NCPA was an active participant in FERC proceedings, ISO-led stakeholder meetings, and market simulations to test market participant scheduling and settlement systems in advance of MRTU implementation to ensure that Member interests were protected and that NCPA would be able to operate successfully under the new market design. NCPA and the ISO negotiated amendments to the MSSA to adapt to the changes resulting from MRTU. See "OTHER FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY—ISO FERC Filings—MRTU" herein

Santa Clara has separate agreements for the services provided under the MSSA and NCPA-PG&E Interconnection Agreement.

Wholesale Power Trading

NCPA trades in the Western wholesale electricity markets to maximize the value of its transmission and generation assets and to minimize its cost of power supply for its Members. NCPA has engaged in wholesale market transactions since 1984. While there have from time to time been bankruptcies among participants in those markets, NCPA claims against those bankruptcy estates have all been resolved and NCPA does not have any additional financial exposure due to past bankruptcies in the electric utility industry. See "LITIGATION – California Energy Market Refund Dispute and Related Litigation" and "– Bankruptcies Related to Electric Industry Restructuring" herein.

Investment of NCPA Funds

All funds of NCPA (except bond proceeds which are invested pursuant to the indenture under which such bonds are issued) are invested in accordance with NCPA's investment policy and guidelines (the "Investment Policy") as authorized by Sections 53600 et seq. of the Government Code of the State of California. The Investment Policy and monthly activity reports are approved by the Commission.

The following securities, if and to the extent the same are at the time legal and in compliance with the applicable bond covenants and agreements for investment of NCPA's funds, are authorized investments under the Investment Policy: (i) securities of the U.S. Government, or its agencies, (ii) certificates of deposit (or time deposits) placed with commercial banks and/or savings and loan companies, (iii) negotiable certificates of deposit, (iv) bankers acceptances, (v) Local Agency Investment Fund (State Pool) demand deposits, (vi) repurchase agreements, (vii) passbook savings account demand deposits, (viii) municipal bonds, and (ix) commercial paper.

The Investment Policy provides the following guidelines, among others. All rated securities must be rated by Moody's or S&P as "A" or better. All certificates of deposit must mature within one year. All collateralized certificates of deposit must mature within one year. Certificates of deposit with a face value in excess of $100,000 will be collateralized by Treasury Department securities or first mortgage loans. The Treasury bills or notes must be at least 110% of the face value of the certificate of deposit collateralized in excess of the first $100,000. The value of first mortgages must be at least 150% of the face value of the certificate of deposit balance secured in excess of the first $100,000. The portfolio will be diversified with holdings from at least several of the major eligible market sectors. Except for obligations issued or guaranteed by the U.S. Government, federal agencies or Government-sponsored corporations and the Local Agency Investment Fund, no more than 10% of an NCPA construction project or of the NCPA operating funds portfolio will be invested in the securities of any one issuer. Unless otherwise restricted, all holdings will be of sufficient size and held in issues which are actively traded to facilitate transactions at a minimum cost and accurate market valuation. Buying and selling securities before settlement or the use of reverse repurchase agreements for speculative purposes is not authorized. A reverse repurchase agreement may be used only in infrequent circumstances and only to prevent a material loss that would otherwise result from the sale of an investment for liquidity purposes. Any reverse repurchase agreements must be specifically reported to the Commission along with the reasons therefor on a timely basis.

The Investment Policy may be changed at any time at the discretion of the Commission subject to the State law provisions relating to authorized investments. Any exception to the Investment Policy must be formally approved by the Commission. There can be no assurance, therefore, that the State law and/or the Investment Policy will not be amended in the future to allow for investments which are currently not permitted under such State law or the Investment Policy, or that the objectives of NCPA with respect to investments will not change.

CALIFORNIA DEPARTMENT OF WATER RESOURCES

General

The sole Indenture Group B Participant is CDWR. NCPA has sold a portion of the capacity of the Lodi Energy Center to CDWR as set forth under "PLAN OF FINANCE."

CDWR has entered into the Power Sales Agreement to obtain power for the use and benefit of the State Water Project. Additional information pertaining to CDWR and the State Water Project is set forth in "APPENDIX B – SELECTED INFORMATION RELATING TO THE CALIFORNIA DEPARTMENT OF WATER RESOURCES INDENTURE GROUP B PARTICIPANT" hereto.

Members of NCPA have no financial or other responsibility or liability associated with the acquisition, construction, maintenance, operation or financing of a particular project under the Joint Powers Agreement. Members of NCPA become obligated to make payments with respect to a project only as participants with respect to such project as set forth in a separate agreement with NCPA. CDWR is not a member of NCPA. The Lodi Energy Center is the first project that CDWR has participated in with NCPA.

Description of the California Department of Water Resources

The State of California Department of Water Resources is a department within the California Natural Resources Agency of the State of California and is responsible for the planning, construction and operation of the State Water Resources Development System (which consists principally of the State Water Project, and includes the Davis-Grunsky Act program and the San Joaquin Valley Drainage Program). CDWR is also responsible for, among other things, the operation of programs for the safety of dams, flood management, local assistance and subventions, other water-related matters and the operation of the Power Supply Program. Unless otherwise expressly noted, the term "CDWR," as used in this Official Statement means the State of California Department of Water Resources solely in its capacity with respect to the State Water Project, and not in any other capacity mentioned herein.

The State Water Project

The State Water Project is a complex of dams, water storage facilities, aqueducts, pumping stations and electric generation facilities, which have been constructed by CDWR for the purposes of developing a water supply and conveying water to areas in need within the State and providing flood control, recreation, fish and wildlife enhancement, hydroelectric power and other benefits. All 647 miles of the initially planned aqueduct system have been completed. The 444-mile main stem California Aqueduct runs from a point near Stockton southward to a terminus in Riverside County. The dependable annual water supply available for delivery by the State Water Project will vary yearly depending on hydrologic conditions and regulatory mandates. See "APPENDIX B – SELECTED INFORMATION RELATING TO THE CALIFORNIA DEPARTMENT OF WATER RESOURCES INDENTURE GROUP B PARTICIPANT – California State Water Project – Water Supply."

Under the Water Supply Contracts presently in effect, the Water Contractors may request from the State Water Project maximum annual delivery amounts totaling 4,172,786 acre-feet. Payments by the 29 participating local public agencies under the Water Supply Contracts provide for the operation, maintenance, planning and capital costs, including interest, of the State Water Project, which are allocable to water supply. See "APPENDIX B – SELECTED INFORMATION RELATING TO THE

CALIFORNIA DEPARTMENT OF WATER RESOURCES INDENTURE GROUP B PARTICIPANT – The Contractors" and "– The Water Supply Contracts."

Financing of the State Water Project

A large portion of the State Water Project has been financed from the issuance of $1,582,400,000 of State general obligation bonds, of which $490,115,000 are outstanding.

CDWR has also issued $6,699,110,000 of revenue bonds for certain power and water facilities of the State Water Project, of which $2,421,185,000 are outstanding. In addition, CDWR has authorized the issuance of shorter term notes in an amount not to exceed $141,500,000 outstanding at any one time, the proceeds from the sale of which are used to finance water projects prior to permanent financing from the sale of longer term revenue bonds. Such revenue bonds are secured primarily by specified payments from the Water Contractors under the Water Supply Contracts that are attributable to the revenue bond financed facilities. See "APPENDIX B – SELECTED INFORMATION RELATING TO THE CALIFORNIA DEPARTMENT OF WATER RESOURCES INDENTURE GROUP B PARTICIPANT – California State Water Project – Financing."

Source of CDWR Payments under Power Sales Agreement

All revenues (other than those revenues attributable to CDWR Central Valley Project Revenue Bond financed facilities) received by CDWR from the sale, use and delivery of water and power from the State Water Resources Development System ("System") are deposited in the California Water Resources Development Bond Fund. Revenues deposited in the California Water Resources Development Bond Fund are used to make payments in priority order as specified in the Water Code, with the first priority being the payment of the reasonable costs of the annual maintenance and operation of the System. Such first priority payments for maintenance and operation costs include payments for the purchase of electric power, including payments to be made to NCPA under the Power Sales Agreement. The second priority use of such revenues is the reimbursement of the State General Fund for debt service on the general obligation bonds issued to finance the System. See "APPENDIX B – SELECTED INFORMATION RELATING TO THE CALIFORNIA DEPARTMENT OF WATER RESOURCES INDENTURE GROUP B PARTICIPANT – California State Water Project – Allocation of State Water Project Revenues."

CDWR estimates that payments from The Metropolitan Water District of Southern California will account for approximately 58% of the revenues to be deposited in the California Water Resources Development Bond Fund. The balance of such revenues will be obtained from the other Water Contractors under their Water Supply Contracts and from other deposits to the California Water Resources Development Bond Fund. See "APPENDIX B – SELECTED INFORMATION RELATING TO THE CALIFORNIA DEPARTMENT OF WATER RESOURCES INDENTURE GROUP B PARTICIPANT – California State Water Project – Source of Department Payments under Power Sales Agreement" and "– The Water Supply Contracts."

The Water Contractors

The 29 Water Contractors ("Contractors") are principally located in the San Francisco Bay Area, the Central Coast, the Central Valley and Southern California and their service areas encompass approximately 25 percent of the State's land area and approximately 70 percent of its population. Each Contractor has entered into a Water Supply Contract with CDWR, acting on behalf of the State. Certain of the Contractors receive a major portion of their income from *ad valorem* taxes. The ability of Contractors to tax for general purposes and to appropriate tax revenue for general purposes is limited

under California law. See "APPENDIX B – SELECTED INFORMATION RELATING TO THE CALIFORNIA DEPARTMENT OF WATER RESOURCES INDENTURE GROUP B PARTICIPANT – The Contractors" and "– Certain Limitations on Contractor Revenue Sources."

The Water Supply Contracts

The Water Supply Contracts are to remain in effect until 2035 or until all bonds issued to finance construction costs of State Water Project facilities have been repaid, whichever period is longer. Under its Water Supply Contract, each Contractor may request water deliveries from the State Water Project up to a maximum specified annual amount, and agrees to pay its allocated share of the costs of gathering, storing, conveying and delivering water. Generally, CDWR's costs, including interest, of constructing and operating the State Water Project are payable by the Contractors whether or not water is delivered. If a Contractor defaults under its Water Supply Contract, CDWR may, upon six months' notice, suspend water deliveries to that Contractor. During such period, the Contractor remains obligated to make all payments required by the Water Supply Contract. If a Contractor fails or is unable to raise sufficient funds by other means to make Water Supply Contract payments, the Contractor is required by the Water Supply Contract to levy a tax or assessment sufficient for such purpose. See "APPENDIX B – SELECTED INFORMATION RELATING TO THE CALIFORNIA DEPARTMENT OF WATER RESOURCES INDENTURE GROUP B PARTICIPANT – The Water Supply Contracts."

State Water Project and Power Supply Program Are Separate Enterprises

The State Water Project and CDWR's Power Supply Program (established during the California energy crisis in 2001) are separate and distinct enterprises, and have separate and distinct sources and uses of funds. Revenues pledged to pay the costs of constructing and operating the State Water Project may not be used to pay the costs of the Power Supply Program, and resources pledged to secure the payment of the costs of the Power Supply Program may not be used to pay the costs of the State Water Project. See "APPENDIX B – SELECTED INFORMATION RELATING TO THE CALIFORNIA DEPARTMENT OF WATER RESOURCES INDENTURE GROUP B PARTICIPANT – Power Operations of the State Water Project – No Relationship to Power Supply Program."

OTHER NCPA PROJECTS

Set forth below is a brief description of the NCPA resources in addition to the Lodi Energy Center. Each such resource is financed under a separate agreement with the Members participating in such resource. No Member not a party to such agreement has any obligation to make payments in connection with such resources.

Participating Members occasionally make short-term and long-term assignments of entitlement rights to NCPA resources. Such assignment would not impact the underlying project participant obligations contained in the related agreement relating to such NCPA resource and each project participant remains obligated for all payments due from such project participant in the event moneys received from transferees pursuant to such arrangements are insufficient to satisfy all payments.

Hydroelectric Project Number One

NCPA's Hydroelectric Project Number One (the "Hydroelectric Project") consists of (a) three diversion dams, (b) the 243-MW Collierville Powerhouse, (c) the New Spicer Meadow Dam with a 5.5-MW powerhouse, and (d) associated tunnels located essentially on the North Fork Stanislaus River and on the Stanislaus River in Alpine, Tuolumne and Calaveras Counties, California, together with required transmission facilities.

The Hydroelectric Project, with the exception of certain transmission facilities and three storage reservoirs, is owned by the Calaveras County Water District ("CCWD") and is licensed by FERC pursuant to a 50-year License No. 2409 to CCWD. Pursuant to a Power Purchase Contract, NCPA (i) is entitled to the electric output of the project until February 2032, subject to FERC approval, (ii) managed the construction of the project and (iii) operates the generating and recreational facilities of the project. Under a separate FERC-issued license with an expiration date coterminous with the License No. 2409 (Project No. 11197), NCPA holds the license and owns the 230 kV Collierville-Bellota and 21 kV Spicer Meadows-Cabbage Patch transmission lines for License No. 2409. NCPA also has a separate FERC license for Project No. 11563 (Upper Utica Project), which consists of three storage reservoirs that mainly feed the New Spicer Meadow Reservoir. This license expires in 2033. *Northern California Power Agency*, 104 F.E.R.C. ¶ 62,163 (2003). After the present FERC license for Project No. 2409 expires in the year 2032, NCPA has the option to continue to purchase project capacity and energy during a subsequent license renewal period. It is estimated that the price will be significantly less than the comparable alternatives at that time. The purchase option includes all capacity and energy which is surplus to CCWD's needs for power within the boundaries of Calaveras County.

In February 1990, the operating portions of the project were declared substantially complete and commercially operable. The project has been supplying peak load requirements of the project participants therein and complementing other resources available to them through NCPA.

The load-following characteristics of the project, together with the ability to schedule Western energy deliveries, give NCPA a great degree of flexibility in meeting the hourly and daily variations which occur in the project participants' loads.

NCPA financed the Hydroelectric Project through the issuance of Hydroelectric Project Number One Revenue Bonds, of which approximately $458.4 million aggregate principal amount was outstanding as of June 1, 2010 (the "NCPA Hydroelectric Revenue Bonds"). Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Roseville, Santa Clara, Ukiah and Plumas-Sierra, are participants in the Hydroelectric Project.

NCPA has sold the capacity of the Hydroelectric Project to certain of its project participants pursuant to "take-or-pay" power sales contracts which require payments to be made whether or not the Hydroelectric Project is completed or operable. Each purchaser is responsible under its power sales contract for paying its entitlement share in the Hydroelectric Project of all of NCPA's costs of the Hydroelectric Project, including debt service on the aforementioned bonds as well as a "step-up" of up to 25% in the event of the unremedied default of another project participant.

Geothermal Project

NCPA has developed a geothermal project (the "Geothermal Project") located on federal land in certain areas of Sonoma and Lake Counties, California (the "Geysers Area"). In addition to the geothermal leasehold, wells, gathering system and related facilities, the Geothermal Project consists of two electric generating stations (Plant 1 and Plant 2), each with two 55 MW (nameplate rating) turbine generator units utilizing low pressure, low temperature geothermal steam, associated electrical, mechanical and control facilities, a heat dissipation system, a steam gathering system, a transmission tapline and other related facilities. Geothermal steam for the project is derived from the geothermal property, which includes wellpads, access roads, steam wells and reinjection wells. NCPA formed two not-for-profit corporations controlled by its Members to own the generating plants of the Geothermal Project. NCPA manages the Geothermal Project for the corporations and is entitled to all the capacity and energy generated by the Geothermal Project.

As noted above, the Geothermal Project consists of two operating electric generating stations (Plant 1 and Plant 2), each with two 55 MW (nameplate rating) turbine generator units. Plant 1 and Plant 2 were originally developed and operated as separate projects referred to as "Geothermal Project Number 2" and "Geothermal Project Number 3," respectively. Plant 1 and Plant 2 are now operated together as the Project pursuant to the terms of the Geothermal Operating Agreement.

Steam for NCPA's geothermal plants comes from lands in the Geysers Area, which are leased by NCPA from the federal government. NCPA 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, NCPA 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, NCPA began implementing various operating strategies to further reduce the rate of decline in steam production. NCPA 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.

NCPA 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 waste-water from Lake County Sanitation District treatment plants at Clearlake and Middletown and delivers the waste water to NCPA and the other Geysers steam field operator for injection into the steam field. A second pipeline enhancement project to further augment the waste-water injection program was completed in 2004. Contractual changes made in connection with the project have increased NCPA's entitlement to receive waste-water for reinjection from 33% to 44%.

During Fiscal Years 2008-09 and 2009-10, NCPA has been, and will be, undertaking certain capital improvements to the Geothermal Project, including: (i) the acquisition of a spare turbine rotor, as well as the replacement of the existing Unit 4 turbine rotor at Plant 2 with a new turbine rotor designed for lower pressure, which will avoid one-time operation and maintenance costs of $3 million, and is expected to result in operation and maintenance cost savings of approximately $150,000 per year; (ii) the design, permitting and construction of a 1 MW photovoltaic solar project to be constructed at the Middletown Treatment Plant in Lake County, which is expected to provide nearly 100% of the power needs for the 300 kW booster pump station presently under construction at the treatment plant; and (iii) the construction of a 1 MW photovoltaic solar project located at the Clearlake Southeast Treatment Plant in Lake County, completed in December of 2008, which provides approximately 25% of the power needs for the existing pump station located at the treatment plant. The pump stations at the Middletown Treatment Plant and the Clearlake Southeast Treatment Plant are part of the Southeast Geysers Effluent Pipeline Project.

NCPA financed the Geothermal Project with Geothermal Project Number 3 Revenue Bonds, of which $63.2 million were outstanding as of June 1, 2010 (including Geothermal Project Number 3 Revenue Bonds issued to finance the capital improvements to the Geothermal Project described in the preceding paragraph). The remaining annual debt service on these bonds ranges from $3.6 million to $30.9 million, with final maturity of July 1, 2024. Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Roseville, Santa Clara, Ukiah and Plumas-Sierra, participate in the Geothermal Project.

Annual generation of the Project was approximately 116 MW gross ("MWG") for calendar year ("CY") 2008. Based on current operating protocols and forecasted operations, after CY 2008 both the

average and peak capacity are expected to continue to decrease, reaching approximately 112 MWG by CY 2010 and 72 MWG by CY 2031. 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, NCPA has preferential right to renew the leasehold for a second term. The leasehold also requires NCPA to remove its leasehold improvements including the geothermal plants and steam gathering system when and if NCPA abandons the leasehold. These decommissioning costs are currently estimated to total approximately $24.1 million. NCPA has begun collecting about one percent per annum of the expected decommissioning costs and is expected to continue to do so through 2010. The decommissioning cost plan will be re-evaluated at that time.

Geysers Transmission Project

In order to meet certain obligations required of NCPA to secure transmission and other support services for the Geothermal Project, NCPA has undertaken a geysers transmission project (the "Geysers Transmission Project"). The Geysers Transmission Project includes (i) an ownership interest in PG&E's 230 kV line from Castle Rock Junction in Sonoma County to the Lakeville Substation (the "Castle Rock to Lakeville Line"), (ii) additional firm transmission rights in the Castle Rock to Lakeville Line and (iii) the Central Dispatch Facility.

NCPA financed the Geysers Transmission Project through the issuance of Transmission Project Number One Revenue Bonds, of which $0.9 million were outstanding as of June 1, 2010. The final maturity of the Transmission Project Number One Revenue Bonds is August 15, 2010. Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Roseville, Ukiah and Plumas-Sierra, are participants in the Geysers Transmission Project.

Capital Facilities Project

NCPA Capital Facilities Project, known as Combustion Turbine Project Number Two, currently consists of one power generating station, Unit One, with a design rating of 49.9 MW located in the City of Lodi. Such power generating station consists of a single natural gas-fired steam injected gas turbine (STIG), generator, and required auxiliary and electrical interconnection systems. The Capital Facilities Project is currently financed with $55.120 million aggregate principal amount of NCPA Capital Facilities Revenue Bonds. The Cities of Alameda, Lodi, Lompoc and Roseville are the project participants in the Capital Facilities Project.

Unit One is economically dispatched to meet the project participants' load, depending on the amount of generation available from NCPA's hydroelectric project and prices of alternative electric energy supplies, to meet other NCPA Members' load or to sell power to third parties depending on natural gas prices and electric energy prices.

Combustion Turbine Project Number One

The Combustion Turbine Project Number One (the "Combustion Turbine Project") consists of five combustion turbine units, each nominally rated 25 MW. Two units are located in each of Roseville and Alameda and one in Lodi. Sale of the two units located in Roseville to the City of Roseville will be effective September 1, 2010.

The Combustion Turbine Project provides capacity (i) that is economically dispatched during the peak load period to the extent permitted by air quality restrictions and (ii) to be used to meet the capacity

reserve requirements. Such reserve capacity is operated only during emergency periods when other resources are unexpectedly out of service.

NCPA financed the Combustion Turbine Project through the issuance of Combustion Turbine Project Number One Revenue Bonds, of which $4.1 million were outstanding as of June 1, 2010. The debt service on these bonds is approximately $4.3 million annually, with a final maturity of August 15, 2010. Alameda, Healdsburg, Lodi, Lompoc, Roseville, Santa Clara, Ukiah and Plumas-Sierra, are participants in Combustion Turbine Project Number One.

As is typical of reserve and peaking resources, the average cost per kWh of power delivered to the participants in the Combustion Turbine Project is comparatively expensive.

Gas Purchase Contracts

NCPA, on behalf of TID and on behalf of the participants in Combustion Turbine Project Number One and in the Capital Facilities Project's Unit One, has entered into a Consolidated Natural Gas Purchase and Management Agreement (the "Consolidated Natural Gas Agreement"), effective September 1, 2007, with Constellation NewEnergy – Gas Division, LLC and Constellation NewEnergy – Canada, Inc. (collectively, "Constellation"). The Consolidated Natural Gas Agreement is being amended to remove TID as a party. The Consolidated Natural Gas Agreement is a consolidation of gas supply agreements that were purchased by Constellation. NCPA and Constellation each have the right to terminate the Consolidated Natural Gas Agreement with six months' notice; otherwise, the agreement automatically renews each January 1 following December 31, 2008. The agreement continued in effect on January 1, 2010. The Consolidated Natural Gas Agreement provides that Constellation will provide gas supply and management services, including the following:

- Supply of gas for the full daily output of Combustion Turbine Project Number One, Unit One of the Capital Facilities Project and selected Turlock Irrigation District gas-fired plants (approximately 78,136 MMBtu/day). The gas may be purchased on a daily basis or for a forward time period with the gas price fixed at the time of commitment.

- Scheduling and balancing for NCPA gas supplies from third parties, along with gas supplies from Constellation. Surplus gas is to be purchased by Constellation.

- Management of NCPA's 5,409 MMBtu/day of pipeline capacity from AECO to PG&E Citygate and release of certain other pipelines while NCPA is transporting gas from AECO to PG&E Citygate. NCPA is paid the value of the unused pipeline capacity by Constellation.

Power Purchase Contracts

NCPA, on behalf of Healdsburg, Palo Alto, Ukiah, Lodi and Roseville, has negotiated a seasonal exchange agreement with Seattle City Light for 60 MW of summer capacity and energy and a return of 46 MW of capacity and energy in the winter. Deliveries under the agreement began June 1, 1995 and will terminate no earlier than May 31, 2014. Effective May 31, 2008, Healdsburg, Palo Alto and Roseville assigned their participation percentages to Santa Clara.

NCPA, on behalf of Alameda, entered into a power purchase agreement with Henwood Associates, Inc for 440 kW of capacity and energy. The energy source for the facility is hydro-electric and the facility meets the qualifying facilities requirements, established by FERC. The facility output, which varies with hydrological conditions, has averaged about 2,000 MWh per year. Deliveries under the agreement began February 1, 2010 and will terminate on January 31, 2030.

NCPA, on behalf of Biggs, Gridley, Healdsburg, Lompoc and Ukiah may enter into supply agreements for terms of up to five years utilizing Commission approved Edison Electric Institute and WSPP, Inc. Purchase Agreements. Procurement terms and conditions are governed by a Market Purchase Program agreement between NCPA and the participating Members listed in the preceding sentence. Purchase amounts are limited to 115% of each participating members forecast net open position associated with the period of the procurement. The Program was approved by the Commission on July 26, 2007, with a term of five years, which is extended for one year on each anniversary of the agreement as to each participant that does not withdraw from the agreement or have their participation terminated.

NCPA provides power supply and scheduling services to BART under a ten year Single Member Services Agreement which was executed on December 1, 2005. Under this agreement, NCPA procures power to meet BART's power supply needs utilizing Commission approved Edison Electric Institute and WSPP Inc. Purchase Agreements.

RATE REGULATION

NCPA sets rates, fees and charges for electric service. The authority of NCPA to impose and collect rates and charges for electric power and energy sold and delivered is not subject to the general regulatory jurisdiction of the California Public Utilities Commission ("CPUC") and presently neither the CPUC nor any other regulatory authority of the State of California nor FERC approves such rates and charges. NCPA is subject to certain ratemaking provisions of the federal Public Utility Regulatory Policies Act of 1978 ("PURPA") and Sections 211-213 of the Federal Power Act ("FPA"). It is possible that future legislative and/or regulatory changes could subject the rates and/or service areas of NCPA to the jurisdiction of the CPUC or to other limitations or requirements.

FERC could potentially assert jurisdiction over rates of licensees of hydroelectric projects and customers of such licensees under Part I of the FPA, although it has not as a practical matter exercised or sought to exercise such jurisdiction to modify rates that would legitimately be charged. If it did assert such jurisdiction, the result might have some significance for NCPA.

Under Sections 211, 212 and 213 of the FPA, FERC has the authority, under certain circumstances and pursuant to certain procedures, to order any utility (municipal or otherwise) to provide transmission access to others at FERC-approved rates. In addition, the Energy Policy Act of 2005 expanded FERC's jurisdiction to require municipal utilities that sell more than eight million megawatt hours of energy per year to pay refunds under certain circumstances for sales into organized markets. To date, NCPA does not meet this threshold requirement.

On May 29, 2009, FERC issued an order asserting that it had the authority to "reset" rates at which Energy had been previously sold in the organized California ISO and PX markets. That order is now on appeal in the United States Court of Appeals for the Ninth Circuit, and is expected to be set for argument following the briefing process now underway. If FERC is determined to be correct in its assertion, NCPA would be subject to such refund authority (under certain limitations) for sales into organized markets without regard to the eight million megawatt hours statutory limitation discussed above. The May 29, 2009, order itself applied to the disputes discussed in "LITIGATION—California Energy Market Refund Dispute and Related Litigation" which have since been resolved as to NCPA through a Settlement Agreement, as further discussed below.

The California Energy Commission is authorized to evaluate rate policies for electric energy as related to the goals of the Energy Resources Conservation and Development Act and to make recommendations to the Governor, the Legislature and publicly owned electric utilities.

CONSTITUTIONAL CHANGES IN CALIFORNIA

Proposition 218, a State ballot initiative known as the "Right to Vote on Taxes Act," was approved by the voters of the State of California on November 5, 1996. Proposition 218 added Articles XIIIC and XIIID to the State Constitution. Article XIIID creates additional requirements for the imposition by most local governments of general taxes, special taxes, assessments and "property-related" fees and charges. Article XIIID explicitly exempts fees for the provision of electric service from the provisions of such article. Nevertheless, Proposition 218 could indirectly affect some California municipally-owned electric utilities. For example, to the extent Proposition 218 reduces a city's general fund revenues, that city could seek to increase the transfers from the electric utilities of that city to the city's general fund.

Article XIIIC expressly extends the people's initiative power to reduce or repeal previously-authorized local taxes, assessments, and fees and charges. The terms "fees and charges" are not defined in Article XIIIC, although the California Supreme Court held in *Bighorn-Desert View Water Agency v. Verjil,* 39 Cal. 4th 205 (2006), that the initiative power described in Article XIIIC may apply to a broader category of fees and charges than the property-related fees and charges governed by Article XIIID. Moreover, in the case of *Bock v. City Council of Lompoc*, 109 Cal. App. 3d 52 (1980), the Court of Appeal determined that electric rates are subject to the initiative power. Thus, even electric service charges (which are expressly exempted from the provisions of Article XIIID) might be subject to the initiative provision of Article XIIIC, thereby subjecting such fees and charges imposed by each Participant to reduction by the electorate. However, NCPA believes that even if the electric rates of any Participants are subject to the initiative power, under Article XIIIC or otherwise, their respective electorates would be precluded from reducing electric rates and charges in a manner adversely affecting the payment of the Issue Two 2010 Series Bonds by virtue of the "impairments clause" of the United States Constitution.

Articles XIIIC and XIIID were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time, including presently, other initiatives have been, and could be, proposed, and if qualified for the ballot, could be adopted affecting NCPA's and/or Participants' revenues or operations. NCPA cannot predict the nature or impact of these measures or their likelihood of qualification for the ballot or passage.

LITIGATION

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or redelivery of the Issue Two 2010 Series Bonds, or in any way contesting or affecting the validity of the Issue Two 2010 Series Bonds or any proceedings of NCPA taken with respect to the issuance or sale thereof.

Upon the basis of information presently available, NCPA and its General Counsel believe that there is no litigation pending or threatened against NCPA which will materially adversely affect the Lodi Energy Center or the respective sources of payment for the Issue Two 2010 Series Bonds.

Market Redesign and Technology Upgrade

Most of the matters being contested at the Federal Energy Regulatory Commission involving NCPA concern the current operation or potential changes to the ISO market. The ISO implemented its market redesign overhaul (as defined herein, "MRTU") in April 2009. For a discussion of MRTU and other FERC filings, see "OTHER FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY—ISO FERC Filings" herein.

Bankruptcies Related to Electric Industry Restructuring

In March 1998, the ISO and the California Power Exchange (the "PX") became operational. During the next several years, the deregulated electricity and natural gas markets in California became increasingly dysfunctional until in January 2001, the PX suspended operations and in March 2001 filed for Chapter 11 bankruptcy protection. NCPA's claims against the PX estate have now been resolved.

California Energy Market Refund Dispute and Related Litigation

The IOUs—PG&E, Edison and SDG&E—and the State of California, the California Electricity Oversight Board ("EOB") and the CPUC have been pursuing claims for refunds against NCPA and other power-producing municipally owned utilities ("MOUs"), including Santa Clara. NCPA, Santa Clara and other similarly situated MOUs sold electricity into the ISO and/or PX markets during the California energy crisis of 2000 and 2001. At that time, as noted above, the price of electricity was uncharacteristically high.

In July 2001, after initially concluding that it had no authority to require refunds of MOUs, FERC issued an order establishing an evidentiary hearing for the purpose of determining the amount of refunds, if any, due from entities selling into the ISO and PX organized spot markets from October 2, 2000 through June 20, 2001. During that time period, NCPA acted as both a seller and buyer in these organized markets, and Santa Clara acted as both a seller and buyer in the PX market. The MOUs sought relief from the FERC order in the courts. The MOU position, that FERC had during that time period no jurisdiction to order refunds from NCPA and Santa Clara, was upheld by the Ninth Circuit Court of Appeals on September 6, 2005, reversing FERC's prior order. *Bonneville Power Administration v. FERC*, 422 F.3d 908 (9th Cir., 2005). The Supreme Court denied the PG&E petition for review by *certiorari* on December 10, 2007.

In response to the *Bonneville* decision, however, in March 2006, the IOUs and the EOB filed lawsuits against NCPA, Santa Clara and other MOUs in the United States District Court, and when that proceeding was dismissed, the IOUs and the EOB re-filed the same claims against NCPA, Santa Clara and other MOUs in California state court in Los Angeles County. *Pacific Gas and Electric Co. v. Arizona Electric Power Cooperative, Inc*., L.A. Superior Court No. BC369141. This State court action remains pending, and has been vigorously defended by NCPA and Santa Clara, among others.

NCPA has now entered into a settlement with the plaintiffs which provides the terms of a final resolution of all of these claims and of the bankruptcy claims held by NCPA against PG&E and the PX discussed above. The settlement agreement was filed with FERC on February 1, 2010, and approved by FERC on April 29, 2010. This approval by FERC is the last regulatory step necessary to resolve these disputes between those parties in their entirety, as well as a separate lawsuit filed by the State of California.

While the FERC refund proceedings remain ongoing, and it is anticipated that NCPA may have to participate from time to time to protect itself; NCPA anticipates that its high level of activity in the past will be significantly reduced for the future. On May 29, 2009, FERC determined that it did have authority to, and had, retroactively "reset" the rates under which NCPA and other MOUs had sold power to the ISO and PX during the refund period. While NCPA and the other MOUs promptly filed appeals of that order (which are now pending in the Ninth Circuit), and have taken the position that the law is clear that FERC cannot reset prices in the manner which it asserts, NCPA will withdraw from that appeal as a result of the approval of the settlement. But the appeal will go forward without NCPA's active future participation, so the issue will be resolved for the future.

In the past, when other parties to that refund proceeding have reached resolution and settled with the IOUs and the State of California, petitions for rehearing and subsequent pro forma appeals have been filed on behalf of one or two of the other participants in those proceedings, and such a petition for rehearing has been filed with respect to the NCPA settlement as well, and it is possible that another may be filed. NCPA anticipates that the rehearing application(s) will be rejected by FERC, as have others previously filed, but that similar pro forma appeals may be filed. Those appeals have in the past been held in abeyance by the Ninth Circuit, and NCPA anticipates that similar treatment will be given any appeals which may be filed by those other participants in this case.

The net cost to NCPA of this settlement is approximately $1 million.

Other Proceedings

NCPA is involved in various other state court proceedings incidental to its operations. Based on its review of those proceedings with its General Counsel, NCPA believes that the ultimate aggregate liability, if any, resulting from those proceedings will not have a material adverse effect on its financial position.

RATINGS

Standard & Poor's Rating Service, a Division of The McGraw-Hill Companies, Inc. ("S&P") and Moody's Investors Service, Inc. ("Moody's") have assigned to the Issue Two 2010 Series Bonds the ratings of "AAA" and "Aa2", respectively. Such ratings reflect only the views of such organizations and are not a recommendation to buy, sell or hold the Issue Two 2010 Series Bonds. Explanations of the significance of such ratings may be obtained only from the respective organizations at: Standard & Poor's Rating Services, 55 Water Street, New York, New York 10041 and Moody's Investors Services, 7 World Financial Center, New York, New York 10007. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings will continue for any given period or that they will not be revised downward or withdrawn entirely by the respective rating agencies, if in the judgment of such rating agency, circumstances so warrant. NCPA undertakes no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Issue Two 2010 Series Bonds.

UNDERWRITING

Goldman Sachs & Co., on behalf of itself and the other underwriters noted on the cover page of this Official Statement (the "Underwriters"), has agreed to purchase the Issue Two 2010 Series A Bonds from NCPA at a price of $34,454,851.93 (which reflects the $30,540,000.00 par amount of the Issue Two 2010 Series A Bonds, plus original issue premium of $4,078,673.70, and less an Underwriters' discount of $163,821.77), subject to certain conditions set forth in the Purchase Contract between NCPA and the Underwriters.

Goldman Sachs & Co., on behalf of itself and the Underwriters, has agreed to purchase the Issue Two 2010 Series B Bonds from NCPA at a price of $109,414,709.92 (which reflects the $110,225,000.00 par amount of the Issue Two 2010 Series B Bonds, less an Underwriters' discount of $810,290.08), subject to certain conditions set forth in the Purchase Contract between NCPA and the Underwriters.

The Underwriters may offer and sell the Issue Two 2010 Series Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Underwriters. The Purchase Contract for the Issue Two 2010 Series

Bonds provides that the Underwriters will purchase all of the Issue Two 2010 Series Bonds, if any are purchased, the obligation to make such purchases being subject to certain terms and conditions set forth in the Purchase Contract.

J.P. Morgan Securities Inc. ("JPMSI"), one of the Underwriters of the Issue Two 2010 Series Bonds, has entered into an agreement (the "Distribution Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings at the original issue prices. Pursuant to the Distribution Agreement (if applicable for this transaction), J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the Issue Two 2010 Series Bonds with UBS Financial Services Inc.

JPMSI has also entered into a negotiated dealer agreement (the "Dealer Agreement") with Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Dealer Agreement, CS& Co. will purchase Issue Two 2010 Series Bonds from JPMSI at the original issue price less a negotiated portion of the selling concession applicable to any Issue Two 2010 Series Bonds that CS&Co. sells.

Morgan Stanley and Citigroup Inc., the respective parent companies of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc., each an underwriter of the Issue Two 2010 Series Bonds, have entered into a retail brokerage joint venture. As part of the joint venture each of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC. for its selling efforts in connection with their respective allocations of the Issue Two 2010 Series Bonds.

FINANCIAL ADVISORS

Public Financial Management Inc. (the "NCPA Financial Advisor") has assisted NCPA with various matters relating to the planning, structuring and delivery of the Issue Two 2010 Series Bonds. The NCPA Financial Advisor is a financial advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities. The NCPA Financial Advisor assumes no responsibility for the accuracy, completeness or fairness of this Official Statement. The NCPA Financial Advisor will receive compensation from NCPA contingent upon the sale of the delivery of the Issue Two 2010 Series Bonds.

Montague DeRose and Associates, LLC (the "CDWR Financial Advisor") has assisted CDWR with various matters relating to the planning, structuring and delivery of the Issue Two 2010 Series Bonds. The CDWR Financial Advisor is a financial advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities. The CDWR Financial Advisor assumes no responsibility for the accuracy, completeness or fairness of this Official Statement. The CDWR Financial Advisor will receive compensation from CDWR contingent upon the sale of the delivery of the Issue Two 2010 Series Bonds.

TAX MATTERS

Issue Two 2010 Series A Bonds

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to NCPA, based on an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the

accuracy of certain representations and compliance with certain covenants, interest on the Issue Two 2010 Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Issue Two 2010 Series A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in "APPENDIX G – FORM OF BOND COUNSEL OPINION."

To the extent the issue price of any maturity of the Issue Two 2010 Series A Bonds is less than the amount to be paid at maturity of such Issue Two 2010 Series A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Issue Two 2010 Series A Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Issue Two 2010 Series A Bonds which is excluded from gross income for federal income tax purposes and exempt from State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Issue Two 2010 Series A Bonds is the first price at which a substantial amount of such maturity of the Issue Two 2010 Series A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Issue Two 2010 Series A Bonds accrues daily over the term to maturity of such Issue Two 2010 Series A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Issue Two 2010 Series A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Issue Two 2010 Series A Bonds. Beneficial Owners of the Issue Two 2010 Series A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Issue Two 2010 Series A Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Issue Two 2010 Series A Bonds in the original offering to the public at the first price at which a substantial amount of such Issue Two 2010 Series A Bonds is sold to the public.

Issue Two 2010 Series A Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Issue Two 2010 Series A Bonds. NCPA has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Issue Two 2010 Series A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Issue Two 2010 Series A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Issue Two 2010 Series A Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Issue Two 2010 Series A

Bonds may adversely affect the value of, or the tax status of interest on, the Issue Two 2010 Series A Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Issue Two 2010 Series A Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Issue Two 2010 Series A Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Issue Two 2010 Series A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from State income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Issue Two 2010 Series A Bonds. Prospective purchasers of the Issue Two 2010 Series A Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Issue Two 2010 Series A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Department, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. NCPA has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Issue Two 2010 Series A Bonds ends with the issuance of the Issue Two 2010 Series A Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend NCPA or the Beneficial Owners regarding the tax-exempt status of the Issue Two 2010 Series A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than NCPA and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which NCPA legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Issue Two 2010 Series A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Issue Two 2010 Series A Bonds, and may cause NCPA or Beneficial Owners to incur significant expense.

Issue Two 2010 Series B Bonds

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming compliance with certain covenants, interest on the Issue Two 2010 Series B Bonds is exempt from State of California personal income taxes. Interest on the Issue Two 2010 Series B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or

disposition of, or accrual or receipt of interest on, the Issue Two 2010 Series B Bonds. The proposed form of opinion of Bond Counsel is contained in APPENDIX G hereto.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Issue Two 2010 Series B Bonds that acquire their Issue Two 2010 Series B Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with all U.S. federal income tax consequences applicable to any given investor, nor does it address the U.S. federal income tax considerations applicable to categories of investors some of which may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Issue Two 2010 Series B Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a holder. In addition, this summary generally is limited to investors that acquire their Issue Two 2010 Series B Bonds pursuant to this offering for the issue price that is applicable to such Issue Two 2010 Series B Bonds (i.e., the price at which a substantial amount of the Issue Two 2010 Series B Bonds are sold to the public) and who will hold their Issue Two 2010 Series B Bonds as "capital assets" within the meaning of Section 1221 of the Code.

As used herein, "U.S. Holder" means a beneficial owner of a Issue Two 2010 Series B Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, "Non-U.S. Holder" generally means a beneficial owner of a Issue Two 2010 Series B Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Issue Two 2010 Series B Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Issue Two 2010 Series B Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Issue Two 2010 Series B Bonds (including their status as U.S. Holders or Non-U.S. Holders).

For U.S. Holders

The Issue Two 2010 Series B Bonds are not expected to be treated as issued with original issue discount ("OID") for U.S. federal income tax purposes because the stated redemption price at maturity of the Issue Two 2010 Series B Bonds is not expected to exceed their issue price, or because any such excess is expected to only be a de minimis amount (as determined for tax purposes).

Prospective investors that are not individuals or regular C corporations who are U.S. persons purchasing the Issue Two 2010 Series B Bonds for investment should consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of the Issue Two 2010 Series B Bonds.

Disposition of the Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, defeasance, retirement (including pursuant to an offer by the Department) or other disposition of a Issue Two 2010 Series B Bond, will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Issue Two 2010 Series B Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Issue Two 2010 Series B Bond which will be taxed in the manner described above) and (ii) the U.S. Holder's adjusted tax basis in the Issue Two 2010 Series B Bond (generally, the purchase price paid by the U.S. Holder for the Issue Two 2010 Series B Bond, decreased by any amortized premium). Any such gain or loss generally will be capital gain or loss. In the case of a noncorporate U.S. Holder of the Issue Two 2010 Series B Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the Issue Two 2010 Series B Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

For Non-U.S. Holders

Interest. Subject to the discussion below under the heading "Information Reporting and Backup Withholding," payments of principal of, and interest on, any Issue Two 2010 Series B Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation, as such term is defined in the Code, which is related to the Department through stock ownership and (2) a bank which acquires such Issue Two 2010 Series B Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. withholding tax provided that the beneficial owner of the Issue Two 2010 Series B Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "Information Reporting and Backup Withholding," or an exemption is otherwise established.

Disposition of the Bonds. Subject to the discussion below under the heading "Information Reporting and Backup Withholding," any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the Department) or other disposition of a Issue Two 2010 Series B Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the Department) or other disposition and certain other conditions are met.

U.S. Federal Estate Tax. A Issue Two 2010 Series B Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual's death, provided that at the time of such individual's death, payments of interest with respect to such Issue Two 2010 Series B Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

Information Reporting and Backup Withholding. U.S. information reporting and "backup withholding" requirements apply to certain payments of principal of, and interest on the Issue Two 2010 Series B Bonds, and to proceeds of the sale, exchange, redemption, retirement (including pursuant to an offer by the Department) or other disposition of a Issue Two 2010 Series B Bond, to certain noncorporate holders of Issue Two 2010 Series B Bonds that are United States persons. Under current U.S. Treasury Regulations, payments of principal and interest on any Issue Two 2010 Series B Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Issue Two 2010 Series B Bond or a financial institution holding the Issue Two 2010 Series

B Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. If a financial institution, other than a financial institution that is a qualified intermediary, provides the certification, the certification must state that the financial institution has received from the beneficial owner the certification set forth in the preceding sentence, set forth the information contained in such certification, and include a copy of such certification, and an authorized representative of the financial institution must sign the certificate under penalties of perjury. A financial institution generally will not be required to furnish to the IRS the names of the beneficial owners of the Issue Two 2010 Series B Bonds that are not United States persons and copies of such owners' certifications where the financial institution is a qualified intermediary that has entered into a withholding agreement with the IRS pursuant to applicable U.S. Treasury Regulations.

In the case of payments to a foreign partnership, foreign simple trust or foreign grantor trust, other than payments to a foreign partnership, foreign simple trust or foreign grantor trust that qualifies as a withholding foreign partnership or a withholding foreign trust within the meaning of applicable U.S. Treasury Regulations and payments to a foreign partnership, foreign simple trust or foreign grantor trust that are effectively connected with the conduct of a trade or business within the United States, the partners of the foreign partnership, the beneficiaries of the foreign simple trust or the persons treated as the owners of the foreign grantor trust, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from withholding and backup withholding tax requirements. The current backup withholding tax rate is 28% (subject to future adjustment).

In addition, if the foreign office of a foreign "broker," as defined in applicable U.S. Treasury Regulations pays the proceeds of the sale of a Bond to the seller of the Issue Two 2010 Series B Bond, backup withholding and information reporting requirements will not apply to such payment provided that such broker derives less than 50% of its gross income for certain specified periods from the conduct of a trade or business within the United States, is not a controlled foreign corporation, as such term is defined in the Code, and is not a foreign partnership (1) one or more of the partners of which, at any time during its tax year, are U.S. persons (as defined in U.S. Treasury Regulations Section 1.1441-1(c)(2)) who, in the aggregate hold more than 50% of the income or capital interest in the partnership or (2) which, at any time during its tax year, is engaged in the conduct of a trade or business within the United States. Moreover, the payment by a foreign office of other brokers of the proceeds of the sale of a Issue Two 2010 Series B Bond, will not be subject to backup withholding unless the payer has actual knowledge that the payee is a U.S. person. Principal and interest so paid by the U.S. office of a custodian, nominee or agent, or the payment by the U.S. office of a broker of the proceeds of a sale of a Issue Two 2010 Series B Bond, is subject to backup withholding requirements unless the beneficial owner provides the nominee, custodian, agent or broker with an appropriate certification as to its non-U.S. status under penalties of perjury or otherwise establishes an exemption.

Circular 230

Under 31 C.F.R. part 10, the regulations governing practice before the IRS (Circular 230), the Department and its tax advisors are (or may be) required to inform prospective investors that:

i. any advice contained herein is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer;

ii. any such advice is written to support the promotion or marketing of the Bonds and the transactions described herein; and

iii. each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

APPROVAL OF LEGAL PROCEEDINGS

The issuance of the Issue Two 2010 Series Bonds is subject to the approval of legality of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel to NCPA. Certain legal matters in connection with the Issue Two 2010 Series Bonds are subject to the approval of Meyers, Nave, Riback, Silver & Wilson, Sacramento, California, General Counsel to NCPA; Spiegel & McDiarmid LLP, Washington, D.C., Washington Counsel to NCPA; Orrick, Herrington & Sutcliffe LLP, Disclosure Counsel to NCPA; and Chapman and Cutler LLP, Salt Lake City, Utah, counsel to the Underwriters.

INDEPENDENT AUDITORS

The combined financial statements of Northern California Power Agency and Associated Power Corporations as of and for the year ended June 30, 2008 and June 30, 2009 have been audited by Moss Adams LLP, independent auditors, as stated in their report. Moss Adams LLP has not been engaged to perform and has not performed, since the date of its report included therein, any procedures on the financial statements addressed in such report. Moss Adams LLP has also not performed any procedures relating to this Official Statement.

CONTINUING DISCLOSURE

NCPA and CDWR will each agree, pursuant to separate Continuing Disclosure Agreements with the Trustee, to provide to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access System (the "EMMA System") a copy of their respective annual audited financial statements, as well as certain operating data relating to CDWR's Enterprise, the Project and the State Water Resources Development System. Such audited financial statements are required to be prepared in accordance with generally accepted accounting principles. NCPA will provide to the MSRB through the EMMA System such Project information and its financial statements (unaudited if audited financial statements are not then available) within 210 days after the end of its fiscal year, and CDWR will provide to the MSRB through the EMMA System its financial statements (unaudited if audited financial statements are not then available) and operating data relating to the State Water Resources Development System within 270 days after the end of their respective fiscal years. If unaudited financial statements are provided, audited financial statements will be provided as soon as available. In addition, NCPA has agreed to give timely notice to the MSRB through the EMMA System, of the occurrence of certain enumerated events, if material. These agreements have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). As of the date hereof, NCPA has never failed to comply in all material respects with any previous undertakings with regard to the provision of annual reports or notices of material events as required by the Rule. See "APPENDIX F – PROPOSED FORMS OF CONTINUING DISCLOSURE AGREEMENTS" hereto.

INCLUSION BY SPECIFIC REFERENCE

When delivered by the Underwriters, in its capacity as such, this Official Statement will be deemed to include by specific reference the most recent annual filings with the EMMA System by NCPA or CDWR (with respect to the State Water Resources Development System) to the extent that statements

in such documents are material to the offering made hereby. Any statements in a document included by specific reference herein will be modified or superseded for purposes of this Official Statement to the extent that it is modified or superseded by statements contained in this Official Statement or in any other subsequently provided document included by specific reference herein.

MISCELLANEOUS

This Official Statement includes descriptions of the terms of the Issue Two 2010 Series Bonds, the Indenture, the Power Sales Agreement, the Continuing Disclosure Agreements, certain other agreements and certain provisions of state and federal legislation. Such descriptions do not purport to be complete and all such descriptions and references thereto are qualified in their entirety by references to each such document, copies of which may be obtained from NCPA or, during the period of the offering, from the Underwriters.

Any statements herein involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

NORTHERN CALIFORNIA POWER AGENCY

By: /s/ James H. Pope
James H. Pope
General Manager

APPENDIX A

GLOSSARY OF TERMS

The following terms used in this Official Statement, including the Appendices hereto, shall have the meanings indicated below.

"Accountant's Certificate" shall mean a certificate signed by an independent certified public accountant of recognized national standing, or a firm of independent certified public accountants of recognized national standing, selected by NCPA.

"Account" shall mean any account in any Fund held and maintained under the Indenture.

"Accumulated Maximum Step-Up Percentage" shall mean the maximum total GES which can be allocated to each Indenture Group A Participant as a result of a GES Step-Up which shall be thirty-five percent (35%) of such Indenture Group A Participant's GES set forth in the Power Sales Agreement as of the Effective Date. The Accumulated Maximum Step-Up Percentage shall not include any GES an Indenture Group A Participant voluntarily accepts in a GES Lay-Off pursuant to Section 22.2.1.

"Act" shall mean the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended and supplemented.

"Additional Bonds" shall mean all Bonds, whether issued in one or more Series, authenticated and delivered on original issuance pursuant to the Indenture to pay the Indenture Group B Participant's GES of the Costs of Construction of the Project, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Indenture.

"Additional Costs" shall mean those Costs of Construction of the Lodi Energy Center and/or a Financed Capital Improvement in excess of the initial estimate of the Costs of Construction of the Lodi Energy Center or such Financed Capital Improvement.

"Alameda" shall mean the City of Alameda.

"Authorized Denominations" shall mean, unless otherwise provided with respect to a Series of Bonds in the Supplemental Indenture authorizing such Series, $5,000 and any integral multiple thereof.

"Authorized NCPA Representative" shall mean the General Manager, the Assistant General Manager, Finance and Administrative Services, the Chief Financial Officer, the Treasurer-Controller, the Secretary, or an Assistant Secretary of NCPA and any other officer or employee of NCPA authorized to perform the specific acts or duties to be performed by resolution duly adopted by NCPA.

"Azusa" shall mean the City of Azusa.

"Bankruptcy Code" shall mean Title 11 of the United States Code, as amended.

"BART" shall mean the San Francisco Bay Area Rapid Transit District.

"Billing Statement" shall mean the written billing statement to each Participant prepared or caused to be prepared each month by, or on behalf of, NCPA pursuant to the Power Sales Agreement.

"Biggs" shall mean the City of Biggs.

"Blended Treasury Yield" shall mean, with respect to the Issue Two 2010 Series B Bonds of each maturity to be redeemed, the yield computed by the linear interpolation of two Market Treasury Yields such that the theoretical maturity that corresponds to the interpolated Market Treasury Yield equals the date that corresponds to the remaining average life of the Issue Two 2010 Series B Bonds of such maturity to be redeemed. The first Market Treasury Yield will be based on an actively traded U.S. Treasury security or U.S. Treasury index whose maturity is closest to but no later than the date corresponding to the remaining average life of the Issue Two 2010 Series B Bonds of such maturity to be redeemed; and the second Market Treasury Yield will be based on an actively traded U.S. Treasury security or U.S. Treasury index whose maturity is closest to but no earlier than the date corresponding to the remaining average life of the Issue Two 2010 Series B Bonds of such maturity to be redeemed. Notwithstanding the foregoing, if the date that corresponds to the remaining average life of the Issue Two 2010 Series B Bonds of a particular maturity to be redeemed is later than the latest maturity of any actively traded U.S. Treasury security or U.S. Treasury index, then the Blended Treasury Yield shall be the Market Treasury Yield of the actively traded U.S. Treasury security or U.S. Treasury index having such latest maturity.

"Bond" or **"Bonds"** shall mean any bond or bonds, as the case may be, authenticated and delivered under and pursuant to the Indenture.

"Bond Counsel" shall mean an attorney or firm of attorneys of recognized national standing in the field of law relating to municipal bonds selected by NCPA.

"Bond Register" shall mean the registration books for the ownership of the Bonds maintained by the Trustee pursuant to the Indenture.

"Business Day" shall mean unless otherwise specified with respect to a Series of Future Bonds in the Supplemental Indenture authorizing such Series, any day other than a Saturday, Sunday or other day on which the New York Stock Exchange or banks are authorized or obligated by law or executive order to close in New York, New York, or any city in which is located the Principal Corporate Trust Office of the Trustee.

"Capacity" shall mean as of any time the ability of the Project at such time to generate or produce electricity, expressed in kW or MW.

"Capital Budget" shall mean the budget prepared by NCPA for Costs of Construction of the Lodi Energy Center and each Capital Improvement pursuant to the Power Sales Agreement.

"Capital Contribution" shall be with respect to Additional Costs of the Lodi Energy Center and the Costs of Construction of each Financed Capital Improvement and the Indenture Group B Participant or the Indenture Group C Participant which has given (or has been deemed to have given) NCPA a Capital Contribution Notice with respect to its share of such Costs of Construction, the amount of payment or payments by such Participant to be made in accordance with the Power Sales Agreement.

"Capital Contribution Notice" shall be with respect to the Indenture Group B Participant and/or the Indenture Group C Participant, a notice provided to NCPA by such Participant to the effect that it intends to make a Capital Contribution in lieu of having NCPA issue bonds for its share of any Additional Costs of the Lodi Energy Center or the Costs of Construction of a Financed Capital Improvement.

"Capital Improvement" shall mean any unit of property, property right, land or land right which is a replacement, repair, addition, modification, improvement or betterment to the Project or any electrical transmission or fuel facilities (including but not limited to natural gas pipelines, gas reserves and storage

facilities) relating to, or for the benefit of, the Project, the betterment of land or land rights or the enlargement or betterment of any such unit of property constituting a part of the Project or related electrical transmission or fuel facilities which: (i) is acquired or constructed after the Commercial Operation Date; (ii) which has an estimated useful life in excess of one year; (iii) the Costs of Construction of which is not treated as an Operation and Maintenance Expense; and (iv) which is either (a) consistent with Prudent Utility Practice and, except for Required Costs, has received Participant Committee Approval or (b) required by any governmental agency having jurisdiction over the Project and reviewed by the Participant Committee.

"CDWR" shall mean the State of California Department of Water Resources.

"Cede & Co." shall mean Cede & Co., the nominee of DTC as Securities Depository for the Bonds, and any successor nominee of DTC as such Securities Depository.

"Code" shall mean the Internal Project Revenue Code of 1986, as amended from time to time. Each reference to a section of the Code herein shall be deemed to include the United States Treasury Regulations proposed or in effect thereunder and applicable to the Bonds or the use of proceeds thereof, and also includes all amendments and successor provisions unless the context clearly requires otherwise.

"Construction Fund" shall mean the Fund so designated established pursuant to the Indenture.

"Contributions in Aid of Construction" shall mean with respect to the Costs of Construction of each Non-Financed Capital Improvement, the amount of payment or payments by the Participants to be made in accordance with the Power Sales Agreement.

"Costs of Construction" shall mean with respect to the Lodi Energy Center and each Capital Improvement, all costs and expenses of planning, designing, acquiring, constructing and installing the Lodi Energy Center or such Capital Improvement, placing the Lodi Energy Center or such Capital Improvement in operation, disposal of the Lodi Energy Center or such Capital Improvement, decommissioning of the Lodi Energy Center or such Capital Improvement and obtaining governmental approvals, certificates, permits and licenses with respect thereto heretofore or hereafter paid or incurred by NCPA but shall not include Financing Costs or Indenture Deposits. The term Costs of Construction shall include funds required for all of the following with respect to the Lodi Energy Center and each Capital Improvement:

(a) All costs of planning, developing, constructing and mitigating impacts of the Project, placing the Project in operation, decommissioning of the Project, and obtaining governmental approvals, certificates, permits and licenses with respect thereto, including air emission credits.

(b) All costs of transmission facilities or project enhancements and replacement parts related to, or for the benefit of, the Project.

(c) Costs of preliminary investigation and development, the performance or construction of feasibility and planning studies for the Project, Project licensing, and the securing of regulatory approvals, as well as costs for land and land rights, water and water rights, engineering, contractors' fees, labor, materials, equipment and legal fees relating to the Project, including costs incurred under the Development Agreement.

(d) Costs of utility services and supplies during construction.

(e) To the extent not included in Total Monthly Power Costs, all costs related to the construction or acquisition of resources and facilities, and the requisite supplies of fuel, fuel transportation and water for the Project.

(f) To the extent not included in Total Monthly Power Costs, all costs relating to injury and damage claims arising out of the development and construction/ improvement of the Project less proceeds of insurance.

(g) To the extent not included in Total Monthly Power Costs, legally required or permitted federal, state and local taxes relating to the Project.

(h) Working capital and reserves in such amounts as shall be required during construction of the Project and for placing the Project in operation.

(i) Training and testing costs which are properly allocable to the acquisition, placing in operation, or construction of the Lodi Energy Center or such Capital Improvement.

(j) All costs of insurance applicable to the period of construction and placing the Lodi Energy Center or such Capital Improvement in operation.

(k) Amounts payable with respect to capital costs for the expansion, reinforcement, enlargement, movement, reconstruction or other improvement of facilities determined by NCPA as necessary in connection with the utilization of the Lodi Energy Center or such Capital Improvement and the costs associated with the removal from service or reductions in service of any facilities as a result of the expansion, reinforcement, enlargement or other improvement of such facilities or the construction of the Lodi Energy Center or such Capital Improvement.

(l) All costs required to be paid to NCPA under the PMOA which are applied or are to be applied thereunder to the payment of Costs of Construction.

(m) All other costs incurred by NCPA and properly allocable to the acquisition, construction, placing in operation or decommissioning of the Lodi Energy Center or such Capital Improvement or any portion thereof.

"Commercial Operation Date" shall mean the initial date on which the Lodi Energy Center can be commercially operated and dispatched, as approved by the Participant Committee in consultation with NCPA.

"Commission" shall mean the NCPA Commission, as constituted from time to time, or if said NCPA Commission shall be abolished, such other entity or entities succeeding to the principal functions thereof or to whom the power and duties granted or imposed by the Act and the Joint Powers Agreement shall be given.

"Cost of Issuance Fund" shall mean the Fund so designated established pursuant to the Indenture.

"Debt Service" shall mean, as of any date of calculation, with respect to any period, an amount equal to the sum of (i) interest accruing during such period on the Outstanding Bonds (net of the Subsidy for such period), except to the extent that such interest is to be paid from deposits into the Debt Service Fund from Bond proceeds or the investment earnings thereon, provided, however that in determining Debt Service with respect to any Bonds during a period that such Bonds bear interest at a variable rate

and the amount of such interest has not been determined, interest on such Bond during such period shall be the maximum interest rate applicable to such Bond and (ii) that portion of each Principal Installment for the Outstanding Bonds which would accrue during such period if each such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such Bonds (or, if there shall be no such preceding Principal Installment due date, from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Bonds, whichever date is later).

"Debt Service Fund" shall mean the Fund so designated established pursuant to the Indenture.

"Debt Service Reserve Fund" shall mean the Fund so designated established pursuant to the Indenture.

"Debt Service Reserve Requirement" shall mean as of any date of calculation: (i) with respect to the Participating Bonds Debt Service Reserve Account, the amount specified in the Supplemental Indenture authorizing the issuance of the initial Series of the Participating Bonds; (ii) with respect to the Issue Two 2010 Series Debt Service Reserve Account, an amount equal to zero; and (iii) with respect to any Series Debt Service Reserve Account other than the Issue Two 2010 Series Debt Service Reserve Account, the amount, if any, specified as such in the Supplemental Indenture establishing such Series Debt Service Reserve Account.

"Defeasance Securities" shall mean direct obligations of, or obligations guaranteed by, the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America).

"Default Mitigation Sale" shall mean a sale of Project Capacity and/or Energy pursuant to the Power Sales Agreement with respect to the GES of a Defaulting Participant.

"Default Mitigation Sale Fund" shall mean the fund so designated to be established and maintained by NCPA pursuant to the Power Sales Agreement.

"Defaulting Participant" shall mean as of any time, a Participant as to which a Payment Default has occurred and is continuing.

"Depository" shall mean any bank or trust company organized under the laws of any state of the United States, or any national banking association which is willing and able to accept the office on reasonable and customary terms, authorized by law to act in accordance with the provisions of the Indenture.

"Discounted Value" shall mean, with respect to the Issue Two 2010 Series B Bonds of each maturity thereof to be redeemed, the sum of the amounts obtained by discounting all remaining scheduled payments of principal and interest (exclusive of interest accrued to the date of redemption) on such Issue Two 2010 Series B Bonds from their respective scheduled payment dates to the applicable redemption date, at a yield (computed on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months) equal to the applicable Discount Yield.

"Discount Yield" shall mean, with respect to the Issue Two 2010 Series B Bonds of each maturity thereof to be redeemed on a particular date, the Blended Treasury Yield determined with respect to the Issue Two 2010 Series B Bonds of such maturity, plus either (i) 0.25% per annum in the case of an optional redemption at option of NCPA or (ii) 1.00% per annum in the case of an optional redemption

following an Extraordinary Event. The Discount Yield will be calculated assuming semiannual compounding based upon a 360-day year consisting of twelve 30-day months.

"DTC" shall mean The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York, and its successors and assigns. References herein to DTC shall include any nominee of DTC in whose name any Bonds are then registered.

"Energy" shall mean the electricity produced by the Project expressed in kWh or MWh.

"Enterprise" shall mean with respect to: (i) each Participant other than CDWR and BART, the electric utility owned by such Participant; (ii) with respect to CDWR, the State Water Resources Development System (as defined in California Water Code Section 12931); and (iii) with respect to BART, its rail transit system; in each case as the same may be improved, replaced and expanded.

"Enterprise Revenues" shall mean with respect to each Participant all income, rents, rates, fees charges and other revenues derived by the Participant from the ownership or operation of its Enterprise; provided, however that a Participant's Enterprise Revenues shall not include any moneys which by law are limited to uses other than the payment of operating expenses of the Participant's Enterprise or, with respect to Capital Contributions and Contributions in Aid of Construction, capital costs of the Project.

"Event of Default" shall mean an event designated as an event of default in the Indenture.

"Extraordinary Event" shall mean the determination by an Authorized NCPA Representative that a material adverse change has occurred to Section 54AA or Section 6431 of the Code (as such Sections were added by Section 1531 of the American Recovery and Reinvestment Act of 2009 pertaining to "Build America Bonds") or there is any guidance published by the IRS or the U.S. Treasury with respect to such Sections or any other determination by the IRS or the U.S. Treasury, which determination is not the result of any act or omission by NCPA to which results in NCPA's failure to satisfy the requirements to qualify to receive the thirty-five percent cash Subsidy payment from the U.S. Treasury, pursuant to which NCPA's thirty-five percent cash Subsidy payment from the U.S. Treasury is reduced or eliminated.

"Financed Capital Improvement" shall mean a Capital Improvement for which the Costs of Construction are to be paid with the proceeds of bonds and/or Capital Contributions.

"Financial Guaranty" shall mean one or more of the following to be delivered to the Trustee for deposit in an Account in the Debt Service Reserve Fund pursuant to the Indenture: (i) either (A) an irrevocable, unconditional and unexpired letter of credit issued by a banking institution with credit ratings not below the credit ratings of the Bonds at the time such letter of credit is issued; or (B) an irrevocable and unconditional policy or policies of insurance in full force and effect issued by a municipal bond insurer with credit ratings not below the credit ratings of the Bonds at the time such policy of insurance is issued; and (ii) in each case providing for the payment thereunder of sums for the payment of Principal Installments with respect to, and interest on, Bonds as required by the Indenture.

"Financing Agreement" shall mean the one or more indentures of trust, resolutions, loan agreements, standby bond purchase agreements, reimbursement agreements, Public Finance Contracts or other applicable debt instruments or financing documents providing for the issuance of, or otherwise relating to, NCPA bonds, as from time to time amended and supplemented in conformity with its provisions and the provisions of the Power Sales Agreement.

"Financing Costs" shall mean with respect to the Power Sales Agreement and any bonds issued by NCPA, all costs and expenses incurred by NCPA in connection with the authorization, sale, and delivery of such bonds.

"Fiscal Year" shall mean the twelve-month period commencing at 12:01 a.m. on July 1 of each year and ending immediately before 12:01 a.m. on the next following July 1, or such other 12 month period as shall be adopted by NCPA as its fiscal year.

"Fuel Cost" shall mean all amounts which have received Participant Committee Approval and are payable by NCPA in connection with the acquisition of natural gas for, and delivery of natural gas to, the Project, including the cost associated with contract payments under minimum or guaranteed payment provisions.

"Fuel Cost Component" shall mean the portion of the each Total Monthly Power Cost included in the monthly Billing Statement with respect to fuel for the Project as determined pursuant to the Power Sales Agreement.

"Fund" shall mean a fund established pursuant to the Indenture

"Funding Notice" shall mean a notice provided by NCPA to Participants pursuant to the Power Sales Agreement with respect to the funding of a Capital Improvement.

"Future Bonds" shall mean Additional Bonds and Refunding Bonds issued pursuant to the Indenture after the issuance of the Issue Two 2010 Series Bonds.

"General Reserve Fund" shall mean the fund so designated to be established and maintained by NCPA pursuant to the Power Sales Agreement.

"GES" shall mean the generation entitlement share (expressed as a percentage) of a Participant to a portion of the Project Energy and Capacity, as such generation entitlement share may be amended or revised from time to time in accordance with a GES Lay-Off or a GES Step-Up.

"GES Lay-Off" shall mean an increase in the GES of a Participant as a result of such Participant's voluntary purchase of all or a portion of the GES of a Defaulting Participant pursuant to the Power Sales Agreement.

"GES Step-Up" shall mean an increase in the GES of an Indenture Group A Participant as a result of such Participant's acquisition of all or a portion of the GES of a Defaulting Participant pursuant to the Power Sales Agreement.

"Gridley" shall mean the City of Gridley.

"Healdsburg" shall mean the City of Healdsburg.

"ICS" shall mean the indenture cost share of a Participant in an Indenture Group which is the portion of the Indenture Cost Component for such Indenture Group allocable to such Participant which is: (a) as of any time with respect to each Participant in Indenture Group A, the percentage obtained by dividing the GES of such Participant as of such time by the GES of all Indenture Group A Participants as of such time; (b) with respect to the Indenture Group B Participant, 100%; and (c) with respect to the Indenture Group C Participant, 100%.

"Indenture" shall mean the Indenture of Trust, dated as of June 1, 2010, between NCPA and the Trustee, as from time to time amended or supplemented by Supplemental Indentures in accordance with the terms thereof.

"Indenture Cost Component" shall mean the portion of the each Total Monthly Power Cost included in the monthly Billing Statement with respect to Financing Agreements as determined pursuant to the Power Sales Agreement.

"Indenture Deposits" shall mean that with respect to each Financing Agreement, the amounts, other than the Costs of Construction, which are required to be deposited in a fund or account pursuant to such Financing Agreement at the time NCPA bonds are issued or other obligations are incurred thereunder, including:

(a) The deposit or deposits from the proceeds of bonds, in any funds or accounts established pursuant to an Indenture, to pay capitalized interest on such bonds.

(b) The deposit or deposits from the proceeds of Bonds in any fund or account established pursuant to a Financing Agreement to meet any respective debt service reserve requirements for bonds.

(c) The payment of principal, premium, if any, and interest when due (whether at the maturity of principal or at the due date of interest or upon redemption) of any obligations issued for the purpose of financing the Costs of Construction, including any related costs of financing.

"Indenture Group(s)" shall mean the one or more of Indenture Group A, Indenture Group B and/or Indenture Group C.

"Indenture Group A" shall mean a subset of the Participants consisting of the Cities of Azusa, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Santa Clara and Ukiah, and the Bay Area Rapid Transit District, the Plumas-Sierra Rural Electric Cooperative, and the Power and Water Resources Pooling Authority.

"Indenture Group Approval" shall mean with respect to the approval or authorization of any action, relating to a Financing Agreement or NCPA bonds by the Commission after the Effective Date, that such action, transaction, program or procedure has been approved by: (i) with respect to the Indenture Group A Participants the Indenture Group A Non-Defaulting Participants as provided in the Power Sales Agreement; (ii) with respect to Indenture Group B, the Indenture Group B Participant if not then a Defaulting Participant; and (iii) and with respect to Indenture Group C, the Indenture Group C Participant if not then a Defaulting Participant.

"Indenture Group B" shall mean a subset of the Participants consisting of the California Department of Water Resources.

"Indenture Group C" shall mean a subset of the Participants consisting of the Modesto Irrigation District.

"Interconnection Agreement" shall mean any agreement between NCPA and a third party regarding terms and conditions for establishing and maintaining an interconnection between the Project and the Point of Delivery.

"Interest Payment Date" shall mean, with respect to the Issue Two 2010 Series Bonds, June 1 and December 1 of each year, commencing December 1, 2010, and with respect to a Series of Future

Bonds the dates specified as, or determined as provided in, such in the Supplemental Indenture authorizing such Series.

"Investment Securities" shall mean and include any of the following securities, if and to the extent the same are at the time legal for investment of NCPA's funds:

(1) Direct obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America);

(2) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies, which obligations are backed by the full faith and credit of the United States of America:

Export-Import Bank;
Farm Credit System Financial Assistance Corporation;
Rural Economic Community Development Administration;
Federal Financing Bank;
Federal Housing Administration (FHA);
General Services Administration;
Government National Mortgage Association (GNMA or "Ginnie Mae");
U.S. Maritime Administration;
U.S. Department of Housing and Urban Development (PHA's);
Small Business Administration;

(3) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies, which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Federal Home Loan Bank System – senior debt obligations;
- Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac") – Senior debt obligations rated "Aaa" by Moody's and "AAA" by S&P;
- Federal National Mortgage Association (FNMA or "Fannie Mae") – senior debt obligations rated "Aaa" by Moody's and "AAA" by S&P;
- Resolution Funding Corp. (REFCORP) obligations;
- Government Sponsored Agencies –senior debt obligations;

(4) Money market funds registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by S&P of AAAm G or AAAm or higher;

(5) Commercial paper rated, at the time of purchase, "P-1" by Moody's or "A 1+" by S&P and which matures not more than 270 days after its date of purchase;

(6) U.S. dollar denominated deposit accounts, federal funds or bankers' acceptances with domestic commercial banks, which have a rating on their short-term certificates of deposit (on the date of purchase) of "A-1" or "A-1+" by S&P and "P-1" by Moody's and which mature no more than 360 days after their date of purchase (ratings on holding companies are not considered as the rating of the bank);

(7) General obligations of any state, which are rated A2 or higher by Moody's and A or higher by S&P;

(8) Pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state or any agency, instrumentality or local governmental unit of any state, which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in a notice, and which are:

(a) Rated, based on an irrevocable escrow account or fund, in the highest rating category of S&P and Moody's; or

(b) Fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in clause (1) hereof, which escrow may be applied only to the payment of such principal or and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to irrevocable instructions, as appropriate, and which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (8) on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate ;

(9) Investment agreements or guaranteed investment contracts supported by appropriate opinions of counsel;

(10) California State Local Agency Investment Fund, a pooled investment fund managed by the State of California Treasurer's office meeting all legal guidelines and requirements for the investment of California public agency funds;

(11) Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State of California, as it may be amended; provided that such shares are held in the name and to the credit of the Trustee; and

(12) Any other form of investment (including repurchase agreements).

"IRS" shall mean the Internal Revenue Service of the U.S. Department of the Treasury.

"Issue Two 2010 Continuing Disclosure Agreement" shall mean the Continuing Disclosure Agreement, dated June 24, 2010, between NCPA and the Trustee as Dissemination Agent, in connection with the Issue Two 2010 Series Bonds pursuant to Rule 15c2-12 of the Securities and Exchange Commission.

"Issue Two 2010 Series A Bonds" shall mean the Bonds so designated and authorized by Article III of the Indenture.

"Issue Two 2010 Series A Bonds Debt Service Account" shall mean the account so designated in the Debt Service Fund established pursuant to the Indenture.

"Issue Two 2010 Series B Bonds" shall mean the Bonds so designated and authorized by Article III of the Indenture.

"Issue Two 2010 Series B Bonds Debt Service Account" shall mean the account so designated in the Debt Service Fund established pursuant to the Indenture.

"Issue Two 2010 Series Bonds" means the Issue Two 2010 Series A Bonds and the Issue Two 2010 Series B Bonds.

"Issue Two 2010 Series Debt Service Reserve Account" shall mean the account so designated in the Debt Service Reserve Fund established pursuant to the Indenture.

"Joint Powers Agreement" shall mean the Amended and Restated Northern California Power Agency Joint Powers Agreement, dated as of January 1, 2008, by and among the Cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara and Ukiah, California, the Plumas-Sierra Rural Electric Cooperative, the Turlock Irrigation District, the Port of Oakland, the Truckee-Donner Public Utilities District and the San Francisco Bay Area Rapid Transit District as the same may be amended and supplemented.

"Lodi" shall mean the City of Lodi.

"Lompoc" shall mean the City of Lompoc.

"Lodi Energy Center" shall mean the electric generating station and related facilities, including shared facilities, and rights described in Appendix B to the Power Sales Agreement, as such Appendix may be amended from time to time prior to the commercial operation date of such station.

"Major Contracts" shall mean Major Contracts are: (i) the PMOA; (ii) each Interconnection Agreement; (iii) Project fuel procurement and management agreements; (iv) agreements for supplying the Project with water; (v) the lease of the Project site; and (vi) any other contract or agreement relating to the Project, other than an NCPA Multiple Project Contract, which has a total cost of more than five hundred thousand dollars and which is designated as a Major Contract by the Participant Committee, as such contracts or agreements may be entered into before, on or after the Effective Date and as they may be amended, revised or supplemented from time to time in accordance with their respective terms. No NCPA Multiple Project Contract shall constitute a Major Contract.

"Mandatory Budget Amendment" shall mean a mandatory amendment to a Project Annual Budget required by the Power Sales Agreement in connection with Required Costs.

"Market Treasury Yield" shall mean, with respect to the Issue Two 2010 Series B Bonds, that yield, assuming semiannual compounding based upon a 360-day year consisting of twelve 30-day months, which is equal to:

(i) the yield for the applicable maturity of an actively traded U.S. Treasury security, reported, as of 11:00 a.m., New York City time, on the Valuation Date on the display designated as "Page PX1" of the Bloomberg Financial Markets Services Screen (or, if not available, any other nationally recognized trading screen reporting on-line intraday trading in U.S. Treasury securities); or

(ii) if the yield described in (i) above is not reported as of such time or the yield reported as of such time is not ascertainable, the most recent yield data for the applicable U.S. Treasury maturity index from the Federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m., New York City time, on the Valuation Date; or

(iii) if the yields described in (i) and (ii) above are not reported as of such time or the yields reported as of such time are not ascertainable, the yield for the applicable

maturity of an actively traded U.S. Treasury security shall be based upon the average of yield quotations for such security (after excluding the highest and lowest quotations) as of 3:30 p.m., New York City time, on the Valuation Date received from no less than five primary dealers in U.S. government securities selected by NCPA.

Each yield quotation for each actively traded U.S. Treasury security required in (i) and (iii) above shall be determined using the average of the bid and ask prices for that security.

"Member," individually or **"Members,"** collectively, shall mean, Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, Ukiah, Port of Oakland, Truckee Donner, TID, and BART as members, and Plumas-Sierra, as an associate member.

"Moody's" shall mean Moody's Investors Service, Inc., and its corporate successors.

"NCPA" shall mean the Northern California Power Agency, a joint exercise of powers agency, created pursuant to the Act and the Joint Powers Agreement, and its successors.

"NCPA Administrative Costs" shall mean that portion of the NCPA administrative, general and occupancy costs and expenses, including those costs and expenses associated with the operations, direction and supervision of the general affairs and activities of NCPA, general management, treasury operations, accounting, budgeting, payroll, human resources, information technology, facilities management, salaries and wages (including retirement benefits) of employees, facility operation and maintenance costs, taxes and payments in lieu of taxes (if any), insurance premiums, fees for legal, engineering, financial and other services, that are charged directly or apportioned to the development, financing, construction, improvement, maintenance, operation or decommissioning of the Project.

"NCPA Multiple Project Contract" shall mean a contract entered into by NCPA which relates to providing services, supplies or commodities with respect to the planning, financing, constructing, managing, operating, maintaining and/or improving of electric generation and/or transmission facilities, including related equipment, property, rights or facilities, with respect to the Project and one or more other NCPA projects and/or programs.

"Non-Defaulting Participant" shall mean as of any time, each Participant which is not a Defaulting Participant as of such time.

"Non-Financed Capital Improvement' shall mean a Capital Improvement, the Costs of Construction of which is to be paid with Contributions in Aid of Construction.

"Non-Financed Capital Improvement Cost Component" shall mean the portion of the each Total Monthly Power Cost included in the monthly Billing Statement with respect to Capital Improvements to be funded with Contributions in Aid of Construction as determined pursuant to the Power Sales Agreement.

"OandM Step-Up" shall mean an increase in the amount payable by a Participant for Operation and Maintenance Expenses beyond such Participant's GES as a result of a Payment Default by another Participant which increase shall be calculated pursuant to the Power Sales Agreement.

"OandM Step-Up Cost Component" shall mean the portion of the each Total Monthly Power Cost included in the monthly Billing Statement with respect to an OandM Step-Up as determined pursuant to the Power Sales Agreement.

"OandM Step-Up Share" shall mean as of any time of calculation and with respect to each Non-Defaulting Participant, the quotient obtained by dividing (i) the GES of such Non-Defaulting Participant by (ii) the sum of the GES of all Non-Defaulting Participants.

"Operating Cost Component" shall mean the portion of the each Total Monthly Power Cost included in the monthly Billing Statement with respect to Operation and Maintenance Expenses as determined pursuant to the Power Sales Agreement.

"Operating Fund" shall mean the fund so designated to be established and maintained by NCPA pursuant to the Power Sales Agreement.

"Operating Reserve Fund" shall mean the fund so designated to be established and maintained by NCPA pursuant to the Power Sales Agreement.

"Operating Reserve Requirement" shall mean as of any time, an amount determined in accordance with the Power Sales Agreement as equal to approximately 60 days of Operation and Maintenance Expenses in the Project Annual Budget in effect as of such time.

"Operation and Maintenance Expenses" shall mean the costs paid or incurred by NCPA for operating and maintaining the Project including, but not limited to (a) all Fuel Costs; (b) all costs of water supply in connection with the Project; (c) all costs and expenses of management of the Project, including on-site operating staff and NCPA Administrative Costs; (d) all costs and expenses of maintenance and repair of the Project, including all expenses necessary or appropriate in the judgment of NCPA to maintain and preserve the Project in good repair and working order; (e) payments in lieu of taxes to any public agency in connection with the Project; (f) all costs, expenses and charges of accountants, engineers and other consultants; (g) any cost or expense paid by NCPA to comply with requirements of law applicable to the Project or the NCPA's ownership or operation thereof or in any capacity in connection with the Project or any activity in connection therewith; (h) costs of repairs, replacements and reconstruction of the Project that do not entail Capital Improvements; (i) costs relating to litigation and other adversarial proceedings (including attorneys' fees and disbursements and other amounts paid as a result thereof); (j) insurance costs (including amounts to fund any self insurance program); (k) taxes and any other governmental charges required to be paid by NCPA with respect to the Project; (l) any costs payable in connection with the output of the Project; (m) all costs related to the conducting of the business of NCPA with respect to the Project; and (n) any other costs relating to the operation or maintenance of the Project, including without limitation any costs relating to funding or maintaining working capital or similar reserves approved by NCPA and the Participant Committee.

"Opinion of Bond Counsel" shall mean a written opinion signed by Bond Counsel.

"Option Bonds" shall mean Bonds which by their terms may be tendered by and at the option of the Owner thereof for purchase prior to the stated maturity thereof.

"Outstanding" when used with reference to Bonds, shall mean, as of any date, Bonds theretofore, or thereupon being, authenticated and delivered under the Indenture except:

(i) Bonds cancelled by the Trustee, or delivered to the Trustee for cancellation, at or prior to such date;

(ii) Bonds paid or deemed paid pursuant to the Indenture; and

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Indenture.

"Owner" shall mean the person registered as the owner of a Bond in the Bond Register.

"Palo Alto" shall mean the City of Palo Alto.

"Parity Debt" shall mean: (i) bonds, notes, bond anticipation notes, or other evidences of indebtedness issued by, or loans taken out by, or Public Finance Contracts entered into by, NCPA to: (i) finance or refinance the Indenture Group B Participants' shares of the Costs of Construction of the Project; or (ii) provide credit enhancement for, or economically modify NCPA's payment obligations with respect to, such bonds, notes, bond anticipation notes, other evidences of indebtedness or loans, in each case satisfying the requirements of the Indenture.

"Participating Bonds" shall mean all Future Bonds other than Bonds authorized by a Supplemental Indenture that provides that such Bonds are not Participating Bonds in accordance with the provisions of the Indenture.

"Participating Bonds Debt Service Account" shall mean the Account so designated established in the Debt Service Fund.

"Participating Bonds Debt Service Reserve Account" shall mean the account so designated established in the Debt Service Reserve Fund.

"Participant Committee" shall mean the committee of Participants established in accordance with the Power Sales Agreement.

"Participant Committee Approval" shall mean the approval of the Participant Committee in accordance with the Power Sales Agreement.

"Participant Monthly Power Costs" shall mean with respect to a Participant and a given month, the costs payable by such Participant pursuant to the Power Sales Agreement.

"Participants" shall mean those entities (other than NCPA) executing the Power Sales Agreement, together in each case with their successors.

"Payment Default" shall mean the failure of a Participant to make a payment required under the Power Sales Agreement after the notice required and cure period provided by the Power Sales Agreement .

"Pledged Power Sales Agreement Rights" shall mean: (i) subject to the application of the Project Revenues relating to Indenture Group B to such purposes and on such terms as provided in the Power Sales Agreement, all amounts in the Indenture Group B Revenue Account; and (ii) all of NCPA's rights under the Power Sales Agreement with respect to the Indenture Group B Participants including without limitation: (A) NCPA's rights to the payments required to be made by the Indenture Group B Participants in accordance with or pursuant to any provision of the Power Sales Agreement; (B) NCPA's right to receive all other Project Revenues related to Indenture Group B including Project Revenues received pursuant to actions taken upon a default by an Indenture Group B Participant; and (C) all of NCPA's right, title and interest in, to and under the Power Sales Agreement with respect to the obligations of the Indenture Group B Participants, including NCPA's rights to enforce the obligations of the Indenture Group B Participants under the Power Sales Agreement.

"Plumas-Sierra" shall mean the Plumas-Sierra Rural Electric Cooperative.

"PMOA" shall mean The Lodi Energy Center Project Management and Operations Agreement among NCPA and the Participants, relating to the Project, as it may be amended or supplemented from time to time in accordance with its terms.

"Point of Delivery" shall mean the first point of interface between the Project facilities and the facilities controlled by the entity which regulates the transmission of Energy from the Project under applicable laws and regulations.

"Port of Oakland" shall mean the Port of Oakland as such term is defined in the Charter of the City of Oakland, California.

"**Power Island**" shall mean the Flex-Plant 30 power island being supplied to NCPA for use in the Lodi Energy Center by a purchase agreement with Siemens Energy, Inc.

"Power Sales Agreement" shall mean the Lodi Energy Center Power Sales Agreement, dated as of May 24, 2010, among NCPA and the Participants, as the same may be amended and supplemented in accordance with its terms.

"Principal Corporate Trust Office" shall mean: (i) so long as U.S. Bank National Association is serving as Trustee under the Indenture, its Principal Corporate Trust Office located at 100 Wall Street, New York, New York or such other corporate trust office as shall be specified by U.S. Bank National Association; and (ii) the corporate trust office specified as such by any successor Trustee.

"Principal Installment" shall mean, as of any date of calculation, (i) the principal amount of Outstanding Bonds due on a certain future date for which no Sinking Fund Installments have been established and (ii) the unsatisfied balance (determined as provided in the Indenture) of any Sinking Fund Installments due on a certain future date for Outstanding Bonds.

"Project" shall mean the Lodi Energy Center and all Capital Improvements.

"Project Annual Budget" shall mean for any Fiscal Year, the Project budget in effect for such Fiscal Year pursuant to the Power Sales Agreement, including any amendments thereto.

"Project Net Revenues" shall mean for any period of time, the Project Revenues less the Operation and Maintenance Expenses during such period and less the deposits to the Operating Reserve Fund during such period.

"Project Revenues" shall mean all gross income and revenue received or receivable by NCPA from the ownership or operation of the Project, including all rates and charges for the Capacity and Energy of the Project and the other services and facilities of the Project, all proceeds of insurance covering business interruption loss relating to the Project, any Subsidy received by NCPA and all other income and revenue howsoever derived by NCPA from the ownership or operation of the Project or otherwise arising from the Project, including the proceeds of sales of Project Capacity and/or Energy pursuant to the Power Sales Agreement including Contributions in Aid of Construction, Capital Contributions or grants to the extent restricted by the donor to exclude the application to be made of such grant pursuant to the Power Sales Agreement.

"Prudent Utility Practice" shall mean any of the practices, methods and acts, which, in the exercise of reasonable judgment in the light of the facts (including but not limited to the practices,

methods and acts engaged in or approved by a significant portion of the electrical utility industry prior to the date hereof) known at the time the decision was made, would have been expected to accomplish the desired result at a reasonable cost consistent with sound utility business and financial practices approved by the Western Electricity Coordinating Council or the North American Electric Reliability Corporation, reliability, safety and expedition, taking into account the fact that Prudent Utility Practice is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather to be a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at a reasonable cost consistent with reliability, safety and expedition. Prudent Utility Practice includes due regard for manufacturers' warranties and requirements of governmental agencies of competent jurisdiction and official electric industry reliability organizations and shall apply not only to functional parts of the Project, but also to appropriate structures, landscaping, painting, signs, lighting, other facilities and public relations programs reasonably designed to promote public enjoyment, understanding and acceptance of the Project.

"Public Finance Contract" shall mean a contract or arrangement described in Section 5922 of the California Government Code as in effect on the dated date of the Power Sales Agreement.

"Rating Agency" shall mean, as of any time, each of Moody's, S&P and any other nationally recognized rating agency, in each case then rating the Bonds at the request of NCPA.

"Rebate Fund" shall mean the Fund so designated established in the Indenture.

"Rebate Instructions" shall mean those calculations and written directions required to be delivered to the Trustee by NCPA pursuant to the Indenture.

"Rebate Requirement" shall mean the Rebate Requirement as defined in the Tax Certificate.

"Record Date" shall mean with respect to an Interest Payment Date, unless otherwise specified with respect to a Series of Bonds in the Supplemental Indenture authorizing such Series of Bonds, the fifteenth day of the month preceding the month in which such Interest Payment date occurs.

"Redding" shall mean the City of Redding.

"Refunding Bonds" shall mean all Bonds, whether issued in one or more Series, authenticated and delivered on original issuance pursuant to the Indenture to refund Bonds or Parity Debt, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Indenture.

"Representation Letter" shall mean the letter or letters of representations from NCPA and the Trustee to, or other instrument or agreement among NCPA and the Trustee with, a Securities Depository for the Bonds in which NCPA and the Trustee, among other things, make certain representations to such Securities Depository with respect to the Bonds, the payment thereof, and delivery of notices with respect thereto.

"Required Costs" shall mean the: (i) Additional Cost of the Lodi Energy Center or a Financed Capital Improvement which: (a) arise while any obligations remain Outstanding under an Indenture; and (b) are either (y) required by law or governmental regulation, including environmental regulation, for the operation of the Project or (z) necessary to complete the Lodi Energy Center or the Financed Capital Improvement, as applicable, as a facility performing the functions intended for the Lodi Energy Center or such Financed Capital Improvement; and (ii) costs and expenses under a NCPA Multiple Project Contract

when the use of such NCPA Multiple Project Contract in connection with the Project has been approved by the Participant Committee.

"Revenue Account" shall mean the account in the Revenue Fund with respect to an Indenture Group.

"Revenue Fund" shall mean the fund to be established and maintained by NCPA pursuant to the Power Sales Agreement.

"Revolving Construction Amount" shall mean with respect to the Initial Facilities, $1,000,000; and with respect to any Financed Capital Improvement the amount, if any, specified as such in a Supplemental Indenture.

"Roseville" shall mean the City of Roseville.

"S&P" shall mean Standard & Poor's Rating Group and its corporate successors.

"Santa Clara" shall mean the City of Santa Clara.

"Securities Depository" shall mean DTC and its successors and assigns or if (i) the incumbent Securities Depository resigns from its functions as depository of the Bonds or (ii) NCPA discontinues use of the incumbent Securities Depository pursuant to the Indenture, any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds and which is selected by NCPA.

"Securities Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Series" when used with reference to the Bonds, shall mean all of the Bonds authenticated and delivered on original issuance and identified pursuant to the Indenture (including any Supplemental Indenture) as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Indenture (including any Supplemental Indenture), regardless of variations in maturity, interest rate, Sinking Fund Installments, or other provisions.

"Series Debt Service Reserve Account" shall mean the Issue Two 2010 Series Debt Service Reserve Account and each other Account within the Debt Service Reserve Fund with respect to a Series of Future Bonds that are not Participating Bonds.

"Sinking Fund Installment" shall mean, with respect to Bonds of each Series and maturity, each amount, if any, specified as such for the Bonds of such Series and maturity in the Indenture to be applied to the mandatory redemption (or payment at maturity) of such Bonds.

"Subsidy" shall mean with respect to Taxable Subsidy Bonds, a payment from the United States with respect to such Taxable Subsidy Bonds or the interest thereon or other benefit from the United States (such as a tax credit) in connection with such Taxable Subsidy Bonds.

"**Subsidy Contingency Requirement**" shall mean, as of any date of calculation, an amount equal to 35% of the amount of interest on the Issue Two 2010 Series B Bonds scheduled to be paid on the next Interest Payment Date.

"Supplemental Indenture" shall mean any indenture supplemental to or amendatory of the Indenture as theretofore in effect.

"Taxable Bonds" shall mean bonds, other than Taxable Subsidy Bonds, the interest on which is not excluded from gross income for federal income tax purposes.

"Taxable Subsidy Bond" shall mean Bonds, the interest on which is not excluded from gross income for federal income tax purposes and as to which NCPA or an Owner of a Bond is entitled to receive a Subsidy.

"Tax Certificate" shall mean, with respect to a Series of Bonds, the Tax Certificate relating to the requirements of the Code signed by NCPA on the date of original issuance of the Bonds of such Series.

"Taxable Subsidy Bonds" shall mean bonds, the interest on which is not excluded from gross income for federal income tax purposes and as to which NCPA or an owner of a bond is entitled to receive a Subsidy.

"Tax-Exempt Bonds" shall mean Bonds, the interest on which is excluded from gross income for certain federal income tax purposes.

"Tax Status" shall mean with respect to a Tax-Exempt Bond, the exclusion from gross income for federal income tax purposes of interest on such Bond and with respect to a Taxable Subsidy Bond, the right of NCPA or the owner of a Bond to receive a Subsidy with respect to such Bond.

"Threshold Amount" shall mean an amount equal to $5,000,000 or such larger amount as shall be approved by the Participant Committee pursuant to the Power Sales Agreement.

"TID" shall mean the Turlock Irrigation District.

"Total Monthly Power Costs" shall mean for each month the aggregate of the Operating Cost Component, the Fuel Cost Component, the Indenture Cost Component, the OandM Step-Up Component determined as provided in the Power Sales Agreement.

"Truckee Donner" shall mean the Truckee Donner Public Utility District.

"Trustee" shall mean U.S. Bank National Association, and its corporate successor or successors and any other entity which may at any time be substituted in its place as successor Trustee under the Indenture.

"Trust Estate" shall mean (a) the Pledged Power Sales Agreement Rights and (b) subject to the provisions of the Indenture permitting the application and release thereof for the purposes and on the terms and conditions set forth therein, all amounts on deposit in the Funds established pursuant to the Indenture, other than the Rebate Fund, including the investments, if any, thereof; provided that the pledge of the Pledged Power Sales Agreement Rights shall be on a parity with any pledge thereof securing the payment of Parity Debt.

"Ukiah" shall mean the City of Ukiah.

"U.S." shall mean the United States of America.

"Valuation Date" shall mean, with respect to Issue Two 2010 Series B Bonds to be redeemed pursuant to the optional redemption provisions of the Indenture, the Business Day preceding the date on which notice of such redemption is given.

APPENDIX B

SELECTED INFORMATION RELATING TO THE CALIFORNIA DEPARTMENT OF WATER RESOURCES (INDENTURE GROUP B PARTICIPANT)

The following information has been supplied by the California Department of Water Resources (the "Department"). NCPA makes no representation as to the accuracy or completeness of this information.

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THE DEPARTMENT

Introduction

The Department is a department within the California Natural Resources Agency of the State and is responsible for the planning, construction and operation of the State Water Resources Development System (which consists principally of the State Water Project, and includes the Davis-Grunsky Act program and the San Joaquin Valley Drainage Program). The Department is also responsible for, among other things, the operation of programs for the safety of dams, flood management, local assistance and subventions, other water-related matters and the operation of the Power Supply Program. The Department was established in 1956 by an act of the State Legislature that combined the functions of the Water Project Authority and certain responsibilities of the Department of Public Works' former Division of Water Resources. At present, the Department employs approximately 2,670 full-time staff throughout the State.

CALIFORNIA STATE WATER PROJECT

Introduction

The State Water Project is one of the largest water supply projects undertaken in the history of water development and encompasses a complex of dams, reservoirs, pumping plants, powerplants, aqueducts and pipelines owned and operated by the State. The Department is responsible for the planning, construction and operation of the State Water Project. After a construction program that commenced in 1957, the project is now providing water to all 29 Water Contractors. Under the Water Supply Contracts presently in effect, the Water Contractors may request from the State Water Project maximum annual delivery amounts totaling 4,172,786 acre-feet. (See "The Water Supply Contracts.") An acre-foot is the amount of water that will cover one acre of land to a depth of one foot, and is equivalent to 325,900 gallons. However, the amount of water that may be made available for delivery by the State Water Project in any year will depend on various factors, and the Water Supply Contracts provide for reductions in water deliveries if the total amount available for delivery is insufficient to satisfy all Contractor requests. (See "California State Water Project – Water Supply.")

More than two-thirds of California's natural water supply originates in the northern third of the State, but more than three-quarters of the demand for water is in the southern two-thirds, which includes the San Francisco Bay area, the San Joaquin Valley, the central California coast and Southern California. The State Water Project was developed in order to deliver water to areas of need throughout the State for domestic, industrial and agricultural purposes, as well as to provide flood control, recreation, fish and wildlife enhancement, hydroelectric power and other benefits.

All 647 miles of the initially planned aqueduct system have been completed. The main stem of the California Aqueduct is 444 miles in length and transports water from the delta formed by the confluence of the Sacramento and San Joaquin Rivers (the "Delta") through the Central Valley of California, over the Tehachapi Mountains at an altitude of more than 3,000 feet and then into Southern California. Major branch aqueducts include the 27-mile North Bay Aqueduct north of the San Francisco Bay, the 43-mile South Bay Aqueduct in the southern San Francisco Bay area, the 116-mile Coastal Branch aqueduct from the southern San Joaquin Valley over the coastal mountains to the central California coast north of Los Angeles, the 32-mile West Branch aqueduct in Southern California and the 29-mile extension of the East Branch aqueduct in Southern California.

Portions of the State Water Project system consist of facilities developed and used jointly with the federal Central Valley Project operated by the U.S. Bureau of Reclamation (the "Bureau"). In addition, both projects have primary sources of water north of the Delta, transport water across the Delta, and draw water from the southern edge of the Delta. The federal Central Valley Project, like the State Water Project, provides water for irrigation in the Central Valley, urban water supply, water quality, flood control, power, recreation, and fish and wildlife enhancement. Costs for the jointly developed facilities are shared, with approximately 55 percent being paid by the State and 45 percent being paid by the federal government. In 1986, the Department and the Bureau entered into a Coordinated Operation Agreement under which the State Water Project and the federal

Central Valley Project coordinate operations, including releases from upstream reservoirs and pumping from the Delta. The Coordinating Operating Agreement permits increased operational efficiency for both projects, ensures that each project receives an equitable share of available surplus water, and provides for sharing responsibilities in meeting certain Delta water quality standards.

Financing

A large portion of the State Water Project has been financed by the sale of general obligation bonds of the State pursuant to the provisions of the Burns-Porter Act (Water Code Section 12930 et seq.), which authorized the issuance of $1,750,000,000 of such bonds for the construction of the State Water Resources Development System ("System"). The Burns-Porter Act was adopted by the voters at the State's general election of November 8, 1960. Of that authorization, $1,582,400,000 (including the entire amount available for construction of the initial components of the State Water Project) has been issued, of which $490,115,000 is outstanding. The unissued $167,600,000 of the authorization is available only to provide funds for the construction of certain additional water conservation facilities.

Additional major funding for portions of the State Water Project has been obtained through the sale of the Department's Central Valley Project Revenue Bonds ("CVP Revenue Bonds"). The Department has issued $6,669,110,000 of CVP Revenue Bonds to finance specified State Water Project facilities and projects and of that amount, approximately $2,421,185,000 remain outstanding as of the date of this Official Statement. The CVP Revenue Bond financing program is a continuing program and is the primary source for the funding of the construction of new State Water Project facilities and the major repair and reconstruction of existing State Water Project facilities. The most recent sale of CVP Revenue Bonds was in the amount of $169,115,000 and took place in December, 2009. The monies available to pay the debt service on the CVP Revenue Bonds and to pay the maintenance and operation costs of the revenue bond financed facilities are derived from the revenues attributable to the revenue bond financed facilities. In addition, the Department has authorized the issuance of shorter term notes ("CVP Notes") in an amount not to exceed $141,500,000 outstanding at any one time, the proceeds from the sale of which are used to finance water projects prior to permanent financing from the sale of longer term revenue bonds. (See "California State Water Project – Allocation of State Water Project Revenues" and "– Source of Department Payments under Power Sales Agreement".)

In addition to the funds obtained through the sale of Burns-Porter Act general obligation bonds and CVP Revenue Bonds, certain other moneys have been made available to the Department to pay the cost of construction of the State Water Project, including a portion of the moneys from State offshore oil royalties, other State appropriations, a pooled money investment account loan, and federal reimbursements for project costs allocated to flood control. The offshore royalties appropriated by the Legislature for construction of the State Water Project were deposited in a fund designated as the California Water Fund. Under the Burns-Porter Act, the Department was required to reimburse the California Water Fund for such appropriations made after November 8, 1960. In April 1998, the Department made the final reimbursement installment to the California Water Fund, reducing the unreimbursed balance to zero. The Department reimbursed a total of $508,056,000 to the California Water Fund, all of which has been either expended by the Department on State Water Project capital costs or appropriated for other purposes. No moneys currently remain in the California Water Fund.

The Department is required under the Davis-Dolwig Act, enacted by the Legislature in 1961, to incorporate recreation and fish and wildlife enhancement features in the planning and construction of the State Water Project. The Davis-Dolwig Act provides, in California Water Code section 11913, that it is the intent of the Legislature that there shall be included in the budget for the Department for each fiscal year, and in the State's budget act for each fiscal year, an appropriation from the General Fund of the funds necessary for enhancement of fish and wildlife and for recreation in connection with state water projects (including the State Water Project). However, no General Fund appropriation has been made to the Department for this purpose since 1998. In 2006, California voters approved Proposition 84 (the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006), which, among other things, authorized the sale of $54 million in State general obligation bonds for State Water Project recreation and fish and wildlife enhancement purposes. To the extent that sufficient moneys for the enhancement of fish and wildlife and for

recreation in connection with state water projects are not made available to the Department through appropriations or the sale of general obligation bonds, costs allocated by the Department to the development of public recreation or fish and wildlife enhancement are expected to be paid by the Department on an on-going basis with available System revenues. (See "The Water Supply Contracts – Monterey Amendment" and "– Claims Relating to The Use of Bond Proceeds to Pay Costs Allocable to Recreation and Fish and Wildlife Enhancement.")

Summary of State Water Project Revenues

For the most recent fiscal year of operations, the operating revenues and operating expenses of the State Water Resources Development System, consisting principally of the State Water Project, were $914.8 million and $771.9 million, respectively. Revenues consist primarily of water supply revenues received under the Water Supply Contracts and power sales revenues. Operating expenses consist primarily of the maintenance and operation expenses of the State Water Project and purchased power expense.

The following table shows the operating revenues, operating expenses and changes in net assets of the State Water Resources Development System for the last five fiscal years of operations. The information shown in the following table has been derived from the financial statements of the System for the fiscal years shown and has not been audited.

State Water Resources Development System
Statements of Revenues, Expenses, and Changes in Net Assets
For the years ended June 30, 2009-2005
(in thousands)

	2009	2008	2007	2006	2005
Operating Revenues:					
Water Supply	$ 721,253	$ 752,853	$ 704,921	$ 642,322	$ 630,955
Power Sales	175,318	215,430	222,206	291,793	104,521
Federal Reimbursements	18,266	20,992	24,463	15,576	14,806
Total Operating Revenues	914,837	989,275	951,590	949,691	750,282
Operating Expenses:					
Operations and Maintenance	469,667	409,150	344,464	289,296	324,926
Purchased Power	206,632	323,236	374,568	330,665	196,023
Depreciation Expense	77,269	79,136	78,065	77,980	77,321
Operating Expenses Recovered, principally under long-term water supply contracts, net	18,299	40,976	(24,972)	85,742	(19,889)
Total Operating Expenses	771,867	852,498	772,125	783,684	578,381
Income from Operations	142,970	136,777	179,465	166,007	171,901
Nonoperating Revenue/Expenses:					
Capital Revenues Recovered (deferred)	40,555	(20,595)	4,377	(12,884)	-
Interest Expense	(130,054)	(156,716)	(151,746)	(150,170)	(152,847)
Other Revenues (expenses), net	(53,471)	40,534	(32,096)	(2,953)	(165)
Change in Net Assets	-	-	-	-	18,889
Net Assets, beginning of year	1,205,431	1,205,431	1,205,431	1,205,431	1,186,542
Net Assets, end of year	$1,205,431	$1,205,431	$1,205,431	$1,205,431	$1,205,431

(See "Financial Statements" and the financial statements of the System for the years ended June 30, 2009 and 2008 attached as Exhibit 2 to this Appendix B.)

Allocation of State Water Project Revenues

Under the California Water Code, State Water Project revenues are allocated between two funds, depending on the source of the revenues.

All revenues (other than those revenues attributable to CVP Revenue Bond financed facilities) received by the Department from the sale, use and delivery of water and power from the System, which consists principally of the State Water Project, are deposited in the California Water Resources Development Bond Fund. Revenues deposited in the California Water Resources Development Bond Fund are used to make payments in priority order as specified in the Water Code, with the first priority being the payment of the reasonable costs of the annual maintenance and operation of the System. Such first priority payments for maintenance and operation costs include payments for the purchase of electric power, including payments to be made to NCPA under the power sales agreement. (See "California State Water Project – Financing.")

State Water Project revenues from facilities financed by CVP Revenue Bonds are deposited in the Central Valley Project Revenue Fund and pledged to the repayment of the revenue bonds and to the payment of the maintenance and operation expenses of the facilities financed by such revenue bonds. State Water Project

revenues from the facilities financed by CVP Notes are also deposited in the CVP Revenue Fund and pledged to the payment of the notes. (See Appendix B: "California State Water Project – Financing.")

The following table presents condensed information for the California Water Resources Development Bond Fund and CVP Revenue Bond related funds for the years ended June 30, 2009 and 2008.

State Water Resources Development System
Statements of Revenue, Expenses, and Changes in Net Assets
For the years ended June 30, 2009 and 2008
(in thousands)

	2009			2008		
	California Water Resources Development Bond Fund	Central Valley Project Revenue Bond Related Funds	Total	California Water Resources Development Bond Fund	Central Valley Project Revenue Bond Related Funds	Total
Condensed Statements of Revenues, Expenses, and Changes in Net Assets:						
Operating Revenues:						
Water Supply	$ 454,921	$ 266,332	$ 721,253	$ 467,291	$ 285,562	$ 752,853
Power Sales	160,858	14,460	175,318	203,978	11,452	215,430
Federal Reimbursements	16,234	2,032	18,266	20,209	783	20,992
Total	632,013	282,824	914,837	691,478	297,797	989,275
Percentage of Total Revenues	69.1%	30.9%	100%	69.9%	30.1%	100%
Depreciation Expense	(27,119)	(50,150)	(77,269)	(28,806)	(50,330)	(79,136)
Other Operating Expense	(546,453)	(148,145)	(694,598)	(634,277)	(139,085)	(773,362)
Income from Operations	58,441	84,529	142,970	28,395	108,382	136,777
Capital Expenses (deferred) recovered	(5,064)	45,619	40,555	(20,595)	-	(20,595)
Interest Expense	(23,780)	(106,274)	(130,054)	(27,178)	(129,538)	(156,716)
Transfers In	(6,798)	(155,775)	(162,573)	(6,064)	(144,792)	(150,856)
Transfers Out	82,987	79,586	162,573	118,390	32,466	150,856
Other (Expense) Income	(105,786)	52,315	(53,471)	(92,948)	133,482	40,534
Increase (Decrease) in Net Assets	-	-	-	-	-	-
Net Assets, Beginning of Year	1,178,475	26,956	1,205,431	1,178,475	26,956	1,205,431
Net Assets, End of Year	$ 1,178,475	$ 26,956	$ 1,205,431	$ 1,178,475	$ 26,956	$ 1,205,431

(For additional detail on the California Resources Development Bond Fund established by the Burns Porter Act, and CVP Project Revenue Bond related funds established by the Central Valley Project Act, see Note 13 to the financial statements of the State Water Resources Development System for the years ended June 30, 2009 and 2008 attached as Exhibit 2 to this Appendix B.)

Source of Department Payments under Power Sales Agreement

The revenues deposited in the California Water Resources Development Bond Fund are used to make payments in the priority order specified in the Burns Porter Act. The first use of such revenues is to pay the reasonable costs of the annual maintenance and operation of the System. The second use is to reimburse the general fund of the State for the payment of the general obligation bonds used to finance a portion of the capital costs of the System. The last use of revenues available in the California Water Resources Development Bond Fund is to pay the costs of the acquisition and construction of additional State Water Project facilities. Such first priority payments for maintenance and operation costs include payments for the purchase of electric power, and it is from this first priority use of revenues in the California Water Resources Development Bond Fund that payments will be made to NCPA under the Power Sales Agreement.

The Department estimates that payments from The Metropolitan Water District of Southern California will account for approximately 58 percent of the revenues to be derived from Water Supply Contracts to make payments to NCPA under the Power Sales Agreement. The balance of such revenues will be obtained from the other Water Contractors under their Water Supply Contracts and from other deposits to the California Water Resources Development Bond Fund. (See "The Water Supply Contracts.")

The revenues pledged to the repayment of the CVP Revenue Bonds and CVP Notes are deposited in the Central Valley Project Revenue Fund and are not deposited in the California Water Resources Development Bond Fund, and as a result are not available for the payment of State Water Project maintenance and operation costs (other than maintenance and operation costs attributable to the revenue bond financed facilities), including the payments to be made by the Department to NCPA under the Power Sales Agreement.

Investments

The Department uses the State's Centralized Treasury System. Moneys on deposit in the State's Centralized Treasury System are invested by the Treasurer in the Pooled Money Investment Account (the "PMIA"). As of March 31, 2010, the PMIA held approximately $69 billion of State moneys, and approximately $23.3 billion invested for about 2,791 local governmental entities through the Local Agency Investment Fund (the "LAIF"). The assets of the PMIA as of March 31, 2010 are shown in the following table:

Analysis of the Pooled Money Investment Account Portfolio
March 31, 2010

Type of Security	Amount (in thousands)	Percent of Total
U.S. Treasury Bills and Notes	$30,569,220	44.2%
Commercial Paper	4,821,126	7.0
Certificates of Deposit	7,550,048	10.9
Corporate Bonds	125,185	0.2
Federal Agency Securities	10,401,585	15.1
Bankers' Acceptances	–	–
Bank Notes	–	–
Loans per California Government Code	11,286,775	16.3
Time Deposits	4,052,640	5.9
Repurchase Agreements	–	–
NOW Account	–	–
Other (IBRD)	300,000	0.4
Reverse Repurchases	–	–
Total:	**$69,106,579**	**100%**

Source: *www.treasurer.ca.gov*

The State's treasury operations are managed in compliance with the California Government Code and according to a statement of investment policy that sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The PMIA operates with the oversight of the Pooled Money Investment Board (consisting of the Treasurer, the State Controller and the Director of Finance). The LAIF portion of the PMIA operates with the oversight of the Local Agency Investment Advisory Board (consisting of the Treasurer and four other appointed members).

The PMIA is not now invested, nor has it ever been invested, in structured investment vehicles or collateralized debt obligations. The PMIA's holdings are displayed quarterly on the Treasurer's website and may be accessed under PMIB Quarterly Reports. The Treasurer does not invest in leveraged products or inverse floating rate securities. The investment policy permits the use of reverse repurchase agreements subject to limits of no more than 10 percent of the total amount in the PMIA. All reverses are cash matched.

The average life of the investment portfolio of the PMIA as of March 31, 2010 was 213 days.

As of April 1, 2010, the Department had approximately $566,726,000 invested in the PMIA. The moneys consist of Contractor payments to the Department, which are invested on a short-term basis until they are expended for their designated purpose, replacement reserves, construction funds and debt service reserves.

Water Supply

General. Under the Water Supply Contracts, the charges payable by the Water Contractors ("Contractors") are generally computed to enable the Department to recover its costs allocable to the supply of water to the Contractors, including the cost of purchasing electric power. Such charges will vary with the amount of water delivered only to the extent that the amount of water delivered has an effect on the variable operation and maintenance costs of the State Water Project. The Contractors' obligations to make payments in amounts sufficient to pay such costs are not conditioned on the amount of water delivered. (See "The Water Supply Contracts".) However, the Department is obligated under its Water Supply Contracts, subject to the availability of funds, to make all reasonable efforts, consistent with sound fiscal policies, reasonable construction schedules and proper operating procedures, to complete the project facilities necessary to make water deliveries at the time and in the amounts specified in the Water Supply Contracts. This section describes the historical water supply available for delivery by the State Water Project and certain factors that have had or may in the future have an effect on the availability of such water supply. The Department can give no assurances that future legislation or regulation in any of the areas discussed in this section will not affect State Water Project operations including, but not limited to, reductions in the water supply available to the State Water Project.

Annual Water Deliveries. The annual water supply available for delivery by the State Water Project will vary from year to year depending on many factors including hydrologic conditions. The Department's annual determination of the State Water Project's delivery capability is based on extensive and ongoing analyses of operational capability taking into account (i) storage levels at the beginning of the year, (ii) target storage levels at the end of the year, (iii) the actual amount of snow and rainfall that has occurred to date in the year and a conservative estimate of the amount of snow and rainfall that may occur over the remainder of the year, (iv) the operational capacity of State Water Project facilities, and (v) operational mandates for in-stream water requirements and environmental protection of the Delta as imposed by federal and state regulatory agencies. Using this procedure, the Department has been able to meet the following percentages of Contractor requests for each of the last ten years:

Annual Water Deliveries of the State Water Project as a Percentage of Contractor Requests

Year	Percentage of Contractor Requests Delivered[1]
2000	90%
2001	39
2002	70
2003	90
2004	65
2005	90
2006	100
2007	60
2008	35
2009	40

1 The annual water delivery for each calendar year is determined in the Spring of that year and based on hydrological conditions at the time of determination and other factors as described in the preceding paragraph.

The delivery of less than 100 percent of Contractor requests in nine of the ten years listed in the preceding table reflect the impact of one or more of the factors listed in the preceding paragraph affecting the Department's annual determination of the State Water Project's delivery capability in each such year.

According to the 2007 State Water Project Delivery Reliability Report dated August 2008, the Department estimates that if annual precipitation conditions vary in the same manner as they have over the eighty-two year period of analysis (water-years 1922-2003, a water-year consists of twelve consecutive calendar months beginning with the month of October), the State Water Project would be capable of delivering at least 2,200,000 acre-feet of water in approximately 75 percent of the water-years, at least 3,000,000 acre-feet of water in approximately 50 percent of the water-years, and at least 3,400,000 acre-feet of water in approximately 25 percent of the water-years.

Bay-Delta Water Rights Regulation. The State Water Project diverts unregulated flow, and rediverts water it has stored upstream and later released into the Feather River, from the Delta. The Delta is also the source of water for local agricultural, municipal and industrial needs, and, in addition, supports significant resident and anadromous fish and wildlife resources and important recreational uses of water. Both the State Water Project's upstream reservoir operations and its Delta diversions can at times affect these other uses of Delta water directly, or indirectly, through impacts on Delta water quality.

The State Water Resources Control Board (the "SWRCB") has historically been responsible for regulating the State Water Project (along with the federal Central Valley Project operated by the Bureau) under the SWRCB's water quality and water rights authorities to protect the reasonable needs of all uses of Delta waters. After the listing of the winter run of Central Valley Chinook salmon and the Delta smelt in the early 1990's under the federal Endangered Species Act (the "ESA") and the issuance of Biological Opinions to the State Water Project by the National Marine Fisheries Service and the U.S. Fish and Wildlife Service ("USFWS") (the Biological Opinion is the ESA's regulatory vehicle), State and federal agencies initiated a consensus-based, stakeholder-involved process called "CALFED" to avoid regulatory duplication and to give durability and certainty to Delta requirements imposed on the State Water Project and the federal Central Valley Project.

In December 1994, the CALFED agencies agreed to a set of Delta standards in a document known as the "Bay-Delta Accord" (the "Accord"). In 1995, the SWRCB adopted the Accord standards as objectives in the 1995 Water Quality Control Plan for the Bay-Delta estuary. In March 2000, the SWRCB implemented the Water Quality Control Plan through a water rights decision known as "D 1641." D 1641 requires the State Water Project and the federal Central Valley Project to meet the Water Quality Control Plan's numeric objectives. D 1641 recognizes a settlement (known as the "Sacramento Valley Water Management Program")

among the Department, Bureau, export contractors and upstream Sacramento Valley water users under which the parties have agreed to develop additional supplies of water for local use, for Delta protection, and for State Water Project and federal Central Valley Project use. The Department and the Bureau are preparing a draft Environmental Impact Report/Environmental Impact Statement that is required before approving actions to implement the settlement.

Eleven separate lawsuits challenged the SWRCB's D 1641 and in February 2006, the Court of Appeal issued its ruling generally upholding the decision but noted two errors. In December 2006, the SWRCB approved a 2006 Bay-Delta Water Quality Control Plan ("2006 Plan"), which supersedes the 1995 Water Quality Control Plan. The 2006 Water Quality Control Plan provides for a phased implementation of the San Joaquin River flow objective to correct one of the errors identified by the Court of Appeal. The Plan also describes a process of workshops regarding the southern Delta salinity objectives that will lead to a correction of a second error identified by the Court of Appeal, either by amending the Plan or through changes in water rights. The Department does not expect the ultimate outcome of these proceedings to have a material adverse effect on State Water Project operations.

In February 2006, the SWRCB ordered the Department and the Bureau to take corrective actions to address threatened violations of their respective water rights permits implementing the southern Delta summer water quality objective for agricultural uses. Under this action, the Department and Bureau must provide a schedule to the SWRCB of the proposed construction and operation of permanent operable gates that will be located in the southern Delta to help improve water quality. Other requirements of the enforcement action addressed the extent of the obligations of the State Water Project and federal Central Valley Project to protect water quality in the southern Delta. As a result of the perceived ambiguities in the SWRCB's order, the Bureau, certain Contractors and certain federal water contractors filed lawsuits in State court seeking clarification of the conditions of the water rights permits of the State Water Project and federal Central Valley Project. In October 2006, the SWRCB's Executive Director sent a letter to the Department clarifying the enforcement order. Based on this clarification, the parties to the lawsuits entered into a stipulation for dismissal without prejudice and tolling agreement. The tolling period extends to 2012.

In June 2009, the SWRCB held a hearing to consider the Department's and Bureau's joint application to modify the February 2006 enforcement order because the permanent operable gates would not be installed by July, 2009 to satisfy the order. The implementation of the permanent operable gates was delayed due, in large part, to the process of obtaining ESA compliance. In this regard, the June, 2009 National Oceanic and Atmospheric Administration – Fisheries ("NOAAF") (formerly known as the National Marine Fisheries Service) "Fisheries Final Biological Opinion Operations Criteria and Plan" states that DWR shall not implement the permanent operable gates because that project would adversely modify critical habitat. In January, 2010, the SWRCB issued an order that modified its February, 2006 enforcement order by, among other things, allowing the Department and the Bureau to defer the cost of construction of the permanent operable gates and requiring the Department and the Bureau to conduct studies and consider other measures to address water quality in the southern Delta until the SWRCB issues a new water quality control plan and related water rights decision for the Delta.

In December 2007, the SWRCB adopted a resolution setting out a process for the review of beneficial uses in the Delta in response to scientific studies showing a decline in native species and in support of the current efforts of the Bay-Delta Conservation Plan Steering Committee and Delta Vision Task Force to develop plans to improve the Delta ecosystem. (See "California State Water Project – Long Term Planning Efforts for the Delta," "– The Delta Vision" and "– Bay Delta Conservation Plan") In this resolution, the SWRCB committed to take various actions to protect beneficial uses in the San Francisco Bay/Sacramento-San Joaquin Delta and directed its staff to prepare a strategic work plan that prioritizes and describes the scope of individual activities for implementing coordinated activities in the Delta.

In July 2008, the SWRCB adopted the Strategic Workplan for Activities in the San Francisco Bay/Sacramento-San Joaquin Delta Estuary that describes a number of activities the SWRCB and Regional Water Quality Control Boards will pursue over the next five years to address the water supply and

environmental situation in the Bay-Delta. The Strategic Workplan activities are responsive to priorities identified by the Governor and Delta Vision, build on existing processes, such as the Bay-Delta Conservation Plan, and identify a wide range of flow-related and water quality actions to better protect the Bay-Delta. The Strategic Workplan includes plans to review and implement southern Delta salinity and San Joaquin River flow objectives and to review the Bay-Delta Conservation Plan, water rights, and other requirements to protect fish and wildlife beneficial uses.

Federal Endangered Species Act: General. The Department joins the Bureau when seeking permission from the federal regulatory agencies (USFWS and NOAAF) to take endangered fish species as part of the operations of the State Water Project and federal Central Valley Project by way of biological opinions. These biological opinions update, extend, and consolidate prior opinions and authorize the incidental taking of the listed species of fish by the two projects. Biological opinions are generally valid until changed conditions or new listings of species would require re-initiation of consultation.

In 2005, the USFWS issued a no-jeopardy biological opinion for Delta smelt and in 2004 the NOAAF issued a no-jeopardy biological opinion for salmon and steelhead pursuant to the ESA to the Bureau and the Department for federal Central Valley Project and State Water Project operations. These opinions were based on a biological assessment prepared by the Bureau and the Department that describes water operations. In April 2006, the Bureau requested re-initiation of consultation with NOAAF on the projects' operations to consider impacts to the newly listed green sturgeon and critical habitat of salmon species. In July 2006, the Bureau requested re-initiation of consultation on the 2005 Biological Opinion due to a significant decrease in Delta smelt.

Federal Endangered Species Act: Delta Smelt. In February 2005, environmental groups sued the USFWS in federal court claiming that the issuance of its 2005 Biological Opinion on Delta smelt and operations of the State Water Project and federal Central Valley Project are not in accordance with law. In January 2006, the Department intervened in this lawsuit in support of the USFWS and the measures required in the biological opinion to protect Delta smelt. In May 2007, the federal district court ruled on the Delta smelt lawsuit, finding that the 2005 Biological Opinion was invalid. In August 2007, the Court approved an interim remedy that imposed additional operational conditions on exports from the Delta by the State Water Project and federal Central Valley Project. It is estimated that these conditions reduced State Water Project water deliveries in 2008 by approximately 26 percent as compared to the estimated water deliveries that would have been made in 2008 without the imposition of the interim remedy. The USFWS issued a Biological Opinion on Delta smelt and related water projects operations in December 2008 ("2008 Biological Opinion"). The issuance of the 2008 Biological Opinion is now the operation-criteria for the federal Central Valley Project and State Water Project and the federal court's interim remedy is no longer in effect. The 2008 Biological Opinion requires operational measures similar to those contained in the court-ordered interim remedy and, in addition, includes a measure specifying certain water flow requirements in the Delta during the fall season. This measure requires the two water projects to control salinity levels in the Delta through increased water releases from water storage and fewer water diversions during this seasonal period and is expected to cause greater reductions in water deliveries than the 2008 estimate.

In March 2009, two water agencies that receive water from the federal Central Valley Project filed a lawsuit against the USFWS challenging the 2008 Delta smelt Biological Opinion as being too restrictive regarding pumping water from the Delta. In March 2009, an organization representing 27 State Water Project Contractors filed a similar lawsuit against the USFWS challenging the 2008 Biological Opinion. The Department has intervened as a plaintiff in these cases, which have been consolidated and are now called the "Delta Smelt Cases." In October 2009, a hearing was held on plaintiff's summary judgment motions challenging the validity of the 2008 Biological Opinion. In November 2009, the Court ruled in favor of plaintiffs on one issue in their summary judgment motion that the 2008 Biological Opinion requires compliance with the National Environmental Policy Act ("NEPA") and that the Bureau is the appropriate federal agency to prepare the environmental documentation. In late May 2010, the Court ruled in favor of plaintiffs' motion for a preliminary injunction that sought to enjoin certain operational constraints limiting Delta pumping through June 2010. The Court is expected to issue the preliminary injunction after determining the actions to protect Delta

smelt that will be in place while the preliminary injunction is in effect. The Court is also expected to rule in the summer of 2010 on the remaining summary judgment issues and motions.

Federal Endangered Species Act: Salmon and Steelhead Trout. In August 2005, many of the same environmental groups that challenged the Delta smelt 2005 Biological Opinion filed a companion lawsuit against NOAAF challenging the issuance of its 2004 Biological Opinion on salmon and steelhead trout and the operation of the State Water Project and the federal Central Valley Project. The same federal district court judge who heard the Delta smelt case granted summary judgment in part for the plaintiffs and in part for the defendants, but found that the 2004 Biological Opinion was inadequate in several respects. The Department and Bureau consulted with NOAAF, which issued in May 2009 a new salmon and steelhead trout Biological Opinion ("2009 Biological Opinion"). The 2009 Biological Opinion imposes restrictions on the Department's pumping and operational activities in the Delta based upon the level of flows from the San Joaquin River and the presence of salmon and steelhead trout in the vicinity of the Delta pumping plant.

Six separate lawsuits have been filed in federal court against NOAAF challenging the 2009 Biological Opinion as being too restrictive on the grounds that the measures to protect the fish are not supported by the best available science. State Water Contractors, federal water contractors and local water districts were among the plaintiff's filing the lawsuits. The Department has intervened as a plaintiff in these cases which have now been consolidated. In May, 2010, the Court ruled in favor of plaintiffs' motion for a preliminary injunction that sought to enjoin two operational constraints limiting Delta pumping this year. The Court enjoined the two constraints, which will allow an increase in Delta pumping during May and June 2010. The Court also ruled in favor of plaintiffs' that the 2009 Biological Opinion requires compliance with the National Environmental Policy Act and that the Bureau is the appropriate federal agency to prepare the environmental documentation. The Court will next hold a hearing in October 2010 on plaintiffs' summary judgment motions which challenge the 2009 Biological Opinion.

Federal Endangered Species Act: Longfin Smelt. In November 2009, two environmental groups sued the USFWS challenging its decision not to list the longfin smelt under the ESA. The longfin smelt is listed as threatened under the California Endangered Species Act and the Department is already taking actions to protect the longfin smelt consistent with the take permit the Department received from the California Department of Fish and Game. (See "California State Water Project – State Endangered Species Act.")

State Endangered Species Act. In September 2006, the Watershed Enforcers, an environmental group, filed a lawsuit against the Department in State court asserting that the Department lacks authority to "take" certain species under the California Endangered Species Act ("CESA"). The lawsuit alleges that the Department "takes" Delta smelt and winter-run and spring-run salmon without proper authority from the California Department of Fish and Game ("DFG"). The Department asserted that it has "take" authority pursuant to a specific provision of the California Fish and Game Code. In April 2007, the trial court ruled against the Department and ordered the Department to obtain State "take" authorization or cease pumping water from the south Delta within 60 days. In May 2007, the Department filed its appeal of the lower court decision, and the appeal was stayed pending the reissuance of the federal ESA biological opinions related to Delta smelt and salmon. Department thereafter requested a "consistency determination" from DFG for the federal Delta smelt Biological Opinion and "take" permit and for the federal salmon Biological Opinion and "take" permit. In July 2009, DFG issued its determination that the federal Delta smelt Biological Opinion was consistent with CESA and in September 2009, that the federal salmon Biological Opinion was consistent with CESA. The parties stipulated to dismiss the *Watershed Enforcers* appeal based on DFG's issuance of these determinations, with the exception of one legal argument made by a federal water contractor that is still pending appellate resolution.

In late 2009, various Contractors filed three lawsuits regarding DFG's consistency determinations issued to the Department. One of the lawsuits challenges the need for the Department to obtain any authorization from DFG under CESA and all lawsuits challenge the consistency determinations as containing overly restrictive conditions pertaining to State Water Project operations in the Delta. The consistency determination cases have been stayed.

In March 2009, the Commission also formally listed the longfin smelt, which resides in the Delta, as a threatened species under CESA. The formal listing of longfin smelt does not result in a new impact on Department operations because the Department already operates to protect this species under existing endangered species requirements. When the longfin smelt initially became a candidate for listing in February 2008, the Commission adopted an emergency regulation with operational restrictions designed to protect the longfin smelt. The DFG granted the Department's request for an incidental "take" permit under CESA. That permit became effective in February 2009 and will continue in effect through December 2018. The listing of the longfin smelt as a threatened species has no impact on the validity of this permit. However, under the permit, the presence of adult or larval longfin smelt at certain locations during certain times of the year could cause a reduction in State Water Project water deliveries.

Long Term Planning Efforts for the Delta

The CALFED Bay-Delta Program. In 1995, various State and federal agencies, as well as California's environmental, urban and agricultural communities embarked upon the CALFED Bay-Delta Program, a cooperative effort to develop long-term, collectively-negotiated solutions to the environmental and water management issues concerning the Delta. In 2000, the CALFED Bay-Delta program published a plan (the "CALFED Plan") to address and balance the needs of Delta ecosystem health, water quality, levee system integrity and water supply reliability over the next 30 years. In 2000, several lawsuits were filed in state and federal court challenging the CALFED Plan, mainly with respect to compliance with the California Environmental Quality Act ("CEQA") and NEPA. (For a discussion of CEQA, see "California State Water Project – Environmental Considerations.") After years of litigation, the California Supreme Court issued an order in June 2008 affirming that the State complied with CEQA and the environmental impact report was adequate under the law. Although the CALFED long-term solution for the Delta was upheld by the court, the Delta continues to change, and scientific research into the causes of native species decline continues to advance.

The Delta Vision. In 2006 Governor Schwarzenegger established a task force to develop a long-term sustainable vision for the Delta. The task force was directed to develop a "Delta Vision" by January 1, 2008 and an implementation plan by October 31, 2008. A final Delta Vision strategic plan was released in November 2008, incorporating many of the concepts addressed in the Delta Vision report of December 2007. An implementation report for the strategic plan was released on January 5, 2009, which included specific recommendations to the Governor. Fundamental actions in the plan include developing a new system of dual water conveyance through and around the Delta, restoring the ecosystem, additional water storage projects, an emergency preparedness strategy, water conservation goals and the establishment of a Delta governance structure. The task force also created a non-profit organization, the Delta Vision Foundation, following the conclusion of their recommendations to the Governor. The new organization provides updates to the public on its view of the progress of the Delta Vision's implementation. Much of the legislative proposals submitted to the State Legislature in 2009 stem from work of the Delta Vision task force.

Delta Stewardship Council and Related Legislation. The Delta Stewardship Council was created as part of a special legislative package, enacted in November 2009. The legislative package addressed California's statewide water situation, with particular emphasis on the Delta. The package includes an $11.1 billion general obligation bond measure, to be presented to the voters for their approval in November 2010 that would provide funding for projects and programs throughout the State and in the Delta. Major categories of funding include statewide water system operational improvements, Delta sustainability, water supply reliability, conservation and watershed protection, groundwater protection and water quality improvements, and water recycling and water conservation.

The Delta Stewardship Council is charged with developing and implementing a Delta Plan, which would include the Bay Delta Conservation Plan upon meeting certain conditions. The Sacramento-San Joaquin Delta Conservancy, which was also established through the legislative package, will implement ecosystem restoration activities in the Delta. In addition, the package includes separate bills that address groundwater, water conservation and unauthorized Delta water diversions.

Bay Delta Conservation Plan. An approach, known as the Bay Delta Conservation Plan (BDCP), is being developed to promote the recovery of endangered, threatened and sensitive fish and wildlife species and their habitats in the Delta in a way that will also protect and restore water supplies. The BDCP is also intended to establish long-term regulatory coverage for the State Water Project and federal Central Valley Project. The BDCP draft plan is expected in late 2010.

The Steering Committee members of the BDCP (members include the Department, DFG, USFWS, NOAA, environmental groups, Contractors, federal water contractors and other interested parties) entered into a planning agreement in 2006 and are focusing efforts on, among other things, the analysis of strategies and measures to promote and improve the overall ecological health of the Delta and the species that inhabit the Delta and the analysis of water conveyance options including conveyance through Delta channels and/or new alternative conveyance, such as a canal or tunnel. The federal and State environmental review and public "scoping" meetings on the draft BDCP were held in March 2009. A draft joint Environmental Impact Report and Environmental Impact Statement on the BDCP is expected to be completed in late 2010.

The Department and the Bureau have established the Delta Habitat and Conservation Program as a partnership to evaluate the ecosystem restoration and water conveyance alternatives identified by the BDCP. In March 2009, the Department commenced geologic activities, including drilling to determine soil composition, to support preparation of CEQA environmental documentation for the BDCP. Two Delta water agencies and a Delta landowner filed a lawsuit in State court challenging the Department's determination that its proposed geologic activities are exempt from CEQA and challenging whether such activities are otherwise being carried out in conformance with CEQA. In October 2009, two additional lawsuits were filed to halt the Department's geotechnical in water drilling activities, which were being undertaken to develop information in support of the BDCP. Plaintiffs allege that the Department had not properly complied with CEQA for these activities. The actions have been consolidated and are not expected to go to hearing until late 2010.

Statewide Water Considerations.

Sources of Funding for Environmental Improvements. In 1992, Congress enacted the Central Valley Project Improvement Act (the "CVPIA"), which required, among other things, many environmental restoration studies and projects, the cost of which is to be shared by the federal government and the State. In 1994, the Department entered into a cost sharing agreement with DFG, the Bureau and the USFWS (the "Cost Sharing Agreement") for those projects. The State's cost share is not to exceed $162 million, to be funded by $118 million in general fund appropriations received to date, bond financing and other sources. The Department does not expect State Water Project funds to be used for such purpose.

In addition to the CVPIA, the CALFED Bay-Delta Program and California voter-approved measures such as Proposition 13 (the Safe Drinking Water, Clean Water, Watershed Protection and Flood Protection Act, approved in 2000), Proposition 50 (the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002), Proposition 84 (the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006) and Proposition 1E (the Disaster Preparedness and Flood Prevention Bond Act of 2006) have or will require the State to undertake a variety of projects for environmental restoration, water use efficiency and conservation, water supply enhancement and reliability, ecosystem restoration, watershed protection, water conveyance, delta levee restoration and water storage planning and studies. These measures authorize the issuance of State general obligation bonds to fund such projects.

In October, 2004, the "Water Supply, Reliability, and Environmental Improvement Act" (Public Law No. 108-361) was enacted by Congress to authorize federal agency participation in the CALFED Bay-Delta Program and to authorize funding for specified actions identified in the CALFED Record of Decision for the period of fiscal years 2005-2010 in the amount of $389,000,000. As such funds are appropriated by Congress, they have supported and will continue to support studies and activities in the Delta to improve water supply reliability, water quality, fish and wildlife restoration, and levee stability.

Governor's 2009 Proclamation of a State of Emergency for Drought. On February 27, 2009, Governor Schwarzenegger proclaimed a state of emergency to address the State's third consecutive year of drought conditions. In the proclamation, the Governor directed all state government agencies, including the Department, to utilize their resources to undertake activities to mitigate the effects of the drought including activities regarding, among other things, water transfers, water conservation, technical assistance to the agricultural sector and financial and other assistance to affected individuals, businesses and communities. The Governor also requested urban water users to reduce water use by 20 percent and agricultural water suppliers and users to continue to implement efficient water management practices.

Programmatic Considerations. To achieve additional capability of supplying State Water Project water to the Contractors on a dependable basis at levels of acceptable water quality, the Department is considering additional water facilities and additional programs for reservoir and ground water storage, waste water reclamation, and conservation. Alternatives under consideration include (1) new reservoir storage north and south of the Sacramento-San Joaquin Delta (2) Delta conveyance, (3) conjunctive operation with ground water storage in State Water Project service areas, (4) purchase of water from federal or local developments, and (5) construction of local water supply developments within State Water Project service areas.

Future Mandates. Water rights issues and environmental regulation with respect to the Delta have been an active area in recent decades.

Invasive Species. Zebra and Quagga Mussels have established themselves in the Eastern United States and have moved West and been found in the Colorado River system. These mussels now infest Metropolitan's Colorado River Aqueduct and their delivery system in southern California. Recently, a population of mussels has been observed in San Justo Reservoir in northern California, only a few miles away from the State Water Project. The mussels can clog water intakes and damage racks and other protective screens. Once established, the mussels cannot be easily eradicated using current technologies. Mussel removal would result in a significant increase in the cost of operation and maintenance of water delivery systems. In addition, there can also be adverse ecological impacts. To prevent the spread of the mussels into the State Water Project, the Delta and other bodies of water and water systems, the Department has joined with the California Department of Fish and Game, as the lead agency, and other state and federal agencies on a number of activities. These include boat inspections, monitoring of water bodies and water systems and education of the public, especially boat owners and operators. In addition, the Department has developed a Rapid Response Plan and a Vector Management Plan as mandated by the State Fish and Game Code. Lastly, the Department is currently developing a mussel management and control program for the State Water Project.

Central Valley and Delta Levees

If a major levee failure were to occur in the Delta or on the Sacramento River flood control system, it could adversely affect the ability of the Department to deliver State Water Project water through the Delta. In February 2006, the Governor proclaimed a state of emergency for California's Central Valley levee system, including the Delta and Sacramento River flood control systems. He also signed an executive order directing the Department (in connection with its flood management responsibilities and not its State Water Project management responsibilities) to repair 24 critical erosion sites and evaluate other sites for potential urgent repairs to prevent catastrophic flooding and reduce the risk posed to the safety of persons and property. A total of 29 critical erosion sites on the Sacramento River flood control system were identified as in need of urgent repairs. The Department and the U. S. Army Corps of Engineers (the "Corps"), completed repairs on all 29 sites by the end of the year. The Department has continued to evaluate and, and as necessary, take action to repair other sites. In 2006, California voters approved Proposition 1E (the Disaster Preparedness and Flood Prevention Bond Act of 2006) and Proposition 84 (the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006), which together provide funding through the issuance of general obligation bonds to improve the State's flood management programs and infrastructure, including levees in the Delta and levees and structures of the Sacramento River flood control system.

Lawsuits Regarding 2004 Delta Levee Failure. Four lawsuits have been filed to recover damages caused when a Delta levee failed and flooded the Upper Jones Tract and Lower Jones Tract in June 2004. Three of the lawsuits name as defendants a local Delta reclamation district, the State Reclamation Board and the Department. A cause of action in each of these three lawsuits alleges that the State Water Project's operations and activities in the Delta were a cause of the damage. All four lawsuits have been consolidated and are now in the pre-trial stage. The Department does not believe that an adverse court decision in any of these consolidated cases would have a material adverse impact on State Water Project finances or operations.

Lawsuit Regarding North Delta/Mokelumne River Sedimentation. In February 2008, a local reclamation district and a large landowner with property bordering the Mokelumne River in the North Delta brought suit against three State agencies with flood management responsibilities in the Delta, including the Department. The suit alleges that sedimentation has been allowed to build up in the Mokelumne River and in adjacent channels due to a lack of dredging by the defendant State agencies and to State Water Project water conveyance operations in the Delta and that such buildup presents an unreasonable risk of flooding to the landowner's property and other property in the North Delta. The lawsuit also alleges that the Department is breaching its contract with the North Delta Water Agency regarding State Water Project water flows through the North Delta. The suit seeks injunctive and declaratory relief to require remedial actions to be taken. The case is currently in the pretrial stage. The Department believes that even if the lawsuit is successful, it will not have a material adverse impact on State Water Project finances or operations.

Seismic Considerations

State Water Project facilities are designed to withstand earthquakes without major damage, in accordance with State Division of Safety of Dams criteria. Dams, for example, are designed to accommodate movement along their foundations and to resist earthquake forces on their embankments. Earthquake loads have been taken into consideration in the design of project facilities such as pumping plants and powerplants.

Major portions of the California Aqueduct are located parallel to and near the San Andreas Fault and other faults. All major faults are crossed either by canal at ground level or by pipeline at very shallow depths, to ease repair in case of damage from movement along a fault. The location of check structures on the canal allows for hydraulic isolation of any fault crossing repair.

Since the Loma Prieta earthquake of October 1989, eight earthquakes of Richter-scale magnitude of 6.5 or greater have occurred in or near California. Other than slight damage caused by the 6.7 Richter-scale magnitude Northridge earthquake of January 1994, no known damage to the State Water Project has been caused by an earthquake. Under the Water Supply Contracts, the Contractors are required to continue making all payments to the Department when due despite any interruption in water supply due to an earthquake.

Self-Insurance; Financing of Emergency Repairs

The State does not maintain commercial insurance for the State Water Project other than a portion of its Reid Gardner Project, nor does it maintain a funded insurance reserve. However, the Department maintains a replacement reserve, currently in the approximate amount of $42.03 million, which it uses to replace certain equipment periodically. The Department is authorized to issue bonds, payable from available revenues or federal reimbursements under the National Disaster Act, for the purpose of providing funds for emergency repairs to power projects or State Water Project facilities necessitated by natural disasters, provided that certain conditions can be met and certain certifications can be made.

Environmental Considerations

Projects undertaken by the Department are generally subject to the California Environmental Quality Act, as amended (Division 13 of the California Public Resources Code) and certain projects involving the participation of the Bureau or other federal agencies are also subject to the National Environmental Policy Act of 1969, as amended (42 U.S.C. Section 4321).

Under CEQA, a project that may have a significant effect on the environment and is to be carried out or approved by a public agency must comply with a comprehensive environmental review process, including the preparation of an EIR. The EIR reflects not only an independent technical analysis of the project's potential impacts, but also the comments of other agencies with some form of jurisdiction over the project and the comments of interested members of the public. Contents of the EIR include a detailed statement of the project's significant environmental effects; any such effects that cannot be avoided if the project is implemented; mitigation measures proposed to minimize such effects; alternatives to the proposed project; the relationship between local and short-term uses and long-term productivity; any significant irreversible environmental changes that would result from the project; the project's growth-inducing impacts; and a brief statement setting forth the agency's reasons for determining that certain effects are not significant and hence do not require discussion in the EIR. Before approving a project the agency must make findings on whether or how it can mitigate the significant environmental effects of the project. If the agency requires mitigation, the agency must adopt a mitigation monitoring plan to determine whether the mitigation is carried out during project implementation. If the agency determines that the project itself will not have a significant effect on the environment, it may adopt a written statement (called a negative declaration) to that effect and need not prepare an EIR. After deciding to approve or carry out a project, either following the EIR process or after adopting a negative declaration, the agency must file notice of such determination. Any action or proceeding challenging the agency's determination must be brought within 30 days following the filing of such notice. The law contains a number of exemptions, which the Department uses for its projects when appropriate.

As part of its regular planning and budgetary process, the Department gives careful attention to environmental considerations. All projects are evaluated under the Department's environmental impact review procedures, developed in compliance with federal and State laws and regulations.

Security Efforts

Since September 2001, Department operations staff and security personnel have undertaken increased security efforts to safeguard the infrastructure, key facilities, information technology systems, personnel and the water supply of the State Water Project. Additional security measures include restrictions on public access to recreational and other State Water Project facilities, monitoring of State Water Project facilities, aerial surveillance of the aqueduct system, a comprehensive security assessment and a State Water Project-wide security plan.

The Department coordinates its security efforts with the California Emergency Management Agency and various State and federal law enforcement agencies as a matter of routine security procedure, and coordinates with other water, health, environmental and public safety agencies as needed. In addition, the Department is a participant on various California Emergency Management Agency committees.

Pension Obligations

State departments and agencies, including the Department, participate in the California Public Employees' Retirement System ("PERS"), an agent multiple-employer pension system that provides a contributory defined-benefit pension for substantially all State employees. The Department is required to contribute the actuarially determined remaining amounts necessary to fund benefits for its employees, using actuarial methods and assumptions adopted by the PERS Board of Administration. For the years ended June 30, 2009 and June 30, 2008, the Department paid approximately $19.8 million and $18.4 million, respectively, in annual pension contributions in respect of the State Water Project.

Additional information concerning State Water Project pension obligations, including a description of the actuarial assumptions and methods used to determine required contributions, are set forth in Note 8 of the financial statements of the State Water Resources Development System appearing in Exhibit 2 to this Appendix B. Such information is reported in part on the basis of State Miscellaneous Category Tier I and Tier II employees, of which State Water Project employees represent only a portion. In the years ended June 30, 2009 and June 30, 2008, Department contributions with respect to the State Water Project represented approximately

1.3 percent and 1.2 percent, respectively, of contributions for all of State Miscellaneous Category Tier I and Tier II.

Post-employment Benefits Other Than Pensions

In addition to the pension benefits provided by the State, the State also provides post-retirement health care benefits, in accordance with California Government Code section 22760(g), to all employees who retire from the State on or after attaining certain age and length of service requirements. The post-retirement health care benefits are funded by the State General Fund on a pay-as-you-go basis. Expenses for health care benefits for the Department's active employees and retirees for the years ended June 30, 2009 and 2008 were approximately $41,464,000 and $29,952,000, respectively. Post-retirement health care data for the Department's retirees alone are not available.

POWER OPERATIONS OF THE STATE WATER PROJECT

The State Water Project is one of the largest consumers and suppliers of electric power in the western United States. This section describes the State Water Project's power-related activities. Revenues from the State Water Project's power related activities are generally deposited in the California Water Resources Development Bond Fund and are available for expenditure in the priority order specified in the Burns-Porter Act.

Historic Involvement of State Water Project in Power Markets

Since the commencement of the major facilities of the State Water Project in the 1960's, the Department has been an active participant in the power markets of California and the western United States. The Department currently owns and operates eight power facilities with a total generating capacity of approximately 1,800 MW and with total annual energy generation in recent years ranging between approximately 3,100 and 7,500 GWh. (See "Power Operations of the State Water Project – Power Generation") The Department also owns and operates 23 pumping plants with a total load, if all were operational simultaneously, of approximately 2,000 MW and total annual energy consumption in recent years ranging between 5,300 and 10,000 GWh. By way of comparison, the average load for all electricity users in California is approximately 30,000 MW and total 2007 consumption in California, according to the California Energy Commission, is approximately 284,000 GWh.

The pumping plants, which are the State Water Project's major power-consuming components, are operated principally during the off-peak portion of the daily electricity consumption cycle due to their pumping capacity being sized to manage maximum expected water deliveries. Similarly, the designed capacity of most of the Department's hydroelectric generation facilities permits operation principally during on-peak hours. This flexibility in the scheduling of the Department's generation and load enables the Department to sell relatively high value power during on-peak hours and buy less expensive power during off-peak hours, or to do the functional equivalent by entering into contracts to deliver power on demand during on-peak hours in exchange for substantially larger amounts of power delivered to the Department during off-peak hours.

In addition to the eight power facilities it owns, the Department also has long-term contracts for the purchase of power from Pine Flat Powerplant, which is owned and operated by Kings River Conservation District, and five small hydroelectric powerplants, which are owned and operated by the Metropolitan Water District of Southern California.

Power Generation

The Department has provided for the financing, construction and operation of a variety of power projects including hydroelectric, geothermal and coal-fired electric generating facilities and facilities to transmit electric energy. The table below summarizes current estimates of capacity, megawatt hour generation, construction costs and completion date for the Department's current power facilities:

	Capacity (MW)	Expected Annual Generation (MWh)	Construction Cost in Millions	Completion Date
Alamo Project Powerplant	17	114,000	$ 49.4	1986
Castaic Pumping-Generating Plant	214	719,000[(a)]	82.0	1978
Devil Canyon Powerplant	280	1,770,000	198.4	1993
Mojave Siphon Powerplant	29	96,000	65.6	1996
Hyatt-Thermalito Complex	762	2,202,000	282.0	1987
William E. Warne Powerplant	74	472,000	80.0	1983
Reid Gardner Powerplant	245	1,280,000[(a)]	252.8	1983
Gianelli Pumping-Generating Plant	222	188,000[(a)]	47.2	1967

[(a)] State Water Project share.

Power Sales and Purchases

Periodically, the Department enters into long-term and mid-term energy sales agreements and energy exchange agreements with municipal utilities, private utilities, and other entities that buy or sell energy in California and neighboring states. The Department also transacts with the California Independent System Operator (CAISO) in its markets for day-ahead and real-time energy purchases and sales. In addition, the Department sells ancillary services from its generating facilities to the CAISO and buys ancillary services from the CAISO to meet the requirements for its State Water Project pumping plants. These agreements and arrangements with utilities, entities that buy or sell energy, and the CAISO allow the State Water Project to manage its power operations. The table below provides the Department's historical revenues from power sales and costs of power purchases on an annual basis over the past five calendar years.

	Costs of Power Purchases (millions of dollars)	Revenues from Power Sales (millions of dollars)
2005	241.3	159.7
2006	277.2	263.3
2007	297.6	161.5
2008	248.8	198.5
2009	161.9	110.4

Because the Department procures significant amounts of electric power for State Water Project operations in the short-term markets for power, it has some exposure to volatility in the electric power market. This exposure is mitigated by the fact that the bulk of the State Water Project's power needs can be met through Department-owned generation, long-term and mid-term power purchase contracts, and energy exchange arrangements. (See "Power Operations of the State Water Project – Historic Involvement of State Water Project in Power Markets.") It is further mitigated by the fact that the majority of the State Water Project's power needs are during off-peak periods on the daily energy consumption cycle, when the demand for and the cost of energy are generally lower. (See "Power Operations of the State Water Project – Historic Involvement of State Water Project in Power Markets.")

The cost of power for State Water Project operations is paid out of the California Water Resources Development Bond Fund. (See "California State Water Project – Allocation of State Water Project Revenues."). Power costs for State Water Project operations allocable to water supply to the Contractors are passed on to the Contractors under the Water Supply Contracts through the variable operation cost component of the Transportation Charge. (See "The Water Supply Contracts – Basic Contract – Water Charges."). The Department's exposure to any volatility in short-term power costs is aggravated by the fact that the variable operation cost component of the Transportation Charge is paid by the Contractors on an estimated basis subject to "true up" approximately two years later. If the Department underestimates power costs in assessing the

variable operation cost component, it will typically not recover the difference between actual and estimated costs for approximately two years. (See "The Water Supply Contracts – Basic Contract – Payment of Water Charges.") Under the Water Supply Contracts, however, the Department has the option under certain circumstances to revise its billings, and it has exercised that option in the recent past. In 2001, due to the unexpected and rapid escalation of wholesale power costs and the size of the resulting undercollection of such costs from Contractors, the Department issued revised invoices to recover such undercollection in October 2001, rather than in 2003 through the standard "true-up" cycle.

The Department has taken steps to address the need for a reliable supply of a portion of its State Water Project energy requirements, in light of the expiration on December 31, 2004 of two long term energy exchange contracts with Edison (see following table showing historical Edison energy supplies to the Department). The Department regularly solicits energy purchase, sale and exchange proposals from electric utilities and energy supply companies. Most recently, the Department entered into several contracts for power purchases for the period from 2010 through 2013. In addition, the Department has signed the Power Sales Agreement with NCPA for participation in the Lodi Energy Center to meet its power needs. Lastly, the Department is completing an integrated resource plan that will indentify additional strategies to meet its future power needs.

On balance, the Department does not expect the cost of power to have a material adverse effect on its ability to continue to operate and maintain the State Water Project or on the Department's ability to make payments when due. However, no assurance can be given that the Department will not experience disruptions in State Water Project operations due to future volatility in the California energy markets.

Historical Sources of Power for State Water Project Operations

The historical sources of power for operating the State Water Project on a calendar year basis for the years 2004 through 2009 are set forth in the table below. The Department has satisfied its power load through its own resources, long-term purchase and exchange contracts and short-term and spot market purchases, as needed.

	Electrical Energy (millions of kilowatt hours)					
	2004	**2005**	**2006**	**2007**	**2008**	**2009**
SWP Hydroelectric Facilities						
Gianelli (San Luis)	183	125	150	246	140	56
Castaic	831	510	458	851	577	572
Devil Canyon	1,282	1,153	1,396	1,153	679	555
William E. Warne (Pyramid)	491	284	288	458	310	284
Hyatt-Thermalito Complex (Oroville)	2,293	1,833	3,511	2,060	988	1,466
Alamo	121	105	87	57	65	55
Mojave Siphon	80	73	88	72	40	32
Subtotal SWP Sources	5,281	4,083	5,978	4,895	2,799	3,020
State Water Project Thermal Plant (Reid Gardner)	1,605	1,578	1,537	1,327	1,127	1,181
Power Purchases	2,318	5,071	5,571	5,247	3,948	2,608
Energy via Exchanges	1,314	0	0	279	161	107
Total Sources	10,518	10,732	13,086	11,548	8,035	6,196
Power Sales	626	2,450	3,977	2,272	2,334	1,476
SWP Load	9,892	8,282	9,109	8,276	5,701	5,440

Power Transmission

State Water Project power transmission needs are presently served through transmission service ownership and contracts with PG&E, Edison, Nevada Power, and the CAISO.

Transmission Service Contracts. The Department obtains the bulk of its transmission service in both PG&E's Service Area and Edison's Service Area from the CAISO under a scheduling coordinator agreement with the CAISO. This transmission service also provides access to CAISO trading hubs.

The Department has one major transmission service contract with PG&E. The Comprehensive Agreement with PG&E, dated April 22, 1982 (the "PG&E Transmission Contract"), provides transmission service throughout Northern and Central California. The PG&E Transmission Contract expires on December 31, 2014. Under the PG&E Transmission Contract, PG&E, at the Department's request, built transmission reinforcements, which consisted of a series of capacitor bank installations at each substation, between the Table Mountain and Tesla substations to increase transmission reliability. Under the PG&E Transmission Contract, the Department also had the option of having PG&E construct transmission reinforcements between the Los Banos and Midway substations to further increase transmission reliability. Instead of building the Los Banos-Midway reinforcements, the Department and PG&E entered into an agreement that allows PG&E to drop certain Department pump load and generation automatically when certain emergency conditions occur on the PG&E transmission system. The agreement provides the Department with increased transmission service reliability during non-emergency periods at a lower cost than the reinforcements. In addition, the PG&E transmission contract provides for the connection of State Water Project facilities in PG&E's Service Area to the transmission grid.

The Department has contracts with Edison and Nevada Power, which are used to deliver energy from Reid Gardner Powerplant to Edmonston Pumping Plant and to Vincent Substation, where the energy can then be delivered to other State Water Project pumping plants via CAISO transmission. The Department also has several transmission agreements with Edison that provide for the connection of State Water Project facilities in Edison's service area to the transmission grid.

Transmission Ownership. The Department either solely or partially owns several transmission lines that interconnect State Water Project facilities with PG&E's transmission system. The following is a summary of the transmission lines owned by the Department:

The 10 mile Oroville Complex-Table Mountain 230 kilovolt line is solely owned by the Department. The triple-circuit line connects the Hyatt and Thermalito Powerplants to PG&E's Table Mountain substation.

The Castle Rock-Lakeville 38 mile 230 kilovolt double-circuit line is co-owned with PG&E and others. The Department owns a 165 megawatt entitlement in this line, but has leased 55 megawatts to other public utilities. The remaining 110 megawatt entitlement has been retained by the Department.

The one mile Pine Flat 230 kilovolt transmission line is solely owned by the Department. This transmission line emanates from the Pine Flat Powerplant and interconnects with PG&E's system.

The Department owns 75 percent of the 230 kilovolt double-circuit transmission line between Midway substation and Wheeler Ridge substation; the other 25 percent is owned by PG&E. The transmission line connects the Buena Vista, Wheeler Ridge and Wind Gap pumping plants to the PG&E Midway substation. Each pumping plant's tie line is solely owned by the Department.

No Relationship to Power Supply Program

In response to the California energy crisis of 2000-01, the Department created a separate Energy Division to perform its function as supplier of energy to retail customers under its Power Supply Program, and

to distinguish and keep that program separate and distinct from its power activities in connection with the State Water Project.

The State Water Project and the Power Supply Program are separate and distinct enterprises, and have separate and distinct sources and uses of funds. Revenues pledged to secure payment of the costs of the State Water Project may not be used to pay the costs of the Power Supply Program, and resources pledged to secure the payment of the Power Supply Program may not be used to pay the costs of the State Water Project. In addition, none of the power generated by the State Water Project is being or will be sold to the Power Supply Program.

Effect of California Energy Crisis on State Water Project Finances

The California energy crisis of 2000-01 adversely impacted the financial condition of some market participants and has had the effect of increasing receivables for power sold by the State Water Project. The California Independent System Operator, which, among other functions, acts as a clearinghouse for certain payments among market participants, currently owes the Department approximately $23.4 million for power supplied by State Water Project power facilities to the California power grid. These amounts, if not collected, would increase the variable operation cost component of the Transportation Charge imposed on Contractors under the Water Supply Contracts, but would not adversely affect the Department's ability to operate and maintain the State Water Project or to make payments when due.

As a supplier of energy, the Department received increased market revenues for energy sales in late 2000 and in 2001. Some of the proceeds of such sales may be subject to refund. (See "Power Operations of the State Water Project Claims for Partial Energy Purchase Refunds".) The costs of such refunds, if any, will be passed through to Contractors and, therefore, are not expected to have a material adverse effect on the ability of the Department to pay its obligations when due or its ability to operate and maintain the State Water Project .

Federal Energy Regulatory Commission Proceedings

There are a number of proceedings pending before FERC relating to the Department as operator of the State Water Project. Some of these proceedings address requests from the CAISO, investor-owned utilities, and others to increase or adjust rates or allocate responsibility for costs for transmission and other services provided to the Department and other entities in California. The Department is participating in these proceedings, since the outcome of these proceedings has the potential to increase the Department's annual power costs. However, the Department does not believe that any increased charges arising from these proceedings will materially impact the Department's operations or ability to make payments when due.

Claims for Partial Energy Purchase Refunds

FERC proceedings were also instituted to address power purchaser requests for partial refunds from sellers of energy and related services in 2000 and 2001, including the Department. However, in September 2005, the United States Ninth Circuit Court of Appeals ruled that FERC lacked jurisdiction under the Federal Power Act to order governmental entities, such as the Department, to provide refunds in these types of proceedings. As a result of this Ninth Circuit Court of Appeals' ruling, a group of California entities filed similar claims for partial energy purchase refunds with the California Victim Compensation and Government Claims Board against the governmental entity sellers, including the Department. The Claims Board has denied the claim made against the Department, which now allows the claimants to file a lawsuit against the Department. The Department and the claimants have entered into a tolling agreement that will expire on March 1, 2011. However, the Department believes that any amounts the Department may be required to refund as a result of these proceedings will not have a material impact on the ability of the Department to make payments when due because the impact of any refunds would be passed through to the Contractors under the Water Supply Contracts in the form of higher operating charges.

Oroville Facilities Relicensing Program

On January 26, 2005, the Department filed its application with FERC for a new license for its Hyatt-Thermalito hydroelectric generation facilities, which are referred to by FERC as the Oroville Facilities (Project No. 2100) ("Oroville Facilities"). The existing FERC license, granted in 1957, expired on January 31, 2007. The Department's application requested a new 50-year license and was filed with a comprehensive settlement agreement for the relicensing of the Oroville Facilities (the "Settlement Agreement") with 51 stakeholders including federal, state and local agencies, and individuals. FERC issued an annual license effective February 1, 2007, with provisions for automatic annual renewals until a new long term license is issued. The Department has used a collaborative approach to relicensing (referred to as "Alternative Licensing Procedures") that involves working cooperatively with federal and State resource agencies, Indian tribes, local public agencies, non-governmental organizations and other interested parties to achieve consensus on the FERC license application and environmental documentation. (For a discussion of environmental documentation, see "California State Water Project – Environmental Considerations.")

In March 2006, the Department and 51 settling parties signed the Settlement Agreement. The Settlement Agreement covers the protection, mitigation, and enhancement measures that will be implemented over the term of a new license to balance the Oroville Facilities operations with the environment and other project resources such as recreation, cultural, land use, and aesthetics. The Settlement Agreement has been submitted to FERC with the settling parties requesting FERC to adopt only the agreed-upon provisions as the terms and conditions of the new FERC license, so as not to jeopardize settlement. Other parties, that were not parties to the Settlement Agreement, have also intervened in the relicensing proceeding with various requests for additional conditions to be included in the new license. These parties include Butte and Plumas Counties, several Indian tribes, and other interest groups and individuals. The Department has responded in opposition to the inclusion of the proposed additional conditions.

FERC published its Final Environmental Impact Statement ("FEIS") in May, 2007, which completed the federal environmental documentation process. The FEIS included the majority of the Settlement Agreement terms that come under FERC jurisdiction. The Department issued the final EIR in July, 2008. Butte and Plumas Counties filed lawsuits in State court challenging the adequacy of the final EIR. The lawsuits are in the pre-trial phase. Notwithstanding the lawsuits, the Department expects that the State Water Resources Control Board will use the Final EIR to issue the required 401 Water Quality Certification pursuant to Clean Water Act and FERC would follow with issuance of the new license. The Department expects that the new license would be for a term of 30 to 50 years. Alternatively, FERC could continue issuing annual licenses for Oroville Facilities until completion of the judicial and regulatory processes.

In a related matter, in May 2009 Butte County filed a complaint with FERC requesting that the Department be ordered under its existing Oroville Facilities license to pay for certain costs that the County claims are being incurred as the result of the Department's Oroville Facilities operations. FERC denied the complaint, finding that there is no basis for ordering such payments, and in January 2010 Butte County appealed to the Ninth Circuit Court of Appeals.

THE WATER SUPPLY CONTRACTS

The Water Supply Contracts between the State, acting by and through the Department, and the 29 Contractors are substantially uniform with respect to basic terms except with respect to certain payments by Contractors for agricultural water as noted below. Copies of the Water Supply Contracts between the State and the 29 Contractors are on file at the offices of the Department and of the State Treasurer in Sacramento, and reference is made thereto for information with respect to all of the terms and conditions thereof. The following discussion, except as noted, is applicable to each of the 29 Water Supply Contracts, and assumes the effectiveness of the amendments described below under the heading "Monterey Amendment." All but two of the Contractors (Plumas County Flood Control and Water Conservation District and Empire West Side Irrigation District) have signed the Monterey Amendment.

Basic Contract

Term. The Water Supply Contracts are to remain in effect until 2035, or until all bonds issued to finance construction costs of State Water Project facilities have been repaid, whichever period is longer.

Annual Table A Amounts. The year of initial water delivery is estimated in each Water Supply Contract and a schedule in each of the Water Supply Contracts sets forth the maximum annual amounts of water the Contractor may request to be delivered ("Annual Table A Amount") commencing in the initial year. These scheduled amounts increase yearly and reach the maximum Annual Table A Amount in a specified year, which for all but five of the smaller Contractors was reached by January 1, 1997. Those five Contractors will reach their respective maximum Annual Table A Amounts on or before 2020. The Annual Table A Amounts schedule may be changed upon request by the Contractor and approval by the State, but no such change may be made if it would impair the financial feasibility of the State Water Project.

The maximum Annual Table A Amounts of all 29 Contractors presently total 4,172,786 acre-feet of water. (See "California State Water Project – Water Supply.") Water delivered to a Contractor may not be disposed of by the Contractor for use outside the Contractor's territory, subject to certain limited exceptions, without the State's consent. Restrictions are imposed on changes in the corporate organization of the Contractor.

Water Supply. Subject to the availability of funds, the State is required to make all reasonable efforts consistent with sound fiscal policies, reasonable construction schedules, and proper operating procedures to complete the facilities necessary for water deliveries at the time and in the amounts specified.

The State must make all reasonable efforts to perfect and protect necessary water rights and must report at least every five years on its ability to meet future water demands.

If the State cannot complete construction of the aqueducts necessary to deliver water to the Contractor, the Contractor may, under specified circumstances, provide money to the State necessary to enable the State to complete construction. In such case, the State will own and operate the aqueducts, and the amount provided by the Contractor will be credited by the State against the Contractor's payment obligation under the Water Supply Contracts. Alternatively, the Contractor may connect, at its own expense, to the portion of the aqueduct completed by the State to receive water to which it is entitled under the Water Supply Contract.

The State is required to take all reasonable measures to make available water that meets the water quality objectives set forth in the Water Supply Contract.

Allocation of Water Surpluses and Deficiencies. If there is a supply of water in excess of (i) the scheduled deliveries under Table A for all Contractors and (ii) the operational requirements of the State Water Project, Contractors may purchase such surplus water on an interruptible basis. The price of this interruptible water is the incremental cost of delivery.

The Water Supply Contracts also contain provisions for the allocation of water in the event of shortages in water supply. For Contractors that have accepted the Monterey Amendment, the available supply is to be allocated in proportion to Annual Table A Amounts, with reductions for agricultural Contractors and urban Contractors being made on the same basis. Contractors that have accepted the Monterey Amendment as of the date of this Official Statement have over 99 percent of the total Annual Table A Amounts of all Contractors. (See "The Water Supply Contracts – Monterey Amendment" and "– Monterey Amendment Litigation.")

For Contractors that have not accepted the Monterey Amendment, there will be a reduction first in the delivery of water for agricultural purposes by an amount not to exceed 50 percent in any one year or a total of 100 percent of the maximum annual request for agricultural water in any seven consecutive years. Any additional reductions required will be apportioned among all Contractors irrespective of use. In the event of a permanent shortage there will be a proportionate reduction of the Contractors' maximum annual request for water.

Contractors may use aqueduct capacity not used for State water to transport other water procured by them. The State is not liable for damage arising from shortages due to causes beyond its control.

Water Charges. The Water Supply Contracts in their original form provide for two charges to the Contractor: (a) a Delta Water Charge and (b) a Transportation Charge. There have also been amendments made to address the use of CVP Revenue Bonds for specified water and power facilities of the State Water Project and to modify the manner of calculating these charges with respect to such revenue bond financed facilities.

The original Delta Water Charge and Transportation Charge each consist of three components: (a) a capital cost component; (b) a minimum operation cost component (operation costs that do not vary with water deliveries); and (c) a variable operation cost component (operation costs that vary with water deliveries). Project planning costs are charged under the component to which the costs of the potential project being studied would be charged if such project were constructed or acquired.

The original Delta Water Charge is a charge for each acre-foot of maximum Annual Table A Amount. It is computed so as to return to the State generally during the term of the Water Supply Contract all "reimbursable" costs of the "project conservation facilities," together with interest thereon. The "project conservation facilities" are defined as certain categories of facilities that conserve water. Such facilities now include the Oroville facilities, the Delta facilities, the San Luis facilities and a portion of the aqueduct leading to the San Luis facilities from the Delta. "Reimbursable" costs are those costs determined by the State to be allocable to the purposes of water conservation (or, in the case of the Transportation Charge, to water transportation). The costs and revenues of powerplants that are part of the "project conservation facilities" (including the Oroville Power Facilities) are included in the determination of the Delta Water Charge.

The original Transportation Charge is computed so as to return to the State during the term of the contract the "reimbursable" costs of the facilities necessary to deliver water to a Contractor, together with interest thereon. Such facilities include facilities such as aqueducts, pumping plants and on-aqueduct power facilities, but, with certain exceptions, do not include any of the facilities financed with CVP Revenue Bonds. The costs of the facilities relating to each reach of aqueduct are allocated among all Contractors receiving water through that reach. Each year's capital expenditures are allocated among the Contractors and the allocated amount is required to be paid by each Contractor, together with interest, in not more than 50 equal annual installments within the capital cost component of the Transportation Charge. (In contracts with agricultural water Contractors, these capital costs are repaid by a uniform charge per acre-foot of the maximum annual amount of agricultural water that may be requested, which charge is computed so as to return to the State generally during the Water Supply Contract term such costs with interest.)

The capital cost component of the Transportation Charge and all components of the Delta Water Charge are to be repaid with interest at the weighted average of the rates paid on securities issued to finance the State Water Project (except certain CVP Revenue Bonds and all CVP Notes) and certain other moneys used to finance the State Water Project. The minimum and variable operation, maintenance, power and replacement cost components (the "operation cost components") of the Transportation Charge are paid currently.

The annual net value of power produced by any powerplant located on a State Water Project aqueduct is credited to all Contractors receiving water flowing through that powerplant in proportion to each Contractor's portion of the total water flowing through the plant during the year. The credit is given in the form of a reduction in the variable operation cost component of each such Contractor's Transportation Charge.

Payment of Water Charges. On or before July 1 of each year, the State furnishes each Contractor with a statement of estimated charges for the capital cost components (including charges under the CVP Revenue Bond amendments) and the minimum operation cost components of the Delta Water Charge and Transportation Charge for the following calendar year. The original Delta Water Charge and Transportation Charge capital cost component payments, along with payments under amendments regarding the CVP Revenue Bonds, are due semiannually, on January 1 and July 1 of the year following receipt of the statement of charges. The minimum

operation cost component payments and payments under an off-aqueduct power facilities amendment are due in twelve monthly installments commencing on January 1 of the year following receipt of the statement of charges.

On or about July 1 of each year, the State determines the rate (per acre-foot) to be charged each Contractor in the following calendar year for the variable operation cost components of the Delta Water Charge and the Transportation Charge. The variable operation cost components in such calendar year are calculated and billed monthly based on metered water deliveries for the preceding month and the rate determined on July 1 of the prior year. Payment of the variable operation cost components is due on the sixteenth day of the month following receipt of the monthly statement of charges, which results in an approximately two-month delay between delivery of water and payment of the variable operation cost components.

On July 1 of each year, the State furnishes each Contractor with a statement showing the difference between the estimated water charges paid and the actual costs incurred in the prior calendar year. The difference is paid by or credited to each Contractor, as applicable, in equal monthly installments commencing on January 1 of the year following the "true-up" calculation. This process results in an approximately two-year delay in the reconciliation of estimated charges paid and actual costs reimbursed to the Department.

Interest from the due date at the interest rate earned by the State's Pooled Money Investment Account must be paid on any payment received more than 30 days after the due date. A Contractor's failure or refusal to accept delivery of water does not relieve the Contractor of its payment obligations. A Contractor is obligated to make payments to the State notwithstanding any individual default by its constituents, assignees or others in the payment to the Contractor of charges levied by the Contractor. In accordance with a statutory requirement, each Water Supply Contract requires that whenever the Contractor fails or is unable to raise sufficient funds by other means the Contractor must levy upon all taxable property in the Contractor's service area a tax or assessment sufficient (with other available moneys) to provide for all payments under the Water Supply Contract. (See "Certain Limitations on Contractor Revenue Sources.")

If the Contractor defaults in payment, the State may, and under certain conditions is required to, upon six months' notice, suspend water deliveries during the period of default. During such period the Contractor remains obligated to make all payments required by the Water Supply Contract and the State is not deprived of any other remedy under the Water Supply Contract or law.

Revenues received under the Water Supply Contracts from facilities financed with CVP Revenue Bonds are available to be pledged to the payment of such bonds. Other income and revenues derived from the Water Supply Contracts are pledged to the purposes and priorities set forth in the Burns-Porter Act, including the payment of certain operation, maintenance and replacement costs of the State Water Project which includes the payment to be made to NCPA under the Power Sales Agreement, the payment of debt service on the State general obligation bonds issued under the Burns-Porter Act, the repayment of certain State moneys used for construction, and the payment of costs of acquisition and construction of the State Water Project.

Monterey Amendment

In December 1994, the Department and representatives of certain of the Contractors reached an agreement on comprehensive principles that served as the basis for negotiating amendments to the Water Supply Contracts. These amendments are collectively known as the "Monterey Amendment." The Monterey Amendment was negotiated subject to a provision in a CVP Revenue Bond resolution that the Department shall not agree to any amendment to the Water Supply Contracts that would materially adversely affect the security of the CVP Revenue Bonds.

Water Supply Contract provisions that have been amended or added by the Monterey Amendment include provisions relating to the allocation of water (both in the event of a shortage and in the event of surplus), the transfer of the land and related assets of the Kern Fan Element of the Kern Water Bank to Kern County Water Agency ("KCWA"), the operation of certain State Water Project reservoirs, transfers of State Water Project Annual Table A Amounts (including certain transfers from agricultural Contractors to urban

Contractors), other water transfers, the creation of and limitations on a Department reserve for operation, maintenance and replacement costs, and the description of facilities that may be financed with CVP Revenue Bonds (adding a corporation yard and an operations center).

In addition, the Monterey Amendment provides for the reduction of annual Water Supply Contract charges in a manner such that Water Supply Contract revenues (taking into account other revenues and credits) are at levels calculated to meet (but not exceed) the following "revenue needs": (1) annual financing requirements (including debt service and coverage) for CVP Revenue Bonds issued for State Water Project facilities, (2) maintenance and operation expenses of the State Water Resources Development System (which consists principally of the State Water Project and includes the Davis-Grunsky Act Program and the San Joaquin Valley Drainage Program), (3) debt service on general obligation bonds issued under the Burns-Porter Act, (4) $4.5 million per year for capital costs of the State Water Project and the San Joaquin Valley Drainage Program for which neither general obligation bond nor revenue bond proceeds are available, and (5) after the provision of at least $40.5 million per year of reductions in charges to the Contractors, the amounts available and needed for certain "additional State Water Resources Development System purposes."

The Monterey Amendment has been executed by the Department and 27 of the Contractors. The Contractors that have signed the Monterey Amendment have approximately 99 percent of the maximum Annual Table A Amounts and make approximately 99 percent of the annual Water Supply Contract payments. The Department believes that it can administer the State Water Project in a manner such that both the Contractors that have not signed the Monterey Amendment and the Contractors that have signed the Monterey Amendment will receive the benefits and have the obligations provided in their respective Water Supply Contracts, amended or not as the case may be.

Monterey Amendment Litigation

On May 20, 2003, the trial court approved a settlement agreement among the Department and the other parties in *Planning and Conservation League, et al. vs. Department of Water Resources and Central Coast Water Authority*, a lawsuit that challenged the Monterey Amendment. Under the settlement agreement, the Department agreed, among other things, to act as lead agency in the preparation of a new EIR for the Monterey Amendment. During the preparation and processing of the new EIR, the Department will be permitted under the settlement agreement to continue to operate the State Water Project in accordance with the provisions of the Monterey Amendment, including the provisions pertaining to the transfer of land and related assets of the Kern Fan Element of the Kern Water Bank to KCWA. The Department also agreed to pay for certain watershed improvements in Plumas County and to pay the plaintiffs certain amounts for use in implementing the settlement agreement. The plaintiffs agreed to limit the grounds upon which they could challenge the new EIR after it is completed.

The parties to the lawsuit had engaged in settlement discussions after the Court of Appeal, in September 2000, reversed an earlier trial court ruling on the Monterey Amendment EIR. The trial court had found that the designation of the Central Coast Water Authority ("CCWA"), rather than the Department, as the lead agency for the Monterey Amendment EIR, violated the California Environmental Quality Act, but that the Monterey Amendment EIR was adequate, and the error as to the lead agency was harmless. As a result of the trial court's ruling, the Department had proceeded to implement the Monterey Amendment, including transferring the Kern Fan Element property to KCWA. The Court of Appeal found that the Monterey Amendment EIR was inadequate because it failed to address all of the impacts of deleting a contract provision that would allow the Department to declare a permanent water shortage on the State Water Project and reduce the maximum annual amounts of water that may be requested. The Court of Appeal also reinstated a cause of action challenging the validity of the transfer of the Kern Fan Element property to KCWA. The California Supreme Court declined to review the case. The Court of Appeal remanded the case to the trial court to oversee the Department's preparation of a new EIR and to consider whether the Monterey Amendment may continue to be implemented while the new EIR is being prepared.

In accordance with the Court of Appeal's determination, the Department undertook preparation of the EIR in January 2003 and completed the Final EIR in February 2010. The Department certified the Final EIR on February 1, 2010 and filed its Notice of Determination on May 5, 2010. On June 3, 2010, two Delta water agencies and several environmental organizations and individuals filed a lawsuit challenging the Department's CEQA compliance and the validity of the Monterey Amendment, including the Department's transfer of the Kern Fan Element to the KCWA. Also on June 3, 2010, two water districts in Kern County filed a separate lawsuit, challenging primarily the Department's CEQA compliance with respect to the Kern Fan Element transfer. The Department, however, does not expect that there would be any material adverse impact on the ability of the Department to meet its payment obligations, including those with respect to the Power Sales Agreement, even if these lawsuits are successful.

2005 Contractor Lawsuit Regarding Oroville Power Credits

On April 25, 2005, fourteen Contractors filed a lawsuit against the Department in Sacramento County Superior Court for declaratory relief and breach of contract. The complaint alleges that pursuant to the Water Supply Contracts, the Department is required, but has failed, to credit all revenues from power generated by certain State Water Project conservation facilities (primarily the Hyatt and Thermalito Powerplants) to the Delta Water Charge, and, as a result, has overcharged the Contractor plaintiffs. The fourteen Contractors are: Alameda County Flood Control and Water Conservation District, Zone 7; Alameda County Water District; City of Yuba City; County of Butte; County of Kings; Dudley Ridge Water District; Empire West Side Irrigation District; KCWA; Napa County Flood Control and Water Conservation District; Oak Flat Water District; Plumas County Flood Control and Water Conservation District; Santa Clara Valley Water District; Solano County Water Agency; and Tulare Lake Basin Water Storage District. The complaint seeks a declaration that all "benefits" derived from the sale or other disposal of power from State Water Project conservation facilities be credited "in conformity with the terms of the Water Supply Contracts" and damages and costs in an unspecified amount. In December 2005, entities representing thirteen other Contractors intervened in the lawsuit in opposition to the claims of the plaintiffs. The remaining two Contractors were joined as indispensable parties. The trial in this case took place before a judge in November and December 2008. In October 2009, the Court issued its decision in favor of the Department and the intervening Contractors, finding that the Department's determinations and administration of the provisions regarding the Delta Water Charge power revenue credits were consistent with the Water Supply Contracts. The next steps available to the plaintiffs, if they so choose, would be to ask the Court to reconsider its decision and to thereafter appeal the Superior Court's decision to the Court of Appeal. If the Contractor plaintiffs are ultimately successful in their efforts to reverse the Superior Court's decision, the Department believes Contractors requiring the most pumping for delivery of their State Water Project water would pay more to the Department under the Water Supply Contracts, while those requiring less pumping would pay less. The Department believes that this Contractor cost shifting would not materially adversely impact the Department's ability to pay its obligations, including payments to NCPA under the Power Sales Agreement.

Claims Relating to the Use of Bond Proceeds to Pay Capital Costs Allocable to Recreation and Fish and Wildlife Enhancement

The State Water Project has multiple purposes, including water conservation, water transportation, power generation, flood control, public recreation, and fish and wildlife enhancement. California Water Code section 11912 provides that costs incurred for the enhancement of fish and wildlife or for the development of public recreation may not be included in the Department's prices, rates and charges for water and power. Under the terms of the Water Supply Contracts, the Department may only charge amounts that recover costs allocable to water conservation and water transportation (including the costs of mitigation of the fish and wildlife impacts arising from water conservation and transportation activities).

In December 2005, Metropolitan filed a "Notice of Contest" with the Department, challenging various charges in the Department's billings. Based on its Notice of Contest, Metropolitan also filed a claim with the Victim Compensation and Government Claims Board, which claim was denied by the Board in March 2006. The Department and Metropolitan entered into a tolling agreement extending Metropolitan's time to file a

lawsuit on the denied claim until March 31, 2007. The tolling of Metropolitan's time to file a lawsuit has been extended to December 31, 2010 in connection with the broader Tolling and Waiver Agreement described below.

One of the claims made by Metropolitan was that (1) CVP Revenue Bond proceeds had been spent on the capital costs of certain recreation and fish and wildlife enhancement facilities that are a part of or are related to certain water system projects, (2) the Contractors had been charged under the Water Supply Contracts for costs relating to such recreation and fish and wildlife enhancement facilities (the "Recreation Costs"), and (3) such charges are not authorized by State law.

In the course of its investigation of Metropolitan's claims, the Department determined that it had spent approximately $26.3 million of CVP Revenue Bond proceeds and $2.7 million of CVP Note proceeds on capital costs allocated by the Department to the purposes of recreation and fish and wildlife enhancement, had charged the Contractors approximately $9.5 million for CVP Revenue Bond debt service allocated to recreation and fish and wildlife enhancement and had paid approximately $15.1 million of such financing costs with other revenues. The Department has issued restated bills to the Contractors for the years 1988 through 2007. This restatement has, among other things, included credits, plus interest, and restated the amount of "reductions in charges" made and to be made available to the Contractors under the Monterey Amendment to reflect the use of other revenues that are permitted to be used to pay financing costs of the CVP Revenue Bonds allocable to recreation and fish and wildlife enhancement. (See "Water Supply Contracts – Monterey Amendment.") One of the effects of such credits and restatements was to shift aggregate Water Supply Contract charges for the years 1997 through 2006 in the amount of approximately $5 million among the Contractors, with some Contractors' aggregate Water Supply Contract charges being increased and other Contractors' aggregate Water Supply Contract charges being decreased.

The Department also negotiated with the Contractors who signed the Monterey Amendment, a Tolling and Waiver Agreement (as amended), under which each signing Contractor agreed to waive and release certain claims relating to, in particular, the CVP Revenue Bonds. This in turn, allowed the Department to obtain a loan of $29.6 million from the Pooled Money Investment Account, which was used to retire or provide for the defeasance of certain CVP Revenue Bonds and CVP Notes, the proceeds of which had been used to pay costs allocated by the Department to the development of public recreation or fish and wildlife enhancement. The Department no longer allocates proceeds of CVP Notes or CVP Revenue Bonds to the development of public recreation or fish and wildlife enhancement.

The Tolling and Waiver Agreement, as amended, also tolls (i.e., suspends) until December 31, 2010 the running of the time period and statute of limitations for filing by the Contractors of (1) protests regarding the Department's bills to the Contractors for 2007 through 2011, (2) claims arising from the Department's revisions to prior year invoices that were made to adjust for improper charges to the Contractors for recreation and fish and wildlife enhancement costs, and (3) certain other specified claims.

All 27 of the Contractors who signed the Monterey Amendment and one other Contractor have signed the Tolling and Waiver Agreement. The Contractors that have signed the Tolling and Waiver Agreement have more than 99 percent of the maximum Annual Table A Amounts and make more than 99 percent of the annual Water Supply Contract payments. The one non-signing Contractor was not asked to sign the Tolling and Waiver Agreement because the Tolling and Waiver Agreement deals primarily with issues arising under the Monterey Amendment.

No assurance can be given that Contractors will not file additional Notices of Contest, claims and/or lawsuits with respect to such restatements of the amount of reductions in charges under the Monterey Amendment. If successful, such claims may reduce the amount of revenues available under the Water Supply Contracts.

Contractor Area of Origin Claims

In July 2008, Contractors Solano County Water Agency, Napa County Flood Control & Water Conservation District, Butte County and Yuba City filed a lawsuit against the Department in State court alleging that they have area of origin rights under California Water Code section 11460 and that they are therefore entitled to their full water supply under their respective Water Supply Contracts during periods of water shortage, as long as the State Water Project is exporting water. These Contractors claim that the deficiency provisions of the long-term Water Supply Contracts, which specify the manner in which the Department is required to allocate shortages of water among all Contractors, do not apply to them. If the Contractors prevail in their area of origin claim, there will be less water to allocate to other Contractors during periods of water shortages. However, even if these Contractors prevail, the Department believes that it will not materially affect State Water Project finances or the ability of the Department to make its payments when due. The case is currently in the pre-trial stage.

THE CONTRACTORS

The 29 Contractors are principally located in the San Francisco Bay area, the Central Coast, the Central Valley and Southern California and their service areas encompass approximately 39,100 square miles, approximately 25 percent of the State's land area, with a population of approximately 26 million, or about 70 percent of the State's population.

With three exceptions, the Contractors are established as districts under various State statutes providing for the formation of districts for water-related purposes. One Contractor is a city and two are counties. Of the 29 Contractors, 24 provide water primarily for municipal and industrial purposes and five provide water primarily for agricultural purposes.

Certain of the Contractors also provide other services, including flood control, ground water replenishment, sewage collection and disposal, solid waste and trash collection and disposal, hydroelectric power generation and first aid, ambulance and paramedical services.

Governing Bodies

Eight of the Contractors are governed by county boards of supervisors, 19 by elected boards of directors, and one by its city council. Metropolitan's board of directors consists of representatives appointed by the governing bodies of its constituent public agencies. Boards of supervisors generally include five members who are elected by popular vote. Specially elected governing boards generally include between five and eleven members and are elected by registered voters except for a few districts in agricultural areas, where the vote is based upon ownership of land in the district.

Water Rates and Taxation

Rates and charges of the Contractors are generally set by each Contractor's governing body and are not presently subject to any state or federal regulatory agency.

Many Contractors receive a major portion of their income from *ad valorem* taxes on property and some make all payments under their Water Supply Contracts from *ad valorem* taxes. The ability of Contractors to tax for general purposes and to appropriate for general purposes from tax revenue is limited under California law. (See "Certain Limitations on Contractor Revenue Sources.")

Payment History

The Department has not experienced payment delinquencies or defaults by Contractors that have had a materially adverse effect on the maintenance or operation of the State Water Project, or the ability of the Department to pay its obligations when due. Under the Water Supply Contracts, if a Contractor defaults in payment, the Department may, and under certain conditions is required to, upon six months' notice, suspend

water deliveries during the period of default. In accordance with a statutory requirement, each Water Supply Contract requires that whenever the Contractor fails or is unable to raise sufficient funds by other means the Contractor must levy upon all taxable property in the Contractor's service area a tax or assessment sufficient (with other available moneys) to provide for all payments under the Water Supply Contract. (See "Certain Limitations on Contractor Revenue Sources.")

Certain Selected Data

The table entitled "Selected Data on the Contractors" sets forth for each Contractor the year in which it was established, its estimated population and principal water-related activities.

SELECTED DATA ON THE CONTRACTORS

Contractor	Year Established	Estimated December 31, 2006 Population	Principal Water Related Activities
Alameda County Flood Control and Water Conservation District, Zone 7	1967	196,659	Treats, distributes, and stores State water for municipal and agricultural purposes.
Alameda County Water District	1913	324,800	Treats and distributes State water for municipal purposes. Uses State water to replenish ground water basins for municipal and agricultural purposes as well as for salt water barrier protection for ground water basins.
Antelope Valley-East Kern Water Agency	1959	365,000	Distributes State water for agricultural purposes. Treats and distributes State water for municipal purposes.
Castaic Lake Water Agency	1962	249,600	Treats and distributes State water for municipal purposes.
City of Yuba City	1908	62,083	Treats and distributes State water for municipal purposes.
Coachella Valley Water District	1918	288,707	Exchanges State water for water from Metropolitan for storage in underground basins and for distribution for agricultural purposes.
County of Butte	1850	214,119	Distributes State water for municipal purposes.
County of Kings	1893	147,729	Exchanges State water for water from the Tulare Lake Basin Water Storage District for recreational purposes.
Crestline-Lake Arrowhead Water Agency	1962	25,000	Treats and distributes State water for municipal purposes.
Desert Water Agency	1961	78,000	Exchanges State water for water from Metropolitan for storage in underground basins and distribution for municipal purposes.
Dudley Ridge Water District	1963	36	Distributes State water for agricultural purposes.
Empire West Side Irrigation District	1931	11	Distributes State water for agricultural purposes. Exercises surface water rights.
Kern County Water Agency	1961	739,400	Distributes State water to 16 districts for agricultural and municipal use. Replenishes ground water basins with State water for municipal and agricultural use. Exercises flood control functions.
Littlerock Creek Irrigation District	1892	2,900	Distributes State water for agricultural purposes.

Contractor	Year Established	Estimated December 31, 2006 Population	Principal Water Related Activities
The Metropolitan Water District of Southern California	1928	18,453,602	Transmits and distributes State water and water from the Colorado River to 27 public agencies for municipal, agricultural and ground water replenishment purposes.
Mojave Water Agency	1960	403,150	Distributes State water for municipal purposes and uses State water to replenish ground water basins.
Napa County Flood Control and Water Conservation District	1951	134,444	Distributes water for municipal purposes. Exercises flood control functions.
Oak Flat Water District	1964	10	Distributes State water for agricultural purposes.
Palmdale Water District	1918	109,845	Treats and distributes State water for municipal purposes.
Plumas County Flood Control and Water Conservation District	1967	21,200	Distributes State water. Exercises flood control functions.
San Bernardino Valley Municipal Water District	1954	600,000	Uses State water to replenish ground water basins and for municipal purposes.
San Gabriel Valley Municipal Water District	1959	210,145	Uses State water to replenish ground water basins.
San Gorgonio Pass Water Agency	1961	65,500	Has contracted for State water; however has not yet used this supply.
San Luis Obispo County Flood Control and Water Conservation District	1945	260,727	Has contracted for State water. Exercises flood control functions.
Santa Barbara County Flood Control and Water Conservation District	1956	421,625	Has transferred its rights under its Water Supply Contract to the Central Coast Water Authority, which will distribute State water for municipal purposes. Exercises flood control functions.
Santa Clara Valley Water District	1951	1,715,374	Treats and distributes State water for municipal purposes. Distributes State water for agricultural purposes and for replenishment of ground water basins. Exercises flood control functions.
Solano County Water Agency	1958	424,823	Distributes State water for municipal purposes. Exercises flood control functions.
Tulare Lake Basin Water Storage District	1926	23	Distributes State water for agricultural purposes. Exercises surface water rights.
Ventura County Flood Control District	1944	460,000	Purchases State water and sub-contracts the entire amount to Casitas Municipal Water District. While Casitas manages the facility, Ventura County has primary responsibility for payment for State water. Exercises flood control functions.
Total		**25,967,312**	

Source: Department of Water Resources Bulletin 132-2007, "Management of the California State Water Project."

The tables on the following pages show, for the last five calendar years, historical water deliveries from the State Water Project to each Contractor and historical payments under the Water Supply Contracts and under the Devil Canyon Castaic Contract by each Contractor.

Historical Deliveries of Water from the State Water Project to the Contractors[1]
(in acre-feet)

Contractor	2005	2006	2007	2008	2009	Maximum Annual Table A Amount[2]
Alameda County Flood Control and Water Conservation District, Zone 7	47,512	54,528	40,157	41,186	31,044	80,619
Alameda County Water District	44,599	43,079	24,391	22,902	19,452	42,000
Antelope Valley-East Kern Water Agency	59,831	80,384	78,823	47,758	45,747	141,400
Castaic Lake Water Agency	59,456	62,752	60,190	42,878	42,085	95,200
City of Yuba City	1,894	5,342	2,327	1,933	2,114	9,600
Coachella Valley Water District	42,519	121,100	73,228	46,791	46,022	121,100
County of Butte	527	468	956	9,201	581	27,500
County of Kings	19,806	9,530	5,746	3,851	3,391	9,305
Crestline-Lake Arrowhead Water Agency	807	641	1,768	689	865	5,800
Desert Water Agency	49,089	50,000	30,234	26,428	18,263	50,000
Dudley Ridge Water District	82,489	74,840	45,419	39,566	21,237	57,343
Empire West Side Irrigation District	3,834	3,282	2,084	947	1,034	3,000
Kern County Water Agency	1,308,269	1,243,294	743,240	532,343	759,025	998,730
Littlerock Creek Irrigation District	-	-	1,380	830	42	2,300
The Metropolitan Water District of Southern California	1,478,045	1,512,186	1,499,688	894,313	929,667	1,911,500
Mojave Water Agency	11,561	34,014	20,019	17,901	29,067	75,800
Napa County Flood Control and Water Conservation District	7,669	7,789	10,957	13,292	10,904	29,025
Oak Flat Water District	4,194	4,242	3,567	1,985	1,993	5,700
Palmdale Water District	11,712	12,492	19,634	5,506	15,339	21,300
Plumas Co. Flood Control and Water Conservation District	-	-	-	243	200	2,700
San Bernardino Valley Municipal Water District	31,550	35,331	57,116	38,145	38,304	102,600
San Gabriel Valley Municipal Water District	10,500	13,524	10,000	10,080	11,520	28,800
San Gorgonio Pass Water Agency	692	4,278	4,009	5,905	6,397	17,300
San Luis Obispo Co. Flood Control and Water Conserv. Dist.	4,251	4,209	3,776	8,426	3,801	25,000
Santa Barbara Co. Flood Control and Water Conserv. Dist. [3]	23,344	23,275	27,220	13,969	15,452	45,486
Santa Clara Valley Water District	119,445	128,210	75,382	59,160	68,194	100,000
Solano County Water Agency	39,819	35,516	47,300	40,320	30,950	47,756
Tulare Lake Basin Water Storage District	140,002	108,207	87,083	33,891	36,846	95,922
Ventura County Flood Control District	1,665	1,850	3,000	3,798	3,891	20,000
TOTAL	**3,605,081**	**3,674,363**	**2,978,784**	**1,964,237**	**2,193,427**	**4,172,786**

(1) Historical deliveries reflect changes resulting from the reclassification of State Water Project (SWP) water to or from these water types: flexible withdrawal, Non-SWP local water rights, or Non-SWP water.

(2) Reflects permanent transfers of Table A Amounts through December 31, 2008. For an explanation of Table A Amounts see "The Water Supply Contracts– Basic Contract– Annual Table A Amounts."

(3) As of July 1, 1989, Santa Barbara County FCWCD transferred certain of its rights under its Water Supply Contract to certain local water purveyors and users within Santa Barbara County. Thereafter, on September 26, 1991, the local water purveyors and users transferred those rights to the Central Coast Water Authority in consideration for its agreement to provide for the delivery of State Water Project water to the local water purveyors and users. Although the Department did not object to these transfers, the Department considers Santa Barbara County FCWCD to be the party to which the Department is obligated under the Water Supply Contract, and the Department did not release Santa Barbara County FCWCD from its Water Supply Contract obligations.

Source: Department of Water Resources, State Water Project Analysis Office.

Historical Payments to the Department from the Contractors[1]
(in thousands)

Contractor	2005	2006	2007	2009	2008
Alameda County Flood Control and Water Conservation District, Zone 7	$ 11,220	$ 16,179	$ 14,095	$ 25,137	$ 15,825
Alameda County Water District	5,066	5,597	6,143	6,839	6,910
Antelope Valley-East Kern Water Agency	27,658	35,980	23,410	30,138	27,963
Castaic Lake Water Agency	20,609	24,120	20,731	20,015	21,973
City of Yuba City	309	320	318	428	331
Coachella Valley Water District	9,157	50,502	42,779	58,976	60,129
County of Butte	734	51	48	1,072	811
County of Kings	525	551	666	787	764
Crestline-Lake Arrowhead Water Agency	1,161	1,775	1,584	1,834	1,830
Desert Water Agency	9,957	16,223	13,448	22,288	22,650
Dudley Ridge Water District	3,970	3,772	4,367	4,089	4,918
Empire West Side Irrigation District[3]	168	162	181	226	327
Kern County Water Agency	74,393	73,500	82,245	101,657	93,065
Littlerock Creek Irrigation District	536	557	653	728	738
The Metropolitan Water District of Southern California	513,846	517,913	586,035	637,627	594,504
Mojave Water Agency	15,978	18,501	14,895	27,941	18,108
Napa County Flood Control and Water Conservation District	5,602	6,415	5,715	7,763	5,581
Oak Flat Water District	320	284	316	374	341
Palmdale Water District	5,520	5,638	6,035	7,189	6,610
Plumas County Flood Control and Water Conservation District[3]	36	83	51	120	89
San Bernardino Valley Municipal Water District	26,734	34,004	37,486	48,107	38,557
San Gabriel Valley Municipal Water District	7,817	8,268	7,394	11,249	10,824
San Gorgonio Pass Water Agency	8,170	8,599	9,624	17,149	11,015
San Luis Obispo Co. Flood Control and Water Conservation District.	6,789	6,756	4,515	5,932	4,767
Santa Barbara Co. Flood Control and Water Conservation District [2]	39,507	39,658	40,008	45,239	39,743
Santa Clara Valley Water District	15,450	15,284	12,645	18,475	18,156
Solano County Water Agency	7,546	8,466	8,185	8,164	6,724
Tulare Lake Basin Water Storage District	6,793	5,868	7,033	8,420	8,204
Ventura County Flood Control District	2,547	4,671	5,624	6,324	6,314
TOTAL	**$828,119**	**$909,716**	**$956,229**	**$1,124,378**	**$1,027,682**

(1) Contractor payments made in each year include the payment of 125 percent of annual debt service for the Bonds in that year, the amount of such payments that is not required to pay debt service on the Bonds in that year is credited back to the Contractors, the historical payments do not reflect such credits or any other subsequent adjustments.

(2) As of July 1, 1989, Santa Barbara County FCWCD transferred certain of its rights under its Water Supply Contract to certain local water purveyors and users within Santa Barbara County. Thereafter, on September 26, 1991, the local water purveyors and users transferred those rights to the Central Coast Water Authority in consideration for its agreement to provide for the delivery of State Water Project water to the local water purveyors and users. Although the Department did not object to these transfers, the Department considers Santa Barbara County FCWCD to be the party to which the Department is obligated under the Water Supply Contract, and the Department did not release Santa Barbara County FCWCD from its Water Supply Contract obligations.

(3) Have not signed the Monterey Amendment.

Source: Department of Water Resources, State Water Project Analysis Office

Certain Selected Financial Information

Relative Contributions of Contractors. The following table lists the three largest Contractors based on projected payments (other than payments allocable to CVP Revenue Bond financed facilities) to the Department under the Water Supply Contracts.

Contractor	Projected Percentage Contribution
The Metropolitan Water District of Southern California	58%
Kern County Water Agency	10
Coachella Valley Water District	5
Twenty-six other Contractors	27
Total	**100%**

Metropolitan. The audited financial statements of Metropolitan for the year ended June 30, 2009, are incorporated herein by this reference. A copy of said financial statements can be obtained at http://www.munios.com, then searching for keyword "Northern California Power Agency Issue Two" and choosing the appropriate link.

Kern County Water Agency. The audited financial statements of Kern County Water Agency for the year ended June 30, 2009, are incorporated herein by this reference. Copies of said financial statements can be obtained at http://www.munios.com, then searching for keyword "Northern California Power Agency Issue Two" and choosing the appropriate link.

Coachella Valley Water District. The audited financial statements of Coachella Valley Water District for the year ended June 30, 2009, are incorporated herein by this reference. A copy of said financial statements can be obtained at http://www.munios.com, then searching for keyword "Northern California Power Agency Issue Two" and choosing the appropriate link.

Certain Limitations. The Department has made no independent verification of the data contained in the audited financial statements of any Contractor and makes no representations as to its correctness, completeness, or comparability. Macias, Gini & O'Connell LLP, independent auditors for the State Water Resources Development System, are not the independent auditors for any of the three largest Contractors listed in the table above.

CERTAIN LIMITATIONS ON CONTRACTOR REVENUE SOURCES

The Water Supply Contracts, in accordance with a statutory requirement, provide that whenever a Contractor fails or is unable to raise sufficient funds by other means, the Contractor must levy on all property in the Contractor's territory not exempt from taxation a tax or assessment sufficient to provide for all payments under the Water Supply Contract. This section describes certain constitutional or statutory provisions that may limit the ability of some or all of the Contractors to levy and collect fees, charges, taxes or assessments.

Article XIII A of the Constitution

An initiative measure approved by the California voters on June 6, 1978 (Proposition 13), added Article XIII A to the California Constitution. Section 1(a) of Article XIII A limits the maximum *ad valorem* taxes on real property to one percent of the "full cash value" of the property. "Full cash value" is

defined as the valuation of real property as shown on the 1975-76 tax roll, and thereafter the appraised value of property when purchased, newly constructed or a change in ownership has occurred. The value base of the property may also be increased to reflect the inflation rate, but not to exceed 2 percent per year. An exception to the one percent tax limit is provided for in Section 1(b) which, as amended by the voters on June 3, 1986, reads in relevant part as follows:

> "The limitation provided for in subdivision (a) shall not apply to *ad valorem* taxes or special assessments to pay the interest and redemption charges on . . . any indebtedness approved by the voters prior to July 1, 1978 . . . ."

In 1983, the Court of Appeal concluded that taxes levied by the Contractors to make payments under the Water Supply Contracts come within the Section 1(b) exception to the general taxing limitation imposed by Article XIII A. (*Goodman v. County of Riverside*, 140 Cal. App. 3d 900 (1983)). As a result of this finding, the Court determined there was no need to address the issue of whether the application of Article XIII A to limit the levying of taxes to make payments under the Water Supply contracts would constitute an unconstitutional impairment of contract. The Court stated:

> ". . .[W]e conclude, when the state's voters approved the Act, that they approved an indebtedness in the amount necessary for building, operating, maintaining, and replacing the Project, and that they intended that the costs were to be met by payments from local agencies with water contracts. Further, we conclude that the voters necessarily approved the use of local property taxes whenever the boards of directors of the agencies determined such use to be necessary to fund their water contract obligations, and that the *ad valorem* taxes levied by [Desert Water Agency] fall within the exception of section 1, subdivision (b) [of Article XIII A].
>
> Our conclusion here does away with the necessity to address the issue of impairment of contractual obligations."

The California Supreme Court denied a petition for hearing on July 14, 1983.

On June 3, 1986, the voters approved an amendment to Section 1(b) of Article XIII A permitting *ad valorem* taxes or special assessments in excess of the one percent limit in Section 1(a) to pay the interest and redemption charges on any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition.

Article XIII B of the Constitution

An initiative amendment to the California Constitution (Article XIII B) was approved by the California electorate on November 6, 1979. This amendment establishes limits on certain annual appropriations of state and local government entities. Initially, the limits are based generally on appropriations for the fiscal year 1978-79 with future adjustments permitted for changes in the cost of living, population and certain other factors. The definition of appropriations subject to limitation is stated so as to exclude, among other things, (1) appropriations of proceeds received by a government entity from user fees to the extent such proceeds do not exceed the costs reasonably borne by such entity in providing the product or service, (2) the appropriations of any special district "which did not as of the 1977-78 fiscal year levy an *ad valorem* tax on property in excess of 12 1/2 cents per $100 of assessed value," and (3) "appropriations required to pay the cost of interest and redemption charges, including the funding of any reserve or sinking fund required in connection therewith, on indebtedness existing or legally authorized as of January 1, 1979, or a bonded indebtedness thereafter approved . . ." by vote of the electors of the issuing entity. In addition, the amendment provides that nothing in it "shall be construed

to impair the ability of the State or any local government to meet its obligations with respect to existing or future bonded indebtedness."

The Department's experience is that Article XIII B has not significantly impaired the State's ability to appropriate funds for the State Water Project nor has it significantly limited the appropriations by Contractors to make payments under the Water Supply Contracts from revenues received from charges for water or other products or services or from the proceeds of taxes.

Article XIII C and Article XIII D of the Constitution

A substantial portion of the revenues of the Contractors is derived from the collection of charges for water service. In addition, each Contractor has agreed to levy a tax or assessment sufficient to provide for all payments under its Water Supply Contract if it is unable to raise sufficient funds by other means. The Contractors' ability to collect such charges, and to levy such taxes or assessments, may be limited by the Right to Vote on Taxes Act ("Proposition 218"), an initiative amendment to the California Constitution approved by the California voters in November 1996.

Proposition 218 added Articles XIIIC and XIIID to the California Constitution, creating additional requirements for the imposition by most local governments of "general taxes," "special taxes," "assessments," "fees," and "charges." Article XIIID imposes substantive and procedural requirements on the imposition, extension or increase of any "fee" or "charge" subject to its provisions. A "fee" or "charge" subject to Article XIIID includes any levy, other than an ad valorem tax, special tax or assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership. Article XIIID prohibits, among other things, the imposition of any proposed fee or charge, and, possibly, the increase of any existing fee or charge, in the event written protests against the proposed fee or charge are presented at a required public hearing on the fee or charge by a majority of owners of the parcels upon which the fee or charge is to be imposed. Except for fees and charges for water, sewer and refuse collection services, the approval of a majority of the property owners subject to the fee or charge, or at the option of the agency, by a two-thirds vote of the electorate residing in the affected area, is required within 45 days following the public hearing on any such proposed new or increased fee or charge. The California Supreme Court decisions in Richmond v. Shasta Community Services District, 32 Cal. 4th 409 (2004) ("Richmond"), and Bighorn-Desert View Water Agency vs. Verjil (published July 24, 2006) ("Bighorn") have clarified some of the uncertainty surrounding the applicability of Section 6 of Article XIIID to service fees and charges. In Richmond, the Shasta Community Services District charged a water connection fee, which included a capacity charge for capital improvements to the water system and a fire suppression charge. The Court held that both the capacity charge and the fire suppression charge were not subject to Article XIIID because a water connection fee is not a property-related fee or charge because it results from the property owner's voluntary decision to apply for the connection. In both Richmond and Bighorn, however, the Court stated that a fee for ongoing water service through an existing connection is imposed "as an incident of property ownership" within the meaning of Article XIIID, rejecting, in Bighorn, the water agency's argument that consumption-based water charges are not imposed "as an incident of property ownership" but as a result of the voluntary decisions of customers as to how much water to use.

Article XIIID also provides that "standby charges" are considered "assessments" and must follow the procedures required for "assessments" under Article XIIID and imposes several procedural requirements for the imposition of any assessment, which may include (1) various notice requirements, including the requirement to mail a ballot to owners of the affected property; (2) the substitution of a property owner ballot procedure for the traditional written protest procedure, and providing that "majority protest" exists when ballots (weighted according to proportional financial obligation) submitted in opposition exceed ballots in favor of the assessments; and (3) the requirement that the levying entity

"separate the general benefits from the special benefits conferred on a parcel" of land. Article XIIID also precludes standby charges for services that are not immediately available to the parcel being charged.

Article XIIID provides that all existing, new or increased assessments are to comply with its provisions beginning July 1, 1997. Existing assessments imposed on or before November 5, 1996, and "imposed exclusively to finance the capital costs or maintenance and operations expenses for [among other things] water" are exempted from some of the provisions of Article XIIID applicable to assessments.

Article XIIIC extends the people's initiative power to reduce or repeal existing local taxes, assessments, fees and charges. This extension of the initiative power is not limited by the terms of Article XIIIC to fees, taxes, assessment fees and charges imposed after November 6, 1996 and absent other authority could result in retroactive reduction in any existing taxes, assessments, fees or charges. In Bighorn, the Court concluded that under Article XIIIC local voters by initiative may reduce a public agency's water rates and delivery charges. The Court noted, however, that it was not holding that the authorized initiative power is free of all limitations, stating that it was not determining whether the electorate's initiative power is subject to the public agency's statutory obligation to set water service charges at a level that will "pay the operating expenses of the agency, … provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due."

No assurance may be given that Articles XIIIC and XIIID will not have a material adverse impact on Net Revenues.

Other Initiative Measures

Articles XIIIA, XIIIB, XIIIC and XIIID were adopted pursuant to California's constitutional initiative process. From time to time other initiative measures could be adopted by California voters, placing additional limitations on the ability of the Contractors to increase revenues.

Special Limitations Applicable to Metropolitan

In 1983, the California Legislature placed additional restrictions on the taxing power of Metropolitan. The restrictions reflected the ongoing debates among Metropolitan's member agencies over whether to continue using property taxes as a major source of revenue or whether to shift to reliance on water rates. The legislation permitted Metropolitan to raise its property tax rate above one percent only under limited circumstances. The rate could be higher in 1983-84, but in 1984-85 and 1985-86, the rate would have to return to its 1982-83 level unless 80 percent of Metropolitan's board found that a fiscal emergency existed. The bill also required Metropolitan to report to the Legislature regarding its efforts to reduce its reliance on property taxes. Metropolitan reached an agreement among its member agencies for gradually shifting to an increased reliance on water rates and filed its report. In response, the Legislature codified the agreement in SB 1445 in 1984 (Chapter 271, Statutes of 1984), which, among other things, made several amendments to Metropolitan's organizing Act. One provision provides that commencing with fiscal year 1990-91, any *ad valorem* property tax levied by Metropolitan, other than special annexation tax levies, shall not exceed the composite amount required to pay (1) its general obligation bond debt service, and (2) that portion of its Water Supply Contract payment that is reasonably allocable, as determined by Metropolitan, to the portion of the debt service payment for the Burns-Porter Act bonds that were approved by the State's voters in 1960 and which were used to finance construction of facilities for the benefit of Metropolitan. This statutory tax levy restriction would not apply, however, if Metropolitan's board, following a hearing to consider the issue, should find that a tax in excess of the limitation would be essential to Metropolitan's fiscal integrity.

EMPLOYEE RELATIONS

The Ralph C. Dills Act, enacted in 1977, provides that State employees have a right to form, join, and participate in the activities of employee organizations for the purpose of representation on all matters of employer-employee relations. However, once an employee organization is recognized as the exclusive representative of a bargaining unit, only that organization may represent the bargaining unit employees. The Department has approximately 2,670 full-time employees of whom approximately 2,076 are represented in 10 of the 21 statewide bargaining units adopted by the Public Employment Relations Board ("PERB") for collective bargaining purposes. The remainder of the Department's employees are not covered by collective bargaining agreements because of their managerial, supervisory or confidential status.

The scope of representation is limited to wages, hours, and other terms and conditions of employment. Representatives of the Governor are required to meet and confer in good faith and endeavor to reach agreement with the employee organization, and, if agreements are reached, to prepare a memoranda of understanding and present them to the Legislature for approval. In cases where the parties are unable to reach agreement, either party may request the PERB to appoint a mediator to assist them in reconciling a dispute.

Ten bargaining units represent employees of the Department. All ten of the Memorandums of Understanding ("MOUs") expired on or before July 2, 2008, although these MOUs continue in effect as provided by State law. Negotiations for successor agreements to the expired MOUs continue. It is expected that negotiations with these bargaining units will be ongoing until agreements on successor MOUs are reached. The Department expects these negotiations to be completed in due course without material adverse impact to the Department's financial condition or operations.

The State's 2008-2009 budget difficulties prompted Governor Arnold Schwarzenegger to issue Executive Order S-16-08 that requires all State agencies and departments to implement a furlough of represented state employees and supervisors for three days per month. As implemented, departments like the Department, which must operate facilities like the State Water Project 24 hours a day, are given some flexibility in putting the furloughs into practice. Employees essential to the operation of the State Water Project still face a salary reduction, but take their actual unpaid days off at any time during a designated period. The Department does not expect that furloughs, alone, will affect State Water Project operations.

FINANCIAL STATEMENTS

The financial statements of the State Water Resources Development System for the years ending June 30, 2009, and June 30, 2008, and for the years then ended, appearing in Exhibit 2 to this Appendix B have been audited by Macias, Gini & O'Connell LLP, independent auditors, as set forth in the report of Macias, Gini & O'Connell LLP appearing in Exhibit 2 to this Appendix B.

The State Water Resources Development System consists principally of the State Water Project and includes the Davis-Grunsky Act Program and the San Joaquin Valley Drainage Program.

EXHIBIT 1 TO APPENDIX B

ESTIMATED DIRECT AND OVERLAPPING DEBT

The data presented in this Exhibit summarize certain information regarding taxes and tax-supported debt outstanding within the service territories of the three Contractors that are expected to provide the largest payments (other than payments allocable to CVP Revenue Bond financed facilities) to the Department under the Water Supply Contracts. These three Contractors and their expected percentage of such payments to the Department under the Water Supply Contracts are as follows:

Contractor	Percentage Contribution
The Metropolitan Water District of Southern California	58%
Coachella Valley Water District	5
Kern County Water Agency	10
Twenty-six other Contractors	27
TOTAL	**100%**

The Department has made no independent verification of the data contained herein and makes no representations as to its correctness, completeness, or comparability.

Macias, Gini & O'Connell LLP, independent auditors for the State Water Resources Development System, are not the independent auditors for any of the Contractors described in this Exhibit 1 to Appendix B.

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT
(unaudited)

June 30, 2009

2008-09 Assessed Valuation:	$2,120,944,531,740
Redevelopment Incremental Valuation:	277,277,917,689
Adjusted Assessed Valuation:	$1,843,666,614,051

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 6/30/09
Los Angeles County Flood Control District	94.093%	$ 79,701,476
Community College Districts	Various	6,122,902,606
Los Angeles Unified School District	99.618	8,015,483,440
San Diego Unified School District	99.946	1,549,337,554
Other Unified School Districts	Various	7,234,811,230
High School and School Districts	Various	3,178,398,126
City of Los Angeles	99.994	1,298,007,115
Other Cities	Various	413,816,771
Irvine Ranch Water District Improvement Districts	99.902-100.	417,062,246
Santa Margarita Water District Improvement Districts	100.	207,635,000
Other Water Districts	Various	75,669,188
Other Special Districts	100.	489,762,887
Community Facilities Districts	Various	7,750,125,505
1915 Act Bonds and Other Special Assessment District Bonds	Various	1,933,518,080
TOTAL GROSS OVERLAPPING TAX AND ASSESSMENT DEBT		$ 38,766,231,224
Less: Mello-Roos Act bonds supported by tax increment revenues		24,230,000
TOTAL NET OVERLAPPING TAX AND ASSESSMENT DEBT		$ 38,742,001,224
METROPOLITAN WATER DISTRICT TOTAL DIRECT DEBT		**$ 293,425,000**
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$ 39,059,656,224
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$ 39,035,426,224
OVERLAPPING GENERAL FUND DEBT:		
Los Angeles County Obligations	92.408%	$ 1,090,910,002
Orange County Obligations	99.854	550,490,110
Riverside County Obligations	72.421	833,677,716
San Diego County Obligations	96.617	1,415,900,798
Other Counties Obligations	Various	708,078,891
City of Anaheim General Fund Obligations	99.733	658,958,336
City of Long Beach General Fund Obligations and Pension Obligations	100.	355,060,000
City of Los Angeles General Fund and Judgment Obligations	99.994	1,915,980,034
City of Pasadena General Fund and Pension Obligations	100.	498,737,595
City of San Diego General Fund Obligations	99.934	434,003,369
Other City General Fund Obligations	Various	3,198,684,431
Water District General Fund Obligations	Various	236,910,071
Los Angeles Unified School District Certificates of Participation	99.618	438,669,566
Other School District General Fund Obligations	Various	2,155,792,025
Other Special District General Fund Obligations	Various	395,333,488
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		$ 14,887,186,432
Less: Obligation supported from other revenue sources		1,176,509,655
TOTAL NET OVERLAPPING GENERAL FUND DEBT		$ 13,710,676,777
GROSS COMBINED TOTAL DEBT		$53,946,842,656[(1)]
NET COMBINED TOTAL DEBT		$52,746,103,001[(1)]

(1) Debt instruments included are general obligation bonds, lease revenue bonds and certificates of participation (when supported by the general fund), pension obligation bonds, 1915 Act special assessment bonds and Mello-Roos Act special assessment bonds. Excluded are enterprise revenue bonds, tax allocation bonds, mortgage revenue bonds, tax and revenue anticipation notes and non-bonded capital lease obligations.

Ratios to 2008-09 Assessed Valuation:

Direct Debt ($293,425,000)	**0.01%**
Total Gross Direct and Overlapping Tax and Assessment Debt	1.84%
Total Net Direct and Overlapping Tax and Assessment Debt	1.84%

Ratios to Adjusted Assessed Valuation:

Gross Combined Total Debt	2.93%
Net Combined Total Debt	2.86%

Source: California Municipal Statistics, Inc.

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT
(unaudited)

June 30, 2009

Fiscal Year Ended 6/30	Assessed Valuation [1]	Tax on Secured Property[2]	Delinquencies at June 30		Tax Rate Per $100 Assessed Valuation	
			Amount	Percent	Agency Total Rate[3]	Typical Total Rate
1994	$ 802,129,610,162	$59,612,366	$3,412,019	5.72%[5]	0.0089	1.037135
1995	807,661,342,152	55,677,215	2,333,451	4.30[5]	0.0089	1.046181
1996	802,593,757,003	56,452,511	3,837,697	6.80[5]	0.0089	1.053047
1997	804,045,644,470	[4]	[4]	[4]	0.0089	1.051802
1998	817,424,957,700	[4]	[4]	[4]	0.0089	1.055796
1999	851,898,186,329	[4]	[4]	[4]	0.0089	1.067214
2000	910,809,885,402	[4]	[4]	[4]	0.0089	1.074728
2001	980,279,077,736	[4]	[4]	[4]	0.0088	1.078822
2002	1,169,293,222,451	[4]	[4]	[4]	0.0077	1.114077
2003	1,258,093,521,782	[4]	[4]	[4]	0.0067	1.102497
2004	1,359,534,425,177	[4]	[4]	[4]	0.0061	1.155130
2005	1,478,635,379,913	[4]	[4]	[4]	0.0058	1.169638
2006	1,643,013,823,543	[4]	[4]	[4]	0.0052	1.155967
2007	1,839,880,963,698	[4]	[4]	[4]	0.0047	1.179045
2008	1,015,721,475,188	[4]	[4]	[4]	0.0045	1.174687
2009	2,120,944,531,740	[4]	[4]	[4]	0.0043	1.189738

Direct and Overlapping Bonded Debt at June 30, 2009:

Total Gross Direct Debt	$293,425,000
Less: Self-supporting Debt	0
Total Net Direct Debt	$293,425,000
Total Gross Overlapping Tax and Assessment Debt	$38,766,231,244
Less: Self-supporting Debt	24,230,000
Total Net Overlapping Tax and Assessment Debt	$38,742,001,224
Gross Direct and Overlapping Tax and Assessment Debt	$39,059,656,224
Net Direct and Overlapping Tax and Assessment Debt	$39,035,426,224
Total Gross Overlapping General Fund Obligation Debt	$14,887,186,432
Less: Self-supporting Debt	1,176,509,655
Total Net Overlapping General Fund Obligation Debt	$13,710,676,777
Gross Direct and Overlapping Bonded Debt	$53,946,842,656
Net Direct and Overlapping Bonded Debt	$52,746,103,001

Ratios to Assessed Valuation at June 30, 2009:

Gross Direct Debt	0.01%
Net Direct Debt	0.01%
Gross Direct and Overlapping Tax and Assessment Debt	1.84%
Net Direct and Overlapping Tax and Assessment Debt	1.84%
Total Gross Direct and Overlapping Bonded Debt	2.54%
Total Net Direct and Overlapping Bonded Debt	2.49%

(1) Assessed Valuations are based on 100% of cash value beginning in 1981-82, rather than 25% as in previous years. The assessed valuations include state-reimbursable exemptions and exclude redevelopment incremental valuations. Beginning in 1988-89, assessed valuations exclude unitary utility valuations.

(2) Excludes tax levy on inventories and other unsecured property.

(3) Base rate for all member areas. Some areas added after formation of the District pay higher rates.

(4) Information unavailable.

(5) Los Angeles County portion only.

Source: California Municipal Statistics, Inc.

COACHELLA VALLEY WATER DISTRICT
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT
(unaudited)

June 30, 2009

2008-09 Assessed Valuation:	$59,452,782,695
Redevelopment Incremental Valuation:	33,544,695,554
Adjusted Assessed Valuation	$25,908,087,141

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	**% Applicable**	**Debt 6/30/09**
Desert Community College District	70.064%	$228,317,211
Imperial Community College District	0.434	245,969
Coachella Valley Unified School District	98.928	91,308,029
Desert Sands Unified School District	99.756	295,630,742
Palm Springs Unified School District	29.101	67,467,758
Other School Districts	Various	743,914
Healthcare Districts	Various	3,143,554
Coachella Valley Water District	**100.**	**-**
Coachella Valley Water District, I.D. No. 54	100.	2,975,000
Coachella Valley Water District, I.D. No. 55	100.	4,170,000
Coachella Valley Water District, I.D. No. 58	100.	1,960,000
Coachella Valley Water District, Assessment District No. 32	100.	290,000
Coachella Valley Water District, Assessment District No. 68	100.	2,185,000
Coachella Valley Water District, Assessment District No. 70	100.	7,715,000
Other 1915 Act Bonds (Estimate)	100.	116,229,351
Community Facilities Districts	100.	144,635,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$967,016,528
OVERLAPPING GENERAL FUND DEBT:		
Riverside County General Fund Obligations	14.703%	$111,859,639
Riverside County Pension Obligations	14.703	56,178,693
Riverside County Board of Education Certificates of Participation	14.703	1,215,938
Imperial County Certificates of Participation	5.253	217,474
Imperial County Pension Obligations	5.253	3,117,918
Imperial County Office of Education Certificates of Participation	5.253	74,593
Imperial Community College District General Fund Obligations	0.434	20,029
Coachella Valley Unified School District Certificates of Participation	98.787	52,302,777
Desert Sands Unified School District Certificates of Participation	99.756	72,328,088
City of Cathedral City General Fund Obligations	63.223	3,322,369
City of Indio General Fund Obligations	99.889	39,281,349
City of La Quinta General Fund Obligations	100.	5,160,000
City of Palm Springs General Fund Obligations and Pension Obligations	0.507	653,023
City of Rancho Mirage General Fund Obligations	100.	5,310,000
Coachella Valley Recreation and Park Certificates of Participation	99.566	2,444,345
Coachella Valley Water District, I.D. No. 71 Certificates of Participation	100.	5,240,000
TOTAL GROSS GENERAL FUND DEBT		$358,726,235
Less: Riverside County self-supporting obligations		2,404,585
TOTAL NET GENERAL FUND DEBT		$356,321,650
GROSS COMBINED TOTAL DEBT		$1,325,742,763[1]
NET COMBINED TOTAL DEBT		$1,323,338,178

[1] Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2008-09 Assessed Valuation:	
Direct Debt	**-%**
Total Direct and Overlapping Tax and Assessment Debt	1.63%
Ratios to Adjusted Assessed Valuation:	
Gross Combined Total Debt	5.12%
Net Combined Total Debt	5.11%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/09:

Source: California Municipal Statistics, Inc.

COACHELLA VALLEY WATER DISTRICT
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT
(unaudited)

June 30, 2009

Fiscal Year Ended 6/30	Assessed Valuation[1]	Tax on Secured Property[2]	Delinquencies at June 30[3]		Tax Rate Per $100 Assessed Valuation	
			Amount	Percent	Agency Total Rate	Typical Total Rate
1993	$15,933,139,766	$ 4,086,923.63	$ 265,911.17	6.51%	0.02699	1.12536
1994	16,617,787,973	3,296,978.19	278,063.84	8.43	0.02080	1.25530
1995	16,798,285,297	3,311,559.18	123,009.50	3.71	0.02080	1.22420
1996	16,938,676,392	3,356,357.44	109,466.64	3.26	0.02080	1.21250
1997	16,944,871,529	3,373,490.35	104,549.58	3.10	0.02080	1.19670
1998	17,431,124,620	Not available			0.02080	1.19490
1999	17,859,826,742	3,580,972.04	84,861.73	2.37	0.02080	1.19140
2000	19,381,992,367	3,850,884.44	93,321.20	2.42	0.02080	1.18600
2001	22,090,496,422	4,401,077.67	120,299.67	2.73	0.02080	1.15890
2002	24,721,820,071	Not available			0.02080	1.14890
2003	27,873,986,912	5,600,253.56	148,149.68	2.65	0.02080	1.14890
2004	31,007,578,120	6,204,429.25	121,112.90	1.95	0.02080	1.14700
2005	34,689,838,224	7,010,229.60	165,232.40	2.36	0.02080	1.16345
2006	40,849,315,754	8,297,735.25	232,316.42	2.80	0.02080	1.14269
2007	49,369,258,966	10,081,434.09	455,568.32	4.52	0.02080	1.13248
2008	57,138,070,411	22,027,814.70	1,200,899.03	5.45	0.04000	1.13786
2009	59,452,782,695	22,833,708.14	1,343,206.18	5.88	0.04000	1.13985

Direct and Overlapping Bonded Debt at June 30, 2009:

Total Gross Direct Debt	$ 0
Less: Self-supporting Debt	0
Total Net Direct Debt	$ 0
Total Gross Overlapping Tax and Assessment Debt	$967,016,528
Less: Self-supporting Debt	0
Total Net Overlapping Tax and Assessment Debt	$967,016,528
Total Gross Overlapping General Fund Debt	$358,726,325
Less: Self-supporting Debt	2,404,585
Total Net Overlapping General Fund Debt	$356,321,650
Total Gross Direct and Overlapping Bonded Debt	$1,325,742,763
Total Net Direct and Overlapping Bonded Debt	$1,323,338,178

Ratio to Assessed Valuation at June 30, 2009:

Gross Direct Debt	0.00%
Net Direct Debt	0.00%
Total Gross Overlapping Tax and Assessment Debt	1.63%
Total Net Overlapping Tax and Assessment Debt	1.63%
Gross Direct and Overlapping Bonded Debt	2.23%
Net Direct and Overlapping Bonded Debt	2.23%

(1) Assessed Valuations are based on 100% of cash value beginning in 1981-82, rather than 25% as in previous years. The assessed valuations include state-reimbursable exemptions and include redevelopment incremental valuations. Beginning in 1988-89, assessed valuations exclude unitary utility valuations.

(2) Excludes tax levy on inventories and other unsecured property.

(3) Riverside County portion only.

Source: California Municipal Statistics, Inc.

KERN COUNTY WATER AGENCY
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT
(unaudited)

June 30, 2009

2008-09 Assessed Valuation:	$78,643,232,057
Redevelopment Incremental Valuation:	2,876,800,278
Adjusted Assessed Valuation:	$75,766,431,779

OVERLAPPING TAX AND ASSESSMENT DEBT:	**% Applicable**	**Debt 6/30/09**
Kern Community College Safety, Repair and Improvement District	90.099%	$ 103,957,319
Antelope Valley Joint Community College District and West Kern Community College District	0.184 & 100.	37,429,504
Sierra Sands Joint Unified School District	98.772	24,341,796
Tehachapi Unified School District	99.195	20,534,721
Other Unified School Districts	3.030-100.	25,230,482
Kern High School District	99.636	231,489,301
Other Union High School District	75.343-100.	52,885,197
Bakersfield School District	100.	48,500,027
Delano Union School District	100.	43,243,652
Fruitvale School District	100.	25,776,159
Greenfield Union School District	100.	18,688,406
Richland School District	100.	21,164,594
Taft School District	100.	18,624,031
Other School Districts	56.876-100.	128,027,152
Water Districts	100.	2,351,000
Water Storage Districts	100.	10,215,000
Tehachapi Valley Healthcare District	100.	11,972,083
Bear Valley Community Services District, I.D. No. 2	100.	4,725,000
Buttonwillow Recreation and Park District	100.	4,870,000
Community Facilities Districts	100.	82,730,000
1915 Act Bonds (Estimated)	100.	92,800,336
TOTAL GROSS OVERLAPPING TAX AND ASSESSMENT DEBT		$1,009,555,760
Less: Water Storage Districts self-supporting issues		6,050,000
TOTAL NET OVERLAPPING TAX AND ASSESSMENT DEBT		$1,003,505,760
DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
Kern County General Fund Obligations	96.041%	$ 136,695,155
Kern County Pension Obligations	96.041	458,745,663
Kern County Board of Education Certificates of Participation	96.041	52,572,843
Kern County Water Agency	**100.**	**-**
Community College District Certificates of Participation and Other Post Employment Benefit Bonds	Various	164,257,788
Kern High School District Certificates of Participation	99.636	119,134,765
Other High School Certificates of Participation	Various	182,809
Unified School District General Fund Obligations	Various	7,519,865
School District General Fund Obligations	100.	74,549,256
City of Bakersfield General Fund Obligations	100.	30,230,000
City of Ridgecrest Certificates of Participation	100.	8,830,000
City of Taft General Fund Obligations	100.	1,385,000
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		$1,054,103,144
GROSS COMBINED TOTAL DEBT		$2,063,658,904[1]
NET COMBINED TOTAL DEBT		$2,057,608,904

[1] Excludes tax and revenue anticipation notes, excludes enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2008-09 Assessed Valuation:

Total Gross Overlapping Tax and Assessment Debt	1.28%
Total Net Overlapping Tax and Assessment Debt	1.28%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt	**- %**
Gross Combined Total Debt	2.72%
Net Combined Total Debt	2.72%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/09: $0

Source: California Municipal Statistics, Inc.

KERN COUNTY WATER AGENCY
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT
(unaudited)

June 30, 2009

Fiscal Year Ended 6/30	Assessed Valuation[1]	Tax on Secured Property[2]	Delinquencies June 30		Tax Rate Per $100 Assessed Valuation		
						Typical Total rate	
			Amount	Percent	Agency Rate	City of Bakersfield Total Rate	Elk Hills School District
1993	$30,876,739,481	$11,729,145	$323,943	2.76%	0.069870	1.173054	1.020721
1994	32,986,554,039	12,246,716	364,041	2.97	0.066719	1.171248	1.020210
1995	30,100,052,112	9,370,510	287,927	3.07	0.070116	1.135179	1.019195
1996	30,538,512,132	12,656,809	338,224	2.67	0.095807	1.173827	1.020669
1997	31,943,215,222	13,283,378	395,321	2.98	0.091633	1.179749	1.022585
1998	34,411,749,796	12,984,313	480,525	3.70	0.091601	1.172489	1.019745
1999	32,692,348,290	13,035,390	282,929	2.17	0.089041	1.139540	1.016470
2000	36,368,798,648	(3)	(3)	(3)	0.088270	1.162026	1.035082
2001	38,813,931,812	15,981,366	295,032	1.85	0.077322	1.157759	1.017135
2002	41,429,323,346	15,210,702	339,798	2.23	0.061936	1.117621	1.015612
2003	39,976,729,738	15,776,379	476,821	3.02	0.060665	1.160526	1.019332
2004	42,165,212,745	18,525,332	(4)		0.063662	1.146391	1.021406
2005	45,443,236,748	18,318,629	(4)		0.063200	1.156496	1.056077
2006	52,596,138,408	(3)	(3)	(3)	0.047579	1.133705	1.055929
2007	64,149,863,242	(3)	(3)	(3)	0.038184	1.122182	1.047846
2008	71,491,760,384	(3)	(3)	(3)	0.053401	1.157296	1.050210
2009	75,766,431,779	(3)	(3)	(3)	0.052517	1.151185	1.054710

Direct and Overlapping Bonded Debt at June 30, 2009:

Total Gross Direct Debt	$0
Less: Self-supporting Debt	0
Total Net Direct Debt	$0
Total Gross Overlapping Tax and Assessment Debt	$1,009,555,760
Less: Self-supporting Debt	6,050,000
Total Net Overlapping Tax and Assessment Debt	$1,003,505,760
Total Gross Overlapping General Fund Debt	$1,054,103,144
Less: Self-supporting Debt	0
Total Net Overlapping General Fund Debt	$1,054,103,144
Gross Direct and Overlapping Bonded Debt	$2,063,658,904
Net Direct and Overlapping Bonded Debt	$2,057,608,904

Ratios to Assessed Valuation at June 30, 2009:

Gross Direct Debt	0.00%
Net Direct Debt	0.00%
Gross Direct and Overlapping Tax and Assessment Debt	1.33%
Net Direct and Overlapping Tax And Assessment Debt	1.32%
Gross Direct and Overlapping Bonded Debt	2.72%
Net Direct and Overlapping Bonded Debt	2.72%

(1) Assessed Valuations are based on 100% of cash value beginning in 1981-82, rather than 25% as in previous years. The assessed valuations include state-reimbursable exemptions and exclude redevelopment incremental valuations. Beginning in 1988-89, assessed valuations exclude unitary utility valuations.

(2) Excludes tax levy on inventories and other unsecured property.

(3) Information unavailable.

(4) Kern County utilizes the Teeter Plan for assessment levy and distribution. This method guarantees distribution of 100% of the assessments levied to the taxing entity, with the County retaining all penalties and interest.

Source: California Municipal Statistics, Inc.

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EXHIBIT 2 TO APPENDIX B

STATE WATER RESOURCES DEVELOPMENT SYSTEM
AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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State of California | The Natural Resources Agency | Department of Water Resources

ANNUAL REPORT

State Water Resources Development System

Financial Statements and Supplementary Information

YEARS ENDED JUNE 30

2009-2008

STATE OF CALIFORNIA
Arnold Schwarzenegger, Governor

THE NATURAL RESOURCES AGENCY
Michael J. Chrisman, Secretary for Natural Resources

DEPARTMENT OF WATER RESOURCES
Lester A. Snow, Director

Raphael A. Torres
Deputy Director

Susan Sims
Chief Deputy Director

James E. Libonati
Deputy Director

Gerald E. Johns
Deputy Director

John Pacheco
Acting Deputy Director

Mark W. Cowin
Deputy Director

David Sandino
Chief Counsel

Kasey D. Schimke
Assistant Director

Division of Fiscal Services
Perla M. Netto-Brown, Chief

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State Water Resources Development System

Financial Statements and Supplementary Information
For the years ended June 30, 2009 and 2008

State Water Resources Development System
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MACIAS GINI & O'CONNELL LLP
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WALNUT CREEK
OAKLAND
LOS ANGELES
NEWPORT BEACH
SAN MARCOS
SAN DIEGO

The Director of the State of California
Department of Water Resources

Independent Auditor's Report

We have audited the accompanying basic financial statements of the State Water Resources Development System (System), a component unit of the State of California, as of and for the fiscal years ended June 30, 2009 and 2008. These financial statements are the responsibility of the System'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 audit to obtain reasonable assurance about whether the financial statements are free from 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 System'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 financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, effective July 1, 2007, the System implemented Governmental Accounting Standards Board (GASB) Statements No. 45, Accounting *and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and No. 50, *Pension Disclosures*.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
January 16, 2010

Management's Discussion and Analysis

This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in the financial position of the State Water Resources Development System (the System), which is administered by the California Department of Water Resources (DWR). Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follow *Management's Discussion and Analysis*. This discussion and analysis and the financial statements do not relate to DWR's other governmental and proprietary funds. The System includes the State Water Project (SWP), the Davis-Grunsky Act Program and the San Joaquin Drainage Implementation Program.

The SWP encompasses a complex of dams, reservoirs, pumping plants, power plants, aqueducts and pipelines owned and operated by the State of California. The SWP was developed in order to deliver water to areas of need throughout the State for domestic, industrial and agricultural purposes, as well as to provide flood control, recreation, fish and wildlife enhancement, hydroelectric power and other benefits. DWR is responsible for the planning, construction and operation of the SWP. The construction program commenced in 1957 and approximately 700 miles of the System has been completed. The System has entered into long-term water supply contracts with 29 customers; known as the "Water Contractors," in order to recover substantially all System costs. The Water Contractors may request up to maximum annual amounts totaling 4,172,786 acre-feet of water from the System. This maximum does not assure delivery of that amount of water, but rather provides the basis for proportional allocation of available supplies among the Water Contractors.

Portions of the SWP system consist of facilities developed and used jointly with the Federal Central Valley Water Project (CVP) operated by the U.S. Bureau of Reclamation (USBR). In addition, both projects have primary sources of water north of the Sacramento-San Joaquin Delta (Delta), transport water across the Delta and draw water from the southern edge of the Delta. The CVP, like the SWP, provides water for irrigation in the Central Valley, urban water supply, water quality, flood control, power, recreation, and fish and wildlife enhancement. Costs for the jointly developed facilities are shared approximately 55 percent State and 45 percent Federal. In 1986, the System and USBR entered into a Coordinated Operation Agreement (COA) under which the SWP and the CVP coordinate operations, including releases from upstream reservoirs and pumping from the Delta. The COA permits increased operational efficiency of both projects, ensures that each project receives an equitable share of available surplus water, and provides for sharing of responsibilities in meeting certain Delta water quality standards.

Financial Highlights

- The System recorded a decrease in total assets of $112.9 million on total operating revenues of $914.8 million. This did not cause a decrease in net assets as a result of appropriately reflecting the timing differences in the deferral of expenses incurred and the deferral of capital recovery.

- In March 2009, the System issued CVP Water System Revenue Bonds Series AF with a par amount of $287.7 million and a premium of $15.0 million with an average yield on the bonds of 4.18%. The bond proceeds along with System funds on hand in the

amount of $9.5 million were used to defease $266.7 million of outstanding bonds, redeem commercial paper borrowings of $33.3 million, fund capitalized interest of $1.3 million, fund deposits to the debt service reserve account of $2.4 million, and cover costs of issuance of $1.6 million.

- In March 2009, the Department of Water Resources entered into a cooperative agreement with the United States Bureau of Reclamation (USBR) for the Delta Habitat Conservation and Conveyance Program (DHCCP). The DHCCP is being conducted to complete general planning studies, preliminary engineering, and environmental analysis and documentation to evaluate the effectiveness of implementing measures that contribute to the conservation and rehabilitation of fish and wildlife species in the Sacramento-San Joaquin Delta. In accordance with the Memorandum of Agreement, 50% of the costs will be the Federal Share of the program costs. The Federal Share will be collected from the Delta Mendota Water Authority and as allowed under Federal appropriations law, via in-kind services and the Cooperative Agreement, from USBR.

- During fiscal 2009, the System was a party to certain power purchasing contracts with Morgan Stanley. These contracts require the System to pay market rates for the natural gas used to produce such power. As a result, the System established a natural gas hedging program designed to stabilize the cost of its natural gas. This hedging program causes the System to enter into contracts for the future purchase of natural gas at known costs to hedge against market swings in price. As of June 30, 2009, the System had 375 contracts outstanding, and realized a loss of $4.7 million for fiscal 2009. Losses are realized at the end of the contract service period, when contracts expire. This loss is recoverable through the Variable revenue collected by the System.

Overview of Financial Statements

Reports Included in Financial Statements

The System is accounted for as an enterprise fund. Enterprise funds account for the acquisition, operation, and maintenance of governmental facilities and services that are entirely or predominantly self-supported by user charges. This financial report consists of three financial statements, prepared on the accrual basis of accounting, with accompanying disclosure notes. These financial statements report information using accounting methods similar (although not identical) to those used by private sector companies. The statements of net assets include all the assets, liabilities and the net assets of the System. The statements of revenues, expenses, and changes in net assets report all of the revenues and expenses incurred during the fiscal years presented. The statements of cash flows report the cash inflows and outflows classified by operating, investing, noncapital financing and capital and related financing activities during the reporting periods presented. The notes to the financial statements communicate information that is required by generally accepted accounting principles.

Condensed Statements of Net Assets

	2009	2008	2007	%Change 2009-2008	%Change 2008-2007
	(amounts in thousands)				
Total utility plant	$ 3,099,602	$ 3,074,755	$ 3,037,663	0.8%	1.2%
Other assets	1,959,439	2,097,223	2,156,502	-6.6%	-2.7%
Total assets	$ 5,059,041	$ 5,171,978	$ 5,194,165	-2.2%	-0.4%
Capitalization:					
Net assets:					
Capital, net of related debt	$ 272,984	$ 127,858	$ 98,490	113.5%	29.8%
Restricted	932,447	1,077,573	1,106,941	-13.5%	-2.7%
Total net assets	1,205,431	1,205,431	1,205,431	0.0%	0.0%
Total long-term debt	3,041,111	3,156,526	3,210,305	-3.7%	-1.7%
Total capitalization	4,246,542	4,361,957	4,415,736	-2.6%	-1.2%
Other liabilities	812,499	810,021	778,429	0.3%	4.1%
Total net assets and liabilities	$ 5,059,041	$ 5,171,978	$ 5,194,165	-2.2%	-0.4%

Condensed Statements of Revenues, Expenses, and Changes in Net Assets

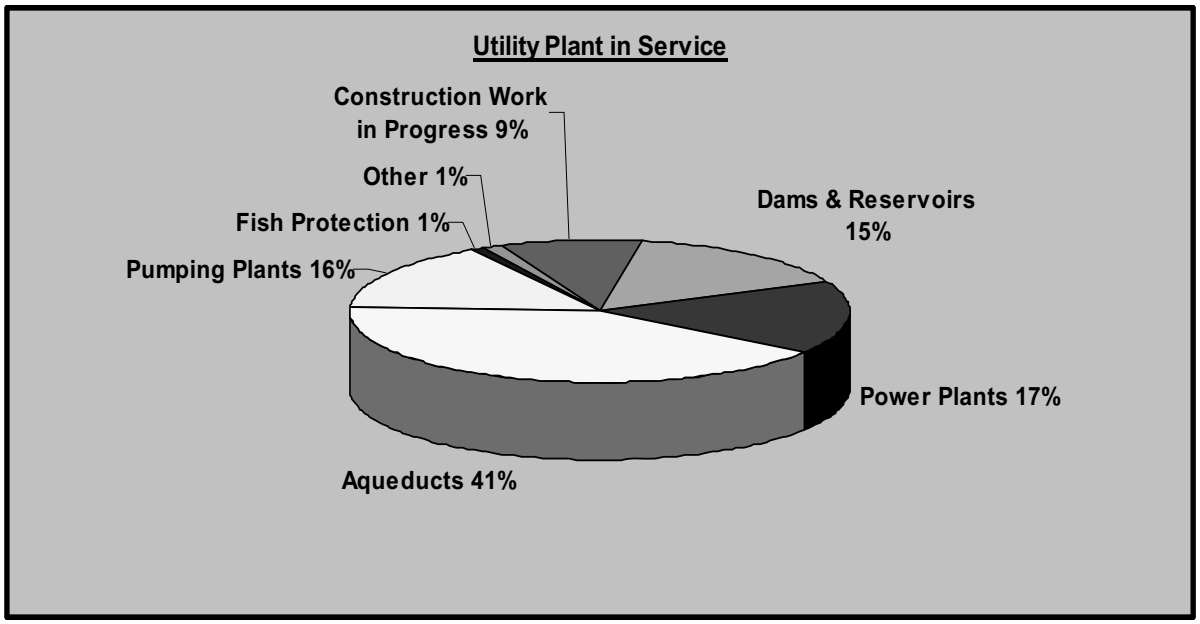
	2009	2008	2007	%Change 2009-2008	%Change 2008-2007
	(amounts in thousands)				
Water supply	$ 721,253	$ 752,853	$ 704,921	-4.2%	6.8%
Power sales	175,318	215,430	222,206	-18.6%	-3.0%
Federal reimbursements	18,266	20,992	24,463	-13.0%	-14.2%
Total operating revenues	914,837	989,275	951,590	-7.5%	4.0%
Operations and maintenance expense	469,667	409,150	344,464	14.8%	18.8%
Purchased power	206,632	323,236	374,568	-36.1%	-13.7%
Depreciation expense	77,269	79,136	78,065	-2.4%	1.4%
Operating expenses (deferred) recovered, n	18,299	40,976	(24,972)	-55.3%	-264.1%
Total operating expenses	771,867	852,498	772,125	-9.5%	10.4%
Income from operations	142,970	136,777	179,465	4.5%	-23.8%
Capital expenses (deferred) recovered	40,555	(20,595)	4,377	-296.9%	-570.5%
Interest expense	(130,054)	(156,716)	(151,746)	-17.0%	3.3%
Other (expense) income	(53,471)	40,534	(32,096)	-231.9%	-226.3%
Increase (decrease) in net assets	-	-	-	0.0%	0.0%
Net assets, beginning of year	1,205,431	1,205,431	1,205,431	0.0%	0.0%
Net assets, end of year	$ 1,205,431	$ 1,205,431	$ 1,205,431	0.0%	0.0%

Assets

Utility Plant

Utility Plant represents the accumulated original costs of labor, materials and indirect costs incurred during the construction of the SWP that are in service to provide water deliveries. The SWP utility includes 33 storage facilities, 20 pumping plants, four generating plants, ten power plants, as well as fish protection facilities and aqueducts.

Utility plant in service, net of accumulated depreciation (UPIS) decreased by $71 million during fiscal 2009 to a balance of $2,638 million. This is compared to a net decrease in fiscal 2008 of $75 million. While depreciation expense remains fairly constant each year, fiscal 2009 experienced a decrease in depreciation expense of $1.8 million to $77.2 million for the current year due to several pumping plants and one fish hatchery being fully depreciated at the end of fiscal 2008. Depreciation expense for fiscal 2008 was $79.1 million, the amount of additions to UPIS in the current year was $6.2 million compared to a $4 million increase in 2008. Annual depreciation expense will remain relatively constant, as the majority of the System is complete and depreciation is recorded on a straight-line basis over the estimated useful life of the assets, which range from 30 to 100 years.



Construction Work in Progress

Construction work in progress increased by $95.9 million during the year, which represents a 26.3% increase over fiscal 2008. In fiscal 2008, construction work in progress increased by $112 million, or 44.3% over fiscal 2007. The current year increase is attributable to additions made to new and on-going projects including East Branch Extension Phase II projects of $7.0 million, Reid Gardner projects in the amount of $9.1 million, South Bay Aqueduct projects of $25 million, the Tehachapi 2nd Afterbay project of $2.5 million and other Water Systems projects totaling $52.3 million. The increase in fiscal 2008 from fiscal 2007 was attributable to additions made to new and on-going projects including the East Branch Extension Phase II projects of $7.7 million, Reid Gardner projects of $11.9 million, South Bay Aqueduct projects of $45.8

million, the Tehachapi 2nd Afterbay project of $3.1 million and other Water Systems projects totaling $43.5 million. At June 30, 2009, total construction work in progress was comprised of $25.8 million of East Branch Extension Phase II projects, $29.7 million of Reid Gardner projects, $110.2 million for the South Bay aqueduct, $78.9 million of Tehachapi 2nd Afterbay projects, and $216.6 million of other Water Systems projects.

Restricted Cash and Investments
Restricted cash and cash equivalents increased by $21.3 million during fiscal 2009 to a total of $162.6 million. This compares to a balance of $141.3 million in fiscal 2008, and $220.7 million in fiscal 2007. The current year increase of $21.3 million is primarily due to $20 million from the reclassification of Hyatt-Thermalito power plant refurbishment costs. In fiscal 2007 a change was made for the collection of the costs for Hyatt-Thermalito power plant. It was determined that the costs would be collected through the Variable revenue component rather than the Replacement revenue. In fiscal 2008 the water contractors were given $17.6 million credit for amounts they had previously paid under the Replacement revenue component for the refurbishment costs, thereby reducing the amount of restricted cash. However, in fiscal 2009, the costs of $20 million were moved which increased the amount of cash restricted for replacements and decreased the unrestricted cash accounts.

Other Long-term Assets
As required by the Davis-Grunsky Act, the System has made loans to local water agencies of which a long-term portion of $22.4 million remains outstanding at the end of fiscal 2009 compared to an outstanding balance of $24.1 million at the end of fiscal 2008, and $25.9 million at the end of fiscal 2007. Advances to Other State Funds represents the System's advance of $92 million to DWR's internal service fund, this functions as a revolving working capital facility for DWR.

Cash and Cash Equivalents
In fiscal 2009, cash and cash equivalents decreased by $115 million to a balance of $370 million. The decrease is mainly due to the expenditure of $54 million on capital projects from the proceeds of the issuance of Bond Series AE that were unspent as of June 30, 2008, a reclass of $20 million of Hyatt-Thermalito expenses from restricted to unrestriced cash accounts, a $33 million decrease in fair market value for gas hedging program, and the maturity of the US Treasury Strip and other securities.

Receivables
In fiscal 2009, water supply and power billings receivable decreased from $110 million to $75.4 million as compared to fiscal 2008. The variable billings are due 30 days from the date of billing with a 30 day grace period. The fiscal 2009 decrease of $34.6 million is primarily attributable to decreases in variable water deliveries and variable rates for April through June 2009 as compared to April through June 2008 that were outstanding billings as of June 30.

Deferred Charges
Deferred charges represent timing differences between expenses incurred by the System and their ultimate recovery from the Water Contractors. Expense recognition is expected to match recovery from the Water Contractors in the future. In total, deferred charges decreased by $12 million to an ending balance of $1,182 million compared to $1,194 million for 2008, as the System defers expenses to be recovered from future revenues from the Water Contractors. In fiscal 2008, recoveries resulted in a decrease of deferred charges of $46 million.

Liabilities

Revenue Bonds

The System has issued 32 series of Water System Revenue Bonds totaling $6,391 million in the aggregate principal, of which $2,493 million remains outstanding at the end of fiscal 2009. This compares to outstanding balance of $2,547 million and $2,475 at the end of fiscal year 2008 and 2007, respectively. During the year, the System completed the issuance of CVP Water Systems Revenue Bond Series AF of $288 million. The majority of the proceeds from the issuance were used to refund portions of the bond of Series Q, T, U, and redeem the Bond Anticipation Bonds, while the remainder was used to pay off all outstanding commercial paper as of the date of issuance, make a deposit to the Debt Service Reserve Account, fund interest on a portion of the Series AF Bonds, and pay costs of issuance of Series AF Bonds.

The System has also issued $139 million of revenue bonds to finance the Devil Canyon-Castaic power facility. Under the Devil Canyon-Castaic bond resolution, $86 million is outstanding at the end of fiscal 2009, compared to $90 million at fiscal 2008 and $93 million at fiscal 2007.

	2009	2008	2007
CVP revenue bonds par amount	$ 2,431,825	$ 2,484,945	$ 2,449,735
Unamortized bond issuance premiums/(discounts)	93,176	85,674	46,025
Deferred amount on refunding	(31,808)	(23,675)	(21,142)
Total CVP revenue bonds outstanding	2,493,193	2,546,944	2,474,618
Devil Canyon - Castaic revenue bond par amount	85,965	89,825	93,465
Total revenue bonds outstanding	2,579,158	2,636,769	2,568,083
Less current maturities	(97,359)	(78,035)	(75,535)
Total long-term portion	$ 2,481,799	$ 2,558,734	$ 2,492,548

General Obligation Bonds

In addition to the revenue bond obligation described above, a large portion of the SWP was financed by the sale of general obligation bonds of the State pursuant to the provisions of the Burns-Porter Act, which authorized the issuance of $1,750 million of such bonds for the construction of the SWP. The Burns-Porter Act was adopted by the voters at the State's general election of November 1960. Of that authorization, $1,582 million (including the entire amount available for construction of the initial components of the SWP) has been issued, of which $532 million remains outstanding at the end of fiscal 2009 compared to $584 million at fiscal 2008 and $635 for fiscal 2007. The un-issued $168 million of the authorization is available only to provide funds for the construction of certain additional water conservation facilities.

Pooled Money Investment Loan

The System applied for and received a loan from the Pooled Money Investment Account pursuant to Government Code section 16313 for $29.6 million. The proceeds of the loan were used to establish escrow accounts that will defease certain Water System Revenue Bonds that financed recreation, fish, and wildlife enhancement related costs of the acquisition and construction of the System. The loan is to be repaid with surplus revenues of the System made available under Water Code section 12937(b)(4). The DWR executed the Pooled Money Investment Board Loan on March 26, 2008. The loan agreement requires minimum quarterly payments of $1 million on the first day of every March, June, September and December; the first

payment was made on September 1, 2008. Interest is computed on the unpaid principal balance of the loan at the Variable Rate on the basis of a 360-day year or twelve 30-day months and the number of days elapsed. The Variable Rate means (a) for the period from the date of the Loan Agreement, March 26, 2008, through and including the day before the first Reset Date (March 25, 2009), five percent per annum, and (b) for each Renewal Period thereafter, the greater of (i) five percent per annum, or (ii) the last available daily rate of return by the PMIA on the day before the Reset Date on which such Renewal Period commences. In fiscal 2009, the outstanding long-term PMIA loan balance decreased from $27 million to $24.6 million due to $2.4 million of principal payments made during fiscal 2009.

Post-Employment Benefits Other than Pensions
The Post-Employment Benefits Other than Pensions (OPEB) liability increased by $28.2 million in fiscal 2009 due to a change in methodology for computing the OPEB liability and an increase in staffing levels for 2009. The fiscal 2008 OPEB liability of $19.7 million was previously based on a calculation of both labor hours and a percentage of total budget. For fiscal 2009, DWR revised the calculation method in order to more accurately base the OPEB liability solely on the allocation of labor. The $28.2 million increase for fiscal 2009 reflects the System's under funding of the annual required contribution.

Accounts Payable and Other Current Liabilities
Accounts payable and other current liabilities totaled $146.4 million at June 30, 2009, compared to $158.6 million in fiscal 2008, and $147.1 million in fiscal 2007. The decrease of $12.2 million in the current year is due to a decrease of $9.3 million in interest payable due in part to the issuance of Series AF Bonds; a decrease of $5 million in accounts payable; an increase of $4 million for accrued vacation due to the implementation of fuloughs requiring employees to use furlough time before accrued leave time; and a decrease of $1.8 million due to a timing difference in the transfer of cash settlements with DWR's Internal Service Fund. In fiscal 2008, the $11.5 million increase was due to the interest payable of $9 million from the issuance of Series AE Bonds, $2.5 million for the current portion of the PMIA loan.

Proceeds Due to Water Contractors
Proceeds Due to Water Contractors are comprised primarily of the additional 25% billing for revenue bond debt service in excess of debt service requirements (known as "cover"), plus certain investment income and off-aqueduct power sales, all defined as refundable to the Water Contractors under terms of the water supply contracts. Proceeds Due to Water Contractors increased by $1.4 million during fiscal 2009 to an ending balance of $120.4 million. This increase is primarily due to an increase in collateral deposits to be returned to the water contractors and an increase for interest refunds.

In fiscal 2008, Proceeds Due to Water Contractors increased from $99.4 million to $118.9 million, an increase of $19.5 million. The increase was due to a net $17.5 million off-aqueduct power facilities cost adjustment that updated plan to actuals and an increase of $1.7 million for interest refunds.

Deferred Revenue – State and Federal Capital Recovery
The System received funds from the State and Federal governments to build certain projects that relate to recreational use and flood control. Those funds are deferred and then recognized as revenue as the projects are depreciated. Deferred revenue decreased $4 million in fiscal

2009 to $158 million. This compares to $4 million decrease in fiscal 2008. These decreases represent the recognition of revenue equal to the amount of depreciation recorded.

Deferred Capital Credits Due to Water Contractors
The System had no deferred revenues in fiscal 2009 compared to $29 million of deferred revenues in fiscal 2008. This represents excess capital revenues received that will be adjusted in future capital billings. The reduction in fiscal 2009 is due to the reduction in Fourth Priority funds available in fiscal 2009.

Deferred Power Sales Credit Due to Water Contractors
The deferred power sales credit results from a timing difference of revenue collected from certain Water Contractors for power generated by the Hyatt-Thermalito power plant and the corresponding credit that is issued to all Water Contractors through a reduced capital charge. In fiscal year 2009, the credits issued through the Delta Water Charge of $20.4 million were offset in part by the $14.7 million of revenue collected through the Variable charge for power generated at Hyatt-Thermalito for a $5.7 million decrease in the deferral for 2009 fiscal year.

Advances for Plant Replacements
Advances for plant replacements represents amounts collected in advance from the Water Contractors for future plant equipment replacements. Advances for plant replacements increased from $11.4 in 2008 fiscal to a total of $42 million in fiscal 2009. The $30.6 million increase is due to $13.2 million in revenue collections, $20 million for reclassification of Hyatt-Thermalito power plant costs, offset by costs of $2.6 million. It was determined that the Hyatt-Thermalio power costs would be collected through the Variable revenue component rather than the Replacement revenue component; therefore, costs for previous fiscal years were re-classed in the current year.

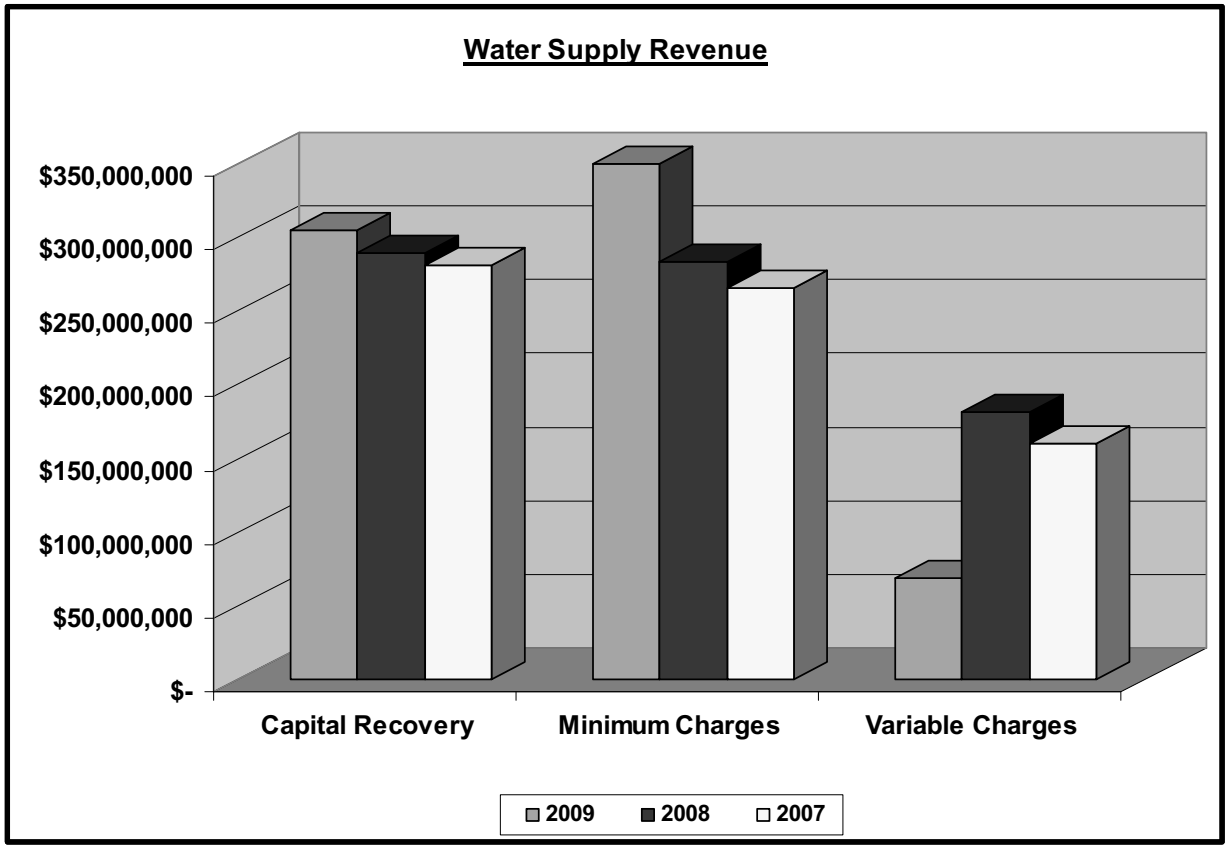
Operating Revenues
Operating revenues for fiscal 2009 were $914.8 million compared to $989 million in fiscal 2008 and $952 million in fiscal 2007. The decrease in fiscal 2009 was primarily due to a decrease in water supply revenue of $32 million, a decrease in power sales revenue of $40 million and a decrease of $2.7 million in federal reimbursements. The increase in fiscal 2008 was primarily due to an increase in water supply revenue of $48 million offset by decreases in power sales revenue of $6.8 million and $3.5 million in federal reimbursements

Water Supply Revenue
Under the terms of the water supply contracts, the System is required to collect from the Water Contractors all costs of the SWP allocated in proportion to each Contractor's contractual allocation of water. Generally, the System's costs, including the costs of gathering, storing, conveying and delivering water, and interest, are billable to Water Contractors whether or not water is delivered.

Water supply revenues consist of three main categories, as defined in the water supply contracts: Capital, Minimum and Variable. The Capital component of revenue enables the System to recover all the costs plus interest related to the construction of the System facilities, including its dams, aqueducts, pumping stations and power plants. Once a project is completed, its cost plus interest are amortized and recovered over the remaining term of the water supply contracts (through 2035). The Minimum component of revenue enables the System to recover the operating and maintenance costs associated with operating the System. These costs are

generally recovered as they are incurred. Finally, the Variable component of revenue enables the System to recover the net cost of energy used to deliver water to the Water Contractors. Like Minimum, these costs, net of power sales, are generally recovered as they are incurred. On or before July 1 of each year, the System furnishes each Water Contractor with a statement of estimated charges for the Capital, Minimum, and Variable components for the following calendar year. The Capital components are due on January 1 and July 1 of the year following receipt of the statement of charges. The Minimum and Variable component payments are due in twelve monthly installments commencing on January 1 of the year following receipt of the statement of charges. On or about July 1 of each year, the System determines the rate (per acre-foot) to be charged to each Water Contractor in the following calendar year for the Variable components. The Variable components in such calendar year are calculated and billed monthly based on metered water deliveries for the preceding month and the rate determined on July 1st of each year. However, this rate can be modified over the course of the next year. On July 1 of each year, the System furnishes each Water Contractor with a statement showing the difference between the estimated water charges paid and the actual costs incurred in the prior calendar year. The difference is paid by or credited to each Water Contractor, as applicable, in equal monthly installments commencing on January 1 of the year following the "true-up" calculation. This process results in an approximately two-year delay in the reconciliation of estimated charges paid and actual costs reimbursed to the System.

In 2009, the System generated $721.2 million in water supply revenue, compared to $752.9 million in fiscal 2008, and $705 million in fiscal 2007. The table on the following page shows a comparative breakdown of the components of water supply revenue for fiscal years 2009, 2008 and 2007.



Water Supply Billings decreased by $31.6 million in 2009 to a total of $721.3 million. This decrease is due to a $15.5 million increase in Capital recovery, a $65.7 million increase in Operating & Maintenance (O&M) recovery, and an offsetting decrease of $112.8 in Variable recovery. The Capital recovery revenues increase of $15.5 million is due in part due to an increase of $13.1 million capital recovery in the Water Systems Revenue Bond Surcharge as a result of removing the debt service related to the recreation portion of certain systems facilities from the Water Contractor's bills in fiscal 2008. Capital recovery revenues for Off-Aqueduct facilities also rose by $8.7 million due to an increase in water deliveries. Capital Transportation recovery revenues increased by $4.5 million primarily due to a decrease in Rate Management adjustments in fiscal 2009 compared to fiscal 2008. These increases were offset by a decrease of $11.2 million for recovery of construction costs for the East Branch Enlargement Project. The O&M recovery revenues increased by $65.7 million in part due to recovery of $23.7 million for the Delta Habitat Conservation and Conveyance Program, an increase of $23.9 million for recovery of salary and overhead costs that occurred in 2007, and $5.9 million in over-collections for Off-Aqueduct facilities returned in fiscal 2008. Variable recovery revenue decreased by $112.8 million, primarily as a result of decreased rates, decreased water deliveries, and credit for the over-collection of revenues in fiscal 2008.

In fiscal 2008, Water Supply Billings increased by $47.9 million to a total of $752.9 million. There were several contributing factors. Increases occurred as a result of capital recovery revenues for construction costs on the East Branch Enlargement project of $6.8 million, and increases of $7.9 million for Transportation and Conservation Capital revenues. Capital

recovery revenues for Off-Aqueduct facilities also rose by $6 million. These increases were offset by a decrease in capital recovery by $13.4 million in the Water Systems Revenue Bond Surcharge as a result of removing the debt service related to the recreation portion of certain system facilities from the Water Contractors' bills. In addition, O&M recovery revenues increased by $18.1 million. This is due in part to increases in Transportation and Conservation minimum costs of $26.2 million, offset by a decrease of $15.9 million in Off-Aqueduct facilities. Variable recovery revenue increased by $21.5 million, primarily as a result of increased rates and an additional billing for the under-collection of revenues in fiscal 2007.

Overview of the System's Power Activities

The SWP is one of the largest consumers and suppliers of electric power in the western United States. Since the commencement of the major facilities of the SWP in the 1960s, the System has been an active participant in the power markets of California and the western United States. The System has provided for the financing, construction and operation of a variety of power projects including hydroelectric, geothermal and coal-fired electric generating facilities and facilities to transmit electric energy. The System currently owns nine power plants with a total nameplate capacity of approximately 1,770 Mw and with total annual generation of approximately 4,000 to 6,000 Gwh. The System also owns approximately 17 pumping plants with a total load, when operational, of approximately 1,200 Mw and with total annual consumption of 4,000 to 9,000 Gwh. Typically, the majority of generation is during the on-peak hours; however, ancillary services are provided in all hours of the day.

Every hour the SWP must enter the power market to facilitate the operation of the California aqueduct. The power market controlled by the California Independent System Operator (CAISO) can affect the bottom line cost or revenue from the System's hydro-electric facilities. Every year the DWR is confronted with factors that affect how the operation of the SWP is conducted. Some factors include plant or unit outages, environmental concerns, weather, fluctuation in natural gas prices, transmission line outages and wild fires. In July of 2008, California experienced numerous wild fires throughout the state causing transmission line outages and ultimately impacting the power grid. In April 2009, the CAISO implemented MRTU (Market Redesign and Technology Upgrades). The new MRTU market required the DWR to implement new scheduling tools to conduct business in the new power market. Of the numerous events that occur throughout the year, the primary factor affecting operation of the SWP in fiscal year 2009 continues to be low reservoir storages. The lack of any significant rainfall over the past couple of years has prevented reservoir recovery. These low storages influence the overall operation of the SWP.

In Northern California the rainy season usually begins in October and ends near March. While considerable rainfall occurred during December 2008 and February 2009, the other months remained unusually dry with no significant rainfall. Two rainy months out of a winter does not allow for much storage recovery in our local lakes and reservoirs. Not only was there minimal rainfall during the winter month, the weather in many cases was quite warm causing more evaporative affects on local lakes. The inability to recover SWP reservoir storage continues to affect SWP operation.

Power Sales

Energy sales from SWP hydro-electric generating plants allow some recovery of cost from the System's hydro-electric pumping plants. With low reservoir storages, the SWP ability to recover costs is greatly impacted. The Oroville complex is the largest SWP resource and required by

FERC to help mitigate negative environmental impacts. Mitigation could include controlling river temperatures to assisting with after-bay and fore-bay elevation control to help with nesting Grebe or Garter snake habitat. Mitigation can occur despite having minimal storage available at Oroville Lake.

In fiscal 2009, power sales decreased by $40 million to a total of $175 million. This is due to a decrease in the quantity of energy sold and a decrease in the MWh rate. In fiscal 2008, 2,213,122 units were sold compared to 2,111,027 units in fiscal 2009, a 4.6% decline from the prior year. The overall rate decreased by 17%, from $88.63 in fiscal 2008 to $73.26 in fiscal 2009. The decrease in revenue and energy is expected due to the fact that reservoir storages were quite low. Additionally, low natural gas prices helped to keep overall energy prices low. Elevated natural gas prices tend to keep off-peak energy prices high. An increase of $1 million in Transmission sold represents a combination of decreases in water deliveries and an increase in transmission services provided through The California Independent System Operator (CAISO). Water deliveries decreased from 3,272,732 acre feet in fiscal 2008 to 2,129,268 acre feet in 2009, a decline of 1,143,464 acre feet or 35%. While water deliveries went down, the average rate per acre foot increased by 4% or $0.24 from $5.44 in fiscal 2008 to $5.68 in fiscal 2009.

In fiscal 2008, power sales decreased by $6.8 million to a total of $215 million. Of that decrease, $15.5 million is attributable to decreased energy sales offset by an increase in the average MWh rate resulting in $17 million in increased power sales revenues while transmission decreased by $8.3 million. In energy sales, while the average rate per MWh sold increased by 9% from $81.49 to $88.63, the System sold 7% or .02 million less units in fiscal 2008 than fiscal 2007. The first table below shows the effect of the rate and volume between fiscal 2009 and fiscal 2008. This can be compared to the second table on the following page for fiscal years 2008 and 2007.

	Total Sold	Transmission Sold	Sold	MWh Sold	Rate/MWh
2008	$ 215,429,580	$ (19,289,231)	$ 196,140,349	2,213,122	$ 88.63
2009	175,357,081	(20,696,756)	154,660,325	2,111,027	73.26

Change in total MWh sold	(102,095)
Multiplied by 2008 rate/MWh	$ 88.63
Difference attributed to decreases sales	$ (9,049,000)
Change in MWh rate	$ (15.37)
Multiplied by 2009 MWh sold	2,111,027
Difference attributed to rate change	$ (32,446,000)
Total decrease in power sales	$ (41,495,000)

	Total Sold	Transmission Sold	Sold	MWh Sold	Rate/MWh
2007	$ 222,205,762	$ (27,619,792)	$ 194,585,970	2,387,758	$ 81.49
2008	215,429,580	(19,289,231)	196,140,349	2,213,122	88.63

Change in total MWh sold	(174,636)
Multiplied by 2008 rate/MWh	$ 88.63
Difference attributed to decreased sales	$ (15,477,000)
Change in MWh rate	$ 7.14
Multiplied by 2007 MWh sold	2,387,758
Difference attributed to rate change	$ 17,049,000
Total increase in power sales	$ 1,572,000

Federal Reimbursements Revenue
Federal reimbursements revenue for fiscal 2009 was $18.3 million, compared to $21 million and $24 million for fiscal years 2008 and 2007. The decrease in fiscal 2009 of $2.7 million is attributable to a decrease in expenses incurred for the portion of the San Luis and Suisun Marsh facilities for which the System is reimbursed by the Federal government.

Operating Expenses
Total operating expenses decreased by $80.6 million for 2009 to a total of $772 million. The decrease is due to a decrease in deferred expenses of $23 million and a decrease in power purchases of $117 million offset by an increase of $60 million in operations and maintenance expense. The decrease in deferred expenses is represented by $18 million of recognized expense in 2009 and a $41 million recognition of expense in 2008.

Operations and Maintenance Expense
Total operations and maintenance expenses were $470 million for fiscal 2009, compared to $409 million for fiscal 2008 and $344 million for fiscal 2007. The increase of $60 million in fiscal 2009 is mainly attributable to the following: an increase of $35.7 million for consulting fees, an increase of $8.5 million for post employment benefits due to increased staffing levels for fiscal 2009, an increase of $5.2 million for repairs, a $3.3 million increase for legal fees, and a $4.5 million increase in coal and natural gas purchases. Salaries increased in fiscal 2009 by $9.7 million due to increased staffing levels and structured pay increases with a corresponding overhead decrease of $5.7 million due to the implementation of furloughs effective in fiscal year 2009. The increase of $35.7 million for consulting fees is primarily due to $21.1 million in expenses for environmental and engineering services for the Delta Habitat Conservation and Conveyance Program (DHCCP) and $5.6 million for expenses related to the Lodi Energy Center project.

Power Purchases
The System uses a significant amount of power to operate its pumping stations in order to deliver water to Water Contractors. Its sources of power include self-generated power by the nine power plants owned by the System, along with purchases of power from third party suppliers. As with power sales, in any given year, a combination of factors, including

hydrological production, energy market rates, and energy market supply and demand, impact the System's energy requirements. With continuing low reservoir storage, the need to purchase power to pump water is considerably reduced.

Power purchases decreased $117 million in fiscal 2009 to a total of $207 million. Of that decrease, $76 million is attributable to a 1.4 million decrease in units purchased in fiscal 2009 of 3,103,403 compared to 4,480,357 units purchased in fiscal 2008, a decline of 30.7%. The average rate per MWh purchased decreased from $63.21 in fiscal 2008 to $54.87 in fiscal 2009 resulting in a decrease of $37 million in power purchases expense, while changes in transmission decreased by $3.7 million.

Power purchases are generally for off-peaking pumping and are a reflection of water demand. A six-month snapshot from January through June 2009 shows energy purchases of 989 GWh, while the same period in 2008 shows 1,783 GWh. The 2009 six-month snapshot showed a decrease in energy purchases by 794 GWh compared to 2008. The cost of energy during the period of January through June 2009 was $30 million, significantly below the cost in 2008 of $115 million.

In fiscal 2008, purchased power decreased $51 million over fiscal 2007 to a total of $323 million. Of that amount, $70 million is attributed to decreased power costs and $24 million is attributed to an increased in the average rate per MWh purchased, while changes in transmission decreased by $5.2 million.

The tables below and on the following page show the relationship between volume and rate for fiscal 2009 compared to fiscal 2008, and fiscal 2008 compared to fiscal 2007.

	Total Purchased	Transmission Purchased	Power Purchased	MWh Purchased	Rate/MWh
2008	$ 323,236,179	$ (40,048,849)	$ 283,187,330	4,480,357	$ 63.21
2009	206,632,303	(36,355,972)	170,276,331	3,103,403	54.87

Change in MWh purchased	(1,376,954)
Multiplied by 2009 rate	$ 54.87
Difference attributed to decreased purchases	$ (75,553,000)
Change in MWh rate	$ (8.34)
Multiplied by 2008 purchased	4,480,357
Difference attributed to rate change	$ (37,366,000)
Total decrease in power purchases	$ (112,919,000)

	Total Purchased	Transmission Purchased	Power Purchased	MWh Purchased	Rate/MWh
2007	$ 374,568,387	$ (45,244,343)	$ 329,324,044	5,582,482	$ 58.99
2008	323,236,179	(40,048,849)	283,187,330	4,480,357	63.21

Change in MWh purchased	(1,102,125)
Multiplied by 2008 rate	$ 63.21
Difference attributed to decreased purchases	$ (69,665,000)
Change in MWh rate	$ 4.22
Multiplied by 2007 purchased	5,582,482
Difference attributed to rate change	$ 23,558,000
Total decrease in power purchases	$ (46,107,000)

Operating Expenses Recovered (Deferred)
In fiscal 2009, $18.3 million in operating expenses were recognized, compared to fiscal 2008 in which the System recognized $41 million in operating expenses. The 2009 net change of $22.7 million is the result of an increase of $1.3 million in the power sales credit, an increase in deferred depreciation of $15.8 million, a decrease of $34.4 million in deferred operation and maintenance expense, and a decrease of $3.1 million in unamortized projects.

Capital Revenues Recovered (Deferred)
Capital revenues recovered (deferred) represents the timing difference between net capital revenue recovered, and certain operating costs incurred. Capital revenues recovered (deferred) increased by $61 million in 2009 to a total of $40.6 million recovered compared to $20.6 million in capital revenues deferred from the Water Contractors in fiscal 2008.

Interest Expense
Interest expense for fiscal 2009 was $130 million, which represents a decrease of $27 million from the prior year. The decrease of $27 million is due in part to a $11.4 million decrease in bond amortization of premium and discount due in part to a one time adjustment for the change to the effective interest rate method in fiscal 2008; $1.4 million write off for bonds refunded by bond Series AF; $8.7 million decrease in interest on the bonds and commercial paper notes due to the refunding of the Bond Anticipation Bonds (BAB) in fiscal 2008 and a reduction in outstanding commercial paper during the year; and a $3.4 million decrease in bond amortization of deferred amount on refundings due to a gain on the issuance of bond Series AF and related write offs.

Interest expense for fiscal 2008 was $157 million, which represents an increase of $5 million from the prior year. The increase of $5 million is due in part to a one time adjustment of $7.6 million needed as a result of a change in methodology to amortize the deferred amount on refundings and premium/discounts on bonds from the straight-line method to the effective interest rate method. The effective interest rate method better portrays the underlying economics of the Systems bond transactions. This adjustment is offset by a decrease of $3.3 million in interest for commercial paper.

Other Revenues (Expenses)

Other expenses were $53.5 million in fiscal 2009, versus $40.5 million in revenues in fiscal 2008 and $32 million in expenses in 2007. The $94 million decrease in 2009 is primarily the result of decreased refunds to the Water Contractor's by $6 million, a $12 million decrease in income from surplus money investments, a $55 million change in the fair value of the gas hedging account, and $30 million in expenses related to the release of debt service reserves due to the implementation of the Springing Amendment dated January 18, 2008.

Change in Net Assets

Overall, the System recorded no change in net assets. This is reflective of the System's operations where revenue is billed at a rate to be sufficient to recover all the costs of operating the System.

The table below explains the primary sources of the change in net assets.

	2009	2008	2007
Increases:			
Investment income/(loss) net of refunds to water contractors	$ (53,470,636)	$ 40,534,221	$ 12,193,924
Capital revenue in excess of capital costs	39,464,620	3,049,560	6,761,112
Total increases	(14,006,016)	43,583,781	18,955,036
Decreases:			
Rate management credit	(11,141,434)	(14,139,254)	(12,363,621)
Deferred capital recovery	40,554,511	(20,595,021)	4,376,971
Recreation costs	(14,000,828)	(8,069,998)	(10,564,898)
Suspended costs	(1,406,233)	(779,508)	(403,488)
Total decreases	14,006,016	(43,583,781)	(18,955,036)
Change in net assets	$ -	$ -	$ -

Economic Factors and Other Information

The DWR is negotiating with the Northern California Power Agency (NCPA) and other potential project participants regarding the DWR's possible participation in the Lodi Energy Center Project (LEC Project), which consists of a 255 megawatt gas-fired powerplant to be constructed by NCPA in Lodi, California. The DWR's participation in the LEC Project would be to assist the DWR in meeting future State Water Project energy requirements, including the replacement of energy currently provided by the Reid Gardner Project. The current terms being negotiated provide that the DWR would enter into a power purchase agreement with NCPA for 23.5% of the output of the LEC Project. If the LEC Project is approved by the California Energy Commission, the DWR expects construction of the LEC Project to begin in March 2010 with scheduled operation beginning in June 2012.

State Water Resources Development System
Statements of Net Assets
June 30, 2009 and 2008 (in thousands)

	2009	2008
Assets		
Utility plant:		
Utility plant in service	$ 4,646,914	$ 4,641,870
Less accumulated depreciation	(2,008,520)	(1,932,412)
Net utility plant in service	2,638,394	2,709,458
Construction work in progress	461,208	365,297
Total utility plant	3,099,602	3,074,755
Long-term assets:		
Restricted assets:		
Cash and cash equivalents restricted for plant replacements	38,242	15,066
Cash and investments restricted for debt service	111,652	110,426
Cash and cash equivalents on deposit with revenue bond trustee	9,207	9,463
Cash and cash equivalents on deposit with Wachovia Securities	3,533	6,301
Loans receivable from local water agencies	22,360	24,105
Advance to other state funds	91,517	91,517
Total long-term assets	276,511	256,878
Current assets:		
Cash and cash equivalents	369,820	485,283
Receivables:		
Interest on investments	2,680	5,016
Water supply and power billings	75,447	109,775
Due from federal government	39,110	26,968
Due from other state funds	123	-
Inventories	13,988	19,035
Total current assets	501,168	646,077
Deferred charges:		
Amounts recoverable through future billings under long-term water supply contracts:		
Operations and maintenance expense	191,448	139,609
Capital costs	122,742	184,098
Capital credit due from water contractors	11,452	-
Unamortized project costs	358,538	365,277
Unbilled interest incurred on capital costs	497,580	505,284
Total deferred charges	1,181,760	1,194,268
Total assets	$ 5,059,041	$ 5,171,978

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

State Water Resources Development System
Statements of Net Assets (continued)
June 30, 2009 and 2008 (in thousands)

	2009	2008
Capitalization and Liabilities		
Capitalization:		
Net assets:		
Capital, net of related debt	$ 272,984	$ 127,858
Restricted	932,447	1,077,573
Total net assets	1,205,431	1,205,431
Long-term liabilities		
General obligation bonds	476,915	531,700
Revenue bonds	2,481,799	2,558,734
Commercial paper	9,897	19,352
Other postemployment benefits	47,897	19,708
Pooled Money Investment Account Loan (PMIA) - long-term portion	24,603	27,032
Total long-term liabilities	3,041,111	3,156,526
Total capitalization	4,246,542	4,361,957
Current liabilities:		
Current maturities of bonds	152,144	130,730
Accounts payable	86,096	91,143
Accrued vacation	26,140	22,195
Accrued interest on long-term debt	19,251	28,581
Pooled Money Investment Account Loan (PMIA) - current portion	2,685	2,568
Due to other state funds	12,222	14,060
Proceeds due to water contractors	120,382	118,972
Total current liabilities	418,920	408,249
Deferred credits:		
Deferred revenue - State and Federal capital recovery	157,973	161,948
Capital credit due to water contractors	-	29,102
Power sales credit due to water contractors	193,573	199,279
Advances for plant replacements	42,033	11,443
Total deferred credits	393,579	401,772
Total net assets and liabilities	$ 5,059,041	$ 5,171,978

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

State Water Resources Development System
Statements of Revenues, Expenses, and Changes in Net Assets
For the years ended June 30, 2009 and 2008 (in thousands)

	2009	2008
Operating revenues:		
Water supply	$ 721,253	$ 752,853
Power sales	175,318	215,430
Federal reimbursements	18,266	20,992
Total operating revenues	914,837	989,275
Operating expenses:		
Operations and maintenance	469,667	409,150
Purchased power	206,632	323,236
Depreciation expense	77,269	79,136
Operating expenses recovered, principally under long-term water supply contracts, net	18,299	40,976
Total operating expenses	771,867	852,498
Income from operations	142,970	136,777
Nonoperating revenue/expenses:		
Capital revenues recovered (deferred)	40,555	(20,595)
Interest expense	(130,054)	(156,716)
Other revenues (expenses), net	(53,471)	40,534
Change in net assets	-	-
Net assets, beginning of year	1,205,431	1,205,431
Net assets, end of year	$ 1,205,431	$ 1,205,431

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

State Water Resources Development System
Statements of Cash Flows
For the years ended June 30, 2009 and 2008 (in thousands)

	2009	2008
Cash flows from operating activities:		
Receipts from customers	$ 964,880	$ 1,018,049
Payments to employees for services	(220,493)	(216,752)
Payments to suppliers	(425,510)	(502,787)
Other payments	(71,178)	5,522
Net cash provided by operating activities	247,699	304,032
Cash flows from capital and related financing activities:		
Proceeds from issuance of revenue obligation bonds including premium	36,064	668,604
Principal payments on long-term debt	(133,042)	(651,675)
Commercial paper notes issued	23,905	19,900
Principal payments on commercial paper notes	(33,360)	(133,910)
PMIA loan proceeds	-	29,600
Interest payments on long-term debt	(155,025)	(146,008)
Additions to utility plant and CWIP	(102,116)	(115,158)
Net cash used by capital and related financing activities	(363,574)	(328,647)
Cash flows from investing activities:		
Cash received from investment earnings	18,705	34,318
Proceeds of investments matured	201,739	179,961
Puchases of investments	(201,740)	(151,303)
Loan payments from local water agencies	1,744	1,823
Net cash provided by (used by) investing activities	20,448	64,799
Net increase (decrease) in cash and cash equivalents	(95,427)	40,184
Cash and cash equivalents, beginning of year	552,404	512,220
Cash and cash equivalents, end of year	$ 456,977	$ 552,404
Noncash capital and related financing activities:		
Principal retirements of long-term debt on proceeds received from issuance of Series AF Water System Revenue Bonds	$ 266,680	$ -

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

State Water Resources Development System
Statements of Cash Flows (continued)
For the years ended June 30, 2009 and 2008 (in thousands)

	2009	2008
Reconciliation to the statement of net assets:		
Cash and cash equivalents	$ 369,820	$ 485,283
Restricted assets:		
Cash and cash equivalents restricted for plant replacements	38,242	15,066
Cash and cash equivalents restricted for debt service (net of $75,477 and $74,135 of U.S. Agency and U.S. Treasury securities for 2009 and 2008, respectively)	36,175	36,291
Cash and cash equivalents on deposit with revenue bond trustee	9,207	9,463
Cash and cash equivalents on deposit with Wachovia Securities	3,533	6,301
Cash and cash equivalents	$ 456,977	$ 552,404

	2009	2008
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	$ 142,970	$ 136,777
Adjustment to reconcile income from operations to net cash provided by operating activities		
Depreciation expense	77,269	79,136
Other expenses	(71,178)	5,522
Decrease in deferred charges and credits, net	44,870	20,591
Changes in assets and liabilities:		
Decrease in receivables	34,205	41,234
(Increase) decrease in inventories	5,047	(6,428)
Increase in due from federal government	(12,142)	(11,587)
Increase in accounts payable, accrued vacation and other postemployment benefits	27,086	5,217
Increase (decrease) in due to other state funds	(1,838)	14,060
Increase in current proceeds due to Water Contractors	1,410	19,510
Total adjustments	104,729	167,255
Net cash provided by operating activities	$ 247,699	$ 304,032

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

1. Reporting Entity

The State Water Resources Development System (System), a component unit of the State of California (State), includes the State Water Project (SWP), the Davis-Grunsky Act Program and the San Joaquin Drainage Implementation Program, was constructed as the result of initial legislation in 1951 and subsequent legislation in the 1960s providing various financing mechanisms. The SWP is a complex of dams, water storage facilities, aqueducts, pumping stations and electric generation facilities which have been constructed for purposes of developing firm water supply and conveying water to areas of need within the State and providing flood control, recreation, fish and wildlife enhancement and hydroelectric power. The System has entered into long-term water supply contracts with 29 customers (Water Contractors) in order to recover substantially all System costs. The 29 Water Contractors are principally located in the San Francisco Bay Area, the Central Valley and Southern California and their service areas encompass approximately 25% of the State's land area and 70% of its population.

The System is accounted for as an enterprise fund and is financed and operated in a manner similar to that of a private business enterprise. The System uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. As allowed by governmental accounting standards, the System has elected not to apply statements and related interpretations issued by the Financial Accounting Standards Board after November 30, 1989. The System is administered by the State of California Department of Water Resources (DWR).

2. Summary of Significant Accounting Policies

Utility Plant

Utility plant is recorded at original cost. Cost includes labor, materials and indirect items such as engineering, supervision, transportation and interest on borrowed funds incurred during construction. Repairs, maintenance and minor purchases of equipment are charged to expense as incurred.

Depreciation

Depreciation is provided on a straight-line basis over the estimated useful lives of the various classes of utility plant, as follows:

Aqueducts	100 years
Dams and reservoirs	85 years
Power plants	30 - 50 years
Pumping plants	40 years

Cash and Cash Equivalents

Cash and cash equivalents, for purposes of the statement of cash flows, includes cash on hand, restricted cash for plant replacements, restricted cash for debt service, restricted cash on deposit with revenue bond trustee, and restricted cash on deposit with Wachovia Securities, formerly AG Edwards. Such amounts include deposits in the State of California Pooled Money Investment Account-Surplus Money Investment Fund (SMIF) and instruments

with original maturities of three months or less. Cash and cash equivalents do not include U.S. Government and Agency securities with original maturities of more than three months.

Restricted Cash and Investments
Cash on deposit with revenue bond trustee consists of debt service reserve funds held with a major national bank for the Series 1973 Devil Canyon – Castaic Facilities bonds.

The System maintains deposits with Wachovia Securities, formerly AG Edwards, for natural gas hedging activities. The amount of deposits totaled $20.7 million and $20.5 million, as of June 30, 2009 and 2008, respectively. A portion of these deposits is restricted to cover margin requirements. The amounts restricted were $3.5 million and $6.3 million for June 30, 2009 and 2008, respectively. The amount of deposits, excluding the cash restricted for margin requirements totaled $17.2 million and $14.2 million as of June 30, 2009 and 2008, respectively.

Cash and investments with the State Treasurer for plant replacements and debt service are restricted as required by the provisions of the water supply contracts and bond resolutions. Restricted funds consist of investments of the same type as those described below.

Investments
Cash not required for current use, including restricted cash, is invested in SMIF, which is stated at fair value. SMIF is part of the State of California Pooled Money Investment Account (PMIA), which as of June 30, 2009 and 2008 had a balance of $50.7 billion and $69.9 billion, respectively. The weighted average to maturity of PMIA investments was 235 days and 212 days as of June 30, 2009 and 2008, respectively. The total amount of deposits in SMIF as of June 30, 2009 and 2008 was $35.7 billion and $33.9 billion, respectively. The Pooled Money Investment Board (PMIB) has oversight responsibility for SMIF. The Board consists of three members as designated by state statute. The value of the pool shares in SMIF which may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the System's portion of the pool. PMIA funds are on deposit with the State's Centralized Treasury System and are not SEC registered, but are managed in compliance with the California Government Code, according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. These investments consist of U.S. government securities, securities of federally-sponsored agencies, U.S. corporate bonds, interest bearing time deposits in California banks, prime-rated commercial paper, bankers' acceptances, negotiable certificates of deposit, repurchase and reverse repurchase agreements. The PMIA policy limits the use of reverse repurchase agreements subject to limits of no more than 10% of PMIA. The PMIA does not invest in leveraged products or inverse floating rate securities. Included in PMIA's investment portfolio are structured notes and asset-backed securities totaling $5.1 billion and $2.3 billion as of June 30, 2009 and $6.1 billion and $4.2 billion as of June 30, 2008.

The System is authorized by statute to invest in the same types of investment vehicles permitted by the State's Centralized Treasury System. U.S. Treasury and agency debt securities are carried at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, and is determined from published data provided by the exchanges, computerized pricing sources, the National Association of Securities Dealers' National Market System, securities custodians, and other authoritative sources. Investments made by the System during the year ended June 30, 2009, are of a similar nature as those held at June 30, 2008.

Advance to Other State Funds
Advance to Other State Funds represents the System's advance of $92 million to DWR's internal service fund.

Accounts Receivable
Accounts receivable include amounts due from the Water Contractors and organizations that purchase power from the System, totaling $75,447 and $109,775, net of the allowance for uncollectible amounts, at June 30, 2009 and 2008, respectively. Additionally, the Federal government owed the System $39,110 and $26,968 at June 30, 2009 and 2008, respectively, for reimbursement for certain costs related to flood control and jointly owned facilities. The allowance for uncollectible amounts totaled $369 and $403 at June 30, 2009 and 2008, respectively. Uncollectible amounts are generally recoverable from the Water Contractors.

Deferred Charges and Credits
The System has the authority to establish the level of rates to recover all System costs, including debt service. As a regulated entity, the System's financial statements are prepared in accordance with SFAS No. 71, "*Accounting for the Effects of Certain Types of Regulation*", which requires that the effects of the rate-making process be recorded in the financial statements. Accordingly, certain expenses and credits, normally reflected in the change in net assets, as incurred, are recognized when included in rates and recovered from, or refunded to customers and the state and federal governments. The System records various regulatory assets and credits to reflect rate-making actions of management. The System records costs that are recoverable through future billings as deferred charges and revenues that are in excess of total project costs from inception of the SWP as deferred credits. These costs include capital costs and operations and maintenance costs.

Unamortized project costs represent abandoned utility plant and research and development expenses that are recoverable through future billings to the Water Contractors under the terms of the water supply contracts.

Unbilled interest incurred on unrecovered capital costs are classified as deferred charges until billed under the terms of the water supply contracts. Unbilled interest incurred represents the System's unrecovered interest since inception, recalculated annually at the System's cumulative weighted average cost of borrowing (Project Interest Rate). The System's Project Interest Rate was 4.608% for the years ended June 30, 2009 and 2008.

Deferred revenue represents payments by the State and Federal governments for their share of the System's recreation and flood control capital costs in excess of the related depreciation expense recognized in the statements of revenues, expenses, and changes in net assets.

The deferred capital credit due from water contractors arises from differences between the Rate Management reductions granted to the Water Contractors from estimated available net revenues and actual net revenues. For fiscal 2009, this was a credit due from the water contractors in contrast to fiscal 2008 which showed a credit due to the water contractors.

The deferred power sales credit arises from revenue collected for the power generated by the Hyatt-Thermalito power plant. The deferred power sales credit is amortized over time by a credit issued to the Water Contractors through the Delta Water Capital Charge.

Advances for plant replacements represent billings under the terms of water supply contracts for future replacement of certain System assets. Assets from such billings are restricted. Costs of plant replacements are charged as incurred.

Bond Issuance Discounts and Premiums
Bond issuance discounts and premiums are reflected as a reduction/increase to the carrying value of the bonds outstanding and are amortized over the lives of the related debt instruments.

Deferred Amount on Refunding
Losses associated with the advance refunding of debt are deferred and amortized over the shorter of the weighted average lives of the new debt or the refunded debt.

Net Assets
The System classifies its net assets into two components, invested in capital assets, net of related debt and restricted net assets. Net assets invested in capital assets includes total utility plant, net of accumulated depreciation, related long-term debt and other assets and liabilities relating to the recovery of utility plant. The remaining net assets of the System are classified as restricted due to the requirements of legislation that created the System and authorized the construction of the SWP, to use the System's net assets solely in support of the SWP, the Davis-Grunsky Act Program and the San Joaquin Drainage Implementation Program.

Revenues
The cost of providing services from the System is required to be recovered through user charges and other reimbursements. Under the terms of the long-term water supply contracts, the System granted the Water Contractors rate management reductions of approximately $11,141 and $14,139 during the years ended June 30, 2009 and 2008, respectively. Rate management reductions are permanent reductions in capital related billings to the Water Contractors.

Revenues under long-term water supply contracts are recognized when billings are due and payable. The billings cover debt service requirements, an additional 25% of revenue bond debt service to satisfy certain bond covenants and current and past unrecovered operations and maintenance costs. The water supply contracts provide that the 25% portion of the billings collected for the purpose of satisfying certain bond covenants be refunded in the subsequent year. These billings, which totaled $49,999 and $45,529 for the years ended June 30, 2009 and 2008, respectively, are recorded as liabilities in the financial statements. The System refunded $44,116 and $45,320 for the years ended June 30, 2009 and 2008, respectively, to the Water Contractors for the 25% bond coverage requirement.

Revenues from the sale of surplus power are recognized as the power is delivered.

The Federal government reimburses the System for certain operating and capital costs incurred by the System for flood control purposes. In addition, the Federal government reimburses the System for the Federal government's 45% share of the operating costs of the San Luis joint use facilities and other water facilities. Revenue from the State and Federal government in excess of their share of the related depreciation expense is deferred until the related depreciation expense is recognized.

Segments
The System has two segments, which are defined under governmental accounting standards as an identifiable activity for which one or more revenue bonds or other revenue-backed debt instruments are outstanding:

1) Activities Allowed Under the Burns-Porter Act – This segment accounts for the costs to build, operate and maintain the facilities financed by general obligation bonds as authorized by the Burns-Porter Act. Transportation and conservation revenues from the Water Contractors are recorded in this segment as well as power sales and reimbursements from Federal and State governments, and interest on investments. Expenses are limited to operations and maintenance of the SWP constructed with general obligation bond proceeds, power purchases, replacements and debt service on the general obligation bonds.

2) Activities Allowed Under the Central Valley Project Act – This segment accounts for the costs to build, operate and maintain the facilities financed by the Central Valley Project Water System revenue bonds. Capital and operating revenues from the Water Contractors for projects financed by revenue bond proceeds are recorded in this segment as well as commercial paper sales, reimbursements from Federal and State governments for the San Luis Dam and Reservoir, Suisun Marsh and recreation costs, and interest on investments. Expenses are limited to the construction and operation of SWP facilities constructed with revenue bond proceeds and power facilities, and debt service payments on the revenue bonds.

Reclassifications
Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

New Accounting Pronouncements

GASB 45
Effective July 1, 2007, the System was required to implement Governmental Accounting Standards Board Statement (GASB) No. 45*, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* known as OPEB. The System offers postretirement medical and dental benefits previously accounted for on a pay-as-you-go basis. GASB 45 establishes standards for the measurement, recognition, and reporting of OPEB expenses and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. Under GASB 45, the System is required to record an annual OPEB cost based on the annual required contribution of the employer (ARC), in an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize unfunded actuarial liabilities over a period not to exceed thirty years. DWR has elected to implement the requirements of GASB Statement No. 45 on a prospective basis. The System has recorded its net OPEB obligation and included the related financial statement disclosures in Note 9.

GASB 49
Effective July 1, 2008, the System implemented GASB 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations,

which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of GASB 49 excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure care and nuclear power plant decommissioning. If any one of five specified obligating events occurs, the System is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. The implementation of GASB 49, during the current fiscal year did not have a material effect on the System's financial statements.

GASB 50

Effective July 1, 2007, the System implemented GASB 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27.* This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in the notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

GASB 50 requires the System to disclose the current funded status of the pension plan as of the most recent actuarial valuation date in the notes to the financial statements. In addition, the System is required to disclose the funded status and present a multi-year schedule of funding progress using the entry age actuarial cost method. The System has included the related financial statement disclosures required by GASB Statement No. 50 in Note 8.

GASB 51

Effective not later than the year ending June 30, 2010, the System will be required to implement GASB 51, *Accounting and Financial Reporting for Intangible Assets.* The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to enhance the comparability of the accounting and financial reporting of such assets among state and local governments. The requirements of this Statement improve financial reporting by reducing inconsistencies that have developed in accounting and financial reporting for intangible assets. These inconsistencies will be reduced through the clarification that intangible assets subject to the provisions of this Statement should be classified as capital assets, and through the establishment of new authoritative guidance that addresses issues specific to these intangible assets given their nature (for example, recognition provisions for internally generated intangible assets, including computer software). This Statement also fosters greater comparability among state and local government financial statements and results in a more faithful representation of the service capacity of intangible assets - and therefore the financial position of governments - and of the periodic cost associated with the usage of such service capacity in governmental financial statements.

GASB 53

Effective not later than the year ended June 30, 2010, the System will be required to implement GASB 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB 53 requires governments to record most derivative instruments on the statement of net assets as either assets or liabilities depending on the underlying fair value of the derivative. The fair value of a derivative instrument is either the value of its future cash flows in current dollars or the price it would bring if it could be sold on an open market.

3. Interests in Jointly Owned Facilities

At June 30, 2009 and 2008, the System owned the following undivided interests in jointly owned facilities:

			System's Share			
	% Owned by System		Utility Plant in Service		Accumulated Depreciation	
	2009	2008	2009	2008	2009	2008
Reid Gardner Power Plant Unit No. 4	67.8%	67.8%	$ 332,209	$ 332,209	$ 288,751	$ 276,413
San Luis joint use facilities	55.0%	55.0%	255,932	255,932	114,348	111,042

The amounts above include the System's share of direct costs related to building the facilities. Each participant provides its own financing for the jointly owned facility.

DWR is the operator of the San Luis joint use facilities. All of the operating expenses related to these facilities are included as operating expenses in the statement of revenues, expenses, and changes in net assets. The Federal government is billed for its share of the operating expenses, and these billings are included as operating revenues in the statement of revenues, expenses, and changes in net assets.

DWR does not operate the Reid Gardner Power Plant Unit No. 4. The portion of Reid Gardner Power Plant Unit No. 4 operations attributable to the System's share is included in operations and maintenance expense in the statement of revenues, expenses, and changes in net assets.

4. Utility Plant

The following activity in utility plant occurred during the years ending June 30, 2009 and 2008:

	Utility Plant in Service			CWIP	Total
	Cost	Accumulated Depreciation	Net Value	Cost	
Beginning Balance, June 30, 2007	$ 4,639,051	$ (1,854,541)	**$ 2,784,510**	$ 253,152	**$ 3,037,662**
Additions	4,076	(79,136)	**(75,060)**	112,145	**37,085**
Disposals	(1,257)	1,265	**8**	-	**8**
Ending Balance, June 30, 2008	4,641,870	(1,932,412)	**2,709,458**	365,297	**3,074,755**
Additions	6,205	(77,269)	**(71,064)**	95,911	**24,847**
Disposals	(1,161)	1,161	**-**	-	**-**
Ending Balance, June 30, 2009	$ 4,646,914	$ (2,008,520)	**$ 2,638,394**	$ 461,208	**$ 3,099,602**

5. Investments

As of June 30, 2009 and 2008, the System's cash deposits consisted of restricted cash and cash equivalents maintained with a fiscal agent in the amount of $3,533 and $6,301, respectively.

As of June 30, 2009, the System's investments and credit ratings are as follows:

		Maturities					
	Credit Rating (S&P)	Under 30 Days	31-180 Days	181-365 Days	1-5 Years	Over 5 Years	Fair Value
Investments:							
Money Market Mutual Funds	Not Rated	$ 7,509	$ -	$ -	$ -	$ -	$ 7,509
State of California Pooled Money	Not Rated	-	-	436,728	-	-	436,728
US Federal Agency Notes							
Federal National Mortgage Association	AAA	-	-	-	-	23,697	23,697
Federal Home Loan Mortgage Corp	AAA	-	51,780	-	-	-	51,780
							519,714
Investment with Fiscal Agent							
Money Market Mutual Funds	AAA	9,207	-	-	-	-	9,207
Total Investments							$ 528,921

As of June 30, 2008 the System's investments and credit ratings are as follows:

	Credit Rating (S&P)	Maturities: Under 30 Days	31-180 Days	181-365 Days	1-5 Years	Over 5 Years	Fair Value
Investments:							
Money Market Mutual Funds	Not Rated	$ 37,578	$ -	$ -	$ -	$ -	$ 37,578
State of California Pooled Money	Not Rated	-	-	499,062	-	-	499,062
US Federal Agency Notes							
Federal National Mortgage Association	AAA	-	50,941	-	-	22,993	73,934
Federal Home Loan Mortgage Corp.	AAA	-	201	-	-	-	201
							610,775
Investment with Fiscal Agent							
Money Market Mutual Funds	A-1+	9,463	-	-	-	-	9,463
Total Investments							$ 620,238

Interest Rate Risk: In accordance with its investment policy, the State of California manages its exposure to declines in fair value by spreading investments over the various maximum maturities: U.S. Treasury securities, 5 years; federal agency securities, 5 years; bankers acceptances – domestic and foreign, 180 days; certificates of deposits, 5 years; collateralized time deposits, 5 years; commercial paper, 180 days; corporate bonds and notes, 5 years; repurchase agreements and reverse repurchase agreements, 1 year.

Custodial Credit Risk: For deposits, custodial credit risk is that in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by depository regulated under stated law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

Credit Risk: PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code, according to a statement of investment policy discussed in Note 2. The PMIA is not rated.

Concentration of Credit Risk: The PMIA's concentration of credit risk is limited by spreading the investment mix over different investment types, credit ratings and issuers to minimize the impact any one industry, investment class, or institution can have on the PMIA portfolio. As of June 30, 2009 and 2008, nearly 14% and 12%, respectively of the System's investments at year-end were in U.S. Agency Securities. There is no limitation on amounts invested in these types of issues. Investments in any one issuer (other than U.S. Treasury Notes, mutual funds and external investment pools) that represented 5% or more of the total investments of the System as of June 30, 2009 and 2008, were as follows:

	2009	2008
Federal National Mortgage Association	$ 23,697	$ 73,934
Federal Home Loan Mortgage Corporation	51,780	-

Interest on deposits in PMIA varies with the rate of return of the underlying portfolio and averaged 2.224% and 4.325% for the years ended June 30, 2009 and 2008, respectively. For the years ended June 30, 2009 and 2008, interest earned on the deposits with PMIA approximated $12,441 and $24,789, respectively and are included in the other expenses line item on the statement of revenues, expenses and change in net assets.

interest earned on the deposits with PMIA approximated $12,441 and $24,789, respectively and are included in other expenses line item on the statement of revenues, expenses and change in net assets

Total interest and investment income is comprised of interest, dividends, realized gains and losses, and unrealized gains and losses due to changes in the fair value of investments held at year-end. The change in fair value of the System's investments (U.S. Federal Agency Securities and U.S. Treasury Securities) is calculated as follows:

	2009	2008
Fair Value of Investments at the beginning of the fiscal year	$ 74,135	$ 99,958
Less: Proceeds of investments matured in fiscal year	(201,739)	(179,961)
Add: Purchase of investments in fiscal year	201,739	151,303
Add: Amortization of Discounts	63	66
Change in fair value of investments during fiscal year	1,279	2,769
Fair value of investments at the end of the fiscal year	$ 75,477	$ 74,135

6. Long-term Debt

The following is a summary of changes in long-term debt for the years ended June 30, 2009 and 2008:

	General Obligation Bonds	Revenue Bonds				Commercial Paper	PMIA Loan	Total Long Term Debt
	Par Amount	Par Amount	Unamortized (Discounts) and Premium	Deferred Amount on Refunding	Total Revenue Bonds	Par Amount		
Balance at June 30, 2007	$ 634,750	$ 2,543,200	$ 46,025	$ (21,142)	$ 2,568,083	$ 133,362	$ -	$ 3,336,195
Additions	-	632,890	45,069	(4,759)	673,200	19,900	29,600	722,700
Payments/amortization	(50,355)	(601,320)	(5,420)	2,226	(604,514)	(133,910)	-	(788,779)
Balance at June 30, 2008	584,395	2,574,770	85,674	(23,675)	2,636,769	19,352	29,600	3,270,116
Additions	-	287,735	15,009	(10,960)	291,784	23,905	-	315,689
Payments/amortization	(52,695)	(344,715)	(7,507)	2,827	(349,395)	(33,360)	(2,312)	(437,762)
Balance at June 30, 2009	531,700	2,517,790	93,176	(31,808)	2,579,158	9,897	27,288	3,148,043
Less current portion	(54,785)	(97,359)	-	-	(97,359)	-	(2,685)	(154,829)
Total Long-term Debt	$ 476,915	$ 2,420,431	$ 93,176	$ (31,808)	$ 2,481,799	$ 9,897	$ 24,603	$ 2,993,214

General Obligation Bonds

The Burns-Porter Act authorized the issuance of State Water Resources Development (WRD) General Obligation Bonds in the amount of $1,750,000 for construction of the System. This amount included $130,000 to be set aside for financial assistance to local water agencies as provided in the Davis-Grunsky Act. The Burns-Porter Act also made a continuing appropriation of the California Water Fund, a fund unrelated to the System, to supplement the bond authorization. To the extent Water Fund money was used for construction of the State water facilities in lieu of bond proceeds, an equal amount of bond authorization was set aside to be used only for the construction of additional facilities of the System that meet certain requirements set forth in the Burns-Porter Act.

Under the Burns-Porter Act, revenues of the System, other than revenues attributable to facilities financed with Central Valley Project Water System (CVP) Revenue Bonds, are deposited in the California Water Resources Development Bond Fund and are to be used annually only for the following purposes and in the following order of priority:

(1) To pay the maintenance, operation and replacement costs of the System,
(2) To pay, or reimburse the General Fund of the State for, the principal of and interest on the WRD General Obligation Bonds issued for the System as it becomes due,
(3) To reimburse the California Water Fund for funds utilized from said fund for construction of the System (complete reimbursement has been made), and
(4) To pay additional costs of the acquisition and construction of the System.
All such revenues are pledged for those uses and purposes for the benefit of the owners of the WRD General Obligation Bonds.

The amount of the revenues pledged to repay the Burns-Porter Act WRD General Obligation Bonds debt service is $651,054 with payments through 2025. Principal and interest paid for the current year were $77,501 and Water supply operating revenues were $721,253.

WRD General Obligation Bonds of $168 million are authorized but un-issued as of June 30, 2009 and 2008, and may only be used for additional facilities meeting certain requirements of the Burns-Porter Act.

WRD General Obligation Bonds Series A through Series S may be called at any time for early redemption. WRD General Obligation Bonds Series W through Series Y do not have early redemption provisions.

WRD General Obligation Bonds consist of the following at June 30:

Fiscal Year of Issue	Series	Fixed Rates	Fiscal Year of Final Maturity	Amounts Outstanding 2009	Amounts Outstanding 2008
1964	A	0.1-3.6%	2014	$ 20,000	$ 24,000
1964	B&C	0.05-3.7%	2015	34,000	39,500
1965	D&E	3.0-3.8%	2016	54,100	61,400
1966	F&G	3.5-4.1%	2017	65,000	72,000
1967	H,J&K	3.0-4.9%	2018	104,500	114,600
1968	L&M	4.0-4.9%	2019	78,600	85,000
1970	N&P	5.0-5.8%	2020	85,000	91,200
1971	Q&R	4.8-5.2%	2021	68,400	72,900
1972	S	5.3-5.5%	2022	19,440	20,600
1991	W	6.0-10.0%	2012	1,350	1,800
1993	X	4.8%	2024	750	800
1994	Y	6.8-7.1%	2025	560	595
Total General Obligation bond debt outstanding at par				531,700	584,395
Less current maturities				(54,785)	(52,695)
Total Long term General Obligation bond debt outstanding				$ 476,915	$ 531,700

Revenue Bonds

The Central Valley Project Water System (CVP) Revenue Bonds have been issued for the acquisition or construction of projects to provide water and power for the SWP. Under the statute pursuant to which CVP Revenue Bonds are issued, principal of and interest on the bonds are secured by and payable solely from revenues attributable to the facilities financed by the bonds, primarily certain payments under the water supply contracts between the System and Water Contractors. The amount of the revenues pledged to repay the (CVP) Revenue Bonds debt service is $3,866,414 with payments through 2033. Principal and interest paid for the current year were $201,477 and Water supply operating revenues were $721,253. The System is subject to certain bond covenants, the most restrictive of which requires that the revenues in each year shall be at least equal to 1.25 times the debt service payable from revenues on all bonds outstanding in such year, plus operating costs, and the required funding of a debt service reserve account. The bonds are limited special obligations of the System; neither the principal nor any interest thereon constitutes a debt of the State. Certain of the bonds are redeemable prior to maturity at redemption prices varying from 100% to 101%.

CVP Revenue Bonds consist of the following at June 30:

Fiscal Year of Issue	Series	Fixed Rates	Fiscal Year of Final Maturity	Fiscal Year of First Call Date	Amounts Outstanding 2009	Amounts Outstanding 2008
Devil Canyon-Castaic Facilities:						
1973	A&B	5.3-5.4%	2023	1983	$ 85,965	$ 89,825
CVP Water System:						
1992	J	5.5-7.0%	2013	2001	53,535	53,535
1996	O	4.8-5.0%	2030	2006	125,595	125,595
1997	Q	5.1-6.0%	2011	2007	17,415	81,860
1998	S	4.6-5.0%	2030	2008	42,765	42,765
1998	T	5.0-5.5%	2013	2009	-	89,410
1999	U	4.1-5.1%	2030	2009	-	139,545
1999	V	6.25%	2025	None	20,235	20,235
2001	W	4.6-5.5%	2030	2012	198,625	218,255
2002	X	4.0-5.5%	2030	2012	149,540	149,540
2003	Y	5.0-5.3%	2026	2013	283,705	298,345
2003	Z	2.8-5.0%	2020	2013	134,920	147,095
2003	AA	5.00%	2024	2013	107,215	107,215
2005	AC	3.0-5.0%	2030	2015	267,500	267,875
2006	AD	3.0-5.0%	2030	2016	110,370	110,785
2008	AE	3.0-5.0%	2030	2018	632,670	632,890
2009	AF	2.0-5.0%	2033	2019	287,735	-
Total revenue bond debt outstanding at par					2,517,790	2,574,770
Net Unamortized bond issuance premiums/discounts					93,176	85,674
Net Deferred amount on refunding					(31,808)	(23,675)
Current fiscal maturities					(97,359)	(78,035)
Total long term bond debt outstanding					$ 2,481,799	$ 2,558,734

Future Debt Service Requirements

Future principal and interest payment requirements on bonds are as follows at June 30, 2009:

	General Obligation Bonds		Revenue Bonds		
Year	Principal	Interest	Principal	Interest	Total
2010	$ 54,785	$ 22,474	$ 97,359	$ 122,893	$ 297,511
2011	56,375	20,061	108,871	118,317	303,624
2012	58,165	17,563	115,835	112,850	304,413
2013	59,455	15,008	122,170	106,704	303,337
2014	61,085	12,503	113,860	100,812	288,260
2015-2019	213,745	29,707	592,275	417,332	1,253,059
2020-2024	28,055	2,037	643,795	260,975	934,862
2025-2029	35	1	593,210	105,028	698,274
2030-2033	-	-	130,415	3,713	134,128
	$ 531,700	$ 119,354	$ 2,517,790	$ 1,348,624	$ 4,517,468

Pooled Money Investment Loan (PMIA)

The System applied for and received a loan from the Pooled Money Investment Account pursuant to Government Code section 16313 for $29.6 million. The proceeds of the loan were used to establish escrow accounts that defeased certain Water System Revenue Bonds that financed recreation, fish, and wildlife enhancement related cost of the acquisition and construction of the System. The loan is to be repaid with surplus revenues of the System made available under Water Code section 12937(b)(4). The DWR executed the Pooled Money Investment Board Loan on March 26, 2008. The loan agreement requires minimum quarterly payments of $1 million on the first day of every March, June, September and December; the first payment was made on September 1, 2008. Interest is computed on the unpaid principal balance of the loan at the Variable Rate on the basis of a 360-day year or twelve 30-day months and the number of days elapsed. The Variable Rate means (a) for the period from the date of the Loan Agreement, March 26, 2008, through and including the day before the first Reset Date (March 25, 2009), five percent per annum, and (b) for each Renewal Period thereafter, the greater of (i) five percent per annum, or (ii) the last available daily rate of return by the PMIA on the day before the annual Reset Date on which such Renewal Period commences.

The minimum future principal and interest payment requirements on the PMIA loan are as follows at June 30, 2009:

Year	Principal	Interest	Total
2010	$ 2,685	$ 1,315	$ 4,000
2011	2,822	1,178	4,000
2012	2,966	1,034	4,000
2013	3,117	883	4,000
2014	3,276	724	4,000
2015 - 2018	12,422	1,155	13,577
	$ 27,288	$ 6,289	$ 33,577

Commercial Paper Notes

The System has a commercial paper borrowing program of up to $141.5 million. Under this program, the System may issue commercial paper at prevailing interest rates for periods of not more than 270 days from the date of issuance. To provide liquidity for the programs, the System entered into a revolving credit agreement with a commercial bank equal to the authorized amount of commercial paper. At June 30, 2009 and 2008, there were borrowings of $9,897 and $19,352, respectively, outstanding under this program. The weighted average for interest expense approximated 1.70% and 2.95% for the years ended June 30, 2009, and 2008, respectively. The proceeds from the issuance of commercial paper are restricted to construction costs of certain State water projects, reimbursements of construction costs of certain State water projects, and interest and issuance costs of the commercial paper notes. The liability has been classified as long-term as it is the System's policy to redeem the commercial paper outstanding with the issuance of CVP Revenue Bonds. The System's obligation to make debt service payments on the commercial paper notes is subordinate to its payment obligations under the resolutions for the CVP Revenue Bonds and WRD General Obligation Bonds.

The water supply contracts in their original form provide for two charges to the Water Contractors: (a) a Delta Water Charge and (b) a Transportation Charge. These charges are computed so as to return to the State the costs of the facilities necessary to deliver water to the Water Contractors, including capital costs (with interest) and operation and maintenance costs, and expressly including in the case of the facilities to be financed with commercial paper and the related Water System Revenue Bonds, debt service and 1.25 debt service coverage requirements to be satisfied from revenues. DWR expects to redeem its commercial paper liability with proceeds of additional commercial paper draws until DWR issues Water System Revenue Bonds to provide permanent financing for those Water System Projects financed with commercial paper.

7. Debt Refundings

In March 2009, the System issued CVP Water System Revenue Bonds-Series AF in the amount of $287,735 plus the premium of $15,009, for a total of $302,744 with an average yield on the bonds of 4.18%. The bond proceeds and System funds on hand in the amount of $9,530 were used to defease $266,680 of outstanding bonds, redeem commercial paper borrowings of $33,360, fund capitalized interest of $1,265, fund deposits to the debt service reserve account of $2,414, and cover costs of issuance of $1,632. The proceeds of the Series AF were used to advance refund CVP Water System Revenue Bonds Series Q with a

par amount of $56,445 and CVP Water System Revenue Bonds Series T with a par amount of $73,365 and CVP Water System Revenue Bonds Series U with a par amount of $136,870. The proceeds (after payment of underwriting refunding fees, other issuance costs, redeeming commercial paper borrowings and deposits to the debt service reserve account) were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the advance refunded bonds Series Q, T, and U. As a result the advance refunded bonds are considered to be defeased and the related liabilities have been removed from the financial statements.

Revenue Bond debt service increased by $23,000 over the life of the bonds when compared to debt service prior to the issuance of Series AF.

The refunding of Series Q, Series T, and Series U bonds resulted in a total economic gain (Net Present Value) of approximately $5,699, $4,054, and $6,109 respectively. In addition, the refunding transactions resulted in cash flow savings of approximately $8,370 on Series Q bonds, $5,345 on Series T, and $9,440 on Series U bonds.

The total amount of bonds refunded in advance and still outstanding was $76,340 and $124,640 as of June 30, 2009 and 2008, respectively.

8. Retirement Plan

Plan Description

The State is a member of the California Public Employees' Retirement System (PERS), an agent multiple-employer pension system which provides a contributory defined-benefit pension for substantially all State employees. The System is included in the State Miscellaneous Category (Tier 1 and Tier 2) within PERS, thereby limiting the availability of certain System pension data. PERS functions as an investment and administrative agent for participating public agencies within the State of California. Departments and agencies within the State of California, including the System, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State agencies. Copies of PERS' comprehensive annual financial report may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

The pension plan provides retirement benefits, survivor benefits, and death and disability benefits based upon employee's years of credited service, age and final compensation. Vesting occurs after five years of credited service except for second tier benefits, which require ten years of credited service. Employees who retire at or after age 50 with five or more years of service are entitled to a retirement benefit, payable monthly for the remainder of their lives. Several survivor benefit options that reduce a retiree's unmodified benefit are available. Benefit provisions and all other requirements are established by State statute.

Funding Policy

Active members who participate in Social Security under the State Miscellaneous Tier 1 category are required to contribute 5% of their annual covered salary after excluding the first $513 of gross monthly pay. Active members who do not participate in Social Security under the State Miscellaneous Tier 1 category are required to contribute 6% of their annual covered salary after excluding the first $317 of gross monthly pay. Active members who participate in Social Security under the State Miscellaneous Tier 2 category are not required to make contributions to PERS.

The System is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2009, was 16.57% and 16.47% for State Miscellaneous Tier 1 and Tier 2, respectively. For the fiscal year ended June 30, 2008, the required employer contribution rate for Tiers 1 and 2 were 16.63% and 16.57%, respectively. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by PERS.

Annual Pension Cost

For the years ended June 30, 2009 and 2008, the System's annual pension cost and actual contribution amounted to approximately $19.8 million and $18.4 million, respectively. Annual covered payroll is not available for the System. However the actuarially determined contributions for the years ended June 30, 2009 and 2008, approximated 1.3% and 1.2%, respectively, of the total actuarially determined contribution requirements for the State Miscellaneous Category and approximately 14.39% and 14.51%, respectively, of the total System payroll. The required contribution for the 2009 fiscal year was determined as part of the June 30, 2007, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of covered payroll.

Trend information for the last three years regarding the System's required contributions and the percentage contributed, is as follows:

Three-year Trend Information

Year Ended June 30,	Required Contribution	Percentage of Required Contribution Contributed
2007	$ 19,500	100%
2008	18,400	100%
2009	19,800	100%

9. Postemployment Benefits Other Than Pensions

The State provides health care and dental benefits to annuitants of the retirement systems to which the State contributes as an employer. To be eligible for these benefits, first-tier plan annuitants must retire on or after age 50 with at least five years of service, and second-tier plan annuitants must retire on or after attaining age 55 with at least 10 years of service. In addition, annuitants must retire within 120 days of separation from employment to be eligible to receive these benefits. In accordance with the California Government Code, the State generally pays 100% of the health insurance cost for annuitants, plus 90% of the additional premium required for the enrollment of family members of annuitants. Although the California Government Code does not specify the State's contribution toward dental insurance costs, the State generally pays all or a portion of the dental insurance cost for annuitants, depending upon the completed years of credited state service at retirement and the dental coverage selected by the annuitant. The System participates in the State's plan on a cost sharing basis. The System recognizes the costs of providing health and dental insurance to annuitants based on the required contribution, which is actuarially determined, and is funded on a pay-as-you-go basis.

The System's required contributions and resulting net OPEB obligation is as follows:

	2009	2008
Annual required contribution (ARC)	$ 41,464	$ 29,952
Interest on net OPEB obligation	1,046	-
Adj to the ARC	(918)	-
Annual OPEB cost	41,592	29,952
Contributions made	(13,403)	(10,244)
Increase in net OPEB obligation	28,189	19,708
Net OPEB obligation - beginning of year	19,708	-
Net OPEB obligation - end of year	$ 47,897	$ 19,708

The System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2009 and 2008, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	$29,952	34%	$19,708
6/30/2009	$36,913	36%	$47,897

The OPEB liability of the System is not evaluated at the fund level. Additional detail disclosures required by GASB Statement No. 45, regarding the State's postemployment benefit plan are presented in the financial statements of the State of California for the year ended June 30, 2009.

10. Commitments and Contingencies

Commitments

Construction

The System has entered into long-term construction contract commitments for the State water facilities. The remaining value of contracts in process as of June 30, 2009 and June 30, 2008, approximated $35,779 and $44,876 respectively.

Power Transmission and Purchase

The System has long-term power transmission service contracts requiring future payments of approximately $143,892 over periods ranging from one to 31 years. Payments made under these contracts approximated $13,343 and $15,671 for the years ended June 30, 2009 and 2008, respectively.

The System has also entered into long-term power purchase contracts requiring future payments of approximately $433,568 over periods ranging from one to 25 years. Payments made under these contracts, excluding payments to the Kings River Conservation District (District) to cover debt service, approximated $56,919 and $73,525 for the years ended June 30, 2009 and 2008, respectively.

The remaining amounts of fixed obligations under the long-term power purchase and transmission contracts as of June 30, 2009, are as follows:

For the year ended	Fixed Obligations
2010	$ 77,623
2011	76,175
2012	55,307
2013	55,307
2014	55,307
Thereafter	257,741
	$ 577,460

The System has a contract with the District that provides that the System receive all power generated by the Pine Flat Power Plant Project (Project). Under the contract, the System is obligated to pay fixed amounts each year to cover the debt service on bonds issued by the District to build the Project, operations and maintenance expenses, and a charge for power supplied. Such payments are to be made until all of the bonds issued by the District to finance the Project have been retired in 2020. Payments to the District totaled approximately $11,246 and $11,751 during the years ended June 30, 2009 and 2008, respectively.

The amount of fixed obligations of the System related to future principal and interest payments of the District's bonds as of June 30, 2009 are as follows:

For the year ended	Fixed Obligations
2010	$ 4,874
2011	4,862
2012	5,089
2013	5,077
2014	5,063
Thereafter	30,097
	$ 55,062

Market value information for certain power purchase, sale and exchange contracts is required to be disclosed under the provisions of Governmental Accounting Standards Board Technical Bulletin 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Asset*. The fair value of these contracts as June 30, 2009 is disclosed below, using forward market prices discounted at the prevailing risk-free interest rate. Except as discussed below, all energy sales, purchase and exchange contracts expire before December 31, 2009. Four purchase contracts, one exchange contract and three sales contracts expire in 2009, three purchase contracts expire in 2010 and two purchase contracts expire in 2013 and 2015 respectively. The long-term energy purchase contracts involve energy delivered from the Reid Gardner and Pine Flat Power Plants which expire in 2013 and 2035, respectively, and a contract with Metropolitan Water District of Southern California (Metropolitan), one of the Water Contractors, which has no explicit termination date, although either party can terminate the contract with a ten-year notice. As such, the Metropolitan contract was valued out to ten years. Amounts paid to Metropolitan

approximated $7.1 million and $8.6 million for the years ended June 30, 2009 and 2008, respectively.

	Number of Contracts	Total Capacity (MWh)	Fair Value at June 30, 2008
Energy sales	17	565	$ 3,458
Energy purchases	32	1275	(16,327)
Energy exchanges	1	150 sales; 126 purchases	1,942
Long-term energy purchases	3	465	214,468
Total			$ 203,541

The System also has entered into transactions to hedge the price of natural gas through bilateral arrangements and has 375 contracts outstanding at June 30, 2009 with a total fair value approximating ($6.9) million, using forward market prices. The System has also purchased Options to hedge the market risk of these contracts. As of June 30, 2009 the fair value of the Options approximated ($2.8) million. The contracts expire at various times from December 2010 through October 2011. The System recognized a loss of $4.7 million and $4.3 million for fiscal 2009 and 2008, respectively.

Contingencies

Litigation and Claims

Monterey Amendment

In 1994, the System and certain Water Contractors adopted a set of principles pursuant to which additional amendments to the water supply contracts have since been negotiated (Monterey Amendment). The Monterey Amendment includes provisions related to the transfer of land and related assets, known as the Kern Water Bank, to the Kern County Water Agency (KCWA) (one of the Water Contractors), the operation of certain System reservoirs, transfers of water allocations between contractors, establishment of certain operating reserves, and the revision of calculating certain Water Contractor billings. The Monterey Amendment has been executed by the System and 27 of the 29 Water Contractors, who receive approximately 99% of water delivered annually and who pay approximately 99% of annual water supply revenue. Certain parties have disputed the Monterey Amendment by challenging the validity of the related environmental impact report (EIR). While the courts have allowed the System to proceed with the implementation of the Monterey Amendment, the System has been required to prepare a new EIR. The Final EIR is expected to be completed in early 2010. After the EIR process is completed, the plaintiffs involved could again challenge, on limited grounds, the EIR and certain provisions of the Monterey Amendment. Other groups and/or individuals could also challenge the final EIR. The System, however, does not expect that there would be any material adverse impact on

the ability of the System to meet its payment obligations, even if a challenge occurs and is successful.

2005 Contractor Lawsuit Regarding Oroville Power Credits

On April 25, 2005 the Kern County Water Agency and thirteen other Water Contractors filed a lawsuit against the System in Sacramento County Superior Court for declaratory relief and breach of contract. The complaint alleges that pursuant to the water supply contracts, the System is required, but has failed, to credit all revenues from power generated by certain project conservation facilities (primarily the Hyatt-Thermalito Power Plants) to the conservation facilities charge in the Water Contractor billings, and, as a result, has overcharged the Water Contractor plaintiffs. The complaint seeks a declaration that all "benefits" derived from the sale or other disposal of power from project conservation facilities be credited "in conformity with the terms of the water supply contracts," along with damages and costs in an unspecified amount. The Metropolitan Water District of Southern California and entities representing 12 other southern Water Contractors received court permission on December 12, 2005 to intervene in the lawsuit as defendants. Plaintiffs thereafter filed an amended complaint joining two additional contractors. A non-jury trial was held in November and December 2008. In October 2009, the Court issued its decision in favor of the System and the Water Contractors which intervened in support of the System, finding that the System's determinations and administration of the provisions regarding Oroville power credits were consistent with the water supply contracts. The next steps available to the plaintiffs, if they so choose, would be to ask the Court to reconsider its decision and to thereafter appeal the Superior Court's decision to the Court of Appeal. If the Water Contractor plaintiffs are ultimately successful in their efforts to reverse the Superior Court's decision, the System believes certain Water Contractors would pay more to the System under the Water Supply Contracts, while others would pay less and that this cost shifting would not materially adversely impact the System's financial position or results from operations.

Other Claims by Water Contractors, Including Claims Concerning Charges for Recreation and Fish and Wildlife Enhancement

In accordance with the water supply contracts, in December 2005, 27 Water Contractors and entities representing Water Contractors filed "Notices of Contest" with the System challenging the accuracy of various charges in the System's billings. One Water Contractor also filed a claim based on its Notice of Contest with the Victim Compensation and Government Claims Board. The System has been reviewing these Notices of Contest and investigating the items raised.

One item that has been determined to have merit, contested the System's practice of charging the Water Contractors for certain financing costs of the recreation and fish and wildlife enhancement portion of facilities financed with Water System Revenue Bonds. To rectify the situation, the System restated past bills to Water Contractors to credit back approximately $9.5 million, which the System has determined to be the amount of such charges, plus interest. The System also took other actions to pay for the costs of the recreation and fish and wildlife enhancement portion of System facilities with sources other than direct charges to the Water Contractors for such costs. Such actions included obtaining a loan from the State Pooled Money Investment Account (PMIA) in the amount of $29.6 million, which was used together with certain other available funds to retire or provide for the defeasance of approximately $28.2 million principal amount of revenue bonds and

commercial paper notes, the proceeds of which had been used to pay costs allocated by the System to the development of recreation or fish and wildlife enhancement. The System has agreed to pay a minimum of $4 million per year beginning in September 2008 to repay the PMIA loan.

With the receipt of the PMIA loan and the waivers in the 2007 and 2008 Tolling and Waiver Agreement obtained from the 27 Water Contractors who signed the Monterey Amendment, the System sold revenue bonds in May 2008. The sale of System revenue bonds had been suspended pending the resolution of the recreation and fish and wildlife enhancement issue.

In addition to waivers included in the 2007 and 2008 Tolling and Waiver Agreements, which helped to facilitate the resumption of the sale of System revenue bonds, the Tolling and Waiver Agreements, as amended, also tolled (i.e. suspended) until December 31, 2010 the running of the time period and statute of limitations for filing by the Water Contractors of (1) protests regarding the DWR's bills to the Water Contractors for the years 2007 through 2011, (2) claims arising from the DWR's revisions to prior year invoices that were made to adjust for improper charges to the Water Contractors for recreation and fish and wildlife enhancement costs, and (3) certain other specified claims. The Tolling and Waiver Agreement also tolled the running of the time period for bringing an action on the Victim Compensation and Government Claims Board claim regarding the 2006 invoice that was filed by one of the Water Contractors. In the meantime, the System and Water Contractors are continuing their efforts to resolve issues that are covered by the Tolling and Waiver Agreement. However, no assurance can be given that the Water Contractors will not file additional Notices of Contest, claims and/or lawsuits with respect to the issues under discussion once the Tolling and Waiver Agreement expires.

Lawsuits Regarding 2004 Delta Levee Failure

Four lawsuits have been filed to recover damages caused when a Delta levee failed and flooded the Upper Jones Tract and Lower Jones Tract in June 2004. Three of the lawsuits name as defendants a local Delta reclamation district, the State Reclamation Board and the DWR. A cause of action in each of these three lawsuits alleges that the System's operations and activities in the Delta were a cause of the damage. All four lawsuits have been consolidated, although the fourth lawsuit does not involve the DWR or any other state agency. The consolidated cases are now in the pre-trial stage. The DWR does not believe that an adverse court decision in any of these consolidated cases would have a material adverse impact on the System's finances or operations because such costs would be recoverable under the long-term water supply contracts.

General

The System, during the ordinary course of its operations, has been named in a number of additional suits and claims, several of which are still pending.

In the opinions of management and the System's legal counsel, such legal actions, including the Monterey Amendment, will not have a material effect on the System's financial position or results of operations. If incurred, such costs would be recoverable from project beneficiaries under the long-term water supply contracts.

Federal Energy Regulatory Commission Proceedings
There are a number of proceedings pending before the Federal Energy Regulatory Commission (FERC) that may impact the cost of System operations. Some of these proceedings address requests from the California Independent System Operator, investor-owned utilities, and others to increase or adjust rates or allocate responsibility for costs for transmission and other services provided to the System and other entities in California. The System is participating in these proceedings, since the outcome of these proceedings has the potential to increase the System's annual power costs. However, the System does not believe that any increased charges arising from these proceedings will materially impact the SWP's operations or ability to pay the System's debt service. Any increased charges will be passed through to the Water Contractors under the water supply contracts in the form of higher operations charges.

Claims for Partial Energy Purchase Refunds
FERC proceedings have also been instituted to address power purchaser requests for partial refunds from sellers of energy and related services in 2000 and 2001, including the System. However, in September 2005, the United States Ninth Circuit Court of Appeals ruled that FERC lacked jurisdiction under the Federal Power Act to order governmental entities, such as the System, to provide refunds in these types of proceedings. As a result of this Ninth Circuit Court of Appeals' ruling, a group of California entities filed similar claims for partial energy purchase refunds with the California Victim Compensation and Government Claims Board (Claims Board) against the governmental entity sellers, including the System. The claims were denied by the Claims Board in April, 2006, which allows the claimants to file lawsuits against the governmental entity sellers, including the System. However, DWR and a group of California entities have agreed to suspend the running of the statute of limitations for the filing of a lawsuit through March 1, 2010. The System believes that amounts, if any, that the System might be required to refund as a result of these claims would not have a material impact on the System's financial position or results from operations because the impact of any refunds would be passed through to the Water Contractors under the water supply contracts in the form of higher operating charges.

11. Self-Insurance

The System is self-insured for all completed facilities of the SWP other than a portion of the Reid Gardner Project. The System is also self-insured for workers' compensation, general liability and other risks. All workers' compensation claims and other losses are on a "pay-as-you-go" basis. The long-term water supply contracts provide for recovery of such losses from the Water Contractors. Additionally, the CVP Act and the related bond resolutions authorize the issuance of additional bonds, payable from available revenues or federal reimbursements under the National Disaster Act, for the purpose of providing funds for

emergency repairs to power projects or water system projects necessitated by natural disasters, provided that certain conditions are met.

12. Economic Dependency

The System's water supply revenue is derived from 29 Water Contractors, including the Metropolitan Water District of Southern California whose System billings constituted 58% and 62% of total System water supply revenue for the years ended June 30, 2009 and 2008, respectively, and Kern County Water Agency whose System billings constituted 10% and 7% of total System water supply revenue for the years ended June 30, 2009 and 2008, respectively.

The System sold power to 40 power companies during the fiscal year ended June 30, 2009. The highest percentage of power revenues came from the California Independent System Operator. The following table shows power sales to companies which exceeded 5% of the total power sold by the System.

	2009	% Total	2008	% Total
California Independent System Operator	$ 25,632	13.61%	$ 28,530	13.16%
Southern California Edison	21,186	11.25%	25,753	11.88%
Coral Power LLC	-	-	16,630	7.67%
Pacific Gas & Electric Company	13,318	7.07%	15,817	7.30%
San Diego Gas and Electric Company	11,524	6.12%	15,762	7.27%
Cargill Inc.	16,851	8.95%	15,058	6.95%
Citigroup Energy Inc.	10,085	5.36%	11,907	5.49%
Nevada Power Company	14,484	7.69%	11,662	5.38%
UBS Energy	9,639	5.12%	11,645	5.37%
Iberdrola Renewables Inc	9,723	5.16%	-	-
Sempra Energy Trading Corp	15,011	7.97%	-	-

Similarly, the System purchased power from 40 power suppliers during the fiscal year ended June 30, 2009 with Morgan Stanley Group, Inc. providing the highest percentage to the System at 26.37% of the total. The following table shows power purchases from suppliers which exceeded 5% of the total power purchased by the System.

	2009	% Total	2008	% Total
Morgan Stanley Capital Group Inc.	$ 61,160	26.37%	$ 85,928	25.01%
California Independent System Operator	38,834	16.75%	50,275	14.64%
Citigroup Energy Inc.	19,826	8.55%	-	-
Sempra Energy Trading Corp.	14,200	6.12%	-	-
Southern California Edison Co.	13,827	5.96%	17,410	5.07%
Metropolitan Water District of Southern California	12,094	5.21%	26,757	7.79%
Kings River Conservation District	11,813	5.09%	-	-
UBS Energy	-	-	28,141	8.19%

13. Segment Information

The table below presents the condensed statements of net assets, the statements of revenues, expenses, and changes in net assets and the statements of cash flows for the System's two segments, as of and for the years ended June 30, 2009 and 2008.

	2009			2008		
	Activities Allowed Under			Activities Allowed Under		
	Burns-Porter Act	Central Valley Project Act	Total	Burns-Porter Act	Central Valley Project Act	Total
Condensed Statements of Net Assets:						
Assets						
Capital assets	$ 825,390	$ 2,274,212	$ 3,099,602	$ 847,114	$ 2,227,641	$ 3,074,755
Other assets	1,147,906	310,365	1,458,271	1,086,361	364,785	1,451,146
Current assets	192,309	308,859	501,168	217,575	428,502	646,077
Total assets	$ 2,165,605	$ 2,893,436	$ 5,059,041	$ 2,151,050	$ 3,020,928	$ 5,171,978
Capitalization and Liabilities						
Capitalization:						
Net assets:						
Capital (deficit), net of related debt	$ 553,561	$ (280,577)	$ 272,984	$ 520,278	$ (392,420)	$ 127,858
Restricted	624,914	307,533	932,447	658,197	419,376	1,077,573
Total net assets	1,178,475	26,956	1,205,431	1,178,475	26,956	1,205,431
Long-term liabilities	549,415	2,491,696	3,041,111	578,440	2,578,086	3,156,526
Total capitalization	1,727,890	2,518,652	4,246,542	1,756,915	2,605,042	4,361,957
Current liabilities	202,109	216,811	418,920	154,310	253,939	408,249
Other liabilities	235,606	157,973	393,579	239,825	161,947	401,772
Total capitalization and liabilities	$ 2,165,605	$ 2,893,436	$ 5,059,041	$ 2,151,050	$ 3,020,928	$ 5,171,978
Condensed Statements of Revenues, Expenses, and Changes in Net Assets:						
Operating revenues:						
Water supply	$ 454,921	$ 266,332	$ 721,253	$ 467,291	$ 285,562	$ 752,853
Power sales	160,858	14,460	175,318	203,978	11,452	215,430
Federal reimbursements	16,234	2,032	18,266	20,209	783	20,992
	632,013	282,824	914,837	691,478	297,797	989,275
Depreciation expense	(27,119)	(50,150)	(77,269)	(28,806)	(50,330)	(79,136)
Other operating expense	(546,453)	(148,145)	(694,598)	(634,277)	(139,085)	(773,362)
Income from operations	58,441	84,529	142,970	28,395	108,382	136,777
Capital expenses (deferred) recovered	(5,064)	45,619	40,555	(20,595)	-	(20,595)
Interest expense	(23,780)	(106,274)	(130,054)	(27,178)	(129,538)	(156,716)
Transfers In	(6,798)	(155,775)	(162,573)	(6,064)	(144,792)	(150,856)
Transfers Out	82,987	79,586	162,573	118,390	32,466	150,856
Other (expense) income	(105,786)	52,315	(53,471)	(92,948)	133,482	40,534
Increase (decrease) in net assets	-	-	-	-	-	-
Net assets, beginning of year	1,178,475	26,956	1,205,431	1,178,475	26,956	1,205,431
Net assets, end of year	$ 1,178,475	$ 26,956	$ 1,205,431	$ 1,178,475	$ 26,956	$ 1,205,431
Condensed Statements of Cash Flows:						
Net cash provided by (used in):						
Operating activities	$ 146,773	$ 100,926	$ 247,699	$ 183,022	$ 121,010	$ 304,032
Capital and related financing activities	(160,941)	(202,633)	(363,574)	(162,749)	(165,898)	(328,647)
Investing activities	5,321	15,127	20,448	8,239	56,560	64,799
Net (decrease) increase in cash and cash equivalents	(8,847)	(86,580)	(95,427)	28,512	11,672	40,184
Cash and equivalents, beginning of year	136,392	416,012	552,404	107,880	404,340	512,220
Cash and equivalents, end of year	$ 127,545	$ 329,432	$ 456,977	$ 136,392	$ 416,012	$ 552,404

14. Subsequent Events

In December 2009, the System issued CVP Water System Revenue Bonds Series AG with a par amount of $169.1 million and a premium of $11.0 million with an average yield on the bonds of 4.41%. The bond proceeds along with System funds on hand in the amount of $.1 million were used to defease $168.3 million of outstanding bonds, redeem commercial paper borrowings of $9.9 million, fund capitalized interest of $.4 million, fund deposits to the debt service reserve account of $.4 million and cover costs of issuance of $1.1 million.

Supplementary Information

State Water Resources Development System
Calculation of Adequacy of Debt Service Coverage for the Central Valley Project Revenue Bonds
For the years ended June 30, 2009 and 2008 (in thousands)

	2009	2008
Water supply revenues, including $48,985 in 2009 and $45,264 in 2008 in refundable proceeds	$ 328,044	$ 328,655
Less: Operation and maintenance expense	(64,522)	(83,311)
Net revenues available for debt service	263,522	245,344
Principal and interest for revenue bonds	$ 192,973	$ 181,116
Debt service coverage	136.6%	135.5%

Note: The general bond resolution for the Central Valley Project (CVP) Water System Revenue Bonds requires the System to collect revenues under the long-term water supply contracts equal to 1.25 times the annual debt service. The calculation above includes the amounts applicable to the CVP Water System Revenue Bonds and excludes amounts applicable to the State Water Resources Development General Obligation Bonds.

Arnold Schwarzenegger
Governor, State of California

Michael J. Chrisman
Secrectary of Resources,
The Natural Resources Agency

Lester A. Snow
Director, Department of Water Rersources

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APPENDIX C

NCPA AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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AND ASSOCIATED POWER CORPORATIONS

Reports on Audit of Combined Financial Statements
and
Supplementary Information

For the Year Ended June 30, 2009 and 2008

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

Reports on Audit of Combined Financial Statements
And Additional Combining Information

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For the Year Ended June 30, 2009 and 2008

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INDEPENDENT AUDITOR'S REPORT

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, 2009 and 2008 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2009 and 2008 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
November 25, 2009

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, 2009 and 2008. 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.

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, that is, similar in most respects to the financial statements of a private sector for-profit entity involved in the same kind of business.

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 Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," 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.

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.

FINANCIAL HIGHLIGHTS

The following is a summary of the Agency's combined financial position and results of operations for the years ended June 30, 2009, 2008, and 2007.

Condensed Balance Sheets	June 30, (000's omitted) 2009	2008	2007
Assets			
Current assets	$ 73,916	$ 67,105	$ 67,741
Restricted assets	196,508	169,678	193,740
Electric utility plant, net	335,481	344,171	375,441
Other assets & deferred charges	297,097	282,141	246,136
	$ 903,002	$ 863,095	$ 883,058
Liabilities and Net Assets			
Long-term debt	$ 594,851	$ 593,696	$ 628,183
Current liabilities	149,215	114,582	98,693
Non-current liabilities and deferred credits	126,922	128,913	131,685
Net assets	32,014	25,904	24,497
	$ 903,002	$ 863,095	$ 883,058

Condensed Statements of Revenues, Expenses and Changes in Net Assets	Years Ended June 30, (000's omitted) 2009	2008	2007
Sales for resale	$ 350,755	$ 311,374	$ 310,084
Operating expenses	301,251	292,639	269,487
Net operating revenues	49,504	18,735	40,597
Other expenses	(30,632)	(28,783)	(27,155)
Future recoverable costs	(2,714)	24,911	(943)
Refunds to participants	(10,048)	(13,456)	(17,767)
Increase (decrease) in net assets	6,110	1,407	(5,268)
Net assets, beginning of year	25,904	24,497	29,765
Net assets, end of year	$ 32,014	$ 25,904	$ 24,497

2009 Compared to 2008

ASSETS

Current Assets

The Agency's current assets increased $6.8 million or 10.1% during 2009 primarily due to cash provided by operating, investing and non-capital financing activities offset by reductions in accounts and interest receivable.

Restricted Assets

Restricted assets increased $26.8 million or 15.8% from the prior year. This is primarily a result of Geothermal Project construction fund and debt service reserve account additions of approximately $18.9 million, a net increase of funds of $5.6 million for the Lodi Energy Center, and a $3.8 million scheduled increase in debt service funds offset by a reduction of approximately $1.5 million of other reserves and deposits.

Electric Utility Plant, Net

The Agency has invested approximately $335.5 million in plant assets and construction work in progress, net of accumulated depreciation, at June 30, 2009. Net utility plant makes up approximately 37.2% of the Agency's assets. The $8.7 million decrease from the prior year is a result of capital additions of $9.8 million and an increase in construction work in progress of $15.2 million offset by $33.7 million in depreciation, net of retirements. Net capital additions were primarily related to photovoltaic arrays and turbine upgrades to Geothermal assets.

Other Assets and Deferred Charges

Other assets and deferred charges increased $15.0 million compared to 2008. This was primarily due to an $18.6 million increase in preliminary survey and investigation costs related to the proposed Lodi Energy Center offset by decreases in other deferred expenses by a net of $3.6 million due to depreciation and bond cost amortizations.

LIABILITIES

Long-Term Debt

Long-term debt increased $1.2 million in 2009 as a result of scheduled principal payments of $38.2 million, which was offset by the effects of the 2008 Hydroelectric Project bond refunding and 2009 Geothermal Project bond issuance.

In July 2008, the Agency refunded (or purchased from the liquidity providers) the 2002 Hydroelectric Refunding Revenue Bonds Series A & B and the 2003 Hydroelectric Refunding Revenue Bonds Series A & B with outstanding principal of $140,200,000. In addition, the associated interest rate swaps were terminated. The refunding was completed through the issuance of $128,005,000 fixed rate tax exempt debt (2008 Series C) and $9,505,000 fixed rate taxable debt (2008 Series D) with yields of 2.78% to 4.48% with varying principal maturities ranging from $690,000 to $15,550,000 through July 1, 2024. The refunding is estimated to have increased project debt service by an estimated $11.7 million over the next 15 years, which results in an estimated economic loss (difference between the present values of the old and new debt service payments) to the Agency of approximately $5,500,000. Swap termination payments of $22,000, $30,000 and $2,260,000 were paid to Citigroup Financial Products Inc., UBS AG, and Bank One (JP Morgan), respectively.

2009 Compared to 2008 - Continued

In March 2009, the Agency issued $35,610,000 of Geothermal Project 2009 Series A fixed rate tax exempt bonds for the purpose of providing funds to finance the costs of acquisition and construction of certain improvements to the project as well as make a contribution to the Debt Service Reserve Account and to pay the costs of issuance. The bonds have yields of 2.625% to 5.480% with varying principal maturities ranging from $1,820,000 to $3,480,000 through July 1, 2024.

Current Liabilities

Current liabilities increased by $34.6 million in 2009. This is primarily due to: (1) a net increase in participant advances and other deposits of $22.2 million, which is primarily related to the Lodi Energy Center; (2) an increase in accounts payable of $10.5 million; (3) a scheduled increase of $1.7 million in the current portion of long-term debt; and (4) an increase of $0.3 million in operating reserves offset by a small decrease in accrued interest.

Non-Current Liabilities and Deferred Credits

Non-current liabilities and deferred credits decreased by $2.0 million in 2009. This was primarily due to a $1.8 million decrease resulting from the recognition of deferred revenues and a decrease of $0.2 million in Agency held operating reserves.

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 2009 were approximately $39.4 million or approximately 12.6% greater than in the prior fiscal year. This was the net result of the following: (1) higher sales for resale revenues from Agency Participants by approximately $45.0 million or 15.8%, which was caused by a scheduled increase in annual debt service requirements and greater reliance on power contracts due to dry year hydroelectric conditions; and (2) lower other third-party revenues from electric power, ancillary services, and reliability must run sources by $5.6 million or 20.8%, which was caused by reduced availability of excess energy for sale from the Agency's power resources.

Operating Expenses

Operating expenses increased by approximately $8.6 million or 2.9% in fiscal year 2009, as compared with the prior year. This was the net result of the following: (1) the transmission cost component increased by $12.3 million or 32.8% primarily due to increased costs of transmission services from the Independent System Operator; (2) the cost of the purchased power component increased by $1.8 million or 1.2%, largely due to the additional need for power previously noted above; (3) operations costs decreased $5.5 million which reflects reduced natural gas purchases for generation and a reduction of well work over and drill rig modernization costs; (4) increases in maintenance and administrative and general expenses totaling approximately $1.4 million were offset by a reduction of $1.4 million in depreciation expense.

2009 Compared to 2008 - Continued

Other Expenses

Other expenses increased approximately $1.8 million or 6.4%. This net increase was primarily due to increased amortization of deferred charges. Interest expense, net of interest income remained relatively flat.

Future Recoverable Costs

Future recoverable costs decreased by about $27.6 million primarily because of a scheduled increase of bond principal collections to offset expenses originally paid from bond proceeds, including depreciation and bond cost amortizations. The Agency expects to recover certain items of expense and revenue through rates over the remaining term of outstanding revenue bond obligations, see Note B to Combined Financial Statements.

Refunds to Participants

Refunds to participants are comprised primarily of the prior year's budget settlements as well as third party Reliability Must Run (RMR) revenues and interest income received on certain participant reserves. Refunds to participants in 2009 decreased by $3.4 million from 2008. This was the net result of: (1) a decrease in budget settlements of $0.5 million from the prior year; (2) lower third party revenues of $0.9 million from RMR due to contract termination in December 2007; and, (3) a reduction of $2.5 million of interest income in participant reserves, all of which offset increased transmission revenue refunds of $.5 million.

2008 Compared to 2007

ASSETS

Current Assets

The Agency's current assets decreased $0.6 million during 2008 primarily due to cash provided by operating, investing and non-capital financing activities offset by reductions in accounts and interest receivable.

Restricted Assets

Restricted assets decreased $24.0 million or 12.4% from the prior year. This is primarily due to a scheduled reduction in Geothermal project debt service of approximately $25.2 million and a $1.2 million net increase in other restricted reserves.

Electric Utility Plant, Net

The Agency has invested approximately $344.2 million in plant assets and construction work in progress, net of accumulated depreciation, at June 30, 2008. Net utility plant makes up approximately 40% of the Agency's assets. The $31.3 million decrease from the prior year is a result of net capital additions of $4.1 million offset by $35.4 million in depreciation.

2008 Compared to 2007 - Continued

Other Assets and Deferred Charges

Other assets and deferred charges increased $36.0 million compared to 2007. This was primarily due to: (1) the change in deferred expense by a net of approximately $23.8 million due to a scheduled reduction of bond principal collections to offset expenses originally paid from bond proceeds, including depreciation and bond cost amortizations; and (2) a $12.6 million increase in preliminary survey and investigation costs related to the proposed Lodi Energy Center.

LIABILITIES

Long-Term Debt

Long-term debt decreased $34.5 million in 2008 as a result of scheduled principal payments of $37.1 million, net of amortization of bond premium/discount, which was offset by the effects of the 2008 Hydroelectric Project bond refunding.

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. 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. This 2008 Hydroelectric Refunding and the associated interest rate swaps are estimated to have reduced project debt service by $11.775 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 $5.875 million.

Current Liabilities

Current liabilities increased by $15.9 million in 2008. This is primarily due to: (1) an increase in participant advances of $17.8 million, which is primarily related to the proposed Lodi Energy Center; (2) an increase in accounts payable of $3.3 million; and, (3) a scheduled increase of $1.1 million in the current portion of long-term debt, all of which were offset by decreases in operating reserves of $4.4 million and accrued interest of $2.0 million.

Non-Current Liabilities and Deferred Credits

Non-current liabilities and deferred credits decreased by $2.8 million in 2008. This decrease was due to a net decrease of $1.2 million in Agency held operating reserves, and a $1.6 million decrease resulting from the recognition of deferred revenues.

CHANGES IN NET ASSETS

Sales For Resale

Sales for resale revenues for fiscal year 2008 were approximately $1.3 million or approximately .4% greater than in the prior fiscal year. This was the net result of the following: (1) higher sales for resale revenues from Agency Participants by approximately $13.3 million or 4.9%, which was caused by greater reliance on power contracts due to dry year hydroelectric conditions; and (2) lower other third-party revenues from electric power, ancillary services, and reliability must run sources by $12.0 million or 30.8%, which was caused by reduced availability of excess energy for sale from the Agency's power resources.

2008 Compared to 2007 - Continued

Operating Expenses

Operating expenses increased by approximately $23.2 million or 8.6% in fiscal year 2008, as compared with the prior year. This was the net result of the following: (1) the cost of the purchased power component increased by $18.4 million or 13.6%, largely due to the additional need for power previously noted above; (2) the transmission cost component increased by $4.9 million or 14.9% primarily due to increased costs of related ancillary services from the Independent System Operator; (3) maintenance decreased by $2.4 million or 17.1% due to the effects of the maintenance reliability program; and, (4) increase of approximately $1.3 million in administrative and general expense primarily due to increased regulatory compliance requirements while operations and depreciation remained relatively flat.

Other Expenses

Other expenses increased approximately $1.6 million or 6.0%. This net increase was primarily due to reduced interest income resulting from declining interest rates earned on investments.

Future Recoverable Costs

Future recoverable costs increased by about $25.9 million primarily because of a scheduled reduction of bond principal collections to offset expenses originally paid from bond proceeds, including depreciation and bond cost amortizations. The Agency expects to recover certain items of expense and revenue through rates over the remaining term of outstanding revenue bond obligations, see Note B to Combined Financial Statements.

Refunds to Participants

Refunds to participants are comprised primarily of the prior year's budget settlements as well as third party Reliability Must Run (RMR) revenues and interest income received on certain participant reserves. Refunds to participants in 2008 decreased by $4.3 million from 2007. This was the net result of: (1) an increase in budget settlements of $3.4 million over the prior year; (2) lower third party revenues of $6.1 million from RMR due to contract termination in December 2007; (3) a decrease of $1.9 million due to the one-time 2007 refund for the sale of a prior year's bankruptcy claim; and, (4) a reduction of $.2 million of interest income in participant reserves.

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.

The Agency is currently planning for construction of a state of the art combined cycle project; the cleanest and most efficient natural gas powered plant available. The facility will be located near our member community of Lodi. When completed, this facility will produce energy with 30% to 40% less GHG emissions than alternative market purchases, while promoting optimum reliability vital to supporting intermittent renewable resources. The plant is slated to become operational in 2012.

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,	
	2009	2008
ASSETS	(000's omitted)	
CURRENT ASSETS		
Cash and cash equivalents	$ 57,223	$ 44,427
Investments	8,027	13,186
Accounts receivable		
Participants	199	1,313
Other, net of doubtful accounts of $7,466	1,960	1,843
Interest receivable	92	186
Inventory and supplies – at average cost	5,434	5,168
Prepaid expenses	981	982
TOTAL CURRENT ASSETS	73,916	67,105
RESTRICTED ASSETS		
Cash and cash equivalents	53,046	43,314
Investments	142,460	124,777
Interest receivable	1,002	1,587
TOTAL RESTRICTED ASSETS	196,508	169,678
ELECTRIC PLANT		
Electric plant in service	1,058,219	1,048,434
Less: accumulated depreciation	(739,666)	(705,989)
	318,553	342,445
Construction work-in-progress	16,928	1,726
TOTAL ELECTRIC PLANT	335,481	344,171
OTHER ASSETS AND DEFERRED CHARGES		
Unamortized excess cost on advance refunding of debt, net	91,821	91,598
Deferred expenses to be recovered in future years	161,572	165,565
Unamortized debt issuance expenses	11,615	11,505
Preliminary survey and investigation costs	32,089	13,473
TOTAL OTHER ASSETS AND DEFERRED CHARGES	297,097	282,141
TOTAL ASSETS	$ 903,002	$ 863,095

See notes to combined financial statements

COMBINED BALANCE SHEETS

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

	June 30,	
	2009	2008
LIABILITIES	(000's omitted)	
CURRENT LIABILITIES		
Accounts payable	$ 33,782	$ 23,282
Member advances & other deposits	57,299	35,121
Operating reserves	3,250	2,986
Current portion of long-term debt	39,910	38,205
Accrued interest payable	14,974	14,988
TOTAL CURRENT LIABILITIES	149,215	114,582
NON-CURRENT LIABILITIES AND DEFERRED CREDITS		
Deferred revenues	42,457	44,258
Operating reserves	84,465	84,655
Long-term debt, net	594,851	593,696
TOTAL NON-CURRENT LIABILITIES AND DEFERRED CREDITS	721,773	722,609
TOTAL LIABILITIES	870,988	837,191
NET ASSETS		
Invested in capital assets, net of related debt	(40,329)	(45,978)
Restricted	52,244	49,372
Unrestricted	20,099	22,510
TOTAL NET ASSETS	32,014	25,904
Commitments and Contingencies (Note G)		
TOTAL LIABILITIES AND NET ASSETS	$ 903,002	$ 863,095

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,	
	2009	2008
	(000's omitted)	
SALES FOR RESALE		
Participants	$ 329,362	$ 284,354
Other Third-Party	21,393	27,020
TOTAL SALES FOR RESALE	350,755	311,374
OPERATING EXPENSES		
Purchased power	155,486	153,701
Transmission	49,873	37,556
Operations	32,759	38,299
Depreciation	34,084	35,431
Administrative and general	16,629	16,135
Maintenance	12,420	11,517
TOTAL OPERATING EXPENSES	301,251	292,639
NET OPERATING REVENUES	49,504	18,735
OTHER (EXPENSES) REVENUES		
Interest expense	(30,281)	(34,125)
Interest income	4,449	8,592
Amortization of deferred charges	(6,446)	(4,690)
Other	1,646	1,440
TOTAL OTHER EXPENSES	(30,632)	(28,783)
FUTURE RECOVERABLE / REFUNDABLE AMOUNTS	(2,714)	24,911
REFUNDS TO PARTICIPANTS	(10,048)	(13,456)
INCREASE IN NET ASSETS	6,110	1,407
NET ASSETS, Beginning of year	25,904	24,497
NET ASSETS, End of year	$ 32,014	$ 25,904

See notes to combined financial statements

COMBINED STATEMENTS OF CASH FLOW

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

	Years Ended June 30,	
	2009	2008
	(000's omitted)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from participants	$ 328,675	$ 282,360
Received from others	21,276	27,839
Payments for employee services	(26,765)	(37,307)
Payments to suppliers for goods & services	(230,093)	(222,337)
NET CASH FROM OPERATING ACTIVITIES	93,093	50,555
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and sales of investments	256,752	286,748
Interest received on cash and investments	3,805	5,026
Purchase of investments	(268,056)	(267,211)
NET CASH FROM INVESTING ACTIVITIES	(7,499)	24,563
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Expenditures for debt issuance costs	(3,191)	(701)
Acquisition and construction of electric plant	(25,050)	(4,161)
Interest paid on long-term debt	(31,223)	(35,574)
Principal repayment on long-term debt	(38,205)	(37,060)
Proceeds from bond issues	181,850	88,325
Payments to refund debt	(142,512)	(87,557)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(58,331)	(76,728)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Advances from members	22,377	17,595
Other proceeds	1,446	1,638
Preliminary survey and investigation costs	(18,510)	(12,645)
Refunds to participants	(10,048)	(13,456)
NET CASH FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES	(4,735)	(6,868)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	22,528	(8,478)
CASH AND CASH EQUIVALENTS		
Beginning of year	87,741	96,219
End of year	$ 110,269	$ 87,741

See notes to combined financial statements

COMBINED STATEMENTS OF CASH FLOW-Continued

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

	Years Ended June 30,	
	2009	2008
	(000's omitted)	
RECONCILIATION OF NET OPERATING REVENUES TO NET CASH FROM OPERATING ACTIVITIES		
Net operating revenues	$ 49,504	$ 18,735
Adjustments to reconcile net operating revenues to net cash from operating activities:		
Depreciation	34,084	35,431
	83,588	54,166
CASH FLOWS IMPACTED BY CHANGES IN		
Accounts receivable	997	407
Inventory and prepaids	(265)	(158)
Operating reserves	74	(5,581)
Deferred revenues	(1,801)	(1,584)
Accounts payable	10,500	3,305
NET CASH FROM OPERATING ACTIVITIES	$ 93,093	$ 50,555
CASH AND CASH EQUIVALENTS AS STATED IN THE COMBINED BALANCE SHEETS		
Cash and cash equivalents - current assets	$ 57,223	$ 44,427
Cash and cash equivalents - restricted assets	53,046	43,314
End of year	$ 110,269	$ 87,741

See notes to combined financial statements

NOTES TO COMBINED FINANCIAL STATEMENTS

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS
June 30, 2009 and 2008

NOTE A -- ORGANIZATION

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

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

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

NOTE B -- SIGNIFICANT ACCOUNTING POLICIES

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

The records of the Agency and its Associated Power Corporations are maintained substantially in accordance with the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts. Accounting principles generally accepted in the United States of America are applied by the Agency in conformance with pronouncements of the Governmental Accounting Standards Board (GASB) and, where not in conflict with GASB pronouncements, the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989. The combined financial statements encompass the Agency and Associated Power Corporations on an accrual accounting basis. All significant intercompany balances and transactions have been eliminated from the combined amounts reported.

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

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

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

Accounts Receivable Accounts receivable at June 30, 2009 and 2008 are recorded net of an allowance for doubtful accounts of $7,466,000, which represents amounts owed to the Agency in connection with the bankruptcies of Pacific Gas & Electric Company and the California Power Exchange along with amounts owed by the Independent System Operator largely on behalf of PG&E. See Note G.

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 3% of the average electric plant in service for the Agency during 2009 and 2008. 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, 2009 is as follows:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
	(000's omitted)			
Land and Land Rights	$ 172,041	$ -	$ -	$ 172,041
Structures and Leasehold Improvements	291,911	9,628	(1)	301,538
Reservoirs, Dams and Waterways	249,325	-	-	249,325
Equipment	333,272	527	(192)	333,607
Furniture and Fixtures	1,885	37	(214)	1,708
Total	1,048,434	10,192	(407)	1,058,219
Construction Work-In-Progress	1,726	25,008	(9,806)	16,928
Accumulated Depreciation	(705,989)	(34,084)	407	(739,666)
Electric Plant, Net	$ 344,171	$ 1,116	$ (9,806)	$ 335,481

A summary of changes in electric plant for the year ended June 30, 2008 is as follows:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
	(000's omitted)			
Land and Land Rights	$ 172,041	$ -	$ -	$ 172,041
Structures and Leasehold Improvements	291,363	548	-	291,911
Reservoirs, Dams and Waterways	249,325	-	-	249,325
Equipment	331,543	1,840	(111)	333,272
Furniture and Fixtures	1,869	47	(31)	1,885
Total	1,046,141	2,435	(142)	1,048,434
Construction Work-In-Progress	-	1,726	-	1,726
Accumulated Depreciation	(670,700)	(35,431)	142	(705,989)
Electric Plant, Net	$ 375,441	$ (31,270)	$ -	$ 344,171

Construction Work-In-Progress Construction work-in-progress (CWIP) includes the 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. Included in PS&I are costs related to emission credits acquired that may be necessary to operate a gas fired facility. Such credits have an indeterminate life and therefore will not be amortized.

Unamortized Excess Cost on Advance Refunding of Debt Gains and losses on refunding of debt are deferred as unamortized excess cost on advance refunding of debt and are amortized using the effective interest method over the shorter of the term of the original debt refunded or the term of the refunding debt obligation.

Deferred Expenses/Revenues to be Recovered/Refunded in Future Years In accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," 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 SFAS No. 71.

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, 2009 and 2008, the Agency had accumulated deferred expenses (net of revenues) to be recovered in future years of approximately $119,115,000 and $121,307,000, 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.

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

Operating Reserves The Agency has established various funded operating reserves 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 2009 and 2008, 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, 2009 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.

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.

Long-Term Debt: The fair value of the Agency's long-term debt (including current maturities) as of June 30, 2009 and 2008 is estimated to be approximately $948,714,000 and $1,005,480,000, respectively. This estimate was developed using discounted cash flow analyses, based on current borrowing rates for tax-exempt securities with similar ratings and maturities.

Interest Rate Swaps: The net aggregate fair value of Interest Rate Swaps and related Swap Agreements at June 30, 2009 and 2008 was $13,484,000 and $10,948,000 due to counterparties, respectively. The fair values of Interest Rate Swaps entered into by the Agency were based on estimates as determined by the Agency's financial advisor, see Note D, Hydroelectric Project.

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, 2009 and 2008 were $6,000,176 and $6,691,000, 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.

New Accounting Standards The Governmental Accounting Standards Board has issued GASB No. 53, Accounting and Financial Reporting for Derivative Instruments, which addresses the recognition, measurement, and disclosure of information regarding derivative instruments. The provisions of this statement, if applicable, become effective for the Agency in fiscal year 2010. The Agency is currently assessing the financial statement impact of adopting this statement.

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 Certain restricted and unrestricted cash and related advance account balances in the prior year have been reclassified to conform to the 2009 presentation.

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, 2009 Description	Carrying Value	Market Value	Wtd. Avg Maturity (In years)
	(000's omitted)		
U.S. Agencies	$ 119,892	$ 120,277	.45
Guaranteed Investment Contracts	19,351	19,351	.00
U.S. Treasury	11,244	11,242	.04
TOTAL INVESTMENTS	$ 150,487	$ 150,870	

Investments at June 30, 2008 Description	Carrying Value	Market Value	Wtd. Avg Maturity (In years)
	(000's omitted)		
U.S. Agencies	$ 112,125	$ 112,224	.38
Guaranteed Investment Contracts	25,628	25,628	.00
Time Deposits	210	210	.16
TOTAL INVESTMENTS	$ 137,963	$ 138,062	

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 AAA rated.

Terms of long-term guaranteed investment contracts and other special contract deposits related to project financing and debt service are individually determined and approved by the Agency's Finance Committee and governing Commission. The Agency has two Geothermal Project related Guaranteed Investment Contracts (GICs), which are fully collateralized by AAA rated eligible securities as defined in the Geothermal Bond Indenture.

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

NOTE D -- PROJECTS AND RELATED FINANCING

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

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

Long-term debt and stated rates at June 30:	2009	2008
	(000's omitted)	
Geothermal Project		
1987 Refunding Series A		
Term, 5.00% matured 2009	$ -	$ 25,000
1993 Refunding Series A and Series B (relating to a like amount of Special Revenue Bonds)		
Serial, 5.80-5.85% due 2010-2011	52,345	52,345
2009 Series A		
Serial, 4.00-5.25% due 2012-2025	35,610	-
Total Geothermal Project	87,955	77,345
Hydroelectric Project		
1992 Refunding Series A		
Serial, 6.00% due 2009-2010	7,530	14,635
Term, 6.30% due 2019	36,770	36,770
1993 Refunding Series A		
Serial, 5.40% due 2009-2010	275	535
1998 Refunding Series A		
Serial, 5.00-5.25% due 2012-2019	60,060	60,060
Term, 5.00-5.20% due 2024-2033	137,440	137,440
2002 Refunding Series A & B		
Term, adjustable rate, Initially 1.55% due 2024	-	86,620
2003 Refunding Series A		
Term, adjustable rate, Initially 1.05% due 2025	-	49,130

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Long-term debt and stated rates at June 30, continued:	2009	2008
	(000's omitted)	
2003 Refunding Series B (Taxable) Term, adjustable rate, Initially 1.35% due 2014	$ -	$ 4,970
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	3,165	3,165
2008 Refunding Series C Serial, 4.00-5.00% due 2011-2025	128,005	-
2008 Refunding Series D (Taxable) Serial, 3.60-4.05% due 2010-2011	9,505	-
Total Hydroelectric Project	467,910	478,485
Combustion Turbine Project		
1998 Refunding Series A Serial, 5.00% due 2009-2011	7,930	11,615
Transmission Project		
1998 Refunding Series A Serial, 4.125-4.25% due 2009-2011	1,715	2,525
Capital Facilities Project		
1999 Refunding Series A		
Serial, 4.125-5.25% due 2009-2017	21,920	22,745
Term, 5.00% due 2026	41,465	41,465
Total Capital Facilities Project	63,385	64,210
Total Long-Term Debt Outstanding	628,895	634,180
Less: Unamortized net (discount) and premium	5,866	(2,279)
Current portion	(39,910)	(38,205)
Total Long-Term Debt, Net	$ 594,851	$ 593,696

The Agency had the following long-term debt activity during FY 2009:

	Balance June 30, 2008	Additions	Payments & Amortizations	Balance June 30, 2009
	(000's omitted)			
Revenue Bonds	$ 634,180	$ 173,120	$ (178,405)	$ 628,895
Unamortized premiums and discounts	(2,279)	8,730	(585)	5,866
TOTAL	$ 631,901	$ 181,850	$ (178,990)	$ 634,761

The Agency had the following long-term debt activity during FY 2008:

	Balance June 30, 2007	Additions	Payments & Amortizations	Balance June 30, 2008
	(000's omitted)			
Revenue Bonds	$ 668,785	$ 88,325	$ (122,930)	$ 634,180
Unamortized premiums and discounts	(3,542)	-	1,263	(2,279)
TOTAL	$ 665,243	$ 88,325	$ (121,667)	$ 631,901

Debt service requirements for each of the next five years and in five-year cumulative increments thereafter as of June 30, 2009:

	Principal	Interest	Total
		(000's omitted)	
2010	$ 39,910	$ 30,315	$ 70,225
2011	43,985	29,785	73,770
2012	18,955	27,411	46,366
2013	20,050	26,350	46,400
2014	22,590	25,337	47,927
2015-2019	130,530	107,455	237,985
2020-2024	160,375	70,190	230,565
2025-2029	112,440	32,141	144,581
2030-2033	80,060	9,384	89,444
	$ 628,895	$ 358,368	$ 987,263

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.

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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 moneys 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:

		2009	2008
		(000's omitted)	
Geothermal:	Project No. Three, 1987 Series A	$ 52,080	$ 52,080
	Project No. Three, 1993 Series A	40,230	40,230
		92,310	92,310
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	-	85,870
		49,110	134,980
	Total Defeased Debt Outstanding	$ 141,420	$ 227,290

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.

On behalf of its Geothermal Project Number 3, the Agency entered into an Investment Sale Agreement (Forward Purchase Contract) in connection with debt service payments on Geothermal Project Number 3 Revenue Bonds: $147,150,000, 1993 Refunding Series A-1, A-2, A-3 and Series B; $121,590,000, 1996 Refunding Series A; and, $46,455,000, 1996 Refunding Series B. The Agency entered into this agreement to lock in a 6.775% fixed rate of interest on future deposits into the Geothermal Project's Debt Service Fund. The Agency will continue to make debt service payments to the bond trustee: however, under terms of the agreement the bond trustee is required to purchase eligible securities, as defined in the bond indenture, from the supplying financial institution at the fixed rate of return. These securities mature on or prior to the time the required debt service payments have to be made from the Debt Service Fund. The Investment Sale Agreement continues until July 1, 2010. In the event of a default or an early termination, the responsible party is required to make a termination payment to the other party.

In March 2009, the Agency issued $35,610,000 of fixed rate tax exempt bonds for the purpose of providing funds to finance the costs of acquisition and construction of certain improvements to the project as well as make a contribution to the Debt Service Reserve Account and to pay the costs of issuance of the 2009 Series A Bonds. The bonds are of varying principal amounts ranging from $1,820,000 to $3,480,000 through July 1, 2024.

The capital improvements to be financed include a portion of the Geothermal Project capital improvement budget for the fiscal years 2008-2009 and 2009-2010 consisting primarily of the following projects:

- Unit 4 Steam Path Upgrade – includes the replacement of the existing Unit 4 turbine rotor with a new rotor designed for lower pressure and capable of generating the entire present day electrical output of the existing Units 3 and 4 (comprising the two generating units of Plant 2). The new turbine will allow for the shutdown of Unit 3, with no loss of gross generation.
- Middletown Booster Pump Solar Project – includes the design, permitting and construction of a 1MW photovoltaic solar project at the Middletown Treatment Plant in Lake County. The Middletown Booster Pump Station is part of the Southeast Geysers Effluent Pipeline Project, which delivers approximately 9 million gallons of treated wastewater daily to the Geysers Geothermal Project for injection into the steam field.
- Southeast Treatment Plant Solar Project – includes a 1 MW photovoltaic solar project located at the Clearlake Southeast Treatment Plant in Lake County. This solar project, completed in December of 2008, provides approximately 25% of the power needs for the existing pump station located at the treatment plant. The pump station is part of the Southeast Geysers Effluent Pipeline Project, which 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.

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 as described on page 28. 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 $11.775 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 $5.875 million.

In response to credit market upheavals and to ensure debt service certainty, in July 2008 the Agency refunded (or purchased from the liquidity providers) the 2002 Hydroelectric Refunding Revenue Bonds Series A & B and the 2003 Hydroelectric Refunding Revenue Bonds Series A & B with outstanding principal of $140,200,000. In addition, the associated interest rate swaps were terminated on July 9, 2008. The refunding was completed through the issuance of $128,005,000 fixed rate tax exempt debt (2008 Series C) and $9,505,000 fixed rate taxable debt (2008 Series D) with yields of 2.78% to 4.48% with varying principal amounts ranging from $690,000 to $15,550,000 through July 1, 2024. The payment of principal and interest on these issues are covered by financial guaranty insurance policies issued by Assured Guaranty. The refunding is estimated to have increased project debt service by an estimated $11.7 million over the next 15 years, which results in an estimated economic loss (difference between the present values of the old and new debt service payments) to the Agency of approximately $5,500,000. Swap termination payments of $22,000, $30,000 and $2,260,000 were paid to Citigroup Financial Products Inc., UBS AG, and Bank One (JP Morgan), respectively.

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	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		$1,574,000	
Fair Value--Due from (to) Counterparty	($13,732,844)		$248,545	
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	-5.291%
Variable Payments (from) to Counterparty	54% LIBOR+.54%*	-1.396%	100% of LIBOR*	1.562%
Net Interest Rate Swap Payments		2.423%		-3.729%
Variable-Rate Bond Payments	SIFMA **	2.059%	SIFMA **	5.600%
Effective Interest Rate on Bonds		4.482%		1.871%

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

The following swap agreement elements are common to all the interest rates 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 value of the swaps noted above reflects the estimated fair value of the swaps at June 30, 2009 as determined by the Agency's financial advisor. A negative fair market value indicates the Agency had no market value credit risk while a positive fair market value indicates the value of the credit risk to which the Agency is exposed as of that date. The fair value of the swaps will change due to notional amount, amortizations, and interest rate changes.

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, 2009, 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)	Baa1	A

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 project consists of five combustion turbine units, each nominally rated at approximately 25 megawatts. Two such units are located in Roseville, two 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.

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.

Future Power Supply Resources The Agency is currently in the process of developing a potential new Agency project – the Lodi Energy Center. The Lodi Energy Center is proposed to be 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. The Agency has developed a Second Phase Agreement that provides for the terms and conditions and allocation of costs among participating Agency members as well as other non-member public agency participants. The Second Phase Agreement has been executed by all parties and does not commit the parties to continue their participation beyond the development phase. The project is currently undergoing environmental review in the Application For Certification Process (AFC) at the California Energy Commission. Upon completion of the environmental review, construction is expected to begin with estimated commercial operation in spring 2012.

NOTE E -- RETIREMENT PLAN

The Agency is a participant in the California Public Employees Retirement System (CALPERS) - Local Miscellaneous 2% at Age 60 Employees Plan, which is an agent multiple-employer public employee defined benefit pension plan. However, effective December 21, 2009 the Agency will participate in the CALPERS Local Miscellaneous 2.5% at Age 55 Employees 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 during fiscal year ended June 30, 2009:

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	1.092% @ age 50 to 2.418% @ age 63 & up
Required employee contribution rate	6.887%
Required employer contribution rates	7.397% normal service 10.513% prior service
Actuarial annual required contribution	$2,890,336

Prior to inception of the current plan, the Agency agreed to pick up 50% of prior service cost for the then existing employees. The Agency has also agreed to pay all or a portion of the various employee groups' required annual contribution, which contributions totaled $1,111,423 and $1,014,616 for fiscal years 2009 and 2008, respectively. The Agency's annual required contribution was determined as part of a June 30, 2007, actuarial valuation using the entry age 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 3.25% 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 15year rate smoothing approach is used to spread investment returns. At fiscal year end June 30, 2009, the Agency had 162 eligible active employees and 50 retirees drawing benefits under this program.

Trend Information for Agency CALPERS Retirement Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2007	$ 2,539,145	100.0%	-
June 30, 2008	2,692,579	100.0%	-
June 30, 2009	2,890,336	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%

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry. 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, 2007 valuation date was approximately 29 years. All gains or losses are amortized over a rolling period, which results in an amortization of about 6% of unamortized gains or losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, 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.

NOTE F -- OTHER POST EMPLOYMENT BENEFITS (OPEB)

The Agency is a member of the State of California CALPERS medical insurance plan. 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 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 transferred the CALPERS medical plan assets to the CALPERS Pre-funding OPEB Plan in August 2007. The Agency makes actuarially determined Annual Required Contributions (ARC) to the 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.

Effective January 1, 2009, the eligibility and vesting schedule of the plan was changed for new employees.

Summary of certain plan provisions and benefits in effect during fiscal year ended June 30, 2009:

For Employees Hired:	Prior to January 1, 2009	On or After January 1, 2009
Required service for eligibility	5 full-time years	10 full-time years
Minimum retirement age	50	50
Benefit payments	Monthly for life	Monthly for life
Vesting for eligible employees	100% at age 50	50% at 10 years; 5%/year after
Maximum monthly benefit	PERS Choice Premium	PERS Choice Premium
Actuarial annual required contribution (ARC)	$900,135	TBD

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. The June 30, 2008 actuarial valuation was prepared on the basis of the OPEB assumption model, as prescribed by the CALPERS Board, in effect at the time of the valuation. Therefore, the significant actuarial methods and assumptions contained therein are consistent with those used in the Retirement Plan as previously described above. At fiscal year end June 30, 2009, the Agency had 160 active eligible employees and 64 retirees drawing benefits under this program.

Trend Information for the OPEB Plan

Fiscal Year Ending	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
June 30, 2007	$ 1,009,018	100.0%	-
June 30, 2008	900,135	100.0%	-
June 30, 2009	718,982	100.0%	-

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS

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, 2006	$14,308,186	$10,357,611	$3,950,575	72.39%	$13,928,832	28.4%
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%

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. Actuarial valuations are performed every two years.

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 $108.6 million in connection with various power purchase contracts as of June 30, 2009. The contracts, extending through June 2010, 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 1st unless terminated earlier by six months written notice by either party. The Agency had approximately $5.0 million of gas purchase commitments at June 30, 2009. 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.

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 72 MWG by FY 2031.

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 begun collecting a reserve of about one percent per annum of the expected decommissioning costs until the debt service on the Project has been fully paid, that is, after 2010. The decommissioning cost plan will be re-evaluated at that time.

CLAIMS AND LITIGATION

Bankruptcies Related to Electric Industry Restructuring In March 1998, the California Independent System Operator (ISO) and the California Power Exchange (PX) became operational. During the next several years, the California deregulated electricity and natural gas markets became increasingly dysfunctional until in January 2001, the PX suspended operations and in March 2001 filed for Chapter 11 bankruptcy protection. The Agency filed a proof of claim in the PX bankruptcy case for ISO and PX energy sales and has reserved its right to make further claims in the case. A plan of liquidation has been confirmed in the PX case. However, distribution to creditors in both the PX bankruptcy and the past PG&E bankruptcy cases are awaiting resolution of various related proceedings at the FERC. The Agency has established a reserve for substantially all of the aforementioned known past PX and PG&E bankruptcy claims pending future recovery.

Market Redesign and Technology Upgrade (MRTU) MRTU was an overhaul of the California deregulated electricity market. Under MRTU the Independent System Operator (ISO) is required, among other things, to perform effective congestion management; create a day-ahead market for energy; automate real-time dispatch to balance the system and manage congestion; ensure consistency in the allocation of transmission resources and the pricing of transmission service and energy. The new markets have been operational for six months, and so far the impacts have been manageable. While certain refinements to the market are required, the proposals to do so are not yet fully formulated, so that it is not possible to predict the ultimate financial impacts thereof to the Agency.

California Energy Crisis Several investor owned utilities and the California Electricity Oversight Board are among the plaintiffs in consolidated matters against the Agency and other municipal and governmental electric power producers in several legal venues. Plaintiffs allege damages and request refunds arising out of power sold to them during the California energy crises of 2000-2001 under tariffs filed for the California Independent System Operator and the California Power Exchange with the Federal Energy Regulatory Commission in the wholesale markets operated by those entities. In 2005, the United States Court of Appeals for the Ninth Circuit held, as contended by the Agency, that FERC cannot order refunds for sales by governmental power producers such as the Agency, and in 2007 the U.S. Supreme Court declined to review that holding.

Following that decision, three investor owned utilities brought breach of contract actions against approximately 15 California and other western state public entities, including the Agency, in the Superior Court in Los Angeles, California. Although there are nine causes of action in the case, it is proceeding under a breach of contract theory. Management of the Agency is aggressively opposing the litigation, which is set for trial in May 2010.

Related appeals, claims and filings in federal and state courts have continued and those proceedings are pending. Because so many overlapping claims are pending at the Ninth Circuit, that Circuit has instituted extraordinary efforts to attempt to obtain settlement in all cases arising out of the California Energy Crisis. The Agency has been and is participating in these efforts.

As a consequence, the extent of the exposure to the Agency under these proceedings is very uncertain, but is currently estimated to be less than $10 million. However, the complexity and uncertainty of these proceedings are such that the Agency's exposure potentially could be significantly higher or lower.

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.

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.

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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

Our report on our audit of the combined financial statements of Northern California Power Agency and Associated Power Corporations for the year ended June 30, 2009 appears on page 1. The audit was conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplementary information as of and for the year ended June 30, 2009 on pages 38 through 42 is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the audit procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic combined financial statements taken as a whole.

Moss Adams LLP

Portland, Oregon
November 25, 2009

OTHER FINANCIAL INFORMATION

COMBINING BALANCE SHEETS

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

(000's omitted)

	June 30, 2009								
	GENERATING & TRANSMISSION RESOURCES								
ASSETS	Geothermal	Hydroelectric	Multiple Capital Facilities	CT No. One	Transmission	Purchased Power & Transmission	Associated Member Services	Other Agency	Combined
CURRENT ASSETS									
Cash & cash equivalents	$ 1	$ -	$ 1	$ 1	$ -	$ -	$ -	$ 57,220	$ 57,223
Investments	-	-	-	-	-	-	-	8,027	8,027
Accounts receivable									
Participants	-	-	-	-	-	50	-	149	199
Other, net of $7,466 in doubtful accounts	2	29	1	3	-	1,355	(1,675)	2,245	1,960
Interest receivable			-	-	-	22	-	70	92
Inventory and supplies	2,395	995	642	1,402	-	-	-	-	5,434
Prepaid expenses	336	315	26	54	-	-	-	250	981
Due from Agency and other programs*	10,139	6,671	2,019	543	99	28,585	5,904	(53,960)	-
TOTAL CURRENT ASSETS	12,873	8,010	2,689	2,003	99	30,012	4,229	14,001	73,916
RESTRICTED ASSETS									
Cash & cash equivalents	17,251	17,207	773	771	153	3,189	2,266	11,436	53,046
Investments	30,982	15,648	7,509	5,379	669	9,879	6,991	65,403	142,460
Interest receivable	905	22	5	19	-	-	-	51	1,002
TOTAL RESTRICTED ASSETS	49,138	32,877	8,287	6,169	822	13,068	9,257	76,890	196,508
ELECTRIC PLANT									
Electric plant in service	536,518	392,346	64,512	53,227	7,736	-	52	3,828	1,058,219
Less accumulated depreciation	(479,536)	(177,242)	(28,476)	(45,827)	(7,222)	-	(20)	(1,343)	(739,666)
	56,982	215,104	36,036	7,400	514	-	32	2,485	318,553
Construction work-in-progress	16,433	492	3	-	-	-	-	-	16,928
TOTAL ELECTRIC PLANT	73,415	215,596	36,039	7,400	514	-	32	2,485	335,481
OTHER ASSETS AND DEFERRED CHARGES									
Unamortized excess cost on advance refunding of debt, net	-	90,065	1,756	-	-	-	-	-	91,821
Deferred expenses to be recovered in future years	5,922	141,941	17,098	(3,664)	275	-	-	-	161,572
Unamortized debt issuance expenses	683	9,729	1,052	121	30	-	-	-	11,615
Preliminary survey & investigation costs	-	101	-	-	-	-	31,988	-	32,089
TOTAL OTHER ASSETS AND DEFERRED CHARGES	6,605	241,836	19,906	(3,543)	305	-	31,988	-	297,097
TOTAL ASSETS	$ 142,031	$ 498,319	$ 66,921	$ 12,029	$ 1,740	$ 43,080	$ 45,506	$ 93,376	$ 903,002

* Eliminated in Combination

OTHER FINANCIAL INFORMATION

COMBINING BALANCE SHEETS

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

(000's omitted)

	June 30, 2009								
	GENERATING & TRANSMISSION RESOURCES								
LIABILITIES	Geothermal	Hydroelectric	Multiple Capital Facilities	CT No. One	Transmission	Purchased Power & Transmission	Associated Member Services	Other Agency	Combined
CURRENT LIABILITIES									
Accounts payable	$ 1,287	$ 886	$ 34	$ 12	$ -	$ 17,210	$ 106	$ 14,247	$ 33,782
Operating reserves	2,250	250	500	250	-	-	-	-	3,250
Member advances & other deposits	791	-	-	-	-	15,070	41,438	-	57,299
Current portion of long-term debt	24,785	9,555	860	3,870	840	-	-	-	39,910
Accrued interest	2,007	11,479	1,329	134	25	-	-	-	14,974
TOTAL CURRENT LIABILITIES	31,120	22,170	2,723	4,266	865	32,280	41,544	14,247	149,215
NON-CURRENT LIABILITIES AND DEFERRED CREDITS									
Operating reserves	1,429	6,124	-	-	-	-	1	76,911	84,465
Deferred revenues	31,462	3,823	1,288	3,163	-	-	35	2,686	42,457
Long Term Debt	64,026	463,422	62,466	4,062	875	-	-	-	594,851
TOTAL NON-CURRENT LIABILITIES AND DEFERRED CREDITS	96,917	473,369	63,754	7,225	875	-	36	79,597	721,773
TOTAL LIABILITIES	128,037	495,539	66,477	11,491	1,740	32,280	41,580	93,844	870,988
NET ASSETS									
Invested in Capital Assets, net of related debt	(18,572)	(13,291)	(2,706)	(4,869)	(896)	-	5	-	(40,329)
Restricted	26,752	17,333	1,041	3,847	797	1,971	526	(23)	52,244
Unrestricted	5,814	(1,262)	2,109	1,560	99	8,829	3,395	(445)	20,099
TOTAL NET ASSETS	13,994	2,780	444	538	-	10,800	3,926	(468)	32,014
TOTAL LIABILITIES AND NET ASSETS	$ 142,031	$ 498,319	$ 66,921	$ 12,029	$ 1,740	$ 43,080	$ 45,506	$ 93,376	$ 903,002

* Eliminated in Combination

OTHER FINANCIAL INFORMATION

COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

NORTHERN CALIFORNIA POWER AGENCY AND ASSOCIATED POWER CORPORATIONS

(000's omitted)

	For the Year Ended June 30, 2009								
	GENERATING & TRANSMISSION RESOURCES								
	Geothermal	Hydroelectric	Multiple Capital Facilities	CT No. One	Transmission	Purchased Power & Transmission	Associated Member Services	Other Agency	Combined
SALES FOR RESALE									
Participants	$ 55,211	$ 44,627	$ 12,665	$ 7,789	$ -	$ 183,362	$ 25,608	$ 100	$ 329,362
Other	2,861	-	-	-	-	18,520	12	-	21,393
TOTAL SALES FOR RESALE	58,072	44,627	12,665	7,789	-	201,882	25,620	100	350,755
OPERATING EXPENSES									
Purchased power	-	-	-	-	-	150,478	5,008	-	155,486
Transmission	-	-	-	-	-	49,873	-	-	49,873
Depreciation	19,676	9,726	2,203	2,127	168	-	6	178	34,084
Operations	16,005	2,770	4,530	731	(838)	266	9,295	-	32,759
Administrative and general	3,358	3,530	469	518	-	434	7,965	355	16,629
Maintenance expenses	4,550	4,566	1,827	1,311	-	-	166	-	12,420
Intercompany (sales) purchases, net *	(493)	164	169	165	-	-	(5)	-	-
TOTAL OPERATING EXPENSES	43,096	20,756	9,198	4,852	(670)	201,051	22,435	533	301,251
NET OPERATING REVENUES	14,976	23,871	3,467	2,937	670	831	3,185	(433)	49,504
OTHER REVENUES (EXPENSES)									
Interest expense	(3,529)	(23,194)	(3,128)	(384)	(1)	(24)	(21)	-	(30,281)
Interest income	1,117	374	230	149	-	1,141	145	1,293	4,449
Amortization of deferred charges	(1,468)	(4,779)	(116)	(64)	(19)	-	-	-	(6,446)
Other	1,208	79	19	2	-	1	57	280	1,646
TOTAL OTHER REVENUES (EXPENSES)	(2,672)	(27,520)	(2,995)	(297)	(20)	1,118	181	1,573	(30,632)
FUTURE RECOVERABLE/(REFUNDABLE) AMOUNTS	(5,083)	3,564	1,329	(1,874)	(650)	-	-	-	(2,714)
REFUNDS TO PARTICIPANTS	(1,529)	(695)	(717)	(182)	-	(2,152)	(3,480)	(1,293)	(10,048)
INCREASE (DECREASE) IN NET ASSETS	5,692	(780)	1,084	584	-	(203)	(114)	(153)	6,110
NET ASSETS									
Beginning of year	8,302	3,560	(640)	(46)	-	11,003	4,040	(315)	25,904
End of Year	$ 13,994	$ 2,780	$ 444	$ 538	$ -	$ 10,800	$ 3,926	$ (468)	$ 32,014

* Eliminated in Combination

OTHER FINANCIAL INFORMATION

COMBINING STATEMENTS OF CASH FLOW

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS
(000's omitted)

	For the Year Ended June 30, 2009								
	GENERATING & TRANSMISSION RESOURCES								
	Geothermal	Hydroelectric	Mulitple Capital Facilities	CT No. One	Transmission	Purchased Power & Transmission	Associated Member Services	Other Agency	Combined Total
CASH FLOWS FROM OPERATING ACTIVITIES:									
Received from participants	$ 53,737	$ 44,450	$ 12,682	$ 7,606	$ -	$ 183,362	$ 25,610	$ 1,228	$ 328,675
Received from others	2,862	(27)	-	1	-	18,162	10	268	21,276
Payments for employee services	(8,327)	(3,364)	(1,530)	(1,084)	-	-	(9,229)	(3,231)	(26,765)
Payments to suppliers for goods & services	(15,321)	(5,550)	(5,334)	(1,550)	838	(197,369)	(13,174)	7,367	(230,093)
Payments from(to) other programs *	493	(164)	(169)	(165)	-	-	5	-	-
NET CASH FROM OPERATING ACTIVITIES	33,444	35,345	5,649	4,808	838	4,155	3,222	5,632	93,093
CASH FLOWS FROM INVESTING ACTIVITIES									
Proceeds from maturities & sales of investments	42,965	27,787	5,931	3,375	714	19,604	-	156,376	256,752
Interest received	946	187	159	118	3	922	59	1,411	3,805
Purchase of investments	(46,757)	(32,732)	(5,737)	(3,580)	(741)	(18,757)	(7,009)	(152,743)	(268,056)
Payments from(to) other programs *	-	-	-	-	-	-	-	-	-
NET CASH FROM INVESTING ACTIVITIES	(2,846)	(4,758)	353	(87)	(24)	1,769	(6,950)	5,044	(7,499)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Expenditures for debt issuance costs	(493)	(2,698)	-	-	-	-	-	-	(3,191)
Acquisition and construction of electric plant	(24,357)	(447)	(90)	-	-	-	-	(156)	(25,050)
Principal repayment on long-term debt	(25,000)	(7,885)	(825)	(3,685)	(810)	-	-	-	(38,205)
Interest paid on long-term debt	(3,675)	(23,765)	(3,206)	(488)	(89)	-	-	-	(31,223)
Proceeds from bond issues	36,597	145,254	-	-	-	-	-	-	181,851
Payments to refund debt	-	(142,512)	-	-	-	-	-	-	(142,512)
Payments from(to) other programs *	(31)	-	-	-	76	(24)	(21)	-	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(16,959)	(32,053)	(4,121)	(4,173)	(823)	(24)	(21)	(156)	(58,330)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES									
Advances from members	-	-	-	-	-	(949)	23,326	-	22,377
Preliminary survey and investigation costs	-	(101)	-	-	-	-	(18,409)	-	(18,510)
Other proceeds	1,007	79	19	2	-	1	57	280	1,445
Refunds to Participants	(1,529)	(695)	(717)	(182)	-	(2,153)	(3,479)	(1,293)	(10,048)
Payments from(to) other programs *	2,390	1,736	(1,205)	(369)	9	(3,113)	851	(299)	-
NET CASH FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES	1,868	1,019	(1,903)	(549)	9	(6,214)	2,346	(1,312)	(4,736)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,507	(447)	(22)	(1)	-	(314)	(1,403)	9,208	22,528
Cash and cash equivalents beginning of year	1,745	17,654	796	773	153	3,503	3,669	59,448	87,741
CASH & CASH EQUIVALENTS end of year	$ 17,252	$ 17,207	$ 774	$ 772	$ 153	$ 3,189	$ 2,266	$ 68,656	$ 110,269

* Eliminated in Combination

OTHER FINANCIAL INFORMATION

COMBINING STATEMENTS OF CASH FLOW

NORTHERN CALIFORNIA POWER AGENCY
AND ASSOCIATED POWER CORPORATIONS
(000's omitted)

	For the Year Ended June 30, 2009								
	GENERATING & TRANSMISSION RESOURCES								
	Geothermal	Hydroelectric	Mulitple Capital Facilities	CT No. One	Transmission	Purchased Power & Transmission	Associated Member Services	Other Agency	Combined
RECONCILIATION OF NET OPERATING REVENUES TO NET CASH PROVIDED BY OPERATING ACTIVITIES									
Net operating revenues	$ 14,976	$ 23,871	$ 3,467	$ 2,937	$ 670	$ 831	$ 3,185	$ (433)	$ 49,504
Adjustments to reconcile net operating revenues to net cash from operating activities:									
Depreciation	19,676	9,726	2,203	2,127	168	-	6	178	34,084
	34,652	33,597	5,670	5,064	838	831	3,191	(255)	83,588
Cash flows impacted by changes in:									
Accounts receivable	-	(27)	-	1	-	(358)	(3)	1,384	997
Inventory and prepaids	(240)	30	(1)	1	-	-	-	(55)	(265)
Operating reserves	465	1,650	-	31	-	-	-	(2,072)	74
Deferred revenues	(1,475)	(176)	18	(183)	-	-	4	11	(1,801)
Accounts payable	42	271	(38)	(106)	-	3,682	30	6,619	10,500
Net cash from operating activities	$ 33,444	$ 35,345	$ 5,649	$ 4,808	$ 838	$ 4,155	$ 3,222	$ 5,632	$ 93,093
CASH AND CASH EQUIVALENTS AS STATED IN THE COMBINED BALANCE SHEETS:									
Cash and cash equivalents - current	$ 1	$ -	$ 1	$ 1	$ -	$ -	$ -	$ 57,220	$ 57,223
Cash and cash equivalents - restricted	17,251	17,207	773	771	153	3,189	2,266	11,436	53,046
	$ 17,252	$ 17,207	$ 774	$ 772	$ 153	$ 3,189	$ 2,266	$ 68,656	$ 110,269

APPENDIX D

BOOK-ENTRY ONLY SYSTEM

General

The Depository Trust Company ("DTC"), New York, New York will act as securities depository for the Issue Two 2010 Series Bonds. The Issue Two 2010 Series Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Issue Two 2010 Series Bond certificate will be issued for each maturity of the Issue Two 2010 Series Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Issue Two 2010 Series Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Issue Two 2010 Series Bonds on DTC's records. The ownership interest of each actual purchaser of each Issue Two 2010 Series Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Issue Two 2010 Series Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Issue Two 2010 Series Bonds, except in the event that use of the book-entry system for the Issue Two 2010 Series Bonds is discontinued.

To facilitate subsequent transfers, all Issue Two 2010 Series Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Issue Two

2010 Series Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Issue Two 2010 Series Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Issue Two 2010 Series Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Issue Two 2010 Series Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Issue Two 2010 Series Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of Issue Two 2010 Series Bonds may wish to ascertain that the nominee holding the Issue Two 2010 Series Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Issue Two 2010 Series Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Issue Two 2010 Series Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Issue Two 2010 Series Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Issue Two 2010 Series Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from NCPA or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or NCPA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of NCPA or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Issue Two 2010 Series Bonds at any time by giving reasonable notice to NCPA or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Issue Two 2010 Series Bond certificates are required to be printed and delivered.

NCPA may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Issue Two 2010 Series Bond certificates will be printed and delivered to DTC.

NCPA and the Trustee will not have any responsibility or obligation to any DTC Participant, any Beneficial Owner or any other person claiming a beneficial ownership interest in the Issue Two 2010 Series Bonds under or through DTC or any DTC Participant, or any other person which is not shown on the registration books of the Trustee as being a Owner with respect to the accuracy of any records maintained by DTC or any DTC Participant; the payment by DTC or any DTC Participant of any amount in respect of the principal of, redemption premium, if any, or interest on the Issue Two 2010 Series Bonds; any notice which is permitted or required to be given to Owners; any consent given or other action taken by DTC as a Owner; or any other procedures or obligations of DTC under the book-entry system.

So long as Cede & Co. is the registered owner of the Issue Two 2010 Series Bonds, as nominee of DTC, references herein to the Owners or registered owners of the Issue Two 2010 Series Bonds will mean Cede & Co., as aforesaid, and will not mean the Beneficial Owners of the Issue Two 2010 Series Bonds.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interest in the Issue Two 2010 Series Bonds, payment of principal, premium, if any, interest and other payments on the Issue Two 2010 Series Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Issue Two 2010 Series Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Discontinuation of DTC Services

In the event that (a) DTC determines not to continue to act as securities depository for the Issue Two 2010 Series Bonds or (b) NCPA determines to remove DTC from its functions as a depository, DTC's role as securities depository for the Issue Two 2010 Series Bonds and use of the book entry system will be discontinued. If NCPA fails to select a qualified securities depository to replace DTC, NCPA will cause the Trustee to execute and deliver new Issue Two 2010 Series Bonds in fully registered form in such denominations numbered in the manner determined by the Trustee and registered in the names of such persons as are requested in a written request of NCPA. The Trustee will not be required to deliver such new Issue Two 2010 Series Bonds within a period of less than 60 days from the date of receipt of such written request of NCPA. Upon such registration, such persons in whose names the Issue Two 2010 Series Bonds are registered will become the registered owners of the Issue Two 2010 Series Bonds for all purposes.

In the event that the book entry system is discontinued, the following provisions would also apply: (a) Issue Two 2010 Series Bonds may be exchanged for a like aggregate principal amount of Issue Two 2010 Series Bonds of the same Series and maturity in other authorized denominations, upon surrender thereof at the Principal Corporate Trust Office; (b) the transfer of any Issue Two 2010 Series Bonds may be registered on the books maintained by the Trustee under the Indenture only upon the surrender thereof to the Trustee together with a duly executed written instrument of transfer satisfactory to the Trustee executed by the Owner or his duly authorized attorney; (c) for every exchange or transfer of Issue Two 2010 Series Bonds, NCPA or the Trustee may make a charge sufficient to reimburse it for any tax, fee or

other governmental charge required to be paid with respect to such exchange or transfer; (d) all interest payments on the Issue Two 2010 Series Bonds will be payable on their respective interest payment dates to the owners thereof as appear on the registration books maintained by the Trustee on the records dates indicated in the Indenture; and (e) all payments of principal or redemption price of the Issue Two 2010 Series Bonds will be payable upon presentation and surrender thereof at the principal corporate trust office of the Trustee.

APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

Certain Definitions

"Accountant's Certificate" shall mean a certificate signed by an independent certified public accountant of recognized national standing, or a firm of independent certified public accountants of recognized national standing, selected by NCPA.

"Account" shall mean any account in any Fund held and maintained under the Indenture.

"Act" shall mean the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title 1 of the Government Code of California, as amended and supplemented.

"Additional Bonds" shall mean all Bonds, whether issued in one or more Series, authenticated and delivered on original issuance pursuant to the Indenture to pay the Indenture Group B Participant's GES of the Costs of Construction of the Project, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Indenture.

"Authorized Denominations" shall mean, unless otherwise provided with respect to a Series of Bonds in the Supplemental Indenture authorizing such Series, $5,000 and any integral multiple thereof.

"Authorized NCPA Representative" shall mean the General Manager, the Assistant General Manager, Finance and Administrative Services, the Chief Financial Officer, the Treasurer-Controller, the Secretary, or an Assistant Secretary of NCPA and any other officer or employee of NCPA authorized to perform the specific acts or duties to be performed by resolution duly adopted by NCPA.

"Blended Treasury Yield" shall mean, with respect to the Issue Two 2010 Series B Bonds of each maturity to be redeemed, the yield computed by the linear interpolation of two Market Treasury Yields such that the theoretical maturity that corresponds to the interpolated Market Treasury Yield equals the date that corresponds to the remaining average life of the Issue Two 2010 Series B Bonds of such maturity to be redeemed. The first Market Treasury Yield will be based on an actively traded U.S. Treasury security or U.S. Treasury index whose maturity is closest to but no later than the date corresponding to the remaining average life of the Issue Two 2010 Series B Bonds of such maturity to be redeemed; and the second Market Treasury Yield will be based on an actively traded U.S. Treasury security or U.S. Treasury index whose maturity is closest to but no earlier than the date corresponding to the remaining average life of the Issue Two 2010 Series B Bonds of such maturity to be redeemed. Notwithstanding the foregoing, if the date that corresponds to the remaining average life of the Issue Two 2010 Series B Bonds of a particular maturity to be redeemed is later than the latest maturity of any actively traded U.S. Treasury security or U.S. Treasury index, then the Blended Treasury Yield shall be the Market Treasury Yield of the actively traded U.S. Treasury security or U.S. Treasury index having such latest maturity.

"Bond" or **"Bonds"** shall mean any bond or bonds, as the case may be, authenticated and delivered under and pursuant to the Indenture.

"Bond Counsel" shall mean an attorney or firm of attorneys of recognized national standing in the field of law relating to municipal bonds selected by NCPA.

"Bond Register" shall mean the registration books for the ownership of the Bonds maintained by the Trustee pursuant to the Indenture.

"Business Day" shall mean, unless otherwise specified with respect to a Series of Future Bonds in the Supplemental Indenture authorizing such Series, any day other than a Saturday, Sunday or other day on which the New York Stock Exchange or banks are authorized or obligated by law or executive order to close in New York, New York, or any city in which is located the Principal Corporate Trust Office of the Trustee.

"Code" shall mean the Internal Project Revenue Code of 1986, as amended from time to time. Each reference to a section of the Code in the Indenture shall be deemed to include the United States Treasury Regulations proposed or in effect thereunder and applicable to the Bonds or the use of proceeds thereof, and also includes all amendments and successor provisions unless the context clearly requires otherwise.

"Commission" shall mean the NCPA Commission, as constituted from time to time, or if said NCPA Commission shall be abolished, such other entity or entities succeeding to the principal functions thereof or to whom the power and duties granted or imposed by the Act and the Joint Powers Agreement shall be given.

"Construction Fund" shall mean the Fund so designated established pursuant to the Indenture.

"Cost of Issuance Fund" shall mean the Fund so designated established pursuant to the Indenture.

"Debt Service" shall mean, as of any date of calculation, with respect to any period, an amount equal to the sum of (i) interest accruing during such period on the Outstanding Bonds (net of the Subsidy for such period), except to the extent that such interest is to be paid from deposits into the Debt Service Fund from Bond proceeds or the investment earnings thereon, provided, however that in determining Debt Service with respect to any Bonds during a period that such Bonds bear interest at a variable rate and the amount of such interest has not been determined, interest on such Bond during such period shall be the maximum interest rate applicable to such Bond and (ii) that portion of each Principal Installment for the Outstanding Bonds which would accrue during such period if each such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such Bonds (or, if there shall be no such preceding Principal Installment due date, from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Bonds, whichever date is later).

"Debt Service Fund" shall mean the Fund so designated established pursuant to the Indenture.

"Debt Service Reserve Fund" shall mean the Fund so designated established pursuant to the Indenture.

"Debt Service Reserve Requirement" shall mean, as of any date of calculation: (i) with respect to the Participating Bonds Debt Service Reserve Account, the amount specified in the Supplemental Indenture authorizing the issuance of the initial Series of the Participating Bonds; (ii) with respect to the Issue Two 2010 Series Debt Service Reserve Account, zero; and (iii) with respect to any Series Debt Service Reserve Account other than the Issue Two 2010 Series Debt Service Reserve Account, the amount, if any, specified as such in the Supplemental Indenture establishing such Series Debt Service Reserve Account.

"Defeasance Securities" shall mean direct obligations of, or obligations guaranteed by, the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America).

"Depository" shall mean any bank or trust company organized under the laws of any state of the United States, or any national banking association, which is willing and able to accept the office on reasonable and customary terms, authorized by law to act in accordance with the provisions of the Indenture.

"DTC" shall mean The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York, and its successors and assigns. References in the Indenture to DTC shall include any nominee of DTC in whose name any Bonds are then registered.

"Event of Default" shall have the meaning given to such term under the the Indenture.

"Extraordinary Event" shall mean the determination by an Authorized NCPA Representative that a material adverse change has occurred to Section 54AA or Section 6431 of the Code (as such Sections were added by Section 1531 of the American Recovery and Reinvestment Act of 2009 pertaining to "Build America Bonds") or there is any guidance published by the IRS or the U.S. Treasury with respect to such Sections or any other determination by the IRS or the U.S. Treasury, which determination is not the result of any act or omission by NCPA to satisfy the requirements to qualify to receive the thirty-five percent cash Subsidy payment from the U.S. Treasury, pursuant to which NCPA's thirty-five percent cash Subsidy payment from the U.S. Treasury is reduced or eliminated.

"Financial Guaranty" shall mean one or more of the following to be delivered to the Trustee pursuant to the Indenture: (i) either (A) an irrevocable, unconditional and unexpired letter of credit issued by a banking institution with credit ratings not below the credit ratings of the Bonds at the time such letter of credit is issued; or (B) an irrevocable and unconditional policy of insurance in full force and effect issued by a municipal bond insurer with credit ratings not below the credit ratings of the Bonds at the time such policy of insurance is issued; and (ii) in each case providing for the payment thereunder of sums for the payment of Principal Installments with respect to, and interest on, Bonds as required by the Indenture.

"Fund" shall mean a fund established pursuant to the Indenture or a Supplemental Indenture.

"Future Bonds" shall mean Additional Bonds and Refunding Bonds issued pursuant to the Indenture after the issuance of the Issue Two 2010 Series Bonds.

"Indenture" shall mean the Indenture of Trust, dated as of June 1, 2010, by and between NCPA and the Trustee, as from time to time amended or supplemented by Supplemental Indentures in accordance with the terms thereof.

"Interest Payment Date" shall mean, with respect to the Issue Two 2010 Series Bonds, June 1 and December 1 of each year, commencing December 1, 2010, and with respect to a Series of Future Bonds the dates specified as, or determined as provided in, such in the Supplemental Indenture authorizing such Series.

"Investment Securities" shall mean and include any of the following securities, if and to the extent the same are at the time legal for investment of NCPA's funds:

(1) Direct obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America);

(2) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies, which obligations are backed by the full faith and credit of the United States of America:

Export-Import Bank;
Farm Credit System Financial Assistance Corporation;
Rural Economic Community Development Administration;
Federal Financing Bank;
Federal Housing Administration (FHA);
General Services Administration;
Government National Mortgage Association (GNMA or "Ginnie Mae");
U.S. Maritime Administration;
U.S. Department of Housing and Urban Development (PHA's);
Small Business Administration;

(3) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies, which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Federal Home Loan Bank System – senior debt obligations;
- Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac") – Senior debt obligations rated "Aaa" by Moody's and "AAA" by S&P;
- Federal National Mortgage Association (FNMA or "Fannie Mae") – senior debt obligations rated "Aaa" by Moody's and "AAA" by S&P;
- Resolution Funding Corp. (REFCORP) obligations;
- Government Sponsored Agencies –senior debt obligations;

(4) Money market funds registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by S&P of AAAm G or AAAm or higher;

(5) Commercial paper rated, at the time of purchase, "P-1" by Moody's or "A 1+" by S&P and which matures not more than 270 days after its date of purchase;

(6) U.S. dollar denominated deposit accounts, federal funds or bankers' acceptances with domestic commercial banks, which have a rating on their short-term certificates of deposit (on the date of purchase) of "A-1" or "A-1+" by S&P and "P-1" by Moody's and which mature no more than 360 days after their date of purchase (Ratings on holding companies are not considered as the rating of the bank);

(7) General obligations of any state, which are rated A2 or higher by Moody's and A or higher by both S&P; and;

(8) Pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state or any agency, instrumentality or local governmental unit of any state, which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in a notice, and which are:

(a) Rated, based on an irrevocable escrow account or fund, in the highest rating category of S&P and Moody's; or

(b) Fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in clause (1) hereof, which escrow may be applied only to the payment of such principal or and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to irrevocable instructions, as appropriate, and which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (8) on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(9) Investment agreements or guaranteed investment contracts supported by appropriate opinions of counsel;

(10) California State Local Agency Investment Fund, a pooled investment fund managed by the State of California Treasurer's office meeting all legal guidelines and requirements for the investment of California public agency funds;

(11) Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State of California, as it may be amended; provided that such shares are held in the name and to the credit of the Trustee; and

(12) Any other form of investment (including repurchase agreements).

"IRS" shall mean the Internal Revenue Service of the U.S. Department of the Treasury.

"Issue Two 2010 Continuing Disclosure Agreement" shall mean the Continuing Disclosure Agreement, dated June 24, 2010, between NCPA and the Trustee as Dissemination Agent, in connection with the Issue Two 2010 Series Bonds pursuant to Rule 15c2-12 of the Securities and Exchange Commission.

"Issue Two 2010 Series A Bonds" shall mean the Bonds authorized by the Indenture.

"Issue Two 2010 Series A Debt Service Account" shall mean the Account so designated in the Debt Service Fund established pursuant to the Indenture.

"Issue Two 2010 Series B Bonds" shall mean the Bonds authorized by the Indenture.

"Issue Two 2010 Series B Debt Service Account" shall mean the Account so designated in the Debt Service Fund established pursuant to the Indenture.

"Issue Two 2010 Series Bonds" shall mean the Issue Two 2010 Series A Bonds and the Issue Two 2010 Series B Bonds.

"Issue Two 2010 Series Debt Service Reserve Account" shall mean the Account so designated in the Debt Service Reserve Fund established pursuant to the Indenture.

"Market Treasury Yield" shall mean, with respect to the Issue Two 2010 Series B Bonds, that yield, assuming semiannual compounding based upon a 360-day year consisting of twelve 30-day months, which is equal to:

(i) the yield for the applicable maturity of an actively traded U.S. Treasury security, reported, as of 11:00 a.m., New York City time, on the Valuation Date on the display designated as "Page PX1" of the Bloomberg Financial Markets Services Screen (or, if not available, any other nationally recognized trading screen reporting on-line intraday trading in U.S. Treasury securities); or

(ii) if the yield described in (i) above is not reported as of such time or the yield reported as of such time is not ascertainable, the most recent yield data for the applicable U.S. Treasury maturity index from the Federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m., New York City time, on the Valuation Date; or

(iii) if the yields described in (i) and (ii) above are not reported as of such time or the yields reported as of such time are not ascertainable, the yield for the applicable maturity of an actively traded U.S. Treasury security shall be based upon the average of yield quotations for such security (after excluding the highest and lowest quotations) as of 3:30 p.m., New York City time, on the Valuation Date received from no less than five primary dealers in U.S. government securities selected by NCPA.

Each yield quotation for each actively traded U.S. Treasury security required in (i) and (iii) above shall be determined using the average of the bid and ask prices for that security.

"Member" shall mean a party to the Joint Powers Agreement other than NCPA.

"Moody's" shall mean Moody's Investors Service, Inc., and its corporate successors.

"NCPA" shall mean the Northern California Power Agency, a joint exercise of powers agency created pursuant to the Act.

"Opinion of Bond Counsel" shall mean a written opinion signed by Bond Counsel.

"Option Bonds" shall mean Bonds which by their terms may be tendered by and at the option of the Owner thereof for purchase prior to the stated maturity thereof.

"Outstanding," when used with reference to Bonds, shall mean, as of any date, Bonds theretofore, or thereupon being, authenticated and delivered under the Indenture except:

(i) Bonds cancelled by the Trustee, or delivered to the Trustee for cancellation, at or prior to such date;

(ii) Bonds paid or deemed paid pursuant to the Indenture; and

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Indenture.

"Owner" shall mean the person registered as the owner of a Bond in the Bond Register.

"Parity Debt" shall mean: (i) bonds, notes, bond anticipation notes, or other evidences of indebtedness issued by, or loans taken out by, or Public Finance Contract entered into by, NCPA to: (i) finance or refinance the Indenture Group B Participant's shares of the Costs of Construction of the Project; or (ii) to provide credit enhancement for, or economically modify NCPA's payment obligations

with respect to, such bonds, notes, bond anticipation notes, other evidences of indebtedness or loans, in each case satisfying the requirements of the Indenture.

"Participating Bonds" shall mean all Future Bonds other than Bonds authorized by a Supplemental Indenture that provides that such Bonds are not Participating Bonds in accordance with the provisions of the Indenture.

"Participating Bonds Debt Service Account" shall mean the Account so designated established in the Debt Service Fund pursuant to the Indenture.

"Participating Bonds Debt Service Reserve Account" shall mean the Account so designated established in the Debt Service Reserve Fund pursuant to the Indenture.

"Pledged Power Sales Agreement Rights" shall mean: (i) subject to the application of the Project Revenues relating to Indenture Group B to such purposes and on such terms as provided in the Power Sales Agreement, all amounts on deposit in the Indenture Group B Revenue Account; and (ii) all of NCPA's rights under the Power Sales Agreement with respect to the Indenture Group B Participant including without limitation: (A) NCPA's rights to the payments required to be made by the Indenture Group B Participant in accordance with or pursuant to any provision of the Power Sales Agreement; (B) NCPA's right to receive all other Project Revenues related to Indenture Group B including Project Revenues received pursuant to actions taken upon a default by an Indenture Group B Participant; and (C) all of NCPA's right, title and interest in, to and under the Power Sales Agreement with respect to the obligations of the Indenture Group B Participant, including NCPA'S rights to enforce the obligations of the Indenture Group B Participant under the Power Sales Agreement.

"Power Sales Agreement" shall mean the Lodi Energy Center Power Sales Agreement, dated as of May 24, 2010, among NCPA and the Participants, as the same may be amended and supplemented in accordance with its terms and the terms of the Indenture.

"Principal Corporate Trust Office" shall mean: (i) so long as U.S. Bank National Association is serving as Trustee under the Indenture, its Principal Corporate Trust Office located at 100 Wall Street, New York, New York or such other corporate trust office as shall be specified by U.S. Bank National Association; and (ii) the corporate trust office specified as such by any successor Trustee.

"Principal Installment" shall mean, as of any date of calculation, (i) the principal amount of Outstanding Bonds due on a certain future date for which no Sinking Fund Installments have been established and (ii) the unsatisfied balance (determined as provided in the Indenture) of any Sinking Fund Installments due on a certain future date for Outstanding Bonds.

"Rebate Fund" shall mean the Fund so designated established in the Indenture.

"Rebate Instructions" shall mean those calculations and written directions required to be delivered to the Trustee by NCPA pursuant to the Indenture.

"Rebate Requirement" shall mean the Rebate Requirement as defined in the Tax Certificate.

"Refunding Bonds" shall mean all Bonds, whether issued in one or more Series, authenticated and delivered on original issuance pursuant to the Indenture to refund Bonds or Parity Debt, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Indenture.

"Revolving Construction Amount" shall mean with respect to the Initial Facilities, $1,000,000; and with respect to any Financed Capital Improvement the amount, if any, specified as such in a Supplemental Indenture.

"S&P" shall mean Standard & Poor's Rating Services and its corporate successors.

"Securities Depository" shall mean DTC and its successors and assigns or if (i) the incumbent Securities Depository resigns from its functions as depository of the Bonds or (ii) NCPA discontinues use of the incumbent Securities Depository pursuant to the Indenture, any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds and which is selected by NCPA.

"Series" when used with reference to the Bonds, shall mean all of the Bonds authenticated and delivered on original issuance and identified pursuant to the Indenture (including any Supplemental Indenture) as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Indenture (including any Supplemental Indenture), regardless of variations in maturity, interest rate, Sinking Fund Installments, or other provisions.

"Series Debt Service Reserve Account" shall mean the Issue Two 2010 Series Debt Service Reserve Account and each other Account within the Debt Service Reserve Fund with respect to a Series of Future Bonds that are not Participating Bonds.

"Sinking Fund Installment" shall mean each amount to be applied to the mandatory redemption (or payment at maturity) of Bonds as follows: (i) with respect to the Issue Two 2010 Series B Bonds maturing on June 1, 2035, each amount so designated in the Indenture; and (ii) with respect to the specified maturity or maturities of each Series of Future Bonds, each amount so designated in the Supplemental Indenture authorizing such Series of Future Bonds.

"Subsidy" shall mean with respect to Taxable Subsidy Bonds, a payment from the United States with respect to such Taxable Subsidy Bonds or the interest thereon or other benefit from the United States (such as a tax credit) in connection with such Taxable Subsidy Bonds.

"Subsidy Contingency Fund" shall mean the Fund so designated established pursuant to the Indenture.

"Subsidy Contingency Requirement" shall mean, as of any date of calculation, an amount equal to 35% of the amount of interest on the Issue Two 2010 Series B Bonds scheduled to be paid on the next Interest Payment Date.

"Supplemental Indenture" shall mean any indenture supplemental to or amendatory of the Indenture as theretofore in effect, entered into by NCPA and the Trustee in accordance with the Indenture.

"Taxable Bond" shall mean Bonds, other than Taxable Subsidy Bonds, the interest on which is not excluded from gross income for federal income tax purposes.

"Taxable Subsidy Bond" shall mean Bonds, the interest on which is not excluded from gross income for federal income tax purposes and as to which NCPA or an Owner of a Bond is entitled to receive a Subsidy.

"Tax Certificate" shall mean, with respect to a Series of Bonds, the Tax Certificate relating to the requirements of the Code signed by NCPA on the date of original issuance of the Bonds of such Series.

"Tax-Exempt Bond" shall mean Bonds the interest on which is excluded from gross income for federal income tax purposes.

"Tax Status" shall mean with respect to a Bond which is a Tax-Exempt Bond, the exclusion from gross income for federal income tax purposes of interest on such Bond and with respect to a Bond which is Taxable Subsidy Bond, the right of NCPA or the Owner of a Bond to receive a Subsidy with respect to such Bond.

"Trustee" shall mean U.S. Bank National Association, and its corporate successor or successors and any other entity which may at any time be substituted in its place as successor Trustee pursuant to the Indenture.

"Trust Estate" shall mean (a) the Pledged Power Sales Agreement Rights and (b) subject to the provisions of the Indenture permitting the application and release thereof for the purposes and on the terms and conditions set forth therein, all amounts on deposit in the Funds established pursuant to the Indenture, other than the Rebate Fund, including the investments, if any, thereof; provided that the pledge of the Pledged Power Sales Agreement Rights shall be on a parity with any pledge thereof securing the payment of Parity Debt.

"U.S." shall mean the United States of America.

"Valuation Date" shall mean, with respect to Issue Two 2010 Series B Bonds to be redeemed pursuant to the Indenture, the Business Day preceding the date on which notice of such redemption is given pursuant to the Indenture.

Pledge Effected by the Indenture

The Bonds shall be special, limited obligations of NCPA payable solely from the funds available from the Trust Estate and secured as to the payment of the principal and redemption price thereof and interest thereon in accordance with their terms and the provisions of the Indenture solely by the pledge of the Trust Estate, which pledge is subject to the application of the Trust Estate for the purposes and on the terms and conditions contained in the Power Sales Agreement and the Indenture; provided, however, that the pledge of that portion of the Trust Estate constituting the Pledged Power Sales Agreement Rights shall be on a parity with any pledge of the Pledged Power Sales Agreement Rights securing the payment of Parity Debt.

The Trust Estate shall immediately be subject to the lien of such pledge without any other further act, and the lien of this pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against NCPA, irrespective of whether such parties have notice thereof. Any moneys withdrawn from any Fund or Account and not deposited into the Debt Service Fund or the Debt Service Reserve Fund, except as otherwise provided in the Indenture, shall be released from the pledge made pursuant to the Indenture. Upon the payment, or provision for the payment in accordance with the Indenture, of all the Bonds, the Trust Estate, including the Pledged Power Sales Agreement Rights, shall be released from the pledge made pursuant to the Indenture.

The Bonds shall not constitute a charge against the general credit of NCPA and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of NCPA or any of its income or

receipts except the Trust Estate to the extent set forth in the Indenture. Neither the faith and credit nor the taxing power of the State of California or any public agency thereof or any Member of NCPA or any Participant is pledged to the payment of the principal or redemption price of, or interest on, the Bonds. Neither the payment of the principal or redemption price of, or interest on, the Bonds constitutes a debt, liability or obligation of the State of California or any public agency thereof (other than the special obligation of NCPA as provided in the Indenture) or any Member of NCPA or any Participant. Neither the members of the Commission nor any officer or employee of NCPA shall be individually liable on the Bonds, or the interest thereon, or in respect to any undertakings by NCPA under the Indenture.

Nothing contained in the Indenture shall be construed to prevent NCPA from providing credit enhancement or liquidity support for all or any portion of the Bonds of any Series in addition to the pledge of the Trust Estate.

General Provisions for Issuance of Bonds

All (but not less than all) the Bonds of each Series shall be executed by NCPA for issuance under the Indenture and delivered to the Trustee and thereupon shall be authenticated by the Trustee and by it delivered to NCPA or upon its order, but only upon the receipt by the Trustee of the following items (upon which the Trustee may conclusively rely in determining whether the conditions precedent for the issuance and authentication of such Series of Bonds have been satisfied):

(1) With respect to the Issue Two 2010 Series Bonds, an executed counterpart of the Indenture, certified by an Authorized NCPA Representative to be in full force and effect;

(2) An Opinion of Bond Counsel to the effect that (i) the Indenture, as supplemented by any Supplemental Indenture pursuant to which such Series of Bonds is to be issued, constitutes the valid and binding obligation of NCPA; (ii) the Bonds of such Series constitute the valid and binding special, limited obligations of NCPA; and (iii) that the Indenture creates a valid pledge of the Trust Estate to secure the payment of the principal of and interest on the Bonds, subject to the application thereof on the terms and conditions contained the Power Sales Agreement and the Indenture; provided, however, that such Opinion of Bond Counsel may include such exceptions and qualifications as shall be acceptable to the initial purchaser or purchasers of the Bonds of such Series;

(3) A written order as to the delivery of such Bonds, signed by an Authorized NCPA Representative;

(4) Except in the case of the Issue Two 2010 Series Bonds, an executed counterpart of the Supplemental Indenture authorizing such Bonds, certified by an Authorized NCPA Representative to be in full force and effect, which shall, among other provisions, specify: (i) the authorized Principal Amount of the Bonds of such Series, and the Series designation of such Bonds; (ii) the purposes for which such Series of Bonds is being issued, which shall be one of the purposes specified in the Indenture; (iii) the date, and the maturity date or dates, of the Bonds of such Series; (iv) the interest rate or rates on the Bonds of such Series, and the Interest Payment Dates therefor (or the manner for determining such interest rates and Interest Payment Dates); (v) if other than $5,000 or any integral multiple thereof, the Authorized Denominations of, and the manner of dating, numbering and lettering, the Bonds of such Series; (vi) the redemption price or Prices, if any, and, subject to the Indenture, the redemption terms for the Bonds of such Series; (vii) the Sinking Fund Installments, if any, for the Bonds of such Series, provided that each Sinking Fund Installment, if any, shall fall upon an Interest Payment Date for such Bonds; (viii) if so determined by NCPA, provisions for the sale of the Bonds of such Series; (ix) if any of the

Bonds of such Series are Option Bonds, the terms and conditions of the exercise by the Owners of such Bonds of the purchase option granted with respect to such Bonds; (x) the application of the proceeds of the sale of such Bonds including the amount, if any, to be deposited in the Funds and Accounts; (xi) the forms of the Bonds of such Series and of the Trustee's certificate of authentication thereon; and (xii) the Funds and Accounts, if any, created under such Supplemental Indenture and the deposits to, and application of moneys in, such Funds and Accounts;

(5) The amount, if any, necessary for deposit in the Account in the Debt Service Reserve Fund related to such Series of Bonds so that the amount in such Account shall equal the applicable Debt Service Reserve Requirement calculated immediately after the authentication and delivery of such Series of Bonds;

(6) The amount necessary for deposit in the Subsidy Contingency Fund related to the Issue Two 2010 Series B Bonds so that the amount in such Fund shall equal the Subsidy Contingency Requirement calculated immediately after the authentication and delivery of such Series of Bonds;

(7) Except in the case of the Issue Two 2010 Series Bonds, a certificate of an Authorized NCPA Representative stating that NCPA is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture or in any of the documents or proceedings authorizing or controlling any outstanding Parity Debt and applicable to NCPA; provided, however, that in the case of Refunding Bonds such certificate may state that upon the application of the proceeds of such Refunding Bonds in accordance with the Supplemental Indenture authorizing their issuance, NCPA shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture and applicable to NCPA or in any of the documents or proceedings authorizing or controlling any outstanding Parity Debt and applicable to NCPA; and

(8) Such further documents, moneys and securities as are required by the provisions of the Indenture or any Supplemental Indenture entered into pursuant to the Indenture.

All the Bonds of each Series of like maturity shall be identical in all respects, except as to denominations, numbers and letters, Owners, interest rate, and Interest Payment Dates. After the original issuance of Bonds of any Series, no Bonds of such Series shall be issued except in lieu of or in substitution for other Bonds of such Series pursuant to the Indenture.

Additional Bonds

One or more Series of Additional Bonds may be issued, authenticated and delivered upon original issuance for the purpose of paying all or a portion of the Indenture Group B Participant's GES of the Costs of Construction of the Project, including any Capital Improvement thereto.

The proceeds, including any accrued interest, of the Additional Bonds of each Series shall be applied simultaneously with the delivery of such Bonds as provided in the Supplemental Indenture authorizing such Series of Bonds.

Refunding Bonds

One or more Series of Refunding Bonds may be issued, authenticated and delivered upon original issuance (i) to refund all or any portion of an Outstanding Bond or Outstanding Bonds; provided that the

unrefunded portion of any Bond refunded in part shall be in an Authorized Denomination or (ii) to refund any Parity Debt. Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding including providing amounts for the costs of issuance of such Refunding Bonds, capitalized interest thereon, and the making of any deposits into the Funds and Accounts required by the provisions of the Supplemental Indenture authorizing such Series of Refunding Bonds.

Refunding Bonds of each Series shall be authenticated and delivered by the Trustee only upon receipt by the Trustee (in addition to the documents required by the Indenture) of an Opinion of Bond Counsel to the effect that the Bonds (or portions thereof) or Parity Debt, as applicable, to be refunded are deemed paid pursuant to the Indenture or the proceedings authorizing such Parity Debt, as applicable. The Trustee may conclusively rely upon an Opinion of Bond Counsel in determining whether the conditions precedent for the issuance and authentication of such Series of Refunding Bonds have been satisfied.

The proceeds, including any accrued interest, of the Refunding Bonds of each Series shall be applied simultaneously with the delivery of such Bonds as provided in the Supplemental Indenture authorizing such Series of Refunding Bonds.

Parity Debt

The payment of Parity Debt may be secured by a pledge of the Pledged Power Sales Agreement Rights on a parity with the pledge hereunder securing the payment of Debt Service on the Bonds; provided, that:

(a) The Trustee shall have received a copy of the proceedings authorizing such Parity Debt, certified by the Secretary or an Assistant Secretary of NCPA.

(b) Any debt service reserve for such Parity Debt shall not exceed the Debt Service Reserve Requirement for the Participating Bonds Debt Service Reserve Account or the Issue Two 2010 Series Debt Service Reserve Account, whichever is greater.

(c) The Trustee shall have received a certificate of an Authorized NCPA Representative stating that NCPA is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture or in any of the documents or proceedings authorizing or controlling any outstanding Parity Debt and applicable to NCPA; provided, however, that in the case of any Parity Debt issued for the purposes set forth in the Indenture, such certificate may state that upon the application of the proceeds of such Parity Debt in accordance with the proceedings authorizing such Parity Debt, NCPA is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture or in any of the documents or proceedings authorizing or controlling any outstanding Parity Debt and applicable to NCPA.

(d) In the case of Parity Debt under a Public Finance Contract that is a swap, hedge or other instrument that economically modifies NCPA's payment obligations with respect to Bonds, the phrase "debt service" when used in the Indenture with respect to such Parity Debt shall refer to the scheduled net payments payable by NCPA under the Public Finance Contract and not to any settlement amounts due upon the early termination thereof. In the case of Parity Debt under a Public Finance Contract that provides credit enhancement or liquidity support for Bonds, the phrase "debt service" when used in the Indenture with respect to such Parity Debt shall refer to the scheduled principal and interest payments owed by NCPA under the Public Finance Contract and not to amounts due upon an acceleration of maturity.

Debt Service Reserve Accounts for Future Bonds

Each Series of Future Bonds shall constitute Participating Bonds unless the Supplemental Indenture authorizing such Series of Future Bonds provides that such Series of Future Bonds shall not be Participating Bonds. If one or more Series of Future Bonds which are not Participating Bonds are to be secured by a Series Debt Service Reserve Account, the Supplemental Indenture authorizing such Series of Future Bonds shall provide for the establishment of such Series Debt Service Reserve Account and specify the Debt Service Reserve Requirement for such Series Debt Service Reserve Account.

Funds and Accounts

The following Funds and Accounts are established pursuant to the Indenture and are to be held and maintained by the Trustee:

(1) Construction Fund, which shall consist of: (i) the Issue Two 2010 Series A Account, (ii) the Issue Two 2010 Series B Account and (iii) such other Accounts in the Construction Fund as shall be established in the Supplemental Indenture authorizing each Series of Future Bonds as to which any of the proceeds are to be deposited in the Construction Fund;

(2) Costs of Issuance Fund;

(3) Debt Service Fund, which shall consist of (i) the Participating Bonds Debt Service Account, (ii) the Issue Two 2010 Series A Debt Service Account, (ii) the Issue Two 2010 Series B Debt Service Account and (iv) such other Accounts in the Debt Service Fund as shall be established in the Supplemental Indenture authorizing a Series of Future Bonds that are not Participating Bonds;

(4) Debt Service Reserve Fund, which shall consist of (i) the Participating Bonds Debt Service Reserve Account, (ii) the Issue Two 2010 Series Debt Service Reserve Account, and (iii) such other Series Debt Service Reserve Accounts as shall be established in connection with Future Bonds by NCPA that are not Participating Bonds pursuant to the Indenture;

(5) Subsidy Contingency Fund; and

(6) Rebate Fund.

Construction Fund

(a) There shall be paid into the Construction Fund the amounts required to be so paid by the provisions of the Indenture, and there may be paid into the Construction Fund any moneys received for or in connection with the Project from any other source, unless required to be otherwise applied as provided by the Indenture. Amounts in the Construction Fund shall be applied to the Indenture Group B Participant's GES of the Costs of Construction of the Project in the manner provided in the Indenture.

(b) The Trustee shall make payments from the Construction Fund, except payments and withdrawals pursuant to paragraphs (c) and (d) below, in the amounts, at the times, in the manner and on the other terms and conditions set forth in the Indenture. The Trustee shall make payments from the Construction Fund with respect to the Indenture Group B Participant's GES of the Costs of Construction of the Initial Facilities and each Financed Capital Improvement. Before any such payment from the

Construction Fund shall be made, there shall be filed with the Trustee a requisition therefor, signed by an Authorized NCPA Representative. Subject to the provisions of paragraph (c) below, each such requisition shall state, in respect of the payment to be made (i) the name and address of the person, firm or corporation to whom payment is due, (ii) the amount of such payment, (iii) the particular item of the Costs of Construction to be paid and that such payment in the stated amount is a proper charge against the Construction Fund and that no part of such payment shall be applied to any item which has previously been paid as a Cost of Construction, and (iv) the Account in the Construction Fund from which such amounts are to be paid. The Trustee shall promptly issue its check to NCPA in the amount of each such requisition or, if requested pursuant to any such requisition, shall by interbank transfer or other method arrange to promptly make each payment required by such requisition. NCPA shall apply, or cause to be applied, all such moneys received to the payment of the Costs of Construction identified in the requisition relating to such moneys.

(c) The Trustee shall pay from the Construction Fund to NCPA, upon its requisition therefor signed by an Authorized NCPA Representative, the amount of the Revolving Construction Amount, such amount to be used by NCPA to establish a revolving fund for the purpose of paying such items of the Indenture Group B Participant's GES of the Costs of Construction of the Initial Facilities and each Financed Capital Facility as cannot conveniently be paid as in the Indenture otherwise provided. NCPA shall apply the moneys in such revolving fund to pay the Indenture Group B Participant's GES of the Costs of Construction of the Initial Facilities or a Financed Capital Improvement, as applicable, as cannot conveniently be paid as provided in paragraph (b) above. NCPA shall keep records of all disbursements from such revolving fund which shall indicate (i) the name and address of the person, firm or corporation to whom payment is due, (ii) the amount of such payment, (iii) the particular item of the Costs of Construction to be paid. At any time during the construction of the Initial Facilities or a Financed Capital Improvement, as applicable, that the balance of such revolving fund is less than the Revolving Construction Amount, NCPA may submit a requisition for payments from the Construction Fund as provided in paragraph (b) above for reimbursement of the amount of payments of the Costs of Construction made from such revolving fund (and not previously reimbursed to such revolving fund) to the extent necessary to make the balance in such revolving fund equal the Revolving Construction Amount. Each such requisition shall contain the information as to the Costs of Construction sought to be reimbursed to such revolving fund specified for requisitions in paragraph (b) above, be signed by an Authorized NCPA Representative, and shall certify that each such amount sought to be reimbursed to such revolving fund was necessary for the payment of an item of the Indenture Group B Participant's GES of the Costs of Construction and that such expense could not conveniently be paid except from such revolving fund.

(d) Notwithstanding any of the other provisions of the Indenture, to the extent that other moneys are not available therefor, including amounts in the Cost of Issuance Fund, amounts in the Construction Fund shall be applied to the payment of Debt Service on the Bonds when due.

(e) The completion of the construction of the Initial Facilities and any Capital Improvement shall be evidenced by a certificate or certificates signed by an Authorized NCPA Representative which shall be filed with the Trustee, stating (i) the date of such completion and (ii) the amount, if any, required in the opinion of the signer or signers for the payment of any remaining part of the Indenture Group B Participant's GES of the Costs of Construction thereof. Upon, the filing of such certificate, the balance, if any, in the separate Account in the Construction Fund established with respect to each Series of Bonds to pay the Costs of Construction of the Initial Facilities or such Capital Improvement, as applicable, which is in excess of the amount, if any, stated in such certificate shall be transferred to the Account in the Debt Service Reserve Fund relating to such Series of Bonds, if and to the extent necessary to make the amount of such Account equal to the applicable Debt Service Reserve Requirement, and any balance shall be paid over or transferred to the Account in the Debt Service Fund relating to such Series of Bonds for

application as directed by an Authorized NCPA Representative. If subsequent to the filing of such certificate it shall be determined that any amounts in an Account in the Construction Fund relating to a Series of Bonds and specified in such certificate as being required for the payment of any remaining part of the Indenture Group B Participant's GES of the Costs of Construction are no longer so required, such fact shall be evidenced by a certificate or certificates of an Authorized NCPA Representative which shall be filed with the Trustee stating such fact and any amount shown therein as no longer being required for such purpose shall be transferred to the Account in the Debt Service Reserve Fund relating to such Series of Bonds, if and to the extent necessary to make the amount of such Account equal to the applicable Debt Service Reserve Requirement, and any balance shall be paid over or transferred to the Account in the Debt Service Fund relating to such Series of Bonds for application as directed by NCPA.

Payments From the Indenture Group B Revenue Account

As soon as practicable in each month, but in any case no later than the last Business Day of such month, after making the transfers from the Indenture Group B Revenue Account required by Section 21.2 and Section 21.3 of the Power Sales Agreement, NCPA shall withdraw moneys from the Indenture Group B Revenue Account and deposit in the following Funds and Accounts, in the following order, the amounts set forth below:

(a) (i) Subject to the provisions of the Indenture: (A) in the Participating Bonds Debt Service Account the amount necessary so that the balance in said Account shall equal the Debt Service to accrue on the Participating Bonds to the last day of such month; (B) in the Issue Two 2010 Series A Debt Service Account the amount necessary so that the balance in said Account shall equal the Debt Service to accrue on the Issue Two 2010 Series A Bonds to the last day of such month; (C) in the Issue Two 2010 Series B Debt Service Account the amount necessary so that the balance in said Account shall equal the Debt Service to accrue on the Issue Two 2010 Series B Bonds to the last day of such month; and (D) in each Account in the Debt Service Fund established for a Series of Future Bonds the amount, if any, required so that the balance in said Account shall equal the Debt Service to accrue on such Series of Future Bonds to the last day of such month; provided that, for the purposes of computing the amount on deposit in any such Account, there shall be excluded from the balance of such Account: (1) the amount, if any, set aside in such Account from the proceeds of Bonds for the payment of the principal, redemption price, or interest on Bonds, less that amount of such proceeds to be applied in accordance with the Indenture to the payment of the principal, redemption price or interest accrued and unpaid and to accrue on applicable Bonds to the last day of the then current calendar month; and (2) the amount, if any, set aside in any such Account for the payment of Principal Installments or redemption price of, or interest on, the applicable Bonds which are then due and payable; and (ii) deposit in any fund or account created to pay debt service on Parity Debt the amount, if any, required so that the balance therein shall equal the payments coming due therein to the last day of such month; provided that if the amount available in the Indenture Group B Revenue Account in any month is insufficient to make all deposits required by this paragraph, then the available amounts in the Indenture Group B Revenue Account shall be deposited in each Account in the Debt Service Fund and the funds or accounts created to pay debt service on Parity Debt pro rata based on the amounts due.

(b) Subject to the provisions of the Indenture, in each Account in the Debt Service Reserve Fund, the amount, if any, required so that the amount in such Account is equal to the applicable Debt Service Reserve Requirement and the amount, if any, necessary to reimburse each drawing on a Financial Guaranty related to each Account in the Debt Service Reserve Fund and to pay any interest or other amounts due with respect to a Financial Guaranty related to each Account in the Debt Service Reserve Fund and to deposit in the debt service reserve, if any, established for Parity Debt the amount required to be deposited in such debt service reserve pursuant to the instrument or proceedings authorizing such Parity Debt; provided that if the amount available in the Indenture Group B Revenue Account in any

month is insufficient to make all deposits required by this paragraph, then the available amounts in the Indenture Group B Revenue Account shall be deposited into each Account in the Debt Service Reserve Fund and the debt service reserves for Parity Debt pro rata based on the amounts due.

(c) Subject to the provisions of the Indenture, in the Subsidy Contingency Fund, the amount, if any required so that the amount in such Fund is equal to the Subsidy Contingency Requirement on any Interest Payment Date.

Application of Debt Service Fund

The Trustee shall pay from the Participating Bonds Debt Service Account: (i) on each Interest Payment Date for any of the Outstanding Participating Bonds the interest on such Participating Bonds payable on such due date; (ii) on each due date therefor, the Principal Installments on Outstanding Participating Bonds payable on such due date; and (iii) on any redemption date for Outstanding Participating Bonds, the amount required for payment of the redemption price and any unpaid accrued interest on the Participating Bonds then to be redeemed.

The Trustee shall pay from the Issue Two 2010 Series A Debt Service Account in the Debt Service Fund: (i) on each Interest Payment Date for any of the Outstanding Issue Two 2010 Series A Bonds the interest on such Issue Two 2010 Series A Bonds payable on such due date; (ii) on each due date therefor, the Principal Installment on Outstanding Issue Two 2010 Series A Bonds payable on such due date; and (iii) on any redemption date for Outstanding Issue Two 2010 Series A Bonds, the amount required for payment of the redemption price and any accrued interest on the Issue Two 2010 Series A Bonds then to be redeemed.

The Trustee shall pay from the Issue Two 2010 Series B Debt Service Account in the Debt Service Fund: (i) on each Interest Payment Date for any of the Outstanding Issue Two 2010 Series B Bonds the interest on such Issue Two 2010 Series B Bonds payable on such due date; (ii) on each due date therefor, the Principal Installment on Outstanding Issue Two 2010 Series B Bonds payable on such due date; and (iii) on any redemption date for Outstanding Issue Two 2010 Series B Bonds, the amount required for payment of the redemption price and any unpaid accrued interest on the Issue Two 2010 Series B Bonds then to be redeemed.

The Trustee shall pay from the each Debt Service Account in the Debt Service Fund established for a Series of Future Bonds which are not Participating Bonds: (i) on each Interest Payment Date for any of the Outstanding Bonds of such Series the interest on such Future Bonds payable on such due date; (ii) on each due date therefor, the Principal Installment on Outstanding Bonds of such Series payable on such due date; and (iii) on any redemption date for Outstanding Bonds of such Series, the amount required for payment of the redemption price and any accrued interest on the such Bonds then to be redeemed.

Amounts accumulated in the applicable Account in the Debt Service Fund with respect to any Sinking Fund Installment (together with amounts accumulated therein with respect to interest on the Bonds for which such Sinking Fund Installment was established) may, and if so directed in writing by an Authorized NCPA Representative shall, be applied by the Trustee, on or prior to the 60th day preceding the due date of such Sinking Fund Installment, to (i) the purchase of Bonds of the Series and maturity for which such Sinking Fund Installment was established, or (ii) the redemption at the applicable sinking fund redemption price of such Bonds, if then redeemable by their terms. All purchases of any Bonds pursuant to this paragraph shall be made at prices not exceeding the applicable sinking fund redemption price of such Bonds plus accrued interest, and such purchases shall be made by the Trustee as directed by NCPA. The applicable sinking fund redemption price (or principal of maturing Bonds) of any Bonds so purchased or redeemed shall be deemed to constitute part of the applicable Account in the Debt Service

Fund until such Sinking Fund Installment due date, for the purpose of calculating the amount in such Account.

If directed in writing by an Authorized NCPA Representative on or prior to the 45th day next preceding any Sinking Fund Installment due date for a Series and maturity of the Bonds, there shall be applied as a credit against such Sinking Fund Installment, and there shall be deemed to constitute part of the Account in the Debt Service Fund related to such Bonds for the period commencing eleven months from such Sinking Fund Installment due date until such Sinking Fund Installment due date for the purpose of calculating the amount of such Fund, the principal amount of any Bonds of the Series and maturity for which such Sinking Fund Installment was established which have been purchased or redeemed and cancelled or delivered to the Trustee for cancellation on or prior to the 45th day next preceding such Sinking Fund Installment due date and not previously applied as a credit against a Sinking Fund Installment.

No later than the 30th day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption on such due date, by giving notice as provided in the Indenture, Bonds of the maturity for which such Sinking Fund Installment was established (except in the case of Bonds maturing on a Sinking Fund Installment due date) in such amount as shall be necessary to complete the retirement of Bonds in an amount equal to the unsatisfied balance of such Sinking Fund Installment. The Trustee shall pay out of the Debt Service Fund on such redemption date (or maturity date), the amount required for the redemption of the Bonds so called for redemption (or for the payment of the Bonds then maturing).

The amount, if any, deposited in each applicable Account in the Debt Service Fund from the proceeds of Bonds for the purpose of paying interest on Bonds shall be set aside in such Fund and applied to the payment of interest on Bonds as provided in the Indenture or in any Supplemental Indenture.

In the event of the refunding of one or more Bonds (or portions thereof), the Trustee shall, upon the written direction of an Authorized NCPA Representative, withdraw from the applicable Account or Accounts in the Debt Service Fund amounts accumulated therein with respect to Debt Service on the Bonds being refunded and deposit such amounts with itself as Trustee to be held for the payment of the principal or redemption price, as applicable, of, and interest on, the Bonds (or portions thereof) being refunded; provided, that such withdrawal shall not be made unless (i) immediately thereafter the Bonds (or portions thereof) being refunded shall be deemed to have been paid pursuant to the Indenture, and (ii) the amount remaining in such applicable Account or Accounts in the Debt Service Fund after such withdrawal shall not be less than the requirement of such Account or Accounts.

Any provision of the Indenture to the contrary notwithstanding, so long as there shall be held in an Account in the Debt Service Fund an amount sufficient to pay in full the Bonds related to such Account in accordance with their terms (including principal or applicable sinking fund redemption price and interest thereon), no deposits shall be required to be made into such Account in the Debt Service Fund.

Application of Debt Service Reserve Fund

(a) If on the last Business Day of any month the amount in an Account in the Debt Service Fund shall be less than the amount required to be in such Account pursuant to the Indenture with respect to the related Bonds, the Trustee shall apply amounts from the related Account in the Debt Service Reserve Fund to the extent necessary to make good the deficiency.

(b) Except as provided in paragraph (e) below, whenever the moneys on deposit in an Account in the Debt Service Reserve Fund shall exceed the applicable Debt Service Reserve Requirement, such excess shall be applied to the reimbursement of each drawing on a Financial Guaranty related to such Account and to the payment of interest or other amounts due with respect to such a Financial Guaranty to the extent payable from such Account and any remaining moneys shall be deposited in the Indenture Group B Revenue Account.

(c) Whenever the amount in an Account in the Debt Service Reserve Fund (excluding Financial Guaranties), together with the amount in the related Account in the Debt Service Fund and available for such purposes, is sufficient to pay in full all Outstanding Bonds related to such Accounts in accordance with their terms (including principal or applicable sinking fund redemption price and interest thereon), the funds on deposit in such Account in the Debt Service Reserve Fund shall be transferred to the related Account in the Debt Service Fund and applied to the payment or redemption of the related Bonds.

(d) In the event of the refunding of a Bond or Bonds (or portions thereof), the Trustee shall, upon the written direction of an Authorized NCPA Representative, withdraw from the Account in the Debt Service Reserve Fund relating to the Bond or Bonds (or portions thereof) being refunded any or all of the amounts on deposit therein (excluding Financial Guarantees) and deposit such amounts with itself as Trustee to be held for the payment of the principal or redemption price, as applicable, of, and interest on, such Bond or Bonds (or portions thereof) being refunded; provided, that such withdrawal shall not be made unless (i) immediately thereafter the Bond or Bonds (or portions thereof) being refunded shall be deemed to have been paid pursuant to the Indenture, and (ii) the amount remaining in the related Account in the Debt Service Reserve Fund after such withdrawal, taking into account any deposits to be made to such Account in connection with such refunding, shall not be less than the applicable Debt Service Reserve Requirement for such Account.

(e) In lieu of the deposits and transfers to any Account in the Debt Service Reserve Fund required by the Indenture, NCPA may cause to be deposited in any Account in the Debt Service Reserve Fund a Financial Guaranty or Financial Guaranties with procedural terms satisfactory to the Trustee in an amount equal to the difference between the applicable Debt Service Reserve Requirement and the funds, if any, then on deposit in such Account or being deposited in such Account concurrently with such Financial Guaranty or Guaranties.

No deposit of a Financial Guaranty shall be made in any Account in the Debt Service Reserve Fund pursuant to the Indenture unless the Trustee shall have received prior to such deposit (i) an opinion of counsel to the effect that such Financial Guaranty has been duly authorized, executed and delivered by the issuer thereof and is valid, binding and enforceable in accordance with its terms and (ii) in the event such issuer is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to NCPA and the Trustee that such Financial Guaranty has been duly authorized, executed and delivered by the issuer thereof and is valid, binding and enforceable in accordance with its terms under the applicable foreign law; provided that such opinion (a) may take exception for limitations imposed by or resulting from bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally and (b) need not express any opinion as to the availability of any specific remedy.

For the purposes of the Indenture, in computing the amount on deposit in an Account in the Debt Service Reserve Fund, a letter of credit, a surety bond or an insurance policy shall be valued at the amount available to be drawn or payable thereunder on the date of computation. The Trustee shall draw upon or otherwise take such action as is necessary in accordance with the terms of the Financial Guaranties credited to an Account in the Debt Service Reserve Fund to receive payments with respect to such Financial Guaranties (including the giving of notice as required thereunder): (i) on any date on

which moneys will be required to be withdrawn from the applicable Account in the Debt Service Reserve Fund and applied to the payment of a Principal Installment or redemption price of, or interest on, any Bonds secured by such Account and such withdrawal cannot be met by amounts on deposit in the related Account in the Debt Service Reserve Fund; (ii) unless a Financial Guaranty expires on the final maturity date for the then Outstanding Bonds secured by the Account in the Debt Service Reserve Fund to which such Financial Guaranty is credited, on the first Business Day which is at least thirty (30) days prior to the expiration date of each Financial Guaranty, in an amount equal to the deficiency which would exist in the Account in the Debt Service Reserve Fund to which such Financial Guaranty is credited if the Financial Guaranty expired, unless a substitute Financial Guaranty with an expiration date not earlier than 180 days after the expiration date of the expiring Financial Guaranty is acquired prior to such date or NCPA deposits funds in the related Account in the Debt Service Reserve Fund, on or before such date, such that the amount in the related Account in the Debt Service Reserve Fund on such date (without regard to such expiring Financial Guaranty) is at least equal to the applicable Debt Service Reserve Requirement.

If at any time a Financial Guaranty is delivered pursuant to the Indenture there shall be any amount in the applicable Account in the Debt Service Reserve Fund in excess of the applicable Debt Service Reserve Requirement, such excess amount may be applied to the cost of acquiring such Financial Guaranty and, to the extent not so applied, shall be transferred to the applicable Account in the Debt Service Fund and applied as directed in writing by an Authorized NCPA Representative.

Application of Subsidy Contingency Fund

NCPA shall file (or cause to be filed) with the Trustee a copy of each completed Form 8038-CP (Return for Credit Payments to Issuers of Qualified Bonds), or the then-current form designated by the U.S. Treasury, filed by or on behalf of NCPA setting forth the amount of the Subsidy payable by the U.S. Treasury with respect to each Interest Payment Date on the Issue Two 2010 Series B Bonds. The Trustee will not be responsible for filing the Form 8038-CP (or any successor form) with respect to any Interest Payment Date on the Issue Two 2010 Series B Bonds.

If on any Interest Payment Date, the Subsidy for such Interest Payment Date shall not have been received by the Trustee, the Trustee shall transfer amounts from the Subsidy Contingency Fund equal to the expected amount of the Subsidy payment that had not been received to the Issue Two 2010 Series B Debt Service Account in the Debt Service Fund. If the Subsidy for such Interest Payment Date is subsequently received, the Trustee shall deposit the Subsidy directly into the Subsidy Contingency Fund to the extent of any deficiency therein, otherwise the Subsidy amount (or portion thereof) shall be deposited into the Issue Two 2010 Series B Debt Service Account.

Whenever the moneys on deposit in the Subsidy Contingency Fund shall exceed the Subsidy Contingency Requirement, such excess shall be deposited in the Indenture Group B Revenue Account.

Application of Rebate Fund

Amounts on deposit in the Rebate Fund shall be applied as provided in the Tax Certificate and in the Indenture under the caption entitled "Particular Covenants of NCPA – Tax Matters."

Investment of Certain Funds

Moneys held in the Debt Service Fund shall be invested and reinvested by the Trustee to the fullest extent practicable in securities described in clauses (1), (2), (3), or (9) of the definition of "Investment Securities" in the Indenture which mature not later than such times as shall be necessary to provide moneys when reasonably expected to be needed for payments to be made from such Fund.

Moneys held in the Debt Service Reserve Fund and the Subsidy Contingency Fund shall be invested and reinvested by the Trustee to the fullest extent practicable in securities described in clauses (1), (2), (3), or (9) of the definition of "Investment Securities" in the Indenture which mature or which may be drawn upon not later than such times as shall be necessary to provide moneys when reasonably expected to be needed for payments to be made from such Fund, but in any event not later than five years from the time of such investment except that the maturity of any security described in clause (9) of the definition of Investment Securities in the Indenture may mature not later than thirty years from the time of such investment. Moneys held in the Construction Fund and in the Cost of Issuance Fund may be invested and reinvested in Investment Securities which mature or which may be drawn upon not later than such times as shall be necessary to provide moneys when reasonably expected to be needed for payments to be made from such Funds. The Trustee shall make all such investments of moneys held by it and shall sell or otherwise liquidate any such investment and take all actions necessary to draw funds under any such investment, including the giving of necessary notices of the drawing of any moneys under any investment in securities described in clause (9) of the definition of "Investment Securities" in the Indenture, in each case in accordance with directions of an Authorized NCPA Representative, which directions shall be consistent with the Indenture and applicable law, and which directions can either be written or oral; provided, that if such directions are oral they shall be promptly confirmed in writing by such Authorized NCPA Representative.

Except as otherwise provided in Rebate Instructions, interest or other income (net of that which (i) represents a return of accrued interest paid in connection with the purchase of any investment or (ii) is required to effect the amortization of any premium paid in connection with the purchase of any investment) earned on any moneys or investments in the Funds and Accounts created under the Indenture shall be paid into the Debt Service Fund and applied as directed by an Authorized NCPA Representative; provided, that: (i) all such interest or other income earned on any moneys or investments in an Account in the Construction Fund shall be credited to such Account; (ii) all such interest or other income earned on any moneys or investments in the Debt Service Reserve Fund and the Subsidy Contingency Fund shall be applied to the Issue Two Series B Account of the Construction Fund, on or before the later of (a) June 1, 2012 or (b) the date on which NCPA provides the Trustee a certificate or certificates signed by an Authorized NCPA Representative evidencing completion of the construction of the Initial Facilities and any Capital Improvement, and after such date, (iii) all such interest or other income earned on any moneys or investments in any Fund established pursuant to the Indenture shall be applied as provided in the Indenture; and (iv) all such interest or other income earned on moneys in the Rebate Fund shall be applied as provided in the Indenture.

In making any investment in any Investment Securities with moneys in any Fund established under the Indenture, NCPA and the Trustee may combine such moneys with moneys in any other Fund or Account but solely for the purposes of making such investment in such Investment Securities and provided that any amount so combined shall be separately accounted for.

Nothing in the Indenture shall prevent any Investment Securities acquired as investments of moneys in any Fund or Account from being issued or held in book-entry form on the books of the Department of the Treasury or the Federal Reserve System of the United States of America.

Covenants

Payment of Bonds. NCPA shall duly and punctually pay or cause to be paid, but solely from the sources pledged therefor, the principal or redemption price, if applicable, of every Bond, and the interest thereon, at the dates and places and in the manner mentioned in the Bonds according to the true intent and meaning thereof.

Extension of Payment of Bonds. NCPA shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds, or the time of payment of any claims for interest on any Bonds, by the purchase or funding of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds, or the time for payment of any claims for interest on any Bonds, shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefit of the Indenture or to any payment out of the Trust Estate except subject to the prior payment of (a) the principal of all Bonds Outstanding the maturity of which has not been extended, and (b) such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest.

Offices for Servicing Bonds. NCPA shall at all times maintain one or more agencies where Bonds may be presented for payment and shall at all times maintain one or more agencies where Bonds may be presented for registration, transfer or exchange, and where notices, demands and other documents may be served upon NCPA in respect of the Bonds or the Indenture. NCPA appoints the Trustee as the party for the service upon NCPA of such notices, demands and other documents. The Trustee shall continuously maintain or make arrangements to provide such services.

Further Assurance. At any and all times NCPA shall, as far as it may be authorized by law, comply with any reasonable request of the Trustee to pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, pledging, assigning and confirming in all and singular the pledge of the Trust Estate hereunder.

Power to Issue Bonds and to Pledge Trust Estate. NCPA represents and warrants that it is duly authorized under all applicable laws to create and issue the Bonds, to enter into the Indenture, to pledge the Trust Estate as security for the payment of the Bonds in the manner and to the extent provided by such pledge and all action on the part of NCPA to that end has been duly and validly taken. The Bonds and the provisions of the Indenture are and shall be the valid and legally enforceable obligations of NCPA in accordance with their terms and the terms of the Indenture. NCPA shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Trust Estate and all the rights of the Owners of the Bonds under the Indenture against all claims and demands of all persons whomsoever.

Power to Establish Charges and Collect Amounts. NCPA has, and shall have as long as any Bonds are Outstanding, good right and lawful power to establish charges and cause to be collected amounts with respect to the Project, subject only to the terms of the Power Sales Agreement.

Creation of Liens on Trust Estate. NCPA shall not issue any bonds, notes, debentures, or other evidences of indebtedness or incur any payment obligations, payable out of or secured by a pledge or assignment of the Trust Estate or any portion thereof nor shall it create or cause to be created any lien or charge on the Trust Estate or any portion thereof prior to or, except for the Bonds with respect to the entire Trust Estate and Parity Debt with respect to the Pledged Power Sale Agreement Rights, on a parity with the lien of the pledge made pursuant to the Indenture; provided, however, that nothing contained in the Indenture shall prevent NCPA from issuing, if and to the extent permitted by law, bonds, notes, or other evidences of indebtedness payable out of, or secured by a pledge of, the Pledged Power Sales Agreement Rights to be derived on and after such date as the pledge of the Pledged Power Sales Agreement Rights made pursuant to the Indenture shall be discharged and satisfied as provided in the Indenture or payable from and secured by a pledge of Pledged Power Sales Agreement Rights on a basis which shall be, and shall be expressed to be, in all respects junior and subordinate in all respects to the payment of amounts then due with respect to the Bonds or otherwise payable under the Indenture and to the pledge and lien made pursuant to the Indenture as security for the Bonds.

Nothing in the Indenture shall be deemed to limit NCPA's right to acquire, construct or finance through the issuance of its bonds, notes or other evidences of indebtedness any facilities which constitute a part of the Project to provide for the Indenture Group A Participants' GES of the Costs of Construction of the Project or Indenture Group C Participant's GES of the Costs of Construction of the any Additional Costs of the Initial Facilities or any Financed Capital Improvement. Nothing in the Indenture shall be deemed to limit NCPA's right to acquire, construct or finance through the issuance of its bonds, notes or other evidences of indebtedness any facilities which do not constitute a part of the Project and may secure such bonds, notes or other evidences of indebtedness by a mortgage of the facilities so financed or by a pledge of, or lien on, the revenues therefrom or any lease or other agreement with respect thereto or any revenues derived from such lease or other agreement; provided that such bonds, notes or other evidences of indebtedness shall not be payable out of or secured by the Trust Estate and neither the cost of such facilities nor any expenditure in connection therewith or with the financing thereof shall be payable from the Trust Estate.

Sale of Interest in the Project. So long as any Bonds remain Outstanding, and except as provided in the Indenture, NCPA shall not sell, lease, or otherwise dispose of its interest in the Project or any portion thereof.

Operation and Maintenance of the Project. Subject to the terms of the Power Sales Agreement, NCPA shall at all times maintain and preserve, or cause to be maintained and preserved, the Project and all buildings, facilities and equipment constituting any part of the Project in conformity with Prudent Utility Practice with respect to facilities of like size and character. Subject to the terms of the Power Sales Agreement, NCPA shall from time to time make, or cause to be made, all necessary and proper repairs, renewals, replacements and substitutions to the properties of the Project, so that at all times business carried on in connection with the Project shall and can be properly and advantageously conducted in an efficient manner and at reasonable cost, and shall operate the Project in an efficient and economical manner, consistent with the protection of the Owners of the Bonds and shall not commit or allow any waste with respect to the Project; provided, however, that any real or personal property included in the Project which has become nonoperative or which is not needed for the efficient and proper operation of the Project, or any material or equipment which has worn out or become obsolete, may be sold, leased or otherwise disposed of by NCPA.

Charges and Enforcement. NCPA shall at all times establish rates and charges, and cause to be collected amounts in connection with the Project and the Power Sales Agreement, as shall be required to provide Project Revenues in the Revenue Fund at least sufficient in each Fiscal Year, together with other available funds, for the payment of all Operation and Maintenance Expenses, including OandM Step-ups, during such Fiscal Year and the maintenance of the Operating Reserve Fund at the amount required by the Power Sales Agreement. In addition NCPA shall at all times establish rates and charges, and cause to be collected amounts in connection with the Project and the Power Sales Agreement from the Indenture Group B Participant as shall be required to provide Project Net Revenues in the Indenture Group B Revenue Account at least sufficient in each Fiscal Year, together with other available funds, for the payment of all of the following:

(1) Debt Service on the Bonds and payments due with respect to Parity Debt for such Fiscal Year;

(2) (a) The amount, if any, to be paid during such Fiscal Year into each Account in the Debt Service Reserve Fund and in each debt service reserve fund for Parity Debt; and (b) the amount, if any, to be paid during such Fiscal Year into the Subsidy Contingency Fund;

(3) The amounts payable by NCPA as fees, expenses, indemnification and other charges to the Trustee hereunder and to any trustee or custodian for Parity Debt and each other person under or in connection with Parity Debt;

(4) All other amounts payable by NCPA to any person under or in connection with the Indenture or any of the documents or proceedings authorizing or controlling any outstanding Parity Debt; and

(5) All other charges or other amounts payable out of the Indenture Group B Revenue Account during such Fiscal Year.

Power Sales Agreement. NCPA shall receive and forthwith deposit in the appropriate account in the Revenue Fund all amounts payable to it pursuant to the Power Sales Agreement or payable to it pursuant to any other contract related to its interest in the Project or the capacity, energy, use or service of the Indenture Group B Participant's GES in the Project or any part thereof. NCPA shall enforce or cause to be enforced the provisions of the Power Sales Agreement and duly perform its covenants and agreements thereunder. NCPA shall not consent or agree to or permit any rescission of or amendment to, or otherwise take any action under or in connection with, the Power Sales Agreement which shall reduce the aggregate amount of payments required thereunder or which shall in any manner materially impair or materially adversely affect the rights of NCPA thereunder or the rights or security of the Trustee or the Owners of the Bonds; provided, however, nothing in the Indenture shall be construed so as to prohibit any other amendment of the Power Sales Agreement.

Acquisition and Construction of Project. NCPA shall use its best efforts to acquire and construct the Project, or cause the Project to be acquired and constructed, with due diligence and in a sound and economical manner.

Maintenance of Insurance. NCPA shall at all times insure the Project, or cause the Project to be insured, against such risks as are customarily insured against with respect to similar facilities and in such relative amounts as are usually obtained. NCPA shall maintain, or cause to be maintained, insurance or reserves against loss or damage from such hazards and risks to the person and property of others as are usually insured or reserved against by those with rights and interests in projects similar to the Project.

NCPA shall also use its best efforts to maintain or cause to be maintained any additional or other insurance which it shall deem necessary or advisable to protect its interests in the Project and the interests of the Owners of the Bonds.

Any such insurance shall be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to NCPA, or may be in the form of self-insurance by NCPA. NCPA agrees that it will, pursuant to a Supplemental Indenture, establish such fund or funds or reserves as are necessary to provide for its share of any such self-insurance. The Supplemental Indenture establishing such fund or funds or reserves shall set forth the amounts to be included in such fund or funds or reserves, the entity to hold such fund or funds or reserves and any other matters and things relative to such fund or funds or reserves which are not contrary to or inconsistent with the Indenture as theretofore in effect.

Reconstruction; Application of Insurance Proceeds. Subject to the terms of the Power Sales Agreement, if any useful portion of the Project shall be damaged or destroyed, NCPA shall as expeditiously as possible undertake, or cause to be undertaken, and continuously and diligently pursue to completion, or cause to be diligently pursued to completion, the repair, reconstruction or replacement thereof. The proceeds of any insurance payable to NCPA, including the proceeds of any self-insurance fund, paid on account of such damage or destruction (other than any business interruption loss insurance)

shall be paid over to NCPA and held by NCPA in a special account established by the Trustee for such purposes and made available for, and to the extent necessary be applied to, the cost of such repair, reconstruction or replacement. Pending such application, such proceeds shall be invested by NCPA in Investment Securities which mature not later than such times as shall be necessary to provide moneys when reasonably expected to be needed to pay such cost of such repair, reconstruction or replacement. Interest earned on the moneys in such account or such investments shall be deposited into such special account. Unless NCPA is diligently proceeding with the repair, reconstruction or replacement of the damaged or destroyed portion of the Project and delivers to the Trustee a certificate of an Authorized NCPA Representative that NCPA using due diligence requires more time to complete such repair, reconstruction or replacement, the proceeds of any insurance, including the proceeds of any self-insurance fund, not applied within 36 months after receipt thereof by NCPA to the cost of such repair, reconstruction or replacement shall be deposited in the accounts in the Revenue Fund based on the respective Indenture Group Participants' GES. If NCPA shall determine at any time that any such proceeds are not to be applied to the repair, reconstruction or replacement of the damaged or destroyed portion of the Project, such proceeds shall be deposited in the accounts in the Revenue Fund based on the respective Indenture Group Participants' GES.

If the proceeds of insurance, including the proceeds of any self-insurance fund, authorized by the Indenture to be applied to the cost of the repair, reconstruction or replacement of any portion of the Project are insufficient for such purpose, the obligations of NCPA to maintain and preserve the Project pursuant to the Indenture shall nonetheless continue.

The proceeds of business interruption loss insurance, if any, with respect to the Project shall be deposited in the accounts in the Revenue Fund based on the respective Indenture Group Participants' GES.

Accounts and Reports. NCPA shall keep or cause to be kept proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the construction, operation, maintenance and improvement of the Project, each fund and account relating to the Project and held by NCPA and the costs and charges under the Power Sales Agreement and which, together with the Power Sales Agreement and all other books and papers of NCPA, including insurance policies, relating to the Project, shall at all times be subject to the inspection of the Trustee and the Owners of an aggregate of not less than 5% in principal amount of the Bonds then Outstanding or their representatives duly authorized in writing.

NCPA shall annually, within 210 days after the close of each Fiscal Year, cause to be filed with the Trustee, and otherwise as provided by law, a copy of an annual report for such Fiscal Year, accompanied by an Accountant's Certificate, relating to the Project and including the following statements in reasonable detail: a statement of assets and liabilities as of the end of such Fiscal Year, to the extent relating to the Project; and a statement of Project Revenues and Operation and Maintenance Expenses for such Fiscal Year. The Trustee shall not be charged with knowledge of the contents of such annual report and shall not be responsible for the accuracy or sufficiency thereof, it being expressly understood that the Trustee shall hold such annual report solely as a custodian to preserve a record of the transactions contemplated by the Indenture.

NCPA shall file with the Trustee forthwith upon becoming aware of any Event of Default, a certificate of an Authorized NCPA Representative specifying such Event of Default.

The reports and certificates required to be furnished to the Trustee described above shall be available for the inspection of Owners of the Bonds at the Principal Corporate Trust Office of the Trustee and shall be mailed to each Owner of an Outstanding Bond which files a written request therefor with the

Trustee. The Trustee may charge each party requesting such reports or certificates a reasonable fee to cover reproduction, handling and postage.

Payment of Taxes and Charges. NCPA shall from time to time duly pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges, or required payments in lieu thereof, lawfully imposed upon or relating to its interest in the Project or upon the rights, Project Revenues, income, receipts, and other moneys, securities and funds of NCPA relating to the Project or the Power Sales Agreement when the same shall become due (including all rights, moneys and other property transferred, assigned or pledged under the Indenture), and all lawful claims for labor and material and supplies relating to the Project, except those taxes, assessments, charges or claims which NCPA shall in good faith contest by proper legal proceedings if NCPA shall in all such cases have set aside on its books reserves deemed adequate with respect thereto.

Compliance with Applicable Laws and Documents. NCPA shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of NCPA under the provisions of applicable laws of the State of California, the Indenture and the Power Sales Agreement, in each case with respect to the Project, the Trust Estate and the Bonds.

Rights of Indenture Group B Participant. The obligations of each of the Indenture Group B Participant with respect to the Bonds and the Project set forth in the Power Sales Agreement shall not be modified or expanded by any provision of the Indenture. So long as not otherwise provided in the Indenture, NCPA shall be suffered and permitted to carry out its obligations under the Power Sales Agreement.

Tax Matters.

NCPA covenants that it shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the Tax Status of a Bond. NCPA shall not directly or indirectly use or permit the use of any proceeds of the Bonds in such a manner as would adversely affect the Tax Status of a Bond.

NCPA shall not directly or indirectly use or permit the use of any proceeds of any Bonds, or of any facilities financed thereby, or other funds of NCPA, or take or omit to take any action, that would cause any Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code.

If NCPA shall provide to the Trustee an Opinion of Bond Counsel that any specified action required under the provisions of the Indenture under the caption "Particular Covenants of NCPA − Tax Matters," is no longer required, or that some further or different action is required, to maintain the Tax Status of the Bonds, the Trustee and NCPA may conclusively rely on such opinion in complying with the requirements of the provisions of the Indenture under the caption "Particular Covenants of NCPA − Tax Matters," and the covenants thereunder shall be deemed to be modified to that extent.

Continuing Disclosure. NCPA shall comply with the Issue Two 2010 Continuing Disclosure Agreement as it may from time to time hereafter be amended or supplemented. Notwithstanding any other provision of the Indenture, failure by NCPA to comply with the requirements of the Issue Two 2010 Continuing Disclosure Agreement, or any continuing disclosure agreement relating to any other Series of Bonds, as the same may from time to time be amended or supplemented, shall not be considered an Event of Default and the Trustee shall have no right to accelerate amounts due under the Indenture as a result thereof; provided, however, that the Trustee and the Owners of not less than 25% in principal amount of the Outstanding Issue Two 2010 Series A Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause NCPA to comply

with its obligations in the Indenture with respect to the Issue Two 2010 Continuing Disclosure Agreement or each other continuing disclosure agreement relating to any other Series of Bonds.

Events of Default

Each of the following shall constitute an Event of Default under the Indenture:

(i) if default shall be made in the due and punctual payment of the principal or redemption price of any Outstanding Bond or any outstanding Parity Debt, when and as the same shall become due and payable, whether at maturity, by call for redemption, or otherwise;

(ii) if default shall be made in the due and punctual payment of any installment of interest on any Outstanding Bond or any outstanding Parity Debt, or the unsatisfied balance of any Sinking Fund Installment, when and as the same shall become due and payable;

(iii) if default shall be made by NCPA in the performance or observance of any other of the covenants, agreements or conditions on its part in the Indenture or in the Outstanding Bonds contained, and such default shall continue for a period of 120 days after written notice thereof to NCPA by the Trustee or to NCPA and to the Trustee by the Owners of not less than 10% in principal amount of the Bonds Outstanding; or

(iv) if an event of default shall occur in the performance or observance of any of the covenants, agreements or conditions on NCPA's part contained in or any of the documents or proceedings authorizing or controlling any outstanding Parity Debt (other than a payment obligation included in clauses (i) or (ii) above), and such default shall continue for any grace period provided in such documents or Parity Debt; or

(v) an order or decree, by a court having jurisdiction in the premises, for relief against NCPA in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of NCPA or of any substantial part of the property of NCPA shall be appointed or an order for the winding up or liquidation of the affairs of NCPA shall be entered; or a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall be instituted by NCPA or NCPA shall give its consent to the entry of an order for relief against it in any involuntary case under any such law, or to the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of NCPA or of any substantial part of the property of NCPA, or the making by NCPA of an assignment for the benefit of creditors, or the failure of NCPA generally to pay its debts as they become due, or the admission by NCPA in writing of such failure, or the taking of any action by NCPA in furtherance of any such action, or if a receiver of the business or of the property or assets of NCPA shall be appointed by any court.

Accounting and Examination of Records After Default

NCPA covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and accounts of NCPA and all other records relating to the Project and the Power Sales Agreement shall at all times be subject to the inspection and use of the Trustee and of its agents and attorneys.

NCPA covenants that if an Event of Default shall have happened and shall not have been remedied, NCPA, upon demand of the Trustee, shall account, as if it were the trustee of an express trust,

for all Project Revenues relating to Indenture Group B and the moneys, securities and funds held by NCPA under the Power Sales Agreement or the Indenture for such period as shall be stated in such demand.

Notice of Default

The Trustee shall, within thirty (30) days after obtaining knowledge thereof, mail written notice of the occurrence of any Event of Default of which the Trustee has knowledge to each Owner of Bonds then Outstanding at such Owner's address, if any, appearing in the Bond Register.

Right to Accelerate Upon Default. Upon the occurrence of an Event of Default, the Trustee may, and shall at the direction of the Owners of a majority in principal amount of Outstanding Bonds, by written notice to NCPA, declare the principal of the Outstanding Bonds to be immediately due and payable, whereupon the principal of the Outstanding Bonds and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable; provided, however, that if and for so long as the Indenture Group B Participant is in compliance with all of its payment obligations under the Power Sales Agreement, no such declaration or acceleration shall be permitted.

Appointment of Receiver. If an Event of Default shall happen and shall not have been remedied, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Owners of the Bonds under the Indenture, the Trustee shall be entitled to make application for the appointment of a receiver or custodian of NCPA's interest in the Project, the Power Sales Agreement and the Project Revenues included in the Trust Estate, pending such proceedings, with such power as the court making such appointment shall confer.

Enforcement Proceedings. If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon the written request of the Owners of not less than a majority in principal amount of the Bonds at the time Outstanding shall proceed, to protect and enforce its rights and the rights of the Owners of the Outstanding Bonds by a suit or suits in equity or at law, whether for damages or the specific performance of any covenant contained in the Indenture, or in aid of the execution of any power granted in the Indenture or any remedy granted under applicable provisions of the laws of the State of California, or for an accounting by NCPA as if NCPA were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture. The Trustee shall have the right to initiate and maintain suit to enforce the Power Sales Agreement with respect to NCPA's interest in the Project, the Power Sales Agreement and the Project Revenues included in the Trust Estate.

The Owners of not less than a majority in principal amount of the Bonds at the time Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, provided that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Owners of the Bonds not parties to such direction.

Upon commencing a suit in equity or upon other commencement of judicial proceedings by the Trustee to enforce any right under the Indenture, the Trustee shall be entitled to exercise any and all rights and powers conferred in the Indenture and provided to be exercised by the Trustee upon the occurrence of any Event of Default.

Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the Owners of a majority in principal amount of the Bonds then Outstanding and furnished with reasonable security and indemnity, shall be under no obligation to, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under the Indenture by any acts which may be unlawful or in violation of the Indenture, and such suits and proceedings as the Trustee may be advised shall be necessary or expedient to preserve or protect its interests and the interests of the Owners of the Bonds.

Restriction on Owner's Action

Except as otherwise provided in the following paragraph, no Owner of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Indenture or the execution of any trust under the Indenture or for any remedy under the Indenture unless such Owner shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in the Indenture, and the Owners of at least 25% in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity, either to exercise the powers granted in the Indenture or by the applicable laws of the State of California or to institute such action, suit or proceeding in its own name, and unless such Owners shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by the Indenture, or to enforce any right under the Indenture, except in the manner therein provided; and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the ratable benefit of all Owners of the Outstanding Bonds, subject only to the provisions of the Indenture.

Nothing in the Indenture or in the Bonds contained shall affect or impair the obligation of NCPA, which is absolute and unconditional, to pay on the respective due dates thereof and at the places therein expressed, but solely from the amounts available from the Trust Estate, the principal amount, or redemption price if applicable, of the Bonds, and the interest thereon, to the respective Owners thereof, or affect or impair the right, which is also absolute and unconditional, of any Owner to institute suit for the enforcement of any such payment.

Trustee

The Trustee shall be deemed to have accepted only the duties and obligations imposed on it by the Indenture, but only, however, upon the terms and conditions set forth in the Indenture and no implied covenants shall be read into the Indenture against the Trustee.

In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property shall be appointed, or if any public officer shall take charge or control of the Trustee or of its property or affairs, a successor may be appointed by the Owners of a majority in principal amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of NCPA, by an instrument or concurrent instruments in writing signed and acknowledged by such Owners of the Bonds or by their attorneys-in-fact duly authorized and delivered to such successor Trustee, notification thereof being given to NCPA and the predecessor Trustee; provided, nevertheless, that unless a successor Trustee shall have been appointed by the Owners of the Bonds as aforesaid, NCPA, by a duly executed written instrument signed by an Authorized NCPA Representative, shall forthwith appoint a

Trustee to replace such resigning Trustee or to fill such vacancy until a successor Trustee shall be appointed by the Owners of the Bonds as authorized in the Indenture. Any successor Trustee appointed by NCPA shall, immediately and without further act, be superseded by the Trustee appointed by the Owners of the Bonds.

If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of the Indenture within 45 days after the Trustee shall have given to NCPA written notice as provided in the Indenture or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, removal, or for any other reason whatsoever, the Trustee (in the case of its resignation under the Indenture) or the Owner of any Bond (in any case) may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Trustee.

The Trustee appointed under the provisions of the Indenture or any successor to the Trustee shall be a bank or trust company organized under the laws of any state of the United States or national banking association, in good standing under the laws of the place of its incorporation, doing business and having its Principal Corporate Trust Office in New York, New York, or Chicago, Illinois, or Los Angeles, California, or San Francisco, California, duly authorized to exercise trust powers and subject to examination by federal or state authority. Each successor trustee shall have capital stock and surplus aggregating at least $500,000,000, or have all of its obligations under the Indenture guaranteed by a bank or trust company organized under the laws of the United States, or any state thereof, with a capital stock and surplus or net worth of at least $500,000,000. If such bank, national banking association, or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority, then for the purposes of the Indenture the combined capital and surplus of such bank, trust company, or national banking association shall be deemed to be its combined capital and surplus set forth in its most recent report of condition so published.

Amendments and Supplemental Indentures

The Indenture and the rights and obligations of NCPA and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture or Indentures, which NCPA and the Trustee may enter into with the written consent of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with the Trustee or if less than all of the Outstanding Bonds are affected, the written consent of the Owners of at least a majority in aggregate principal amount of all affected Bonds; provided that if such modification or amendment shall, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any such calculation of Bonds Outstanding under the Indenture. No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the principal amount or redemption price thereof, or reduce the amount of any Sinking Fund Installment therefor, or reduce the rate of interest thereon or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected; or (2) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any other lien on the Trust Estate, or deprive the Owners of the Bonds of the lien of the pledge made pursuant to the Indenture on the Trust Estate (except in each case as expressly provided in the Indenture), in each case without the consent of the Owners of all of the Bonds then Outstanding.

The Indenture and the rights and obligations of NCPA, the Trustee and the Owners of the Bonds may also be modified or amended in any respect from time to time and at any time by a Supplemental Indenture or Supplemental Indentures, which NCPA and the Trustee may enter into without the consent

of any Owner of Bonds, but only to (A) provide for the issuance of Future Bonds or (B) to the extent permitted by law and, so long as such modification or amendment shall not materially, adversely affect the interests of the Owners of the Bonds.

Defeasance

(a) If NCPA shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Bonds the principal amount or redemption price, as applicable, of the Bonds, and interest due or to become due on the Bonds, at the times and in the manner stipulated therein and in the Indenture, then the pledge of the Trust Estate under the Indenture and all covenants, agreements and other obligations of NCPA to the Owners (other than the covenants set forth in the Indenture), shall thereupon cease, terminate and become void and be discharged and satisfied.

(b) Bonds, or interest installments on Bonds, for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustees (through deposit pursuant to the Indenture of funds for such payment or redemption or otherwise) at the maturity, redemption date, or interest payment date thereof, as applicable, shall be deemed to have been paid within the meaning and with the effect expressed in paragraph (a) above. Any Outstanding Bond (or any portion thereof in an Authorized Denomination) shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in paragraph (a) above (except that the obligations under the Indenture with respect to the payment of the principal amount of the Bonds and the interest on the Bonds from the sources provided, the transfer and exchange Bonds and to giving the notices of the redemption of Bonds to be redeemed as provided in the Indenture shall continue) if (1) in case said Bond (or portion thereof) is to be redeemed on any date prior to maturity, NCPA shall have given to the Trustee irrevocable instructions to give notice of redemption of such Bond (or portion thereof) on said date as provided in the Indenture, (2) there shall have been deposited with the Trustee either moneys (including moneys withdrawn and deposited pursuant to the Indenture) in an amount which shall be sufficient, or Defeasance Securities the principal of and the interest on which when due shall provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, in each case as evidenced by an Accountant's Certificate, to pay when due the principal amount or redemption price, as applicable, of said Bond (or portion thereof) and interest due and to become due on said Bond (or portion thereof) on and prior to the redemption date or maturity date thereof, as the case may be, and (3) if such Bond (or portion thereof) is not to be paid or redeemed within 60 days of the date of the deposit required by (2) above, NCPA shall have given the Trustee in form satisfactory to it irrevocable instructions to mail, as soon as practicable, by first class mail, postage prepaid, to the Owner of such Bond, at the last address, if any, appearing upon the Bond Register, a notice that the deposit required by (2) above has been made with the Trustee and that said Bond (or the applicable portion thereof) is deemed to have been paid in accordance with the Indenture and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal amount or redemption price, as applicable, of said Bond. Any notice given pursuant to clause (3) above with respect to Bonds which constitute less than all of the Outstanding Bonds of any Series and maturity shall specify the letter and number or other distinguishing mark of each such Bond. Any notice given pursuant to clause (3) above with respect to less than the full principal amount of a Bond shall specify the principal amount of such Bond which shall be deemed paid pursuant to the Indenture and notify the Owner of such Bond that such Bond must be surrendered. The receipt of any notice required by the Indenture shall not be a condition precedent to the payment of Bonds in accordance with the Indenture and the failure of any Owner to receive any such notice shall not affect the validity of the proceedings for the payment of Bonds in accordance with the Indenture. Neither Defeasance Securities nor moneys deposited with the Trustee pursuant to the Indenture nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal amount or redemption price, as applicable, of said Bonds and the interest thereon; provided that any cash

received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, (A) to the extent such cash shall not be required at any time for such purpose, as evidenced by an Accountant's Certificate, shall be paid over upon the written direction of an Authorized NCPA Representative as received by the Trustee, free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under the Indenture, and (B) to the extent such cash shall be required for such purpose at a later date, shall, to the extent practicable, at the written direction of an Authorized NCPA Representative, be reinvested in Defeasance Securities maturing at times and in amounts sufficient, together with the other moneys to be held by the Trustee for such purpose, as evidenced by an Accountant's Certificate, to pay when due the principal amount or redemption price, as applicable, of said Bonds and the interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over as received by the Trustee, free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under the Indenture.

Nothing in the Indenture shall prevent NCPA from substituting for the Defeasance Securities held for the payment or redemption of Bonds (or portions thereof) other Defeasance Securities which, together with the moneys held by the Trustee for such purpose, as evidenced by an Accountant's Certificate, shall be sufficient to pay when due the principal amount or redemption price, as applicable, of the Bonds (or portions thereof) to be paid or redeemed, and the interest due and to become due on such Bonds (or portions thereof) at the times established with the initial deposit of Defeasance Securities for such purpose provided that NCPA shall deliver to the Trustee an Opinion of Bond Counsel to the effect that such substitution will not adversely affect the Tax Status of any Bonds.

(c) Anything in the Indenture to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of any of the Bonds which remain unclaimed for two years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee at such date shall, at the written request of an Authorized NCPA Representative be repaid by the Trustee to NCPA, as its absolute property and free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under the Indenture, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners of such Bonds shall look only to NCPA for the payment of such Bonds; provided, however, that before being required to make any such payment to NCPA the Trustee shall, at the expense of NCPA, mail, postage prepaid to the Owners of such Bonds, at the last address, if any, appearing upon the Bond Register a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the mailing of such notice, the balance of such moneys then unclaimed shall be returned to NCPA.

(d) If there shall be deemed paid pursuant to paragraph (b) above less than all of the full principal amount of a Bond, NCPA shall execute and the Trustee shall authenticate and the Trustee shall deliver, upon the surrender of such Bond, without charge to the Owner of such Bond, a new Bond or Bonds for the principal amount of the Bond so surrendered which is deemed paid pursuant to paragraph (b) above and another new Bond or Bonds for the balance of the principal amount of the Bond so surrendered, in each case of like Series, maturity and terms in any of the Authorized Denominations.

Moneys Held for Particular Bonds

Except as otherwise provided in the Indenture, the amounts held by the Trustee for the payment of the interest, principal or redemption price due on any date with respect to particular Bonds shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Bonds entitled thereto. Any amount held in an Account in the Debt Service Fund or the Debt Service Reserve Fund shall be considered moneys held for the particular Bonds related to such

Accounts. The Trustee shall not be liable to any Owner, NCPA or any other person for interest on amounts so held in trust.

APPENDIX F

PROPOSED FORMS OF CONTINUING DISCLOSURE AGREEMENTS

CONTINUING DISCLOSURE AGREEMENT BY AND BETWEEN THE NORTHERN CALIFORNIA POWER AGENCY AND U. S. BANK NATIONAL ASSOCIATION

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated June 24, 2010, is executed and delivered by the Northern California Power Agency and U.S. Bank National Association, as trustee (the "Trustee") in connection with the issuance by Northern California Power Agency ("NCPA") of its Lodi Energy Center Revenue Bonds, Issue Two, 2010 Series A (the "Issue Two 2010 Series A Bonds") and Lodi Energy Center Revenue Bonds, Issue Two, 2010 Series B (the "Issue Two 2010 Series B Bonds" and together with the Issue Two 2010 Series A Bonds, the "Issue Two 2010 Series Bonds"). The Issue Two 2010 Series Bonds were issued pursuant to an Indenture of Trust, dated as of June 1, 2010 (the "Indenture"), by and between NCPA and the Trustee. NCPA and the Trustee covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by NCPA and the Trustee for the benefit of the Bondholders and Beneficial Owners of the Issue Two 2010 Series Bonds and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report with respect to the Issue Two 2010 Series Bonds provided by NCPA pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person who has or shares the power, directly or indirectly, to make investment decisions regarding ownership of any Issue Two 2010 Series Bonds (including without limitation persons holding Issue Two 2010 Series Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the Chairman, General Manager, Interim General Manager, or the Assistant General Manager of NCPA or his or her designee, or such other officer or employee as NCPA shall designate in writing to the Trustee from time to time.

"Dissemination Agent" shall mean the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by NCPA and which has filed with the Trustee a written acceptance of such designation.

"EMMA System" means the MSRB's Electronic Municipal Market Access System or such other electronic system designated by the MSRB.

"MSRB" means the Municipal Securities Rulemaking Board, or any successor thereto.

"Participating Underwriters" shall mean the original underwriters of the Issue Two 2010 Series Bonds required to comply with the Rule in connection with the offering of the Issue Two 2010 Series Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports. (a) With respect to the Issue Two 2010 Series Bonds, NCPA shall, or shall cause the Dissemination Agent to, not later than 210 days after the end of each fiscal year of NCPA (which presently ends on June 30), commencing with the report for the Fiscal Year ending June 30, 2010, provide to the MSRB through the EMMA System, in an electronic format and accompanied by identifying information all as prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided, that the audited financial statements of NCPA may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the fiscal year changes for NCPA, NCPA shall give notice of such change in the manner provided under Section 5 hereof.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, NCPA shall provide its Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Trustee has not received a copy of the Annual Report from NCPA, the Trustee shall contact NCPA and the Dissemination Agent to determine if NCPA is in compliance with this subsection (b).

(c) If the Trustee is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a) of this Section, the Trustee shall send a notice to the MSRB through the EMMA System in substantially the form attached hereto as Exhibit A.

(d) The Dissemination Agent shall file a report with NCPA and the Trustee (if the Dissemination Agent is not the Trustee) certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

SECTION 4. Content of Annual Reports. NCPA's Annual Report shall contain or include by reference the following:

(a) A summary of the peak generating capability of the Project for the prior Fiscal Year;

(b) A summary of the average generating capability of the Project for the prior Fiscal Year;

(c) A summary of total energy generated with respect to the Project for the prior Fiscal Year; and

(d) The audited financial statements of NCPA for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles for governmental enterprises as prescribed from time to time by any regulatory body with jurisdiction over NCPA and by the Governmental Accounting Standards Board. If NCPA's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the audited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of NCPA or public entities related thereto, which have been submitted to the MSRB through the EMMA System. If the document included by reference is a final official statement, it must be available from the MSRB. NCPA shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events. (a) Pursuant to the provisions of this Section 5, NCPA shall give, or cause to be give, notice of occurrence of any of the following events (each a "Listed Event") with respect to the Issue Two 2010 Series Bonds, if material:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) modifications to rights of Bondholders;

(iv) optional, contingent or unscheduled bond calls;

(v) defeasances;

(vi) rating changes;

(vii) adverse tax opinions or events adversely affecting the tax-exempt status of the Issue Two 2010 Series Bonds;

(viii) unscheduled draws on the debt service reserves reflecting financial difficulties;

(ix) unscheduled draws on credit enhancements reflecting financial difficulties;

(x) substitution of credit or liquidity providers, or their failure to perform;

(xi) release, substitution or sale of property securing repayment of the Bonds.

(b) The Trustee shall, with one (1) Business Day of an officer in the corporate trust department obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that NCPA promptly notify the Trustee in writing whether or not to report the event pursuant to subsection (f).

(c) Whenever NCPA obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, NCPA shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the NCPA has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, NCPA shall promptly notify the Trustee in writing. Such notice shall instruct the Trustee to report the occurrence pursuant to subsection (f) or shall state that NCPA shall itself report such occurrence.

(e) If in response to a request under subsection (b), NCPA determines that the Listed Event would not be material under applicable federal securities laws, NCPA shall so notify the Trustee in writing and instruct the Trustee not to report the occurrence pursuant to subsection (f).

(f) If the Trustee has been instructed by NCPA to report the occurrence of a Listed Event, the Trustee shall file a notice of such occurrence with the MSRB through the EMMA System. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(iv) and (v) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Bondholders of affected Issue Two 2010 Series Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The obligations of NCPA under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Issue Two 2010 Series Bonds. If such termination occurs prior to the final maturity of the Issue Two 2010 Series Bonds, NCPA shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

SECTION 7. Dissemination Agent. NCPA may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by NCPA pursuant to this Disclosure Agreement. The initial Dissemination Agent shall be U. S. Bank National Association.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, NCPA and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by NCPA which does not adversely affect the Trustee's rights or obligations), and any provision of this Disclosure Agreement may be waived; provided that such amendment or waiver, in the opinion of nationally recognized bond counsel satisfactory to the Trustee, such amendment or waiver is permitted by the Rule.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, NCPA shall describe such amendment in its next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by NCPA. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the manner as provided under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent NCPA from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If NCPA chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, NCPA shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of NCPA or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of the Bondholders of at least 25% aggregate principal amount of Outstanding Issue Two 2010 Series Bonds and furnishing indemnity satisfactory to the Trustee against its costs and expenses, shall), or any Bondholder or Beneficial Owner of the Issue Two 2010 Series Bonds may, take such actions as may be necessary and

appropriate, including seeking mandate or specific performance by court order, to cause NCPA or the Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of NCPA or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

No Bondholder or Beneficial Owner may institute any such action, suit or proceeding to compel performance unless they shall have first filed with the Trustee and NCPA satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and NCPA shall have refused to comply therewith within a reasonable time. Any such action, suit or proceeding shall be brought in Federal or State Courts located in County of Sacramento, California for the benefit of all Bondholders and Beneficial Owners of the Issue Two 2010 Series Bonds.

SECTION 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article IX of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture, and the Dissemination Agent were a Fiduciary thereunder. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and NCPA agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of NCPA under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Issue Two 2010 Series Bonds.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of NCPA, NCPA, the Trustee, the Dissemination Agent, the Participating Underwriters and the Bondholders and Beneficial Owners from time to time of the Issue Two 2010 Series Bonds, and shall create no rights in any other person or entity.

SECTION 13. California Law. This Disclosure Agreement shall be construed and governed in accordance with the laws of the State of California.

SECTION 14. Notices. All written notices to be given hereunder shall be given in person or by mail to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other parties in writing from time to time, namely:

To NCPA: Northern California Power Agency
651 Commerce Drive
Roseville, California 95678
Attention: General Manager
Telephone: (916) 781-3636
Fax: (916) 783-7693

To the Trustee: U. S. Bank National Association
100 Wall Street, Suite 1600
New York, New York 10005
Attention: Corporate Trust Department
Telephone: (212) 361-4385
Fax: (212) 514-6841

NCPA and the Trustee may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: June 24, 2010

NORTHERN CALIFORNIA POWER AGENCY

By: _____
Its:

U. S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Authorized Signatory

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Northern California Power Agency ("NCPA")

Name of Bond Issue: $30,540,000 aggregate principal amount of Northern California Power Agency Lodi Energy Center Revenue Bonds, Issue Two, 2010 Series A and $110,225,000 aggregate principal amount of Northern California Power Agency Lodi Energy Center Revenue Bonds, Issue Two, 2010 Series B (the "Issue Two 2010 Series Bonds")

Date of Issuance: June 24, 2010

NOTICE IS HEREBY GIVEN that NCPA has not provided an Annual Report with respect to the Issue Two 2010 Series Bonds as required by Section 3 of the Continuing Disclosure Agreement with respect to the Issue Two 2010 Series Bonds, dated June 24, 2010, by and between NCPA and U.S. Bank National Association, as trustee. [NCPA anticipates that the Annual Report will be filed by _____.]

Dated: _____

U. S. BANK NATIONAL ASSOCIATION, as Trustee on behalf of the Northern California Power Agency

cc: NCPA

CONTINUING DISCLOSURE AGREEMENT
BY AND BETWEEN THE
STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES
AND
U. S. BANK NATIONAL ASSOCIATION

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated June 24, 2010, is executed and delivered by the State of California Department of Water Resources (the "Department") and U.S. Bank National Association, as trustee (the "Trustee") in connection with the issuance by Northern California Power Agency ("NCPA") of its Lodi Energy Center Revenue Bonds, Issue Two, 2010 Series A (the "Issue Two 2010 Series A Bonds") and its Lodi Energy Center Revenue Bonds, Issue Two, 2010 Series B (the "Issue Two 2010 Series B Bonds" and together with the Issue Two 2010 Series A Bonds, the "Issue Two 2010 Series Bonds"). The Issue Two 2010 Series Bonds were issued pursuant to an Indenture of Trust, dated as of June 1, 2010 (the "Indenture"), by and between NCPA and the Trustee. The Department and the Trustee covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Department and the Trustee for the benefit of the Bondholders and Beneficial Owners of the Issue Two 2010 Series Bonds and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report with respect to the Issue Two 2010 Series Bonds provided by the Department pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person who has or shares the power, directly or indirectly, to make investment decisions regarding ownership of any Issue Two 2010 Series Bonds (including without limitation persons holding Issue Two 2010 Series Bonds through nominees, depositories or other intermediaries).

"Dissemination Agent" shall mean any entity appointed or engaged by the Department to act as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Department and which has filed with the Trustee a written acceptance of such designation.

"EMMA System" shall mean the MSRB's Electronic Municipal Market Access System or such other system designated by the MSRB or the Securities and Exchange Commission for submission of reports or notices pursuant to the Rule.

"MSRB" means the Municipal Securities Rulemaking Board, or any other entity designated or authorized by the Securities and Exchange Commission to receive reports or notices pursuant to the Rule, or any successor thereto.

"Official Statement" shall mean the Official Statement of the Northern California Power Agency dated June 10, 2010 relating to the Issue Two 2010 Series Bonds.

"Participating Underwriters" shall mean any original underwriters of the Issue Two 2010 Series Bonds required to comply with the Rule in connection with the offering of the Issue Two 2010 Series Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports. (a) The Department shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of each fiscal year of the Department (which presently ends on June 30), commencing with the report for the Fiscal Year ending June 30, 2010, provide to the MSRB through the EMMA System, in such format and accompanied by identifying information as prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided, that the audited financial statements of the Department may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Department's fiscal year changes, the Department shall give notice of such change in the manner provided under Section 5 hereof.

(b) If the Department appoints or engages a Dissemination Agent pursuant to Section 7 hereof, not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Department shall provide its Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent) and if by such date, the Trustee has not received a copy of the Annual Report from the Department, the Trustee shall contact the Department and the Dissemination Agent to determine if the Department is in compliance with this subsection (b).

(c) If the Trustee is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a) of this Section, the Trustee shall send a notice to the MSRB through the EMMA System in substantially the form attached hereto as Exhibit A.

(d) The Department shall file a report with the Trustee or, if a Dissemination Agent has been appointed by the Department, the Dissemination Agent shall file a report with the Department and the Trustee (if the Dissemination Agent is not the Trustee) certifying that the Annual Report has been provided to the MSRB through the EMMA System pursuant to this Disclosure Agreement, stating the date it was provided.

SECTION 4. <u>Content of Annual Reports</u>. The Department's Annual Report shall contain or include by reference the following:

1. The audited financial statements of the Department for the Fiscal Year preceding the Fiscal Year in which the Annual Report is filed, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If audited financial statements of the Department are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. An update of the following information in Appendix B to the Official Statement:

a. [Reserved]

b. The information under the caption "CALIFORNIA STATE WATER PROJECT – Investments" on page B-8 of Appendix B to the Official Statement;

c. The information relating to the prior year's water deliveries under the caption "CALIFORNIA STATE WATER PROJECT – Water Supply" on page B-10 of Appendix B to the Official Statement;

d. The information relating to the current year's water requests under the caption "CALIFORNIA STATE WATER PROJECT – Water Supply" on page B-10 of Appendix B to the Official Statement;

e. The information relating to sources of power for the prior year in the table under the caption "POWER OPERATIONS OF THE STATE WATER PROJECT – Historical Sources of Power for State Water Project Operations" on page B-21 of Appendix B to the Official Statement;

f. The information relating to water deliveries for the prior year in the table under the caption "THE CONTRACTORS – Certain Selected Data – Historic Deliveries of Water from the State Water Project to the Contractors" on page B-34 of Appendix B to the Official Statement;

g. The information relating to payments for the prior year in the table under the caption "THE CONTRACTORS – Certain Selected Data – Historical Payments to the Department from the Contractors" on page B-35 of Appendix B to the Official Statement; and

h. [Reserved]

i. The information relating to the Contractors in Exhibit 1 to Appendix B of he Official Statement for any Contractor whose payments (other than payments allocable to CVP Revenue Bond financed facilities) are expected to be five percent (5%) or more of the total payments (other than payments allocable to CVP Revenue Bond financed facilities) of all Contractors to the Department under the Water Supply Contracts.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Department or public entities related thereto, which have been submitted to the MSRB through the EMMA System. If the document included by reference is a final official statement, it must be available from the MSRB. The Department shall clearly identify each such other document so included by reference.

SECTION 5. Reporting. Notices required by Section 3(a), Section 3(c) or Section 8 of this Disclosure Agreement shall be filed with the MSRB.

SECTION 6. Termination of Reporting Obligation. The obligations of the Department under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Issue Two 2010 Series Bonds.

SECTION 7. Dissemination Agent. The Department may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Department pursuant to this Disclosure Agreement. As of the date of execution and delivery hereof the Department has not appointed or engaged a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement,

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Department and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Department which does not adversely affect the Trustee's rights or obligations), and any provision of this Disclosure Agreement may be waived; provided that such amendment or waiver, in the opinion of nationally recognized bond counsel satisfactory to the Trustee, such amendment or waiver is permitted by the Rule.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Department shall describe such amendment in its next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Department. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the manner as provided under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Department from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report, in addition to that which is required by this Disclosure Agreement. If the Department chooses to include any information in any Annual Report in addition to that which is specifically required by this Disclosure Agreement, the Department shall have no obligation under this Agreement to update such information or include it in any future Annual Report.

SECTION 10. Default. In the event of a failure of the Department or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of the Bondholders of at least 25% aggregate principal amount of Outstanding Issue Two 2010 Series Bonds, shall), or any Bondholder or Beneficial Owner of the Issue Two 2010 Series Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Department or the Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Department or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

No Bondholder or Beneficial Owner may institute any such action, suit or proceeding to compel performance unless they shall have first filed with the Trustee and the Department satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Department shall have refused to comply therewith within a reasonable time. Any such action, suit or proceeding shall be brought in State Court located in County of Sacramento, California for the benefit of all Bondholders and Beneficial Owners of the Issue Two 2010 Series Bonds.

SECTION 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article X of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture, and the Dissemination Agent were a Fiduciary thereunder. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Department agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur

arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Department under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Issue Two 2010 Series Bonds.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of NCPA, the Department, the Trustee, the Dissemination Agent, the Participating Underwriters and the Bondholders and Beneficial Owners from time to time of the Issue Two 2010 Series Bonds, and shall create no rights in any other person or entity.

SECTION 13. California Law. This Disclosure Agreement shall be construed and governed in accordance with the laws of the State of California.

SECTION 14. Notices. All written notices to be given hereunder shall be given in person or by mail to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other parties in writing from time to time, namely:

To the Department:	California Department of Water Resources 1416 Ninth St., Room 805 Sacramento, California 95814 Attention: Division of Fiscal Services
To the Trustee:	U. S. Bank National Association 100 Wall Street, Suite 1600 New York, New York 10005 Attention: Corporate Trust Department Telephone: (212) 361-4385 Fax: (212) 514-6841

The Department and the Trustee may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: June 24, 2010

STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES

By: _____
Perla Netto-Brown
Chief, Division of Fiscal Services

U. S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Authorized Signatory

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Northern California Power Agency ("NCPA")
Name of Bond Issue:	$30,540,000 aggregate principal amount of Northern California Power Agency Lodi Energy Center Revenue Bonds, Issue Two, 2010 Series A and $110,225,000 aggregate principal amount of Northern California Power Agency Lodi Energy Center Revenue Bonds, Issue Two, 2010 Series B (the "Issue Two 2010 Series Bonds")
Name of Obligated Party	State of California Department of Water Resources (the "Department")
Date of Issuance:	June 24, 2010

NOTICE IS HEREBY GIVEN that the Department has not provided an Annual Report with respect to the Issue Two 2010 Series Bonds as required by Section 3 of the Continuing Disclosure Agreement with respect to the Issue Two 2010 Series Bonds, dated June 24, 2010, by and between the Department and U.S. Bank National Association, as trustee. [The Department anticipates that the Annual Report will be filed by _____.]

Dated: _____

U. S. BANK NATIONAL ASSOCIATION, as Trustee on behalf of the Northern California Power Agency

cc: The Department

APPENDIX G

PROPOSED FORM OF BOND COUNSEL OPINION

Upon the delivery of the Issue Two 2010 Series Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to NCPA, proposes to deliver its final approving opinion with respect to the Issue Two 2010 Series Bonds in substantially the following form:

[Delivery Date]

Commission
Northern California Power Agency
651 Commerce Drive
Roseville, California 95678

Northern California Power Agency
Lodi Energy Center Revenue Bonds, Issue Two
(California Department of Water Resources)
2010 Series A and 2010 Series B
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Northern California Power Agency (the "Agency") in connection with the issuance of $30,540,000 aggregate principal amount of its Lodi Energy Center Revenue Bonds, Issue Two (California Department of Water Resources) 2010 Series A (the "2010 Series A Bonds"), and $110,225,000 aggregate principal amount of its Lodi Energy Center Revenue Bonds, Issue Two (California Department of Water Resources) 2010 Series B (the "2010 Series B Bonds" and, together with the 2010 Series A Bonds, the "2010 Bonds"). The 2010 Bonds have been issued pursuant to the provisions of Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California and the Indenture of Trust, dated as of June 1, 2010 (the "Indenture"), by and between the Agency and U.S. Bank National Association, as trustee. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Power Sales Agreement, the Tax Certificate of the Agency relating to the 2010 Series A Bonds (the "Tax Certificate"), certificates of the Agency, the Trustee, the Project Participants and others, opinions of counsel to the Agency and to each Project Participant, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the 2010 Bonds has concluded with their issuance and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Agency, and, with respect to the Power Sales

Agreement, the Project Participants. We have assumed without undertaking to verify the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the third paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Power Sales Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance which is necessary to assure that future actions, omissions or events will not cause interest on the 2010 Series A Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the 2010 Bonds, the Indenture, the Power Sales Agreement and the Tax Certificate, and their enforceability, may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material related to the 2010 Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The 2010 Bonds constitute the valid and binding special, limited obligations of the Agency payable solely from, and secured solely by, the Trust Estate.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Agency. The Indenture creates a valid pledge of the Trust Estate to secure the payment of the principal and redemption price of, and the interest on, the 2010 Bonds, to the extent set forth in the Indenture, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

3. The 2010 Bonds are payable solely from the funds provided in the Indenture and shall not constitute a charge against the general credit of the Agency. The 2010 Bonds are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Agency or any of its income or receipts except the Trust Estate. Neither the faith and credit nor the taxing power of the State of California or any public agency thereof, any member of the Agency or any Project Participant is pledged to the payment of the principal or redemption price of, or interest on, the 2010 Bonds. The 2010 Bonds do not constitute a debt, liability or obligation of the State of California or any public agency thereof (other than the Agency), any member of the Agency or any Project Participant.

4. The Power Sales Agreement has been duly executed and delivered by the Agency and the Project Participants and constitutes a valid and binding agreement of the parties thereto.

5. Interest on the 2010 Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the 2010 Series A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2010 Series A Bonds.

6. Interest on the 2010 Series B Bonds is exempt from State of California personal income taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2010 Series B Bonds.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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NORTHERN CALIFORNIA POWER AGENCY • LODI ENERGY CENTER REVENUE BONDS, ISSUE TWO
(CALIFORNIA DEPARTMENT OF WATER RESOURCES)

A PUBLIC AGENCY

NCPA

NORTHERN CALIFORNIA POWER AGENCY

FSC
Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fiber
www.fsc.org Cert no. BV-COC-960893
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