10 CFR 50.71(b)
10 CFR 72.80(b)

Palo Verde Nuclear Generating Station

Thomas N. Weber
Department Leader
Regulatory Affairs

Tel. 623-393-5764
Fax 623-393-5442

Mail Station 7636
PO Box 52034
Phoenix, Arizona 85072-2034

102-06086-TNW/KAR
October 29, 2009

ATTN: Document Control Desk
U.S. Nuclear Regulatory Commission
Washington, DC 20555-0001

Dear Sirs:

Subject: Palo Verde Nuclear Generating Station (PVNGS)
Units 1, 2, and 3
Docket Nos. STN 50-528/529/530
Submittal of 2008 Annual Financial Reports

Pursuant to 10 CFR 50.71(b) and 10 CFR 72.80(b), enclosed please find copies of the 2008 Annual Financial Reports for the Participants who jointly own PVNGS and do not file a Form 10-Q with the Securities and Exchange Commission or a Form 1 with the Federal Energy Regulatory Commission. These Participants are Salt River Project, Southern California Public Power Authority and Los Angeles Department of Water and Power.

The remaining Participants who jointly own PVNGS file a Form 10-Q with the Securities and Exchange Commission or a Form 1 with the Federal Energy Regulatory Commission and are thereby exempt from filing an Annual Financial Report. These Participants are El Paso Electric Company, Arizona Public Service Company, Southern California Edison Company and Public Service Company of New Mexico.

No commitments are being made to the NRC by this letter. Should you have questions regarding this submittal, please contact Russell A. Stroud, Licensing Section Leader at (623) 393-5111.

Sincerely,

Enclosure

TNW/RAS/KAR/gat

cc: E. E. Collins Jr. — NRC Region IV Regional Administrator (w/o Enclosure)
J. R. Hall — NRC NRR Project Manager (w/o Enclosure)
R. I Treadway — NRC Senior Resident Inspector for PVNGS (w/o Enclosure)

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NAVIGATING CHANGE

SRP 2009 ANNUAL REPORT

Delivering more than power.℠

About SRP

Salt River Project (SRP) provides reliable, reasonably priced electricity and water to more than 2 million people in Central Arizona.

As one of the nation's largest public power utilities, we provide generation, transmission and distribution services to homes and businesses in our 2,900-square-mile service area. We also are the area's largest water supplier, with management responsibilities for a 13,000-square-mile watershed.

For more than a century, SRP has demonstrated foresight in providing essential resources to meet the needs of our power customers and water shareholders and to help the greater Phoenix metropolitan area grow into one of the most vibrant regions in the country.

SRP Online
Visit us online at **www.srpnet.com/annualreport** to view multimedia reports, slideshows and videos about the programs, products and services we offer.

About This Report
Several measures were taken this year to reduce the costs and environmental impact of producing this annual report. The audited financial statements and notes pages can be accessed online at **www.srpnet.com/annualreport**, then select "**audited financials**." This reduced the number of pages by 50%. This report also is printed on recycled paper containing 100% post-consumer waste.

SRP at a Glance FY09
Number of electric customers
933,771

Record peak demand
6,590 megawatts
July 21, 2006

Total operating revenues
$2,767,024,000

Credit Ratings
Aa1 Moody's Investors Service
AA Standard and Poor's

For more highlights, see page 23.

On the Cover
Scenic and expansive Roosevelt Lake is a primary source of surface water for the greater Phoenix metropolitan area. The lake was formed by the construction of Theodore Roosevelt Dam in the early 1900s, which marked the beginning of SRP.

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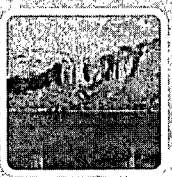
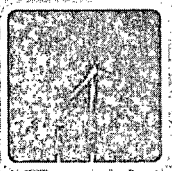


Water 10
SRP works to secure a sound water future for Arizona while encouraging efficiency and conservation.



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From biomass to wind power, we are expanding our portfolio of sustainable energy sources.

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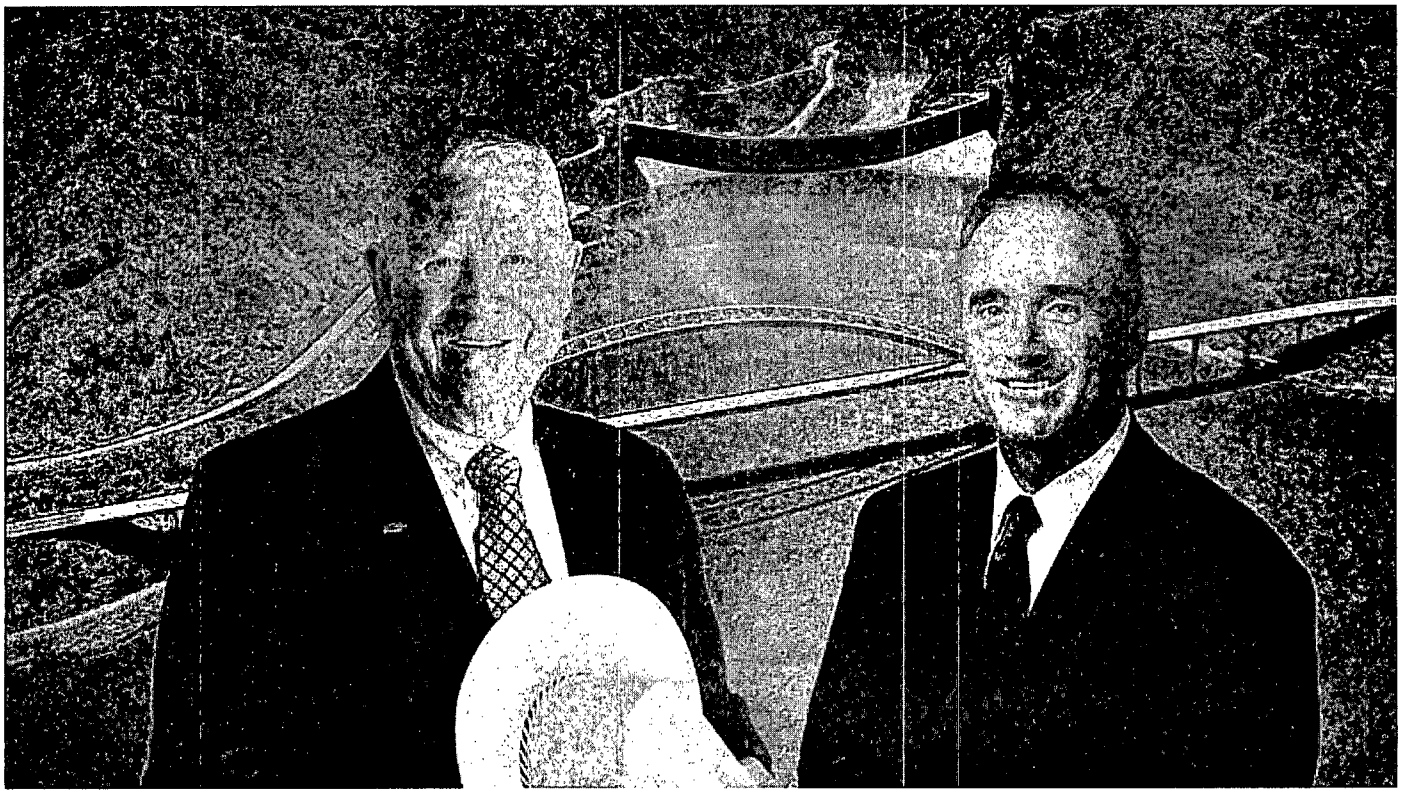


John M. Williams Jr., President *David Rousseau, Vice President*

Letter to Electric Customers, Water Shareholders and Bondholders

In the past year, there has been much discussion about the state of our nation's economy and the challenges it presents to us all.

In Arizona, where the recession hit particularly hard, the housing market has suffered terribly, job losses continue and business has been difficult. For SRP, this means electric customer growth has slowed dramatically, impacting revenues and creating spending constraints. Fortunately, at SRP we have spent more than 100 years navigating changing service demands and infrastructure needs, as well as challenges presented during periods of economic uncertainty. That experience helps us chart a steady course now.

This year, we cut operating costs, reduced our workforce and continued to look for ways to hold expenses in check. We saved money by delaying several electric system capital projects, but with an eye on retaining the flexibility to embrace new technologies. At the same time, we adjusted projected electricity needs to reflect a more reasonable pace of growth. We are confident that this is a temporary slowdown and we will return to prior growth trends.

Our primary focus on infrastructure additions is the commercial operation of Unit 4 at Tucson Electric Power Co.'s Springerville Generating Station in eastern Arizona. Scheduled for the end of the calendar year, the aggressive construction program is moving forward. Construction of extra-high-voltage transmission lines, as well as sub-transmission and substation expansions, continues.

SRP has launched two new programs that reward customers for shifting electric use from more-expensive, on-peak to lower-cost, off-peak hours. By signing up for one of these plans and shifting the time of day power is used, customers can lower their electric costs and help SRP decrease the need to generate or buy higher-priced

electricity. Our new residential customer SRP EZ-3™ plan, so named because it rewards customers who reduce electric use during three peak hours, will be available on request in January 2010. The second new plan is SRP Power Partner™, a demand-response program for commercial customers who can voluntarily reduce their usage when SRP needs power on short notice.

In managing the watersheds of the Salt and Verde rivers, we took an important step forward by finalizing an agreement with the White Mountain Apache Tribe to quantify the tribe's water rights at the headwaters of the Salt River, where a significant percentage of SRP water originates. This pact helps ensure certainty for SRP water shareholders and allows development of a reliable domestic surface water supply for tribal members. The groundbreaking 2004 Arizona Indian Water Rights Settlement Act served as the umbrella that made this possible.

We also formalized an agreement with the Town of Payson that will resolve long-standing issues over rights to water within and adjacent to the town. The arrangement will provide further certainty to Payson, and to SRP shareholders, with regard to water supplies in northern Gila County.

The Salt River Project Agricultural Improvement and Power District's latest bond sale, completed in January, caught the attention of both Wall Street and Main Street. In this new approach, SRP offered bonds first to retail buyers, who came out in good numbers, purchasing more than a third of the offering. Including premiums and discounts the total net proceeds were $764 million. About $480 million will fund electric system capital expenses, $180 million went into SRP's general fund to reimburse prior capital expenditures and $100 million will pay back short-term loans in SRP's commercial paper program.

Total operating revenues for the year were $2.76 billion, up slightly from the previous year. Combined net revenues, SRP's bottom line, were about $170 million before fair-value accounting adjustments. This is about the same as the prior fiscal year, and we consider that quite a good performance in such a tumultuous year. However, after fair-value adjustments (mark to market), SRP ended the year with a net loss of $247 million. The fair-value adjustments were driven in large part by the substantial declines in the stock market and the market for natural gas. Over the long term, we do not expect to "realize" these losses.

While SRP isn't immune to current events, our solid record of performance over time speaks for itself. Our philosophy of resource stewardship advocates a balance of sound science, customer value and resource preservation as a foundation for addressing emerging issues. Being flexible and adapting to changing conditions makes good business sense.

In recognition of the outstanding service our employees provide, SRP once again scored highest for residential customer satisfaction among large utilities in the West, according to a study by J.D. Power and Associates. It's the 10th time in 11 years SRP has received this top honor.

We are well-positioned to make the most of opportunities as they present themselves, and we have confidence in what the future holds.

John M. Williams Jr.
President

David Rousseau
Vice President

Letter from the General Manager

This past year has been one of virtually no customer growth in an economy that has been flat. We continue, however, to prepare for the resumption of sustained growth in advance of the inevitable turnaround. While gross revenues grew slightly, financial results were adversely affected by a new accounting standard and changes in fair value of fuel and purchased power contracts.

Precipitation on the watershed was sufficient to fill the reservoirs for the second straight year, and although the status of continued drought is still in question, our water shareholders can be assured we continue to have adequate supplies. With full reservoirs there has been no need for supplemental water purchases.

We are working to resolve issues related to the Verde River watershed that would infringe on the rights of SRP's shareholders. Efforts to implement terms of the settlement of claims of the White Mountain Apache Tribe, and efforts to provide water to the Town of Payson from C.C. Cragin Reservoir, are ongoing.

Discussions with Valley cities continue on a drought protection plan to refurbish existing wells and co-locate new wells. Also, we are identifying available water sources to provide for areas of growth within the boundaries of our electric service area, but outside SRP's traditional water service boundaries.

It is business as usual in the national energy policy arena, but the state regulatory policy debate about the resumption of competition remains unresolved. The issue has been further complicated by the intervention of renewable suppliers.

The issue of global climate change and the contribution of greenhouse gases from fossil fuel generation, as it did last year, dominates the public policy arena. SRP, concerned with both existing and new base-load generation, is an active participant in both regional and national debates as policy options emerge. We are also pursuing development of technologies to capture and sequester carbon dioxide emissions.

Plans by a number of utilities moved forward during the year to license new nuclear generating units. We are monitoring these activities and reviewing the nuclear option, but remain concerned with cost escalation, uncertainty of regulatory actions and lack of spent fuel management policy direction.

During the year we continued a program targeted outside of SRP's traditional water service area, in which a group of representative electric customers are helping review and comment on issues such as facility siting and pricing. Management's two-year pilot program is entering the final phase of evaluation.

Although growth in SRP's electric service territory is still off, it is expected the greater Phoenix metropolitan area will resume growth in 2011. Current trends indicate 0.5% growth in the coming year.

Natural gas, the pricing of which has been extremely volatile the last several years, remains the most significant electric production expense. Pricing adjustments reflecting such volatility continue,

along with fuel hedging, which has worked well in mitigating customer impacts.

This year we have expanded the energy-efficiency programs we offer customers. This effort involves a comprehensive customer education program with various print and electronic communications which provide energy-saving information. We have added to programs for residential and commercial customers, as well as new programs, which incentivize purchases of energy-efficient equipment and products. These program offerings will expand over the next year.

SRP's energy-efficiency programs complement the changes made in the standard pricing plan design in FY08 to better reflect cost patterns during summer peak usage. They included the introduction of July–August peak period pricing and higher pricing for monthly usage in excess of 2,000 kilowatt hours during the six-month summer billing period. Our expectation is customers will alter consumption patterns in responding to these changes.

We have expanded our renewable portfolio. SRP is increasing the level of sustainable resources. Over the next 10 years, the portion of SRP's energy supplied by sustainable resources, including energy-efficiency and demand-response programs, is targeted to grow from about 7% today, to 15%. Our plans include new wind, geothermal, solar and distributed generation resources. This means a large portion of the expected growth in customer needs is planned to be met by increasing SRP's sustainable resources.

We continue to expand existing, and include new, value-added elements to our award-winning customer service programs. More than 84,000 customers currently participate in SRP M-Power®, the largest voluntary prepayment electric service program in North America. An in-home display, showing real-time power usage, helps customers lower power consumption by 12%, on average. There are 55 locations in our service territory where customers may purchase power from kiosks designed by SRP.

More than 222,000 customers have elected SRP's Time-of-Use™ pricing plan, the third-largest time-of-use initiative in the U.S. A typical customer on this program lowers their bill 7% by limiting power use during peak periods, thereby assisting in peak-load management.

In excess of 400,000 customers are currently served by a "smart meter," a technologically sophisticated meter capable of two-way communication with the potential to manage particular home electrical loads. Customers are able to view the prior day usage on the Internet and receive text messages and/or e-mails projecting monthly electric bills based upon consumption of electricity month-to-date.

J.D. Power and Associates has conducted surveys reporting that customer perceptions of SRP remain strong. We have received the highest score for residential customer satisfaction in the West in 10 of the last 11 years. And we have received the highest scores for business customer satisfaction in the West region in three of the six years that SRP has participated in the survey. Additionally, our residential and commercial call centers were certified by J.D. Power and Associates for the fourth consecutive year. Certification demonstrates SRP's commitment to delivering high-quality service to customers.

SRP understands the challenges of an aging workforce and recognizes how important it is to manage resulting personnel changes. Development initiatives, mentoring, apprenticeship opportunities and rotational programs continue to be top priorities for us.

Our workforce, in what has become a challenging environment, as in past years deserves full credit for successes this past fiscal year. SRP's elected officials, partnering with management, continue to supply the foundation for growth to continue and for ongoing improvement to occur.

Richard H. Silverman
General Manager

Increasing the Role of Efficiency

Forecasting energy demand in a rapidly changing world is a challenge all electric utilities face today.

Increasingly, energy efficiency is a key component of a balanced approach to forecasting and meeting energy demand. In fact, energy efficiency is taking on a more prominent role in SRP's resource picture and strategic plan. Our projected investment in customer energy-efficiency and demand-response programs over the next five years is more than $200 million.

Using electricity wisely can save SRP and our customers money while supporting our environmental stewardship. Improved efficiencies can lower fuel expenses, defer the building of new power plants and reduce required reserves. It's the best of all worlds for SRP, our customers and shareholders.

As a leader in deploying "smart meter" technology, SRP now serves more than 400,000 residential and business customers with these meters, which transmit real-time information wirelessly about electricity use. This means customers can track and adjust their energy consumption via e-mail and text message notifications. These meters also allow SRP to offer customers pricing options that fit their lifestyles, such as our EZ-3 plan, which rewards participants who conserve energy for just three hours a day. Smart meters also are a key component in SRP's Smart Grid System, which will connect customers to future clean energy sources such as solar and wind.

Through incentives and other programs, our residential and commercial customers are creating more energy-efficient homes and buildings. This year, more than 20,000 customers benefited from SRP rebates and other incentives to purchase energy-efficient appliances and other equipment. We also discounted the price to SRP customers on more than 1 million energy-saving compact fluorescent light bulbs.

We walk the talk ourselves: Our new 62,000-square-foot Pinal Customer Center building is a prime example of what's possible in green building design and operations. It's partially powered by a 150-kilowatt (kW) solar photovoltaic system, features solar water heaters, and was built with many recycled and sustainable products.

We've surpassed the 80,000 mark on prepay meters with M-Power®, the largest program of its kind in North America. M-Power was honored in 2009 by the American Public Power Association as an innovative model for the electric industry. Studies have shown that M-Power customers reduce consumption by 12%, on average.

While our near-term generation and transmission expansion plans are less than previous years, flexibility is the key to accommodating dynamic economic change. A 400-megawatt (MW) unit at Springerville Generating Station in eastern Arizona, equipped with the latest emissions technology, is on schedule to begin providing energy to the SRP system by the end of 2009.

The Silver King-to-Goldfield 230-kilovolt (kV) transmission line near Superior was upgraded this year to improve energy delivery capability, both for Springerville and the 64MW of output expected from the new Dry Lake Wind Project near Snowflake.

Inset photo: The smart grid of tomorrow will expand upon the technology of today.

Securing Your Water Supply

A wet winter that filled SRP reservoirs almost to the brim will go into the books as one of the most positive years on record.

SRP reservoirs reached near capacity, requiring water releases at Roosevelt Dam in February to make room for additional runoff. On the Verde, reservoirs filled with early-season runoff, and major water users were asked to take "free water" to help with the surplus. Plentiful surface water supplies on both the Salt and Verde river watersheds translate into security for the Valley – and the likelihood of reduced groundwater pumping for at least another year.

As the area's largest water provider, SRP works with stakeholders to promote the wise use of water and the adoption of a shared stewardship mindset. Stressing the importance of end-user investment in this mission, we continued an ongoing research program on landscape water use, which is responsible for an estimated 70% of residential water consumption. We held an encore performance of the popular DesertWise Water Expo, encouraging earth-friendly, water-efficient practices and offering discounted "smart" irrigation controllers to our customers. Survey respondents overwhelmingly tell us the devices are easy to use and make saving water easy.

Our public education efforts also help people understand the correlation between water efficiency and electricity. Using water wisely reduces the amount of energy needed to supply and treat it, reducing costs and energy demand.

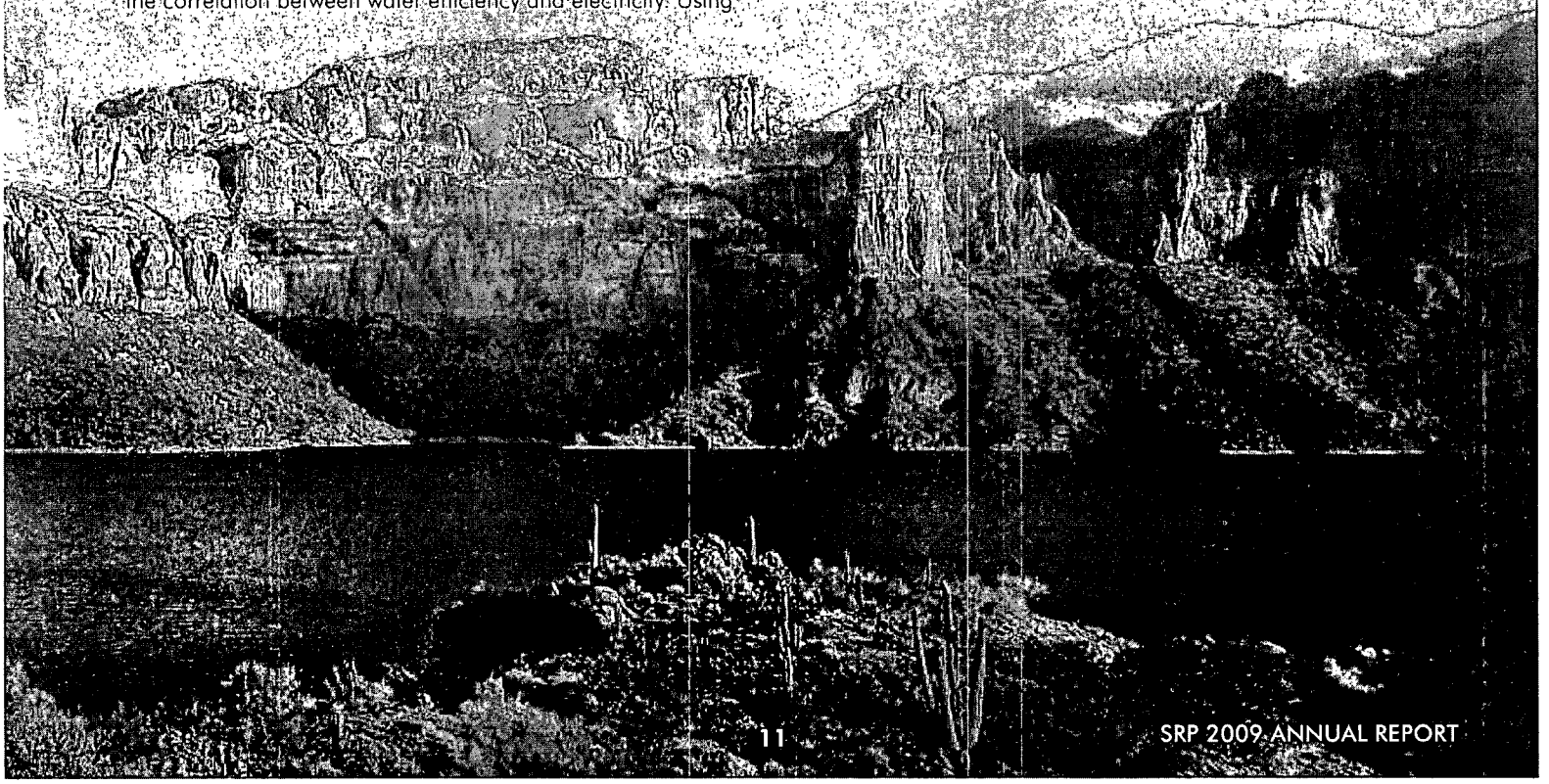
The invasive quagga mussel remains at the forefront of our contingency planning. While these non-native, thumbnail-sized shellfish have been observed at the SRP/Central Arizona Project interconnect near Granite Reef Diversion Dam, adult mussels have not been seen downstream in the canal system. However, our contingency planning focuses on the potential for a more damaging infestation. We continue to assess potential impacts to SRP's water infrastructure and the most effective means of dealing with this problem.

Preparations continue for the time when groundwater will play a larger role, at least temporarily, in meeting demand. Long-term planning for future groundwater supplies is critical. This past year, falling land values created opportunities to obtain sites for future well facilities. SRP also makes regular deposits into underground water storage as a savings account for later use.

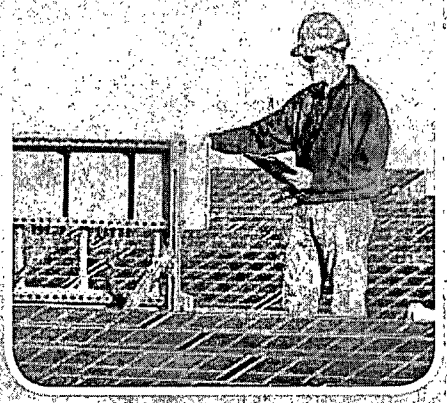
As recent economic troubles have demonstrated, saving today for an uncertain tomorrow simply makes sense.

Scenic Apache Lake, the second-largest SRP reservoir and a favorite with outdoor enthusiasts, filled to capacity following a beneficial winter on SRP watersheds.

Inset photo: Smart irrigation controllers help consumers use water wisely.



Supporting a Sustainable Future



As we all become more aware of the value of sustainability, SRP can help Arizona become an even better place to work and live.

Part of sustainability means exploring new ways of generating power. That's why SRP utilizes a diverse and growing portfolio of renewable resources to meet the electric needs of our customers.

Some years back, we pledged to grow our portfolio of earth-friendly generation resources. Just in this decade, our supply of renewable resources such as wind and solar has nearly tripled. Our goal is to have 15% of retail sales from renewable and energy-efficiency efforts by 2025.

Today more than 20% of SRP's energy is produced without greenhouse-gas emissions. And that figure is growing. This year 78MW in new geothermal and wind resources were added, enough to power nearly 20,000 homes. One such effort is the Dry Lake Wind Project, the first commercial wind farm in Arizona. SRP also provides incentives to residential and commercial customers interested in installing solar on their homes or businesses.

We're also working with the automotive industry to support the rollout of plug-in hybrid electric vehicles. It's important to plan now for incorporating these cars into the power grid of the future to ensure efficiency, decrease fuel costs, reduce greenhouse-gas emissions and lessen dependence on foreign oil.

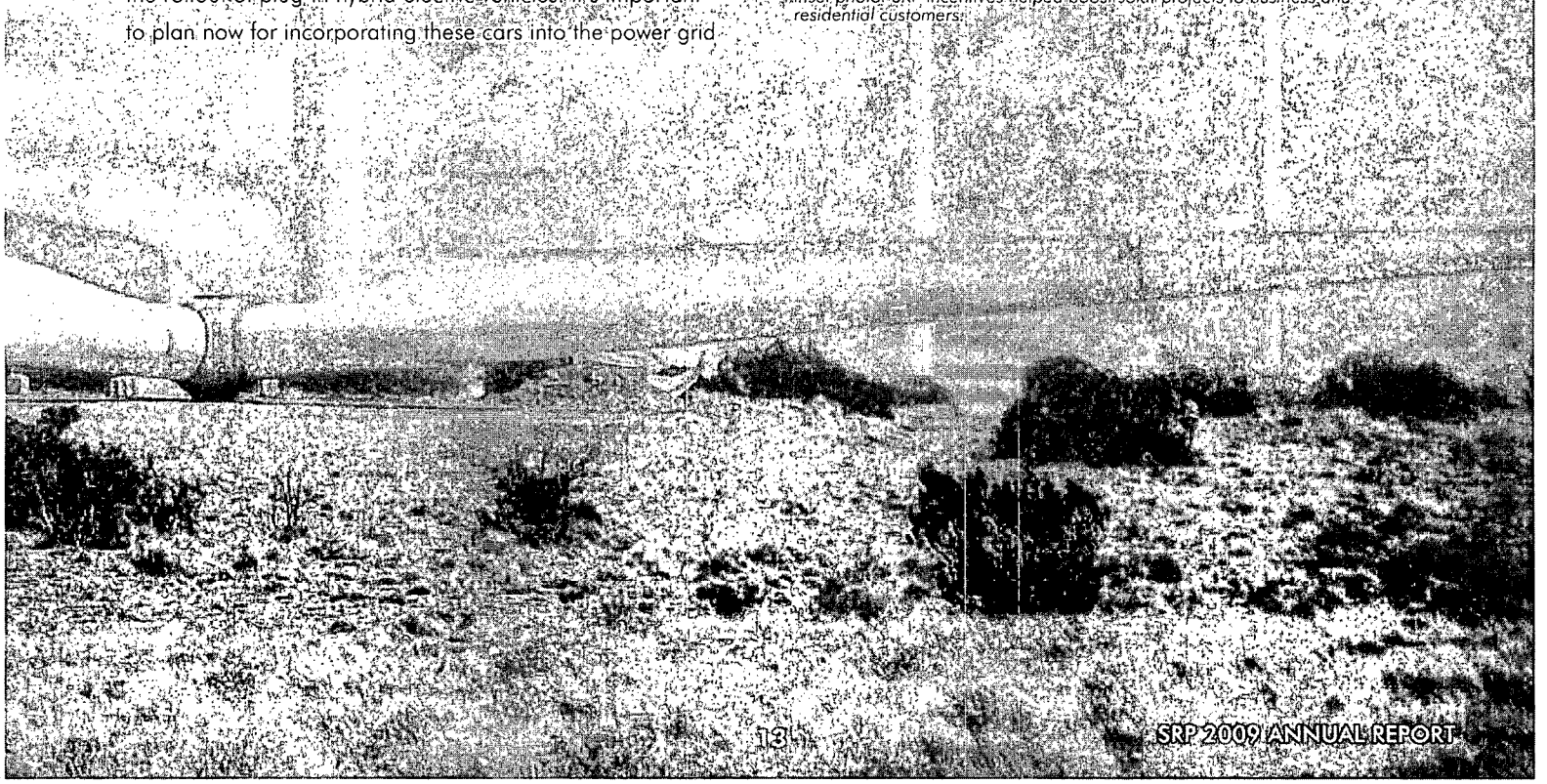
As the rapid customer growth of recent years pauses, we're building upon our own internal expertise to focus on renewable projects. Our strategy includes pursuing additional renewable energy purchases as well as building and operating our own renewable energy projects.

We also continue to promote solar energy in Arizona. This year, SRP was recognized by the Solar Electric Power Association as one of the top utilities in the nation when integrating solar into our energy mix, on both the customer and utility sides of the meter.

In addition to improving our own operations to reduce greenhouse-gas emissions, SRP is working with vendors to assess their sustainability efforts. Just as our vendors and customers are evaluating their own individual carbon footprint, we're committed to managing future environmental challenges and opportunities with determination and creativity.

SRP will purchase the entire output of the Dry Lake Wind Project in northeastern Arizona, the first of its kind in the state. The wind farm, built and operated by Iberdrola Renewables, will provide electricity to power about 15,000 homes.

Inset photo: SRP incentives helped boost solar projects to business and residential customers.



Building Better Communities

Especially in times of uncertainty, lending a hand makes a difference.

SRP stands strong in support of numerous nonprofit agencies and organizations throughout the Valley that bring hope and enrich lives. Through lending leadership talent, providing donations and the passionate spirit of our employee volunteers, we are able to make a real difference in the world in which we live and work.

Almost 85% of SRP employees are involved in their communities in some way. This year that volunteer work included building a unique Habitat for Humanity home – an environmentally friendly house equipped with water- and energy-efficiency features, including a solar photovoltaic system.

During the year the broad scope of SRP's community support was about $3 million in charitable contributions and 700,000 hours in volunteer time. Much of this focus is on education, because with the foundation of a quality education, a child's opportunities are without limits. In particular we support math and science education, the fields that will bring the talented employees of tomorrow to our doorstep. With funding from public sources tighter than ever, SRP's financial and expert assistance to teachers, students and schools in Arizona demonstrates how the power of giving makes a difference.

As the economy continued to shed jobs, we provided additional funding to area food banks, bringing 75,000 more meals to the Valley's hungry as a growing number of families struggled to put food on their tables.

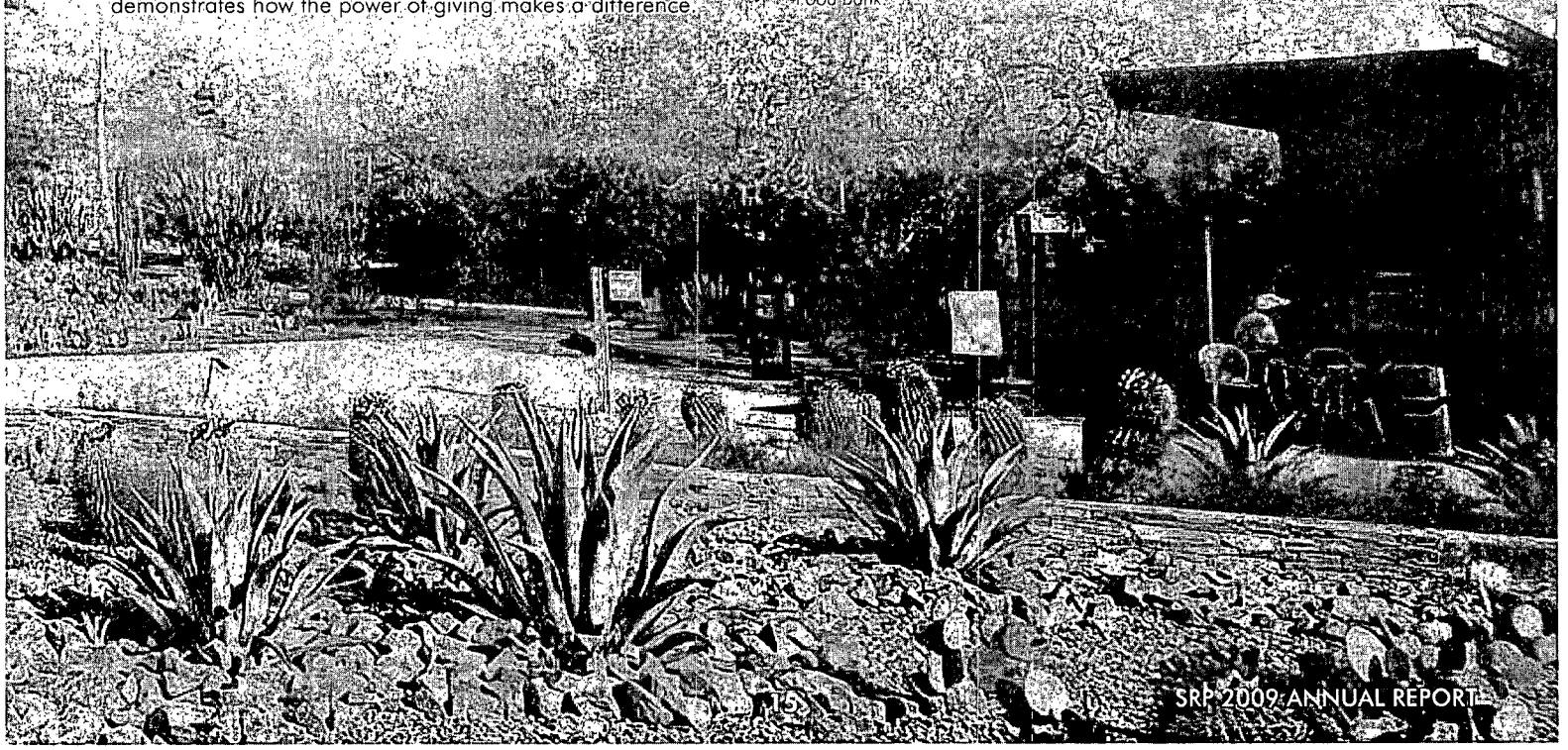
We also took action to help people who are having difficulty keeping the lights on at home. During the year, we matched customer contributions and raised more than $300,000 in relief funds to help customers pay utility bills.

Our employee-led annual fundraising campaign reached $1.5 million – a record amount that was especially notable because the campaign was conducted as the national economic crisis was unfolding. The money collected from employees supports nonprofit agencies serving people throughout Arizona.

At SRP, our business culture promotes the importance of sharing time and talent with others. When we apply the same commitment, expertise and teamwork we use to serve our electric customers and water shareholders to helping people in need, we see the impact of our efforts – and it inspires us to remain engaged in our communities.

The Desert Botanical Garden in Phoenix relies on public support, including grants from SRP, to present conservation and educational programs, promoting greater understanding and stewardship of the Sonoran Desert.

Inset photo: Additional support helped feed the hungry through St. Mary's Food Bank.



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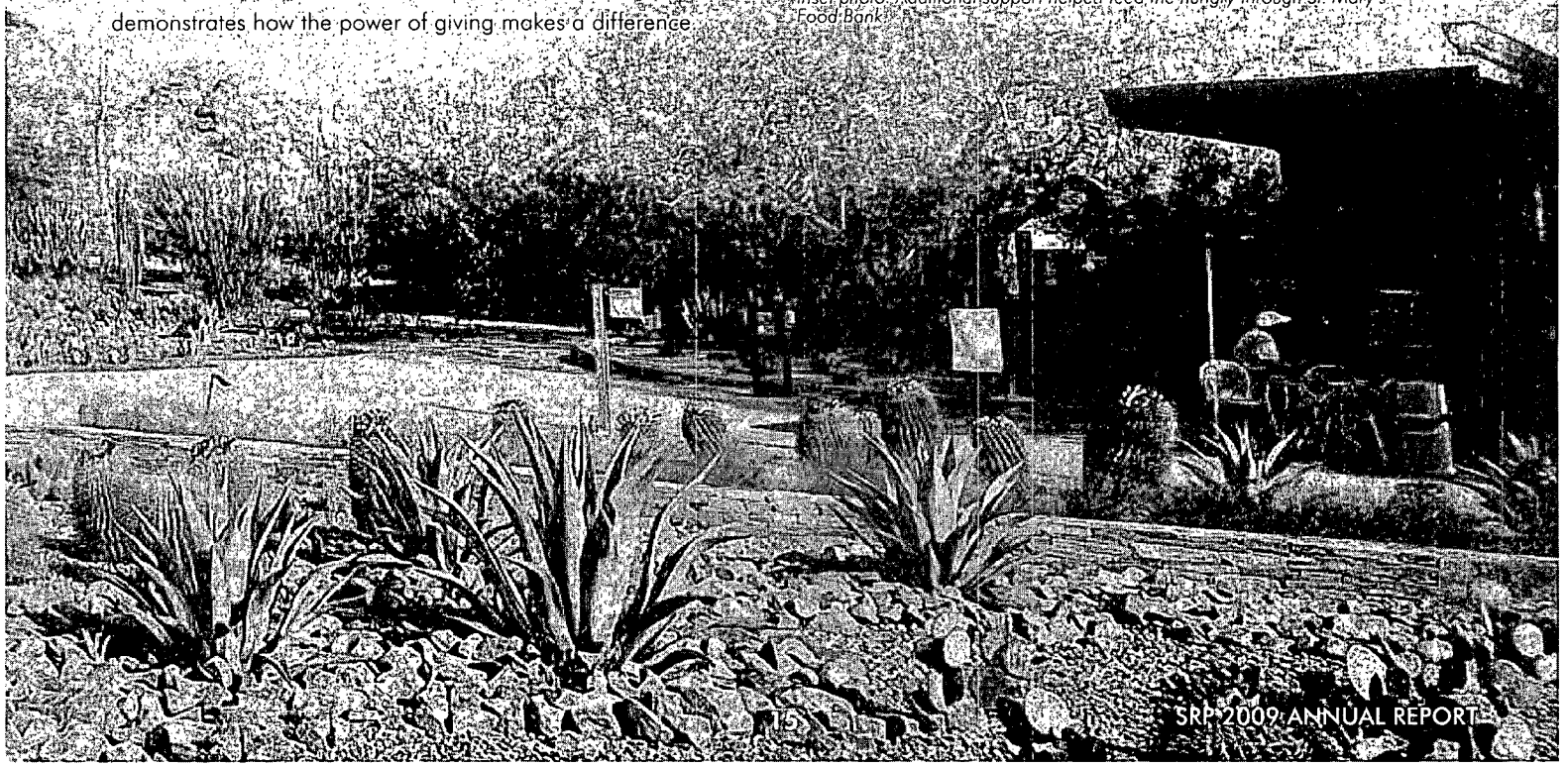


Management's Financial and Operational Summary

Overview of Business

The Salt River Project Agricultural Improvement and Power District (the District), a political subdivision of the state of Arizona, generates and delivers electricity to a 2,900-square-mile service area spanning Maricopa, Gila and Pinal counties. There are also mining loads in an adjacent 2,400-square-mile area in Gila and Pinal counties.

The District, a vertically integrated organization, owns or participates in 11 major power plants and numerous other generating facilities, including thermal, nuclear, natural gas and renewable energy sources. The District builds and acquires resources as needed, as well as makes short- and long-term purchases of wholesale power.

The Salt River Valley Water Users' Association (the Association), a private corporation, is the Phoenix area's largest raw water supplier, providing about 1 million acre-feet per year for irrigation and municipal treatment. The Association also manages an extensive water delivery system, including Theodore Roosevelt Dam, reservoirs, wells, canals and irrigation laterals. Municipalities receiving SRP water include Phoenix, Avondale, Glendale, Mesa, Tempe, Chandler, Gilbert, Peoria, Scottsdale and Tolleson. The Association also delivers water by contract to Indian communities.

The District has three subsidiaries: New West Energy Corporation, which supports the District's energy services activities; Papago Park Center Inc., which manages the mixed-use commercial development Papago Park Center on land owned by the District adjacent to its administrative offices; and SRP Captive Risk Solutions Ltd., a domestic captive insurer that primarily accesses property/boiler and machinery insurance coverage under the Federal Terrorism Risk Insurance Act of 2002 for certified acts of terrorism.

Results of Operations

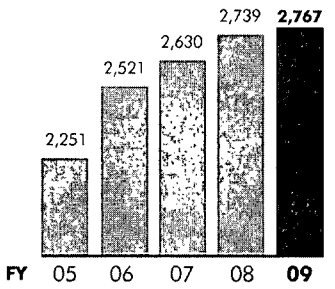
Without the effects of a new accounting standard and the change in fair value of fuel and purchased power contracts, SRP net revenues for the fiscal year ended April 30, 2009, would have been $172.3 million compared with net revenues of $166 million the previous year. The effects, however, of the previously mentioned accounting standard and fair value accounting resulted in a net loss for FY09 of $247 million, compared with the net revenues of $257.1 million for the prior fiscal year.

Total operating revenues were $2.8 billion, compared to $2.7 billion for FY08. While there was a slight increase in operating revenues, slowed customer growth contributed to a 4.3% drop in retail sales. Wholesale revenues were nearly 16% lower in FY09 compared with the previous year, mostly due to substantially lower electricity market prices during the year. A price increase effective at the start of the fiscal year and an increase in the fuel and purchased power adjustment mechanism (FPPAM) offset the impact of lower system sales and reduced wholesale revenues.

Total customers increased by less than 1% from the previous year, with the residential class increasing only 3,048 customers year-over-year compared to a 5,902 customer increase in FY08 and a 21,500 customer increase in FY07. Energy use per residential customer showed a 7.2% decrease.

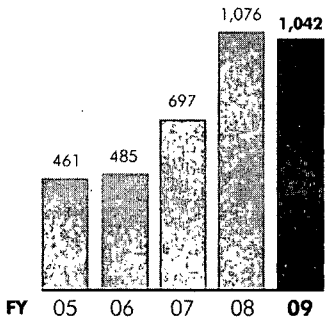
Operating expenses were $2.8 billion for FY09, compared with $2.4 billion for the previous year. This change was driven by higher expenses for fuel, purchased power and operating expenses. Fuel and purchased power expenses were up 31% mostly due to fair value adjustments on fuel and purchased power contracts. Without these adjustments, fuel and purchased power expenses decreased 1.1%, consistent with the 2.7% decrease in total energy sales. Maintenance expenses decreased 11%. Several large overhauls that occurred in the

Total Operating Revenues
($Millions)



Total revenues showed a small increase, attributed to a slight increase in customer numbers and electric prices.

Capital Expenditures
($Millions)



Construction expenses for Springerville Generating Station Unit 4 caused an increase in capital spending over the past two years.

prior year subsequently reduced maintenance expenses this year.

Investment income showed a $99.7 million loss for FY09, compared with a $62.7 million gain the year before. An unprecedented year in the financial markets drove the decrease. In addition, beginning in the first quarter of FY09, SRP adopted a new accounting standard which allows entities to report certain financial assets and liabilities at fair value instead of cost, which was how SRP previously accounted for these items. The changes in fair value are recognized in earnings, and SRP's adoption of the new standard resulted in a loss of $92 million for the year. Without the effects of the new accounting standard and the change in fair value of fuel and purchased power contracts, net revenues would have been $172.3 million compared with net revenues of $166 million last fiscal year.

Energy Risk Management Program

The District's mission to serve its retail customers is the cornerstone of its risk management approach. The District builds or acquires resources to serve retail customers – not the wholesale market. The District has an Energy Risk Management Program to limit volatility inherent in retail business operations. The program identifies, measures, reports and manages exposure to market, credit and operational risks. To meet program goals, the District uses various physical and financial instruments, including forward contracts, futures, swaps and options. Certain of these transactions are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." For a detailed explanation of the effects of SFAS No. 133 on the District's financial results, see Note 4 in the notes to the Combined Financial Statements. The Energy Risk Management Program is managed according to a policy approved by the District's Board of Directors (the Board), and overseen by a Risk Oversight Committee composed of senior executives. The policy covers market, credit and operational risks and includes portfolio strategies, authorizations, value-at-risk limits, stop loss limits, notional and duration limits. The District maintains an Energy Risk Management Department, separate from the supply and trading area, which regularly reports to the Risk Oversight Committee. In addition, the District has established a credit reserve for its activity in wholesale markets. The District believes that its existing risk management structure is appropriate and that any exposures are adequately managed.

Electric Pricing

The District has a diversified customer base, with no single retail customer providing more than 1.7% of operating revenues. As a summer-peaking utility, the District balances the summer-winter load relationships through seasonal price differentials. In addition, the District prices on a time-of-day basis for large commercial and industrial customers, many residential customers, and certain small commercial users.

A 3.9% system average retail price increase effective at the beginning of the fiscal year involved a 2.1% increase related to a fuel and purchased power adjustment and a 1.8% increase

related to base prices. The new price plans adopted at that time incorporated design changes that better reflect the District's underlying seasonal costs as well as promote energy efficiency and conservation.

In October, the Board approved an annualized 5.9% system average increase to the FPPAM to address under-collected fuel and purchased power expenses, effective with the November 2008 billing cycle. The increase was projected to recover the under-collection across an 18-month period, through April 2010, generating about $203.6 million during that time.

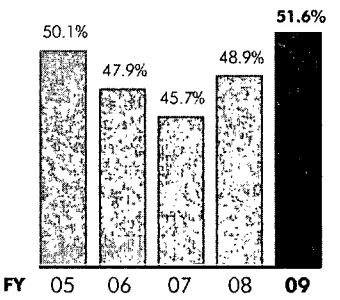
Capital Improvement Program

FY09 capital spending was consistent with management's expectations. The District's Capital Improvement Program is driven by the need to expand generation, transmission and distribution systems to meet customer needs and maintain service reliability.

Generation projects accounted for half of the year's capital expenditures, and a majority of those expenses went toward continued construction of Unit 4 at Springerville Generating Station. Expansion and improvements to the electrical distribution system accounted for 22% of capital expenses. The addition of new transmission facilities comprised 10% of the year's capital expenditures, including support for a 230kV Southeast Valley transmission project.

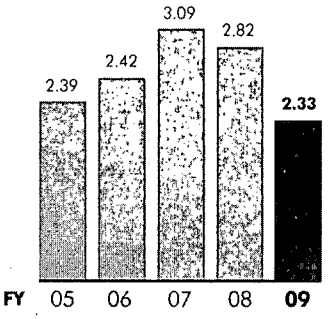
SRP's 2009 Audited Financial Statements and Notes can be accessed at ***www.srpnet.com/annualreport***.

Debt Ratio
(Percent)



The debt ratio rose as a result of a $744 million revenue bond sale that was used to finance the District's capital improvement program and pay back $100 million in short-term loans from SRP's commercial paper program.

Debt Service Coverage Ratio



Debt service coverage is decreasing due to increased principal and interest requirements from increased bond debt.

SRP Boards

District/Division 1
Larry D. Rovey

District/Division 2
* Wayne A. Hart

District/Division 3
Mario J. Herrera

District/Division 4
Lloyd E. Banning

District/Division 5
Carl E. Weiler

District/Division 6
Jack M. White Jr.

District/Division 7
Keith B. Woods

Director-at-large, seat 11
Carolyn Pendergast

District/Division 10
Dwayne E. Dobson

Director-at-large, seat 12
William W. Arnett

District/Division 9
Arthur L. Freeman

Director-at-large, seat 13
Fred J. Ash

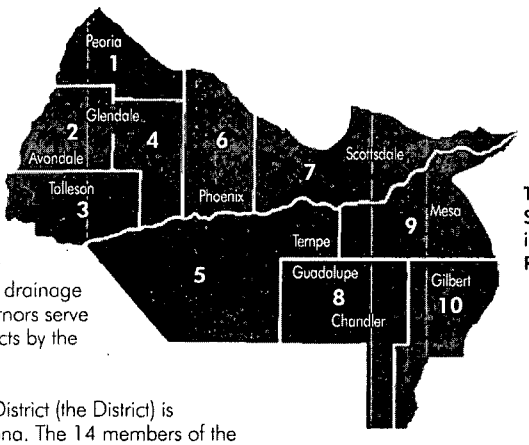
District/Division 8
Deborah S. Hendrickson

Director-at-large, seat 14
Wendy L. Marshall

The two Boards work with management to establish policies to further the business affairs of SRP.

The Salt River Valley Water Users' Association (the Association) is SRP's private water corporation, which administers the water rights of SRP's 375-square-mile water service area, and operates and maintains the irrigation and drainage system. The 10 members of the Association Board of Governors serve staggered four-year terms and are elected from voting districts by the landowners within the water service territory.

The Salt River Project Agricultural Improvement and Power District (the District) is SRP's public power utility and a political subdivision of Arizona. The 14 members of the District Board of Directors serve staggered four-year terms. Ten District Board members are elected from voting divisions and four are elected at-large by landowners within the District's boundaries. Most often, candidates seek election to both Boards.



The 10 SRP voting areas for SRP Boards and Councils are included in the Salt River Reservoir District boundaries.

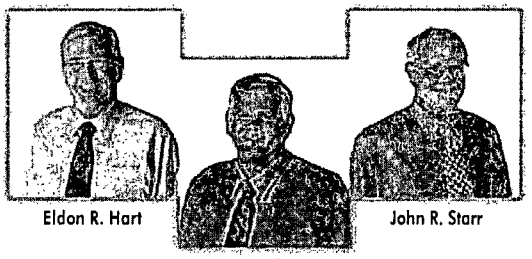
** Passed away June 2009*

SRP Councils

The two Councils enact and amend bylaws relating to the governance of SRP and also serve as liaisons to District electors and Association shareholders.

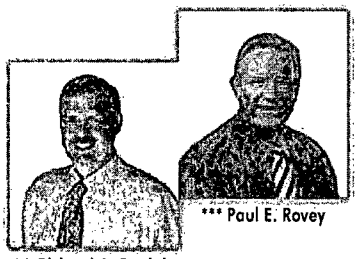
As with the SRP Boards, there is one Council for the Association and one for the District. The 30 Association Council members are elected to staggered four-year terms from 10 districts. The 30 District Council members are elected to staggered four-year terms from 10 divisions. Most often, candidates seek election to both Councils.

District/ Division 1



Eldon R. Hart
Kevin J. Johnson
John R. Starr

District/ Division 2



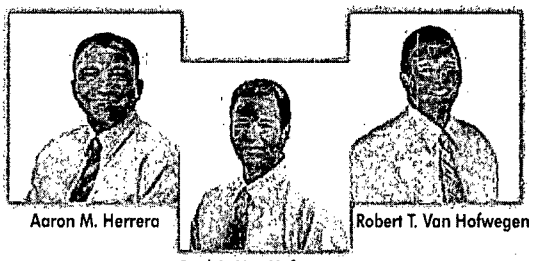
** Richard A. Boulais
*** Paul E. Rovey

Gerald E. Geiger
Appointed July 2009

Melvin L. Strahl Jr.
Appointed July 2009

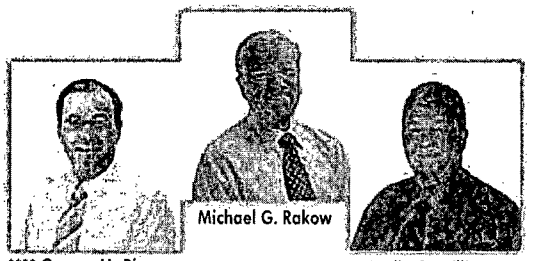
William W. Sheely
Appointed August 2009

District/ Division 3



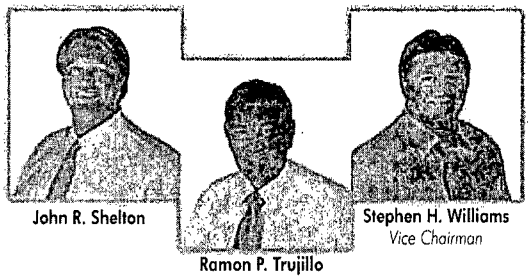
Aaron M. Herrera
Paul A. Van Hofwegen
Robert T. Van Hofwegen

District/ Division 4



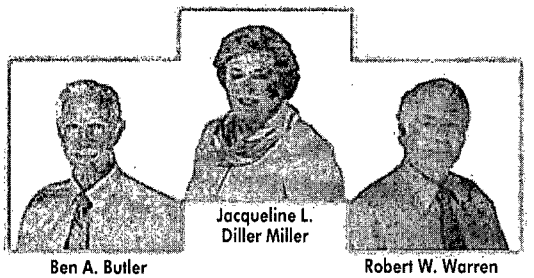
**** Garvey M. Biggers
Michael G. Rakow
Leslie C. Williams

District/ Division 5



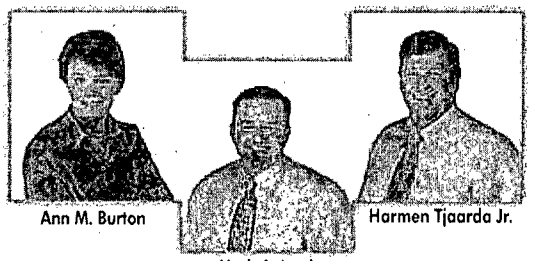
John R. Shelton
Ramon P. Trujillo
Stephen H. Williams
Vice Chairman

District/ Division 6



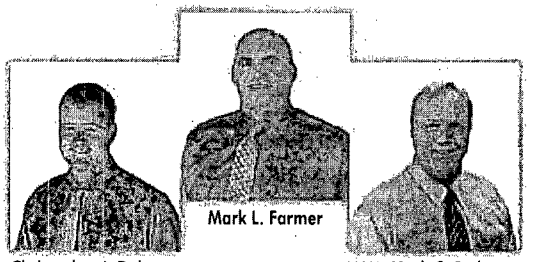
Ben A. Butler
Jacqueline L. Diller Miller
Robert W. Warren

District/ Division 7



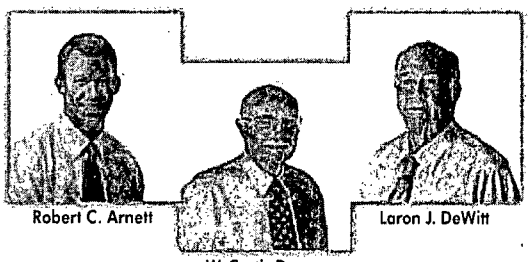
Ann M. Burton
Mark A. Lewis
Harmen Tjaarda Jr.

District/ Division 8



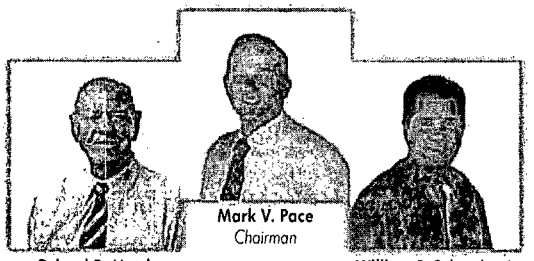
Christopher J. Dobson
Mark L. Farmer
***** Mark C. Pedersen

District/ Division 9



Robert C. Arnett
W. Curtis Dana
Laron J. DeWitt

District/ Division 10



Orland R. Hatch
Mark V. Pace
Chairman
William P. Schrader Jr.

***Resigned April 2009* ****Appointed to Boards August 2009* *****Appointed May 2009* ******Appointed September 2008*

D. Michael Rappoport *David G. Areghini* *Jane D. Alfano* *Richard M. Hayslip* *Mark B. Bonsall* *Barbara M. Hoffnagle* *John F. Sullivan*

Corporate Officers

John M. Williams Jr.
President

David Rousseau
Vice President

Terrill A. Lonon
Secretary

Aidan J. McSheffrey
Treasurer

Executive Management

Richard H. Silverman
General Manager

David G. Areghini
Associate General Manager
Power, Construction & Engineering Services

Mark B. Bonsall
Associate General Manager
Commercial & Customer Services

Richard M. Hayslip
Associate General Manager
Environmental, HR, Land/PPC, Risk Management & Telecom

Barbara M. Hoffnagle
Associate General Manager
Information Technology & Operations Support Services

D. Michael Rappoport
Associate General Manager
Public & Communications Services

John F. Sullivan
Associate General Manager
Water Group

Jane D. Alfano
Corporate Counsel

Corporate Headquarters

Street address
SRP
1521 North Project Dr.
Tempe, Arizona

Mailing address
SRP
P.O. Box 52025
Phoenix, AZ 85072-2025

Financial Inquiries

Dean Yee, Manager, SRP Financial Services
(602) 236-5231

Requests for Annual Reports

For additional copies of this report, or SRP quarterly reports, call SRP at (602) 236-2598.

Changes to Mailing List

For corrections or other changes to the mailing list for this report, call SRP at (602) 236-2564.

Bondholder Information

For all bond information, call the SRP Treasury Department at (602) 236-2222.

www.srpnet.com

Five-Year Operational and Statistical Review

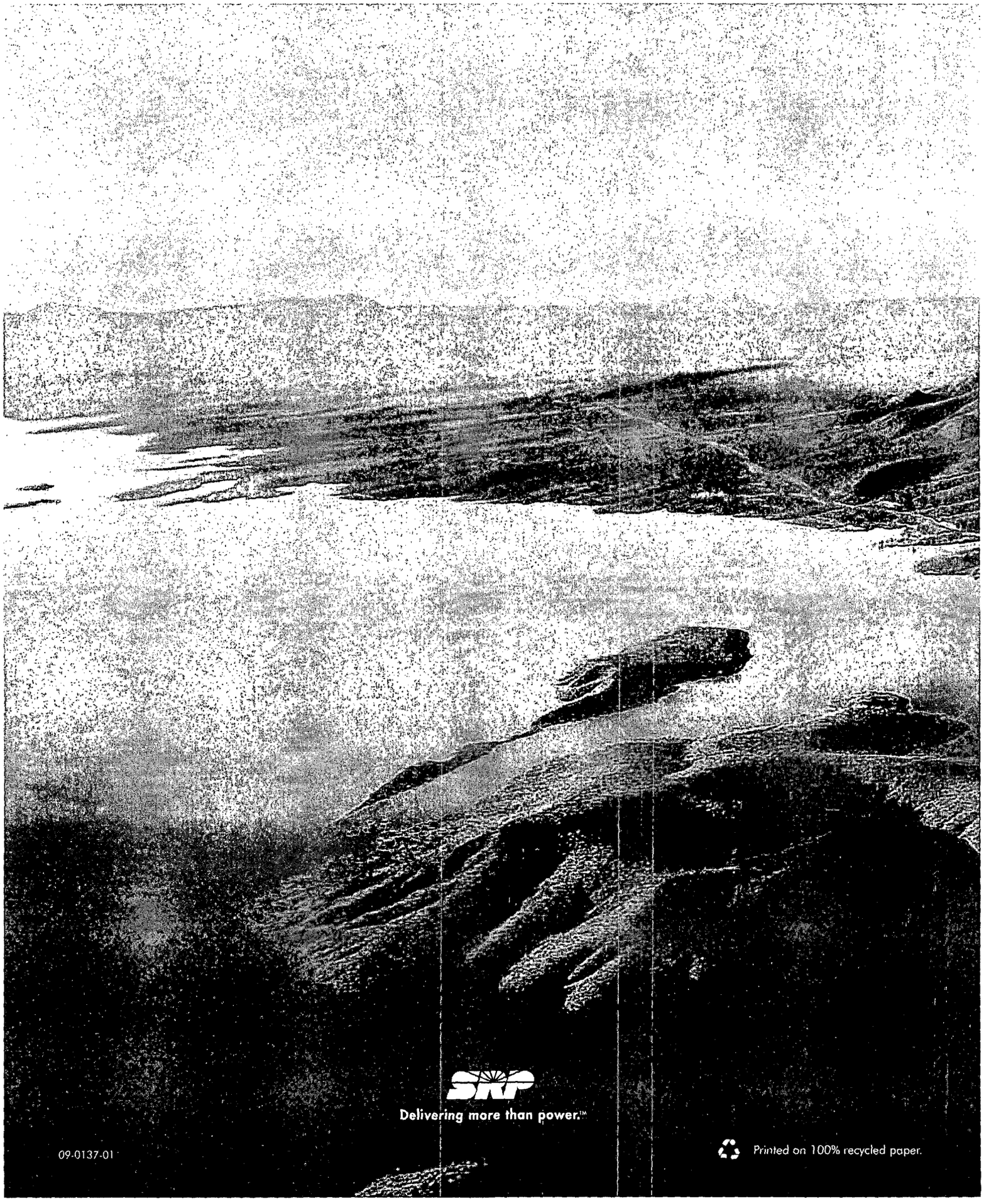
Financial Data ($000)	2009	2008	2007	2006	2005
Total operating revenues	$ 2,767,024	$2,739,123	$2,630,733	$2,521,970	$2,251,723
Retail electric revenues	2,318,582	2,212,807	2,054,652	1,885,912	1,709,213
Water revenues	14,107	14,339	12,893	12,036	12,786
Other revenues	434,335	511,977	563,188	624,022	529,724
Total operating expenses	2,778,075	2,416,908	2,213,544	2,139,702	1,815,538
Total other income, net	(103,497)	58,104	90,224	158,966	31,902
Net financing costs	132,474	123,216	139,623	125,834	105,637
Net revenues for the year	(247,022)	257,103	367,790	415,400	362,450
Taxes and tax equivalents	92,840	93,376	97,607	100,953	105,475
Utility plant, gross	11,783,596	10,866,410	9,912,865	9,384,134	9,043,377
Long-term debt	3,831,657	3,679,929	3,041,408	2,893,017	2,727,348
Electric revenue contributions to support water operations	33,167	47,017	34,792	34,161	56,672

Selected Data

Debt service coverage ratio	2.33	2.82	3.09	2.42	2.39
Debt ratio (percent)	51.6	48.9	45.7	47.9	50.1
Total electric sales (million kWh)	33,064	33,998	33,872	32,658	32,577
Peak-SRP retail customers (kW)	6,410,000	6,578,000	6,590,000	6,044,000	5,665,000
Water deliveries (acre-feet)*	–	794,235	854,093	870,165	860,584
Runoff (acre-feet)*	–	1,698,219	696,550	456,318	2,055,554
Employees at year end**	4,461	4,431	4,388	4,328	4,336
Customers at year end	933,771	928,992	919,422	892,875	858,314

** Water data is by calendar year; all other data is by fiscal year ending April 30.*

*** Excludes non-regular employees such as temporary employees, students and apprentices.*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09-0137-01
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SALT RIVER PROJECT

COMBINED FINANCIAL STATEMENTS AS OF APRIL 30, 2009 AND 2008 TOGETHER WITH REPORT OF INDEPENDENT AUDITORS

SALT RIVER PROJECT
COMBINED BALANCE SHEETS
APRIL 30, 2009 AND 2008
(Thousands)

ASSETS

	2009	2008
Utility Plant		
Plant in Service -		
Electric	$ 9,299,342	$ 8,943,588
Irrigation	304,032	294,038
Common	505,524	488,692
Total plant in service	10,108,898	9,726,318
Less - Accumulated depreciation on plant in service	(4,988,868)	(4,687,090)
	5,120,030	5,039,228
Plant held for future use	3,883	3,726
Construction work in progress	1,559,300	1,041,462
Nuclear fuel, net	111,515	94,904
	6,794,728	6,179,320
Other Property and Investments		
Non-utility property and other investments	206,825	194,900
Segregated funds, net of current portion	1,039,178	1,153,803
	1,246,003	1,348,703
Current Assets		
Cash and cash equivalents	379,482	414,428
Temporary investments	145,664	106,556
Current portion of segregated funds	211,498	232,303
Receivables, net of allowance for doubtful accounts	183,680	241,626
Fuel stocks	44,622	37,829
Materials and supplies	133,868	124,160
Current derivative assets	60,193	101,795
Other current assets	19,163	13,732
	1,178,170	1,272,429
Deferred Charges and Other Assets		
Regulatory assets	779,299	569,814
Non-current derivative assets	5,790	58,520
Other deferred charges and other assets	69,313	86,759
	854,402	715,093
	$ 10,073,303	$ 9,515,545

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

SALT RIVER PROJECT
COMBINED BALANCE SHEETS
APRIL 30, 2009 AND 2008
(Thousands)

CAPITALIZATION AND LIABILITIES

	2009	2008
Long-term Debt	$ 3,831,657	$ 3,679,929
Accumulated Net Revenues and Other Comprehensive Income	3,591,813	3,838,835
Total Capitalization	7,423,470	7,518,764
Current Liabilities		
Current portion of long-term debt	132,645	170,748
Commercial Paper	375,000	-
Accounts payable	248,454	284,295
Accrued taxes and tax equivalents	62,686	72,600
Accrued interest	63,779	49,122
Customers' deposits	80,010	79,049
Current derivative liabilities	162,286	5,460
Other current liabilities	285,998	302,722
	1,410,858	963,996
Deferred Credits and Other Non-current Liabilities		
Accrued post-retirement liability	792,328	597,239
Asset retirement obligations	187,801	177,331
Non-current derivative liabilities	39,511	583
Other deferred credits and other non-current liabilities	219,335	257,632
	1,238,975	1,032,785
Commitments and Contingencies (Notes 7, 9, 10, 13 and 14)		
	$ 10,073,303	$ 9,515,545

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

SALT RIVER PROJECT
COMBINED STATEMENTS OF NET REVENUES AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED APRIL 30, 2009 AND 2008
(Thousands)

	2009	2008
Operating Revenues		
Retail electric	$ 2,318,582	$ 2,212,807
Water	14,107	14,339
Other	434,335	511,977
Total operating revenues	2,767,024	2,739,123
Operating Expenses		
Power purchased	581,731	486,406
Fuel used in electric generation	948,335	677,871
Other operating expenses	499,643	484,954
Maintenance	270,678	304,824
Depreciation and amortization	384,848	369,477
Taxes and tax equivalent	92,840	93,376
Total operating expenses	2,778,075	2,416,908
Net operating revenues (expenses)	(11,051)	322,215
Other Income		
Investment income (loss), net	(99,669)	62,657
Other income (deductions), net	(3,828)	(4,553)
Total other income, net	(103,497)	58,104
Net revenues (expenses) before financing costs	(114,548)	380,319
Financing Costs		
Interest on bonds	160,747	123,455
Capitalized interest	(44,643)	(23,552)
Amortization of bond discount/premium and issuance expenses	(6,174)	(5,962)
Interest on other obligations	22,544	29,275
Net financing costs	132,474	123,216
Net Revenues (Expenses)	(247,022)	257,103
Other Comprehensive Income (Loss)	-	(25,164)
Comprehensive Income (Loss)	$ (247,022)	$ 231,939

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

SALT RIVER PROJECT
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED APRIL 30, 2009 AND 2008
(Thousands)

	2009	2008
Cash Flows from Operating Activities		
Net Revenues	$ (247,022)	$ 257,103
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation, amortization and accretion	384,848	369,477
Amortization of net bond discount/premium and issuance expenses	(6,174)	(5,963)
Change in fair value of derivative instruments	327,769	(92,707)
Change in fair value of investment securities	92,271	-
(Loss) gain on sale of capital assets	(643)	(301)
Decrease (increase) in:		
Fuel stocks and materials and supplies	(16,501)	(28,347)
Receivables, including unbilled revenues, net	57,946	(15,170)
Other current assets	(47,256)	(10,168)
Deferred charges and other assets	(188,624)	(10,046)
Increase (decrease) in:		
Accounts payable	(99,726)	65,268
Accrued taxes and tax equivalents	(9,914)	(2,535)
Accrued interest	14,657	1,476
Current liabilities	9,971	19,768
Deferred credits and other non-current liabilities	121,471	(13,180)
Net cash provided by operating activities	393,073	534,675
Cash Flows from Investing Activities		
Additions to utility plant, net	(955,457)	(1,073,997)
Proceeds from disposition of assets	5,176	9,101
Purchases of investments	(1,033,979)	(1,344,636)
Sales and maturities of investments	999,617	1,210,608
Net change in short-term investments related to segregated funds	62,768	(83,848)
Net cash used for investing activities	(921,875)	(1,282,772)
Cash Flows from Financing Activities		
Proceeds from issuance of revenue bonds	760,606	816,139
Retirement of commercial paper	(100,000)	-
Repayment of long-term debt, including refundings	(166,750)	(148,764)
Net cash provided by financing activities	493,856	667,375
Net Increase (Decrease) in Cash and Cash Equivalents	(34,946)	(80,722)
Balance at Beginning of Year in Cash and Cash Equivalents	414,428	495,150
Balance at End of Year in Cash and Cash Equivalents	$ 379,482	$ 414,428
Supplemental Information		
Cash paid for interest (net of capitalized interest)	$ 124,526	$ 127,702

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

SALT RIVER PROJECT
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2009 AND 2008

(1) BASIS OF PRESENTATION:

The Company

The Salt River Project Agricultural Improvement and Power District (the District) is an agricultural improvement district organized in 1937 under the laws of the State of Arizona. It operates the Salt River Project (the Project), a federal reclamation project, under contracts with the Salt River Valley Water Users' Association (the Association), by which it has assumed the obligations and assets of the Association, including its obligations to the United States of America for the care, operation and maintenance of the Project. The District owns and operates an electric system that generates, purchases, transmits and distributes electric power and energy, and provides electric service to residential, commercial, industrial and agricultural power users in a 2,900 square mile service territory in parts of Maricopa, Gila and Pinal Counties, plus mine loads in an adjacent 2,400 square mile area in Gila and Pinal Counties. The Association, incorporated under the laws of the Territory of Arizona in 1903, operates an irrigation system as the agent of the District. The District and the Association are together referred to as SRP.

Possession and Use of Utility Plant

The United States of America retains a paramount right or claim in the Project that arises from the original construction and operation of certain of the Project's electric and water facilities as a federal reclamation project. Rights to the possession and use of, and to all revenues produced by, these facilities are evidenced by contractual arrangements with the United States of America.

Basis of Accounting

The accompanying combined financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and reflect the pricing policies of the District's Board of Directors (Board). The District's electric operations apply Statement of Financial Accounting Standards (SFAS) No. 71, *"Accounting for the Effects of Certain Types of Regulation,"* (SFAS No. 71).

By virtue of SRP operating a federal reclamation project under contract, with the federal government's pre-emptive rights, asset ownership and certain approval rights, SRP is considered for financial reporting purposes to follow accounting standards as set forth by the Federal Accounting Standards Advisory Board (FASAB). Entities reporting in accordance with the standards issued by the Financial Accounting Standards Board (FASB) prior to October 19, 1999 (the date the American Institute of Certified Public Accountants (AICPA) designated the FASAB as the accounting standard setting body for entities under the federal government) are permitted to continue to report in accordance with those standards. Consequently, SRP's financial statements are reported in accordance with FASB standards.

The preparation of financial statements in compliance with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and disclosures of contingencies. Actual results could differ from the estimates.

Regulation and Pricing Policies

Under Arizona law, the District's publicly elected Board has the authority to establish electric prices. The District is required to follow certain public notice and special Board meeting procedures before implementing any changes in the standard electric price plans.

(2) SIGNIFICANT ACCOUNTING POLICIES:

Regulatory Accounting

The District accounts for the financial effects of the regulated portion of its operations in accordance with the provisions of SFAS No. 71, which requires cost-based, rate-regulated utilities to reflect the impacts of regulatory decisions in their financial statements. The District records regulatory assets, which represent probable future recovery of certain costs from customers through the pricing process, and regulatory liabilities, which represent probable future credits to customers through the ratemaking process. The District includes the following regulatory assets in the accompanying Combined Balance Sheets as of April 30:

	2009	2008
Pension and other postretirement benefits (Note 9)	$ 609,390	$ 416,627
Bond defeasance	78,280	82,459
Mohave Generating Station (Note 12)	52,004	59,804
Nuclear decommissioning (Note 2)	39,625	10,924
Total regulatory assets	$ 779,299	$ 569,814

The pension and other postretirement benefits regulatory asset is adjusted as changes in actuarial gains and losses, prior service costs and transition assets or obligations are recognized as components of net periodic pension costs each year and is recovered through prices charged to customers. Bond defeasance regulatory assets are recovered over the remaining original amortization period of the reacquired debt ending in fiscal year 2031. The Mohave Generating Station regulatory asset is being recovered over a ten-year period ending in fiscal year 2016. The nuclear decommissioning regulatory asset is being deferred over the life of Palo Verde Nuclear Generating Station (PVNGS) and is being recovered through a component of the system benefits charge.

Based on actions of the Board, the District believes the future collection of costs deferred through regulatory assets is probable. If events were to occur making full recovery of these regulatory assets no longer probable, the District would be required to write off the remaining balance of such assets as a one-time charge to net revenues.

Principles of Combination

The accompanying combined financial statements reflect the combined accounts of the Association and the District. The District's financial statements are consolidated with its three wholly-owned taxable subsidiaries: SRP Captive Risk Solutions, Limited (CRS), Papago Park Center, Inc. (PPC) and New West Energy Corporation (New West Energy). CRS is a domestic captive insurer incorporated primarily to access property/boiler and machinery insurance coverage under the Federal Terrorism Risk Insurance Act of 2002 for certified acts of terrorism. PPC is a real estate management company. New West Energy was used to market, at retail, energy available to the District that was surplus to the needs of its retail customers, and energy that might have been rendered surplus in Arizona by retail competition in the supply of generation, but is now largely inactive. All material inter-company transactions and balances have been eliminated.

Utility Plant

Utility plant is stated at the historical cost of construction, less any impairment losses. Capitalized construction costs include labor, materials, services purchased under contract, and allocations of indirect charges for engineering, supervision, transportation and administrative expenses and capitalized interest or an allowance for funds used during construction (AFUDC). The cost of property that is replaced, removed or abandoned, together with removal costs, less salvage, is charged to accumulated depreciation.

Depreciation expense is computed on the straight-line basis over the estimated useful lives of the various classes of plant assets. The following table reflects the District's average depreciation rates on the average cost of depreciable assets, for the fiscal years ended April 30:

	2009	2008
Average electric depreciation rate	3.67%	3.66%
Average irrigation depreciation rate	2.02%	2.05%
Average common depreciation rate	6.54%	6.49%

Allowance for Funds Used During Construction

AFUDC is the estimated cost of funds used to finance plant additions and is recovered in prices through depreciation expense over the useful life of the related asset. AFUDC is capitalized during certain plant construction and included in capitalized interest in the Combined Statements of Net Revenue and Comprehensive Income. Composite rates of 4.52% and 4.76% were used in fiscal years 2009 and 2008 to calculate interest on funds used to finance construction work in progress, resulting in $44.6 million and $23.6 million of interest capitalized, respectively.

Nuclear Fuel

The District amortizes the cost of nuclear fuel using the units-of-production method. The units-of-production method is an amortization method based on actual physical usage. The nuclear fuel amortization and accrued expenses for both the interim and permanent disposal of spent nuclear fuel are components of fuel expense. Accumulated amortization of nuclear fuel at April 30, 2009 and 2008 was $447.0 million and $425.7 million, respectively. (See Note (14) CONTINGENCIES, Spent Nuclear Fuel for additional information).

Asset Retirement Obligations

SRP accounts for its asset retirement obligations in accordance with SFAS No. 143, *"Accounting for Asset Retirement Obligations,"* (SFAS No. 143) and FASB Interpretation No. 47, *"Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143,"* (FIN 47). SFAS No. 143 requires the recognition and measurement of liabilities for legal obligations associated with the retirement of tangible long-lived assets. Under the standard, these liabilities are recognized at fair value as incurred and capitalized as part of the cost of the related tangible long-lived assets. Accretion of the liabilities, due to the passage of time, is an operating expense and the capitalized cost is depreciated over the useful life of the long-lived asset. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which a legal obligation exists under enacted laws, statutes, and written or oral contracts, including obligations arising under the doctrine of promissory estoppel.

The District has identified retirement obligations for the PVNGS, Navajo Generating Station (NGS), Four Corners Generating Station (Four Corners) and certain other assets. Amounts recorded under SFAS No. 143, are subject to various assumptions and determinations, such as determining whether an obligation exists to remove assets, estimating the fair value of the costs of removal, estimating when final removal will occur, and determining the credit-adjusted, risk-free interest rates to be utilized on discounting future liabilities. Changes that may arise over time with regard to these assumptions and determinations will change amounts recorded in the future as expense for asset retirement obligations. PVNGS received an updated decommissioning study during fiscal year 2008, which resulted in a decrease of $32.2 million to the District's share of the PVNGS asset retirement obligation.

A summary of the asset retirement obligation activity of the District at April 30 is included below (in thousands):

	2009	2008
Beginning balance, May 1	$ 177,331	$ 195,005
Liabilities incurred during the year	-	2,468
Changes in estimate	(415)	(32,189)
Accretion expense	10,885	12,047
Ending balance, April 30	$ 187,801	$ 177,331

Investments in Debt and Equity Securities

SRP accounts and reports for investments in debt and equity securities in accordance with SFAS No. 115, *"Accounting for Certain Investments in Debt and Equity Securities,"* (SFAS No. 115). Debt securities that SRP has the positive intent and ability to hold to maturity are classified as held-to-maturity *securities* and reported at amortized cost. Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive income. SRP has adopted SFAS No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment to FASB Statement No. 115,"* (SFAS No. 159) for all securities previously classified as available-for-sale. (See Note (3) FAIR VALUE OF FINANCIAL INSTRUMENTS.)

Securities Lending

The District participates in a securities lending program for certain investments held in equity securities. Under the program, the District receives collateral having a market value not less than 102% of the market value of the loaned securities. The collateral received is invested in a collateral pool made up of fixed income securities and are classified as trading securities in accordance with SFAS No. 115.

During fiscal year 2009, the District determined that the collateral received and corresponding obligation to return the collateral had not been recorded in the prior year. The district revised the previously issued financial statements to reflect these amounts, resulting in an increase to current portion of segregated funds by $133.5 million, with a corresponding increase in other current liabilities in the accompanying Combined Balance Sheets at April 30, 2008.

Segregated Funds

The District sets aside funds that are segregated due to management intent and to support various purposes. These segregated funds also include amounts that are legally restricted. The following amounts are included in segregated funds in the accompanying Combined Balance Sheets at April 30 (in thousands):

	2009	2008
Segregated funds – legally restricted		
Construction Fund (see "Capital Improvement Program" in Note 13)	$ 421,856	$ 412,782
Nuclear Decommissioning Trust (see "Nuclear Decommissioning" in Note 2)	152,111	194,510
Roosevelt Habitat Conservation Plan (see "Environmental" in Note 14)	9,545	-
NGS Settlement Trust	1,818	-
Debt Reserve Fund (see "Revenue Bonds" in Note 7)	80,598	81,146
Collateral investment pool (see "Securities Lending" in Note 2)	112,499	133,538
Total segregated funds – legally restricted	778,427	821,976
Segregated funds – other		
Benefits funds	372,455	464,011
Debt Service Fund (see "Revenue Bonds" in Note 7)	99,000	98,765
Other	794	1,354
Total segregated funds – other	472,249	564,130
Total segregated funds, including current portion	$ 1,250,676	$ 1,386,106

Nuclear Decommissioning

In accordance with regulations of the Nuclear Regulatory Commission, the District maintains a trust for the decommissioning of PVNGS. The Nuclear Decommissioning Trust (NDT) funds are invested in debt and equity securities. As of May 1, 2008, the District elected to apply the fair value option to these securities which are now reported as trading securities. Prior to the election of the fair value option, these securities were classified as available-for-sale. The NDT funds, stated at fair value, as of April 30, 2009 and 2008, were $152.1 million and $194.5 million, respectively. The NDT funds are classified as segregated funds in the accompanying Combined Balance Sheets and are exempt from federal and state income taxes. (See Note (3) FAIR VALUE OPTION for additional information about the NDT.)

In fiscal year 2008, the Board authorized the future recovery through prices of all costs associated with nuclear decommissioning. As a result, any difference between current year costs and revenues associated with nuclear decommissioning are deferred in accordance with SFAS No. 71 and have no impact to the District's earnings. (See NOTE (2) SIGNIFICANT ACCOUNTING POLICIES, Regulatory Accounting for additional information.)

Cash Equivalents

Cash equivalents include money market funds and highly liquid short-term investments with original maturities of three months or less, excluding those short-term investments included as part of the segregated funds and investments included in non-utility property and other investments in the accompanying Combined Balance Sheets. (For further discussion of financial instruments see Note (5) FAIR VALUE MEASUREMENTS.)

Allowance for Doubtful Accounts

The District has provided for an allowance for doubtful accounts of $9.3 million and $12.1 million as of April 30, 2009 and 2008, respectively.

Materials and Supplies, and Fuel Stocks

Materials and supplies are stated at lower of market or average cost. Fuel stocks are stated at lower of market or weighted average cost.

Bond Expense

Bond discount, premium and issuance expenses are deferred and amortized using the effective interest method over the terms of the related bond issues.

Voluntary Contributions in Lieu of Taxes

In accordance with legislation, the District makes voluntary contributions each year to the State of Arizona, school districts, cities, counties, towns and other political subdivisions of the State of Arizona, for which property taxes are levied and within whose boundaries the District has property devoted to furnishing electric service. As a political subdivision of the State of Arizona, the District is exempt from property taxation. The amount paid is computed on the same basis as ad valorem taxes paid by a private utility corporation with allowance for certain water-related deductions. Contributions based on the costs of construction work in progress are capitalized, and those based on plant-in-service are expensed.

Revenue Recognition

The District recognizes revenue when billed and accrues estimated revenue for electricity delivered to customers that has not yet been billed. The estimated revenue for electricity delivered but not yet billed is included in retail electric revenue and was $62.1 million and $64.0 million at April 30, 2009 and 2008, respectively. Other operating revenue consists primarily of revenue from marketing and trading electricity.

The electric industry engages in an activity called "book-out" under which some energy purchases are netted against sales and power does not actually flow in settlement of the contract. The District presents the impacts of these financially settled contracts on a net basis, which resulted in a net reduction to revenue and purchase power expense of $115.1 million and $166.1 million for fiscal years 2009 and 2008, respectively, but which did not impact net revenues or cash flows.

Sales and Use Taxes

The District is required by various government authorities, including states and municipalities, to collect and remit taxes on certain retail sales. Such taxes are presented on a net basis and excluded from revenues and expenses in the combined financial statements.

Income Taxes

The District is exempt from federal and Arizona state income taxes. The Association is not exempt from federal and Arizona state income taxes. The Association is not liable for income taxes on operations

relating to its acting as an agent for the District on the basis of a settlement with the Commissioner of Internal Revenue in 1949 which was approved by the Secretary of the Treasury. The Association is liable for income taxes on activities where it is not acting as an agent of the District. The tax effect of the District's wholly-owned taxable subsidiaries' operations is immaterial to the combined financial statements.

Accounting for Energy Risk Management Activities

The District has an energy risk management program to limit exposure to risks inherent in normal energy business operations. The goal of the energy risk management program is to measure and manage exposure to market risks, credit risks and operational risks. Specific goals of the energy risk management program include reducing the impact of market fluctuations on energy commodity prices associated with customer energy requirements, excess generation and fuel expenses, in addition to meeting customer pricing needs, and maximizing the value of physical generating assets. The District employs established policies and procedures to meet the goals of the energy risk management program using various physical and financial instruments, including forward contracts, futures, swaps and options.

Certain of these transactions are accounted for as derivatives under SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities,"* as amended (SFAS No. 133). Under SFAS No. 133, derivatives are recorded in the balance sheet as either an asset or liability measured at their fair value. The standard also requires changes in the fair value of the derivative to be recognized each period in current earnings or other comprehensive income depending on the purpose for using the derivative and/or its qualification, designation and effectiveness as a hedging transaction. Many of the District's contractual agreements qualify for the normal purchases and normal sales exception allowed under SFAS No. 133 and are not recorded at market value. This exception applies to physical sales and purchases of power or fuel where it is probable that physical delivery will occur; the pricing provisions are clearly and closely related to the contracted prices; and the SFAS No. 133 documentation requirements are met. (For further explanation of the effects of SFAS No. 133 on SRP's financial results, see Note (4), DERIVATIVE INSTRUMENTS.)

Concentrations of Credit Risk

The use of contractual arrangements to manage the risks associated with changes in energy commodity prices creates credit risks resulting from the possibility of nonperformance by counterparties pursuant to the terms of their contractual obligations. In addition, volatile energy prices can create significant credit exposure from energy market receivables and mark-to-market valuations. The District has a credit policy for wholesale counterparties, continuously monitoring credit exposures, routinely assessing the financial strength of its counterparties, minimizing credit risk by dealing primarily with creditworthy counterparties, entering into standardized agreements which allow netting of exposures to and from a single counterparty, and requiring letters of credit, parent guarantees or other collateral when it does not consider the financial strength of a counterparty sufficient.

Recently Issued Accounting Standards

FASB has issued the following Statements of Financial Accounting Standards (SFAS), Staff Positions (FSP), Emerging Issues Task Force Opinions (EITF) and Interpretations (FIN) that may have an impact on SRP:

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements,"* (SFAS No. 157). SFAS No. 157 defines fair value, establishes methods for measuring fair value by applying one of three observable market techniques (market approach, income approach or cost approach) and expands required disclosures about fair value measurements. SRP adopted the provisions of this standard for financial assets and liabilities and nonfinancial assets and liabilities measured at fair value effective May 1, 2008. (See Note (5) FAIR VALUE MEASUREMENTS.)

In February 2007, the FASB issued SFAS No. 159 which provides an option to report eligible financial assets and liabilities at fair value, with changes in fair value recognized in earnings. Effective May 1, 2008, SRP adopted the provisions of this standard for all securities previously classified as available-for-sale under SFAS No. 115. (See Note (3) FAIR VALUE OF FINANCIAL INSTRUMENTS, Fair Value Option for additional information regarding the adoption of SFAS No. 159.)

In April 2007, the FASB issued FSP No. FIN 39-1, *"An Amendment to FIN 39, Offsetting of Amounts Related to Certain Contracts,"* (FSP FIN 39-1) which permits companies to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting arrangement. In addition, upon the adoption of FSP FIN 39-1, companies were permitted to change their accounting policy to offset or not offset fair value amounts recognized for derivative instruments under master netting agreements. SRP adopted FSP FIN 39-1 effective May 1, 2008. The adoption had no effect on the combined financial statements.

In March 2008, the FASB issued SFAS No. 161, *"Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133,"* (SFAS No. 161). SFAS No. 161 requires additional disclosures related to derivative instruments, including how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early adoption permitted. SRP adopted the provisions of this standard effective February 1, 2009, which resulted in additional disclosures to the combined financial statements. SFAS No. 161 affects disclosures only. (See Note (4) DERIVATIVE INSTRUMENTS.)

In December 2008, the FASB issued FSP No. FAS 140-4 and FIN 46(R)-8, *"Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities,"* (FSP FAS 140-4 and FIN 46(R)-8). The pronouncement also amends FASB Interpretation No. 46 (revised December 2003), *"Consolidation of Variable Interest Entities,"* to provide additional disclosures about involvement with variable interest entities and qualifying special purpose entities. FSP FAS 140-4 and FIN 46(R)-8 were effective for SRP at April 30, 2009, and resulted in additional disclosures to the combined financial statements. (See Note (11) VARIABLE INTEREST ENTITIES.)

In February 2008, the FASB issued FSP No. FAS 157-2, *"Effective Date of FASB Statement No. 157,"* which delayed the effective date of FAS No. 157 for all nonrecurring fair value measurements of nonfinancial assets and liabilities for one year. Accordingly, SRP has not adopted FAS No. 157 for its nonfinancial assets and liabilities, except those items recognized or disclosed at fair value on a recurring basis. SRP will adopt FAS No. 157 for nonrecurring fair value measurements of nonfinancial assets and liabilities at May 1, 2009, and is evaluating the impact, if any, that the adoption of the standard could have on the combined financial statements.

In December 2008, the FASB issued FSP No. FAS 132(R)-1, *"Employers Disclosures about Postretirement Benefits Assets,"* which amends SFAS No. 132(R)-1 to require more detailed disclosures about

employers' plan assets, including employers' investment strategies, major categories of plan assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair value of plan assets. The disclosures about plan assets required by this FSP shall be provided for fiscal years ending after December 15, 2009. SRP will adopt these provisions at April 30, 2010, which will result in the inclusion of additional disclosures in the combined financial statements.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *"Recognition and Presentation of Other-Than-Temporary Impairments,"* (FSP FAS 115-2 and FAS 124-2) which changes existing guidance for determining whether impairment is other than temporary for debt securities. Under FSP FAS 115-2 and FAS 124-2, an entity would write down to fair value through earnings, impaired debt securities that it currently intends to sell or for which it is more likely than not it will have to sell before recovery. If an entity does not intend and will not be required to sell a debt security, the entity will separate the other-than-temporary impairment into two components: 1) the amount due to credit loss would be recognized in earnings, and 2) the remaining portion would be recognized in other comprehensive income. FSP FAS 115-2 and FAS 124-2 also requires increased disclosures including the amortized cost basis, credit losses, a potential increase in major security categories and quarterly as well as annual disclosures. SRP will adopt FSP FAS 115-2 and FAS 124-2 effective July 31, 2009, and does not expect the provision to impact the combined financial statements.

In June 2009, the FASB issued SFAS No. 167, *"Amendments to FASB Interpretation No. 46(R),"* (SFAS No. 167). This statement amends the Interpretation to require an enterprise to perform an analysis to determine whether the enterprise's interests give it a controlling financial interest in a variable interest entity (VIE) and to assess whether it has an implicit financial responsibility to ensure that a VIE operates as designated. The standard also requires ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE. The standard will also require enhanced disclosures that will provide more transparent information about an enterprise's involvement in a VIE. SFAS No. 167 is effective as of the beginning of the first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. SRP will adopt SFAS No. 167 effective May 1, 2010, and is evaluating the impact, if any, that the adoption of this standard could have on the combined financial statements.

(3) FAIR VALUE OF FINANCIAL INSTRUMENTS:

Fair Value Option

SRP invests in U.S. government obligations, certificates of deposit and other marketable investments. Such investments are classified as cash and cash equivalents, temporary investments, other investments, and segregated funds in the accompanying Combined Balance Sheets depending on the purpose and duration of the investment.

On May 1, 2008, SRP adopted SFAS No. 159 which permits an entity to choose to measure many financial instruments and certain other items at fair value. SRP elected the fair value option for all investment securities previously classified as available-for-sale under SFAS No. 115. Prior to the adoption of SFAS No. 159, these investment securities were classified as available-for-sale; election of the fair value option for an available-for-sale security in conjunction with the adoption of SFAS No. 159 requires the securities to be reported as a trading security under SFAS No. 115. Additionally, during fiscal year 2009, the District elected the fair value option for investment securities held in the NGS Settlement Trust and the Roosevelt Habitat Conservation Plan Trust (RHCP) which were established in

fiscal year 2009. Management elected the fair value option for these investment securities at fair value because management believes that fair value best represents the nature of the investments.

While the investment securities held in these funds are reported as trading securities, the investments continue to be managed with a long-term focus. Accordingly, all purchases and sales within these funds are presented separately in the accompanying Statement of Cash Flows as investing cash flows, consistent with the nature and purpose for which the securities are acquired.

The following table provides detail regarding SRP's elections by combined balance sheet line as of May 1, 2008 (in thousands):

	Carrying Value of Financial Instruments as of May 1, 2008	Transition Gain(Loss) Recorded in Accumulated Net Revenues	Adjusted Carrying Value of Financial Instruments as of May 1, 2008
Cash and cash equivalents	$ 404,091	$ -	$ 404,091
Segregated funds, net of current portion	827,993	11,616	839,609
Cumulative effect of adoption of SFAS No. 159	$ 1,232,084	$ 11,616	$ 1,243,700

The adoption of SFAS No. 159, for investments held in the NDT, had no impact on the earnings, cash flows, or financial condition of the District. For all periods presented, all gains and losses, whether realized or unrealized, are recorded in the regulatory asset or liability as authorized by the Board. Fair value adjustments, realized gains, and other-than-temporary losses are determined on a weighted-average cost basis.

Investments in Marketable Debt and Equity Securities

The following table summarizes SRP's investments in debt and equity securities presented in the accompanying Combined Balance Sheets at April 30 (in thousands):

	2009	2008
Cash and cash equivalents		
Cash	$ 21,652	$ 10,337
Money market funds	347,859	394,159
Available-for-sale investments	-	9,932
Held-to-maturity investments	9,971	-
Total cash and cash equivalents	379,482	414,428
Non-utility property and other investments		
Money market funds	5,343	-
Trading investments	19,709	-
Held-to-maturity investments	103,535	119,590
Total non-utility property and other investments	128,587	119,590
Segregated funds, net of current portion		
Cash	798	1,638
Money market funds	280,147	192,936
Trading investments	514,277	-
Available-for-sale investments	-	635,057
Held-to-maturity investments	243,956	324,172
Total segregated funds, net of current portion	1,039,178	1,153,803
Temporary investments		
Held-to-maturity investments	145,664	106,556
Total temporary investments	145,664	106,556
Current portion of segregated funds		
Money market funds	20,270	-
Trading investments	112,499	133,538
Held-to-maturity investments	78,729	98,765
Total current portion of segregated funds	211,498	232,303
Total cash, cash equivalents and investments	$ 1,904,409	$ 2,026,680

SRP's investments in debt securities are measured and reported at amortized cost when there is positive intent and ability to hold the security to maturity. SRP's amortized cost and fair value of held-to-maturity securities were $581.9 million and $587.7 million, respectively, at April 30, 2009 and $649.1 million and $651.5 million, respectively, at April 30, 2008. At April 30, 2009, SRP's investments in debt securities have maturity dates ranging from May 22, 2009, to January 10, 2013.

SRP's trading investments are measured at fair value in accordance with SFAS No. 115 which requires that unrealized trading gains and losses be included in earnings. SRP recognized a $92.3 million unrealized loss in investment income (loss), net, in the accompanying Statements of Net Revenues and Other Comprehensive Income at April 30, 2009, and a corresponding adjustment of $85.7 million and $6.6 million to the fair value of investments included in segregated funds, net of current portion, and in current portion of segregated funds, respectively, in the accompanying Combined Balance Sheets at April 30, 2009. SRP's money market funds, previously classified as available-for-sale securities, are classified as trading investments beginning at May 1, 2008.

At April 30, 2008, the amortized cost and estimated fair value of SRP's available-for-sale securities, including money market funds, consists of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities	$ 944,750	$ 25,127	$ (12,979)	$ 956,898
Debt securities	262,643	12,544	-	275,187
Total available-for-sale securities	$ 1,207,393	$ 37,671	$ (12,979)	$ 1,232,085

There were no available-for-sale securities at April 30, 2009. At April 30, 2008, net unrealized gains (losses) on available-for-sale debt and marketable equity securities, excluding decommissioning fund assets, were $(25.2) million for the fiscal year and are included in accumulated other comprehensive income in the accompanying Combined Balance Sheets.

Unrealized gains (losses) on decommissioning fund assets of $(4.0) million for the fiscal year ended April 30, 2008, are included in regulatory assets in the accompanying Combined Balance Sheets. The proceeds from sale of available-for-sale securities were $315.1 million, and the net realized gains were $39.1 million, at April 30, 2008.

At April 30, 2008, SRP's total securities with gross unrealized losses consisted of available-for-sale equity securities with a fair value of $81.0 million and gross unrealized losses of $13.0 million. The securities were in this position for less than twelve months at the reporting date. SRP did not have any material unrealized losses at April 30, 2009, related to investments in securities.

Prior to the adoption of SFAS No. 159, management evaluated both available-for-sale and held-to-maturity securities for other-than-temporary impairment on a quarterly basis considering numerous factors, and their relative significance varies case-by-case. Upon adoption of SFAS No. 159, SRP elected the fair value option on all securities, excluding those classified as held-to-maturity and continues to evaluate the held-to-maturity securities for other-than-temporary impairment. At April 30, 2009, SRP did not hold any other-than-temporary impaired securities. Factors considered when determining whether impairment is other-than-temporary include the length of time and extent to which the fair value has been less than cost; the financial condition and near-term prospects of the issuer; and SRP's intent and ability to hold the security in order to allow for an anticipated recovery in fair value. If, based upon an analysis of each of the above factors, it is determined that the impairment is other-than-temporary, the carrying value of the security is written down to fair value, and a loss is recognized through earnings; losses recognized on decommissioning trust securities are recorded as a regulatory asset in accordance with SFAS No. 71. SRP recognized a $20.9 million other-than-temporary impairment in fiscal year 2008 of which $10.4 million is included in other income in the accompanying Combined Statements of Net Revenues and Comprehensive Income and $10.5 million is included in regulatory assets in the accompanying Combined Balance Sheets.

(4) DERIVATIVE INSTRUMENTS:

The District enters into contracts for electricity, natural gas and other energy commodities to meet the expected needs of its retail customers. The District sells excess capacity during periods when it is not needed to meet retail requirements. The District's energy risk management program uses various physical and financial contracts to economically hedge exposures to fluctuating commodity prices. The District examines contracts at inception to determine the appropriate accounting treatment. If a contract does not meet the derivative criteria, or if it qualifies for the SFAS No. 133

normal purchases and normal sales scope exception, the District accounts for the contract using settlement accounting (costs and revenues are recorded when physical delivery occurs).

Contracts that qualify as a derivative but do not meet the SFAS No. 133 normal purchases and normal sales scope exception are recorded at fair value with changes in fair value recognized in earnings. Changes in fair value related to the District's derivatives are classified as part of operating cash flows in the Combined Statements of Cash Flows.

Interest Rate Derivatives

In connection with a lease-purchase agreement related to the issuance of Certificates of Participation (COPs), the District entered into a six-year, $75 million pay-fixed-receive-floating interest rate swap transaction with Morgan Stanley Capital Services. The remaining notional value of the swap is $25 million expiring on December 1, 2009. The floating rate on the swap is based on the Securities Industry and Financial Markets Association (SIFMA) Municipal Index of 0.63% at April 30, 2009, and the fixed-receiver rate on the swap is 3.001%. Through the swap, the District was able to create synthetic variable rate debt and take advantage of the relationship between intermediate-term, tax-exempt borrowing costs and SIFMA-based, fixed-receiver swap rates. In addition, the swap to variable rate also enables the District to increase its short-term, variable rate debt portfolio. (See Note (7), LONG-TERM DEBT, Finance Lease for further information regarding COPs.)

Commodity Derivatives

The District enters into derivatives instruments, including forward contracts, futures, swaps and options intended to mitigate risk in connection with changes in utility commodity prices and vehicle fuel prices on behalf of its electric customers. The District records its derivative instruments at fair value on its combined balance sheets.

Derivative Volumes

The District has the following gross derivative volumes, by commodity type, at April 30, 2009:

Commodity	Unit of Measure	Sales Volumes	Purchases Volumes
Natural gas options, swaps and forward arrangements	MMBTU	7,305,000	83,210,000
Electricity options, swaps and forward arrangements	MWH	4,226,890	2,065,475
Liquefied fuel swaps	Gallon	-	2,005,914

Presentation of Derivative Instruments in the Financial Statements

The following table provides information about the gross fair values, netting, and collateral and margin deposits for derivatives not designated as hedging instruments under SFAS No. 133 in the accompanying Combined Balance Sheets (in thousands):

April 30, 2009

	Current Derivative Assets	Non-current Derivative Assets	Current Derivative Liabilities	Non-current Derivative Liabilities	Long-term Debt	Total Assets (Liabilities)
Commodities	$ 43,316	$ 10,661	$ (173,423)	$ (44,948)	$ -	$ (164,394)
Interest rate swap	-	566	-	-	172	738
Netting	(11,137)	(5,437)	11,137	5,437	-	-
Collateral and margin deposits	28,014	-	-	-	-	28,014
Total balance sheet	$ 60,193	$ 5,790	$ (162,286)	$ (39,511)	$ 172	$ (135,642)

April 30, 2008

	Current Derivative Assets	Non-current Derivative Assets	Current Derivative Liabilities	Non-current Derivative Liabilities	Long-term Debt	Total Assets
Commodities	$ 127,684	$ 63,011	$ (31,349)	$ (5,529)	$ -	$ 153,817
Interest rate swap	-	455	-	-	724	1,179
Netting	(25,889)	(4,946)	25,889	4,946	-	-
Collateral and margin deposits	-	-	-	-	-	-
Total balance sheet	$ 101,795	$ 58,520	$ (5,460)	$ (583)	$ 724	$ 154,996

The following table summarizes the District's unrealized gains (losses) associated with derivatives not designated as hedging instruments under SFAS No. 133 in the accompanying Combined Statements of Net Revenues and Comprehensive Income (in thousands):

April 30, 2009

	Operating Revenues	Power Purchased	Fuel Used in Electric Generation	Interest on Other Obligations	Net Unrealized Gain (Loss)
Commodities	$ (31,403)	$ (89,503)	$ (206,186)	$ -	$ (327,092)
Interest rate swap	-	-	-	(442)	(442)
Total	$ (31,403)	$ (89,503)	$ (206,186)	$ (442)	$ (327,534)

April 30, 2008

	Operating Revenues	Power Purchased	Fuel Used in Electric Generation	Interest on Other Obligations	Net Unrealized Gain (Loss)
Commodities	$ 8,500	$ 26,271	$ 56,284	$ -	$ 91,055
Interest rate swap	-	-	-	1,652	1,652
Total	$ 8,500	$ 26,271	$ 56,284	$ 1,652	$ 92,707

Credit Related Contingent Features

Certain of the District's derivative instruments contain provisions that require the District's debt to maintain an investment grade credit rating from each of the major credit rating agencies. If the District's debt were to fall below investment grade, it would violate these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on April 30, 2009, is $180.1 million for which the District has posted collateral of $1.6 million in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on April 30, 2009, the District would be required to post an additional $178.5 million of collateral to its counterparties.

(5) FAIR VALUE MEASUREMENTS:

On May 1, 2008, SRP adopted SFAS No. 157 which defines fair value, establishes methods for measuring fair value by applying one of three observable market techniques (market approach, income approach or cost approach) and expands required disclosures about fair value measurements. This standard defines fair value as the price that would be received for an asset, or paid to transfer a liability, in the most advantageous market for the asset or liability in an arms-length transaction between willing market participants at the measurement date.

In accordance with SFAS No. 157, SRP has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy defined by SFAS No. 157 are as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2 – Financial assets and liabilities whose values are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in non-active markets, pricing models whose inputs are observable for substantially the full term of the asset or liabilities and pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The following table sets forth, by level within the fair value hierarchy, SRP's financial assets and liabilities that were accounted for at fair value on a recurring basis as of April 30, 2009 (in thousands):

	Level 1	Level 2	Level 3	Netting and Collateral	Total
Assets					
Cash and cash equivalents:					
Money market funds	$ -	$ 347,859	$ -	$ -	$ 347,859
Total cash and cash equivalents	-	347,859	-	-	347,859
Non-utility property and other investments:					
Money market funds	-	5,343	-	-	5,343
Mutual funds	19,709	-	-	-	19,709
Total non-utility property and other investments	19,709	5,343	-	-	25,052
Segregated funds, net of current portion:					
Money market funds	-	280,147	-	-	280,147
Mutual funds	204,640	-	-	-	204,640
Commingled funds	-	-	156,043	-	156,043
Common stocks	153,594	-	-	-	153,594
Total segregated funds, net of current portion	358,234	280,147	156,043	-	794,424
Current portion of segregated funds:					
Money market fund	-	20,271	-	-	20,271
Collateral pool investments	-	-	112,499	-	112,499
Total current portion of segregated funds	-	20,271	112,499	-	132,770
Derivative instruments:					
Commodities	949	10,674	42,354	11,440	65,417
Interest rate swap	-	566	-	-	566
Total derivative instruments	949	11,240	42,354	11,440	65,983
Total assets	$ 378,892	$ 664,860	$ 310,896	$ 11,440	$1,382,662
Liabilities					
Derivative instruments:					
Commodities	$ (33,307)	$ (169,710)	$ (15,354)	$ 16,574	$ (218,371)
Interest rate swap	-	172	-	-	172
Total derivative instruments	(33,307)	(169,538)	(15,354)	16,574	(201,625)
Total liabilities	$ (33,307)	$ (169,538)	$ (15,354)	$ 16,574	$ (201,625)

Based on the guidance provided in SFAS No. 157, asset and liabilities are categorized based on the lowest level of input that is significant to the valuation. The following is a description of the valuation methodologies used by SRP at April 30, 2009.

Securities

The fair values of shares in mutual funds and common stocks are based on inputs that are quoted prices in active markets for identical assets and, therefore, have been categorized in Level 1 in the fair value hierarchy. Equities are priced using exchanges such as American Stock Exchange (AMEX), New York Stock Exchange (NYSE), and NASDAQ.

The fair value of shares in money market funds are priced based on inputs obtained from Bloomberg, a pricing service, whose prices are obtained from direct feeds from exchanges, that are either directly or indirectly observable, and, therefore have been categorized in Level 2 in the fair value hierarchy.

The fair value of commingled funds are based on net asset values per fund share (the unit of account), derived from the quoted prices in active markets of the underlying fixed income and equity securities. However, because the shares of these commingled funds are not publicly quoted, not traded in an active market and are subject to certain restrictions regarding their purchase and sale, the commingled funds are categorized in Level 3.

Derivative Instruments

The fair value of gas swaps and power swaps that are priced based on inputs using quoted prices of similar exchange traded items have been categorized in Level 1 in the fair value hierarchy. These include gas swaps traded on the New York Mercantile Exchange (NYMEX) and power swaps traded on the Intercontinental Exchange.

The fair value of gas swaps, power swaps, gas options, power options and power deals that are priced based on inputs obtained through pricing agencies and developed pricing models, using similar observable items in active and inactive markets, are classified as Level 2 in the valuation hierarchy.

The fair value of derivatives assets and liabilities which are valued using pricing models with significant unobservable market data traded in less active or underdeveloped markets are classified as Level 3 in the valuation hierarchy. Level 3 items include gas swaps, power swaps, gas options, power options and power deals. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability (examples include long-dated or complex derivatives).

All of the assumptions above include adjustments for counterparty credit risk, using credit default swap data, bond yields, when available, or external credit ratings.

Collateral and Margin Deposits

Margin and collateral deposits include cash deposited with counterparties and brokers as credit support under energy contracts. The amount of margin and collateral deposits generally varies based on changes in the fair value of the positions. In accordance with FSP FIN 39-1, the District presents a portion of its margin and cash collateral deposits net with its derivative position on the Combined Balance Sheets. Amounts recognized as margin and collateral provided to others are included in derivative assets in the accompanying Combined Balance Sheets and totaled $28.0 million at April 30, 2009.

Changes in Level 3 Fair Value Measurements

The table below includes the reconciliation of changes to the balance sheet amounts for the year ended April 30, 2009, (in thousands) for financial instruments classified within Level 3 of the valuation hierarchy; this determination is based upon unobservable inputs to the overall fair value measurement:

Beginning balance at May 1, 2008	$ 424,257
Net realized and unrealized (loss) included in earnings	(65,471)
Net realized and unrealized (loss) recorded as regulatory assets	(17,713)
Net purchases and settlements	(38,946)
Net transfers in/out of Level 3	(6,585)
Balance at April 30, 2009	$ 295,542
Net unrealized loss included in earnings related to instruments held at April 30, 2009	$ (2,993)
Net unrealized loss recorded in regulatory assets related to instruments held at April 30, 2009	$ (12,843)

SFAS No. 107, *"Disclosures about Fair Value of Financial Instruments,"* (SFAS No. 107) requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate their fair values. Many but not all of the financial instruments are recorded at fair value on the accompanying Combined Balance Sheets. Financial instruments held by SRP are discussed below. Additionally, certain financial instruments and all nonfinancial instruments are excluded from the scope of SFAS No. 107.

Financial Instruments for Which Fair Value Approximates Carrying Value - Certain financial instruments that are not carried at fair value on the accompanying Combined Balance Sheets are carried at amounts that approximate fair value due to their short-term nature and generally negligible credit risk. The instruments include receivables, accounts payable, customers' deposits and other current liabilities.

Financial Instruments for Which Fair Value Does Not Approximate Carrying Value - The District presents long-term debt at carrying value on the accompanying Combined Balance Sheets. The collective fair value of the District's revenue bonds and the Desert Basin Lease-Purchase Agreement, including the current portion, was estimated by using pricing scales from independent sources. (See Note (7) LONG-TERM DEBT for further discussion of these items.) As of April 30, 2009 and 2008, the carrying amounts, including accrued interest, were $3.9 billion and $3.8 billion, respectively, and the estimated fair values were $4.1 billion and $4.0 billion, respectively.

(6) ACCUMULATED NET REVENUES AND OTHER COMPREHENSIVE INCOME:

The following table summarizes accumulated net revenues and other comprehensive income (in thousands):

	Accumulated Net Revenues	Other Comprehensive Income (Loss)	Accumulated Net Revenues and Other Comprehensive Income
Balance, April 30, 2007	$ 3,570,116	$ 36,780	$ 3,606,896
Net Revenues	257,103	-	257,103
Unrealized gain (loss) on available-for-sale securities	-	(25,164)	(25,164)
Balance, April 30, 2008	3,827,219	11,616	3,838,835
Cumulative effect of change in accounting principle – SFAS No. 159	11,616	(11,616)	-
Balance, May 1, 2008, adjusted	3,838,835	-	3,838,835
Net Revenues (Expenses)	(247,022)	-	(247,022)
Balance, April 30, 2009	$ 3,591,813	$ -	$ 3,591,813

(7) LONG-TERM DEBT:

Long-term debt consists of the following at April 30 (in thousands):

	Interest Rate	2009	2008
Revenue bonds			
1992 Series D (matured 1/1/2009)	6.00%	$ -	$ 19,275
1993 Series A (mature 2009 –2010)	5.75%	4,000	9,995
1993 Series C (mature 2009 –2011)	5.05 – 6.50%	58,845	99,685
1994 Series A (matured 1/1/2009)	5.15%	-	38,493
1997 Series A (mature 2009 –2020)	5.00 – 5.125%	43,990	50,570
2001 Series A (mature 2009 –2011)	4.125 – 5.00%	54,080	67,860
2002 Series A (mature 2010 –2031)	4.125 – 5.25%	432,560	432,560
2002 Series B (mature 2016 –2032)	4.00 – 5.00%	570,000	570,000
2002 Series C (mature 2010 –2015)	5.00%	202,385	202,385
2002 Series D (matured 1/1/2009)	5.00%	-	26,855
2004 Series A (mature 2009 –2024)	4.00 – 5.00%	116,360	117,510
2005 Series A (mature 2027 –2035)	4.75 – 5.00%	327,090	327,090
2006 Series A (mature 2033 –2037)	5.00%	296,000	296,000
2008 Series A (mature 2016 –2038)	5.00%	816,650	816,650
2009 Series A (mature 2011 –2039)	2.75 – 5.00%	744,180	-
Total revenue bonds		3,666,140	3 074,928
Unamortized bond (discount) premium		65,749	51,108
Total revenue bonds outstanding		3,731,889	3,126,036
Finance lease	2.80 – 5.25%	232,585	250,365
Commercial paper		-	475,000
Total long-term debt		3,964,474	3,851,401
Unamortized interest rate swap		(172)	(724)
Less: Current portion of long-term		(132,645)	(170,748)
Total long-term debt, net of current		$ 3,831,657	$ 3,679,929

The annual maturities of long-term debt (excluding unamortized bond discount/premium) as of April 30, 2009, due in fiscal years ending April 30, are as follows (in thousands):

	Revenue Bonds	Finance Lease
2010	$ 115,855	$ 16,790
2011	127,230	19,950
2012	122,180	17,455
2013	97,245	22,995
2014	86,620	17,500
Thereafter	3,117,010	137,895
Total	$ 3,666,140	$ 232,585

Revenue Bonds

Revenue bonds are secured by a pledge of, and a lien on, the revenues of the electric system, after deducting operating expenses, as defined in the bond resolution. Under the terms of the amended and restated bond resolution, effective in January 2003, as amended, the District makes debt service deposits to a non-trusteed segregated fund. Included in segregated funds in the accompanying

Combined Balance Sheets are $179.6 million and $181.3 million of debt service related funds as of April 30, 2009 and 2008, respectively.

The debt service coverage ratio is defined in the Bond Resolution. For the years ended April 30, 2009 and 2008, the debt service coverage ratio was 2.33 and 2.82, respectively.

Interest and the amortization of the bond discount, premium and issue expense on the various issues results in an effective rate of 5.02% over the remaining term of the bonds.

In March 2008, the District issued $816.7 million Electric System Revenue Bonds, the net proceeds of which were used to finance additional capital improvements to the Electric System pursuant to the District's Capital Improvement Program. In January 2009, the District issued an additional $744.2 million Electric System Revenue Bonds. A portion of the net proceeds was used to retire $100.0 million of Series B commercial paper and balance is being used to finance capital improvements to the Electric System pursuant to the District's Capital Improvement.

The District has authorization to issue additional Electric System Revenue Bonds totaling $2.0 billion principal amount and Electric System Refunding Revenue Bonds totaling $5.9 billion principal amount.

Finance Lease

In December 2003, the District entered into a lease-purchase agreement (Desert Basin Lease-Purchase Agreement) with Desert Basin Independent Trust (DBIT) to finance the acquisition of the Desert Basin Generating Station (Desert Basin) located in central Arizona. In a concurrent transaction, $282.7 million in fixed-rate COPs were issued pursuant to a Trust Indenture, between Wilmington Trust Company, as trustee, and DBIT, to fund the acquisition of Desert Basin and other electric system assets of the District. Investors in the COPs obtained an interest in the lease payments made by the District to DBIT under the Desert Basin Lease-Purchase Agreement. Due to the nature of the Desert Basin Lease-Purchase Agreement, the District has recorded a lease-finance liability to DBIT with the same terms as the COPs.

(8) COMMERCIAL PAPER AND CREDIT AGREEMENTS

The District is authorized by the Board to issue up to $475.0 million in commercial paper. The District has $275.0 million Series B and $100.0 million Series C Commercial Paper programs outstanding at April 30, 2009. The District retired $100.0 million of its Series B Commercial Paper during fiscal year 2009. At April 30, 2009, the Series B issue had an average weighted interest rate to the District of 0.57% and the Series C issue had an average weighted interest rate to the District of 0.49%. The commercial paper matures not more than 270 days from the date of issuance and is an unsecured obligation of the District.

The District has a $475.0 million revolving line-of-credit agreement that supports the $375.0 million of outstanding commercial paper. The revolving credit agreement expires December 7, 2009. At April 30, 2008, the District classified commercial paper as long-term debt as it had the ability to refinance the commercial paper on a long-term basis based on its revolving line of credit. At December 8, 2008, the District reclassified commercial paper as short-term, due to the pending expiration of the revolving line of credit, and it is classified in current liabilities in the accompanying Combined Balance Sheets at April 30, 2009.

The revolving credit agreement contains various conditions precedent to borrowings that include, but are not limited to, compliance with the covenants set forth in the agreement, the continued accuracy of representations and warranties, no existence of default and maintenance of certain investment grade ratings on the District's revenue bonds. The agreement has various covenants, with which management believes the District was in compliance at April 30, 2009. The District has never borrowed under the agreement and management does not expect to do so in the future. Alternative sources of funds to support the commercial paper program include existing funds on hand or the issuance of alternative debt, such as revenue bonds.

(9) EMPLOYEE BENEFIT PLANS AND INCENTIVE PROGRAMS:

Defined Benefit Pension Plan and Other Postretirement Benefits

SRP's Employees' Retirement Plan (the Plan) covers substantially all employees. The Plan is funded entirely from SRP contributions and the income earned on invested Plan assets. The District made a contribution of $50.0 million in each of the fiscal years 2009 and 2008.

SRP provides a non-contributory defined benefit medical plan for retired employees and their eligible dependents (contributory for employees hired January 1, 2000 or later) and a non-contributory defined benefit life insurance plan for retired employees. Employees are eligible for coverage if they retire at age 65 or older with at least five years of vested service under the Plan (ten years for those hired January 1, 2000 or later), or any time after attainment of age 55 with a minimum of ten years of vested service under the Plan (20 years for those hired January 1, 2000 or later). The funding policy is discretionary and is based on actuarial determinations.

SRP adopted the recognition and disclosure provisions of SFAS No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,"* (SFAS No. 158) effective April 30, 2008, and the measurement date provisions of SFAS No. 158 as of April 30, 2009. The recognition and disclosure provisions require employers to recognize the overfunded or underfunded positions of defined benefit pension and other postretirement plans in their balance sheets. Under SFAS No. 158, any actuarial gains and losses, prior service costs and transition assets or obligations that were not recognized under previous accounting standards must be recorded on the balance sheet with an offset to accumulated other comprehensive income until the amounts are amortized as a component of net periodic benefit costs. SFAS No. 158 does not change how net periodic pension and postretirement costs are accounted for and reported in the income statement.

In fiscal year 2008, the Board authorized the District to collect future amounts associated with the pension and other postretirement plan liabilities. As a result, the District established a regulatory asset for the portion of the total amounts otherwise chargeable to accumulated other comprehensive income that are expected to be recovered through prices in future periods. The changes in actuarial gains and losses, prior service costs and transition assets or obligations pertaining to the regulatory asset are recognized as an adjustment to the regulatory asset or liability accounts as these amounts are recognized as components of net periodic pension costs each year. The District's estimated amortization amounts for fiscal year 2009 are $3.9 million for transition obligation, $3.9 million for prior service cost and $3.0 million for net actuarial loss.

Effective April 30, 2009, SFAS No. 158 requires SRP to measure plan assets and benefit obligations at fiscal year end. SRP previously performed this measurement at January 31 of each year. In accordance with this standard, SRP eliminated the use of the three-month lag. As a result of implementing the

measurement date provisions of SFAS No. 158 and as authorized by the Board, the District recorded $16.9 million into the pension and post-retirement regulatory asset on the accompanying Combined Balance Sheets for the additional three months of pension and other postretirement benefits cost at April 30, 2009. The provisions of SFAS No. 158 do not permit retrospective application.

The following tables outline changes in benefit obligations, plan assets, the funded status of the plans and amounts included in the combined financial statements (in thousands):

	Pension Benefits		Postretirement Benefits	
	April 30 2009	January 31 2008	April 30 2009	January 31 2008
Change in benefit obligation				
Benefit obligation at beginning of year	$ 1,166,141	$ 1,130,845	$ 533,342	$ 513,503
Service cost	42,171	33,638	12,244	11,342
Interest cost	88,832	66,625	35,305	30,263
Actuarial gain	(84,012)	(24,467)	(113,228)	(1,159)
Benefits paid	(55,460)	(40,500)	(17,384)	(20,607)
Benefit obligation at end of year	$ 1,157,672	$ 1,166,141	$ 450,279	$ 533,342
Change in plan assets				
Fair value of plan assets at beginning of year	$ 1,082,180	$ 1,062,644	$ -	$ -
Actual return on plan assets	(279,979)	10,036	-	-
Employer contributions	50,000	50,000	21,539	20,607
Benefits paid	(55,460)	(40,500)	(21,539)	(20,607)
Fair value of plan assets at end of year	796,741	1,082,180	-	-
Funded status at end of year	$ (360,931)	$ (83,961)	$ (450,279)	$ (533,342)
Amounts recognized in Combined Balance Sheets:				
Other current liabilities	$ -	$ -	$ (18,882)	$ 20,064)
Accrued post-retirement liability	(360,931)	(83,961)	(431,397)	(513,278)
Net asset (liability) recognized	$ (360,931)	$ (83,961)	$ (450,279)	$ (533,342)
Amounts recognized as a regulatory asset:				
Transition obligation	$ -	$ -	$ 11,698	$ 15,594
Prior service cost	11,055	13,949	5,064	6,025
Net actuarial loss	510,984	208,205	53,722	172,854
Measurement date transition adjustment	5,417	-	11,450	-
Net regulatory asset	$ 527,456	$ 222,154	$ 81,934	$ 194,473

The following table represents the amortization amounts expected to be recognized or paid during the fiscal year ending April 30, 2010 (in thousands):

	Pension Benefits	Postretirement Benefits
Net transition obligation	$ -	$ 3,117
Prior service cost	$ 2,315	$ 769
Net actuarial	$ 4,938	$ 672

The following table outlines the projected benefit obligation and accumulated benefit obligation in excess of Plan assets (in thousands):

	April 30 2009	January 31 2008
Projected benefit obligation	$ 1,157,672	$ 1,166,141
Accumulated benefit obligation	$ 1,009,364	$ 1,005,783
Fair value of Plan assets	$ 796,741	$ 1,082,180

SRP internally funds its other postretirement benefits obligation. At April 30, 2009 and 2008, $352.9 million and $445.5 million of segregated funds, respectively, were designated for this purpose.

The weighted average assumptions used to calculate actuarial present values of benefit obligations at April 30 were as follows:

	Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008
Discount rate	7.00%	6.25%	7.00%	6.25%
Rate of compensation increase	4.00%	4.00%	N/A	N/A

Weighted average assumptions used to calculate net periodic benefit costs were as follows:

	Pension Benefits		Postretirement Benefits	
	April 30 2009	January 31 2008	April 30 2009	January 31 2008
Discount rate	6.25%	6.00%	6.25%	6.00%
Expected return on Plan assets	8.25%	8.25%	N/A	N/A
Rate of compensation increase	4.00%	4.00%	N/A	N/A

For employees who retire at age 65 or younger, for measurement purposes, a 8.5% annual increase before attainment of age 65 and an 8.5% annual increase on and after attainment of age 65 in per capita costs of health care benefits were assumed during 2008; these rates were assumed to decrease uniformly until equaling 5% in all future years.

The components of net periodic benefit costs for the years ended April 30, are as follows (in thousands):

	Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008
Service cost	$ 33,737	$ 33,638	$ 9,796	$ 11,342
Interest cost	71,065	66,625	28,244	30,262
Expected return on Plan assets	(91,359)	(82,262)	-	-
Amortization of transition obligation	-	-	3,117	3,117
Recognized net actuarial loss	5,909	11,124	3,874	10,328
Amortization of prior service cost	2,315	2,365	769	769
Net periodic benefit cost	$ 21,667	$ 31,490	$ 45,800	$ 55,818

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in the assumed health care cost trend rates would have the following effect (in thousands):

	One Percentage Point Increase	One Percentage Point Decrease
Effect on total service cost and interest cost components	$ 5,700	$ (5,000)
Effect on postretirement benefit obligation	$ 55,500	$ (48,200)

Plan Assets

The Board has established an investment policy for Plan assets and has delegated oversight of such assets to a compensation committee (the Committee). The investment policy sets forth the objective of providing for future pension benefits by targeting returns consistent with a stated tolerance of risk. The investment policy is based on analysis of the characteristics of the Plan sponsors, actuarial factors, current Plan condition, liquidity needs, and legal requirements. The primary investment strategies are diversification of assets, stated asset allocation targets and ranges, and external management of Plan assets. The Committee determines the overall target asset allocation ratio for the Plan and defines the target asset allocation ratio deemed most appropriate for the needs of the Plan and the risk tolerance of the District.

Volatile market conditions have affected the value of SRP's trust established to fund its future long-term pension benefits. The market value of the investments (reflecting investment returns, contributions and benefits payments) within the plan trust declined 25.7% during fiscal year 2009. This reduction in the value of plan assets resulted in a decrease in the pension plan funding status and will also result in increased future expense and increased future contributions. Changes in the plan's funded status affect the assets and liabilities recorded on the balance sheet in accordance with SFAS No. 158. Due to the District's regulatory treatment, the recognition of funded status is offset by regulatory assets or liabilities and is recovered through prices. The Pension Protection Act of 2006 establishes new minimum funding standards and restricts plans underfunded by more than 20% from adopting amendments that increase plan liabilities unless they are funded immediately. In December 2008, the Worker, Retiree, and Employer Recovery Act (WRERA) was enacted. Among other provisions, the WRERA provides temporary funding relief to defined benefit plans in light of the current economic crisis. It is expected that WRERA will have a favorable impact on the level of minimum required contributions for years after 2009.

The Plan's weighted-average asset allocations are as follows:

	Target Allocations	April 30 2009	January 31 2008
Equity securities	65.0%	53.6%	60.0%
Debt securities	25.0%	34.4%	27.6%
Real estate	10.0%	12.0%	12.4%
Total	100.0%	100.0%	100.0%

The investment policy, as authorized by the Board, allows management to reallocate Plan assets at any time within a tolerance range up to plus or minus 5% from the target asset allocation which allows for flexibility in managing the assets based on prevailing market conditions and does not require automatic rebalancing if the actual allocation strays from the target allocation.

Given the dislocations in the markets, the Plan's weighted-average asset allocations have deviated from the target allocations. Typically, Plan rebalancing is used to control the risk of being over-allocated to 'overheated' segments of the market. The recent market downturn has been negative for most all asset classes and was driven by a flight to liquidity. Management has adopted a methodical approach to bring the allocation back in line with the target which includes ongoing analysis of credit spreads to determine the availability of cash with which to rebalance. While there is no set timeframe to complete this, management continues to monitor the allocations on a recurring basis.

Long Term Rate of Return

The expected return on Plan assets is based on a review of the Plan asset allocations and consultations with a third-party investment consultant and the Plan actuary, considering market and economic indicators, historical market returns, correlations and volatility, and recent professional or academic research.

Employer Contributions

The District expects to contribute $37.0 million to the Plan over the next valuation period.

Benefits Payments

SRP expects to pay benefits in the amounts as follows (in thousands):

	Pension Benefits	Postretirement Benefits	
		Before Subsidy*	Net
2010	$ 50,936	$ 19,103	$ 18,337
2011	55,456	21,264	20,388
2012	59,824	23,463	22,470
2013	65,318	25,456	24,312
2014	71,323	27,572	26,287
2015 through 2019	$ 452,234	$ 167,872	$ 159,349

*Estimated future benefit payments, including prescription drug benefits, prior to federal drug subsidy receipts expected as a result of the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

Defined Contribution Plan

SRP's Employees' 401(k) Plan (the 401(k) Plan) covers substantially all employees. The 401(k) Plan receives employee pre-tax and post-tax contributions and partial employer matching contributions. Employees who have one year of service in which they have worked at least 1,000 hours and who are also contributing to the 401(k) Plan are eligible to receive partial employer matching contributions of $0.85 on every dollar contributed up to the first six-percent of their base pay that they contribute to the 401(k) Plan. Employer matching contributions to the 401(k) Plan were $13.8 million and $12.9 million during fiscal years 2009 and 2008, respectively.

Employee Incentive Compensation Program

SRP has an incentive compensation program covering substantially all regular employees. The incentive compensation amount is based on achievement of pre-established targets. These targets were not met in fiscal year 2009. An accrual of $16.6 million for fiscal year ended April 30, 2008 is

included in other current liabilities in the accompanying Combined Balance Sheets. This liability is stated net of receivables from participants in jointly-owned electric plants of $1.6 million at April 30, 2008, and was paid in fiscal year 2009.

(10) INTERESTS IN JOINTLY-OWNED ELECTRIC UTILITY PLANTS:

The District has entered into various agreements with other electric utilities for the joint ownership of electric generating and transmission facilities. Each participating owner in these facilities must provide for the cost of its ownership share. The District's share of expenses of the jointly-owned plants is included in operating expenses in the accompanying Combined Statements of Net Revenues.

The following table reflects the District's ownership interest in jointly-owned electric utility plants as of April 30, 2009 (in thousands):

Generating Station	Ownership Share	Plant in Service	Accumulated Depreciation	Construction Work In Progress
Four Corners (NM) (Units 4 & 5)	10.00%	$ 111,099	$ (97,509)	$ 4,131
Mohave (NV) (Units 1 & 2)	20.00%	133,498	(129,618)	-
Navajo (AZ) (Units 1, 2 & 3)	21.70%	358,393	(318,269)	9,984
Hayden (CO) (Unit 2)	50.00%	118,018	(103,234)	2,698
Craig (CO) (Units 1 & 2)	29.00%	270,522	(198,479)	3,937
PVNGS (AZ) (Units 1, 2 & 3)	17.49%	1,276,909	(969,272)	32,473
		$ 2,268,439	$ (1,816,381)	$ 53,223

The Mohave Generating Station (Mohave) ceased operations on December 31, 2005. To date, efforts to reopen or sell the plant as a coal-fired generation source have been unsuccessful and the Participants are decommissioning the plant. (See Note (12), REGULATORY MATTERS, Mohave Generating Station, for a discussion of matters pertaining to Mohave.) There remains approximately $3.9 million in net plant value at Mohave for the switchyard and transmission line still used to route power to other inter-tied systems.

(11) VARIABLE INTEREST ENTITIES:

FIN No. 46R, *"Consolidation of Variable Interest Entities, an Interpretation of Account Research Bulletin No. 51,"* (FIN No. 46R) provides guidance on the identification and consolidation of entities for which control is achieved through means other than voting rights.

In October 2007, the District entered into a 30-year gas purchase agreement (Gas Purchase Agreement) with Salt Verde Financial Corporation (SVFC), an Arizona nonprofit corporation formed for the primary purpose of supplying natural gas to the District. Under the agreement, the District is committed to purchase 294,550,000 MMBtus (million of British thermal units) of natural gas, which is expected to supply approximately 20% of its projected natural gas requirements needed to serve retail customers over the 30-year period. The District receives a discount off market prices and is obligated to pay only for gas delivered. Payments to SVFC under the Gas Purchase Agreements were $36.4 million in fiscal year 2009. To fulfill its obligation, SVFC entered into a 30-year prepaid gas agreement with Citigroup Energy Inc. SVFC financed the purchase by the issuance of $1.2 billion of special obligation gas revenue bonds (Bonds). The Bonds do not constitute a debt, liability or obligation of the District.

The District, under a services agreement with SVFC, provides accounting and treasury services and performs administrative functions for the daily operations of SVFC. Under the service agreement, the

amount paid by SVFC to the District was not material to the operations the District in fiscal years 2009 and 2008.

The District has evaluated the prepaid gas transaction under FIN No. 46R and has determined that the District has variable interests in SVFC. However, while the District retains rights to any residual assets in SVFC, the District is not deemed SVFC's primary beneficiary for purposes of FIN No. 46R. This conclusion is based on the structure of the transaction, which results in the majority of the risk being absorbed by parties other than the District. Accordingly, the District accounts for the transaction under the equity method. Other than the District's commitment to purchase gas supplied under the Gas Purchase Agreement and to provide services under the service agreement, its maximum exposure under this transaction is $100,000.

(12) REGULATORY MATTERS:

The Electric Utility Industry

The District historically operated in a highly regulated environment in which it had an obligation to deliver electric service to customers within its service area. In 1998, the Arizona Electric Power Competition Act (the Act) authorized competition in the retail sales of electric generation, recovery of stranded costs, and competition in billing, metering and meter reading.

While retail competition was available to all customers by 2001, there were only a few customers who chose an alternative energy provider. Those customers have since returned to their incumbent utilities. At this time, there is no active retail competition within the District's service territory or, to the knowledge of the District, within the State of Arizona. However, during the past three years, two retail energy service providers, one meter reading service provider, and one meter service provider have applied to the Arizona Corporation Commission for authorization to sell energy in Arizona. New West Energy intervened in the sole application for which a procedural order has been issued, asking that the application be dismissed until the Arizona Corporation Commission has held a general rulemaking procedure for retail competition. In September 2008, the ACC suspended consideration of that application pending completion of public workshops on the policy issues underlying retail competition and receipt of ACC Staff's report and recommendations. The report to the ACC is due by the end of 2009. The ACC has not yet addressed the other applications.

In 1996, the Federal Energy Regulatory Commission (FERC), which regulates the wholesale electric utility industry under the authority of various statutes, issued Orders 888 and 889 requiring transmitting "public utilities" (as defined in the Federal Power Act), to provide nondiscriminatory transmission services to entities seeking to effect wholesale power transactions, and to grant equal access to information concerning the pricing and availability of transmission services. The District is not a public utility under the Federal Power Act but historically has complied with these requirements voluntarily. The Energy Policy Act of 2005 (Energy Policy Act) expanded FERC jurisdiction by granting FERC discretionary authority to regulate the non-rate terms and conditions, and to a lesser extent, rates, under which unregulated transmitting utilities (including the District) provide wholesale transmission services. The Energy Policy Act explicitly prohibits FERC from requiring unregulated transmitting utilities to take actions that would violate a private activity bond rule.

In its Order 890, issued in February 2007, FERC declined to generically implement its discretionary authority over unregulated transmitting utilities (including the District). FERC determined the authority would be used on a case-by-case basis. The District does not expect Order 890 to result in significant adverse impacts on its operations.

The Changing Regulatory Environment

The District has fully opened its service area to competition in generation and billing, metering and meter reading. The District's electric distribution area remains regulated by its Board, and the District will not provide distribution services in the distribution areas of other utilities.

The District's price plans have been unbundled since 1999. In May 2002, the District implemented a Fuel & Purchased Power Adjustment Mechanism (FPPAM) to allow for semi-annual rate adjustments to recover increases in actual fuel costs. The District has had several increases in the price of fuel and purchased power since the FPPAM was implemented. In June 2004, the District introduced a Transmission Cost Adjustment Factor (TCAF) to recover costs the District would incur if the District were required to participate in regional transmission organizations. To date, no costs have been incurred or recovered through the TCAF.

On October 1, 2007, the District Board approved a 4.7% system average increase for fuel and purchased power under the FPPAM beginning November 1, 2007. The increase was needed to address an under-recovery of retail fuel and purchased power expenses. The increase is expected to generate annual revenues of approximately $103.7 million.

On March 17, 2008, the District Board approved a 3.9% system average price increase effective May 1, 2008. The increase was comprised of 2.1 percent related to a fuel and purchased power adjustment and 1.8 percent related to changes in base prices. The increase is expected to generate $91.1 million annually. The new price plans incorporate design changes that better reflect the District's underlying seasonal costs and promote energy efficiency and conservation.

On October 6, 2008, the District Board approved an annualized 5.9% system average increase for the fuel and purchased power adjustment mechanism to address under-collected fuel and purchased power expenses, effective with the November 2008 billing cycle. To lessen impact on customer bills, the increase was designed to recover the under-collection over an 18-month period. The increase is expected to generate approximately $203.6 million over the 18-month period.

Through a surcharge to the District's transmission and distribution customers, the District recovers the costs of programs benefiting the general public, such as discounted rates for the elderly or impoverished, efficiency programs, demand-side management measures, renewable energy programs, economic development, research and development and nuclear decommissioning, including the cost of spent fuel storage. The Board approved additional funding for renewable energy programs, energy efficiency and energy conservation effective beginning November 1, 2005. These surcharges continue to be separately identified and included in the District's price plans for the regulated portion of its operations.

Mohave Generating Station

In 1999, the District and the other Participants in Mohave entered into a settlement with the Sierra Club, the Grand Canyon Trust, and the National Parks Conservation Association, that required the installation of certain pollution abatement equipment by the end of 2005 for the plant to continue operating as a coal-fired electric generating facility. (See Note (14), CONTINGENCIES, Air Quality, for additional information on air quality issues.) In addition, the initial term of the agreement with Peabody Western Coal Company (Peabody) to supply coal to Mohave expired at the end of 2005 and the Navajo Nation and the Hopi Tribe demanded that the pumping of water from the Navajo Aquifer for the slurry pipeline serving Mohave cease. The Mohave Participants refused to commit to install pollution abatement equipment without

reasonable assurance that water would be available to enable the delivery of coal to the plant. Consequently, the plant suspended operations at the end of 2005.

The Participants have begun to decommission the plant. The District has included funding in its Capital Improvement Program to cover the costs of alternate resources and has already replaced a portion of the energy it would have received had Mohave continued operations. The District is considering several options for replacing the balance of its energy supply from Mohave including self-build options and purchases from others. (See Note (14), CONTINGENCIES, Coal Supply Litigation, for a discussion of other related issues.)

In fiscal year 2003, the Board authorized the recovery of the balance of the District's investment in Mohave in its revenue requirements prior to the closure of the plant. During fiscal year 2003, the District determined that its investment in Mohave was impaired and a write-down of the plant's carrying value of $66.2 million was recorded in fiscal year 2003, and an additional $5.2 million and $6.6 million of impairment was recorded in fiscal years 2005 and 2004, respectively. In accordance with accounting standards for rate-regulated enterprises (SFAS No. 71), a regulatory asset was established for $78.0 million, based on the District's expectation that any un-recovered book value at the end of 2005 would be recovered in future prices. (See Note (2), SIGNIFICANT ACCOUNTING POLICIES, Regulatory Accounting for additional information related to Mohave regulatory assets.)

(13) COMMITMENTS:

Capital Improvement Program

The Improvement Program represents the District's six-year plan for major construction projects and capital expenditures for existing generation, transmission, distribution and irrigation assets. For the 2010-2015 time period, the District estimates capital expenditures of approximately $5.6 billion. Major construction projects include support for the Coronado Emission Controls project, funding for future generation resources, completion of Unit 4 at Springerville Generating Station, funding for new distribution business and other key generation, distribution and transmission projects.

Firm Purchase Commitments

The District had various firm non-cancelable purchase commitments at April 30, 2009, which are not recognized in the accompanying Combined Balance Sheets. The following table presents information pertaining to firm purchase commitments with remaining terms greater than one year (in millions):

	Total Payments		Purchase Commitments					
	2009	2008	2010	2011	2012	2013	2014	Thereafter
Purchase power contracts	$ 237.5	$ 211.8	$ 112.3	$ 106.7	$ 47.6	$ 26.3	$ 26.5	$ 615.9
Coal fuel supply contracts	487.5	390.9	226.2	247.3	189.0	167.3	117.0	211.2
Total	$ 725.0	$ 602.7	$ 338.5	$ 354.0	$ 236.6	$ 193.6	$ 143.5	$ 827.1

The District previously entered into three contracts, collectively, with the United States Bureau of Reclamation (United States), the Western Area Power Administration (WAPA) and the Central Arizona Water Conservation District (CAWCD) for the long-term purchase, through September 2011, of power and energy associated with the United States' entitlement to NGS. The amount of energy available to the District varies annually and is expected to decline over the life of the contracts. The District pays a fixed amount under the contracts, pays the cost of NGS generation and other related costs, and supplies energy

at cost to CAWCD for Central Arizona Project facilities. Of the total obligation, $25.2 million annually through fiscal year 2011 and $10.5 million in fiscal year 2012 are unconditionally payable regardless of the availability of power.

The District entered into two other long-term power purchase agreements to obtain a portion of its projected load requirements through 2011 and has an agreement in place for the extension of one of the agreements through May 2016, with the possibility of a further extension to 2021 if certain conditions are met. In conjunction with an impairment analysis performed on generation-related operations, in August 1998, the District has recorded provisions of $163.7 million for losses on these contracts. The provisions are being amortized over the life of the contracts, commencing January 1, 1999. Amortization of $13.3 million has been reflected as a reduction in purchased power expense in fiscal years 2009 and 2008. The remaining liability at April 30, 2009 of $26.5 million is included in deferred credits and other non-current liabilities in the Combined Balance Sheets.

Beginning on September 1, 2006, the District has purchased 100 MW of capacity from Springerville Generating Station Unit 3, pursuant to a 30-year power purchase agreement.

The District entered into a 20-year power purchase agreement with Transcanada, Coolidge Power LLC, for the development, construction, and operation of a simple cycle combustion turbine electric peaking plant with a nominal capacity rating of approximately 551 MW. The agreement, effective May 8, 2008, is for the purchase of all electrical capacity, energy and ancillary services available from Coolidge Generating Station, which is located in Pinal County. The natural gas-fired resource is expected to begin commercial operation in May 2011. The District has an option for a 10-year extension of the agreement. Anticipated minimum payment obligations are not included in the table above.

Other Purchase Power Agreements

The District entered into an additional 20-year contract with WAPA, executed September 28, 2007, to purchase NGS surplus power with deliveries to begin June 1, 2012. This purchase is for 300 MW during the eight super-peak hours of the day, June through August, and the term runs through September 30, 2031. Energy deliveries are contingent on NGS generation and payments are made only for actual energy delivered. There is no minimum payment obligation for this contract.

The District has entered into a 20-year power purchase agreement with Snowflake White Mountain Power, LLC, which is a renewable energy resource utilizing biomass products to produce power. The agreement requires the District to purchase a minimum of 78,840 MWh during fiscal years 2008 through 2023 and to purchase the full energy output, approximately 20 MW, during fiscal years 2024 through 2028. The District is obligated to pay only if the facility produces power under this agreement. The facility began commercial power production in June 2008. Payments under this contract totaled $5.3 million in fiscal year 2009.

The District has entered into a 20-year purchase power agreement with Dry Lake Wind, LLC, which is a renewable energy resource utilizing wind to produce power. The facility is expected to begin commercial operation by December 31, 2009. The agreement requires the District to purchase the full output of the wind farm, approximately 63 MW, during the fiscal years 2010 through 2030. The District is obligated to pay only for actual energy delivered. There is no minimum payment obligation for this contract.

The District has entered into a 30-year purchase power agreement with Hudson Ranch Power I, LLC, which is developing a renewable energy resource utilizing geothermal heat to produce power. The facility is expected to begin commercial operation by July, 2011. The agreement requires the District to purchase the full output of the facility, approximately 50 MW, during the fiscal years 2012 through 2042. The

District is obligated to pay only for actual energy delivered. There is no minimum payment obligation for this contract.

The District has entered into a 20-year purchase power agreement with Lightning Dock Geothermal HI-01, LLC, which is developing a renewable energy resource utilizing geothermal heat to produce power. The facility is expected to begin commercial operation by August, 2010. The agreement requires the District to purchase the full output of the facility, approximately 10 to 15 MW, during the fiscal years 2011 through 2031. The District is obligated to pay only for actual energy delivered. There is no minimum payment obligation for this contract.

Springerville Generating Station

In 2001 the District entered into an agreement with UniSource Energy Development Company (UniSource) for the joint development of two additional coal-fired generating units (Units 3 and 4), approximately 400 MW each in size, to be located at the existing Springerville (Arizona) Generating Station. Under an amendment to the agreement, dated October 20, 2003, the District entered into a 30-year power purchase agreement (the PPA) to purchase 100 MW of capacity from Unit 3, which was developed by Tri-State Generation and Transmission Association, Inc. Unit 3 was placed in service in September 2006, beginning the 30-year term of the PPA. In addition, the District received the right to construct the fourth unit (Unit 4) at any time during the term of the PPA. The District has begun construction of Unit 4 and expects it to be in service by the end of calendar year 2009. As of April 30, 2009, the District has recognized $846.8 million of construction costs which are included in construction work in progress in the Combined Balance Sheets. The Springerville 4 Project is anticipated to cost approximately $1.0 billion. UniSource's affiliate, Tucson Electric Power Company (TEP), operates Units 1, 2 and 3 and will operate Unit 4 upon completion. (See Note (14) CONTINGENCIES, Air Quality, for a discussion of a challenge to the Unit 4 air permit by the Sierra Club.)

(14) CONTINGENCIES:

Nuclear Insurance

Under existing law, public liability claims arising from a single nuclear incident are limited to $12.5 billion. PVNGS Participants insure for this potential liability through commercial insurance carriers to the maximum amount available ($300.0 million) with the balance covered by an industry-wide retrospective assessment program as required by the Price-Anderson Act. If losses at any nuclear power plant exceed available commercial insurance, the District could be assessed retrospective premium adjustments. The maximum assessment per reactor per nuclear incident under the retrospective program is $117.5 million including a 5% surcharge; applicable in certain circumstances, but not more than $17.5 million per reactor may be charged in any one year for each incident.

Based on the District's ownership share of PVNGS, the maximum potential assessment would be $61.7 million, including the 5% surcharge, but would be limited to $9.2 million per incident in any one year.

PVNGS participants also maintain "all risk" (including nuclear hazards) insurance for property damage to, and decontamination of, property at PVNGS in the aggregate amount of $2.75 billion, a substantial portion of which must first be applied to stabilization and decontamination. The District has also secured insurance against portions of any increased cost of generation or purchased power and business interruption resulting from a sudden and unforeseen accidental outage of any of the three units. The property damage, decontamination, and replacement power coverages are provided by Nuclear Electric Insurance Limited (NEIL). The District is subject to retrospective assessments under all NEIL policies if

NEIL's losses in any policy year exceed accumulated funds. The maximum amount of retrospective assessments the District could incur under the current NEIL policies totals approximately $12.6 million. The insurance coverage discussed in this and the previous paragraph is subject to certain policy conditions and exclusions.

Spent Nuclear Fuel

Under the Nuclear Waste Policy Act of 1982, the District pays $0.001 per kWh on its share of net energy generation at PVNGS to the U.S. Department of Energy (DOE). The DOE was responsible for the selection and development of a repository for permanent storage and disposal of spent nuclear fuel not later than December 31, 1998. However, the DOE delayed submitting an application to construct a permanent repository at Yucca Mountain Nevada until June 2008 and the use of Yucca Mountain as a storage site remains uncertain. Because of the significant delays in the DOE's schedule, it cannot be determined when the DOE will accept waste from PVNGS or from the other owners of spent nuclear fuel. It is unlikely, due to PVNGS' position in DOE's queue for receiving spent fuel, that Arizona Public Service Company (APS), the operating agent of PVNGS, will be able to initiate shipments to DOE during the licensed life of PVNGS. Accordingly, APS has constructed an on-site dry cask storage facility to receive and store PVNGS spent fuel. The facility stored its first cask in March 2003. Fifty-eight casks are now stored on site.

The District's share of on-site interim storage at PVNGS is estimated to be $57.5 million for costs to store spent nuclear fuel from inception of the plant through fiscal year-end 2009, and $1.3 million per year going forward. These costs have been included in the District's regulated operations price plans for transmission and distribution. At April 30, 2009 and 2008, the District's accrued spent fuel storage cost was $24.5 million and $25.0 million, respectively, and included in deferred credits and other non-current liabilities on the accompanying Combined Balance Sheets.

Coal Supply Litigation

Navajo Nation v. Peabody (US Dist. Court, D.C. District – RICO Case) – In 1999, the Navajo Nation filed a lawsuit in the United States District Court in Washington D.C. (the "U.S. District Court") in which the Hopi Tribe later was joined as a plaintiff. The lawsuit arises out of negotiations culminating in 1987 with amendments to the coal leases and related agreements. The Navajo Nation and the Hopi Tribe allege that Peabody (the coal supplier for NGS and Mohave), Southern California Edison Company (operating agent for Mohave), the District (operating agent for NGS) and certain individual defendants, had improperly induced the Department of the Interior to not approve the coal royalty rate proposed by the Navajo Nation in violation of the federal racketeering statutes. They further alleged that the Department's failure to approve the rate caused the tribes to negotiate and settle upon a substantially lower royalty rate. The suit alleges $600.0 million in damages. The plaintiffs also seek treble damages against the defendants, measured by amounts awarded under the racketeering statutes. In addition, the plaintiffs claim punitive damages of not less than $1.0 billion. In 2001, the claims of both the Navajo Nation and the Hopi Tribe were dismissed in their entirety with respect to the District, but the dismissal is appealable.

In 2005, the U.S. District Court granted a motion to stay the litigation until further order of the court while the parties were in mediation with respect to this litigation and related business issues. Although the litigation had been stayed for several years, the lawsuit has been restored to the Court's active docket.

Navajo Nation v. United States (Court of Federal Claims) - In an earlier case filed by the Navajo Nation against the United States and based on allegations similar to those raised in the *RICO Case*, the U. S. Court of Appeals for the Federal Circuit held that the Navajo Nation had a cognizable money-mandating claim against the United States for breach of trust and that the United States had breached its duties to the

Navajo Nation. On April 2, 2009, after several appeals, the U.S. Supreme Court determined that the Navajo Nation's claim for compensation failed and this matter should be regarded as closed.

Peabody Legal Fees Cases – Peabody claims it is entitled to reimbursement under both the NGS Coal Supply Agreement and the Mohave Coal Supply Agreement for its costs associated with the defense of the challenges by the Navajo Nation and Hopi Tribe to these coal leases (see above matters). Peabody has filed two separate lawsuits in the Superior Court of Arizona against the NGS and Mohave Participants, respectively, seeking recovery of these fees.

In the NGS legal fees case, the Maricopa County Superior Court dismissed Peabody's claims for legal fees against the NGS Participants. The Arizona Court of Appeals affirmed the dismissal and a petition for review to the Arizona Supreme Court was denied. Thus the decision is final.

As for the Mohave legal fees case, the Mohave Participants and Peabody had executed a settlement agreement pursuant to which Peabody granted the Mohave Participants a waiver for fees incurred prior to January 2006. However, the lawsuit for fees arising after December 2005 remained until December 17, 2007, when the court ruled among other matters that the Mohave Participants were not responsible for Peabody's legal fees incurred in the *RICO Case*. The District has agreed to dismiss without prejudice its counterclaims relating to Peabody's alleged agency until the *RICO Case* has been completed.

Peabody v. the District (the St. Louis Case) – In October 2004, Peabody also filed suit in St. Louis, Missouri against the District and the other owners of NGS. Peabody asserted claims against the District and claims against all NGS Participants for reimbursement of any damages relating to liability associated with the *RICO Case*; alleged breach of the NGS Coal Supply Agreement; and breach of indemnity obligations owed to Peabody as the alleged agent of the NGS Participants. Peabody seeks $500.0 million in damages for the breach of contract claim and unspecified compensatory damages, prejudgment interest, attorneys' fees and costs on the other claims. While this case was still in its discovery phase, the parties entered into a tolling agreement whereby the suit was dismissed. The claims of tortious interference against the District and the claim for breach of indemnity obligations owed to Peabody were dismissed with prejudice. All other claims were dismissed without prejudice pending the completion of the *RICO Case*.

In 2008, the Office of Surface Mining ("OSM") issued the final Environmental Impact Statement ("EIS") regarding the permit revision application of Peabody for the Black Mesa Complex, and approved the revised permit. Under the permit revision, the Black Mesa Mine (which formerly served the Mohave Generating Station) was added to the Kayenta Mine (which serves NGS) under one permit. Among other things, combining the two permits may give Peabody access to shallower, high quality coal for NGS, which could reduce future costs to the NGS Participants and provide an additional source of coal. Under the administrative appeals process, numerous appeals of the permit decision were filed, with appellants requesting an administrative hearing. The District intervened in those appeals in support of OSM and a hearing is scheduled in early 2010. The District cannot predict the outcome of this matter.

Except as indicated, the District is unable to predict the likely outcome of the coal supply litigation matters at this time but does not believe that the final resolution of these matters will have material adverse effects on its operations or financial condition.

Environmental

SRP is subject to numerous legislative, administrative and regulatory requirements relative to air quality, water quality, hazardous waste disposal and other environmental matters. SRP conducts

ongoing environmental reviews of its properties for compliance and to identify those properties it believes may require remediation. Such requirements have resulted, and will continue to result, in increased costs associated with the operation of existing properties. At April 30, 2009, and 2008, the District accrued $89.1 million and $87.9 million, respectively, for environmental issues, on a non-discounted basis, and is included in deferred credits and other non-current liabilities on the accompanying Combined Balance Sheets.

In September 2003, the U.S. Environmental Protection Agency (EPA) notified the District that it might be liable under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) as an owner and operator of a facility (the 16th St. facility) within the Motorola 52nd Street Superfund Site Operable Unit 3. The District may be liable for past costs incurred and for future work to be conducted within the Superfund Site. The District's investigation and evaluation indicate minimal contamination on the site. The District is unable at this time to predict the outcome of this matter, but believes that it has adequate reserves for this potential liability.

On April 29, 2009, the Roosevelt Irrigation District (RID) submitted Notices of Claim to the District and others for damages and response costs of not less than $40,000,000 for the release or threatened release of hazardous substances from District facilities, including the 16th St. facility. RID's claim relates to its ownership and operation of wells located within the West Van Buren WQARF Site. The District is unable at this time to predict the outcome of this matter but does not believe that the final resolution of this matters will have a material adverse effect on its operations or financial condition.

The EPA is continuing its national enforcement initiative under the New Source Review (NSR) provisions of the Clean Air Act (CAA). This initiative is focused on determining whether companies had failed to disclose major repairs or alterations to facilities that, in the opinion of the EPA, would have required the installation of new pollution control equipment under the CAA. As part of this initiative, the District was contacted by the EPA and, in March 2004, the District began negotiations with the EPA regarding possible additional control technology to reduce emissions levels from CGS. On August 11, 2008, the District executed an agreement (called a consent decree) with the EPA that will result in a significant reduction in emissions from CGS.

Under the agreement with the EPA, the District will install new state-of-the-art emission control technology at a cost of approximately $400 million to further reduce emissions of sulfur dioxide (SO_2), nitrogen oxide (NOx) and particulate matters (PM). These costs have already been included in the District's Improvement Program. In addition, the District paid a $950,000 penalty and will spend $4 million on supplemental environmental projects.

Several species listed under the Endangered Species Act (ESA) have been discovered in and around Roosevelt and Horseshoe Dams. The District entered into formal negotiations for an Incidental Take Permit (ITP) with the United States Fish and Wildlife Service (USFWS), and developed a Habitat Conservation Plan (HCP), which allows full operation of Roosevelt Dam and Reservoir, provided the District established habitats for the species in other areas or through other measures. The District engaged in similar negotiations with the USFWS to obtain a permit for operation of the Horseshoe and Bartlett Dams on the Verde River. The USFWS issued a permit for operation of Roosevelt Dam in 2003 and a separate permit for operations on the Verde River in May 2008. Pursuant to the ITP with the USFWS, in May 2008 the District established a Trust Fund to pay mitigation expenses related to the HCP. The Trust was funded with $13.2 million, and is expected to pay mitigation expenses into perpetuity. Additional funding in the amount of approximately $2.3 million is expected in early Fall 2009, most of which is expected to come from the City of Phoenix due to the City's interest in the water supply from Horseshoe Dam.

Air Quality

Electric utilities are subject to federal, state and local environmental regulations which continually change due to legislative, regulatory and judicial actions. Consequently, there is no assurance that facilities owned by the District will remain subject to the regulations currently in effect, will always be in compliance with future regulations, or will always be able to obtain all required operating permits. The need to comply with environmental regulations could result in additional capital expenditures to comply, reduced operating levels, or the complete shutdown of individual electric generating units not in compliance. In particular, the full significance to the District of air quality standards and emission reduction initiatives in terms of cost and operational problems is difficult to predict, but costly equipment may have to be added to units now in operation and that permit fees may increase significantly resulting in potentially material costs to the District.

As a result of legislative and regulatory initiatives, the District is planning reductions in emissions of mercury and other pollutants at its coal-fired power plants including plants located on the Navajo Reservation. The EPA issued regulations for the control of mercury emissions from coal-fired generating stations in 2005. Arizona opted into the federal mercury program in 2006 and imposed additional mercury emissions limitations which would require the District to install additional controls at CGS and Springerville Unit 4 to achieve 90% mercury removal. In addition, the District has been participating with the EPA in the development of a rule to regulate mercury emissions on the Navajo Reservation, where the District owns an interest in two generating stations, NGS and Four Corners. However, on February 7, 2008, the U.S. Court of Appeals, D.C. Circuit, vacated the EPA rules in response to a suit by 11 states that had challenged the rules as not protective enough of public health and contrary to the CAA. The EPA will issue new rules but, SRP and other utilities negotiated Consent Orders with the Arizona Department of Environmental Quality (ADEQ), pursuant to which SRP will implement a control strategy designed to achieve a 70 percent reduction of mercury emissions at CGS on a facility-wide annual average basis by January 1, 2012. It is likely that additional controls will be required at all coal-fired plants in which the District has an interest. The District is evaluating compliance options and cannot yet estimate the associated costs.

In June 2005, the EPA also issued final amendments to its July 1999 regional haze rule. These amendments apply to the provisions of the regional haze rule that require emissions controls known as Best Available Retrofit Technology (BART) for coal-fired power plants and other industrial facilities that emit air pollutants that reduce visibility. The amendments include final guidelines for states to use in determining which facilities must install controls and the types of controls that facilities must use. States and tribes were required to complete BART determinations for eligible facilities by the end of 2007, although Arizona did not meet that deadline and it is uncertain whether it will do so by the end of 2009. BART controls must be installed five years after the EPA has approved a state's BART determination. The District has financial interests in several coal-fired power plants that are subject to the BART requirements.

The EPA is reviewing the District's analysis of BART for NGS and APS's analysis of BART for Four Corners and is expected to make its positions known later in 2009. The District believes that BART for NGS requires the installation on all three units of low-nitrogen burners and separated over-fired air, and has begun installation. The Improvement Program includes $90 million for that installation but the EPA may also require installation of selective catalytic reduction (SCR) as well as controls for sulfuric acid mist emissions and fine particulate matter, which would cost about $1 billion. There is no money in the Improvement Program for SCR or for sulfuric acid mist controls.

APS believes that BART for Four corners requires the installation of low-NOx burners with separated over-fire air for Units 4 and 5 (in which the District owns a ten percent interest). The Improvement Program

includes $1.6 million for SRP's share of the estimated costs, but the EPA may also require SCR, which could cost an additional $48 million (District share). There is no money in the Improvement Program for SCR.

On May 5, 2009, the National Parks Conservation Association, Sierra Club, Grand Canyon Trust, San Juan Citizens Alliance, To Nozhoni Ani, and Diné CARE petitioned the National Park Service (NPS) to certify to the EPA that visibility impairment in Grand Canyon National Park is "reasonably attributable" to oxides of nitrogen and particulate matter emissions from NGS. The Petition asks the NPS to supplement a similar certification it made in 1986 that ultimately led to the installation of sulfur dioxide scrubbers at NGS. The Petitioners allege that although the installation of the scrubbers improved visibility at the Grand Canyon, they did not adequately reduce NGS's impact on such visibility.

The District is evaluating options for responding to both the Petition and the EPA's potential BART determination for NGS. The District is unable to predict the likely outcomes of these matters or the BART determination for Four Corners at this time.

The District recognizes the growing importance of the issues concerning climate change (global warming) and the implications they could have on its operations, so it is closely monitoring climate change and other developments at the federal, state and regional levels. Congress is considering a bill containing several significant provisions which would: (1) require utilities to meet 20% of their electricity demand through renewable energy sources and energy efficiency by 2020; (2) establish a new cap-and trade program to reduce carbon emissions from major sources by over 80% by 2050; (3) mandate new energy efficiency codes for buildings and appliances; and (4) make investments in new energy technologies, resources and energy efficiency. It is unknown when Congress will complete its consideration of the climate change and energy issues or what the final provisions of any bill that is enacted into law will be.

Efforts to cap or tax emissions of carbon dioxide from fossil fuel power plants will substantially increase the cost of, and add to the difficulty of siting, constructing, and operating electric generating units. As a result of legislative and regulatory initiatives, the District is planning emission reductions at its coal-fired power plants. In particular, under the terms of a consent agreement with the EPA, the District has agreed to install additional pollution control equipment at CGS. (See further discussion of the settlement in this Note at *Environmental.)* The full significance of air quality standards and emission reduction initiatives to the District in terms of costs and operational problems is difficult to predict, but it appears that costly equipment may have to be added to existing units and that permit fees may increase significantly resulting in potentially material cost to the District as well as reduced generation. The District is assessing the risk of policy initiatives on its generation assets and is developing contingency plans to comply with future laws and regulations restricting greenhouse gas emissions. There is no way to predict the impact of such initiatives on the District at this time.

The California Legislature has enacted laws that could impact the District. Under one such law, the California Public Utilities Commission (CPUC) and the California Energy Commission (CEC) have implemented a regulation that, among other things, prohibits procurement of electricity from a coal-fired power plant for five years or longer and restrict investments in coal-fired plants. The Los Angeles Department of Water and Power (LADWP), one of the participants in NGS, and SCE, a participant in Four Corners Units 4 and 5, are subject to the regulations and may be precluded from approving certain expenditures at the plants, including capital improvements. The regulations except expenditures for "routine maintenance"; however, no definition is provided. The California Air Resource Board (CARB) is also developing a program to reduce California emission of greenhouse gasses, including an economy wide cap-and-trade program for greenhouse gases. A preliminary recommendation from CARB

included a requirement for California utilities to divest or mitigate portions of existing investments in coal-based generation. The regulations could impact the District's ability to sell excess generation into California. If the implementing regulations prohibit or penalize the sale of energy generated by a coal-fired plan, the District could lose California as a market for its wholesale generation; however, the District has other options for marketing its wholesale generation. The District is monitoring and participating in the development of these regulations to determine the full extent of their impact on the District and the plants in which it has an interest. Based on available information, the District cannot estimate or predict the impact of the California laws on it at this time.

California Energy Market Issues

Numerous FERC proceedings are addressing various aspects of the California energy market crisis of 2000 through 2001. Several of these proceedings involve potential refunds. Because the District bought from and sold power to the California energy market, the District has been drawn into many of the proceedings. However, the District was a net buyer in the California market during the time periods being scrutinized, and believes it is entitled to refunds if any are ordered. The District has received approximately $29.6 million in refunds as of April 30, 2009, and expects an additional $1.5 million in fiscal year 2010.

Indian Matters

From time to time, SRP is involved in litigation and disputes with various Indian tribes on issues concerning regulatory jurisdiction, royalty payments, taxes and water rights, among others (see *Coal Supply Litigation* and *Air Quality* above). Resolution of these matters may result in increased operating expenses.

Water Rights

The District and the Association are parties to a state water rights adjudication proceeding initiated in 1976 which encompasses the entire Gila River System (the Gila River Adjudication). This proceeding is pending in the Superior Court for the State of Arizona, Maricopa County, and will eventually result in the determination of all conflicting rights to water from the Gila River and its tributaries, including the Salt and Verde Rivers. The District and the Association are unable to predict the ultimate outcome of this proceeding.

The United States, on behalf of the Gila River Indian Community (GRI Community), filed a lawsuit in 1982 in the Federal District Court, District of Arizona, to protect the water right claims of the GRI Community. The Association was among the many defendants named in this lawsuit. The lawsuit claimed that the defendants' use of surface water and groundwater violates the GRI Community's rights to water in certain specified areas, and requested a decree specifying the GRI Community's rights, injunctive relief to stop the alleged illegal use of water by the defendants, and damages for increased costs to the GRI Community from, among other things, having to deepen its wells. This lawsuit has been dismissed under the terms of the Arizona Water Rights Settlement Act, which resolves the claims of the GRI Community but also many of the claims in the Gila River Adjudication.

In 1978, a water rights adjudication was initiated in the Apache County Superior Court with regard to the Little Colorado River System. The District has filed its claim to water rights in this proceeding, which includes a claim for groundwater being used in the operation of CGS. The District is unable to predict the ultimate outcome of this proceeding, but believes an adequate water supply for CGS will remain available.

The cities of Prescott and Prescott Valley, together with the Town of Chino Valley, have plans to withdraw groundwater from the Big Chino Groundwater Sub-Basin and transport the water to their

respective service areas for municipal and industrial uses. The District opposes these plans because it believes that such pumping would deplete the base flow of the Verde River, which is captured and stored by two reservoirs on the Verde River for delivery to Association shareholders. The District cannot predict the outcomes of this matter at this time. However, the District does not believe the dispute will have a significant financial impact on the District or the Association.

Other Litigation

In the normal course of business, SRP is exposed to various litigations or is a defendant in various litigation matters. In management's opinion, the ultimate resolution of these matters will not have a material adverse effect on SRP's financial position or results of operations.

Self-Insurance

The District maintains various self-insurance retentions for certain casualty and property exposures. In addition, the District has insurance coverage for amounts in excess of its self-insurance retention levels. The District provides reserves based on management's best estimate of claims, including incurred but not reported claims. In management's opinion, the reserves established for these claims are adequate and any changes will not have a material adverse effect on the District's financial position or results of operations. The District records the reserves in deferred credits and other non-current liabilities in the accompanying Combined Balance Sheets.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
350 South Grand Avenue
Los Angeles CA 90071-3405
Telephone 213 356 6000
Facsimile 213 356 6363

Report of Independent Auditors

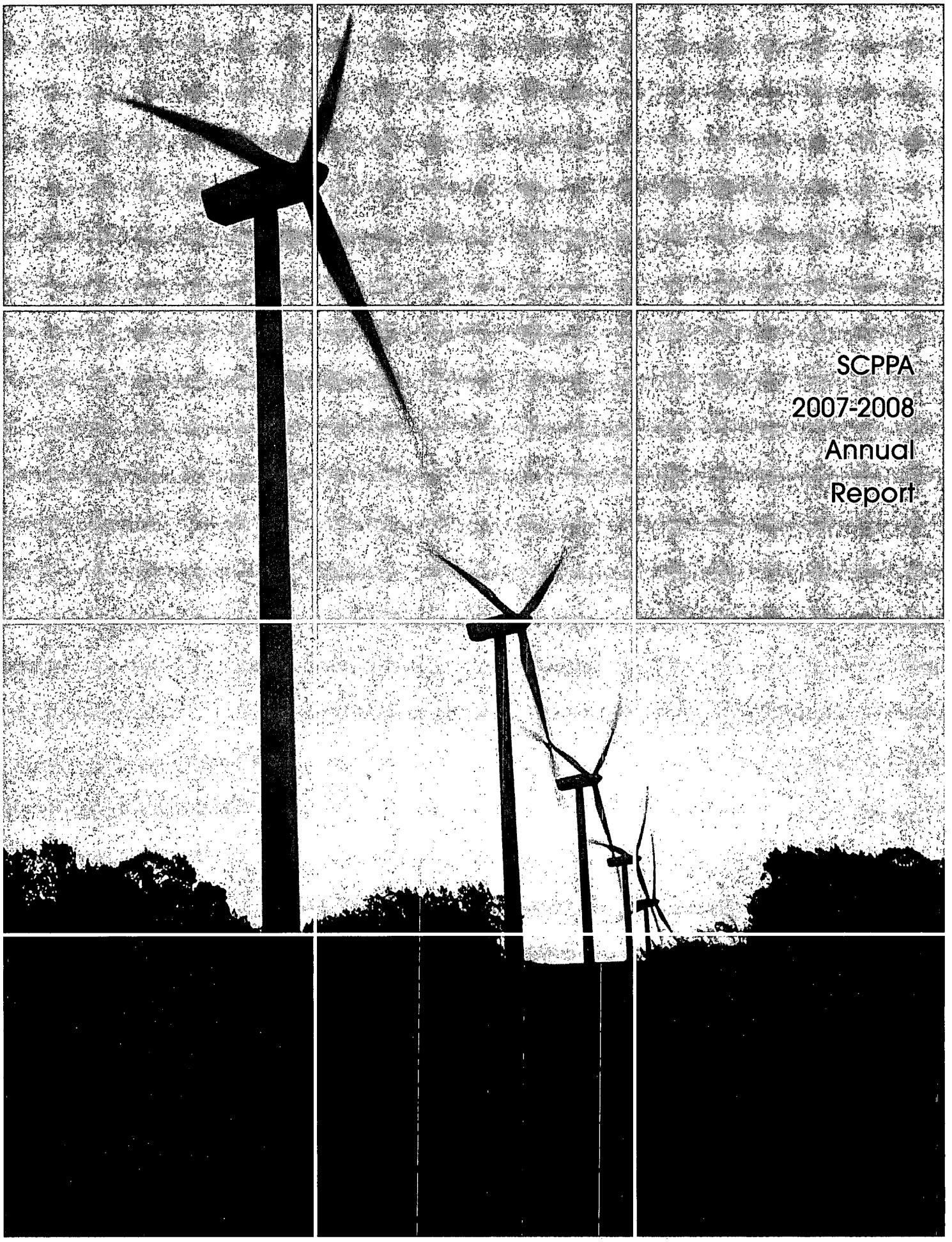
To the Board of Directors of the
Salt River Project Agricultural Improvement and
Power District and the Board of Governors of the
Salt River Valley Water Users' Association

In our opinion, the accompanying combined balance sheets and the related combined statements of net revenues and comprehensive income, and cash flows present fairly, in all material respects, the financial position of the Salt River Project Agricultural Improvement and Power District and its subsidiaries and the Salt River Valley Water Users' Association (collectively, "SRP") at April 30, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of SRP's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 of material misstatement. An audit 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

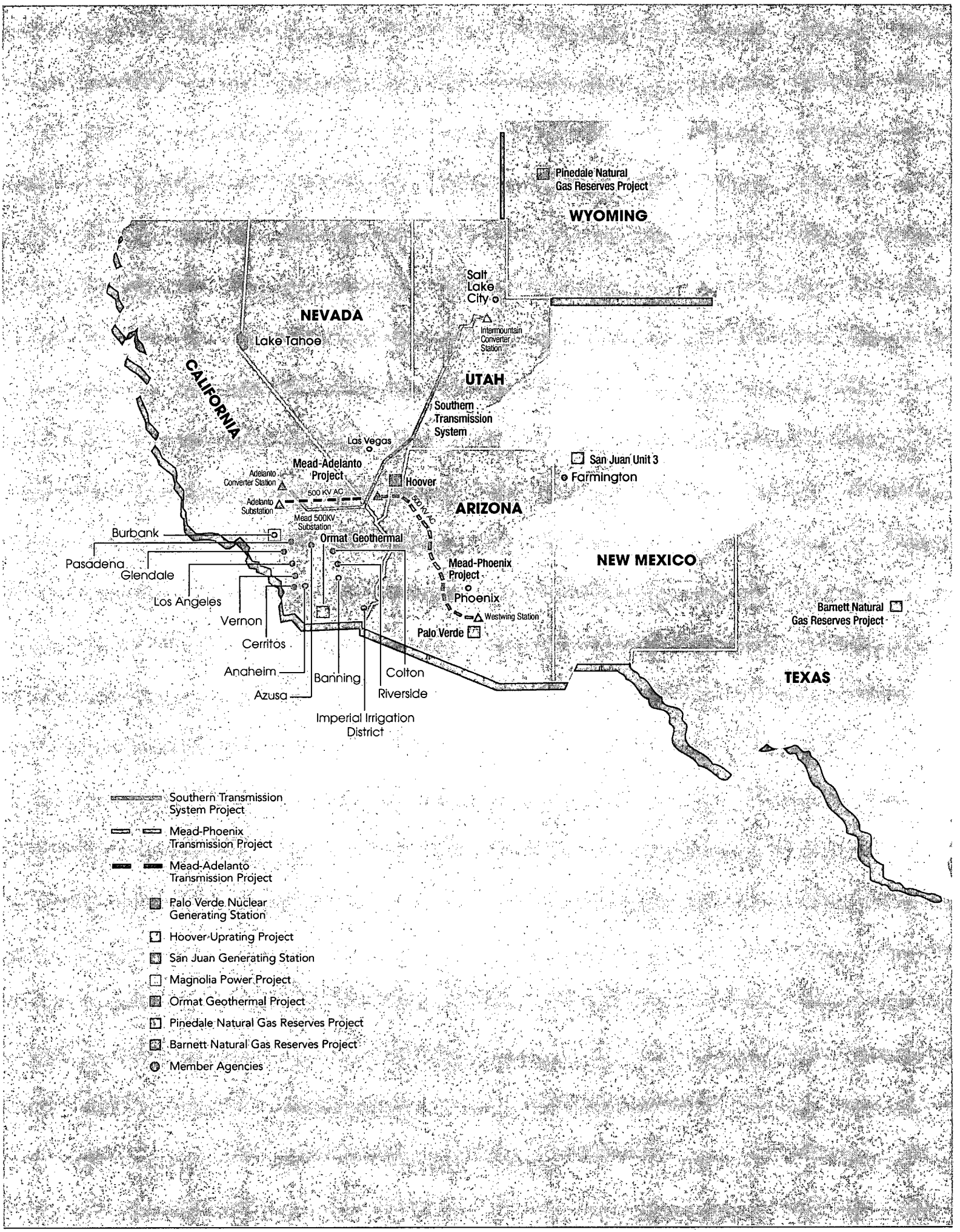
As discussed in Notes 3, 5 and 9 to the combined financial statements, SRP changed the manner in which it accounts for fair value measurements, for certain financial instruments, and for defined benefit postretirement plans in fiscal 2009.

PricewaterhouseCoopers LLP

June 30, 2009



SCPPA 2007-2008 Annual Report


Pinedale Natural Gas Reserves Project
WYOMING
Salt Lake City
Intermountain Converter Station
NEVADA
Lake Tahoe
CALIFORNIA
UTAH
Southern Transmission System
Las Vegas
Mead-Adelanto Project
Adelanto Converter Station
500 KV AC
Adelanto Substation
Mead 500KV Substation
Hoover
500 KV AC
San Juan Unit 3
Farmington
ARIZONA
Burbank
Ormat Geothermal
Pasadena
Glendale
Los Angeles
Vernon
Cerritos
Anaheim
Azusa
Banning
Colton
Riverside
Imperial Irrigation District
Mead-Phoenix Project
Phoenix
Westwing Station
Palo Verde
NEW MEXICO
Barnett Natural Gas Reserves Project
TEXAS
Southern Transmission System Project
Mead-Phoenix Transmission Project
Mead-Adelanto Transmission Project
Palo Verde Nuclear Generating Station
Hoover Uprating Project
San Juan Generating Station
Magnolia Power Project
Ormat Geothermal Project
Pinedale Natural Gas Reserves Project
Barnett Natural Gas Reserves Project
Member Agencies

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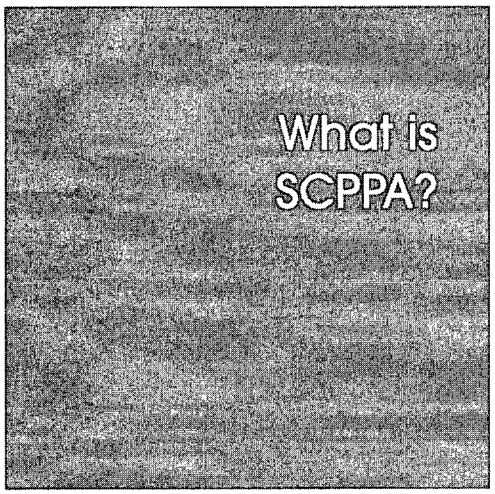
Southern California Public Power Authority (SCPPA), with headquarters in Pasadena California, is a joint powers agency comprising eleven municipal utilities and one irrigation district. SCPPA's members consist of the municipal utilities of Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Los Angeles, Pasadena, Riverside, Vernon, and the Imperial Irrigation District. Together they deliver electricity to over six million people in the southern California basin, spanning an area of 7,000 square miles. Formed in 1980, SCPPA was created for the purpose of providing joint financing, construction and operation of transmission and generation projects. Today, SCPPA fulfills a broad range of services for its members by providing effective forums of collaboration though committees such as Customer Service, Finance, Public Benefit programs, Resource Planning, Risk Management, Transmission and Distribution, Engineering and Operations, Natural Gas, and Renewable Energy Resources.



MISSION

SCPPA provides financing and oversight for large joint projects in the electric utility industry and through coordinated efforts, facilitates, implements, and communicates information relative to issues and projects of mutual interest to its members as determined by the Board of Directors.

In order to support its primary purpose, SCPPA is also involved in legislative advocacy, contracting for support services, information sharing, training and regulatory monitoring on behalf of its members. To accomplish its mission, SCPPA is:

- Not-for-profit (public agency)
- Governed locally (locally elected officials)
- Customer owned (no stockholders seeking high profits)
- Vertically integrated (focuses on and remains responsible for power supply, transmission, distribution, and customer service)
- Meeting local mandates of obligation to serve by planning to meet long-term needs of customers through ownership of generation and/or transmission and long-and-short term contracts for power supplies or transmission
- Providing diversity of power supplies, including renewable resources (solar, wind, and electric generation from geothermal, and landfill gas)
- Optimizing its energy resources, and
- Providing aggressive, local demand-side management programs.

The Authority currently has interests in five generation projects, three transmission projects, and three natural gas projects in operation, generating power in California; and generating and bringing power from Arizona, Nevada, New Mexico, Texas, Utah, and Wyoming. One of the generation projects is a combined cycle natural gas-fired generating plant with a nominally rated net base capacity of 242 megawatts, and is wholly owned by the Authority. Its most recent acquisition is a prepaid contract for a thirty year supply of natual gas at a fixed discount.

VISION

SCPPA will provide cost-effective joint action services that supplement member programs and activities, and that secure long-term physical supplies at predictable pricing levels for usage in power generation to assure continued member success.

SCPPA's projects have been financed through the issuance of tax-exempt bonds, backed by the combined credit of the SCPPA members participating in each project. As of June 30, 2008, SCPPA had issued $11.0 billion in bonds, notes, and refunding bonds, of which $2.3 billion was outstanding. It is backed by one of the highest credit ratings, and is rated AA- by Moody's and Standard and Poor's.

SCPPA Officers & Staff

David Wright
President

Marcie Edwards
Vice President

Bill Carnahan
Executive Director

Leilani Johnson Kowal
Secretary

Mario Ignacio
Assistant Secretary

From left to right: Bill Carnahan, Executive Director; David Walden, Energy Systems Manager; Geri Mitchell, Office Manager; Craig Koehler, Finance and Accounting Manager; Salpi Bouboushian, Administrative Analyst; Phyllis Brown, Government Affairs Manager; Steve Homer, Project Administrator; and Richard Helgeson, General Counsel.

President's Letter

Once again, the SCPPA Member utilities did their part in adding renewable resources in their total power mix in order to support the Governor's 33 percent by 2020 RPS goals. Many of the SCPPA Member utilities are well on their way to meeting this goal, and in some cases have exceeded it. Riverside for example, will have gone from zero to 50 percent in just over a decade, and will probably have one of the highest renewable energy portfolios in the state, with the exception of those that had legacy hydro. Los Angeles Department of Water and Power has committed an investment of $5 billion dollars to renewables over the next five years. SCPPA's Members are committed to sustainable, renewable resources, and are continuing to find new ways to maximize their resources to ensure that supplies remain abundant for years to come. All this, as the state's investor owned utilities are finding it difficult to meet their RPS goals in the timeframe established.

Today, SCPPA serves its Members in many ways and has evolved from its historical role of providing financing for generation and transmission projects. As a Joint Action Agency, SCPPA also provides effective forums of collaboration and as a conduit for joint contracting for services and acquisition of fuel for power generation and renewable energy supplies. In addition to generating electricity in California, SCPPA also brings electricity to Southern California from Arizona, Nevada, New Mexico, Texas, Utah, and Wyoming on a combined basis and currently delivers electricity and services to over six million people in the communities we serve.

During the year, SCPPA had a number of achievements in assisting its members in key areas, including financing, project development, and legislative advocacy. This again is largely attributable to the member's effective use of joint action. Over the years, SCPPA's members have added locally-owned generation, with the addition of the Magnolia Power Project that operates under one of the most stringent environmental standards in the nation. SCPPA also continues its commitment in renewable energy with its latest request for proposals and consideration for additional renewable resource supplies.

SCPPA continues as a strong advocate on the regulatory fronts, with its involvement at both state and federal levels, to protect represented customers by assuring adequate resources, reliability, and environmental stewardship to the communities we proudly serve. Recently, several SCPPA Member utilities, including Riverside, Burbank, Pasadena, and Los Angeles Department of Water and Power, testified at the State of California Air Resources Board meeting in connection with the Assembly Bill 32 Scoping Plan. Although SCPPA is generally supportive of the Scoping Plan, concerns remain in connection with its cap and trade provisions and wealth transfers, and we would like to also include some regulatory safeguards as it is further developed.

Energy Efficiency and renewable measures are the cornerstones of AB 32 compliance for the electricity sector, and public power agencies have been some of the most aggressive in renewable energy and energy efficiency programs. Energy efficiency and demand reduction programs are vital parts of public power's resource strategy. Over the last ten years SCPPA members have spent over $350 million on energy efficiency and demand reduction management programs. Utility customers benefit from rebates and incentives for energy efficiency measures such as high-efficiency lighting, appliances, air conditioners, and motors. Other programs include tree planting for shading purposes, energy management systems to passively turn off lighting and air conditioning when not in use, and LED lighted traffic signals. In addition to monetary incentives, member utilities conduct education and communication programs designed to educate customers about the benefits of energy efficiency. SCPPA member utilities have established 10-year energy efficiency targets which, in aggregate, amount to an average reduction of 1% per year.

SCPPA members continue to deliver reliable service, at competitive and stable rates. Through proactive advocacy impacting energy legislation and regulation in California and at the Federal level, and collectively meeting our commitments for green power and renewable energy resources, SCPPA members are working together to successfully meet the challenges in California's electric energy industry. By making investments today, we can assure that we are in a position to reliably and responsibly serve the energy demands of our customers in the future.

David H. Wright
President

I am proud to report that it has been another monumental year for SCPPA in terms of its achievements and assisting its members in a number of key areas, including financing, project development, and legislative advocacy.

Executive Director's Letter

On the financing front, SCPPA successfully completed the Natural Gas Prepayment No. 1 transaction that resulted in a contracted thirty-year supply of natural gas benefiting its Participants (Anaheim, Burbank, Colton, Glendale, and Pasadena). This was one of the most economically beneficial and most complex natural gas prepayment transactions completed to date. Over the thirty-year term, approximately 134 billion cubic feet will be delivered and is expected to produce approximately $120 million in savings for SCPPA. In addition, SCPPA also completed the first phase of the natural gas reserves acquisition by financing the Wyoming Natural Gas Pinedale and Texas Barnett Projects.

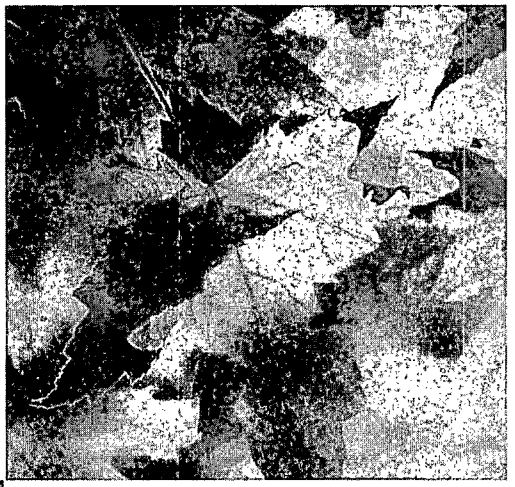
The year was also marked by unprecedented events and changes in the financial industry brought about by the subprime mortgage crisis and related credit issues. Nationally, outstanding mortgage debt exceeded $14 trillion with a large proportion of the mortgage backed securities held by Financial Institutions and Federal Agencies. As mortgages started to go bad, industry write downs approached $600 billion that led to frozen markets on a global scale, and dramatic reduction in liquidity and downgrades to the bond insurers. Despite strong Federal/Treasury actions, problems still persist within the financial markets. Many financial institutions on SCPPA's underwriter team are no longer in business or have merged with other banks. All of this has affected several of SCPPA's outstanding bond issues. Through the SCPPA Finance Committee along with its financial advisor, SCPPA has been able to successfully navigate its way through the crisis and has already taken remedial action across a number of projects, similar to other major public power issuers across the country. The Finance Committee continues to closely monitor the markets and SCPPA's other projects as the future is unknown and stability is not likely to return until 2009.

SCPPA supports the members in meeting the challenges facing the electric industry by acquiring additional reliable energy sources. To assist the members, SCPPA issued new Request for Proposals (RFP) for Renewable Energy Projects to solicit competitive proposals for additional megawatts of renewable energy, through facility ownership or power purchase agreements with an early buyout option, in one or more renewable energy facilities. In response to the RFP, SCPPA is pursuing several renewable energy projects, including wind, solar thermal, biomass, ethanol power, and geothermal, which are in the early stages of development. At fiscal year-end, several wind projects were also under way, involving a mix of Power Purchase Agreements and ownership options, and are expected to be in production in late 2008 through 2010.

On the legislative front, SCPPA continues to be a strong and active voice at both the state and federal levels. These efforts include advocating SCPPA's commitment to local control and issues vital to Publicly-Owned Utilities; updating legislators on SCPPA's mission to assist members in optimizing energy efficiency opportunities as well as building and acquiring new generation, with the emphasis on renewable energy sources; and efforts to implement the California Global Warming Solutions Act, Assembly Bill 32.

Today, SCPPA consists of its twelve members (Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, the Imperial Irrigation District, Los Angeles, Pasadena, Riverside, and Vernon) delivering electricity and providing services to over six million people. I am honored to be associated with SCPPA for most of its existence, and to have served as Executive Director for almost a decade. I have witnessed SCPPA's phenomenal growth and success in providing the members with the ability to maintain a balanced portfolio of sustainable and reliable energy sources that meets local demand for energy during this time. SCPPA is committed to continuing to proactively assist its members in aggressively meeting new challenges within California's electricity industry. The outstanding leadership of its members will continue to provide new and exciting solutions to the industry challenges to come.

Bill D. Carnahan
Executive Director



SCPPA's Year in Review

By Craig Koehler
SCPPA Finance and Accounting Manager

The year was singularly shaped by the dramatic events that took place in the financial markets. What began as isolated subprime mortgage related problems quickly grew into a full blown financial crisis. This had a domino effect, which led to the downgrade on the bond insurers, contraction of the financial markets globally, uncertainty in the viability of the auction rate and variable rate debt markets, and resulted in a complete loss of consumer confidence. The availability of liquidity and credit facilities was also severely curtailed and the price for obtaining these facilities has dramatically increased. We all witnessed U.S. history being rewritten, as the events that followed in the financial markets unfolded. In response, SCPPA proactively took remedial action across a number of its projects, similar to other major public power issuers across the country. With the Federal bailout in place, the markets have not realized a return to normalcy or stabilization. However, SCPPA's Financing Team continues to closely monitor the markets to protect SCPPA's project debt portfolio.

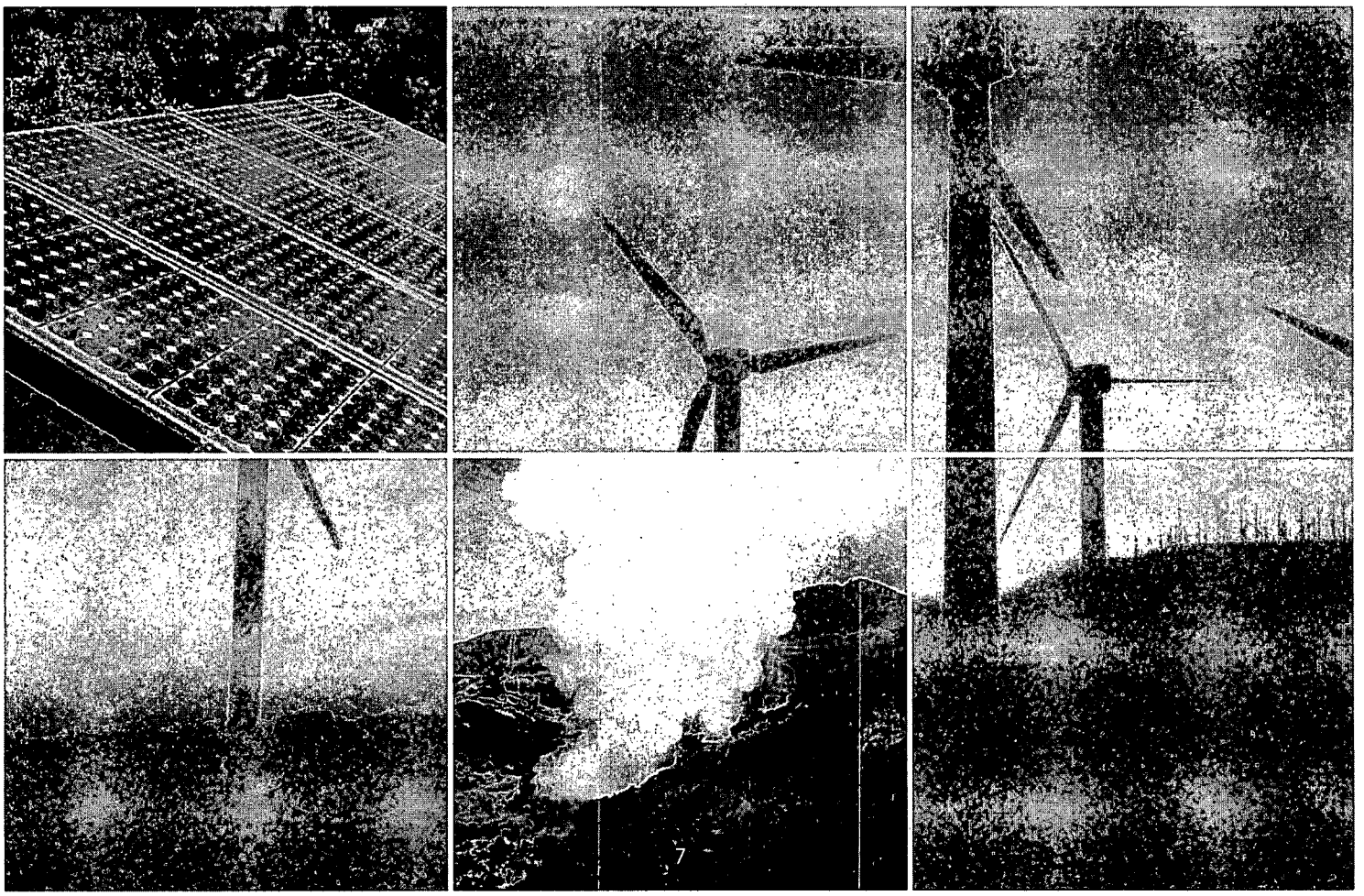
Amidst all of the financial market turmoil, SCPPA has continued to assist its members in the areas of traditional financing, and its commitment to acquire additional renewable energy sources on their behalf. Following a period of negotiations that culminated after approximately a year and six months, SCPPA executed one of the most complex natural gas prepayment transactions to date. The project resulted in a contracted thirty-year supply of natural gas of approximately 134 billion cubic feet totaling $504.4 million. It is expected to produce approximately $120 million in savings for SCPPA's Members over the life of the bonds. In addition, SCPPA also issued a new taxable rate money issue of $141.1 million. The purpose was to pay-off an outstanding and expiring short-term bridge loan in connection with the natural gas reserves that were acquired earlier in 2005 and 2007, and to provide for five years of capital drilling needs for both the Natural Gas Pinedale and Barnett Projects.

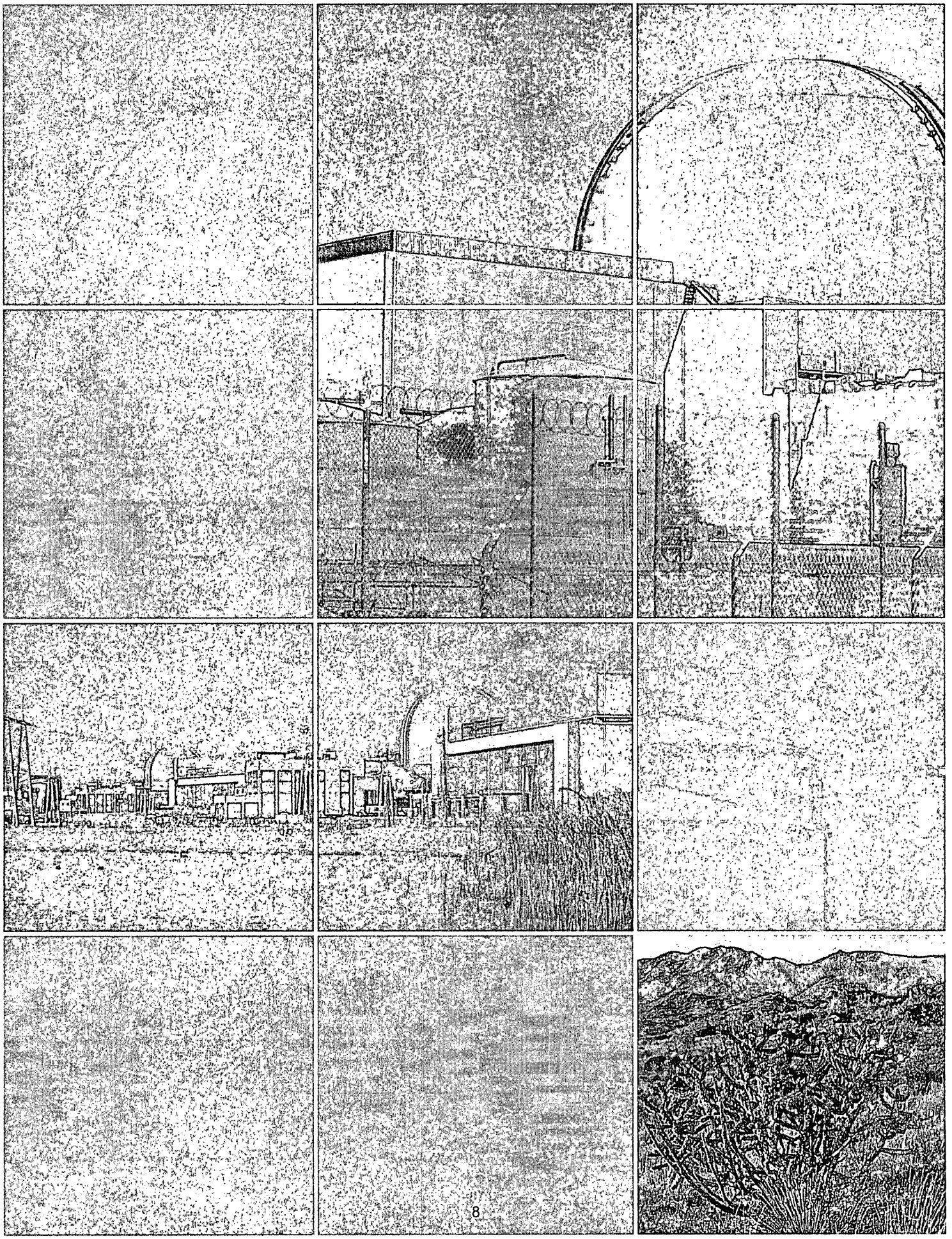
At fiscal year-end, financing was also underway for an upgrade to the Southern Transmission System; and an interim financing facility, utilizing Bond Anticipation Notes, for the purchase of turbines and other costs in connection with Anaheim's Canyon Power Project. The STS Upgrade and Canyon Power Project financing have schedules targeting a December 2008 closing.

In response to the increased pressure to meet the renewable energy mandate, SCPPA's Participants have been positioning their portfolios to acquire additional renewable energy sources as well. To assist the Members, SCPPA issued an open- ended Request for Proposals (RFP) for Renewable Energy Projects to solicit competitive proposals for renewable energy, through facility ownership or power purchase agreements with

an early buyout option, in one or more renewable energy facilities. SCPPA received 60 replies offering 9 GW of potential renewable energy in response to the RFP and is pursuing several renewable energy projects, including wind, solar, biomass, and geothermal. At fiscal year-end, several wind projects were also under way, involving a mix of Power Purchase Agreements and ownership options, which are expected to be in production in late 2008 through 2010. SCPPA is also targeting a potential portfolio of approximately 3 GW of renewable energy by 2020.

As a Joint Action Agency, SCPPA strives to develop new ways to add value to its Members so they remain well-positioned to meet the challenges within our industry. Collectively, SCPPA's member utilities continue to leverage their talents, resources, and financial strengths to bring sustainable and reliable energy sources to their customers.





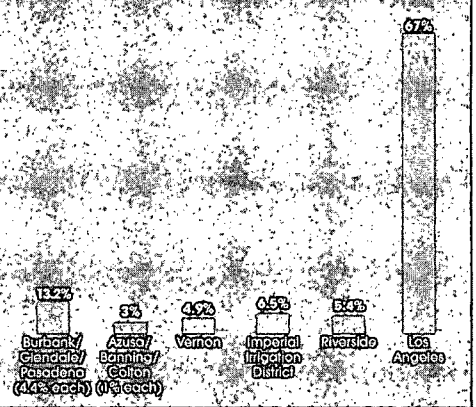
Palo Verde Operations

The steam generators in Unit 1 were successfully replaced during the fall of 2005. Unit 2's steam generators were replaced in 2003, and Unit 3's steam generators were replaced in October 2007.

PRODUCTION COST
(Operation and Maintenance plus Nuclear Fuel)

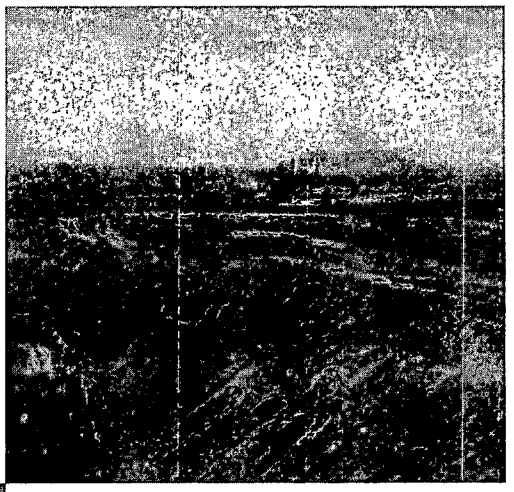
Calendar Year	Cents per kWh
1993	2.02
1994	1.93
1995	1.61
1996	1.45
1997	1.33
1998	1.28
1999	1.25
2000	1.25
2001	1.27
2002	1.28
2003	1.32
2004	1.45
2005	1.63
2006	2.07
2007	2.13

Percentage of SCPPA member participation in Palo Verde Project



2007-2008 OPERATIONS

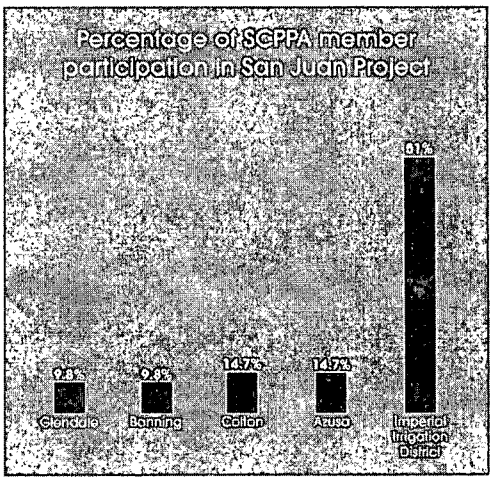
	Generation (Millions of MWHs)	Capacity Utilization (%)
Unit 1	10.1	87.9%
Unit 2	9.1	78.7%
Unit 3	7.7	68.1%
Aggregate	28.2	78.2%

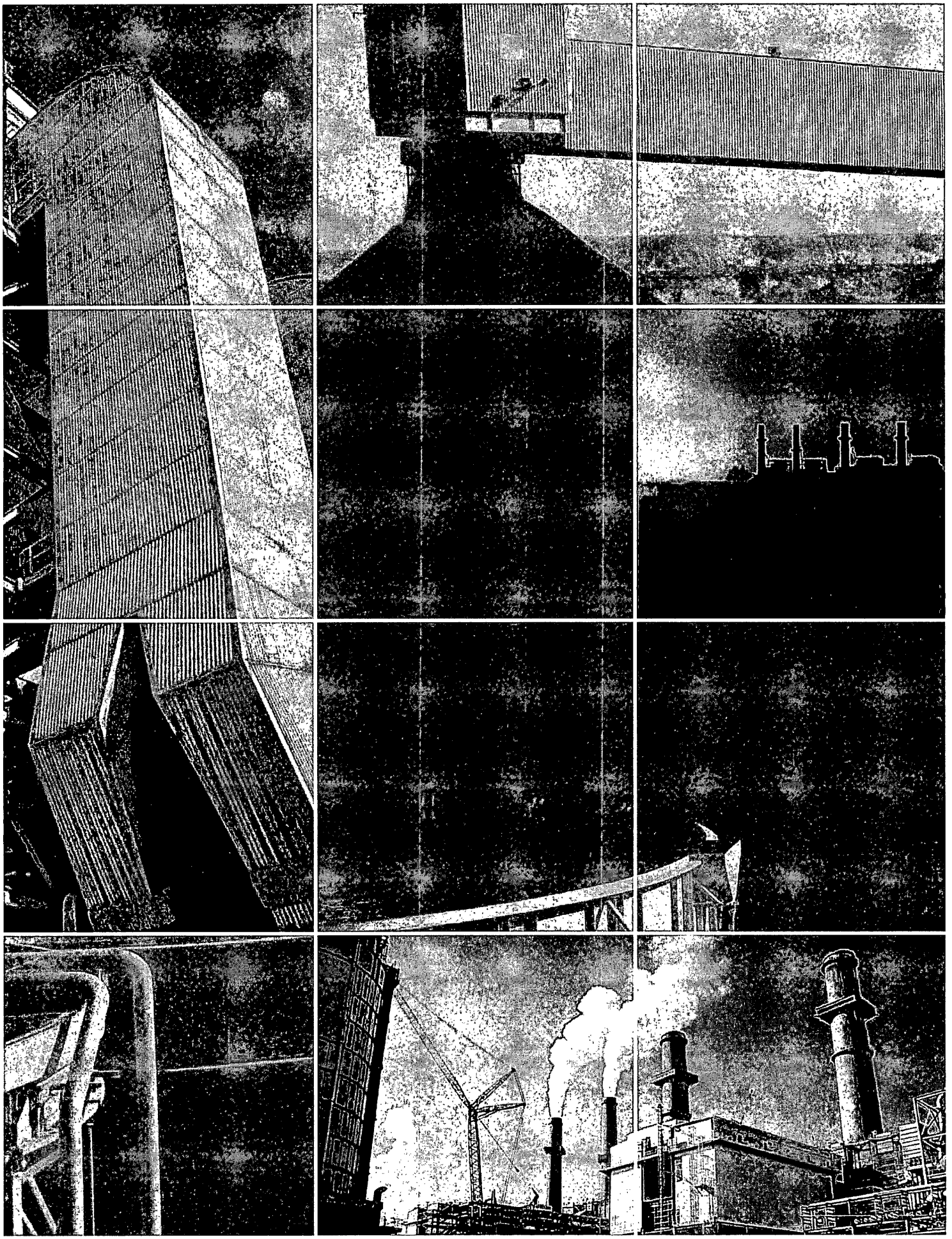


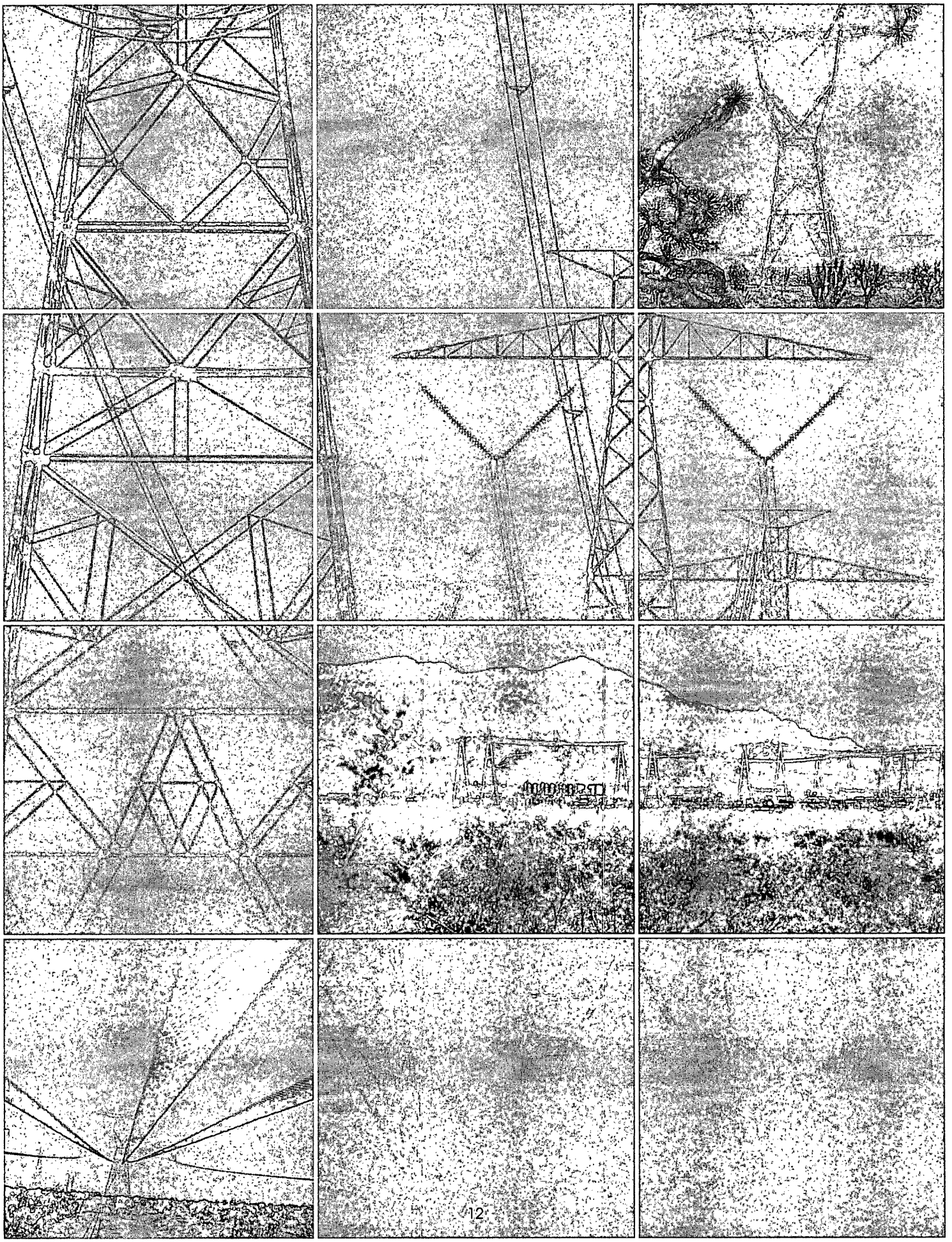
San Juan Unit 3 Operations

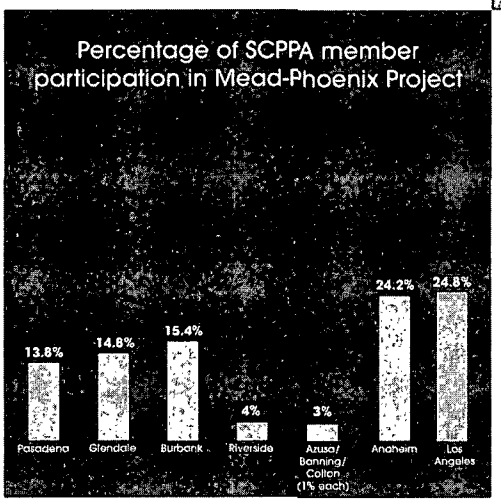
Five SCPPA participants own 41.8% of Unit 3 at the San Juan Generating Station, a coal-fired plant in New Mexico. A series of Interim Invoicing Agreements for fuel has led to high capacity factors and lower per unit fuel costs.

The underground mine is performing well, and the plant is in the midst of a major enviornmental upgrade project. Unit 3's major work was performed in January 2008.



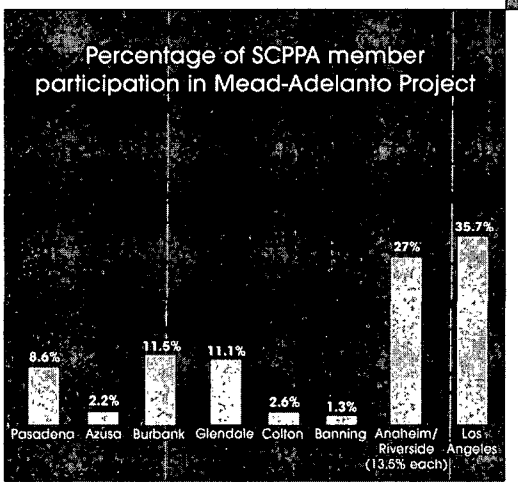






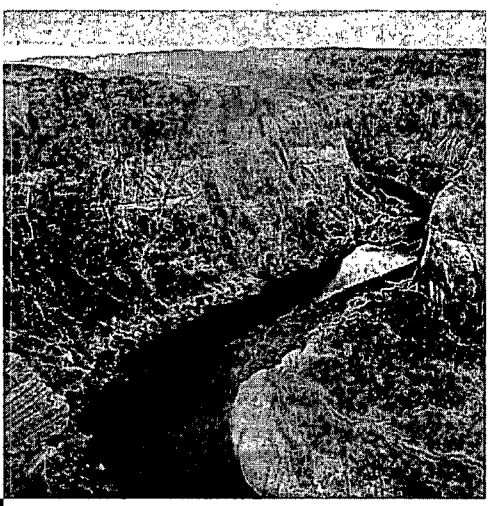
The two 500-kV transmission lines, which connect Phoenix to Las Vegas, and Las Vegas to Southern California, completed their tenth year of dependable operation for the nine SCPPA members who participate in the projects.

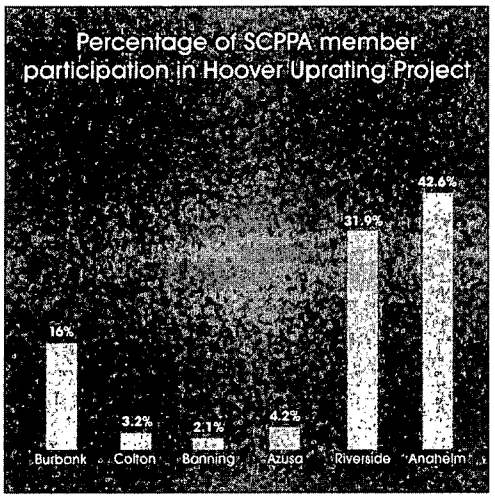
Mead-Phoenix/ Mead-Adelanto Transmission Projects

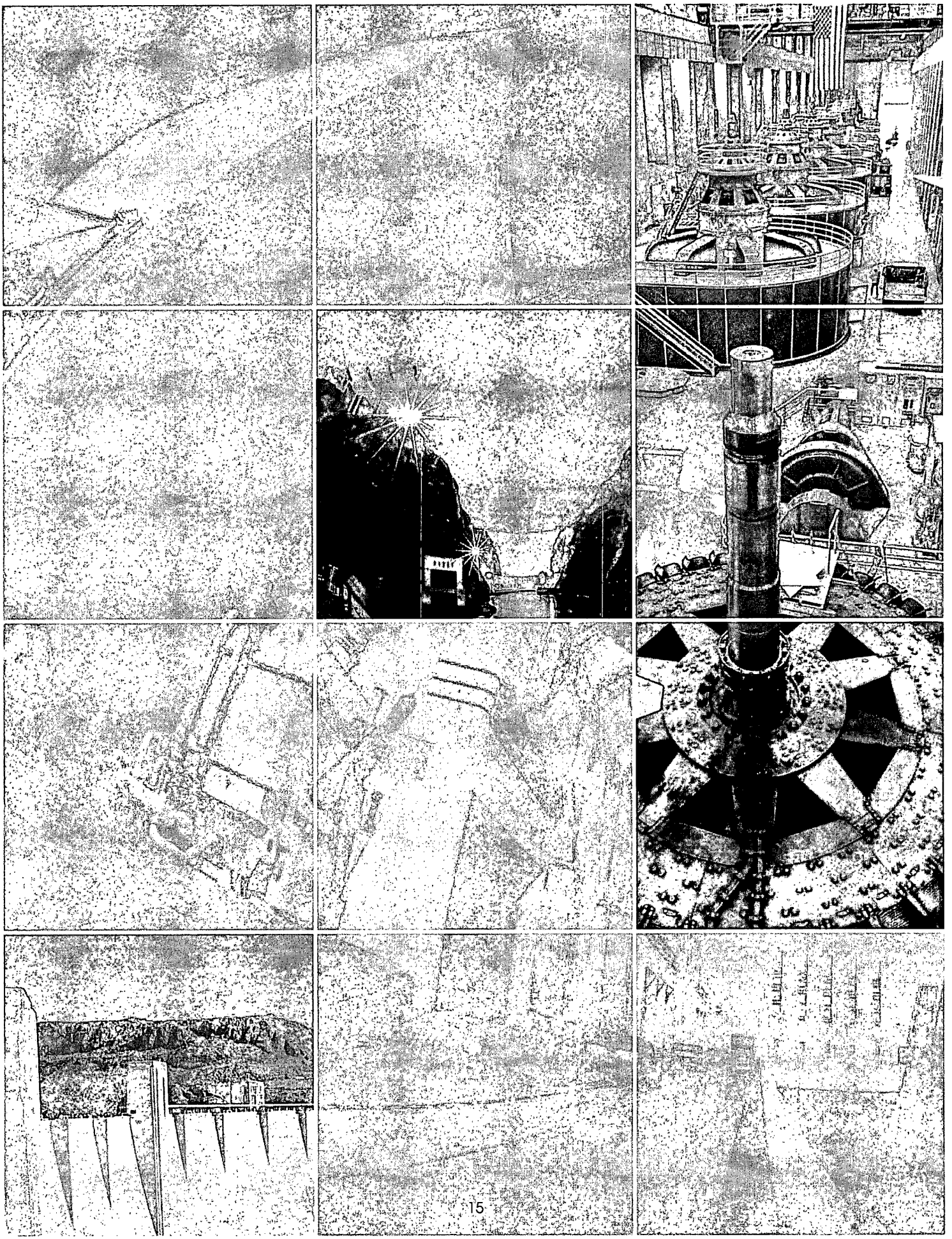


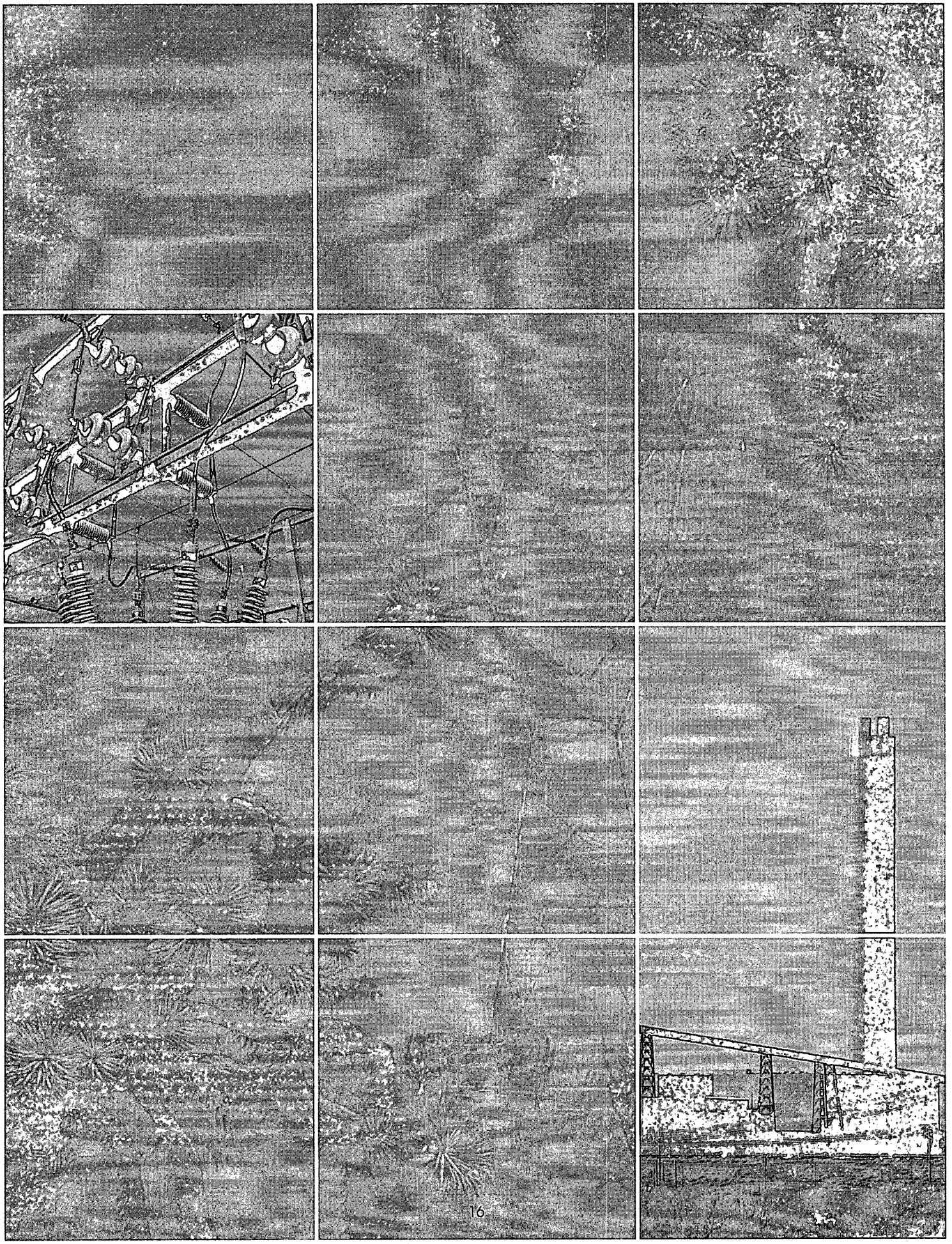
Hoover Uprating Project

The Hoover Uprating Project contiues to provide six SCPPA members with low-cost, renewable energy (hydro). A SCPPA representative is active in the implementation of the Lower Colorado River Multi-Species Conservation Program.



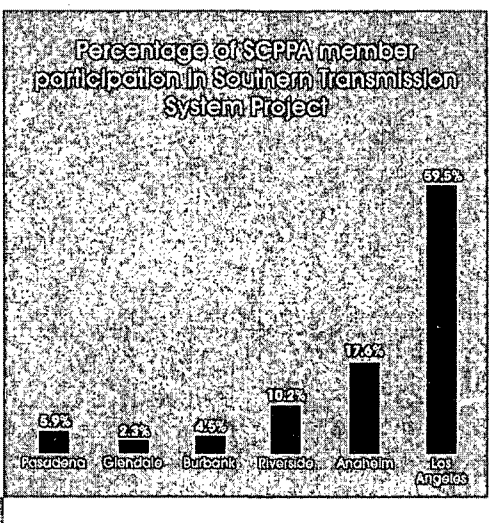


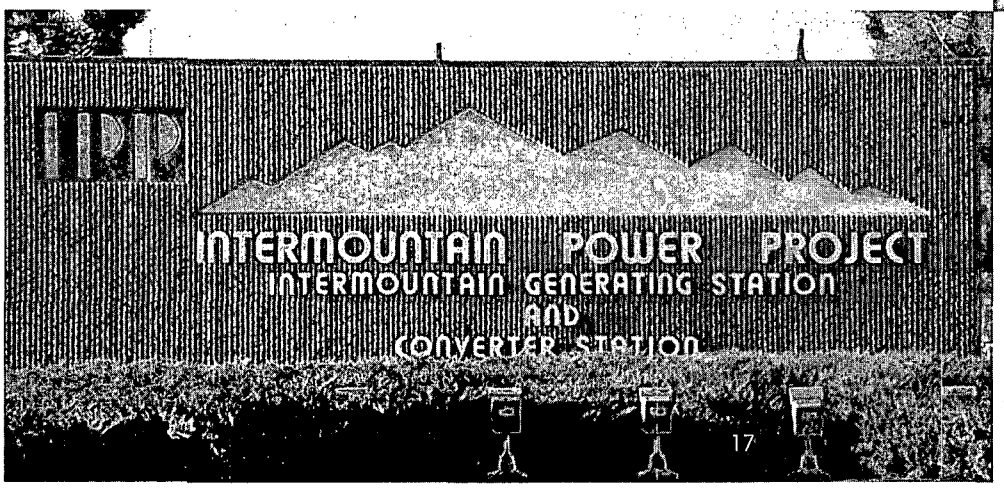


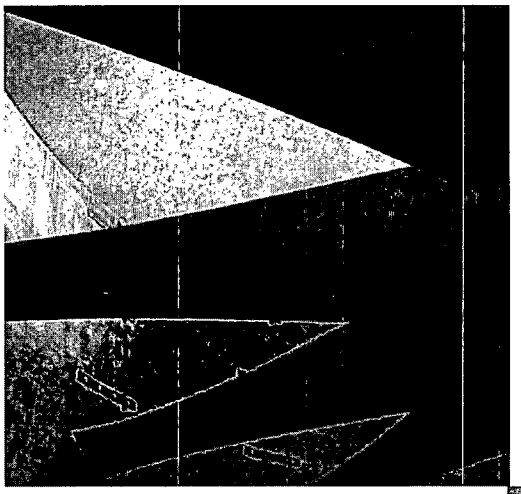


Southern Transmission System (STS)

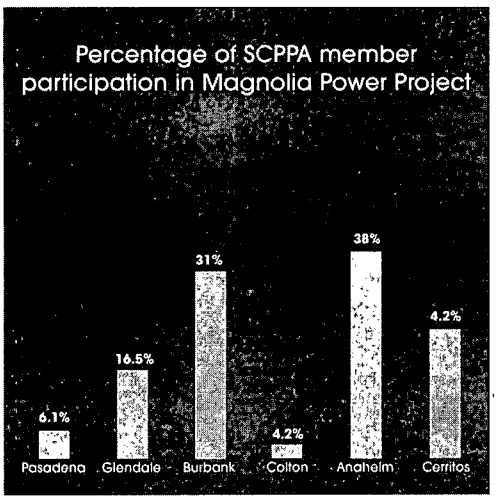
As usual, the STS operated with near-perfect availability (99.03%), delivering 13.9 million MWHs to the six SCPPA members who are participants. The power comes 488 miles from the Intermountain Power Project, in Utah, over the ± 500-kv DC line.



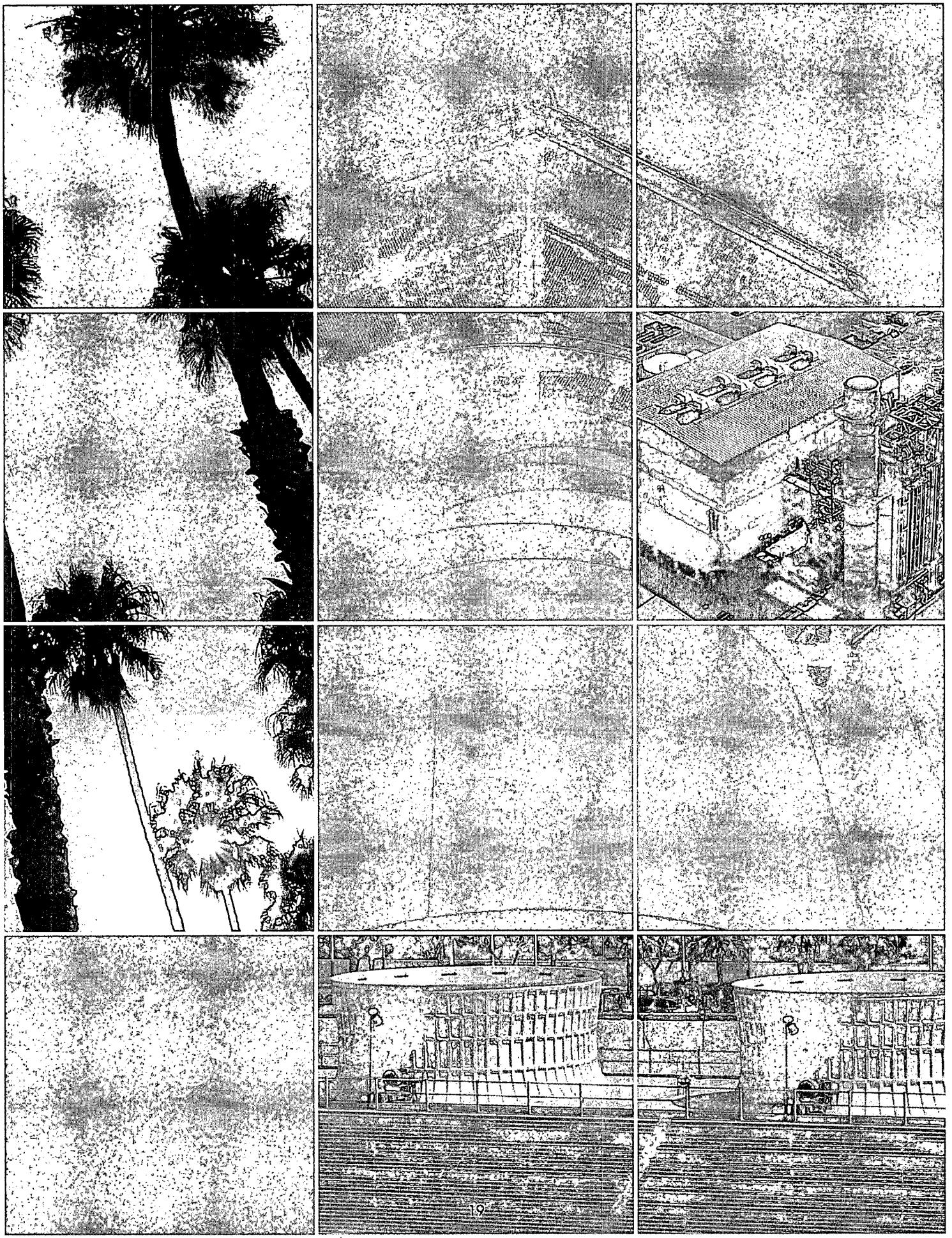


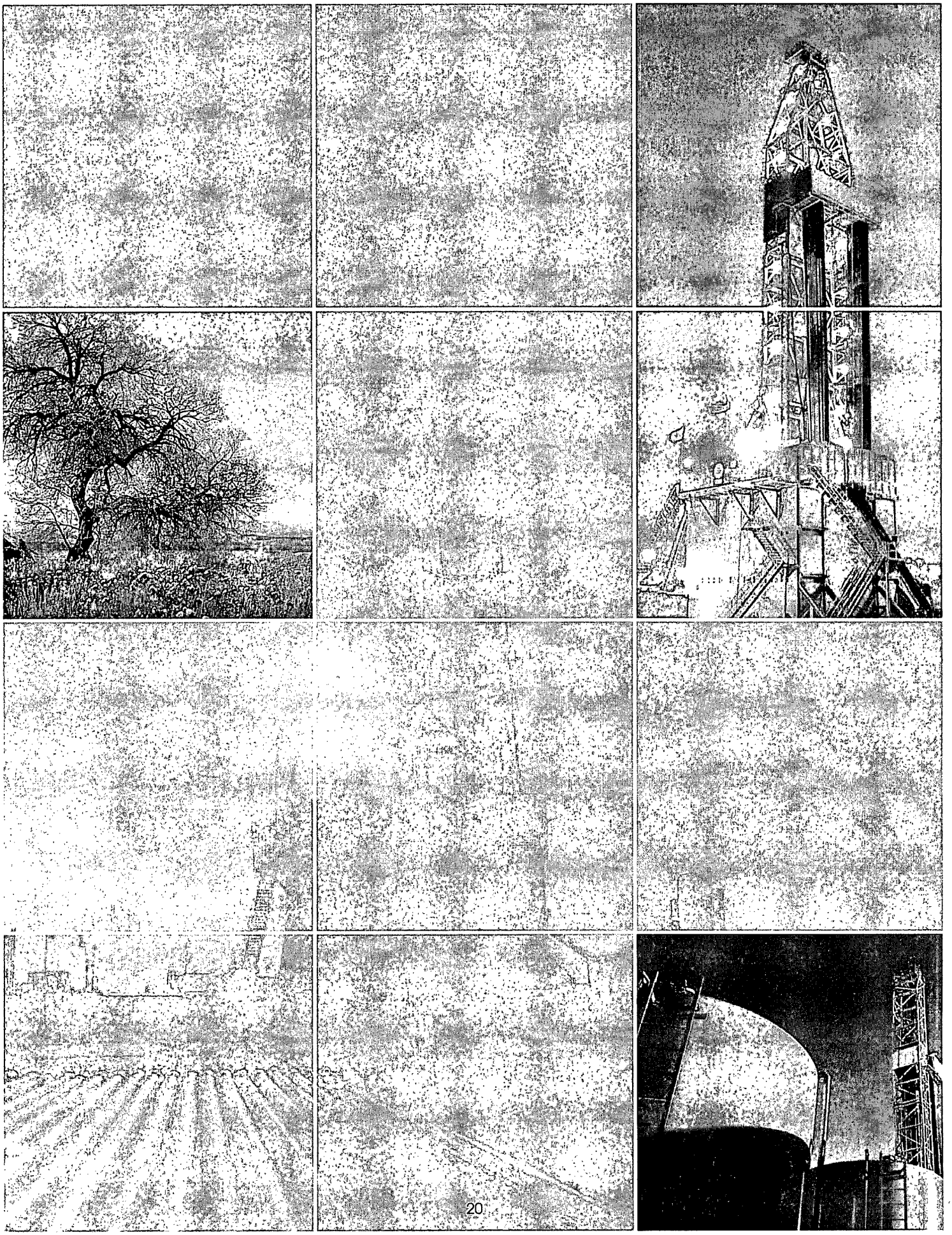


Magnolia Power Project



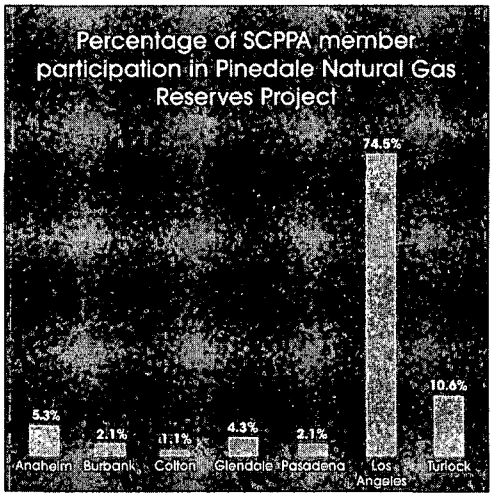
Construction was completed on the Magnolia Power Project, a 240 megawatt natural gas-fired, combined cycle plant, located on the site of an existing plant in the City of Burbank. The plant reached commercial operation in September, 2005, and is the first project to be wholly-owned and operated by SCPPA members. The participants are Anaheim, Burbank, Cerritos, Colton, Glendale, and Pasadena.



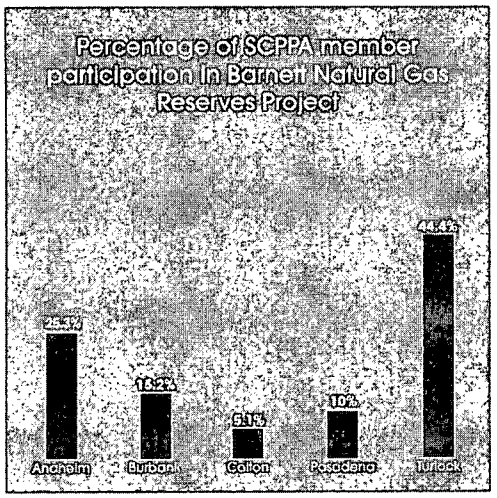


Pinedale Natural Gas Reserves Project

SCPPA negotiated its first purchase of gas in the ground, with the deal closing July 1, 2005. SCPPA Members Los Angeles, Anaheim, Burbank, Colton, Glendale, and Pasadena joined together with the Turlock Irrigation District to purchase shares of existing natural gas wells in the Pinedale area of Wyoming. This purchase, along with similar future purchases, will provide a secure source of gas for the participants, and hedge against volatile prices in the market.



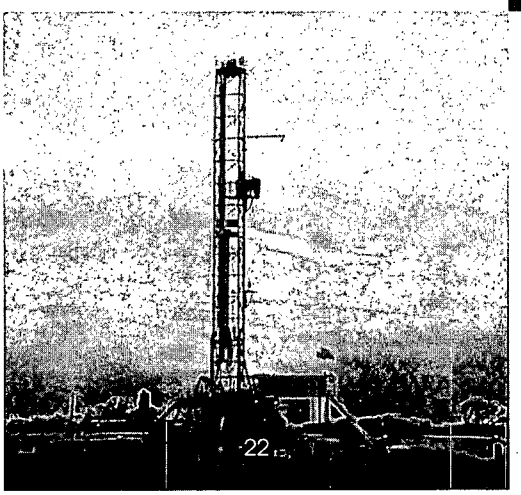
Los Angeles and Turlock hold their interests individually. Anaheim, Burbank, Colton, Glendale, and Pasadena have ownership through SCPPA. Los Angeles serves as Project Manager for the overall project, and SCPPA provides services for Los Angeles and Turlock under agency agreements.

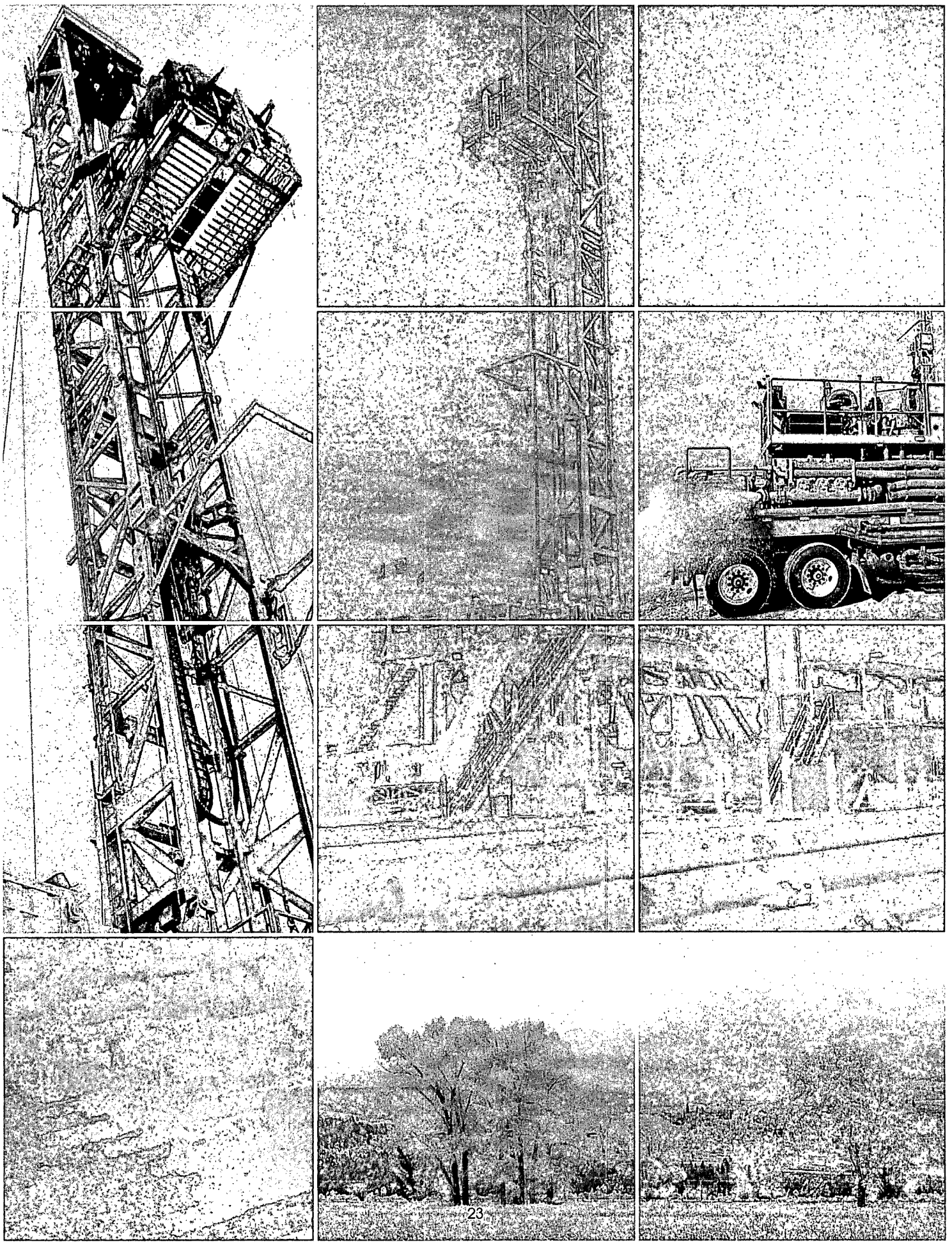


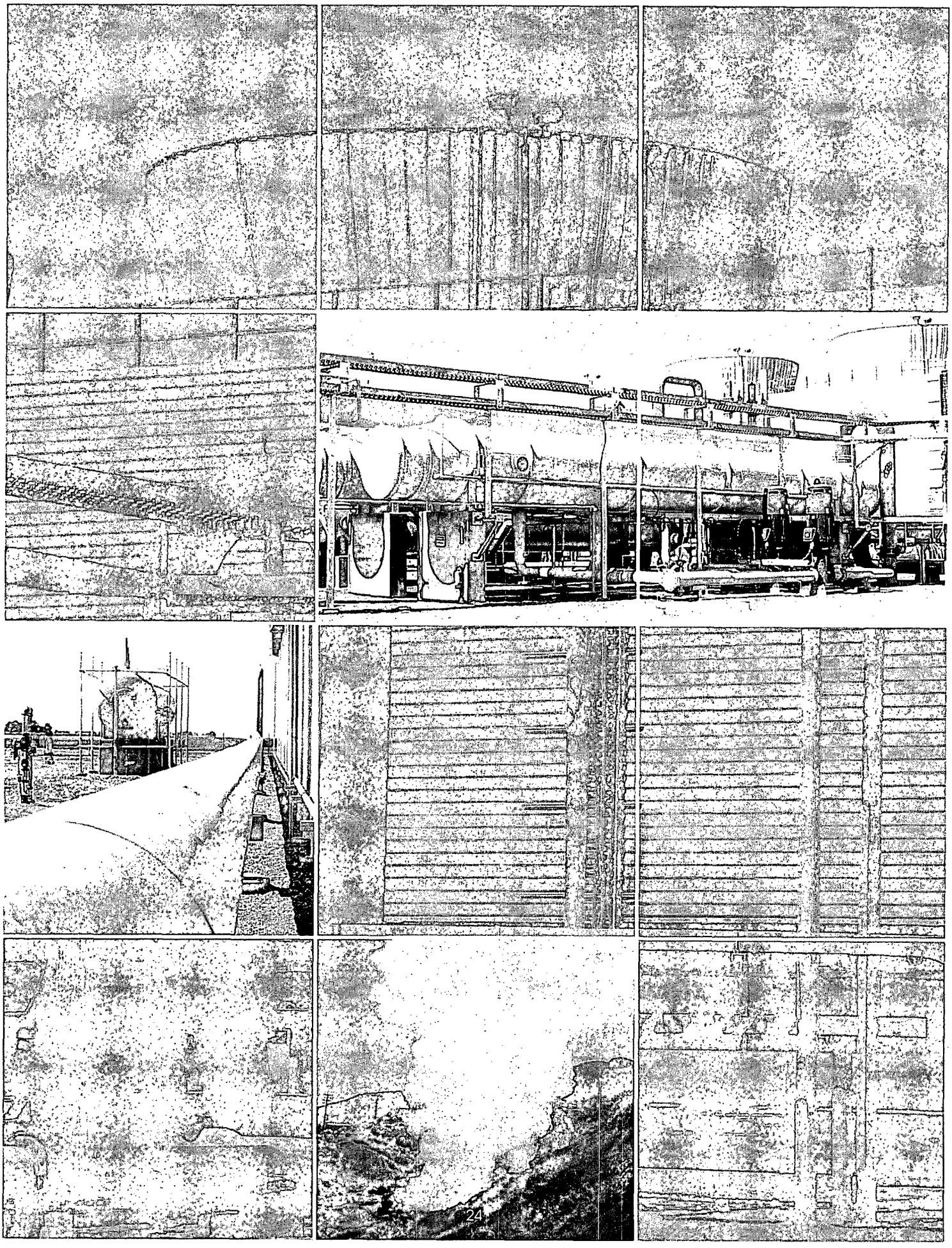
Turlock holds its interest individually. Anaheim, Burbank, Colton, and Pasadena have ownership through SCPPA. SCPPA receives net revenues through a joint operating agreement with Devon Energy Production Company, L.P.

In 2006, SCPPA members purchased a share of natural gas leases in the Barnett Shale area of Texas.

Barnett Natural Gas Reserves Project

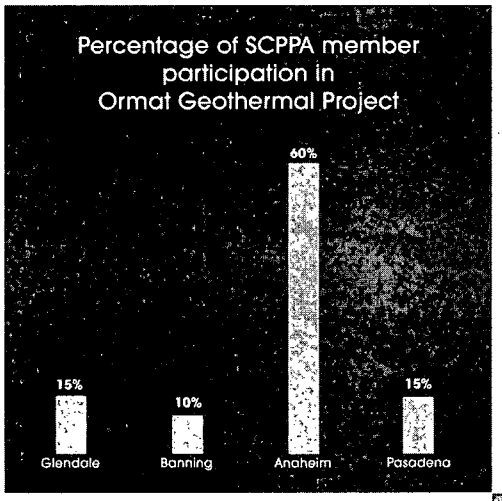






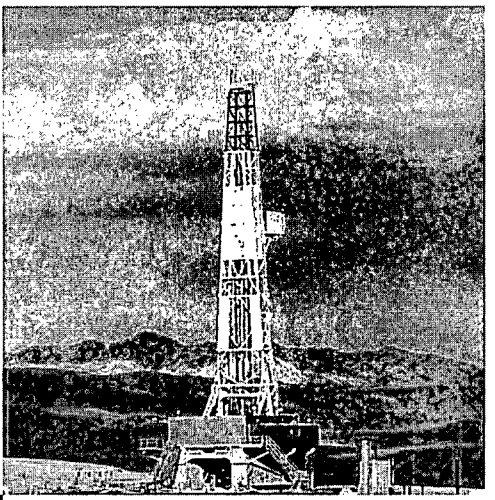
Ormat Geothermal Project

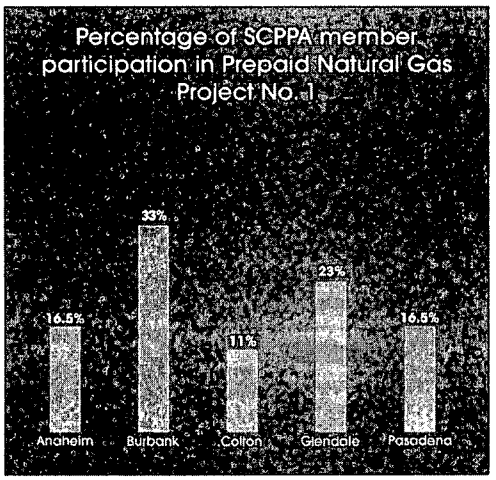
SCPPA Members Anaheim, Banning, Glendale, and Pasadena receive up to 16 MWs of geothermal energy from plants in Heber, California, on a long-term purchase contract with Ormat.

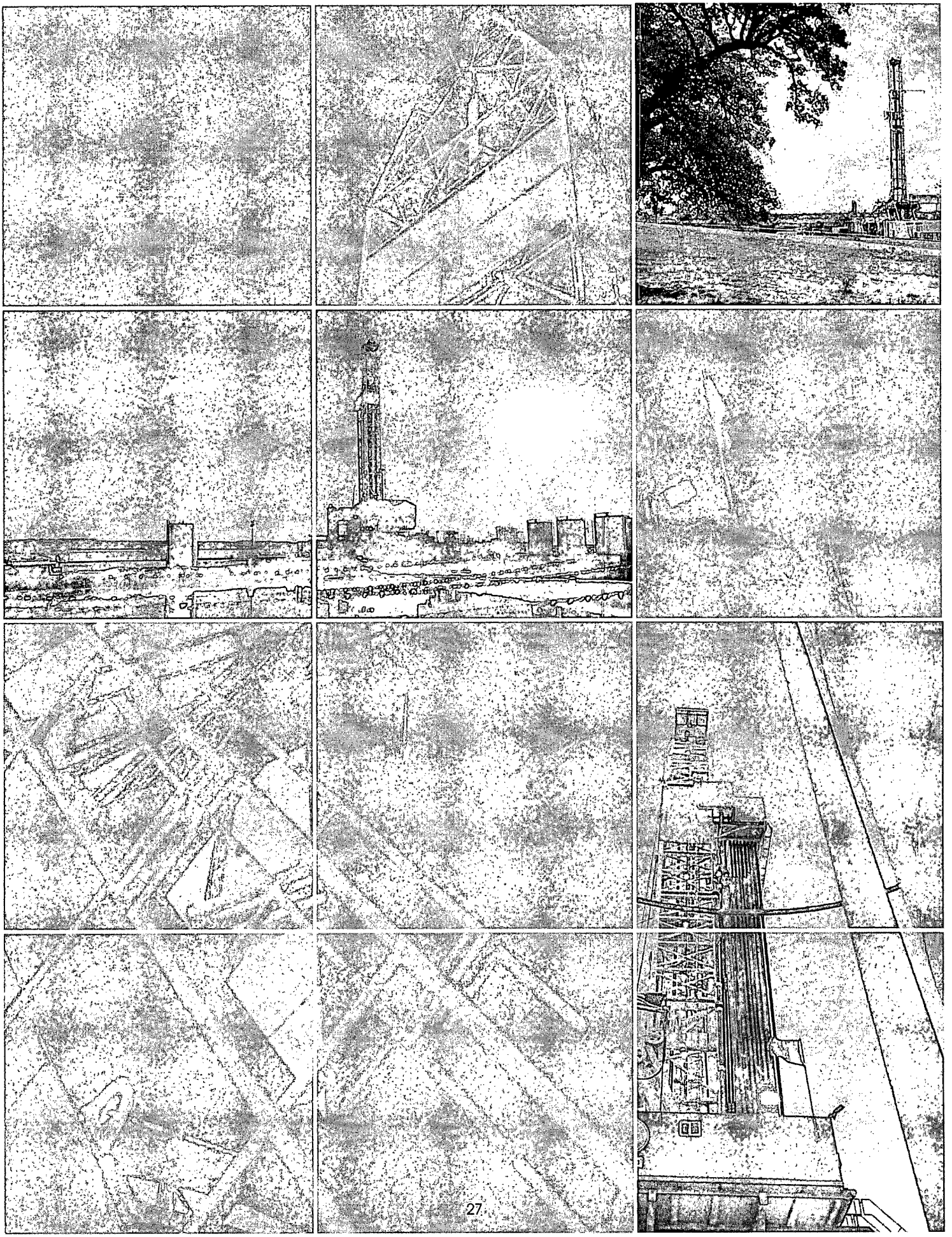


Prepaid Natural Gas Project No. 1

In October 2007, SCPPA executed a natural gas prepayment transaction that resulted in a contracted thirty-year supply of natural gas. The Participants are Anaheim, Burbank, Colton, Glendale, and Pasadena. The total quantity of gas to be delivered over the term of the Prepaid Gas Purchase and Sale Agreement is approximately 134 billion cubic feet. The transaction is expected to produce approximately $120 million in savings for SCPPA.







Financing Activities

In October 2007, SCPPA successfully executed a natural gas prepayment transaction with Goldman Sachs Group, Inc. that resulted in a contracted thirty-year supply of natural gas to be delivered by J. Aron & Company, as the gas supplier. The Participants (Anaheim, Burbank, Colton, Glendale, and Pasadena) for Gas Prepayment Project #1, were successfully able to secure a thirty-year supply of natural gas supply at a substantial discount of $0.91 per MMBtu through SCPPA. The total quantity of gas to be delivered over the term of the Prepaid Gas Purchase and Sale Agreement is approximately 134 billion cubic feet. The $504.4 million transaction was sold in part as $302.9 million fixed-rate (Series A) bonds, and $201.5 million LIBOR notes, to reduce the overall borrowing cost and to maintain a conservative structure with minimal risk to SCPPA. The transaction, which is expected to produce approximately $120 million in savings for SCPPA, was one of the most economically beneficial and most complex natural gas prepayment transactions completed to date.

In connection with the completion of the first phase of the natural gas reserves acquisition, on February 6, 2008, SCPPA issued $141.1 million Natural Gas Project A Revenue Bonds, 2008 Series A, related to the Natural Gas Projects. This fixed rate taxable bond transaction was issued to pay-off the outstanding $76 million of the expiring Natural Gas Project Revenue Bonds, Draw Down Series 2005A (the short-term bridge loan) and to provide for five years of capital drilling needs for both the Natural Gas Pinedale and Barnett Projects. Financing for the SCPPA Natural Gas Projects was executed as three separate transactions for each of the Project A Participants ($80.8 million Anaheim, $43.7 million Burbank, and $16.6 million Colton) with final maturity in 2032.

The financial market instability that was caused by subprime mortgage problems and related credit issues was the major driver for the majority of the financing activity for this year. One of these financings included a refunding for the Southern Transmission Project. On June 4, 2008, SCPPA issued $48,025,000 of Southern Transmission Revenue Bonds, 2008 Subordinate Refunding Series A. Due to the marked change in the performance of Auction-Rate Securities (ARS) versus Variable Rate Demand Obligations ("VRDOs") in the current market, which was driven by the credit crisis and subprime problems, SCPPA issued these fixed rate bonds to refund $50,050,000 of the Southern Transmission System Project Revenue Bonds, 2003 Subordinate Refunding Series A Bonds ("STS 2003 ARS") and to pay the related costs of issuance for the 2008 Series A Bonds. In refinancing the 2003 Series A Bonds, SCPPA successfully converted the STS 2003 ARS Bonds to fixed rate debt and completed the first step in its strategy to exit the uncertainty of the ARS market. In addition to the STS Project Refunding, SCPPA amended its STS 2004 floating-to-floating Fixed-Spread Basis Swap to create a Constant Maturity Swap, in which it pays the swap counterparty BMA index but will receive 58.99% of the 10-Year LIBOR plus 66.4% basis points, instead of 65% of 1-Month LIBOR plus 66.4% basis points. The amended swap terms for STS 2006 Swap became effective August 1, 2007. The notional amount of the Swap Agreement remains at $100 million. The swap expires on July 1, 2023. Based upon historical data, the expected gross savings to SCPPA from the amended swap are estimated at $24.28 million, or $17.40 million in present value savings.

In addition to the STS Project, SCPPA also took a proactive stance to address a number of other Project Bonds that were affected by the subprime mortgage problems. This included the Magnolia 2007 variable rate bonds, where terms were successfully negotiated with KBC Bank to amend the Standby Bond Purchase Agreement (SBPA). The amendment, which became effective on April 15, 2008, temporarily converts the KBC line of credit to a letter of credit for a period of 1 year, preventing the immediate and automatic termination of the SBPA if the bond insurer (MBIA) default occurs within the next year. In response to the subprime mortgage crisis, this action lowers SCPPA's interest cost, and provides SCPPA time to devise a permanent solution if the current market conditions persist.

SCPPA issued Palo Verde 2008 Series Subordinate Bonds in the aggregate principal amount of $99,830,000, consisting of $49,915,000 principal amount of 2008 Series A and $49,915,000 of 2008 Series B ("2008 Series A and B Bonds") in August 2008. The bonds were issued to provide funds, together with certain other available moneys, to refund all of SCPPA's outstanding Palo Verde 1996 Subordinate Refunding Series B & C Bonds ("Refunded Bonds"), which consisted of variable rate bonds insured by a bond insurer. This refunding was necessary to remove the current bond insurer, given the continued deterioration in the performance of certain bond insured VRDOs, and to replace them with VRDOs that are supported by bank issued Letter of Credit which are expected to perform better in the current market. No Senior Palo Verde Bonds are currently outstanding, and the 2008 Series A and B Bonds are the only bonds outstanding relating to SCPPA's interest in Palo Verde.

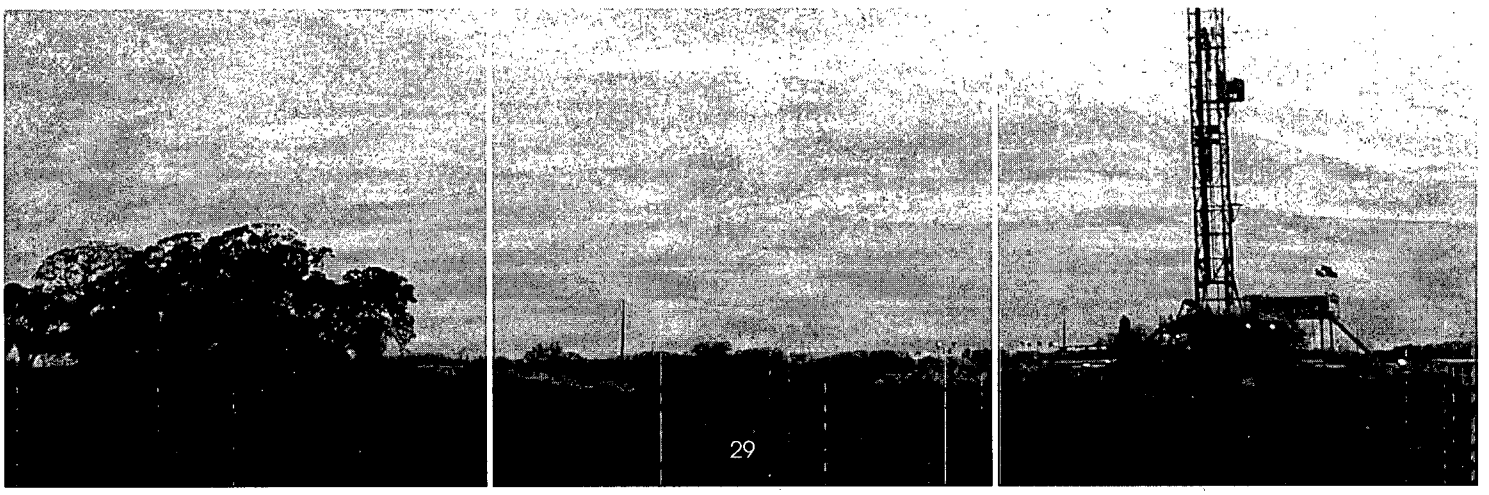
In October 2008, the Authority issued the Mead-Adelanto and Mead-Phoenix 2008 Series A and B Revenue Bonds in the aggregate principal amount of $145,730,000, consisting of $104,815,000 principal amount of Mead-Adelanto 2008 Series A; $7,085,000 principal amount of Mead-Adelanto 2008 Series B; $31,325,000 principal amount of Mead-Phoenix 2008 Series A; and $2,505,000 principal amount of Mead-Phoenix 2008 Series B ("2008 Series A and B Bonds"). The bonds were issued to provide funds, together with other available funds, to refund the Mead-Adelanto Project Revenue Bonds, 2004 Series A and the Mead-Phoenix Project Revenue Bonds, 2004 Series A, which consisted of insured auction rate bonds.

The STS 2003 interest rate swap with Citigroup was also terminated on May 7, 2008 and SCPPA paid the swap termination value of $1,287,000. The STS 2006 Constant Maturity Swap with JP Morgan was suspended for 5 years effective May 7, 2008 and SCPPA received a swap value of $3,745,000. The excess net proceeds of $2,458,000 will be used to pay debt service costs on other bonds.

SCPPA's Finance Committee continues to address a number of Project related bonds that have been affected by the subprime mortgage problems that have led to increased pressure on the variable rate debt market. At fiscal year - end, other SCPPA VRDOs were also being considered for refinancing.

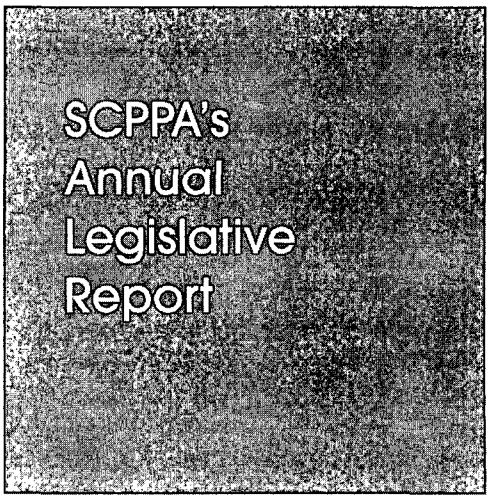
Other Refunding and Related Financing Transactions

At fiscal year- end, financing to complete an upgrade to the Southern Transmission System, and an interim financing facility for Anaheim's Canyon Power project are underway. SCPPA also continues to aggressively pursue renewable energy projects, and several new financings are being anticipated in the near future.



SCPPA launched an ambitious policy agenda during the final year of the California State Legislature's 2007-08 Legislative Session. This included: a) advocating SCPPA's commitment to local control and issues vital to Publicly-Owned Utilities (POUs); b) updating legislators and staff on SCPPA's mission to build and acquire new generation, with highest priority given to renewables; and c) briefing delegation staff on SCPPA's efforts to implement the California Global Warming Solutions Act, commonly referred to as Assembly Bill 32 (AB 32).

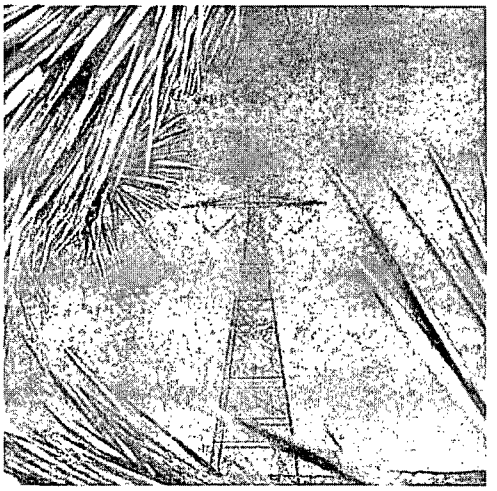
Public power's cornerstone is the authority of SCPPA cities' local officials to make and set electricity policy for their communities. Senate Bill 980 (SB 980) would have moved responsibility for evaluating local distribution systems of certain POUs, the majority being SCPPA members, from local government officials to the California Energy Commission (CEC). SCPPA, along with the California Municipal Utility Association (CMUA), worked to oppose SB 980. Despite nearly-unanimous Republican opposition and opposition from like-minded Democrats, SB 980 passed in the final days of Session. However, it was the Governor's pen that delivered the final decision, as he vetoed the bill on September 28, 2008.



Three bills addressing "feed-in" tariffs, relating to the sale of excess electricity generated by solar customers to a POU, also raised local control concerns for SCPPA members. Assembly Bill 1920, authored by Assemblymember Huffman (D- San Luis Obispo), and Senate Bill 1714, introduced by Senator Negrete McLeod (D-Colton) initially presented barriers to local control. SCPPA and CMUA successfully worked with the bills' sponsors to add language providing latitude to Local Governing Boards similar to that contained in Assembly Bill 1807 by Assemblymember Fuentes (D- LA). Ultimately, none of the "feed-in" tariff bills reached the Governor's desk.

Following California's 2000-01 electricity crisis, legislators embarked on a policy of strongly encouraging development of renewable resources to generate electricity. As building and acquiring new generation are core to SCPPA's primary mission, SCPPA members immediately committed to investing in significant levels of renewable resources. Some SCPPA members have adopted goals at 33% and higher, calling for electricity generated from renewable resources in their portfolios; other SCPPA members intend to follow suit. Recently, the CEC acknowledged for a second time in an independent draft report that California's POUs are investing in renewables more aggressively than their Investor-Owned Utility (IOU) counterparts.

SCPPA's perspective on a spate of bills seeking to establish a 33% renewable mandate was determined by whether the bills would compromise local control. During the 2007-08 Legislative Session, Assembly Bill 94, sponsored by Assemblymember Levine (D-LA), would have required IOUs to increase the amount of electricity generated from renewable resources from 20% by 2010 to 33% by 2020. Senate Bill 411 by Senator Simitian (D-Monterey) would have required a retail seller to increase renewable procurement so at least 33% of retail sales are procured from renewables by 2020. Two additional bills carried by Assemblymember Levine would have set the renewables goal at 33% by 2020. Assembly Bill 1400 would have authorized the CEC to adopt regulations to enforce POUs' electricity generated from renewable resources at 33% by 2020 and to verify compliance. Assembly Bill 1489 was similar to Assembly Bill 1400, in that it required the CEC to design and implement a system to verify compliance with a 33% requirement by POUs. With limited time to respond, SCPPA pressed to prevent any shift of local control of renewable programs to the CEC. On August 31, 2008, Assembly Bills 1400 and 1489, along with Assembly Bill 94 and Senate Bill 411, died as the 2007-08 Legislative Session ended. Ultimately, progress was stalled by lack of consensus on building additional transmission infrastructure necessary to meet California's renewables electricity needs - not by legislative differences of opinion over increasing the renewables goal.

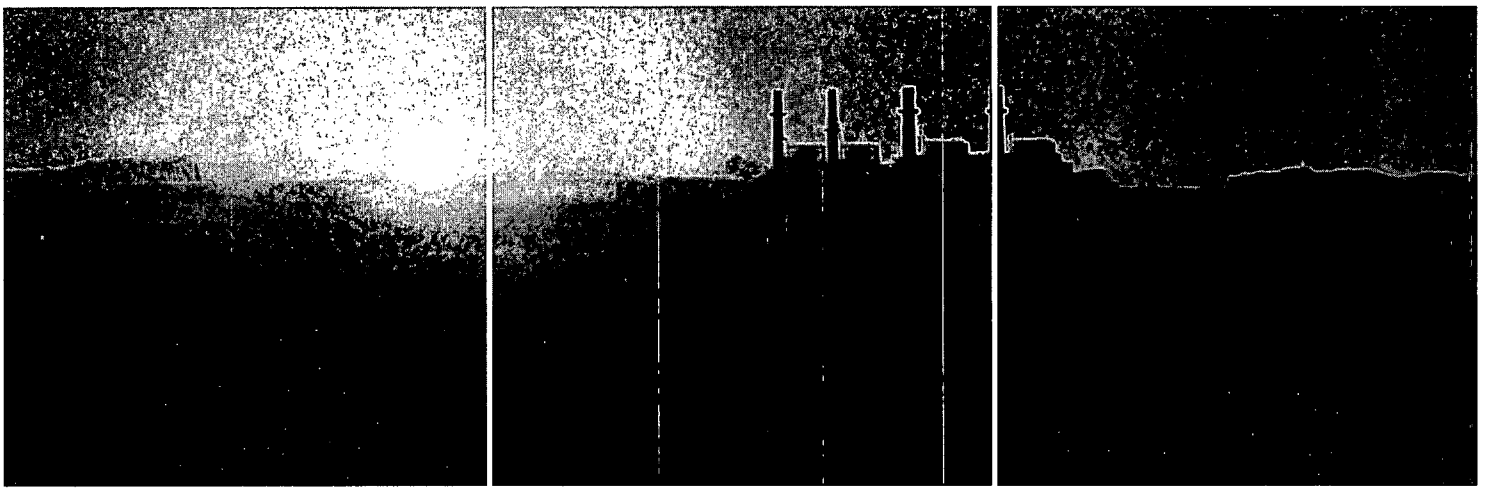


Assembly Bill 32, California's climate change bill, set an unprecedented standard for reducing greenhouse gas emissions to 1990 levels by 2020 using technologically feasible and cost-effective measures. Legislation advanced to help address carbon capture and sequestration development was of importance to six SCPPA cities participating in the Intermountain Power Project. Assembly Bill 114, authored by Assemblymember Blakeslee (R-San Luis Obispo), would have required the CEC to recommend that capture technologies that decrease carbon dioxide emission be added to thermal power plants. Assembly Bill 705, also authored by Assemblymember Blakeslee, would have required the California Environmental Protection Agency to take steps to enter into a "Memorandum of Understanding" with the U. S. Department of Environmental Protection Agency on developing standards and regulations related to carbon sequestration. Unfortunately, both bills failed; however, related Congressional action may follow.

Also linked to reducing greenhouse gas emissions was Senate Bill 1762 (SB 1762), authored by the termed-out Senate President Pro Tempore, Perata (D-East Bay). SB 1762 would have created the "Climate Change Research and Workforce Development Institute" (Institute) at the University of California. The work of the Institute would have included identifying and supporting research, education, and workforce training to reduce or mitigate greenhouse gas emissions. SB 1762 would have required POUs to fund the Institute at $7M annually, garnered from a fee on electricity service. The fact that the bill failed to include any representation of POUs on the Leadership Council, which was charged with providing advice and counsel to the University of California, was of particular concern to SCPPA members. Governor Schwarzenegger vetoed the bill on September 30, 2008.

Nationally, "metal theft" received almost daily news coverage, as the price of copper, brass and other metals skyrocketed. The issue emerged as another legislative priority as SCPPA member utilities, large and small, have been the victims of metal theft. Replacement of metal parts and equipment, necessary repairs to damaged equipment, and the cost of accompanying outages, placed hundreds of thousands in additional cost on electricity customers. Assembly Bill 844, by Assemblymember Berryhill (R-Modesto), Assembly Bill 2724, by Assemblymember Benoit (R-Riverside), and Senate Bill 691, by Senator Calderon (D-LA), would increase fines for metal theft, strengthen document retention, along with other similar policy requirements for junk dealers and recyclers. With the Governor's personal involvement and a spirit of bipartisan cooperation, both Assembly Bill 844 and Senate Bill 691 were approved by the legislature. Governor Schwarzenegger signed the bills into law on September 30, 2008. SCPPA members' efforts, including personal contacts with legislators and written communications to the Governor as well as key policy committees, were vital to obtaining his signature. Both bills, generally took effect immediately; however, certain implementation provisions were delayed until December 1, 2008.

In addition, California's electric utilities joined together to support legislation intended to avoid preventable electricity outages. Each year Californians experience outages caused by electrically conductive (metallic) materials used in certain balloons. These metallic balloons conduct electricity and cause serious and costly outages. For one SCPPA member, the cost to ratepayers was approximately $400,000 annually. Metallic balloons were the third leading cause of outages for another utility, while other SCPPA members have experienced back-to-back outages, outages lasting several hours, including one that affected the city's water supply. SCPPA members actively supported Senate Bill 1499. Thanks to the tireless efforts of the author, Senator Scott (D-Burbank, Glendale, and Pasadena) and his staff, as well as CMUA and SCPPA members, the bill survived the legislative process and reached the Governor's desk. Unfortunately, the Governor vetoed the bill on September 28, 2008.



Legislative Report (continued)

The 2007-08 Legislative Session presented numerous opportunities for SCPPA to present a purposeful and focused message: continuing support for and protection of local control, demonstrating SCPPA's continued commitment to investing in renewables and supporting legislation providing both realistic and practical responses to global warming.

In Washington DC, the second session of the 110th Congress was characterized by sharp, partisan disagreements over energy policy including: climate change; energy tax incentives; and the role of oil, gas, and renewable resources in the U.S energy portfolio. A large part of Congress' inability to resolve these issues was due, in part, to election-year politics. A significant part of the stalemate, however, was the lack of consensus among Members of Congress and the Bush Administration on a vision for the nation's energy future.

Just as it seemed that Congress would adjourn without enacting any significant energy measures, the Senate added a $17 billion package of energy tax incentives to the $700 billion *"Emergency Economic Stabilization Act of 2008"* a bill to rescue the financial markets. With the addition of the tax "sweeteners," House leadership found enough votes to pass the measure and send it to the President for signature.

On behalf of SCPPA, Morgan Meguire worked with a large and diverse coalition of businesses, energy, environmental, and manufacturing interests to advocate many of the incentives included in the final bill. Several of the incentives can assist SCPPA member utilities to acquire additional renewable resources, promote energy efficiency and green buildings, and encourage electric vehicle use. Included in the tax package were:

- A one-year extension of the existing Clean Renewable Energy Bonds (CREB) program, and authorization for $800 million in new CREB authority, divided 1/3 to state/local/tribal governments, 1/3 to public power utilities, and 1/3 to rural electric cooperatives. Also included in the New CREBs program were technical fixes advocated by SCPPA, the American Public Power Association (APPA), and the Large Public Power Council, that specify that bond authority for public power systems will be allocated "pro rata," based on the size/cost of projects. The changes ensure that more expensive projects will get a share of the bond volume cap, which did not occur under the "smallest to largest" methodology used in the first two rounds of CREB allocations;

- A one-year extension of the Production Tax Credit (PTC) for wind and refined coal and a two-year extension for other qualifying renewable facilities, such as biomass, geothermal, small irrigation, marine renewables (e.g. wave and tide power), and landfill gas. The PTC provides a 1.9-cent per kilowatt-hour (kWh) (indexed for inflation) tax credit benefit to private developers for the first ten years of a renewable energy facility's operation. The PTC can benefit SCPPA members that negotiate a "share the savings" purchase power agreements with a private developer;

- An eight-year extension of the 30% Investment Tax Credit (ITC) for solar and fuel cell technology, and a 10% Investment Tax Credit for combined heat and power systems and geothermal heat pumps. Again, the reduction in the cost of these investments does not flow directly to consumer-owned utilities, but SCPPA utilities may be able to benefit through purchase power agreements with individual developers;

- A five-year extension of the energy efficiency deductions for commercial buildings that achieve 50% energy savings targets;

- An eight-year extension of the residential solar credit, was expanded to also to residential wind equipment;

- A Plug-in Hybrid Electric Drive Vehicle (PHEV) tax credit for passenger vehicles and light trucks ranging from $2,500-$7,500 (based on the weight of the vehicle); and

- Creation of a new $800 million "tax credit" conservation bond program to assist state and local governments in reducing greenhouse gases. The new bonds can be used for reducing energy consumption in government buildings, implementing green community programs, developing certain renewable resources, expenditures for research into carbon capture and sequestration technologies.

The effort to pass the tax incentives package ran into numerous hurdles in the House and Senate. Initially, the bill stalled due to disagreement over whether and how to offset the cost of the incentives through cuts in other federal spending or new sources of revenue.

Extending and expanding incentives without corresponding cuts in spending or tax increases in other areas was seen as a departure from the "PayGo" rules that the Democratic leadership has instituted when they regained the majority in 2004. House Democrats, particularly the group of moderate "Blue Dog Democrats," dug-in and insisted on offsets, while, in the closely divided Senate, Republicans insisted on no offsets at all. The battle became more protracted when the White House weighed in opposing several versions of the bill, in part, because of the inclusion of offsets. Ultimately, a compromise was reached that provided offsets for part of the tax package, but not for all of it.

Another issue, which threatened to scuttle the CREBs extension, was the "Davis-Bacon" prevailing wage provision. The Davis-Bacon Act, which was initially designed to outlaw wage exploitation in public construction contracts by preventing the undercutting of local pay standards is a big issue for the labor community; and in the House, Ways and Means Committee, Chairman Charlie Rangel (D-NY) and Speaker Nancy Pelosi (D-CA) insisted the Davis-Bacon standard apply to projects financed with the CREBs. The Bush Administration and many Republicans argued that the outdated law forced project developers to pay more than is necessary and the White House threatened to veto the incentives bill if the Davis-Bacon provision was included. In the waning days of the session, House leaders "threw up their hands" and stripped the CREBs provisions entirely from their version of the tax package. This action, if it had been the last word, would have left consumer-owned utilities with no direct tax incentives in the final bill.

As political differences between Democrats and Republican seemed to widen, and the legislative calendar wound down, an unlikely "silver bullet" appeared. In late September, when the House failed to pass the Treasury-designed financial rescue package, the market plunged. To resurrect the financial bill, the Senate made several modifications and added the $17 billion Senate version of the energy tax extenders package, which included the SCPPA-supported CREBs language, without any Davis-Bacon requirements.

Winning passage of federal tax incentives for consumer-owned electric utilities is always challenging, given the status of the federal deficit and the intricacies of federal tax policy. SCPPA won an important victory with passage of the tax incentives package. Preserving and expanding those benefits will require a diligent, on going effort.

SCPPA Municipalities

MARCIE L. EDWARDS
GENERAL MANAGER
Anaheim Public Utilities Dept.

JOSEPH F. HSU
DIRECTOR OF UTILITIES
City of Azusa Light & Water

JAMES D. EARHART
ELECTRIC UTILITY DIRECTOR
City of Banning

RONALD E. DAVIS
GENERAL MANAGER
Burbank Water and Power

ART GALLUCI
CITY MANAGER
City of Cerritos

JEANNETTE OLKO
UTILITY DIRECTOR
City of Colton

CITY OF ANAHEIM Since 1894, Anaheim Public Utilities' vision for serving customers has extended well beyond a responsibility to provide reliable, cost-effective electricity and water. Whether we are planning a new substation; building a renewable energy resource; replacing overhead electrical facilities with underground transmission, distribution and service cables; or offering new efficiency incentives, we seek long-term solutions to issues that will strengthen Anaheim's neighborhoods, schools and businesses far into the future. The business decisions we make are about providing multiple benefits that are in the best interests of our entire community. We find that outreach is a contagious philosophy as well. The more people we involve in the process, the greater our capability for turning obstacles into opportunities. We reach out to businesses to produce partnerships that create energy savings, reduce demand and save money. We team up with other City departments to increase efficiency and improve operations. Our residential electric rates average more than 25 percent less than in surrounding cities while our Electric System revenue bond rating was raised to AA-.

CITY OF AZUSA The City's electric utility was established in 1898 after the City purchased a private power company. The foresight and planning of those early pioneers continues to be the cornerstone of Azusa Light & Water today. It is the mission of Azusa Light & Water to provide reliable and cost effective electric and water utilities to the citizens and businesses within its service area. Azusa Light & Water continues to be proactive in promoting energy and water conservation programs to its customers, and to its future customers by continual funding of a resource conservation education program with the local school district.

CITY OF BANNING The City of Banning Electric Utility provides electric service to more than 12,200 electric and 10,500 water metered accounts covering an area of 22 square miles. The Public Utility was established in 1922 and has an energy resource base including portions of coal, nuclear, hydro, and geothermal generating plants, which provide the majority of electricity required to meet the City's summer peak demand of 48 MW. The Utility has numerous Public Benefit programs promoting energy conservation and renewable resources. In addition, the City supports clean energy and is committed to increasing its renewable resource mix to meet and exceed its RPS goal of 33% by 2020. The Utility is dedicated to continue providing quality service to its customers in a safe and reliable manner, at reasonable rates.

CITY OF BURBANK Burbank Water and Power (BWP) began serving both water and electric customers in 1913 and installing on-site power generation in the 1940s. BWP is committed to providing reliable electric services and safe water supply to its customers while keeping rates stable and competitive. BWP's power supply portfolio is well diversified, coming from a variety of resources including hydro, natural gas, coal, nuclear facilites and renewable projects. Today, BWP is working toward reducing Burbank's carbon footprint and being an integral part of creating a more sustainable community and life style. City of Burbank was the first city in the nation to adopt a 33% of Renewable Portfolio Standard by 2020. BWP will continue modernizing its Electric Distribution System to maintain a strong track record of reliable services. BWP is the operating agent for the Magnolia Power Project (MPP) and has a 90 MW share of the jointly owned Magnolia Power Plant. MPP is a combined cycle generating unit with 310 MW peaking capacity and is owned and financed through Southern California Public Power Authority (SCPPA) on behalf of its six municipal utility members.

CITY OF CERRITOS The first new member to join Southern California Public Power Authority in over 20 years, the City of Cerritos is serving the electricity demands of a select group in the business community. Currently, all of the power requirements come from Cerritos' participation in the Magnolia Power Project. With the goal of providing a stable and affordable supply of electricity, Cerritos intends on developing a portfolio of power that includes renewable (green) resources to be delivered as competitively and economically as possible.

CITY OF COLTON The only municipally owned electric utility in San Bernardino County, Colton Electric Utility has been providing service to the City of Colton for over 100 years. The Board of Trustees of the City of Colton passed an ordinance in 1895 with the intent to acquire, construct, own, operate, and maintain an electric system to supply light, power, and heat to the city. By 1897, 1,140 domestic lights, 30 incandescent street lights, and 11 arc lights had been installed. Today, we serve a population of over 50,000 and cover a service area of approximately 18 square miles. Our employees are proud to continue the tradition of providing reliable service through efficient and economical operations and a strong relationship with our customers.

City of Glendale Incorporated in 1906, Glendale purchased its electric utility in 1909, obtaining power from outside suppliers. In 1937, it began receiving power from the Hoover Dam and inaugurated the first unit of its own steam generating plant units with 258 MW of gas-fired steam and combustion generating capacity. Glendale Water & Power (GWP) has a diversified portfolio that also includes coal, nuclear, and hydro generating resources, as well as a comprehensive renewables resource program in landfill gas, wind, and geothermal projects. Today, GWP provides reliable electric services to over 84,000 residential, commercial and industrial customers within a 33 square mile area. GWP continues to invest in improving the system infrastructure to ensure its long-term reliability.

Imperial Irrigation District The Imperial Irrigation District (IID) was established in 1911 and entered the power business in 1936. Proudly serving Imperial and Coachella valleys and a portion of San Diego County, IID's 6,471-square mile service area is one of the fastest growing regions in California. IID controls over 1,100 MW of energy derived from a diverse resource portfolio that includes native generation, SCPPA partnerships, and long- and short-term power purchases. A valuable public resource, IID is regarded as an affordable and reliable service provider serving over 140,000 customers.

Los Angeles Department of Water and Power Providing service for more than a century, the Los Angeles Department of Water and Power began delivering water to the city in 1902, and with the water came power. In 1916, LADWP first delivered electicity to the city purchased from the Pasadena Municipal Plant. A year later, LADWP began generating its own hydroelectric power at the San Francisquito Power Plant No. 1. After purchasing the remaining distribution system of Southern California Edison within the city limits in 1922, LADWP became the sole water and electricity provider for the City of Los Angeles. It is now the largest municipally owned electric utility in the nation, serving a population of 4.0 million residents over a 465 square mile area. LADWP remains on firm financial footing and serves as a valuable asset to the City of Los Angeles.

City of Pasadena PWP has been providing electricity since 1906 and began delivering water to customers in 1912. The city built its first electric generating steam plant in 1907 and took over operation of its municipal street lighting from Edison Electric. In 1909, Pasadena began the extension of its operations to commercial and residential customers that resulted in the replacement of all Edison Electric service in the city by 1920. While a lot has changed over the years, PWP's strong connection to its customer/owner base remains constant. Today, PWP provides electric service to more than 62,000 metered accounts over a 23 square-mile service area at competitive rates. PWP's success is a result of its commitment to remain a valued community asset, an exceptional employer, and a partner in Pasadena's prosperous future.

City of Riverside Riverside Public Utilities began serving both electric and water customers in 1883. Today they serve 106,000 metered electric customers and 63,500 water customers, representing a service area population of nearly 297,000. The utility is committed to the highest quality water and electric services at the lowest possible rates to benefit the community. To maintain their commitment, Riverside has positioned itself in the electric market by utilizing short, mid, and long-term contracts from power suppliers, and by building 6 power generation sources within its own power grid. Within two years, Riverside will have a total of 9 internal generation units totaling 275 MW of power. Riverside's recent contract for the Renaissance Geothermal Project in Utah will enable Riverside to receive 33% of its energy from renewable resources by 2012.

City of Vernon Vernon's Utilities Department began serving industrial customers in 1933, with completion of its diesel generating plant. In addition to its own power from diesel units and gas turbines, Vernon also receives power from Palo Verde, Hoover, and various suppliers. Vernon recently completed (October 2005) the construction of its Malburg Generating Station, a gas-fired combined cycle power plant with a net generating capacity of 134 MW. The Malburg Generating Station resides within the city limits. Vernon is part the California Independent System Operator (CAISO) Control Area and is a Participating Transmission Owner.

Glenn O. Steiger
Director of Utility
Glendale Water and Power

Brian J. Brady
General Manager
Imperial Irrigation District

H. David Nahai
Chief Executive Officer and
General Manager
Los Angeles Department of
Water and Power

Phyllis E. Currie
General Manager
Pasadena Water and Power

David H. Wright
Public Utilities Director
City of Riverside

Not Pictured
Donal O'Callaghan
Director of Light and Water
City of Vernon

Participant Ownership Interests

The Authority's participants may elect to participate in the projects. As of June 30, 2008, the members have the following participation percentages in the Authority's operating projects:

	GENERATION					TRANSMISSION			NATURAL GAS	
Participants	Palo Verde Project	Hoover Uprating Project	San Juan Project	Magnolia Power Project	Ormat Geo-thermal Energy Project	Southern Trans-mission System Project	Mead-Phoenix Project	Mead-Adelanto Project	Pinedale Project	Barnett Project
City of Los Angeles	67.0%	-	-	-	-	59.5%	24.8%	35.7%	-	-
City of Anaheim	-	42.6%	-	38.0%	60.0%	17.6%	24.2%	13.5%	35.7%	45.4%
City of Riverside	5.4%	31.9%	-	-	-	10.2%	4.0%	13.5%	-	-
Imperial Irrigation District	6.5%	-	51.0%	-	-	-	-	-	-	-
City of Vernon	4.9%	-	-	-	-	-	-	-	-	-
City of Azusa	1.0%	4.2%	14.7%	-	-	-	1.0%	2.2%	-	-
City of Banning	1.0%	2.1%	9.8%	-	10.0%	-	1.0%	1.3%	-	-
City of Colton	1.0%	3.2%	14.7%	4.2%	-	-	1.0%	2.6%	7.1%	9.1%
City of Burbank	4.4%	16.0%	-	31.0%	-	4.5%	15.4%	11.5%	14.3%	27.3%
City of Glendale	4.4%	-	9.8%	16.5%	15.0%	2.3%	14.8%	11.1%	28.6%	-
City of Cerritos	-	-	-	4.2%	-	-	-	-	-	-
City of Pasadena	4.4%	-	-	6.1%	15.0%	5.9%	13.8%	8.6%	14.3%	18.2%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The Authority has entered into power sales, natural gas sales, and transmission service agreements with the above project participants. Under the terms of the contracts, the participants are entitled to power output, natural gas, or transmission service, as applicable. The participants are obligated to make payments on a "take or pay" basis for their proportionate share of operating and maintenance expenses and debt service. The contracts cannot be terminated or amended in any manner that will impair or adversely affect the rights of the bondholders as long as any bonds issued by the specific project remain outstanding.

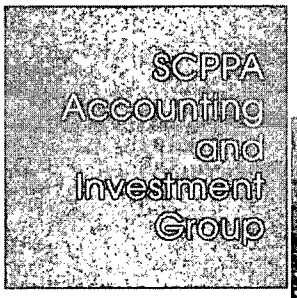
The contracts expire as follows:

Palo Verde Project	2030	San Juan Project	2030
Southern Transmission System Project	2027	Magnolia Power Project	2036
Hoover Uprating Project	2018	Natural Gas Project - Pinedale	2030
Mead-Phoenix Project	2030	Natural Gas Project - Barnett	2030
Mead-Adelanto Project	2030	Ormat Geothermal Project	2031

The Authority also established "take and pay" contracts for the participants of the prepaid natural gas project where the payments received from the sale of gas will be sufficient to pay debt service. Project Participant interest under the gas supply contracts are as follows: Anaheim - 16.5%; Burbank - 33.0%; Colton - 11.0%; Glendale - 23.0%; and Pasadena - 16.5%. The natural gas contracts expire in 2028.

Summary of Financial Condition and Changes in Net Assets
COMBINED ALL PROJECTS
($ In Thousands)

	JUNE 2008	JUNE 2007	JUNE 2006
Assets			
Net utility plant	$ 1,009,331	$ 1,006,994	$ 995,599
Investments	558,619	556,518	558,497
Cash and cash equivalents	230,000	149,740	80,778
Other	592,450	103,290	112,223
Total assets	$ 2,390,400	$ 1,816,542	$ 1,747,097
Liabilities and Net Assets (Deficit)			
Noncurrent liabilities	$ 2,310,261	$ 1,842,488	$ 1,806,660
Current liabilities	220,748	191,137	186,969
Total liabilities	2,531,009	2,033,625	1,993,629
Net Assets (Deficit)			
Invested in capital assets, net of related debt	(1,236,053)	(742,312)	(715,204)
Restricted net assets	996,901	429,686	361,732
Unrestricted net assets	98,543	95,543	106,940
Total net deficit	(140,609)	(217,083)	(246,532)
Total liabilities and net assets (deficit)	$ 2,390,400	$ 1,816,542	$ 1,747,097
Revenues, Expenses and Changes in Net Assets (Deficit)			
Operating revenues	$ 468,809	$ 390,005	$ 330,987
Operating expenses	(319,193)	(291,202)	(248,507)
Operating income	149,616	98,803	82,480
Investment income	32,956	33,622	18,932
Debt expense	(108,062)	(113,028)	(106,198)
Change in net deficit	74,510	19,397	(4,786)
Net Deficit – beginning of year	(217,083)	(246,532)	(233,031)
Net Contributions (Withdrawals) By Participants	1,964	10,052	(8,715)
Net Deficit – end of year	$ (140,609)	$ (217,083)	$ (246,532)



From left to right: Yolanda Pantig, Assistant Manager, SCPPA Accounting; Nina Sanchez, Assistant Investment Manager; Joan Ilagan, Investment Manager; Adrian Chung, Utility Accountant; Therese Savery, Manager, SCPPA Accounting and Investments and Margarita Estrella, Lead Utility Accountant

CITY OF ANAHEIM

Customers - Retail 111,784
Power Generated and Purchased
(in Megawatt-Hours)
- Self-Generated 301,021
- Purchased 2,978,800
- Total 3,279,821

Total Revenues (000s) $379,542
Operating Costs (000s) $333,512

CITY OF AZUSA

Customers Served 15,650
Power Generated and Purchased
(in Megawatt-Hours)
- Self-Generated 0
- Purchased 281,870

Sales
- Retail 264,957

Total Revenues (000s) $36,196
Operating Costs (000s) $35,237

CITY OF BANNING

Customers - Retail 12,200
Power Generated and Purchased
(in Megawatt-Hours)
- Self-Generated 0
- Purchased 161,790
- Total 161,790

Total Revenues (000s) $25,573*
Operating Costs (000s) $26,979*

*Unaudited

CITY OF BURBANK

Customers - Retail 51,151
Power Generated and Purchased
(in Megawatt-Hours)
- Self-Generated 22,800
- Purchased 1,332,800
- Total 1,355,600

Total Revenues (000s) $161,990*
Operating Costs (000s) $153,438*

*Unaudited and excludes wholesale transactions.

CITY OF CERRITOS

Customers - Retail 218
Power Generated and Purchased
(in Megawatt-Hours)
- Self-Generated 76,867
- Purchased 10,262
- Total 87,129

Total Revenues (000s) $7,431*
Operating Costs (000s) $7,463*

*Unaudited

CITY OF COLTON

Customers - Retail 18,688
Power Generated and Purchased
(in Megawatt-Hours)
- Self-Generated 52,917
- Purchased 345,006
- Total 397,923

Total Revenues (000s) $58,232*
Operating Costs (000s) $61,094*

*Unaudited

CITY OF GLENDALE

Customers - Retail 84,118
Power Generated and Purchased
(in Megawatt-Hours)
- Self-Generated 209,744
- Purchased 1,381,231
- Total 1,590,975

Total Revenues (000s) $220,637
Operating Costs (000s) $187,505

IMPERIAL IRRIGATION DISTRICT

Customers Served 140,321
Power Generated and Purchased
(in Megawatt-Hours)
- Self-Generated 992,757
- Purchased 2,725,698
- Total 3,718,455

Total Revenues (000s) $419,007
Operating Costs (000s) $420,653

LOS ANGELES DEPARTMENT OF WATER AND POWER

Customers Served 1,446,401
Power Generated and Purchased
(in Megawatt-Hours)
- Self-Generated 15,519,953
- Purchased 12,807,911
- Total 28,327,864

Total Revenues (000s) $2,781,324
Operating Costs (000s) $2,457,597

CITY OF PASADENA

Customers Served 62,885
Power Generated and Purchased
(in Megawatt-Hours)
- Self-Generated 86,898
- Purchased 1,526,635
- Total 1,613,533

Total Revenues (000s) $202,682
Operating Costs (000s) $162,719

CITY OF RIVERSIDE

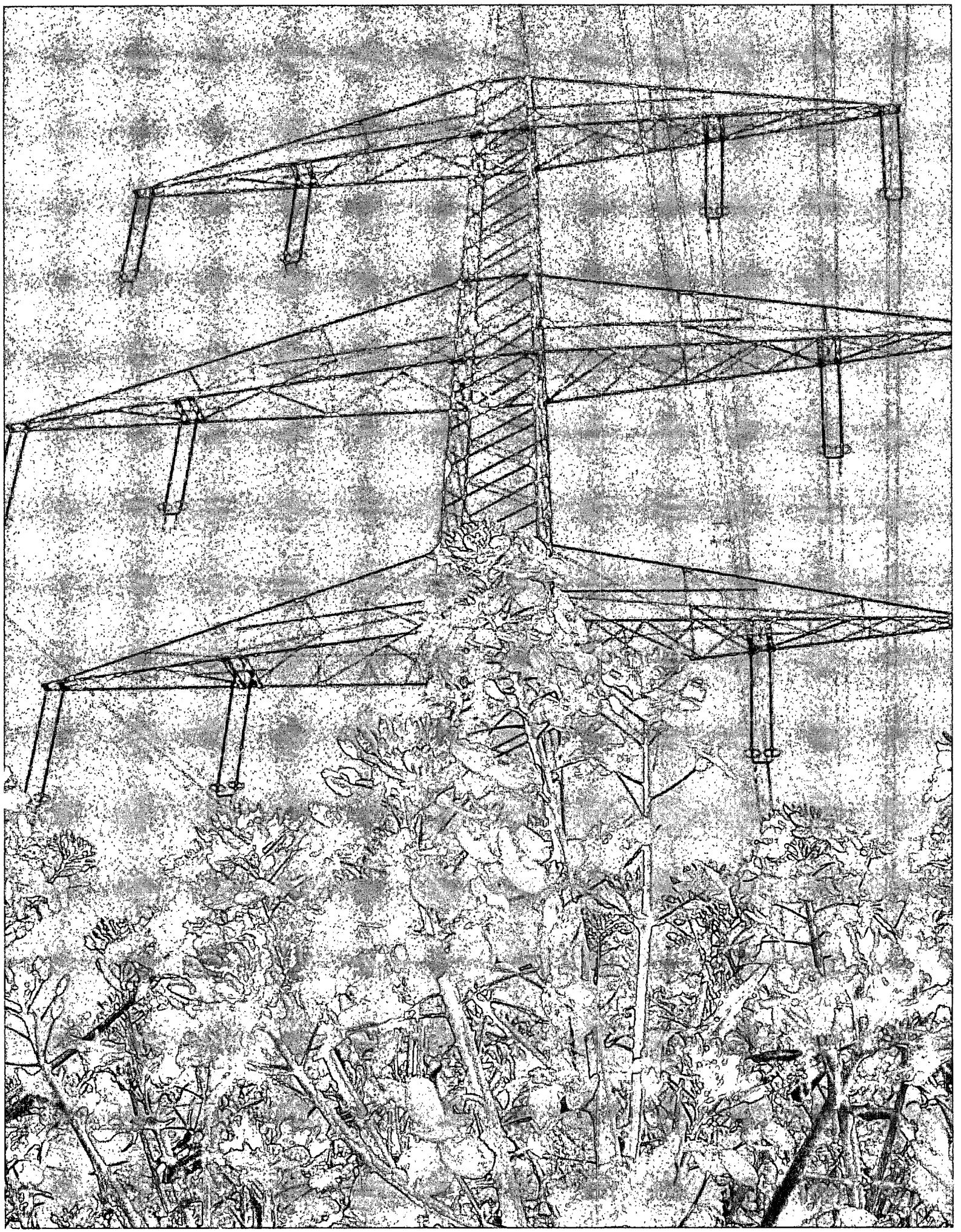
Customers Served 106,015
Power Generated and Purchased
(in Megawatt-Hours)
- Self-Generated 336,000
- Purchased 2,395,200
- Total 2,731,200

Total Revenues (000s) $303,500
Operating Costs (000s) $281,000

CITY OF VERNON

Customers Served 1,911
Power Generated and Purchased
(in Megawatt-Hours)
- Self-Generated 904,839
- Purchased 345,684
- Total 1,250,523

Total Revenues (000s) $138,057
Operating Costs (000s) $123,561



Southern California Public Power Authority
225 S. Lake Avenue, Suite 1250
Pasadena, CA 91101
Tel: (626) 793-9364 • Fax: (626) 793-9461
Website: www.scppa.org

SCPPA

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

INDEPENDENT AUDITOR'S REPORT AND COMBINED FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Participants of
Southern California Public Power Authority

We have audited the accompanying combined and individual project's statements of net assets (deficit) of Southern California Public Power Authority (the Authority) as of June 30, 2008 and 2007 and the related combined and individual project's statements of revenues, expenses and changes in net assets (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Authority'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 and individual project's financial statements referred to above present fairly, in all material respects, the financial position of Southern California Public Power Authority and each of the Authority's projects: Palo Verde Project, Hoover Uprating Project, San Juan Project, Magnolia Power Project, Ormat Geothermal Energy Project, Southern Transmission System Project, Mead-Phoenix Project, Mead-Adelanto Project, Natural Gas Pinedale Project, Natural Gas Barnett Project, Prepaid Natural Gas Project No. 1, Multiple Project Fund, and Projects' Stabilization Fund as of June 30, 2008 and 2007 and the results of the Project's 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 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.

The additional supplemental information, as listed in the table of contents, following the combined financial statements and notes to combined financial statements is also not a required part of the basic financial statements but is supplementary information provided for purposes of additional analysis. We did not audit or perform any other procedures on this information and express no opinion on it.

Moss Adams LLP

Portland, Oregon
October 21, 2008

The following discussion and analysis of the financial performance of Southern California Public Power Authority (the "Authority" or "SCPPA"), provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2008 and 2007. Please read this discussion and analysis in conjunction with the Authority's Combined Financial Statements, which begin on page 25. Description and other details pertaining to the Authority are included in the Notes to Combined Financial Statements.

The Authority is a joint powers authority whose primary purpose has been to provide joint financing and oversight for large joint projects for its member agencies that consist of eleven municipal electric utilities and one irrigation district in California. On a combined basis, these entities provide electricity to more than 2 million retail electric customers. A Board of Directors (the "Board") governs the Authority, which consists of one representative from each member agency.

The Authority has interests in the following projects:

PALO VERDE PROJECT
On August 14, 1981, the Authority purchased a 5.91% interest in the Palo Verde Nuclear Generating Station ("PVNGS"), a 3,810 megawatt nuclear-fueled generating station near Phoenix, Arizona, a 5.56% ownership interest in the Arizona Nuclear Power Project High Voltage Switchyard, and a 6.55% share of the right to use certain portions of the Arizona Nuclear Power Project Valley Transmission System (collectively, the "Palo Verde Project"). Units 1, 2 and 3 of the Palo Verde Project began commercial operations in January 1986, September 1986, and January 1988, respectively.

HOOVER UPRATING PROJECT
As of March 1, 1986, the Authority and six participants entered into an agreement pursuant to which each participant assigned its entitlement to capacity and associated firm energy to the Authority in return for the Authority's agreement to make advance payments to the United States Bureau of Reclamation ("USBR") on behalf of such participants. The Authority has an 18.68% interest in the contingent capacity of the Hoover Uprating Project ("HU").

SAN JUAN PROJECT
Effective July 1, 1993, the Authority purchased a 41.80% interest in Unit 3 and related common facilities of the San Juan Generating Station ("SJGS") from Century Power Corporation. Unit 3, a 497-megawatt unit, is one unit of the four-unit coal-fired power generating station in New Mexico.

MAGNOLIA POWER PROJECT
In March 2003, the Authority received approval from the California Energy Commission for construction of the Magnolia Power Project. The Project consists of a combined cycle natural gas-fired generating plant with a nominally rated net base capacity of 242 megawatts and was built on a site in the City of Burbank, California. The plant is the first that is wholly owned by the Authority and entitlements to 100% of the capacity and energy of the Project have been sold to six of its members. The City of Burbank, a Project participant, managed its construction and also serves as the operating agent for the Project. Commercial operations began September 22, 2005.

ORMAT GEOTHERMAL ENERGY PROJECT
The Authority entered into long-term Power Purchase Agreements in December 2005 with divisions of Ormat Technologies, Inc. for up to 20 megawatts ("MW") of electric generation. The Project started delivery of approximately 5 MW in January 2006 from geothermal energy facilities located in Heber, California. In May 2008, the agreements were amended to substitute new wells as the source of the generation, and to increase the capacity to 14MW. The City of Anaheim acts as the Scheduling Coordinator on behalf of the Project Participants.

SOUTHERN TRANSMISSION SYSTEM PROJECT
On May 1, 1983, the Authority entered into an agreement with the Intermountain Power Agency ("IPA") to defray all the costs of acquisition and construction of the Southern Transmission System Project ("STS"), which provides for the transmission of energy from the Intermountain Generating Station in Utah to Southern California. STS commenced commercial operations in July 1986. The Department of Water and Power of the City of Los Angeles ("LADWP"), a member of the Authority, serves as project manager and operating agent of the Intermountain Power Project ("IPP").

MEAD-PHOENIX AND MEAD-ADELANTO PROJECTS
As of August 4, 1992, the Authority entered into an agreement to acquire an interest in the Mead-Phoenix Project ("Mead-Phoenix"), a transmission line extending between the Westwing substation in Arizona and the Marketplace substation in Nevada. The agreement provides the Authority with an 18.31% interest in the Westwing-Mead project component, a 17.76% interest in the Mead Substation project component and a 22.41% interest in the Mead-Marketplace project component.

As of August 4, 1992, the Authority also entered into an agreement to acquire a 67.92% interest in the Mead-Adelanto Project ("Mead-Adelanto"), a transmission line extending between the Adelanto substation in Southern California and the Marketplace substation in Nevada. Funding for these projects was provided by a transfer of funds from the Multiple Project Fund and commercial operations commenced in April 1996. LADWP serves as the operations manager of Mead-Adelanto.

NATURAL GAS PINEDALE PROJECT
On July 1, 2005, the Authority, together with LADWP and Turlock Irrigation District ("TID"), acquired 42.5% of an undivided working interest in three natural gas leases located in the Pinedale Anticline region of the State of Wyoming. The Authority's individual share in these interests equals 14.9%. The purchase includes 38 operating oil and gas wells and associated lateral pipelines, equipment, permits, rights of way, and easements used in production. The natural gas field production is expected to increase for several more years as additional capital is invested on drilling new wells and then decline over a life expectancy greater than 30 years.

NATURAL GAS BARNETT PROJECT
Natural gas resources in the Barnett shale geological formation in Texas was acquired from Collins and Young Holding, L.L.P ("C&Y") for a total of $84 million with an effective production date of April 1, 2006. The acquisition settled on October 26, 2006 and was completed on December 7, 2006 when the participants, together with TID, exercised their option to purchase additional resources from C&Y. Two of the original participants, LADWP and the City of Glendale, made the decision not to participate but have agreed to pay their respective share of the development costs incurred through October 13, 2006. The Gas Sales Agreements have been revised accordingly to adjust the entitlement shares and product cost shares for the remaining participants.

PREPAID NATURAL GAS PROJECT NO. 1

On October 11, 2007, the Authority made a one-time prepayment of $481 million to acquire the right to receive approximately 135 billion cubic feet of natural gas from J. Aron & Company to be delivered over a 30-year term, beginning July 1, 2008, which is the commercial operation date of this project. On October 3, 2007, prior to the acquisition of the prepaid gas supply, the Authority entered into five separate Prepaid Natural Gas Sales Agreements (the Gas Sales Agreements) with J. Aron and simultaneously, five Prepaid Natural Gas Supply Agreements (the Gas Supply Contracts) in which the Authority sold its interest in the natural gas, on a "take-and-pay" basis, to the cities of Anaheim, Burbank, Colton, Glendale, and Pasadena (the Project No. 1 Participants). Through the Gas Supply Contracts, SCPPA has provided for the sale to the Project Participants, on a pay-as-you-go basis, of all of the natural gas to be delivered to SCPPA pursuant to the Gas Sales Agreements. The Natural Gas contracts expire in 2038.

Under the Gas Supply Contracts, the approximate average Daily Quantity of gas to be purchased by each Project Participant is as follows:

PROJECT PARTICIPANT	AVERAGE DAILY QUANTITY (1)	PERCENTAGE BY PARTICIPANT
City of Anaheim	2,000	16.5%
City of Burbank	4,000	33.0%
City of Colton	1,375	11.0%
City of Glendale	2,750	23.0%
City of Pasadena	2,000	16.5%
TOTAL	12,125	100%

(1) The average Daily Quantity is in MmBtu's and is calculated over the term of the applicable Gas Supply Contract.

MULTIPLE PROJECT FUND

During fiscal year 1990, the Authority issued Multiple Project Revenue Bonds for net proceeds of approximately $600 million to provide funds to finance costs of construction and acquisition of ownership interests or capacity rights in one or more, then unspecified, projects for the generation or transmission of electric energy. Certain of these funds were used to finance the Authority's interests in Mead-Phoenix and Mead-Adelanto.

PROJECTS' STABILIZATION FUND

In fiscal year 1997, the Authority authorized the creation of a Projects' Stabilization Fund. Deposits may be made into the fund from budget under-runs, after authorization of individual participants, and by direct contributions from the participants. Participants have discretion over the use of their deposits. This fund is not a project-related fund; therefore, it is not governed by any project Indenture of Trust. The members participate in the Projects' Stabilization Fund by making deposits to the fund at their discretion.

PARTICIPANT OWNERSHIP INTERESTS

The Authority's participants may elect to participate in the projects. As of June 30, 2008, the members have the following participation percentages in the Authority's operating projects:

	GENERATION					TRANSMISSION			NATURAL GAS	
Participants	Palo Verde Project	Hoover Uprating Project	San Juan Project	Magnolia Power Project	Ormat Geo-thermal Energy Project	Southern Trans-mission System Project	Mead-Phoenix Project	Mead-Adelanto Project	Pinedale Project	Barnett Project
City of Los Angeles	67.0%	-	-	-	-	59.5%	24.8%	35.7%	-	-
City of Anaheim	-	42.6%	-	38.0%	60.0%	17.6%	24.2%	13.5%	35.7%	45.4%
City of Riverside	5.4%	31.9%	-	-	-	10.2%	4.0%	13.5%	-	-
Imperial Irrigation District	6.5%	-	51.0%	-	-	-	-	-	-	-
City of Vernon	4.9%	-	-	-	-	-	-	-	-	-
City of Azusa	1.0%	4.2%	14.7%	-	-	-	1.0%	2.2%	-	-
City of Banning	1.0%	2.1%	9.8%	-	10.0%	-	1.0%	1.3%	-	-
City of Colton	1.0%	3.2%	14.7%	4.2%	-	-	1.0%	2.6%	7.1%	9.1%
City of Burbank	4.4%	16.0%	-	31.0%	-	4.5%	15.4%	11.5%	14.3%	27.3%
City of Glendale	4.4%	-	9.8%	16.5%	15.0%	2.3%	14.8%	11.1%	28.6%	-
City of Cerritos	-	-	-	4.2%	-	-	-	-	-	-
City of Pasadena	4.4%	-	-	6.1%	15.0%	5.9%	13.8%	8.6%	14.3%	18.2%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The Authority has entered into power sales, natural gas sales, and transmission service agreements with the above project participants. Under the terms of the contracts, the participants are entitled to power output, natural gas, or transmission service, as applicable. The participants are obligated to make payments on a "take or pay" basis for their proportionate share of operating and maintenance expenses and debt service. The contracts cannot be terminated or amended in any manner that will impair or adversely affect the rights of the bondholders as long as any bonds issued by the specific project remain outstanding.

The contracts expire as follows:

Palo Verde Project	2030
Southern Transmission System Project	2027
Hoover Uprating Project	2018
Mead-Phoenix Project	2030
Mead-Adelanto Project	2030
San Juan Project	2030
Magnolia Power Project	2036
Natural Gas Pinedale Project	2030
Natural Gas Barnett Project	2030
Ormat Geothermal Energy Project	2031

CRITICAL ACCOUNTING POLICIES

Net assets - The Authority's billing amounts to the participants are determined by its Board of Directors and are subject to review and approval by the participants. Billings to participants are designed to recover "costs" as defined by the power sales, natural gas sales, and transmission service agreements. The billings are structured to systematically provide for debt service requirements, operating funds, and reserves in accordance with these agreements. The accumulated difference between billings and the Authority's expenses calculated in accordance with generally accepted accounting principles are presented as net assets (deficit). It is intended that this difference will be recovered in the future through billings for repayment of principal on the related bonds.

Investment policy and controls - The Authority's investment function operates within a legal framework established by Sections 6509.5 and 53600 et. seq. of the California Government Code, Indentures of Trust, instruments governing financial arrangements entered into by the Authority to finance and operate Projects, and the Authority's Investment Policy. The Indentures of Trust authorize the establishment of specific Project funds and accounts, specify how monies are to be applied, and name third party Trustees.

Funds available for investment include proceeds from bonds and notes sales, payments from the participants, maturities of previous investments, earnings, exchanges of securities and interest from swap agreements. Funds are managed and invested separately and principal and earnings are credited and allocated to designated funds or accounts as outlined in each Project's Indenture of Trust, Fiscal Agency Agreement, or in the Projects' Stabilization Fund which was established by a Board Resolution.

The three fundamental criteria in the investment program, ranked in accordance of importance, are: safety of principal, liquidity, and return. An exception to the preceding criteria is made for the Palo Verde Nuclear Decommissioning Trust Funds, as liquidity will not be a factor until 2023. The investment criteria for the Decommissioning Trust Funds, in order of importance, are as follows: safety, return, and liquidity.

Debt management program - The Authority's financing goal is to obtain the lowest prudent rates of interest on debt issues and to issue debt in the most cost-effective manner. In addition, the Authority will continue to utilize debt management strategies that reduce the overall cost of borrowing for its members. In general, the Authority issues new money debt and refunding debt on either a negotiated or competitive basis as determined by the Board. A minimum net present value savings of 5%, as a percent of the refunded par amount, is the general target when determining the potential to refund existing Authority debt. The Authority may also use interest rate swaps or other derivative products to help meet important financial objectives.

Jointly owned utility plant - The Authority owns interests in several generating stations, transmission systems, and gas reserve leases. Under these arrangements, a participating member has an undivided interest in a utility plant and is responsible for its proportionate share of the costs of construction and operation and is entitled to its proportionate share of the energy produced. All utility plant of the Authority, with the exception of the Magnolia Power Project, is jointly owned. The related cost and accumulated depreciation for these projects has been reflected in each project's financial statements in utility plant. Additionally, the Authority's share of expenses for each project is included in the statements of revenues, expenses, and changes in net assets (deficit) as part of operations and maintenance expenses.

USING THIS FINANCIAL REPORT

This annual financial report consists of a series of financial statements and reflects the self-supporting activities of the Authority that are funded primarily through the sale of energy, natural gas, and transmission services to member agencies under project specific "take or pay" contracts that require each member agency to pay its proportionate share of operating and maintenance expenses and debt service with respect to such projects. The Authority also established "take and pay" contracts for the participants of the prepaid natural gas project where the payments received from the sale of gas will be sufficient to pay debt service.

Combined financial statements - The Combined Financial Statements, using an accrual basis of accounting, provide an indication of the Authority's financial health. The Combined Statements of Net Assets (Deficit) include all of the Authority's assets and liabilities, as well as an indication about which assets can be utilized for general purposes and which assets are restricted as a result of bond covenants and other commitments. The Combined Statements of Revenues, Expenses and Changes in Net Assets (Deficit) report all of the revenues and expenses during the time periods indicated. The Combined Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income, cash payments for bond principal payments, and capital additions and betterments.

Combined Summary of Financial Condition and Changes in Net Assets (Deficit) (In Thousands)

	JUNE 30,		
	2008	2007	2006
Assets			
Net utility plant	$ 1,009,331	$ 1,006,994	$ 995,599
Investments	558,619	556,518	558,497
Cash and cash equivalents	230,000	149,740	80,778
Prepaid and other	592,450	103,290	112,223
Total assets	$ 2,390,400	$ 1,816,542	$ 1,747,097
Liabilities and Net Assets (Deficit)			
Noncurrent liabilities	$ 2,310,261	$ 1,842,488	$ 1,806,660
Current liabilities	220,748	191,137	186,969
Total liabilities	2,531,009	2,033,625	1,993,629
Net Assets (Deficit)			
Invested in capital assets, net of related debt	(1,236,053)	(742,312)	(715,204)
Restricted net assets	996,901	429,686	361,732
Unrestricted net assets	98,543	95,543	106,940
Total net deficit	(140,609)	(217,083)	(246,532)
Total liabilities and net assets (deficit)	$ 2,390,400	$ 1,816,542	$ 1,747,097
Revenues, Expenses and Changes in Net Assets (Deficit) for the year ended June 30			
Operating revenues	$ 468,809	$ 390,005	$ 330,987
Operating expenses	(319,193)	(291,202)	(248,507)
Operating income	149,616	98,803	82,480
Investment income	32,956	33,622	18,932
Debt expense	(108,062)	(113,028)	(106,198)
Change in net assets	74,510	19,397	(4,786)
Net Deficit, beginning of year	(217,083)	(246,532)	(233,031)
Net Contributions/(Withdrawals) By Participants	1,964	10,052	(8,715)
Net Deficit, end of year	$ (140,609)	$ (217,083)	$ (246,532)

Combined Financial Statements (Continued)

Net Deficit -
During fiscal year 2008 the Authority's net deficit decreased by $76 million mainly due to the increase in assets of $573 million and the increase in liabilities of $497 million.

The increase in the Authority's assets is due to the following:

- Utility Plant - increased by $2 million.
  This increase is primarily due to $10 million of ongoing capital expenditures and $14 million replenishment of fuel inventory in the Palo Verde Project; $37 million of environmental upgrades in the San Juan Project; $3 million of capital improvements in the Magnolia Power Project; and $11 million of additional drilling of wells in the Natural Gas Barnett Project; offset by $73 million of scheduled depreciation in all projects.

- Investments – increased by $2 million.
  This increase is due to $60 million net bond proceeds from the issuance of the Natural Gas Project A, 2008 Revenue Bonds; $14 million net bond proceeds from the issuance of the Gas Project Revenue Bonds, Project No. 1 Series 2007 A&B Bonds; and $8 million reinvestment of interest earnings in the Decommissioning Fund. These increases were offset by a decrease of $56 million net reallocation of investments from long term to short term in the Palo Verde, Hoover, San Juan, STS, Mead Adelanto, Multiple Project and Projects Stabilization Fund ("PSF"); the application of $15 million of prior year's overbillings to operating and maintenance expenses and the prepayment of nuclear fuel in the Palo Verde Project; and $9 million of environmental upgrades in the San Juan Project.

- Cash and cash equivalents – increased by $80 million.
  This increase is due to $56 million net reallocation of investments from long-term to short-term in Palo Verde, Hoover, San Juan, STS, Mead Adelanto, Multiple Project and PSF Projects; accumulated collections of $9 million in over billings in the STS, Magnolia, and San Juan Projects; $14 million in participants' contributions in the PSF and the Natural Gas Barnett Project; and $1 million reinvestment of interest earnings in Multiple Project.

- Prepaid and other assets – increased by $489 million.
  This increase is due to the $481 million prepayment for a 30-year supply of natural gas on behalf of the project participants of the newly acquired Prepaid Natural Gas Project No. 1; $20 million of unamortized costs of the new Prepaid Natural Gas Project No. 1; and $12 million increase in accounts receivable due to under billings in Palo Verde, Mead Adelanto, and STS. The increases were mainly offset by a $24 million decrease in deferred debit in the San Juan Project as the provision for the environmental upgrade project was satisfied.

Combined Financial Statements (Continued)

The increase in the Authority's liabilities of $497 million is primarily due to the following:

- The $510 million issuance of Gas Project Revenue Bonds, Project No. 1, 2007 Series A & B; issuance of the $141 million Natural Gas Project A, 2008 Revenue Bonds; and a $6 million increase in accounts payable due to over billings in the STS Project. The increases were offset by the payoff of $76 million of bridge loans in the Natural Gas Projects; the $28 million decrease in advances mainly used to meet the obligation of the San Juan environmental upgrades; and $56 million of principal maturities and related amortizations for all projects.

During fiscal year 2007, the Natural Gas Barnett Project was acquired, the Magnolia Power Project A Revenue Bonds, 2006-1 and 2007-1 were issued and a portion of the 2003-1 Magnolia Bonds was refunded (See Note 6). As a result of these events, long-term investments decreased by $2 million; cash and cash equivalents increased by $69 million; and liabilities increased by $40 million. In addition, utility plant increased by $11 million because of the net effect of acquisitions; capital expenditures in Palo Verde, San Juan, Magnolia and Natural Gas Projects; and the accumulated depreciation in all projects. Other assets decreased by $9 million because of lower maintenance costs in the Palo Verde Project and the reduction of drilling activity in the Natural Gas Pinedale Project which resulted in a decrease in accounts receivable.

Operating Income -

The net increase in operating income by $51 million is due to the following:

- Operating Revenues – increased by $79 million.
  The increase is primarily due to the additional billings of $28 million for the steam generator replacement program and the replenishment of fuel inventory in the Palo Verde Project; $19 million increase in fuel contribution and operation and maintenance costs in the Magnolia Power Project; $19 million for the environmental upgrades and major maintenance costs in the San Juan Project; and $13 million for the newly acquired Natural Gas Barnett Project.

- Operating Expenses – increased by $28 million.
  The increase is mainly due to the $18 million increase in fuel costs contributed by the participants and higher maintenance cost of the plant in the Magnolia Power Project; $6 million increase in maintenance expense due to replacement of the steam generator in the Palo Verde Project; and $7 million for the addition of the Barnett Natural Gas Reserves Project. The offset of $3 million was primarily due to the accrual of overbilled operating expenses from the operating manager of the STS Project.

During fiscal year 2007, net operating income increased by $16 million primarily due to increased participant billings offset by increased expenses for the Magnolia Power Project being in commercial operations for the entire fiscal year; the future costs of the San Juan environmental upgrade offset by the higher cost of coal in the San Juan Project; and the operations and maintenance costs for the newly acquired Ormat Geothermal and the Natural Gas Barnett Projects.

Investment Income -

During fiscal year 2007, investment income increased by $15 million mainly due to the increase in market values of the investments.

Debt Expenses -

Debt expense decreased by $5 million largely due to the net gain of $2 million from swap related transactions and a $3 million decrease in arbitrage and other debt related obligations in the STS Project.

Supplementary Information:

Palo Verde Power Project Subordinate Refunding Bonds
As of June 30, 2008, SCPPA has outstanding $101,820,000 of subordinate bonds relating to the Palo Verde Project, consisting of $12,250,000 aggregate principal amount of the 1996 Subordinate Refunding Series B ("1996 Series B Bonds") and $89,570,000 aggregate principal amount of the 1996 Subordinate Refunding Series C ("1996 Series C Bonds"). The 1996 Series B and C Bonds ("Refunded Bonds") were issued to refund certain Senior Bonds and consist of insured variable rate bonds.

The Palo Verde 2008 Series Subordinate Bonds ("2008 Series A and B Bonds") in the aggregate principal amount of $99,830,000, consisting of $49,915,000 principal amount of 2008 Series A Bonds and $49,915,000 of 2008 Series B Bonds, are being issued to provide funds, together with certain other available moneys, to refund all of SCPPA's outstanding 1996 Series B and C Bonds.

No Senior Palo Verde Bonds are currently outstanding. Upon issuance of the 2008 Series A and B Bonds on August 28, 2008, the 2008 Series A and B Bonds will be the only bonds outstanding relating to SCPPA's interest in Palo Verde. These bonds are subject to optional redemption but will mature on July 1, 2017. The Refunded Bonds were redeemed on September 3, 2008 (See Note 11).

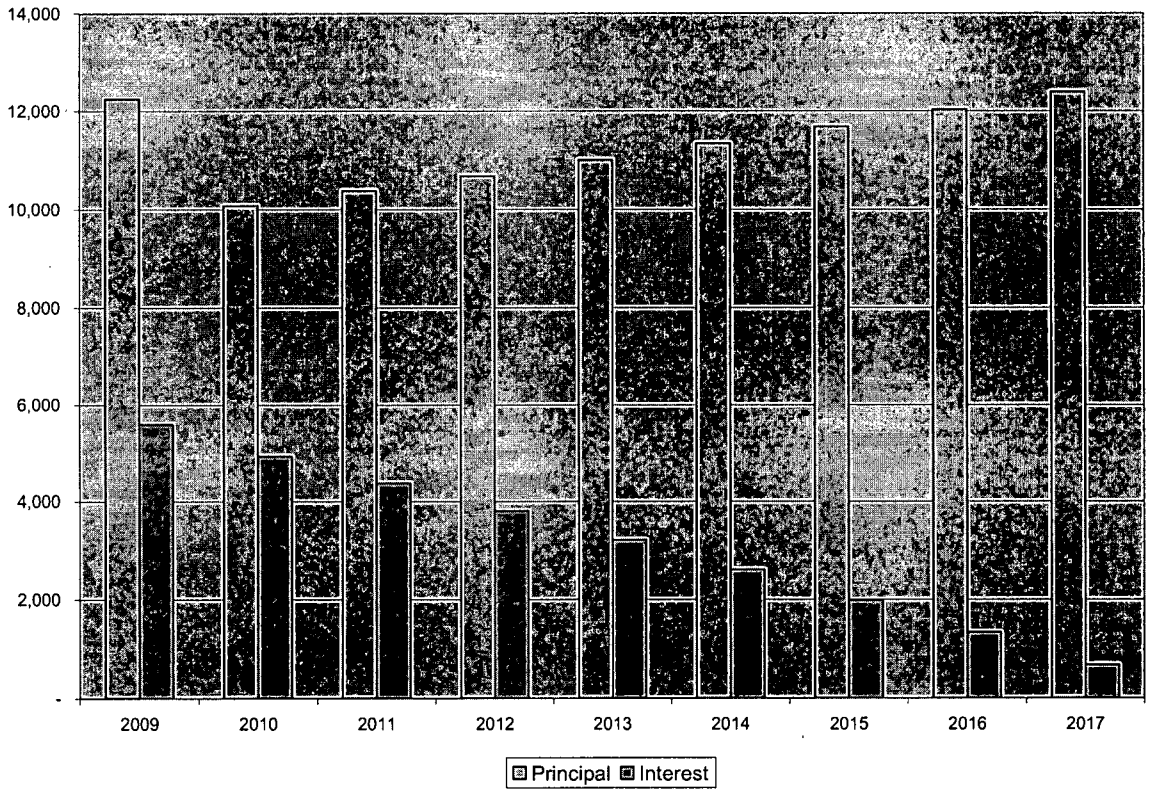
Long-term debt - The Authority has financed the acquisition of most of its Projects through the issuance of revenue bonds. The exception is the Natural Gas Projects wherein some of the natural gas participants used cash for their percentage of the acquisition. Capital additions to all of these Projects are financed through revenues received from the Participants. (See Note 6)

During Fiscal Year 2008, the Authority issued bonds as follows:

- $504,445,000 Gas Project Revenue Bonds (Project No. 1) in October 2007
  - $302,995,000 Series 2007A (Fixed Rate Bonds),
  - $201,450,000 Series 2007B (LIBOR Index Rate Bonds);
- $141,060,000 Natural Gas Project A Revenue Bonds (Taxable) in February 2008
  - $80,795,000 Series 2008 (City of Anaheim, California),
  - $43,700,000 Series 2008 (City of Burbank, California),
  - $16,565,000 Series 2008 (City of Colton, California) ; and
- $48,025,000 Transmission Project Revenue Bonds, 2008 Subordinate Refunding Series A, Southern Transmission Project in June 2008.

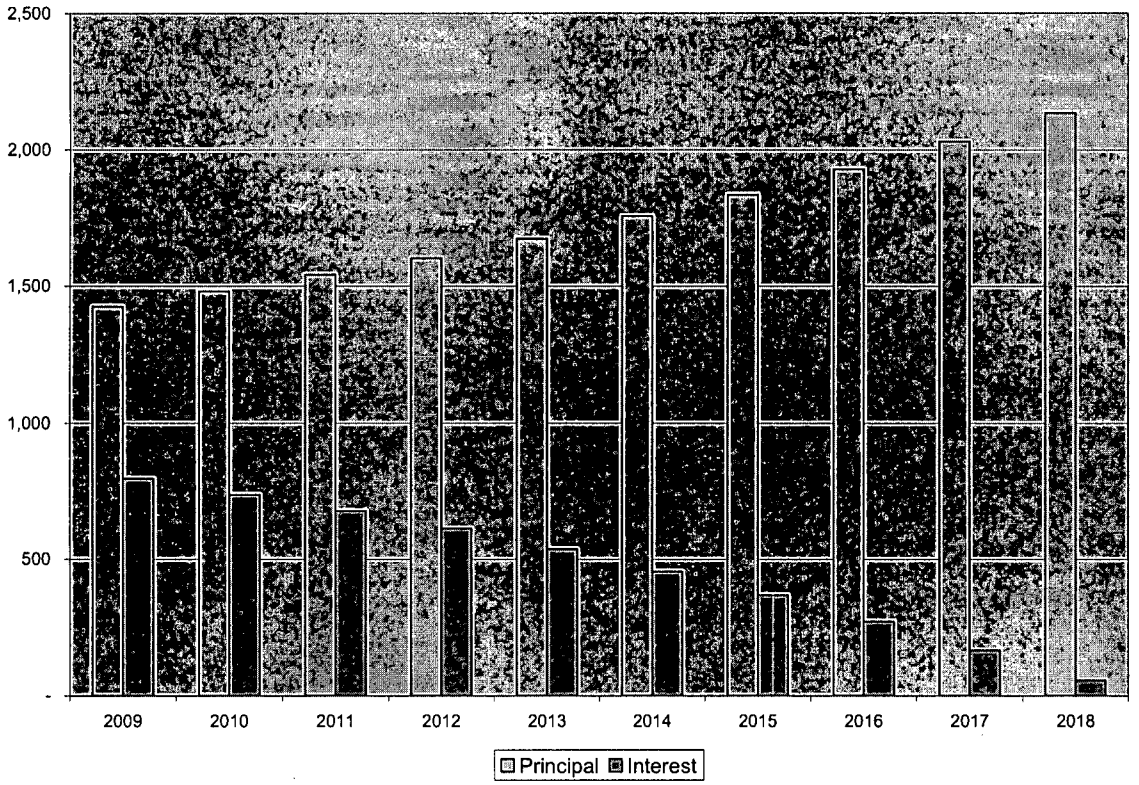
The following graphs for each of the Authority's Projects provide an indication of the principal and interest payments on the bonds that are due each year following June 30, 2008 until the bonds mature. Interest is reflected on an accrual basis.

PALO VERDE PROJECT
Debt Service Requirements
Fiscal Year Ending June 30, 2008 ($ in thousands)



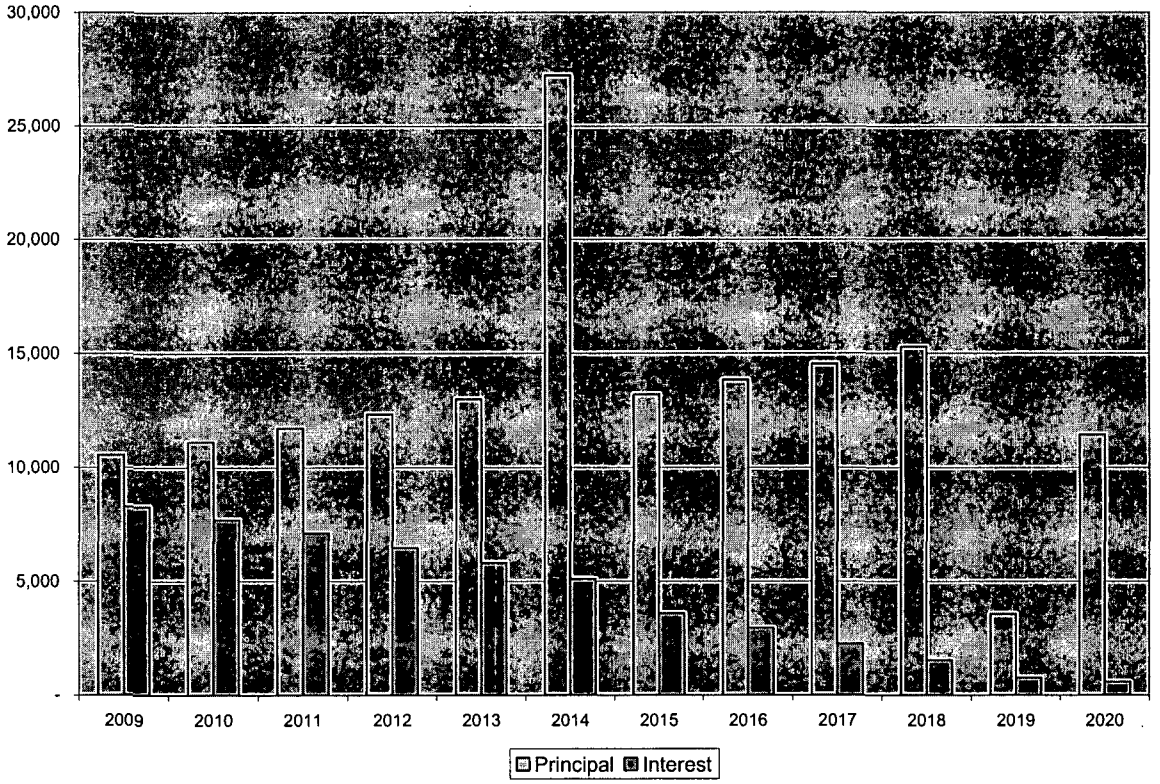
Interest payments on the remaining bonds are payable on the first Wednesday of each month. Principal maturity of $11.9 million was paid on June 4, 2008. The bonds mature in the fiscal year ended June 30, 2017.

HOOVER UPRATING PROJECT
Debt Service Requirements
Fiscal Year Ending June 30, 2008 ($ in thousands)



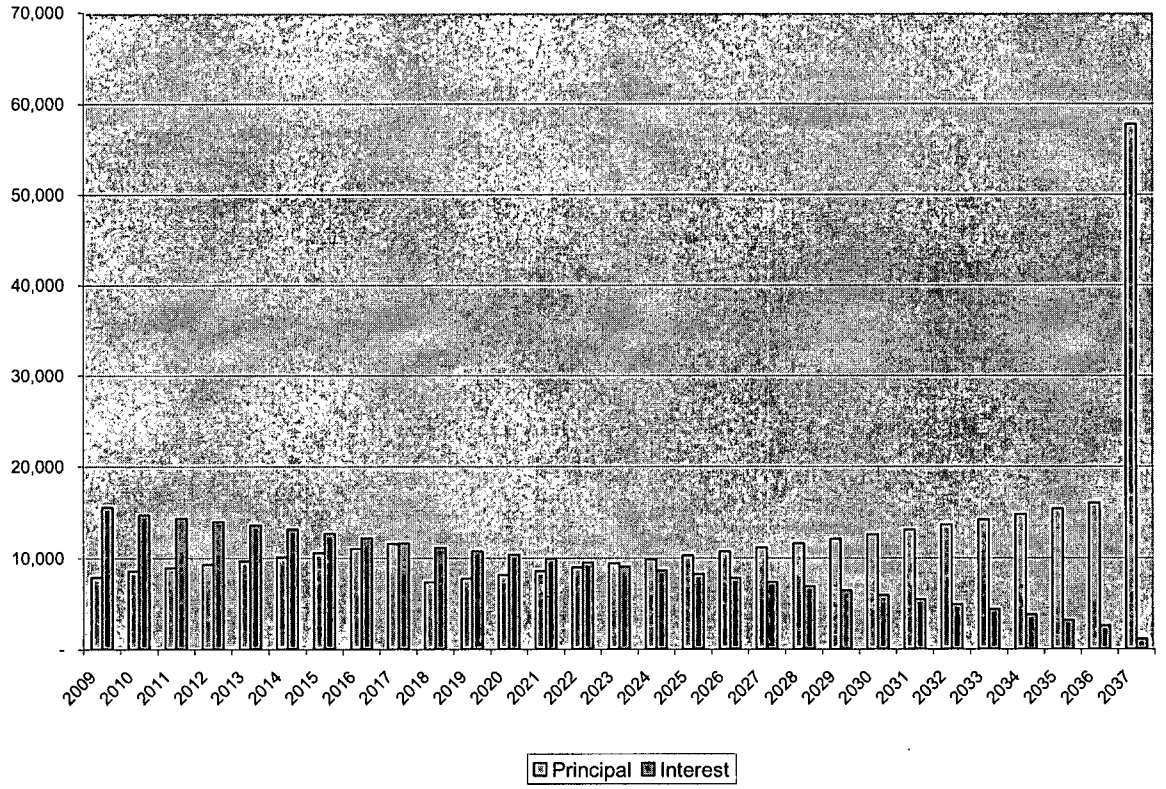
Interest payments on the bonds are payable semi-annually on October 1 and April 1 of each year. Principal maturities of $1.4 million were paid on October 1, 2007. The bonds mature in the fiscal year ended June 30, 2018.

SAN JUAN PROJECT
Debt Service Requirements
Fiscal Year Ending June 30, 2008 ($ in thousands)



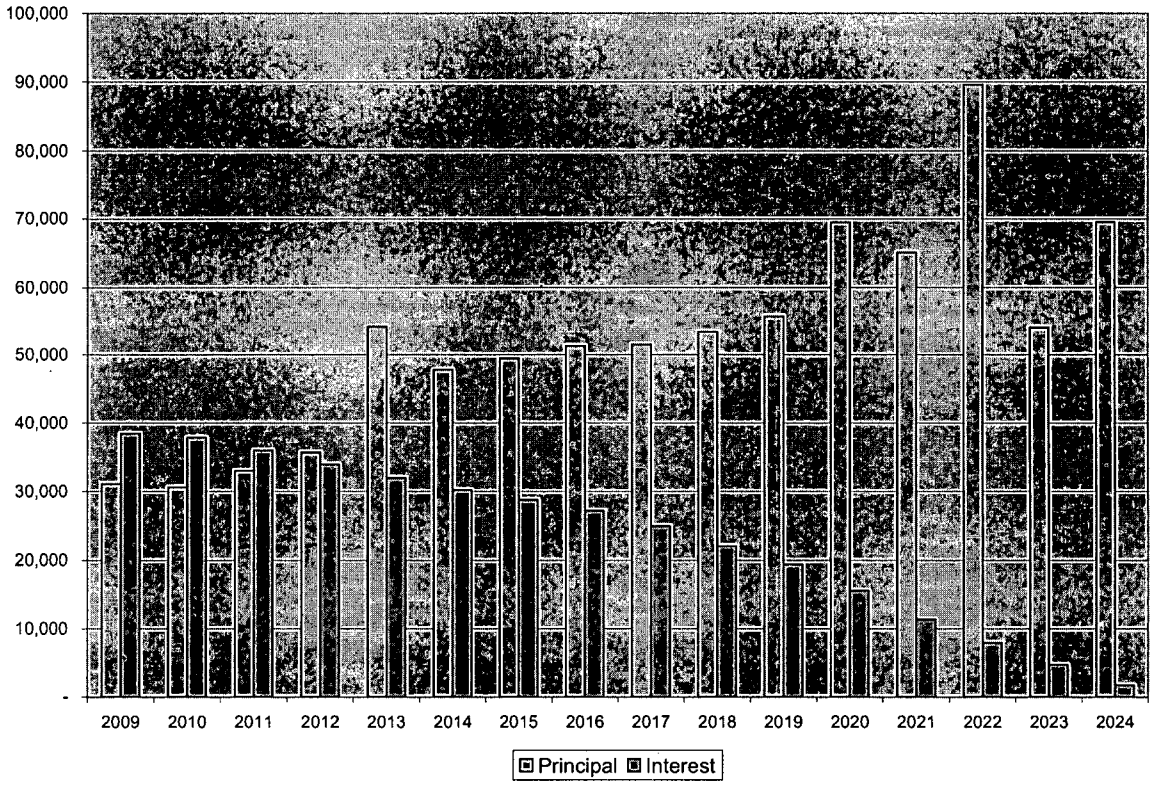
Interest payments on the bonds are payable semi-annually on July 1 and January 1 of each year. Principal maturities of $10 million were paid on January 1, 2008. The bonds mature in the fiscal year ended June 30, 2020.

MAGNOLIA POWER PROJECT
Debt Service Requirements
Fiscal Year Ending June 30, 2008 ($ in thousands)



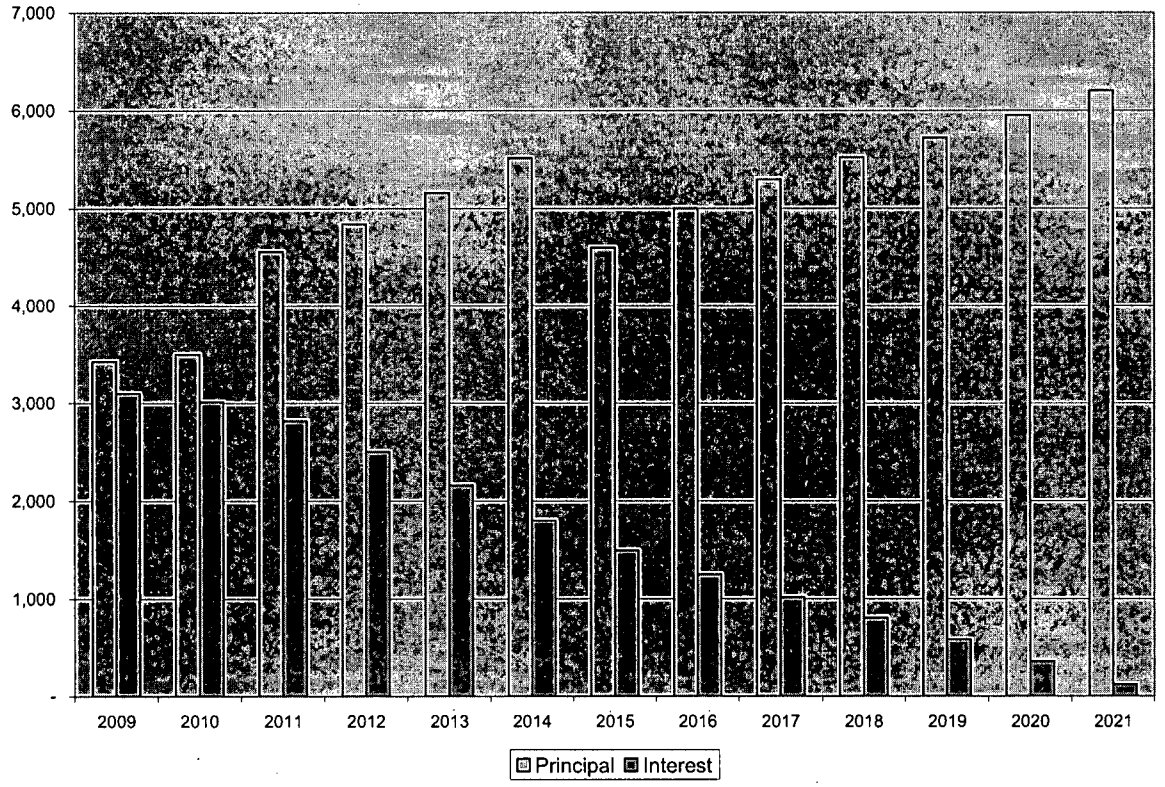
Interest payments on the bonds are payable semi-annually on July 1 and January 1 of each year. Principal maturities of $7.4 million were paid on July 1, 2007. The bonds mature in the fiscal year ended June 30, 2037.

SOUTHERN TRANSMISSION SYSTEM PROJECT
Debt Service Requirements
Fiscal Year Ending June 30, 2008 ($ in thousands)



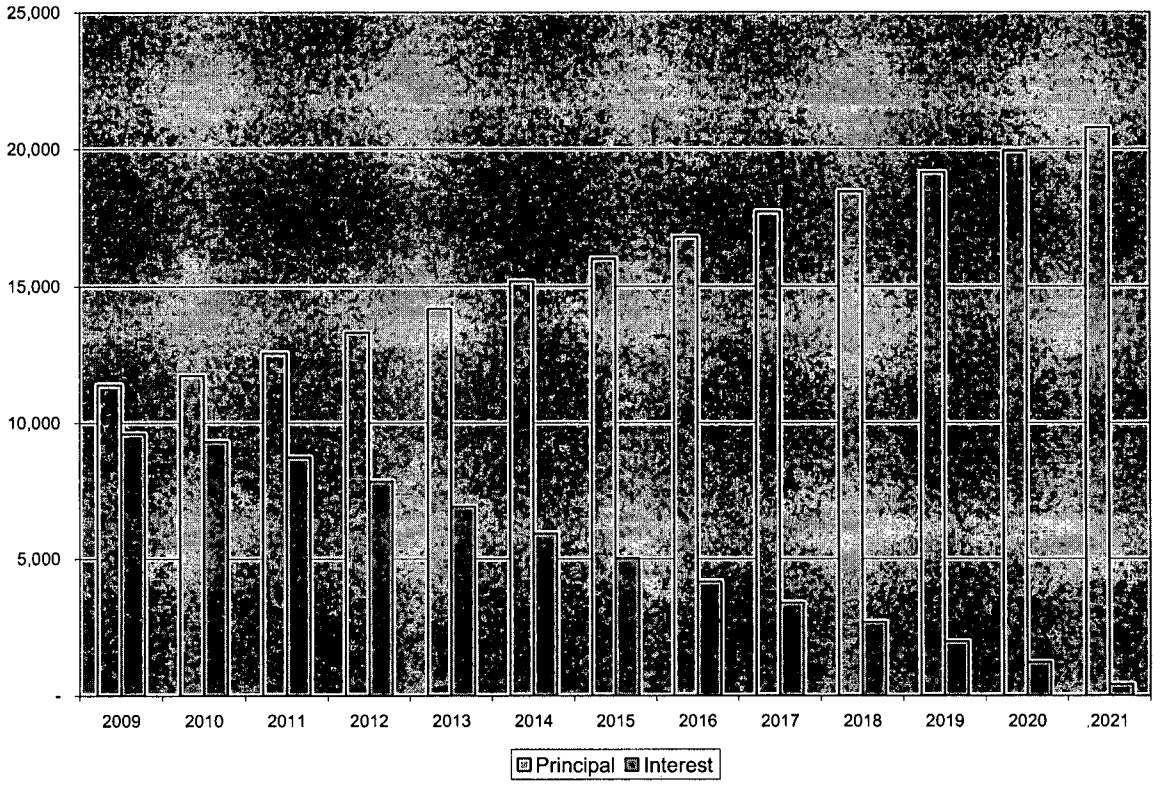
Fixed interest on the bonds is paid semi-annually on July 1 and January 1 of each year. Variable interest is paid monthly. Principal maturities of $30.9 million were paid on July 1, 2007. The bonds mature in the fiscal year ended June 30, 2024.

MEAD-PHOENIX PROJECT
Debt Service Requirements
Fiscal Year Ending June 30, 2008 ($ in thousands)



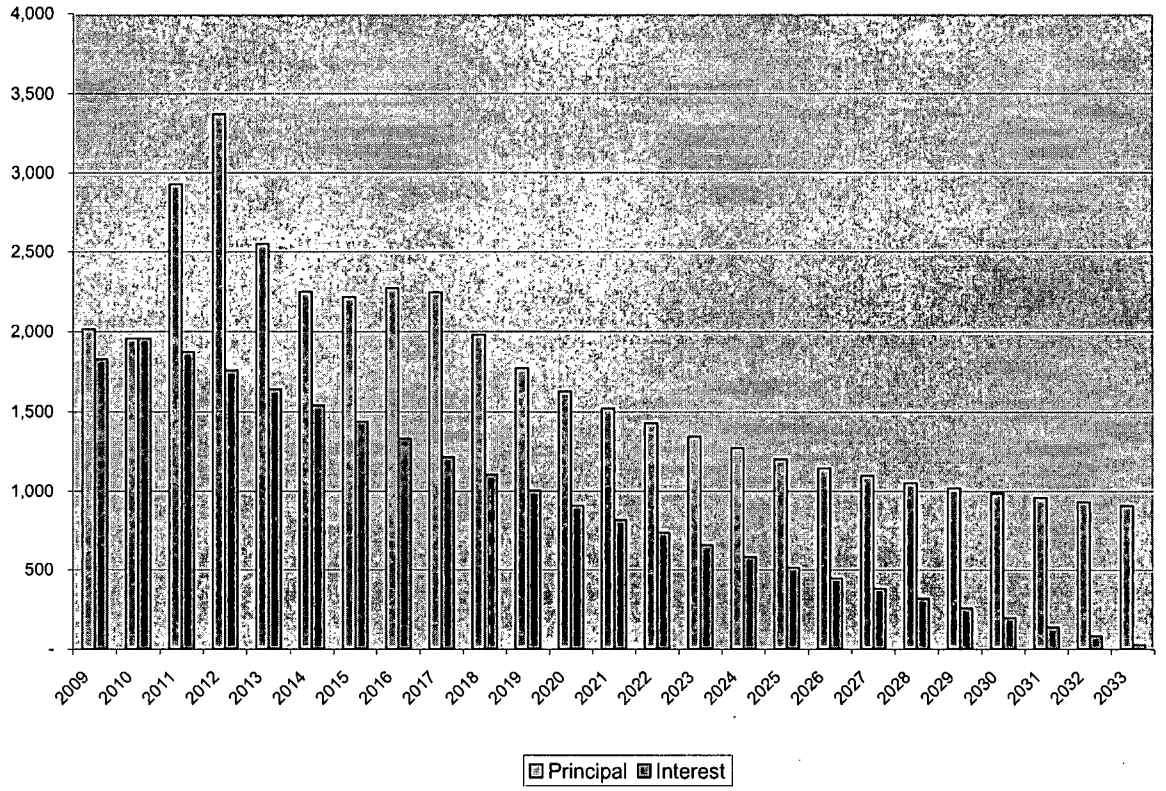
Fixed interest on the bonds is paid semi-annually on July 1 and January 1 of each year. Variable interest is paid weekly. Principal maturities of $3.3 million were paid on July 1, 2007. The bonds mature in the fiscal year ended June 30, 2021.

MEAD-ADELANTO PROJECT
Debt Service Requirements
Fiscal Year Ending June 30, 2008 ($ in thousands)



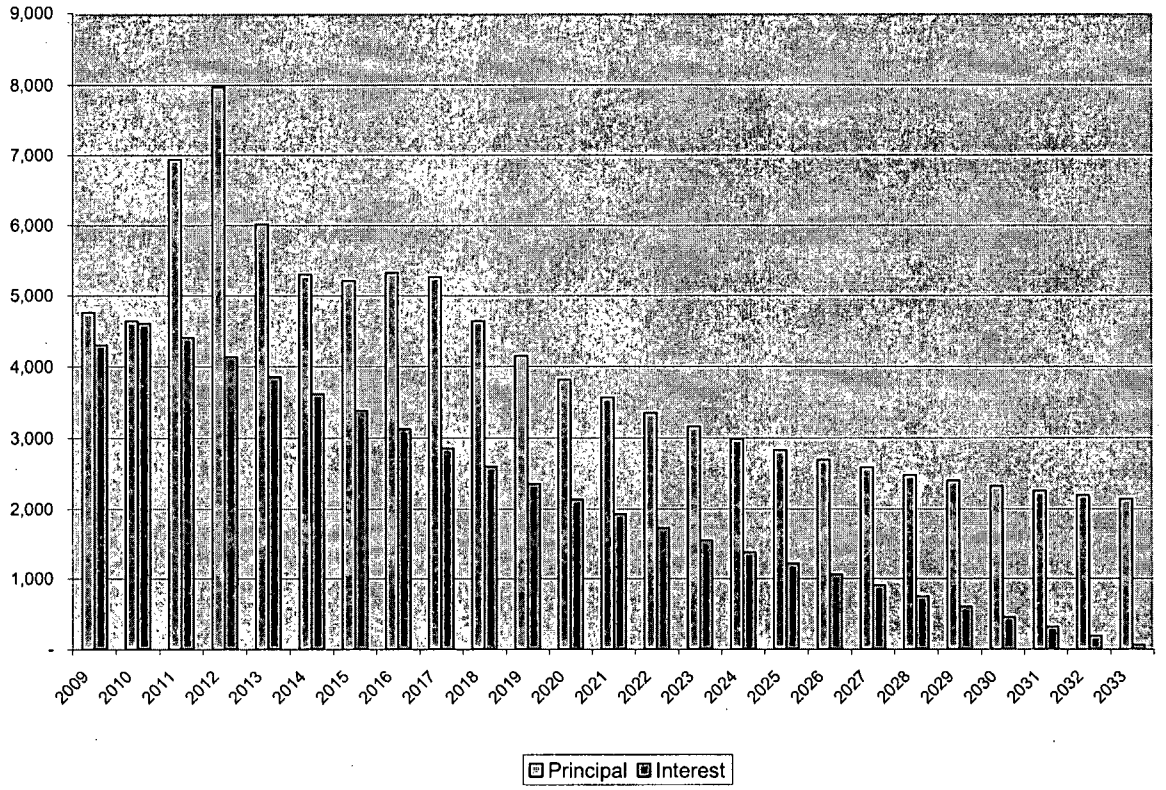
Fixed interest on the bonds is paid semi-annually on July 1 and January 1 of each year. Variable interest is paid Tuesdays, Wednesdays, and Thursdays of every week. Principal maturities of $11.1 million were paid on July 1, 2007. The bonds mature in the fiscal year ended June 30, 2021.

NATURAL GAS PINEDALE PROJECT
Debt Service Requirements
Fiscal Year Ending June 30, 2008 ($ in thousands)



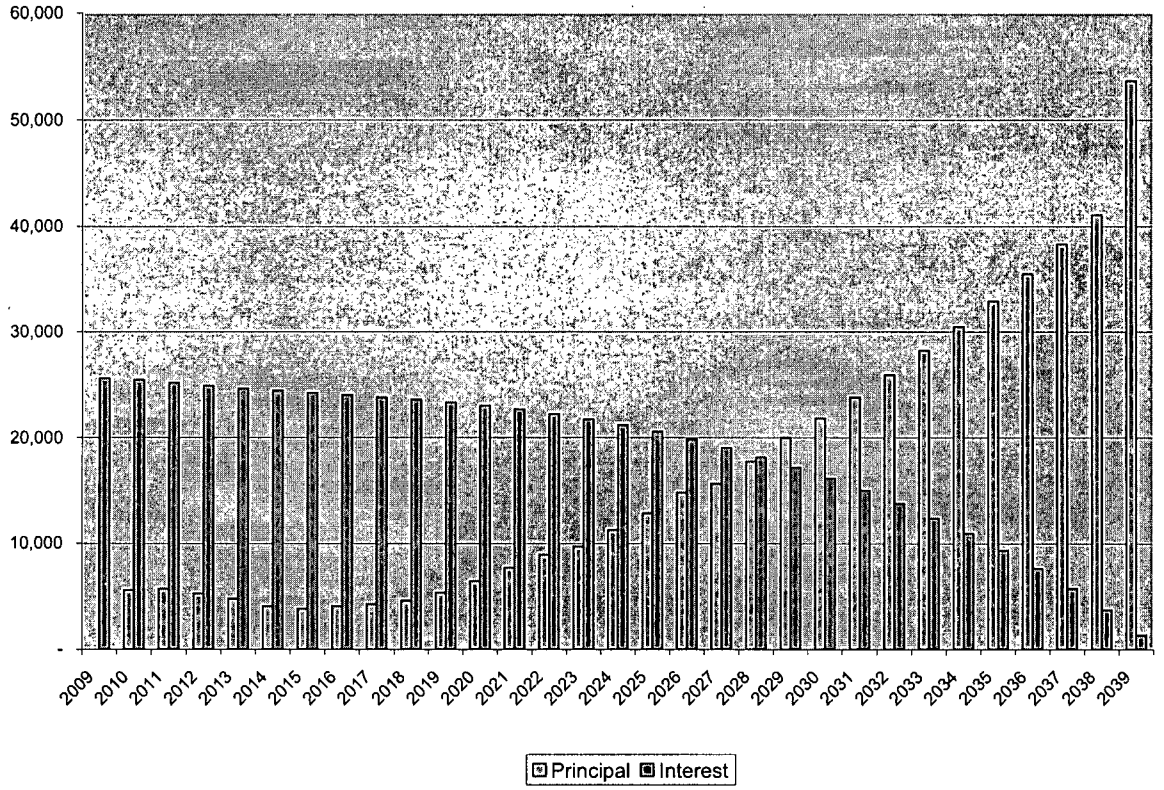
Interest payments on the bonds are payable semi-annually on July 1 and January 1 of each year. Principal maturity of $1.3 million was paid on July 1, 2007 and $26,900,000 par value of bonds were refunded on February 6, 2008. The bonds mature in the fiscal year ended June 30, 2033.

NATURAL GAS BARNETT PROJECT
Debt Service Requirements
Fiscal Year Ending June 30, 2008 ($ in thousands)



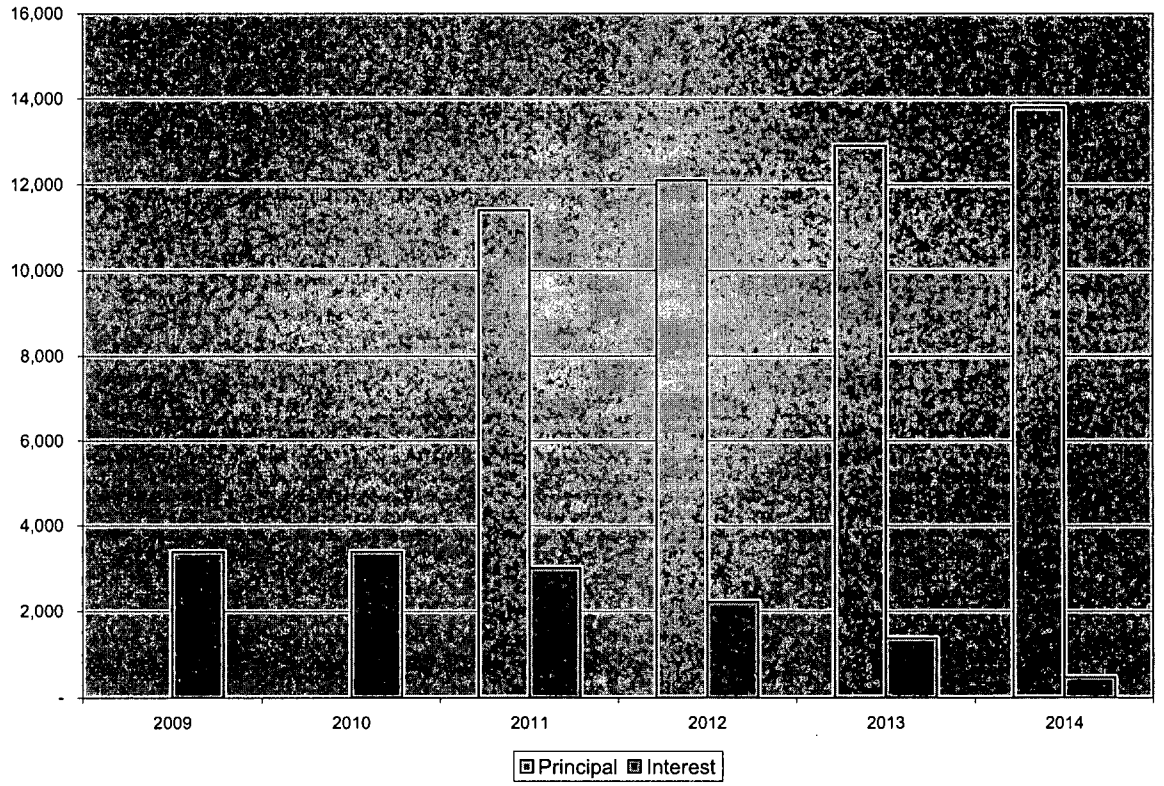
Interest payments on the bonds are payable semi-annually on July 1 and January 1 of each year. Principal maturity of $500,000 was paid on July 1, 2007 and $50,300,000 par value of bonds were refunded on February 6, 2008. The bonds mature in the fiscal year ended June 30, 2033.

PREPAID NATURAL GAS PROJECT No. 1
Debt Service Requirements
Fiscal Year Ending June 30, 2008 ($ in thousands)



Interest payments on the Series 2007 A bonds are payable semi-annually on November 1 and May 1 of each year. Interest payments on the Series 2007 B bonds are payable each August 1, November 1, February 1, and May 1. There were no principal maturities for the year ended June 30, 2008 The bonds mature in the fiscal year ended June 30, 2039.

MULTIPLE PROJECT FUND
Debt Service Requirements
Fiscal Year Ending June 30, 2008 ($ in thousands)



Interest payments on the bonds are payable semi-annually on July 1 and January 1 of each year. There were no principal maturities for the year ended June 30, 2008. The bonds mature in the fiscal year ended June 30, 2014.

Financial Outlook - The Authority's credit strength is based on:

- The collective credit strengths of each project participant;
- The absence of concentration risk as evidenced by the lack of substantial reliance by one participant on the resources financed;
- The low cost power the Projects provide the participants; and,
- Strong legal provisions.

Except for the Prepaid Natural Gas Project No. 1, the Authority has take-or-pay power sales, natural gas sales and transmission service contracts which unconditionally require the Participants to pay for the cost of operating and maintaining the Projects, including debt service, whether or not the Projects are operating or operable. Although the contracts have not been court-tested, a municipal utility's authority to enter into such contracts is rooted in the State's constitutional provisions for municipal electric utilities. The Participants of the Prepaid Natural Gas Project No. 1, however, are obligated only to purchase and pay for gas delivered by SCPPA at market-based prices in accordance with the prepaid gas sale agreements.

Through the collaborative efforts of its members, the Authority has developed a comprehensive and dynamic strategic plan that provides a common vision for its members and a platform for joint action. SCPPA continues its involvement in legislative and regulatory affairs at both the state and federal levels to protect represented customers, by assuring resource adequacy, excellent reliability, and environmental stewardship. Backed by one of the strongest financial ratings in the utility industry, SCPPA maintains its traditional role of providing financing for its members' natural gas, generation and transmission projects. In addition to the conventional areas of power, investments are also being made to provide customers with more renewable generation and energy efficiency. Renewable energy will continue to play an important role for the future. Investment by SCPPA members in renewable and energy efficiency programs, have totaled nearly $775 million to date.

Renewable Projects - SCPPA members are committed to the use of renewable energy resources in the future.

High Winds Energy Center - Energy from the High Winds Energy Center in Solano County, California, is now a part of the participating members' resource portfolios. SCPPA members, including the cities of Anaheim, Azusa, Colton, Glendale, and Pasadena, contracted with PPM Energy (a division of Pacificorp Holdings) for 30 megawatts (MW) of the 150 MW wind facility. PPM also provided a firming service, which guaranteed SCPPA members firm delivery of energy, at predetermined rates, regardless of the wind conditions at the site. Although the purchase contracts under the project were between the individual members and PPM, SCPPA played a key role in bringing this project to a reality through the issuance of the Renewable RFP and coordinating contract negotiations.

Ameresco Chiquita Energy LLC - SCPPA has entered into a Power Purchase Agreement with Ameresco Chiquita Energy LLC for 100% of the electric generation from a landfill gas to energy facility to be located at the landfill site in Valencia, California (Ameresco Landfill Gas to Energy Project). The SCPPA participants in this project include the cities of Burbank and Pasadena. This project will initially be for 8 megawatts with an option to increase the output by an additional 8 megawatts in the future when additional gas becomes available.

Renewable Projects (Continued)

Milford Wind Corridor Phase I Project - The Milford Wind Corridor Phase I Project is a 200 MW wind power project planned to be located in Beaver and Millard Counties, Utah. The wind power will be delivered to SCPPA through the Intermountain Power Project's switching station located in Delta, Utah. The terms of the project is 20 years with an expected commercial operation date of mid 2009. An early buyout option is included in the agreement after the 10th contract year. There is an anticipated present value cost savings of approximately $42 million as compared to a straight purchase of the facility on the commercial operation date.
Similar to other SCPPA projects, the Milford Wind Corridor Phase I project will be paid for entirely by the participants (LADWP, Burbank, and Pasadena). The project will have no fiscal impact on non-participating members, with the exception of a small decrease in administrative and general expenses. This project is under construction and the participant agreements have been finalized.

Pebble Springs Wind Project - The Pebble Springs Wind Project, a 98.7 MW wind project, is planned to be located in Gilliam County, Oregon. The wind power is scheduled to be delivered to SCPPA through the project substation by December 31, 2008. SCPPA, along with LADWP, Burbank, and Glendale, will be responsible for transporting and scheduling the energy from the project substation to the Project Participants at the Nevada Oregon Border (NOB) through either an agency agreement with LADWP or other means. The terms of the project is 18 years with a right of first offer after the 10th contract year. The right of first offer would give SCPPA the opportunity to purchase the project prior to it being offered for sale to another party. This project is under construction and the participant agreements have been finalized.

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

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINED STATEMENTS OF NET ASSETS (DEFICIT)
(AMOUNTS IN THOUSANDS)

	JUNE 30, 2008	JUNE 30, 2007
ASSETS		
Noncurrent assets		
Net utility plant	$ 1,009,331	$ 1,006,994
Investments - restricted	493,557	476,977
Investments - unrestricted	65,062	79,541
Advance to IPA - restricted	11,550	11,550
Advances for capacity and energy, net - restricted	12,381	13,638
Deferred debits	-	24,515
Unamortized debt expenses	19,940	14,801
Prepaid and other assets	482,291	87
Total noncurrent assets	2,094,112	1,628,103
Current assets		
Cash and cash equivalents - restricted	185,709	116,782
Cash and cash equivalents - unrestricted	44,291	32,958
Interest receivable	6,541	6,292
Accounts receivable	20,168	8,308
Materials and supplies	20,416	19,963
Prepaid and other assets	19,163	4,136
Total current assets	296,288	188,439
Total assets	$ 2,390,400	$ 1,816,542
LIABILITIES		
Noncurrent liabilities		
Long-term debt	$ 2,231,746	$ 1,721,735
Notes payable	48,219	54,106
Advances from participants	30,296	66,647
Total noncurrent liabilities	2,310,261	1,842,488
Current liabilities		
Debt due within one year	84,835	78,015
Notes payable due within one year	6,176	5,988
Advances from participants due within one year	41,675	33,027
Accrued interest	33,587	24,228
Accounts payable and accruals	47,284	41,185
Accrued property tax	7,191	8,694
Total current liabilities	220,748	191,137
Total liabilities	2,531,009	2,033,625
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt and advances from participants	(1,236,053)	(742,312)
Restricted net assets (deficit)	996,901	429,686
Unrestricted net assets (deficit)	98,543	95,543
Total net assets (deficit)	(140,609)	(217,083)
Total liabilties and net assets (deficit)	$ 2,390,400	$ 1,816,542

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT)
(AMOUNTS IN THOUSANDS)

	YEAR ENDED JUNE 30,	
	2008	2007
Operating revenues		
Sales of electric energy	$ 332,646	$ 263,888
Sales of transmission services	109,384	112,964
Sales of natural gas	26,779	13,153
Total operating revenues	468,809	390,005
Operating expenses		
Operations and maintenance	230,013	203,135
Depreciation, depletion and amortization	69,341	67,586
Amortization of nuclear fuel	8,059	8,702
Decommissioning	11,780	11,779
Total operating expenses	319,193	291,202
Operating income (loss)	149,616	98,803
Non operating revenues (expenses)		
Investment income	32,956	33,622
Debt expense	(108,062)	(113,028)
Net non operating revenues (expenses)	(75,106)	(79,406)
Change in net assets (deficit)	74,510	19,397
Net assets (deficit) - beginning of year	(217,083)	(246,532)
Net contributions by participants	1,964	10,052
Net assets (deficit) - end of year	$ (140,609)	$ (217,083)

See accompanying notes.

	YEAR ENDED JUNE 30,	
	2008	2007
Cash flows from operating activities		
Receipts from participants	$ 393,905	$ 347,735
Receipts from sale of oil and gas	19,399	18,335
Payments to operating managers	(189,572)	(179,832)
Other disbursements and receipts	7,657	7,803
Net cash flows from operating activities	231,389	194,041
Cash flows from noncapital financing activities		
Advances (withdrawals) by participants, net	4,756	25,321
Cash flows from capital financing activities		
Additions to plant, net	(94,212)	(100,105)
Prepaid natural gas	(480,648)	-
Debt interest payments	(111,042)	(91,880)
Proceeds from sale of bonds	707,134	306,792
Payment for defeasance of revenue bonds	(125,950)	(219,059)
Transfer of funds from escrow	10,039	6,535
Principal payments on debt	(79,615)	(75,677)
Payment for bond issue costs	(8,092)	(2,125)
Net cash used for capital and related financing activities	(182,386)	(175,519)
Cash flows from investing activities		
Interest received on investments	22,783	21,862
Purchases of investments	(373,958)	(224,572)
Proceeds from sale/maturity of investments	377,676	227,829
Net cash provided by (used for) investing activities	26,501	25,119
Net increase (decrease) in cash and cash equivalents	80,260	68,962
Cash and cash equivalents, beginning of year	149,740	80,778
Cash and cash equivalents, end of year	$ 230,000	$ 149,740
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	$ 149,616	$ 98,803
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	69,341	67,586
Decommissioning	11,780	11,779
Advances for capacity and energy	2,629	2,583
Amortization of nuclear fuel	8,059	8,702
Changes in assets and liabilities		
Accounts receivable	(13,316)	5,069
Accounts payable and accruals	9,654	845
Other	(6,374)	(1,326)
Net cash provided by operating activities	$ 231,389	$ 194,041
Cash and cash equivalents as stated in the Combined Statements of Net Assets (Deficit)		
Cash and cash equivalents - restricted	$ 185,709	$ 116,782
Cash and cash equivalents - unrestricted	44,291	32,958
	$ 230,000	$ 149,740

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF NET ASSETS (DEFICIT)
JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	GENERATION				
	Palo Verde	Hoover Uprating	San Juan	Magnolia Power	Ormat Geothermal Energy
ASSETS					
Noncurrent assets					
Net utility plant	$ 122,974	$ -	$ 77,463	$ 280,668	$ -
Investments - restricted	163,930	1,068	21,322	48,176	-
Investments - unrestricted	64,502	560	-	-	-
Advance to IPA - restricted	-	-	-	-	-
Advances for capacity and energy, net - restricted	-	12,381	-	-	-
Deferred debit	-	-	-	-	-
Unamortized debt expenses	494	176	1,181	3,264	-
Prepaid and other assets	-	-	64	-	-
Total noncurrent assets	351,900	14,185	100,030	332,108	-
Current assets					
Cash and cash equivalents - restricted	15,519	2,450	16,860	25,389	-
Cash and cash equivalents - unrestricted	7,806	172	7,017	8,771	1,684
Interest receivable	1,676	8	14	721	3
Accounts receivable	3,824	34	900	5,024	-
Due from other project - restricted	-	-	-	-	-
Materials and supplies	7,392	-	3,880	9,144	-
Prepaid and other assets	149	1,257	362	831	-
Total current assets	36,366	3,921	29,033	49,880	1,687
Total assets	$ 388,266	$ 18,106	$ 129,063	$ 381,988	$ 1,687
LIABILITIES					
Noncurrent liabilities					
Long-term debt	$ 78,175	$ 14,890	$ 150,942	$ 344,981	$ -
Notes payable	46,768	-	-	1,451	-
Advances from participants	-	-	-	34	-
Total noncurrent liabilities	124,943	14,890	150,942	346,466	-
Current liabilities					
Debt due within one year	12,250	1,425	10,550	7,930	-
Notes payable due within one year	4,998	-	-	1,178	-
Advances from participants due within one year	-	-	-	22,090	-
Accrued interest	420	206	4,133	9,003	-
Accounts payable and accruals	11,654	65	7,504	4,752	1,684
Accrued property tax	1,602	-	233	-	-
Due to other projects	-	-	-	-	-
Total current liabilities	30,924	1,696	22,420	44,953	1,684
Total liabilities	155,867	16,586	173,362	391,419	1,684
NET ASSETS (DEFICIT)					
Invested in capital assets, net of related debt and advances from participants	33,043	-	(82,848)	(65,227)	-
Restricted net assets (deficit)	128,847	810	34,062	36,812	-
Unrestricted net assets (deficit)	70,509	710	4,487	18,984	3
Total net assets (deficit)	232,399	1,520	(44,299)	(9,431)	3
Total liabilties and net assets (deficit)	$ 388,266	$ 18,106	$ 129,063	$ 381,988	$ 1,687

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF NET ASSETS (DEFICIT)
JUNE 30, 2007
(AMOUNTS IN THOUSANDS)

	GENERATION				
	Palo Verde	Hoover Uprating	San Juan	Magnolia Power	Ormat Geothermal Energy
ASSETS					
Noncurrent assets					
Net utility plant	$ 118,778	$ -	$ 54,434	$ 288,640	$ -
Investments - restricted	166,233	2,255	38,089	45,363	-
Investments - unrestricted	78,263	1,278	-	-	-
Advance to IPA - restricted	-	-	-	-	-
Advances for capacity and energy, net - restricted	-	13,638	-	-	-
Deferred debit	-	-	22,615	1,900	-
Unamortized debt expenses	624	218	1,404	3,580	-
Prepaid and other assets	-	-	87	-	-
Total noncurrent assets	363,898	17,389	116,629	339,483	-
Current assets					
Cash and cash equivalents - restricted	6,697	620	9,180	24,497	-
Cash and cash equivalents - unrestricted	7,784	106	3,924	3,452	1,597
Interest receivable	1,701	31	91	368	9
Accounts receivable	686	-	673	2,839	-
Due from other project - restricted	-	-	-	-	-
Materials and supplies	6,537	-	3,519	9,907	-
Prepaid and other assets	176	1,411	349	1,648	-
Total current assets	23,581	2,168	17,736	42,711	1,606
Total assets	$ 387,479	$ 19,557	$ 134,365	$ 382,194	$ 1,606
LIABILITIES					
Noncurrent liabilities					
Long-term debt	$ 88,373	$ 15,879	$ 161,540	$ 353,150	$ -
Notes payable	51,372	-	-	2,734	-
Advances from participants	-	-	32,000	5,304	-
Total noncurrent liabilities	139,745	15,879	193,540	361,188	-
Current liabilities					
Debt due within one year	11,895	1,370	10,050	7,450	-
Notes payable due within one year	4,756	-	-	1,232	-
Advances from participants due within one year	-	-	-	14,218	-
Accrued interest	316	220	4,384	3,837	-
Accounts payable and accruals	18,175	120	3,553	2,020	1,604
Accrued property tax	1,800	-	200	-	-
Due to other projects	-	-	-	-	-
Total current liabilities	36,942	1,710	18,187	28,757	1,604
Total liabilities	176,687	17,589	211,727	389,945	1,604
NET ASSETS (DEFICIT)					
Invested in capital assets, net of related debt and advances from participants	19,135	-	(115,751)	(62,980)	-
Restricted net assets (deficit)	112,415	699	33,590	42,805	-
Unrestricted net assets (deficit)	79,242	1,269	4,799	12,424	2
Total net assets (deficit)	210,792	1,968	(77,362)	(7,751)	2
Total liabilties and net assets (deficit)	$ 387,479	$ 19,557	$ 134,365	$ 382,194	$ 1,606

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF NET ASSETS (DEFICIT)
JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	TRANSMISSION		
	Southern Transmission System	Mead-Phoenix	Mead-Adelanto
ASSETS			
Noncurrent assets			
Net utility plant	$ 265,434	$ 36,936	$ 117,532
Investments - restricted	41,319	7,593	25,406
Investments - unrestricted	-	-	-
Advance to IPA - restricted	11,550	-	-
Advances for capacity and energy, net - restricted	-	-	-
Deferred debit	-	-	-
Unamortized debt expenses	5,256	619	2,045
Prepaid and other assets	-	-	-
Total noncurrent assets	323,559	45,148	144,983
Current assets			
Cash and cash equivalents - restricted	43,387	5,779	12,238
Cash and cash equivalents - unrestricted	4,396	815	527
Interest receivable	38	266	844
Accounts receivable	5,518	-	685
Due from other project - restricted	-	5,807	15,968
Materials and supplies	-	-	-
Prepaid and other assets	-	-	-
Total current assets	53,339	12,667	30,262
Total assets	$ 376,898	$ 57,815	$ 175,245
LIABILITIES			
Noncurrent liabilities			
Long-term debt	$ 714,407	$ 57,497	$ 183,222
Notes payable	-	-	-
Advances from participants	-	-	-
Total noncurrent liabilities	714,407	57,497	183,222
Current liabilities			
Debt due within one year	31,075	3,425	11,400
Notes payable due within one year	-	-	-
Advances from participants due within one year	-	-	-
Accrued interest	7,169	1,015	2,894
Accounts payable and accruals	13,811	1,405	2,330
Accrued property tax	-	-	-
Due to other projects	-	-	-
Total current liabilities	52,055	5,845	16,624
Total liabilities	766,462	63,342	199,846
NET ASSETS (DEFICIT)			
Invested in capital assets, net of related debt and advances from participants	(474,791)	(23,367)	(75,045)
Restricted net assets (deficit)	89,125	17,618	49,237
Unrestricted net assets (deficit)	(3,898)	222	1,207
Total net assets (deficit)	(389,564)	(5,527)	(24,601)
Total liabilties and net assets (deficit)	$ 376,898	$ 57,815	$ 175,245

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF NET ASSETS (DEFICIT)
JUNE 30, 2007
(AMOUNTS IN THOUSANDS)

	TRANSMISSION		
	Southern Transmission System	Mead-Phoenix	Mead-Adelanto
ASSETS			
Noncurrent assets			
Net utility plant	$ 284,142	$ 37,409	$ 122,032
Investments - restricted	58,681	7,399	22,628
Investments - unrestricted	-	-	-
Advance to IPA - restricted	11,550	-	-
Advances for capacity and energy, net - restricted	-	-	-
Deferred debit	-	-	-
Unamortized debt expenses	5,937	705	2,333
Prepaid and other assets	-	-	-
Total noncurrent assets	360,310	45,513	146,993
Current assets			
Cash and cash equivalents - restricted	24,622	5,936	15,683
Cash and cash equivalents - unrestricted	4,055	380	650
Interest receivable	20	275	836
Accounts receivable	1,373	-	-
Due from other project - restricted	-	5,396	14,840
Materials and supplies	-	-	-
Prepaid and other assets	-	-	-
Total current assets	30,070	11,987	32,009
Total assets	$ 390,380	$ 57,500	$ 179,002
LIABILITIES			
Noncurrent liabilities			
Long-term debt	$ 735,641	$ 60,340	$ 192,959
Notes payable	-	-	-
Advances from participants	-	-	-
Total noncurrent liabilities	735,641	60,340	192,959
Current liabilities			
Debt due within one year	30,950	3,350	11,150
Notes payable due within one year	-	-	-
Advances from participants due within one year	-	-	-
Accrued interest	9,537	1,001	2,884
Accounts payable and accruals	6,616	874	2,221
Accrued property tax	-	-	-
Due to other projects	-	-	-
Total current liabilities	47,103	5,225	16,255
Total liabilities	782,744	65,565	209,214
NET ASSETS (DEFICIT)			
Invested in capital assets, net of related debt and advances from participants	(476,512)	(25,576)	(79,744)
Restricted net assets (deficit)	85,335	18,003	51,102
Unrestricted net assets (deficit)	(1,187)	(492)	(1,570)
Total net assets (deficit)	(392,364)	(8,065)	(30,212)
Total liabilties and net assets (deficit)	$ 390,380	$ 57,500	$ 179,002

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF NET ASSETS (DEFICIT)
JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	NATURAL GAS		
	Pinedale	Barnett	Prepaid Natural Gas
ASSETS			
Noncurrent assets			
Net utility plant	$ 45,216	$ 63,108	$ -
Investments - restricted	15,126	45,013	10,887
Investments - unrestricted	-	-	-
Advance to IPA - restricted	-	-	-
Advances for capacity and energy, net - restricted	-	-	-
Deferred debit	-	-	-
Unamortized debt expenses	1,273	1,299	4,333
Prepaid and other assets	-	-	482,227
Total noncurrent assets	61,615	109,420	497,447
Current assets			
Cash and cash equivalents - restricted	16,307	7,367	20
Cash and cash equivalents - unrestricted	12,129	709	265
Interest receivable	40	102	44
Accounts receivable	831	3,352	-
Due from other project - restricted	-	-	-
Materials and supplies	-	-	-
Prepaid and other assets	552	-	16,012
Total current assets	29,859	11,530	16,341
Total assets	$ 91,474	$ 120,950	$ 513,788
LIABILITIES			
Noncurrent liabilities			
Long-term debt	$ 40,038	$ 94,242	$ 509,525
Notes payable	-	-	-
Advances from participants	19,096	11,166	-
Total noncurrent liabilities	59,134	105,408	509,525
Current liabilities			
Debt due within one year	2,015	4,765	-
Notes payable due within one year	-	-	-
Advances from participants due within one year	19,149	436	-
Accrued interest	831	1,959	4,263
Accounts payable and accruals	2,543	1,536	-
Accrued property tax	5,356	-	-
Due to other projects	-	-	-
Total current liabilities	29,894	8,696	4,263
Total liabilities	89,028	114,104	513,788
NET ASSETS (DEFICIT)			
Invested in capital assets, net of related debt and advances from participants	(14,500)	(45,765)	(487,553)
Restricted net assets (deficit)	11,879	50,085	487,288
Unrestricted net assets (deficit)	5,067	2,526	265
Total net assets (deficit)	2,446	6,846	-
Total liabilties and net assets (deficit)	$ 91,474	$ 120,950	$ 513,788

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF NET ASSETS (DEFICIT)
JUNE 30, 2007
(AMOUNTS IN THOUSANDS)

	NATURAL GAS	
	Pinedale	Barnett
ASSETS		
Noncurrent assets		
Net utility plant	$ 46,475	$ 55,084
Investments - restricted	64	-
Investments - unrestricted	-	-
Advance to IPA - restricted	-	-
Advances for capacity and energy, net - restricted	-	-
Deferred debit	-	-
Unamortized debt expenses	-	-
Prepaid and other assets	-	-
Total noncurrent assets	46,539	55,084
Current assets		
Cash and cash equivalents - restricted	18,255	1,401
Cash and cash equivalents - unrestricted	10,835	175
Interest receivable	8	-
Accounts receivable	1,680	1,057
Due from other project - restricted	-	-
Materials and supplies	-	-
Prepaid and other assets	552	-
Total current assets	31,330	2,633
Total assets	$ 77,869	$ 57,717
LIABILITIES		
Noncurrent liabilities		
Long-term debt	$ 26,900	$ 44,400
Notes payable	-	-
Advances from participants	19,326	10,017
Total noncurrent liabilities	46,226	54,417
Current liabilities		
Debt due within one year	1,300	500
Notes payable due within one year	-	-
Advances from participants due within one year	18,672	137
Accrued interest	139	216
Accounts payable and accruals	4,747	1,255
Accrued property tax	6,694	-
Due to other projects	-	-
Total current liabilities	31,552	2,108
Total liabilities	77,778	56,525
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt and advances from participants	(1,051)	167
Restricted net assets (deficit)	63	1,048
Unrestricted net assets (deficit)	1,079	(23)
Total net assets (deficit)	91	1,192
Total liabilties and net assets (deficit)	$ 77,869	$ 57,717

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF NET ASSETS (DEFICIT)
JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	MISCELLANEOUS				
	Multiple Project Fund	Projects' Stabilization Fund	Total	Eliminations	Total Combined
ASSETS					
Noncurrent assets					
Net utility plant	$ -	$ -	$1,009,331	$ -	$1,009,331
Investments - restricted	63,252	50,465	493,557	-	493,557
Investments - unrestricted	-	-	65,062	-	65,062
Advance to IPA - restricted	-	-	11,550	-	11,550
Advances for capacity and energy, net - restricted	-	-	12,381	-	12,381
Deferred debit	-	-	-	-	-
Unamortized debt expenses	-	-	19,940	-	19,940
Prepaid and other assets	-	-	482,291	-	482,291
Total noncurrent assets	63,252	50,465	2,094,112	-	2,094,112
Current assets					
Cash and cash equivalents - restricted	4,448	35,945	185,709	-	185,709
Cash and cash equivalents - unrestricted	-	-	44,291	-	44,291
Interest receivable	2,325	460	6,541	-	6,541
Accounts receivable	-	-	20,168	-	20,168
Due from other project - restricted	-	-	21,775	(21,775)	-
Materials and supplies	-	-	20,416	-	20,416
Prepaid and other assets	-	-	19,163	-	19,163
Total current assets	6,773	36,405	318,063	(21,775)	296,288
Total assets	$ 70,025	$ 86,870	$2,412,175	$ (21,775)	$2,390,400
LIABILITIES					
Noncurrent liabilities					
Long-term debt	$ 43,827	$ -	$2,231,746	$ -	$2,231,746
Notes payable	-	-	48,219	-	48,219
Advances from participants	-	-	30,296	-	30,296
Total noncurrent liabilities	43,827	-	2,310,261	-	2,310,261
Current liabilities					
Debt due within one year	-	-	84,835	-	84,835
Notes payable due within one year	-	-	6,176	-	6,176
Advances from participants due within one year	-	-	41,675	-	41,675
Accrued interest	1,694	-	33,587	-	33,587
Accounts payable and accruals	-	-	47,284	-	47,284
Accrued property tax	-	-	7,191	-	7,191
Due to other projects	21,775	-	21,775	(21,775)	-
Total current liabilities	23,469	-	242,523	(21,775)	220,748
Total liabilities	67,296	-	2,552,784	(21,775)	2,531,009
NET ASSETS (DEFICIT)					
Invested in capital assets, net of related debt and advances from participants	-	-	(1,236,053)		(1,236,053)
Restricted net assets (deficit)	4,268	86,870	996,901		996,901
Unrestricted net assets (deficit)	(1,539)	-	98,543		98,543
Total net assets (deficit)	2,729	86,870	(140,609)	-	(140,609)
Total liabilties and net assets (deficit)	$ 70,025	$ 86,870	$2,412,175	$ (21,775)	$2,390,400

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF NET ASSETS (DEFICIT)
JUNE 30, 2007
(AMOUNTS IN THOUSANDS)

	MISCELLANEOUS				
	Multiple Project Fund	Projects' Stabilization Fund	Total	Eliminations	Total Combined
ASSETS					
Noncurrent assets					
Net utility plant	$ -	$ -	$1,006,994	$ -	$1,006,994
Investments - restricted	66,296	69,969	476,977	-	476,977
Investments - unrestricted	-	-	79,541	-	79,541
Advance to IPA - restricted	-	-	11,550	-	11,550
Advances for capacity and energy, net - restricted	-	-	13,638	-	13,638
Deferred debit	-	-	24,515	-	24,515
Unamortized debt expenses	-	-	14,801	-	14,801
Prepaid and other assets	-	-	87	-	87
Total noncurrent assets	66,296	69,969	1,628,103	-	1,628,103
Current assets					
Cash and cash equivalents - restricted	8	9,883	116,782	-	116,782
Cash and cash equivalents - unrestricted	-	-	32,958	-	32,958
Interest receivable	2,163	790	6,292	-	6,292
Accounts receivable	-	-	8,308	-	8,308
Due from other project - restricted	-	-	20,236	(20,236)	-
Materials and supplies	-	-	19,963	-	19,963
Prepaid and other assets	-	-	4,136	-	4,136
Total current assets	2,171	10,673	208,675	(20,236)	188,439
Total assets	$ 68,467	$ 80,642	$1,836,778	$ (20,236)	$1,816,542
LIABILITIES					
Noncurrent liabilities					
Long-term debt	$ 42,553	$ -	$1,721,735	$ -	$1,721,735
Notes payable	-	-	54,106	-	54,106
Advances from participants	-	-	66,647	-	66,647
Total noncurrent liabilities	42,553	-	1,842,488	-	1,842,488
Current liabilities					
Debt due within one year	-	-	78,015	-	78,015
Notes payable due within one year	-	-	5,988	-	5,988
Advances from participants due within one year	-	-	33,027	-	33,027
Accrued interest	1,694	-	24,228	-	24,228
Accounts payable and accruals	-	-	41,185	-	41,185
Accrued property tax	-	-	8,694	-	8,694
Due to other projects	20,236	-	20,236	(20,236)	-
Total current liabilities	21,930	-	211,373	(20,236)	191,137
Total liabilities	64,483	-	2,053,861	(20,236)	2,033,625
NET ASSETS (DEFICIT)					
Invested in capital assets, net of related debt and advances from participants	-	-	(742,312)	-	(742,312)
Restricted net assets (deficit)	3,984	80,642	429,686	-	429,686
Unrestricted net assets (deficit)	-	-	95,543	-	95,543
Total net assets (deficit)	3,984	80,642	(217,083)	-	(217,083)
Total liabilties and net assets (deficit)	$ 68,467	$ 80,642	$1,836,778	$ (20,236)	$1,816,542

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	GENERATION				
	Palo Verde	Hoover Uprating	San Juan	Magnolia Power	Ormat Geothermal
Operating revenues					
Sales of electric energy	$ 94,732	$ 2,352	$ 102,735	$ 128,433	$ 4,394
Sales of transmission services	-	-	-	-	-
Sales of natural gas	-	-	-	-	-
Total operating revenues	94,732	2,352	102,735	128,433	4,394
Operating expenses					
Operations and maintenance	41,303	2,887	49,518	105,218	4,431
Depreciation, depletion and amortization	18,793	-	10,782	11,264	-
Amortization of nuclear fuel	8,059	-	-	-	-
Decommissioning	8,667	-	3,113	-	-
Total operating expenses	76,822	2,887	63,413	116,482	4,431
Operating income (loss)	17,910	(535)	39,322	11,951	(37)
Non operating revenues (expenses)					
Investment income	10,264	186	2,433	3,287	38
Debt expense	(6,567)	(99)	(8,692)	(16,918)	-
Net non operating revenues (expenses)	3,697	87	(6,259)	(13,631)	38
Change in net assets (deficit)	21,607	(448)	33,063	(1,680)	1
Net assets (deficit) - beginning of year	210,792	1,968	(77,362)	(7,751)	2
Net assets (deficit) - end of year	$ 232,399	$ 1,520	$ (44,299)	$ (9,431)	$ 3

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2007
(AMOUNTS IN THOUSANDS)

	GENERATION				
	Palo Verde	Hoover Uprating	San Juan	Magnolia Power	Ormat Geothermal
Operating revenues					
Sales of electric energy	$ 66,398	$ 2,345	$ 82,857	$ 108,473	$ 3,815
Sales of transmission services	-	-	-	-	-
Sales of natural gas	-	-	-	-	-
Total operating revenues	66,398	2,345	82,857	108,473	3,815
Operating expenses					
Operations and maintenance	34,557	2,838	48,502	87,190	3,935
Depreciation, depletion and amortization	18,453	-	10,573	11,162	-
Amortization of nuclear fuel	8,702	-	-	-	-
Decommissioning	8,666	-	3,113	-	-
Total operating expenses	70,378	2,838	62,188	98,352	3,935
Operating income (loss)	(3,980)	(493)	20,669	10,121	(120)
Non operating revenues (expenses)					
Investment income	11,513	211	2,808	3,170	115
Debt expense	(6,955)	(145)	(9,132)	(16,601)	-
Net non operating revenues (expenses)	4,558	66	(6,324)	(13,431)	115
Change in net assets (deficit)	578	(427)	14,345	(3,310)	(5)
Net assets (deficit) - beginning of year	210,214	2,395	(91,707)	(4,441)	7
Net assets (deficit) - end of year	$ 210,792	$ 1,968	$ (77,362)	$ (7,751)	$ 2

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	TRANSMISSION		
	Southern Transmission System	Mead-Phoenix	Mead-Adelanto
Operating revenues			
Sales of electric energy	$ -	$ -	$ -
Sales of transmission services	79,746	7,881	21,757
Sales of natural gas	-	-	-
Total operating revenues	79,746	7,881	21,757
Operating expenses			
Operations and maintenance	14,065	1,012	1,574
Depreciation, depletion and amortization	18,708	1,403	4,500
Amortization of nuclear fuel	-	-	-
Decommissioning	-	-	-
Total operating expenses	32,773	2,415	6,074
Operating income (loss)	46,973	5,466	15,683
Non operating revenues (expenses)			
Investment income	3,850	985	1,981
Debt expense	(48,023)	(3,913)	(12,053)
Net non operating revenues (expenses)	(44,173)	(2,928)	(10,072)
Change in net assets (deficit)	2,800	2,538	5,611
Net assets (deficit) - beginning of year	(392,364)	(8,065)	(30,212)
Net assets (deficit) - end of year	$ (389,564)	$ (5,527)	$ (24,601)

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2007
(AMOUNTS IN THOUSANDS)

	TRANSMISSION		
	Southern Transmission System	Mead-Phoenix	Mead-Adelanto
Operating revenues			
Sales of electric energy	$ -	$ -	$ -
Sales of transmission services	84,569	7,248	21,147
Sales of natural gas	-	-	-
Total operating revenues	84,569	7,248	21,147
Operating expenses			
Operations and maintenance	17,238	1,094	1,625
Depreciation, depletion and amortization	18,757	1,403	4,500
Amortization of nuclear fuel	-	-	-
Decommissioning	-	-	-
Total operating expenses	35,995	2,497	6,125
Operating income (loss)	48,574	4,751	15,022
Non operating revenues (expenses)			
Investment income	4,369	757	2,140
Debt expense	(54,396)	(4,022)	(12,376)
Net non operating revenues (expenses)	(50,027)	(3,265)	(10,236)
Change in net assets (deficit)	(1,453)	1,486	4,786
Net assets (deficit) - beginning of year	(390,911)	(9,551)	(34,998)
Net assets (deficit) - end of year	$ (392,364)	$ (8,065)	$ (30,212)

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	NATURAL GAS	
	Pinedale	Barnett
Operating revenues		
Sales of electric energy	$ -	$ -
Sales of transmission services	-	-
Sales of natural gas	8,933	17,846
Total operating revenues	8,933	17,846
Operating expenses		
Operations and maintenance	3,334	6,671
Depreciation, depletion and amortization	1,611	2,280
Amortization of nuclear fuel	-	-
Decommissioning	-	-
Total operating expenses	4,945	8,951
Operating income (loss)	3,988	8,895
Non operating revenues (expenses)		
Investment income	262	459
Debt expense	(1,895)	(3,700)
Net non operating revenues (expenses)	(1,633)	(3,241)
Change in net assets (deficit)	2,355	5,654
Net assets (deficit) - beginning of year	91	1,192
Net assets (deficit) - end of year	$ 2,446	$ 6,846

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2007
(AMOUNTS IN THOUSANDS)

	NATURAL GAS	
	Pinedale	Barnett
Operating revenues		
Sales of electric energy	$ -	$ -
Sales of transmission services	-	-
Sales of natural gas	8,402	4,751
Total operating revenues	8,402	4,751
Operating expenses		
Operations and maintenance	4,621	1,535
Depreciation, depletion and amortization	2,237	501
Amortization of nuclear fuel	-	-
Decommissioning	-	-
Total operating expenses	6,858	2,036
Operating income (loss)	1,544	2,715
Non operating revenues (expenses)		
Investment income	180	31
Debt expense	(1,748)	(1,554)
Net non operating revenues (expenses)	(1,568)	(1,523)
Change in net assets (deficit)	(24)	1,192
Net assets (deficit) - beginning of year	115	-
Net assets (deficit) - end of year	$ 91	$ 1,192

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	MISCELLANEOUS		
	Multiple Project Fund	Projects' Stabilization Fund	Total Combined
Operating revenues			
Sales of electric energy	$ -	$ -	$ 332,646
Sales of transmission services	-	-	109,384
Sales of natural gas	-	-	26,779
Total operating revenues	-	-	468,809
Operating expenses			
Operations and maintenance	-	-	230,013
Depreciation, depletion and amortization	-	-	69,341
Amortization of nuclear fuel	-	-	8,059
Decommissioning	-	-	11,780
Total operating expenses	-	-	319,193
Operating income (loss)	-	-	149,616
Non operating revenues (expenses)			
Investment income	4,947	4,264	32,956
Debt expense	(6,202)	-	(108,062)
Net non operating revenues (expenses)	(1,255)	4,264	(75,106)
Change in net assets (deficit)	(1,255)	4,264	74,510
Net assets (deficit) - beginning of year	3,984	80,642	(217,083)
Net contributions by participants	-	1,964	1,964
Net assets (deficit) - end of year	$ 2,729	$ 86,870	$ (140,609)

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2007
(AMOUNTS IN THOUSANDS)

	MISCELLANEOUS		
	Multiple Project Fund	Projects' Stabilization Fund	Total Combined
Operating revenues			
Sales of electric energy	$ -	$ -	$ 263,888
Sales of transmission services	-	-	112,964
Sales of natural gas	-	-	13,153
Total operating revenues	-	-	390,005
Operating expenses			
Operations and maintenance	-	-	203,135
Depreciation, depletion and amortization	-	-	67,586
Amortization of nuclear fuel	-	-	8,702
Decommissioning	-	-	11,779
Total operating expenses	-	-	291,202
Operating income (loss)	-	-	98,803
Non operating revenues (expenses)			
Investment income	4,331	3,997	33,622
Debt expense	(6,099)	-	(113,028)
Net non operating revenues (expenses)	(1,768)	3,997	(79,406)
Change in net assets (deficit)	(1,768)	3,997	19,397
Net assets (deficit) - beginning of year	5,752	66,593	(246,532)
Net contributions by participants	-	10,052	10,052
Net assets (deficit) - end of year	$ 3,984	$ 80,642	$ (217,083)

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	GENERATION				
	Palo Verde	Hoover Uprating	San Juan	Magnolia Power	Ormat Geothermal Energy
Cash flows from operating activities					
Receipts from participants	$ 78,712	$ 2,262	$ 95,856	$ 74,935	$ 4,148
Receipts from sale of oil and gas	-	-	-	-	-
Payments to operating managers	(40,913)	(260)	(49,626)	(46,672)	(4,104)
Other disbursements and receipts	7,634	4	-	16	-
Net cash flows from operating activities	45,433	2,006	46,230	28,279	44
Cash flows from noncapital financing activities					
Advances (withdrawals) by participants, net	-	-	-	-	-
Cash flows from capital financing activities					
Additions to plant, net	(41,972)	-	(35,909)	(2,810)	-
Prepaid natural gas	-	-	-	-	-
Debt interest payments	(4,292)	(852)	(8,769)	(21,948)	-
Proceeds from sale of bonds	-	-	-	-	-
Payment for defeasance of revenue bonds	-	-	-	-	-
Transfer of funds from escrow	-	-	-	10,119	-
Principal payments on debt	(11,895)	(1,370)	(10,050)	(7,450)	-
Payment for bond issue costs	-	-	-	(360)	-
Net cash used for capital and related financing activities	(58,159)	(2,222)	(54,728)	(22,449)	-
Cash flows from investing activities					
Interest received on investments	1,822	140	1,930	3,009	43
Purchases of investments	(37,102)	(1,618)	(26,171)	(51,185)	-
Proceeds from sale/maturity of investments	56,850	3,590	43,512	48,557	-
Net cash provided by (used for) investing activities	21,570	2,112	19,271	381	43
Net increase (decrease) in cash and cash equivalents	8,844	1,896	10,773	6,211	87
Cash and cash equivalents, beginning of year	14,481	726	13,104	27,949	1,597
Cash and cash equivalents, end of year	$ 23,325	$ 2,622	$ 23,877	$ 34,160	$ 1,684
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	$ 17,910	$ (535)	$ 39,322	$ 11,951	$ (37)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation	18,793	-	10,782	11,264	-
Decommissioning	8,667	-	3,113	-	-
Advances for capacity and energy	-	2,629	-	-	-
Amortization of nuclear fuel	8,059	-	-	-	-
Changes in assets and liabilities					
Accounts receivable	(3,141)	(34)	(748)	(2,409)	-
Accounts payable and accruals	(4,426)	(56)	3,519	2,732	81
Other	(429)	2	(9,758)	4,741	-
Net cash provided by operating activities	$ 45,433	$ 2,006	$ 46,230	$ 28,279	$ 44
Cash and cash equivalents as stated in the Combined Statements of Net Assets (Deficit)					
Cash and cash equivalents - restricted	$ 15,519	$ 2,450	$ 16,860	$ 25,389	$ -
Cash and cash equivalents - unrestricted	7,806	172	7,017	8,771	1,684
	$ 23,325	$ 2,622	$ 23,877	$ 34,160	$ 1,684

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007
(AMOUNTS IN THOUSANDS)

	GENERATION				
	Palo Verde	Hoover Uprating	San Juan	Magnolia Power	Ormat Geothermal Energy
Cash flows from operating activities					
Receipts from participants	$ 71,033	$ 2,354	$ 84,144	$ 58,352	$ 3,015
Receipts from sale of oil and gas	-	-	-	-	-
Payments to operating managers	(33,658)	(257)	(48,344)	(47,967)	(3,875)
Other disbursements and receipts	7,633	-	-	-	(7)
Net cash flows from operating activities	45,008	2,097	35,800	10,385	(867)
Cash flows from noncapital financing activities					
Advances (withdrawals) by participants, net	-	-	-	(10,538)	-
Cash flows from capital financing activities					
Additions to plant, net	(22,058)	-	(18,432)	(2,232)	-
Debt interest payments	(4,650)	(906)	(9,247)	(16,026)	-
Proceeds from sale of bonds	-	-	-	261,892	-
Payment for defeasance of revenue bonds	-	-	-	(219,059)	-
Transfer of funds from escrow	-	-	-	-	-
Principal payments on debt	(11,545)	(1,315)	(9,570)	(4,917)	-
Payment for bond issue costs	-	-	-	(2,125)	-
Net cash used for capital and related financing activities	(38,253)	(2,221)	(37,249)	17,533	-
Cash flows from investing activities					
Interest received on investments	2,098	145	2,392	2,996	113
Purchases of investments	(2,177)	(1,326)	(19,482)	(80,695)	-
Proceeds from sale/maturity of investments	2,205	1,237	20,449	62,114	1,740
Net cash provided by (used for) investing activities	2,126	56	3,359	(15,585)	1,853
Net increase (decrease) in cash and cash equivalents	8,881	(68)	1,910	1,795	986
Cash and cash equivalents, beginning of year	5,600	794	11,194	26,154	611
Cash and cash equivalents, end of year	$ 14,481	$ 726	$ 13,104	$ 27,949	$ 1,597
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	$ (3,980)	$ (493)	$ 20,669	$ 10,121	$ (120)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation	18,453	-	10,573	11,162	-
Decommissioning	8,666	-	3,113	-	-
Advances for capacity and energy	-	2,583	-	-	-
Amortization of nuclear fuel	8,702	-	-	-	-
Changes in assets and liabilities					
Accounts receivable	6,247	-	145	46	-
Accounts payable and accruals	6,878	7	162	(9,573)	(740)
Other	42	-	1,138	(1,371)	(7)
Net cash provided by operating activities	$ 45,008	$ 2,097	$ 35,800	$ 10,385	$ (867)
Cash and cash equivalents as stated in the Combined Statements of Net Assets (Deficit)					
Cash and cash equivalents - restricted	$ 6,697	$ 620	$ 9,180	$ 24,497	$ -
Cash and cash equivalents - unrestricted	7,784	106	3,924	3,452	1,597
	$ 14,481	$ 726	$ 13,104	$ 27,949	$ 1,597

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	TRANSMISSION		
	Southern Transmission System	Mead-Phoenix	Mead-Adelanto
Cash flows from operating activities			
Receipts from participants	$ 87,917	$ 8,452	$ 20,827
Receipts from sale of oil and gas	-	-	-
Payments to operating managers	(18,173)	(896)	(1,675)
Other disbursements and receipts	-	-	-
Net cash flows from operating activities	69,744	7,556	19,152
Cash flows from noncapital financing activities			
Advances (withdrawals) by participants, net	-	-	-
Cash flows from capital financing activities			
Additions to plant, net	-	(930)	-
Prepaid natural gas	-	-	-
Debt interest payments	(40,508)	(3,496)	(10,756)
Proceeds from sale of bonds	50,047	-	-
Payment for defeasance of revenue bonds	(50,050)	-	-
Transfer of funds from escrow	(80)	-	-
Principal payments on debt	(30,950)	(3,350)	(11,150)
Payment for bond issue costs	(290)	-	-
Net cash used for capital and related financing activities	(71,831)	(7,776)	(21,906)
Cash flows from investing activities			
Interest received on investments	3,422	640	1,854
Purchases of investments	(34,182)	(5,017)	(8,948)
Proceeds from sale/maturity of investments	51,953	4,875	6,280
Net cash provided by (used for) investing activities	21,193	498	(814)
Net increase (decrease) in cash and cash equivalents	19,106	278	(3,568)
Cash and cash equivalents, beginning of year	28,677	6,316	16,333
Cash and cash equivalents, end of year	$ 47,783	$ 6,594	$ 12,765
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	$ 46,973	$ 5,466	$ 15,683
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	18,708	1,403	4,500
Decommissioning	-	-	-
Advances for capacity and energy	-	-	-
Amortization of nuclear fuel	-	-	-
Changes in assets and liabilities			
Accounts receivable	(4,145)	-	(685)
Accounts payable and accruals	8,179	389	(354)
Other	29	298	8
Net cash provided by operating activities	$ 69,744	$ 7,556	$ 19,152
Cash and cash equivalents as stated in the Combined Statements of Net Assets (Deficit)			
Cash and cash equivalents - restricted	$ 43,387	$ 5,779	$ 12,238
Cash and cash equivalents - unrestricted	4,396	815	527
	$ 47,783	$ 6,594	$ 12,765

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007
(AMOUNTS IN THOUSANDS)

	TRANSMISSION		
	Southern Transmission System	Mead-Phoenix	Mead-Adelanto
Cash flows from operating activities			
Receipts from participants	$ 87,781	$ 7,209	$ 21,118
Receipts from sale of oil and gas	-	-	-
Payments to operating managers	(17,521)	(1,261)	(1,485)
Other disbursements and receipts	-	167	-
Net cash flows from operating activities	70,260	6,115	19,633
Cash flows from noncapital financing activities			
Advances (withdrawals) by participants, net	-	-	-
Cash flows from capital financing activities			
Additions to plant, net	-	(156)	-
Debt interest payments	(40,876)	(3,350)	(10,457)
Proceeds from sale of bonds	-	-	-
Payment for defeasance of revenue bonds	-	-	-
Transfer of funds from escrow	6,535	-	-
Principal payments on debt	(34,230)	(3,250)	(10,850)
Payment for bond issue costs	-	-	-
Net cash used for capital and related financing activities	(68,571)	(6,756)	(21,307)
Cash flows from investing activities			
Interest received on investments	3,818	755	2,076
Purchases of investments	(33,367)	(1,876)	(4,066)
Proceeds from sale/maturity of investments	39,931	5,904	15,454
Net cash provided by (used for) investing activities	10,382	4,783	13,464
Net increase (decrease) in cash and cash equivalents	12,071	4,142	11,790
Cash and cash equivalents, beginning of year	16,606	2,174	4,543
Cash and cash equivalents, end of year	$ 28,677	$ 6,316	$ 16,333
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	$ 48,574	$ 4,751	$ 15,022
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	18,757	1,403	4,500
Decommissioning	-	-	-
Advances for capacity and energy	-	-	-
Amortization of nuclear fuel	-	-	-
Changes in assets and liabilities			
Accounts receivable	(283)	-	-
Accounts payable and accruals	3,212	(41)	103
Other	-	2	8
Net cash provided by operating activities	$ 70,260	$ 6,115	$ 19,633
Cash and cash equivalents as stated in the Combined Statements of Net Assets (Deficit)			
Cash and cash equivalents - restricted	$ 24,622	$ 5,936	$ 15,683
Cash and cash equivalents - unrestricted	4,055	380	650
	$ 28,677	$ 6,316	$ 16,333

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	NATURAL GAS		
	Pinedale	Barnett	Prepaid Natural Gas
Cash flows from operating activities			
Receipts from participants	$ 11,765	$ 9,031	$ -
Receipts from sale of oil and gas	11,060	8,339	-
Payments to operating managers	(18,714)	(8,539)	-
Other disbursements and receipts	3	-	-
Net cash flows from operating activities	4,114	8,831	-
Cash flows from noncapital financing activities			
Advances (withdrawals) by participants, net	885	1,907	-
Cash flows from capital financing activities			
Additions to plant, net	(2,146)	(10,445)	-
Prepaid natural gas	-	-	(480,648)
Debt interest payments	(1,035)	(1,786)	(14,212)
Proceeds from sale of bonds	42,053	105,207	509,827
Payment for defeasance of revenue bonds	(25,600)	(50,300)	-
Transfer of funds from escrow	-	-	-
Principal payments on debt	(2,600)	(800)	-
Payment for bond issue costs	(1,440)	(1,470)	(4,532)
Net cash used for capital and related financing activities	9,232	40,406	10,435
Cash flows from investing activities			
Interest received on investments	181	369	736
Purchases of investments	(15,116)	(46,298)	(25,098)
Proceeds from sale/maturity of investments	50	1,285	14,212
Net cash provided by (used for) investing activities	(14,885)	(44,644)	(10,150)
Net increase (decrease) in cash and cash equivalents	(654)	6,500	285
Cash and cash equivalents, beginning of year	29,090	1,576	-
Cash and cash equivalents, end of year	$ 28,436	$ 8,076	$ 285
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	$ 3,988	$ 8,895	$ -
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	1,611	2,280	-
Decommissioning	-	-	-
Advances for capacity and energy	-	-	-
Amortization of nuclear fuel	-	-	-
Changes in assets and liabilities			
Accounts receivable	141	(2,295)	-
Accounts payable and accruals	(776)	366	-
Other	(850)	(415)	-
Net cash provided by operating activities	$ 4,114	$ 8,831	$ -
Cash and cash equivalents as stated in the Combined Statements of Net Assets (Deficit)			
Cash and cash equivalents - restricted	$ 16,307	$ 7,367	$ 20
Cash and cash equivalents - unrestricted	12,129	709	265
	$ 28,436	$ 8,076	$ 285

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007
(AMOUNTS IN THOUSANDS)

	NATURAL GAS	
	Pinedale	Barnett
Cash flows from operating activities		
Receipts from participants	$ 9,945	$ 2,784
Receipts from sale of oil and gas	17,327	1,008
Payments to operating managers	(24,287)	(1,177)
Other disbursements and receipts	(2)	12
Net cash flows from operating activities	2,983	2,627
Cash flows from noncapital financing activities		
Advances (withdrawals) by participants, net	15,349	10,458
Cash flows from capital financing activities		
Additions to plant, net	(2,126)	(55,101)
Debt interest payments	(1,640)	(1,339)
Proceeds from sale of bonds	-	44,900
Payment for defeasance of revenue bonds	-	-
Transfer of funds from escrow	-	-
Principal payments on debt	-	-
Payment for bond issue costs	-	-
Net cash used for capital and related financing activities	(3,766)	(11,540)
Cash flows from investing activities		
Interest received on investments	808	31
Purchases of investments	(60)	-
Proceeds from sale/maturity of investments	3,749	-
Net cash provided by (used for) investing activities	4,497	31
Net increase (decrease) in cash and cash equivalents	19,063	1,576
Cash and cash equivalents, beginning of year	10,027	-
Cash and cash equivalents, end of year	$ 29,090	$ 1,576
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	$ 1,544	$ 2,715
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	2,237	501
Decommissioning	-	-
Advances for capacity and energy	-	-
Amortization of nuclear fuel	-	-
Changes in assets and liabilities		
Accounts receivable	(29)	(1,057)
Accounts payable and accruals	278	559
Other	(1,047)	(91)
Net cash provided by operating activities	$ 2,983	$ 2,627
Cash and cash equivalents as stated in the Combined Statements of Net Assets (Deficit)		
Cash and cash equivalents - restricted	$ 18,255	$ 1,401
Cash and cash equivalents - unrestricted	10,835	175
	$ 29,090	$ 1,576

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	MISCELLANEOUS		
	Multiple Project Fund	Projects' Stabilization Fund	Total Combined
Cash flows from operating activities			
Receipts from participants	$ -	$ -	$ 393,905
Receipts from sale of oil and gas	-	-	19,399
Payments to operating managers	-	-	(189,572)
Other disbursements and receipts	-	-	7,657
Net cash flows from operating activities	-	-	231,389
Cash flows from noncapital financing activities			
Advances (withdrawals) by participants, net	-	1,964	4,756
Cash flows from capital financing activities			
Additions to plant, net	-	-	(94,212)
Prepaid natural gas	-	-	(480,648)
Debt interest payments	(3,388)	-	(111,042)
Proceeds from sale of bonds	-	-	707,134
Payment for defeasance of revenue bonds	-	-	(125,950)
Transfer of funds from escrow	-	-	10,039
Principal payments on debt	-	-	(79,615)
Payment for bond issue costs	-	-	(8,092)
Net cash used for capital and related financing activities	(3,388)	-	(182,386)
Cash flows from investing activities			
Interest received on investments	4,449	4,188	22,783
Purchases of investments	(14,706)	(108,517)	(373,958)
Proceeds from sale/maturity of investments	18,085	128,427	377,676
Net cash provided by (used for) investing activities	7,828	24,098	26,501
Net increase (decrease) in cash and cash equivalents	4,440	26,062	80,260
Cash and cash equivalents, beginning of year	8	9,883	149,740
Cash and cash equivalents, end of year	$ 4,448	$ 35,945	$ 230,000
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	$ -	$ -	$ 149,616
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	-	-	69,341
Decommissioning	-	-	11,780
Advances for capacity and energy	-	-	2,629
Amortization of nuclear fuel	-	-	8,059
Changes in assets and liabilities			
Accounts receivable	-	-	(13,316)
Accounts payable and accruals	-	-	9,654
Other	-	-	(6,374)
Net cash provided by operating activities	$ -	$ -	$ 231,389
Cash and cash equivalents as stated in the Combined Statements of Net Assets (Deficit)			
Cash and cash equivalents - restricted	$ 4,448	$ 35,945	$ 185,709
Cash and cash equivalents - unrestricted	-	-	44,291
	$ 4,448	$ 35,945	$ 230,000

See accompanying notes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007
(AMOUNTS IN THOUSANDS)

	MISCELLANEOUS		
	Multiple Project Fund	Projects' Stabilization Fund	Total Combined
Cash flows from operating activities			
Receipts from participants	$ -	$ -	$ 347,735
Receipts from sale of oil and gas	-	-	18,335
Payments to operating managers	-	-	(179,832)
Other disbursements and receipts	-	-	7,803
Net cash flows from operating activities	-	-	194,041
Cash flows from noncapital financing activities			
Advances (withdrawals) by participants, net	-	10,052	25,321
Cash flows from capital financing activities			
Additions to plant, net	-	-	(100,105)
Debt interest payments	(3,389)	-	(91,880)
Proceeds from sale of bonds	-	-	306,792
Payment for defeasance of revenue bonds	-	-	(219,059)
Transfer of funds from escrow	-	-	6,535
Principal payments on debt	-	-	(75,677)
Payment for bond issue costs	-	-	(2,125)
Net cash used for capital and related financing activities	(3,389)	-	(175,519)
Cash flows from investing activities			
Interest received on investments	4,298	2,332	21,862
Purchases of investments	(8,336)	(73,187)	(224,572)
Proceeds from sale/maturity of investments	7,435	67,611	227,829
Net cash provided by (used for) investing activities	3,397	(3,244)	25,119
Net increase (decrease) in cash and cash equivalents	8	6,808	68,962
Cash and cash equivalents, beginning of year	-	3,075	80,778
Cash and cash equivalents, end of year	$ 8	$ 9,883	$ 149,740
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	$ -	$ -	$ 98,803
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	-	-	67,586
Decommissioning	-	-	11,779
Advances for capacity and energy	-	-	2,583
Amortization of nuclear fuel	-	-	8,702
Changes in assets and liabilities			
Accounts receivable	-	-	5,069
Accounts payable and accruals	-	-	845
Other	-	-	(1,326)
Net cash provided by operating activities	$ -	$ -	$ 194,041
Cash and cash equivalents as stated in the Combined Statements of Net Assets (Deficit)			
Cash and cash equivalents - restricted	$ 8	$ 9,883	$ 116,782
Cash and cash equivalents - unrestricted	-	-	32,958
	$ 8	$ 9,883	$ 149,740

See accompanying notes.

Note 1 - Organization and Purpose

The Southern California Public Power Authority (the "Authority" or "SCPPA"), a public entity organized under the laws of the State of California, was formed by a Joint Powers Agreement dated as of November 1, 1980 pursuant to the Joint Exercise of Powers Act of the State of California. The Authority's participants consist of eleven Southern California cities and one public district of the State of California. The Authority was formed for the purpose of planning, financing, developing, acquiring, constructing, operating and maintaining projects for the generation and transmission of electric energy and natural gas for sale to its participants. The Joint Powers Agreement has a term of fifty years.

The Authority has interests in the following projects:

Palo Verde Project - On August 14, 1981, the Authority purchased a 5.91% interest in the Palo Verde Nuclear Generating Station ("PVNGS"), a 3,810 megawatt nuclear-fueled generating station near Phoenix, Arizona, a 5.56% ownership interest in the Arizona Nuclear Power Project High Voltage Switchyard, and a 6.55% share of the right to use certain portions of the Arizona Nuclear Power Project Valley Transmission System (collectively, the "Palo Verde Project"). Units 1, 2 and 3 of the Palo Verde Project began commercial operations in January 1986, September 1986, and January 1988, respectively.

Hoover Uprating Project - As of March 1, 1986, the Authority and six participants entered into an agreement pursuant to which each participant assigned its entitlement to capacity and associated firm energy to the Authority in return for the Authority's agreement to make advance payments to the United States Bureau of Reclamation ("USBR") on behalf of such participants. The Authority has an 18.68% interest in the contingent capacity of the Hoover Uprating Project ("HU").

San Juan Project - Effective July 1, 1993, the Authority purchased a 41.80% interest in Unit 3 and related common facilities of the San Juan Generating Station ("SJGS") from Century Power Corporation. Unit 3, a 497-megawatt unit, is one unit of a four-unit coal-fired power generating station in New Mexico.

Magnolia Power Project - In March 2003, the Authority received approval from the California Energy Commission for construction of the Magnolia Power Project ("MPP"). The Project consists of a combined cycle natural gas-fired generating plant with a nominally rated net base capacity of 242 megawatts and was built on a site in the City of Burbank, California. The plant is the first that is wholly owned by the Authority and entitlements to 100% of the capacity and energy of the Project have been sold to six of its members. The City of Burbank, a Project participant, managed its construction and also serves as the operating agent for the Project. Commercial operations began September 22, 2005.

- **Gas Supply and Services Agreement:** SCPPA entered into an agreement with Occidental Energy Marketing, Inc. ("OEMI") beginning January 2005. This agreement is renewed each year unless notification is given by either party prior to December 31, of each year. OEMI provides 100% of the natural gas plant requirements on a daily basis, and also includes an option for the participants to bring in their own gas supply. In addition, OEMI provides gas balancing services.

- **Natural Gas Transportation:** SCPPA has an agreement with Southern California Gas Company ("SoGas") for intrastate transmission services. The agreement took effect in January 2005 and will expire in January 2009. SoGas provides transportation, storage, and balancing services of natural gas from the Southern California Border to the MPP Plant.

Note 1 - Organization and Purpose (Continued)

- **Parts and Special Services Agreement:** SCPPA entered into an 18-year agreement with General Electric International ("GE") in September 2005. Initially, the agreement covered only the gas turbine, but the agreement was amended in August 2007, to include coverage for the gas generator, the steam turbine, and the steam generator. GE provides planned and unplanned maintenance, including replacement parts, based on factored fired hours.

Ormat Geothermal Energy Project - The Authority entered into long-term Power Purchase Agreements in December 2005 with divisions of Ormat Technologies, Inc. for up to 20 megawatts ("MW") of electric generation. The Project started delivery of approximately 5 MW in January 2006 from geothermal energy facilities located in Heber, California. In May 2008, the agreements were amended to substitute new wells as the source of the generation, and to increase the capacity to 14 MW. The City of Anaheim acts as the Scheduling Coordinator on behalf of the Project Participants.

Southern Transmission System Project - On May 1, 1983, the Authority entered into an agreement with the Intermountain Power Agency ("IPA"), to defray all the costs of acquisition and construction of the Southern Transmission System Project ("STS"), which provides for the transmission of energy from the Intermountain Generating Station in Utah to Southern California. STS commenced commercial operations in July 1986. The Department of Water and Power of the City of Los Angeles ("LADWP"), a member of the Authority, serves as project manager and operating agent of the Intermountain Power Project ("IPP").

Mead-Phoenix and Mead-Adelanto Projects - As of August 4, 1992, the Authority entered into an agreement to acquire an interest in the Mead-Phoenix Project ("Mead-Phoenix"), a transmission line extending between the Westwing substation in Arizona and the Marketplace substation in Nevada. The agreement provides the Authority with an 18.31% interest in the Westwing-Mead project component, a 17.76% interest in the Mead Substation project component and a 22.41% interest in the Mead-Marketplace project component.

As of August 4, 1992, the Authority also entered into an agreement to acquire a 67.92% interest in the Mead-Adelanto Project ("Mead-Adelanto"), a transmission line extending between the Adelanto substation in Southern California and the Marketplace substation in Nevada. Funding for these projects was provided by a transfer of funds from the Multiple Project Fund and commercial operations commenced in April 1996. LADWP serves as the operations manager of Mead-Adelanto.

Natural Gas Pinedale Project - On July 1, 2005, the Authority, together with LADWP and Turlock Irrigation District ("TID"), acquired 42.5% of an undivided working interest in three natural gas leases located in the Pinedale Anticline region of the State of Wyoming. The Authority's individual share in these interests equals 14.9%. The purchase includes 38 operating oil and gas wells and associated lateral pipelines, equipment, permits, rights of way, and easements used in production. The natural gas field production is expected to increase for several more years as additional capital is invested on drilling new wells and then decline over a life expectancy greater than 30 years.

- **Joint Operating Agreement ("JOA"):** In July 2005, SCPPA's purchase of the natural gas reserve interests at Pinedale, Wyoming ("Pinedale") included an underlying long-term JOA with the operator, Ultra Resources, Inc. SCPPA pays the operator for SCPPA's share of both operating and drilling/capital expenses on a monthly basis.

Note 1 - Organization and Purpose (Continued)

- **Gathering and Processing Agreements:** SCPPA's purchase of Pinedale included underlying agreements with Jonah Gas Gathering Company, Questar Gas Management Company, and Mountain Gas Resources, Inc. for gathering and processing of the natural gas.

Natural Gas Barnett Project - Natural gas resources in the Barnett shale geological formation in Texas was acquired from Collins and Young Holding, L.L.P ("C&Y") for a total of $84 million with an effective production date of April 1, 2006. The acquisition settled on October 26, 2006 and was completed on December 7, 2006 when the participants, together with TID, exercised their option to purchase additional resources from C&Y. Two of the original participants, LADWP and the City of Glendale, made the decision not to participate but have agreed to pay their respective share of the development costs incurred through October 13, 2006. The Gas Sales Agreements have been revised accordingly to adjust the entitlement shares and product cost shares for the remaining participants.

- **Joint Operating Agreement ("JOA"):** In October 2006, SCPPA's purchase of the natural gas reserve interests in Barnett, TX ("Barnett") included an underlying long-term JOA with the operator, Devon Energy Production Company, L.P. SCPPA pays the operator for SCPPA's share of both operating and drilling/capital expenses on a monthly basis.

Prepaid Natural Gas Project No. 1 - On October 11, 2007, the Authority made a one-time prepayment of $481 million to acquire the right to receive approximately 135 billion cubic feet of natural gas from J. Aron & Company to be delivered over a 30-year term, beginning July 1, 2008. On October 3, 2007, prior to the acquisition of the prepaid gas supply, the Authority entered into five separate Prepaid Natural Gas Sales Agreements (the Gas Sales Agreements) with J. Aron and simultaneously, five Prepaid Natural Gas Supply Agreements (the Gas Supply Contracts) in which the Authority sold its interest in the natural gas, on a "take-and-pay" basis, to the cities of Anaheim, Burbank, Colton, Glendale, and Pasadena (the Project No. 1 Participants). Through the Gas Supply Contracts, SCPPA has provided for the sale to the Project Participants, on a pay-as-you-go basis, of all of the natural gas to be delivered to SCPPA pursuant to the Gas Sales Agreements. The Natural Gas contracts expire in 2038.

Under the Gas Supply Contracts, the approximate average Daily Quantity of gas to be purchased by each Project Participant is as follows:

PROJECT PARTICIPANT	AVERAGE DAILY QUANTITY (1)	PERCENTAGE BY PARTICIPANT
City of Anaheim	2,000	16.5%
City of Burbank	4,000	33.0%
City of Colton	1,375	11.0%
City of Glendale	2,750	23.0%
City of Pasadena	2,000	16.5%
TOTAL	12,125	100%

(1) The average Daily Quantity is in MmBtu's and is calculated over the term of the applicable Gas Supply Contract.

Note 1 - Organization and Purpose (Continued)

Multiple Project Fund - During fiscal year 1990, the Authority issued Multiple Project Revenue Bonds for net proceeds of approximately $600 million to provide funds to finance costs of construction and acquisition of ownership interests or capacity rights in one or more, then unspecified, projects for the generation or transmission of electric energy. Certain of these funds were used to finance the Authority's interests in Mead-Phoenix and Mead-Adelanto.

Projects' Stabilization Fund - In fiscal year 1997, the Authority authorized the creation of a Projects' Stabilization Fund. Deposits may be made into the fund from budget under-runs, after authorization of individual participants, and by direct contributions from the participants. Participants have discretion over the use of their deposits within SCPPA project purposes. This fund is not a project-related fund; therefore, it is not governed by any project Indenture of Trust. The members participate in the Projects' Stabilization Fund by making deposits to the fund at their discretion.

Participant Ownership Interests - The Authority's participants may elect to participate in the projects. As of June 30, 2008, the members have the following participation percentages in the Authority's operating projects:

	GENERATION					TRANSMISSION			NATURAL GAS	
Participants	Palo Verde Project	Hoover Uprating Project	San Juan Project	Magnolia Power Project	Ormat Geo-thermal Energy Project	Southern Trans-mission System Project	Mead-Phoenix Project	Mead-Adelanto Project	Pinedale Project	Barnett Project
City of Los Angeles	67.0%	-	-	-	-	59.5%	24.8%	35.7%	-	-
City of Anaheim	-	42.6%	-	38.0%	60.0%	17.6%	24.2%	13.5%	35.7%	45.4%
City of Riverside	5.4%	31.9%	-	-	-	10.2%	4.0%	13.5%	-	-
Imperial Irrigation District	6.5%	-	51.0%	-	-	-	-	-	-	-
City of Vernon	4.9%	-	-	-	-	-	-	-	-	-
City of Azusa	1.0%	4.2%	14.7%	-	-	-	1.0%	2.2%	-	-
City of Banning	1.0%	2.1%	9.8%	-	10.0%	-	1.0%	1.3%	-	-
City of Colton	1.0%	3.2%	14.7%	4.2%	-	-	1.0%	2.6%	7.1%	9.1%
City of Burbank	4.4%	16.0%	-	31.0%	-	4.5%	15.4%	11.5%	14.3%	27.3%
City of Glendale	4.4%	-	9.8%	16.5%	15.0%	2.3%	14.8%	11.1%	28.6%	-
City of Cerritos	-	-	-	4.2%	-	-	-	-	-	-
City of Pasadena	4.4%	-	-	6.1%	15.0%	5.9%	13.8%	8.6%	14.3%	18.2%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The Authority has entered into power sales, natural gas sales, and transmission service agreements with the above project participants. Under the terms of the contracts, the participants are entitled to power output, natural gas or transmission service, as applicable. The participants are obligated to make payments on a "take or pay" basis for their proportionate share of operating and maintenance expenses and debt service. The contracts cannot be terminated or amended in any manner that will impair or adversely affect the rights of the bondholders as long as any bonds issued by the specific project remain outstanding.

Note 1 - Organization and Purpose (Continued)

The contracts expire as follows:

Palo Verde Project	2030
Southern Transmission System Project	2027
Hoover Uprating Project	2018
Mead-Phoenix Project	2030
Mead-Adelanto Project	2030
San Juan Project	2030
Magnolia Power Project	2036
Natural Gas Pinedale Project	2030
Natural Gas Barnett Project	2030
Ormat Geothermal Energy Project	2031

The Authority's interests in natural gas, generation, and transmission projects are jointly owned with other utilities, except for the Magnolia Power Project, which is wholly owned by the Authority. Under these arrangements, a participating member has an undivided interest in a utility plant and is responsible for its proportionate share of the costs of construction and operation and is entitled to its proportionate share of the energy or natural gas produced. Each joint plant participant, including the Authority, is responsible for financing its share of construction and operating costs. The financial statements reflect the Authority's interest in each jointly owned project as well as the project that it owns. Additionally, the Authority's share of expenses for each project is included in the statements of revenues, expenses, and changes in net assets (deficit) as part of operations and maintenance expenses.

Note 2 - Summary of Significant Accounting Policies

Basis of accounting and presentation - The combined and individual financial statements of the Authority are prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting and the Financial Accounting Standards Board (FASB) issued prior to November 30, 1989 that do not conflict with rules issued by the GASB. Revenues are recognized when earned and expenses are recognized when incurred. The format of the Statement of Net Assets (Deficit) follows the inverted approach which is consistent with the Federal Energy Regulatory Commission (FERC).

- **Invested in capital assets, net of related debt and advances from participants** - This component of net assets consists of (a) capital assets, (b) net of accumulated depreciation, and (c) unamortized debt expenses, reduced by the outstanding balances of any bonds, other borrowings, and advances from participants that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Note 2 - Summary of Significant Accounting Policies (Continued)

- **Restricted** - This component consists of net assets on which constraints are placed as to their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

- **Unrestricted** - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt and advances from participants."

Use of estimates - 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 amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Utility plant - The Authority's share of construction and betterment costs, natural gas reserves, intangibles, and nuclear fuel associated with PVNGS, STS, Mead-Phoenix, Mead-Adelanto, SJGS, Magnolia Power Project and the Natural Gas Projects are included as utility plant and recorded at cost. Costs include labor, materials, capitalized interest costs on funds used in construction, and allocated indirect charges such as engineering, supervision, transportation and construction equipment, retirement plan contributions, health care costs, and certain administrative and general expenses. The costs of routine maintenance, repairs, and minor replacements incurred to maintain the plant in operating condition are charged to the appropriate operations and maintenance expense accounts in the period 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 based on the estimated service lives, principally thirty-five years for PVNGS, STS, Mead-Phoenix and Mead-Adelanto, thirty years for Magnolia and twenty-one years for SJGS.

Natural gas reserve depletion - Depletion expense for the Natural Gas Projects is computed using the unit of production method based on the future production of the proved developed producing wells, estimated at 54 years. The depletion rate for the Natural Gas Pinedale Project was $1.87/MMbtu and the estimated total net revenue volume was 24,351,608 MMbtu up to the period ending 2060. The depletion rate for the Natural Gas Barnett Project was $1.91/MMbtu and the estimated total net revenue volume was 28,906,440 MMbtu up to the period ending 2060.

Nuclear fuel - Nuclear fuel is amortized and charged to expense on the basis of actual thermal energy produced relative to total thermal energy expected to be produced over the life of the fuel. Under the provisions of the Nuclear Waste Policy Act of 1982, the federal government assesses each entity with nuclear operations, including the participants in PVNGS, $1 per megawatt hour of nuclear generation. The Authority records this charge as a current year expense. See Note 10 for information about spent nuclear fuel disposal.

Note 2 - Summary of Significant Accounting Policies (Continued)

Nuclear decommissioning - Decommissioning of PVNGS is expected to commence subsequent to the year 2026. The total cost to decommission the Authority's interest in PVNGS is estimated to be $125.6 million in 2007 dollars ($339.5 million in 2022 dollars, assuming a 6% estimated annual inflation rate). This estimate is based on an updated site specific study prepared by an independent consultant in 2004. The Authority is providing for its share of the estimated future decommissioning costs over the remaining life of the nuclear power plant through annual charges to expense, which amounted to $8.7 million in fiscal years 2008 and 2007. The decommissioning liability is included as a component of accumulated depreciation and was $220.0 and $211.4 million at June 30, 2008 and 2007, respectively.

The Authority contributes to external trusts set up in accordance with the Arizona Nuclear Power Plant participation agreement and Nuclear Regulatory Commission requirements. As of June 30, 2008, decommissioning funds totaled approximately $150.8 million, including approximately $1.5 million of interest receivable.

Demolition and site reclamation - Demolition and site reclamation of SJGS, which involves restoring the site to a "green" condition, is projected to commence subsequent to the year 2014. Based upon the study performed by an independent engineering firm, the Authority's share of the estimated demolition and site reclamation costs is $30.8 million in 2003 dollars. The Authority is providing for its share of the estimated future demolition costs over the remaining life of the power plant through annual charges to expense of $3.1 million. The demolition liability is included as a component of accumulated depreciation and totaled $46.7 million and $43.6 million at June 30, 2008 and 2007, respectively.

As of June 30, 2008, the Authority has not billed participants for the cost of demolition nor has it established a demolition fund.

Investments - Investments include United States government and governmental agency securities, guaranteed investment contracts, medium term notes and money market accounts. These investments are reported at fair value and changes in unrealized gains and losses are recorded in the statement of revenues, expenses and changes in net assets (deficit) with the exception of the guaranteed investment contracts which are recorded at amortized cost. Gains and losses realized on the sale of investments are generally determined using the specific identification method.

The Bond Indentures for the Projects and the Multiple Project Fund require the use of trust funds to account for the Authority's receipts and disbursements. Cash and investments held in these funds are restricted to specific purposes as stipulated in the Bond Indentures.

Prepaid Natural Gas - SCPPA entered into a contract with the supplier for a 30-year gas supply at a fixed discount and simultaneously entered into a contract with each of the project participants for the delivery of natural gas. By prepaying the gas supply, the participants will be able to procure the gas delivery at a fixed discount from a monthly market index price, as determined by the Prepaid Natural Gas Agreements. SCPPA also entered into commodity swap agreements on behalf of each participant to hedge against reductions in its revenues resulting from changes in the monthly market index price. The payments received from the participants for natural gas, when delivered, will be sufficient to pay debt service.

Note 2 - Summary of Significant Accounting Policies (Continued)

Advances for capacity and energy - Advance payments to the United States Bureau of Reclamation for the uprating of the 17 generators at the Hoover Power Plant are included in advances for capacity and energy. These advances are being reduced by the principal portion of the credits on billings to the Authority for energy and capacity. The current portion of these advances is recorded under Prepaid and Other Assets in the Current Assets Section of the Combined Statements of Net Assets (Deficit).

Advance to IPA - Advance to IPA consists of cash transferred to IPA for reserve, contingency and self insurance funding.

Deferred Debits - Certain expenses which may be subject to amortization in the future or items where final disposition is uncertain are classified as Deferred Debits and the underlying liability is presented in Advances from Participants.

Unamortized premiums, discounts, debt expenses and losses on refunding - Debt premiums, discounts, and debt expenses are deferred and amortized to expense over the lives of the related debt issues. Losses on refunding related to bonds redeemed by refunding bonds are amortized over the shorter of the life of the refunding bonds, or the remaining term of bonds refunded. Unamortized issue costs are recorded as a non current asset. All other unamortized debt expenses are recorded as an offset or addition to long-term debt.

Cash and cash equivalents - Cash and cash equivalents include cash and investments with original maturities of 90 days or less.

Materials and supplies - Materials and supplies consist primarily of items for construction and maintenance of plant assets and are stated at the lower of cost or market.

Arbitrage rebate and yield restrictions - The unused proceeds from the issuance of tax-exempt debt have been invested in taxable financial instruments. The excess of earnings on investments, if any, over the amount that would have been earned if the investments had a yield equal to the bond yield or yield restricted rate, is payable to the IRS within five years of the date of the bond offering and each consecutive five years thereafter until final maturity of the related bonds.

The recorded liability of the Multiple Project Fund of $21.8 million ($5.8 million payable to the Mead-Phoenix Project and $16.0 million payable to the Mead-Adelanto Project) is a result of the cumulative savings from the 1994 refunding of the 1989 Multiple Project Bonds. The partial refunding within five years of the original issuance triggered a recalculation of the arbitrage yield, reducing the Multiple Project Fund's rebate liability.

During the fiscal year ended June 30, 2008, the Authority made rebate payments to the IRS of $1.67 million for the STS bonds and $48,440 for Palo Verde bonds.

Recorded arbitrage rebate and yield restriction liabilities as of June 30, 2008, were $0.11 million for Palo Verde, $0.72 million for STS, $0.81 million for Mead-Phoenix, and $2.32 million for Mead-Adelanto.

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenues - Revenues consist of billings to participants for the sales of electric energy, natural gas and transmission service in accordance with the participation agreements. Generally revenues are fixed at a level to recover all operating and any debt service costs over the commercial life of the property.

In September 1998, the Palo Verde participants approved a resolution authorizing the Authority to bill the participants an additional $65 million annually through June 30, 2004 to pay for increased debt service costs as a result of a refunding completed in October 1997. In addition, the participants resolved to transfer any over billings, renewal and replacement excess funds or surplus amounts through June 30, 2004 into the Palo Verde reserve account. On November 20, 2003, the Authority adopted a resolution to utilize the amounts on deposit in the reserve accounts to pay a portion of the operating and maintenance expenses of the Palo Verde Project starting July 1, 2004. Funds held in the reserve account as a result of this resolution totaled $54.9 million and $60 million as of June 30, 2008 and 2007, respectively.

Transportation Costs - As a result of the sales and purchases agreements for natural gas entered into by SCPPA, the participants receive less volume than processed incurring embedded transportation costs. These costs are recorded as participants' revenue and expense to the Natural Gas Project. At June 30, 2008 and 2007, transportation costs were approximately $.1 million and $.2 million, respectively, for the Natural Gas Pinedale Project and $.5 million and $.1 million, respectively, for the Natural Gas Barnett Project.

In Kind Contribution - Each participant of the Magnolia Power Plant is responsible for their own share of natural gas. They may elect to bring fuel to the plant or purchase fuel from Occidental Energy Marketing, Inc. (OEMI). OEMI computes the daily imbalances of fuel volume per participant using the daily consumption data that the operating manager provides. Monthly, actual fuel burnt is reported together with the daily imbalances, participants' in kind contribution, and fuel purchases from OEMI.

In kind contributions are valued at fair market value and recorded as participant revenue and fuel expense to the Magnolia Power Project. SCPPA values the participants' fuel contribution using monthly average pricing from the Project's OEMI fuel purchases. During the fiscal year ended June 30, 2008 and 2007 the participants' contribution in kind was approximately 7.2 million and 6.7 million MmBtu's and was valued at approximately $56.9 million and $43.0 million, respectively.

In Kind Payment - The Natural Gas Pinedale Project pays federal royalties to Mineral Management Services (MMS). Beginning November 2007, SCPPA elected to pay its obligation in kind with approximately 0.6 million MMBtu, with a monetary value of approximately $0.5 million.

Note 3 - Utility Plant

At June 30, 2008 and 2007 Utility Plant consisted of the following (amounts in thousands):

	June 30, 2008									
	GENERATION				TRANSMISSION			NATURAL GAS		
	Palo Verde Project	Hoover Uprating Project	San Juan Project	Magnolia Power Project	Southern Transmission System Project	Mead-Phoenix Project	Mead-Adelanto Project	Pinedale Project	Barnett Project	Total
Utility plant										
Production	$662,942	$ -	$ 231,192	$280,338	$ -	$ -	$ -	$ -	$ -	$ 1,174,472
Transmission	14,082	-	-	15,239	674,606	50,770	172,319	-	-	927,016
General	2,797	21	7,443	15,224	18,911	2,640	473	6,611	9,245	63,365
Natural gas reserves	-	-	-	-	-	-	-	44,747	46,340	91,087
	679,821	21	238,635	310,801	693,517	53,410	172,792	51,358	55,585	2,255,940
Less accumulated depreciatio	606,123	21	164,644	30,919	428,083	17,640	55,260	6,494	2,781	1,311,965
	73,698	-	73,991	279,882	265,434	35,770	117,532	44,864	52,804	943,975
Construction work in progres	15,065	-	3,472	786	-	1,166	-	352	10,304	31,145
Nuclear fuel, at amortized cos	34,211	-	-	-	-	-	-	-	-	34,211
Net utility plant	$ 122,974	$ -	$ 77,463	$280,668	$ 265,434	$ 36,936	$ 117,532	$ 45,216	$ 63,108	$ 1,009,331

	June 30, 2007									
	GENERATION				TRANSMISSION			NATURAL GAS		
	Palo Verde Project	Hoover Uprating Project	San Juan Project	Magnolia Power Project	Southern Transmission System Project	Mead-Phoenix Project	Mead-Adelanto Project	Pinedale Project	Barnett Project	Total
Utility plant										
Production	$650,944	$ -	$ 176,249	$278,303	$ -	$ -	$ -	$ -	$ -	$ 1,105,496
Transmission	14,076	-	-	15,144	674,606	50,770	172,319	-	-	926,915
General	2,782	21	7,443	14,825	18,911	2,640	473	5,038	822	52,955
Natural gas reserves	-	-	-	-	-	-	-	44,747	46,340	91,087
	667,802	21	183,692	308,272	693,517	53,410	172,792	49,785	47,162	2,176,453
Less accumulated depreciatio	586,538	21	151,154	19,655	409,375	16,237	50,760	4,883	501	1,239,124
	81,264	-	32,538	288,617	284,142	37,173	122,032	44,902	46,661	937,329
Construction work in progres	17,338	-	21,896	23	-	236	-	1,573	8,423	49,489
Nuclear fuel, at amortized cos	20,176	-	-	-	-	-	-	-	-	20,176
Net utility plant	$ 118,778	$ -	$ 54,434	$288,640	$ 284,142	$ 37,409	$ 122,032	$ 46,475	$ 55,084	$ 1,006,994

A summary of changes in Utility Plant follows (amounts in thousands):

	Balance July 1, 2007	Additions	Disposals	Transfers	Balance June 30, 2008
Nondepreciable utility plant					
Land	$ 42,472	$ -	$ -	$ -	$ 42,472
Construction work in progress	39,493	58,694	41	(77,740)	20,488
Construction work in progress - gas	9,996	2,234	-	(1,573)	10,657
Nuclear fuel*	20,176	19,943	(5,908)	-	34,211
Total nondepreciable utility plant	112,137	80,871	(5,867)	(79,313)	107,828
Depreciable utility plant					
Production					
Nuclear generation (Palo Verde Project)	650,208	19,876	(7,878)	-	662,206
Coal-fired plant (San Juan Unit 3 Project)	176,249	55,348	(405)	-	231,192
Gas-fired plant (Magnolia Power Project)	278,303	2,035	-	-	280,338
Transmission	885,180	101	-	-	885,281
General	47,095	452	(38)	15,855	63,364
Acquisition of gas reserves	91,087	-	-	-	91,087
Intangibles	4,797	1,497	-	(6,294)	-
Well equipment and production facilities	1,062	8,499	-	(9,561)	-
Total depreciable utility plant	2,133,981	87,808	(8,321)	-	2,213,468
Less accumulated depreciation	(1,239,124)	(81,120)	8,279	-	(1,311,965)
Total utility plant, net	$ 1,006,994	$ 87,559	$ (5,909)	$ (79,313)	$ 1,009,331

**Nuclear fuel disposals represent amortization.*

Note 4 - Investments

The Authority's investment function operates within a legal framework established by Sections 6509.5 and 53600 et. seq. of the California Government Code, Indentures of Trust, instruments governing financial arrangements entered into by the Authority to finance and operate Projects and the Authority's Investment Policy.

Guaranteed investment contracts ("GICs") are contracts that guarantee the owner principal repayment and a specified interest rate for a predetermined period of time. GICs are typically issued by insurance companies and marketed to institutions that qualify for favorable tax status under federal laws. These types of securities provide institutions with guaranteed returns. GICs are negotiated on a case-by-case basis.

Based on SCPPA's Investment Policy, certain vehicles such as GICs, flexible repurchase agreements or forward debt service agreements, may be entered into only upon approval of the SCPPA Board. In addition, eligible securities and general limitations are derived from each Project's Indenture of Trust, the Government Code and SCPPA's evolving investment practices.

The operative Indentures of Trust in which securities are authorized for investment purposes relate to the Palo Verde Project Bonds, the Southern Transmission System Project Bonds, the Hoover Uprating Project Bonds, the Mead-Phoenix Project Bonds, the Mead-Adelanto Project Bonds, the Multiple Project Fund Bonds, the San Juan Project Bonds, the Magnolia Power Project Bonds, and the Natural Gas Projects Bonds. Authorized investments for the Projects' Stabilization Fund are set forth in a resolution approved by the Board in 1996.

Eligible securities include:

- United States Treasury Securities, which are bonds or other obligations secured by the full faith and credit of the United States of America;
- Federal Agency Obligations, which have the full financial backing of the U.S. Government;
- Government Sponsored Enterprise Obligations, which are created by acts of Congress to provide liquidity for selected lending programs targeted by Congress;
- Repurchase Agreements, which are collateralized loan contracts where the seller includes a written agreement to repurchase the securities at a later date for a specified amount;
- Negotiable Certificates of Deposit, which are deposit liabilities issued by a nationally or state-chartered bank, a savings or a federal association or by a state-licensed branch of a foreign bank which has short-term ratings of at least "A-1" by S&P and at least "P-1" by Moody's;
- Banker's Acceptances, a short-term draft or bill of exchange guaranteed for payment at face value to the holder of the instrument on its maturity date, which has a short-term rating of at least "A-1" by S&P and at least "P-1" by Moody's;
- Commercial Paper, a short-term unsecured promissory note issued by non-financial or financial firms with a rating of at least "A-1" by S&P and at least "P-1" by Moody's;
- Medium Term Notes rated "A" or better and only those issued by corporations organized and operating within the United States, or by depository institutions licensed by the United States or any state and operating within the United States;
- Equity-Linked Notes, which are categorized as medium-term corporate notes and are subject to the constraints set forth in the Government code and the Authority's Investment Policy.

Note 4 - Investments (Continued)

Investments at June 30, 2008 and 2007 are as follows (amounts in thousands):

	JUNE 30, 2008													
	GENERATION					TRANSMISSION			NATURAL GAS			MISCELLANEOUS		
	Palo Verde Project	Hoover Uprating Project	San Juan Project	Magnolia Power Project	Ormat Geo-thermal Project	Southern Trans-mission System Project	Mead-Phoenix Project	Mead-Adelanto Project	Barnett Project	Pinedale Project	Prepaid Natural Gas	Multiple Project Fund	Projects' Stabilization Fund	Total
U.S. Agencies	$ 158,137	$ 569	$ -	$ 23,977	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 50,465	$ 233,148
Agency Discount Notes	37,326	3,545	23,841	32,916	1,117	46,239	5,149	13,065	6,112	25,729	-	880	35,787	231,706
Treasury Coupon	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GIC's	55,302	-	21,323	20,449	-	37,179	7,143	22,626	45,013	15,067	10,887	63,252	-	298,241
Negotiable CD's	-	-	-	3,400	-	3,400	-	1,700	-	60	-	3,500	-	12,060
Commercial Paper	-	-	-	-	364	-	-	-	-	-	-	-	-	364
Equity Link Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Money Market Funds	992	136	35	1,594	203	2,284	1,895	780	1,964	2,706	285	68	158	13,100
Total	$ 251,757	$ 4,250	$ 45,199	$ 82,336	$ 1,684	$ 89,102	$ 14,187	$ 38,171	$ 53,089	$ 43,562	$ 11,172	$ 67,700	$ 86,410	$ 788,619
Restricted investments	$ 163,930	$ 1,068	$ 21,322	$ 48,176	$ -	$ 41,319	$ 7,593	$ 25,406	$ 45,013	$ 15,126	$ 10,887	$ 63,252	$ 50,465	$ 493,557
Unrestricted investments	64,502	560	-	-	-	-	-	-	-	-	-	-	-	65,062
Cash and cash equivalents	23,325	2,622	23,877	34,160	1,684	47,783	6,594	12,765	8,076	28,436	285	4,448	35,945	230,000
Total	$ 251,757	$ 4,250	$ 45,199	$ 82,336	$ 1,684	$ 89,102	$ 14,187	$ 38,171	$ 53,089	$ 43,562	$ 11,172	$ 67,700	$ 86,410	$ 788,619

	JUNE 30, 2007												
	GENERATION					TRANSMISSION			NATURAL GAS		MISCELLANEOUS		
	Palo Verde Project	Hoover Uprating Project	San Juan Project	Magnolia Power Project	Ormat Geo-thermal Project	Southern Trans-mission System Project	Mead-Phoenix Project	Mead-Adelanto Project	Barnett Project	Pinedale Project	Multiple Project Fund	Projects' Stabilization Fund	Total
U.S. Agencies	$ 183,404	$ 2,203	$ 9,954	$ 18,812	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 69,968	$ 284,341
Agency Discount Notes	13,400	1,930	19,301	32,539	1,415	47,889	5,746	15,588	-	27,006	7,449	7,032	179,295
Treasury Coupon	489	-	-	-	-	-	-	-	-	-	-	-	489
GIC's	60,058	-	21,323	20,449	-	37,179	7,398	22,626	-	-	58,847	-	227,880
Negotiable CD's	-	-	-	-	-	-	-	-	-	60	-	-	60
Commercial Paper	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity Link Notes	-	-	-	-	-	-	-	-	-	-	-	-	-
Money Market Funds	1,626	126	615	1,512	182	2,290	571	747	1,576	2,088	8	2,852	14,193
Total	$ 258,977	$ 4,259	$ 51,193	$ 73,312	$ 1,597	$ 87,358	$ 13,715	$ 38,961	$ 1,576	$ 29,154	$ 66,304	$ 79,852	$ 706,258
Restricted investments	$ 166,233	$ 2,255	$ 38,089	$ 45,363	$ -	$ 58,681	$ 7,399	$ 22,628	$ -	$ 64	$ 66,296	$ 69,969	$ 476,977
Unrestricted investments	78,263	1,278	-	-	-	-	-	-	-	-	-	-	79,541
Cash and cash equivalents	14,481	726	13,104	27,949	1,597	28,677	6,316	16,333	1,576	29,090	8	9,883	149,740
Total	$ 258,977	$ 4,259	$ 51,193	$ 73,312	$ 1,597	$ 87,358	$ 13,715	$ 38,961	$ 1,576	$ 29,154	$ 66,304	$ 79,852	$ 706,258

Interest rate risk - The Authority's investment policy limits the maturity of its investments to a maximum of 5 years for investments in the United States Treasury, Federal Agency, and Government Sponsored Enterprise securities, excluding: investments held in Project Debt Service Reserve; long-term commitments or agreements approved by the Authority's Board; 5 years for medium term corporate notes; 270 days for commercial paper; 180 days for banker's acceptances; and one year for negotiable certificates of deposits.

Note 4 - Investments (Continued)

Credit risk - Under its investment policy and the State of California Government Code, the Authority is subject to the prudent investor standard of care in managing all aspects of its portfolios. As an investment standard, each investment shall be made with "judgment and care under circumstances then prevailing, which a person of prudence, discretion and intelligence would exercise in the management of his/her affairs, not in regard for speculation, but in regard to the permanent disposition of funds, considering the probable income as well as the probable safety of the capital to be invested." The Authority's investment policy does not preclude active management of the portfolio to address market opportunities. All transactions shall be undertaken in the best interest of the Authority and its participants.

The Authority's investment policy specifies that all project funds may be invested in shares of beneficial interest for temporary periods, pending disbursement or reinvestment as allowed under the state of California Government Code ("Code"). The Code requires that the fund must have either 1) attained the highest ranking or highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations ("NRSRO") or 2) retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience managing money market mutual funds with assets under management in excess of five hundred million dollars. As of June 30, 2008 and 2007, each of the money market funds in the portfolio have attained the highest possible ratings by three NRSRO's, specifically AAA by Standard and Poor's, Aaa by Moody's Investors Service, and AAA by Fitch Ratings.

The U.S. government agency securities in the portfolio consist of securities issued by government-sponsored enterprises, which are not explicitly guaranteed by the U.S. government. As of June 30, 2008 and 2007, the U.S. government agency securities in the portfolio carried the highest possible credit ratings by the NRSRO's that rated them.

The Guaranteed Investment Contracts in the portfolio with AIG consist of securities issued by corporations and carry a rating of AA- by Standard and Poor's, Aa3 by Moody's Investors Service and AA- by Fitch Rating. The Guaranteed Investment Contracts in the portfolio with PNC carry a rating of A+ by Standard and Poor's, A1 by Moody's Investors Service, and A+ by Fitch Ratings.

The Investment Agreement Contract in the portfolio with FSA consists of securities issued by corporations and carries a rating of AAA by Standard and Poor's, Aaa by Moody's Investors Service, and AAA by Fitch Ratings.

Concentration of credit risk - The Authority's investment policy specifies a 50% to 100% limitation on the amount that can be invested in U.S. government agency securities, except in certain issues of other Authority projects, such as the Southern Transmission System 1991 Series and the Mead-Adelanto and Mead-Phoenix projects.

Of the Authority's total investments as of June 30, 2008, $214.2 million (27%) was invested in securities issued by the Federal Home Loan Bank; $125.0 million (16%) was invested in securities issued by the Federal National Mortgage Association; $75.8 million (10%) was invested in an investment agreement with Financial Security Assurance (FSA); $93.0 million (12%) was invested in GIC's with PNC Financial Securities Group; and $129.5 million (16%) was invested in GIC's with American International Group (AIG).

Note 4 - Investments (Continued)

Of the Authority's total investments as of June 30, 2007, $269.0 million (38%) was invested in securities issued by the Federal Home Loan Bank; $114.3 million (16%) was invested in securities issued by the Federal National Mortgage Association; $80.5 million (12%) was invested in an investment agreement with Financial Security Assurance (FSA); $88.9 million (13%) was invested in GIC's with PNC Financial Securities Group; and $58.5 million (8%) was invested in GIC's with AIG.

SCPPA is aware that there are global pressures on the current financial markets. Based on the best available information at this time, SCPPA is vigilantly monitoring the developments in the markets and believes that it is positioned to deal with these developments should the market conditions persist.

Note 5 - Derivative Instruments

Objective of the swaps - An interest rate swap is the exchange of payments between SCPPA and a counterparty in order to potentially obtain a lower cost of funding than traditional fixed rate bonds, or to hedge interest rate exposure on SCPPA's assets or liabilities. The Authority has entered into eight separate pay-fixed, receive-variable interest rate swaps and two basis swaps to produce savings or to result in lower costs over the life of each transaction than what the Authority would have paid to issue fixed-rate debt. While these instruments carry additional risks, SCPPA's swap policy and favorable negotiations have considered and helped to reduce such risks.

Terms, fair values, and credit risk - The terms, including the fair values and credit ratings of the counterparties under the outstanding swaps as of June 30, 2008, are included below. In most cases, the notional amount of any swap matches the principal amount of the associated debt. Except as discussed under the rollover risk, the Authority's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated "bonds payable" category.

	Notional Amount (in thousands)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty Credit Rating
MPP 2007 Swap (Bear Stearns)	$ 111,603	6/13/2007	3.912%	98.9% of SIFMA less .06%	$ (3,792)	7/1/2036	AAA/Aaa/NA
MPP 2007 Swap (Citigroup)	111,603	6/13/2007	3.912%	98.9% of SIFMA less .06%	(3,792)	7/1/2036	AA/Aa1/AA-
MA 2007 Swap	100,000	2/1/2008	1-month LIBOR	100% of 10-yr LIBOR CMS rate less .414%	2,913	9/15/2030	AAA/Aaa/NA
STS 2006 Amended Swap	100,000	5/1/2013	SIFMA	58.99% of 10-yr LIBOR CMS rate plus .664%	(383)	7/1/2023	AA/Aaa/AA-
MP 2004 Swap	28,700	5/27/2004	3.894%	65% of LIBOR	(2,146)	7/1/2020	AA-/Aa1/AA-
MA 2004 Swap	96,025	5/27/2004	3.890%	65% of LIBOR	(7,148)	7/1/2020	AA-/Aa1/AA-
STS Swaption/Swap	125,000	2/6/2001	4.250%	60% of LIBOR	(20,141)	7/1/2022	AA-/Aa3/AA-
STS 2001 Swap	79,795	6/14/2001	4.240%	SIFMA less .40%	(8,071)	7/1/2021	AA-/Aa1/AA-
STS 1991 Swap	280,000	4/17/1991	6.380%	Bond variable coupon rate	(52,373)	6/30/2019	AA-/Aa3/NA
Prepaid Natural Gas 2007 Swap	201,450	10/11/2007	5.0475%	67% of 3-Month LIBOR plus 1.47%	(10,087)	11/1/2038	AA-/Aa3/AA-
	$ 1,234,176				$ (105,020)		

Note 5 - Derivative Instruments (Continued)

- **PNG 2007 Swap** - In October 2007, SCPPA entered into an interest rate swap agreement in connection with the issuance of the Prepaid Natural Gas Project No. 1 Series 2007B Bonds. The swap hedges the interest-rate risk on the LIBOR Floating-rate bonds, where SCPPA pays a fixed rate of 5.0475% in exchange for receiving 67% of 3-month LIBOR plus 1.47%. The floating index on the swap exactly matches the coupon on the Bonds and therefore provides a hedge with no tax or basis risk. The swap expires on November 1, 2038.

- **PNG 2007 Commodity Swap** - At the same time, SCPPA also entered into five commodity price swap agreements, on behalf of each of the Prepaid Natural Gas Project No. 1 Participants in order to hedge against reductions to its gas sale revenues resulting from changes in monthly market index prices. SCPPA pays a floating natural gas price over a thirty-year period and receives specified fixed natural gas prices at an agreed pricing point as determined in the Prepaid Natural Gas No. 1 Agreements. The effective date of the swaps is July 1, 2008 and they all expire on September 30, 2038.

- **MPP 2007 Swap** - In April 2007, the Authority entered into an interest rate swap in connection with the issuance of variable-rate Magnolia Power Project A, Refunding Revenue Bonds, Series 2007-1 ("2007-1 Bonds"). The Swap created synthetic fixed-rate debt which consisted of a $223,260,000 29-year floating-to-fixed interest rate swap allocated equally between two counterparties. The Authority pays each of the counterparties a fixed rate of 3.912% in exchange for receiving 98.9% of the SIFMA Index minus 6 basis points. The swap became effective on June 13, 2007, and variable interest and swap payments commenced on January 1, 2008. The swap expires on July 1, 2036.

- **MA 2007 Swap** - In January 2007, the Authority entered into a Constant Maturity Swap ("CMS") in connection with its outstanding Mead-Adelanto Project. The transaction consisted of a $100 million basis swap and does not relate to any single series of the Mead-Adelanto bonds. The swap terms became effective on February 1, 2008 and the Authority pays the swap counterparty 100% of the 1-month LIBOR in exchange for receiving 100% of the 10-year LIBOR minus 41.4 basis points. The swap expires on September 15, 2030.

- **STS 2006 Amended Swap** - In July 2006, the Authority executed an amendment to the STS $100 million, floating-to-floating Fixed-Spread basis swap entered into in November 2004. Under the amended swap, which became effective on August 1, 2007, SCPPA continues to pay the swap counterparty the SIFMA index but receives 58.99% of the 10-Year LIBOR plus 66.4 basis points, instead of 65% of 1-month LIBOR plus 66.4% basis points. The STS 2006 Constant Maturity Swap was suspended for 5 years effective May 7, 2008 and SCPPA received the swap value of $3.7 million, which was recorded as an offset to interest expense. The notional amount of the Swap Agreement remains at $100 million. The swap expires on July 1, 2023.

- **MP 2004 Swap** - In connection with the issuance of the 2004 Mead-Phoenix Project Revenue Bonds Series A auction-rate security in May 2004, the Authority entered into an interest rate swap on March 3, 2004. The floating-to-fixed rate swap created synthetic fixed-rate debt for the Authority. Under the Swap Agreement, the Authority pays the counterparty a fixed rate of 3.894% and in exchange the Authority receives a floating rate index equal to 65% of the one-month LIBOR. The swap agreement expires July 1, 2020. The Authority received approximately $1.8 million in an upfront payment in connection with the execution of the swap, which has been deferred and is being amortized as an interest yield adjustment over the life of the option. Approximately $13.5 million in Mead-Phoenix 2004 Project Revenue Bonds Series A are not swapped and remain floating-rate bonds. The floating rate on the related bonds as of June 30, 2008 and 2007 was 2.958% and 3.50%, respectively.

Note 5 - Derivative Instruments (Continued)

- **MA 2004 Swap** - In connection with the issuance of the 2004 Mead-Adelanto Revenue Bonds Series A auction-rate security in May 2004, the Authority entered into an interest rate swap on March 3, 2004. The floating-to-fixed rate swap created synthetic fixed-rate debt for the Authority. Under the Swap Agreement, the Authority pays the counterparty a fixed rate of 3.89% for the swap and in exchange the Authority receives a floating rate index equal to 65% of the one-month LIBOR. The swap agreement expires July 1, 2020. The Authority received approximately $5.9 million in an upfront payment in connection with the execution of the swap, which has been deferred and is being amortized as an interest yield adjustment over the life of the swap. Approximately $45.1 million in Mead-Adelanto 2004 Project Revenue Bonds Series A are not swapped and remain floating-rate bonds. The average floating rate on the related bonds as of June 30, 2008 and 2007 was 3.032% and 3.522%, respectively.

- **STS 2003 Swap** - The STS 2003 interest rate swap was terminated on May 7, 2008 and SCPPA paid the associated swap termination value of $1,287,000, before the STS 2003 Series Bonds were refunded on June 4, 2008.

- **STS Swaption/Swap** - In February 2001, the Authority entered into a transaction whereby it sold an option (the "Swaption") on a floating-to-fixed interest rate swap. The Swaption was exercised on April 1, 2002. The floating rate on the swap paid by the counterparty is 60% of the one-month LIBOR; the annual fixed rate on the swap paid by the Authority is 4.25%. In exchange for the right to exercise the Swaption, the counterparty paid the Authority a one-time up front option premium amount of $7.9 million which has been deferred and is being amortized as an interest yield adjustment over the life of the option. The counterparty has the option to cancel the agreement at the counterparty's discretion. The swap expires on July 1, 2022.

- **STS 2001 Swap** - In June 2001, the Authority entered into an interest rate swap agreement with a counterparty for the purpose of hedging against interest rate variations arising from the issuance of the 2001 Subordinate Refunding Series A Southern Transmission Project Revenue Bonds. The notional amount of the Swap Agreement is equal to the par value of the bonds. The Swap Agreement provides for the Authority to make payments to the counterparty at a fixed rate of 4.24%, and for the counterparty to make reciprocal payments based on a variable rate. The reset dates of the variable rate occur weekly and the rate for a reset date will be the rate determined by the Securities Industry and Financial Markets Association Swap Index ("SIFMA") minus 40 basis points. The counterparty has the option to cancel the agreement on July 5, 2006 and on every Fixed Rate Payer Payment Date, thereafter, should the SIFMA index average more than 7% over a consecutive 180-day period. The floating rates on the bonds were 1.60% and 3.65% at June 30, 2008 and 2007, respectively. The swap expires on July 1, 2021.

- **STS 1991 Swap** - In fiscal year 1991, the Authority entered into an interest rate swap Agreement with a counterparty for the purpose of hedging against interest rate fluctuations arising from the issuance of the 1991 Subordinate Refunding Series Southern Transmission Project Revenue Bonds. The notional amount of the Swap Agreement is equal to the par value of the bonds. Under the Swap Agreement, the Authority pays the counterparty a fixed rate of 6.38%; in exchange, the Authority receives payments mirroring the bond variable coupon rate (3.50% and 3.68% at June 30, 2008 and 2007, respectively). The swap expires on June 30, 2019.

Note 5 - Derivative Instruments (Continued)

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

Credit risk - As of June 30, 2008, the net fair values of the Authority's applicable swaps for which payments were made were negative for each counterparty except for the MA 2007 CMS swaps. However, should interest rates change and the fair values of the swaps become positive, the Authority may be exposed to credit risk in the amount of the derivatives' fair value.

The swap agreements contain varying collateral agreements with the counterparties. The swaps require full collateralization of the fair value of the swap should the counterparty's (or guarantors of the counterparty, as applicable) credit rating fall below AA- as issued by Standard & Poor's or Aa3 as issued by Moody's Investors Service for the 1991 Swap; A+/A1 for the 2004 Fixed Spread Basis Swap; A-/A3 for the 2001, the 2003 and the 2004 Swaps; Baa1/BBB+ for the Swaption/Swap; A-/A3 for the Magnolia 2007 Swap; and A/A2 for the Prepaid Natural Gas Project No. 1 2007 Commodity Swap. Collateral on all swaps is to be in the form of U.S. government securities held by a third-party custodian.

The swap agreements provide that when the Authority has more than one derivative transaction with a given counterparty involving the same Authority project (and having the same swap/bond insurer), should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all such related transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

Basis risk - Basis risk is the risk that the interest rate paid by the Authority on underlying variable rate bonds to bondholders exceeds the variable swap rate received from a counterparty. With the exception of the 1991 Swap, the Authority bears basis risk on each of its swaps. The 1991 Swap is perfectly hedged since the counterparty pays the Authority its actual variable bond rate on the 1991 bonds. All the other swaps have a basis risk since under each of those swaps the Authority received a percentage of LIBOR (SIFMA less 40 basis points) to offset the actual variable bond rate or variable swap rate the Authority pays on any related bonds or on any basis swap. The Authority is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the Authority pays on any related bonds or in the case of the floating-to-floating fixed-spread basis swap, less than the variable rate paid to the swap counterparty.

Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from a swap may not be fully realized. The 2001 swap is based on SIFMA rate minus 40 basis points; similar to the LIBOR-based swaps, SIFMA minus 40 bps may not exactly hedge the underlying variable rate. As of June 30, 2008, the SIFMA rate, minus 40 bps, was 1.185%, 98.9% of SIFMA minus 6 bps, was 2.145%, 60% of LIBOR was 1.476%, 65% of LIBOR was 1.599%, 100% of 10-Year LIBOR minus 41.4 bps was 4.353 and 67% of 3-month LIBOR plus 147 bps was 3.395%.

Note 5 - Derivative Instruments (Continued)

The following is a summary of interest rates paid to and received from the counterparties as of June 30, 2008:

	Type of Derivative							
	1991 Swap	Swaption/ Swap	2001 Swap	MP 2004 Swap	MA 2004 Swap	MA 2007 Swap	MAG 2007 Swap	NGP repay 2007 Swap
Payments to counterparty	6.380%	4.250%	4.240%	3.894%	3.890%	2.459%	3.912%	5.048%
Less, variable payments from counterparty	3.500%	1.476%	1.185%	1.599%	1.599%	4.353%	2.145%	3.395%
Net interest rate swap payments	2.880%	2.774%	3.055%	2.295%	2.291%	-1.894%	1.767%	1.653%
Add, variable-rate bond coupon payments	3.500%	N/A	1.600%	2.958%	3.032%	N/A	3.750%	3.395%
Synthetic interest rate on bonds	6.380%	2.774%	4.655%	5.253%	5.323%	-1.894%	5.517%	5.048%

Termination risk - The Authority or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. In addition, the Swap/Swaption provides the counterparty with an option to cancel the swap agreement if the consecutive 180-day averaged rate of the SIFMA index exceeds 7.0%. The counterparty for the 2001 Swap also has a cancellation option which can be executed by the counterparty at their discretion. If any of the swaps were terminated, any associated variable rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

Rollover risk - Rollover risk is the risk that the swap contract is not co-terminus with the related bonds. The Authority is exposed to rollover risk on the Swap/Swaption and the 2001 Swap because the counterparty has the option to terminate the agreement prior to the maturity of the associated debt. In the event that this swap terminates, the Authority would be exposed to variable interest rates on the underlying bonds. The following debt is exposed to rollover risk:

Associated Debt Issuance	Debt Maturity Date	Swap Termination Date
STS 2001 Subordinate Refunding Series A	July 1, 2021	July 1, 2021

Note 5 - Derivative Instruments (Continued)

Swap payments and associated debt - Using rates as of June 30, 2008, debt service requirements of the Authority's outstanding variable rate debt and net swap payments are as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

	(Amounts in thousands)			
	Variable-Rate Bonds		Interest Rate	
Fiscal Year Ending June 30,	Principal	Interest	Swaps, Net	Total
2009	$ 19,295	$ 24,254	$ 19,908	$ 44,162
2010	17,315	23,655	19,415	43,070
2011	18,435	23,018	18,891	41,909
2012	41,055	21,975	17,738	39,713
2013	42,380	20,888	16,547	37,435
2014-2018	319,280	80,063	56,506	136,569
2019-2023	159,420	42,725	22,061	64,786
2024-2028	53,605	32,500	15,314	47,814
2029-2033	65,435	21,154	9,968	31,122
2034-2038	287,055	20,019	9,672	29,691
	$ 1,023,275	$ 310,251	$ 206,020	$ 516,271

Note 6 - Long-Term Debt

Long-term debt outstanding at June 30, 2008 consisted of "new money" bonds, refunding bonds and subordinate refunding bonds due in varying annual amounts through 2038. The new money bonds were issued to finance the purchase and construction or acquisition of the Authority's interest in each of the Projects. The subordinate refunding bonds were issued to refund specified new money bonds.

In accordance with the bond indentures, the new money bonds and refunding bonds are special, limited obligations of the Authority. With the exception of the Magnolia Power Project B, Lease Revenue Bonds (City of Cerritos, California) 2003-1 ("Project B Bonds"), the bonds issued by each project are payable solely from and secured solely by interests in that project as follows:

- Proceeds from the sale of bonds;
- All revenues, incomes, rents and receipts attributable to that project and interest earned on securities held under the bond indenture or indentures; and
- All funds established by the indenture or indentures.

Note 6 - Long-Term Debt (Continued)

The Authority has agreed to certain covenants with respect to bonded indebtedness, including the requirement to enforce the natural gas, power and transmission sales agreements with the participants. At the option of the Authority, all outstanding new money bonds and refunding bonds are subject to redemption prior to maturity, except for the 2006-1 Magnolia Revenue Bonds; the 2002 Subordinate Refunding Series B Bonds, and portions of the 1988A Refunding Bonds, the 1992 and the 2008A Subordinate Refunding Bonds issued for the Southern Transmission System; the 2002A San Juan Revenue Bonds; a total of $125.5 million of the Multiple Project Revenue Bonds and the 2007 A & B Prepaid Natural Gas Project No. 1 Bonds.

Variable rate debt includes Auction Rate Certificates ("ARCs"), which bear interest at the applicable auction rate as determined by an Auction Agent, as well as debt with rates based on daily, weekly and long term rates as determined by a Remarketing Agent.

Driven by the subprime mortgage problems which led to the downgrade of bond insurers, the contraction of financial markets, and the loss of consumer confidence, there is uncertainty in the viability of the auction rate market and the variable debt market continues to experience increased pressure. The availability of liquidity and credit facilities has been severely curtailed and the price for obtaining these facilities has dramatically increased. Conditions continue to be challenging and no assurance can be given that that there will not be other issues that affect the financial markets.

A summary of changes in long-term debt follows:

	(Amounts In Thousands)						
	GENERATION				TRANSMISSION		
	Palo Verde Project	Hoover Uprating Project	San Juan Project	Magnolia Power Project	Southern Transmission System Project	Mead-Phoenix Project	Mead-Adelanto Project
Total long-term debt at June 30, 2007	$ 88,373	$ 15,879	$ 161,540	$ 353,150	$ 735,641	$ 60,340	$ 192,959
Total debt due within one year at June 30, 2007	11,895	1,370	10,050	7,450	30,950	3,350	11,150
Total debt at June 30, 2007	100,268	17,249	171,590	360,600	766,591	63,690	204,109
Principal payments	(11,895)	(1,370)	(10,050)	(7,450)	(30,950)	(3,350)	(11,150)
Revenue bonds issued	-	-	-	-	-	-	-
Bonds refunded/defeased	-	-	-	-	(50,050)	-	-
Refunding bonds issued	-	-	-	-	48,025	-	-
Decrease in unamortized debt-related costs, net	2,052	436	(48)	(239)	11,866	582	1,663
Total debt at June 30, 2008	90,425	16,315	161,492	352,911	745,482	60,922	194,622
Total debt due within one year at June 30, 2008	(12,250)	(1,425)	(10,550)	(7,930)	(31,075)	(3,425)	(11,400)
Total long-term debt at June 30, 2008	$ 78,175	$ 14,890	$ 150,942	$ 344,981	$ 714,407	$ 57,497	$ 183,222

Note 6 - Long-Term Debt (Continued)

	(Amounts In Thousands)				
	NATURAL GAS			MISC.	
	Barnett Project	Pinedale Project	Prepaid Natural Gas	Multiple Project Fund	Total
Total long-term debt at June 30, 2007	$ 44,400	$ 26,900	$ -	$ 42,553	$ 1,721,735
Total debt due within one year at June 30, 2007	500	1,300	-	-	78,015
Total debt at June 30, 2007	44,900	28,200	-	42,553	1,799,750
Principal payments	(500)	(1,300)	-	-	(78,015)
Revenue bonds issued	5,900	-	504,445	-	510,345
Bonds refunded/defeased	(50,300)	(26,900)	-	-	(127,250)
Refunding bonds issued	99,007	42,053	-	-	189,085
Decrease in unamortized debt-related costs, net	-	-	5,080	1,274	22,666
Total debt at June 30, 2008	99,007	42,053	509,525	43,827	2,316,581
Total debt due within one year at June 30, 2008	(4,765)	(2,015)	-	-	(84,835)
Total long-term debt at June 30, 2008	$ 94,242	$ 40,038	$ 509,525	$ 43,827	$ 2,231,746

Palo Verde Project - Debt consists of subordinate refunding series bonds with variable interest rates and final maturities between 2009 and 2017.

Hoover Uprating Project - Debt consists of refunding series bonds with fixed interest rates between 4.0% and 5.25% and a final maturity during 2017.

San Juan Project - Debt consists of refunding series bonds with fixed interest rates between 5.0% and 5.5% and final maturities during 2014 and 2020.

Magnolia Power Project - Debt consists of revenue bonds with fixed interest rates between 2.00% and 5.25% with final maturities occurring in 2036.

Magnolia Power Project Refunding - In June 2007, the Authority issued $223.26 million of Magnolia Power Project Project A Refunding Revenue Bonds, 2007-1 Series as variable rate demand obligations that currently bear interest at a weekly interest rate. The bonds were issued to refund $202.38 million of the Magnolia Power Project A Bonds, Revenue Series 2003 -1. The Authority also entered into two separate floating-to-fixed interest rate swap agreements allocated equally between two swap counterparties in connection with the Series 2007-1 Bonds which effectively fixed the rate of the 2007-1 Bonds. (See Note 5).

Magnolia Power Project Revenue Bonds - In July 2006, the Authority issued $37.73 million par value Magnolia Power Project A, Revenue Bonds, Series 2006-1. The bonds, issued at a premium, generated $38.63 million of new money proceeds and received a True Interest Cost of 4.13% and a weighted average life of 5.797 years. The bonds were issued primarily for the purpose of completing the construction of the Magnolia Power Project.

Note 6 - Long-Term Debt (Continued)

Of the outstanding Magnolia Power Project Revenue Bonds, $14.0 million of "Project B Bonds" are secured by lease rental payments to be made by the City of Cerritos (the "City") in connection with the lease of certain facilities and premises owned by the City to the Authority and the leaseback of such facilities and premises to the City. The Base Rental Payments will be equal to the principal and interest on the Project B Bonds. In accordance with the Assignment Agreement between the Authority and the Trustee, the Authority will assign certain of its rights under the Lease, including its right to receive the Base Rental Payments, to the Trustee for the benefit of the owners of the Project B Bonds.

The City has covenanted to budget and appropriate sufficient funds to make all payments required to be made under the Lease. The Lease has a term of 55 years.

Southern Transmission System Project - Debt consists of refunding and subordinate refunding series bonds with fixed and variable interest rates. Fixed interest rates range from 3.00% to 6.38% with final maturities occurring in 2022.

STS Project Refunding - On June 4, 2008, SCPPA issued $48,025,000 of Southern Transmission Revenue Bonds, 2008 Subordinate Refunding Series A ("2008 Series A Bonds"). Due to the marked change in the performance of Auction-Rate Securities (ARS) versus Variable Rate Demand Obligations ("VRDO") in the current market, driven by the credit crisis and subprime problems, SCPPA issued these fixed rate bonds to refund $50,050,000 of the Southern Transmission System Project Revenue Bonds, 2003 Subordinate Refunding Series A Bonds ("STS 2003 ARS") and to pay the related costs of issuance for the 2008 Series A Bonds. In refinancing the 2003 Series A Bonds, SCPPA successfully converted the STS 2003 ARS Bonds to fixed rate debt and completed the first step in its strategy to exit the uncertainty of the ARS market. This transaction resulted in a net loss for accounting purposes of $6.6 million, consisting primarily of unamortized debt expenses associated with the refunded bonds. The loss on refunding was deferred and is being amortized in accordance with GASB 23, over the remaining life of the old debt which is shorter than the life of the new debt.

The associated 2003 interest rate swap with Citigroup was terminated on May 7, 2008 and SCPPA paid the swap termination value of $1,287,000. The 2006 Constant Maturity Swap with JP Morgan was suspended for 5 years effective May 7, 2008 and SCPPA received a swap value of $3,745,000. The excess net proceeds of $2,458,000 will be used to pay debt service costs on other bonds. Both the swap termination and swap suspension have been recorded to debt expense.

Mead Phoenix Project - Debt consists of revenue and refunding series bonds with variable interest rates and a 5.15% fixed interest rate. Final maturity occurs during 2020.

Mead Adelanto Project - Debt consists of revenue and refunding series bonds with variable interest rates and a 5.15% fixed interest rate. Final maturity occurs during 2020.

Natural Gas Projects - On February 6, 2008, SCPPA issued $141.1 million Natural Gas Project A Revenue Bonds, 2008 Series A in connection with the Natural Gas Projects. This fixed rate taxable bond transaction was issued to pay-off the outstanding $76 million of the expiring Natural Gas Project Revenue Bonds, Draw Down Series 2005A (the short-term bridge loan) and to provide for five years of capital drilling needs for both the Natural Gas Pinedale and Barnett Projects. Financing for the SCPPA Natural Gas Projects was executed as three separate transactions for each of the Project A Participants with final maturity in 2032.

Note 6 - Long-Term Debt (Continued)

Multiple Project Fund - Debt consists of revenue bonds with fixed interest rate of 6.75% and final maturity during 2013.

Debt Related Costs - Unamortized debt-related costs, net are as follows (amounts in thousands):

	June 30, 2008		
Unamortized debt-related costs, net	Loss on Refunding	(Premium) Discount	Total
Palo Verde Project	$ 11,395	$ -	$ 11,395
Southern Transmission System Project	80,770	14,893	95,663
Hoover Uprating Project	1,280	(195)	1,085
Mead-Phoenix Project	4,523	(140)	4,383
Mead-Adelanto Project	13,451	(903)	12,548
Multiple Project Fund	-	6,373	6,373
San Juan Project	4,169	(7,796)	(3,627)
Magnolia Power Project	12,805	(4,206)	8,599
Prepaid Natural Gas Project No. 1	-	(5,080)	(5,080)
	$ 128,393	$ 2,946	$ 131,339

	June 30, 2007		
Unamortized debt-related costs, net	Loss on Refunding	(Premium) Discount	Total
Palo Verde Project	$ 13,447	$ -	$ 13,447
Southern Transmission System Project	88,455	19,075	107,530
Hoover Uprating Project	1,751	(230)	1,521
Mead-Phoenix Project	5,193	(229)	4,964
Mead-Adelanto Project	15,445	(1,235)	14,210
Multiple Project Fund	-	7,647	7,647
San Juan Project	5,524	(9,199)	(3,675)
Magnolia Power Project	13,262	(4,902)	8,360
	$ 143,077	$ 10,927	$ 154,004

Fair Value - The fair value of the Authority's long-term debt (including the current portion) is approximately $2.46 billion and $1.90 billion at June 30, 2008 and 2007, respectively. Management has estimated fair value based on the quoted market prices for the same or similar issues or on the current average rates offered to the Authority for debt of approximately the same remaining maturities, excluding the effect of a related interest rate swap agreement.

Advance Refundings - The Authority has established irrevocable escrow trusts with the proceeds from issuance of subordinate refunding bonds. These investments will be used to pay specified revenue bonds called at scheduled redemption dates.

Note 6 - Long-Term Debt (Continued)

Defeasance of Debt - The Authority has defeased specified revenue bonds by placing the proceeds from the issuance of subordinate refunding bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. The trust investments and related liability for bonds that are considered legally defeased are not included in the Authority's financial statements. At June 30, 2008 and 2007, $853.4 million and $880.1 million, respectively, of revenue bonds outstanding are considered legally defeased.

The refunded bonds constitute a contingent liability of the Authority only to the extent that cash and investments presently in the control of the refunding trustees are not sufficient to meet debt service requirements and are therefore excluded from the combined financial statements because the likelihood of additional funding requirements is considered remote.

Debt Service - The scheduled debt service payments for future years ending June 30 are included in the table below. The variable rates used for the PV 1996 Subordinate Refunding Series B and C, and the STS 1996 Subordinate Refunding Series B were the rates at June 30, 2008 of 8.00% and 1.28%, respectively. The variable rates used for the MA and MP 2004 Subordinate Refunding Series A, and the STS 2000 and 2001 Subordinate Refunding Series A were the rates at June 30, 2008 of 3.03% and 1.60%, respectively. The variable rates are set by the bond-remarketing agent on a weekly basis based on economic conditions and bond ratings.

(Amounts in thousands)

	GENERATION				TRANSMISSION			NATURAL GAS			MISC.	
	Palo Verde	Hoover Uprating	San Juan	Magnolia Power	Southern Trans-mission System	Mead-Phoenix	Mead-Adelanto	Pinedale	Barnett	Prepaid Natural Gas	Multiple Project Fund	Total
2009 Principal	$ 12,250	$ 1,425	$ 10,550	$ 7,930	$ 31,075	$ 3,425	$ 11,400	$ 2,015	$ 4,765	$ -	$ -	$ 84,835
2009 Interest	5,600	796	8,266	15,563	38,385	3,098	9,588	1,826	4,302	25,581	3,390	116,395
2010 Principal	10,075	1,480	11,115	8,615	30,585	3,500	11,725	1,956	4,639	5,625	-	89,315
2010 Interest	4,926	738	7,699	14,734	37,817	3,011	9,299	1,956	4,606	25,440	3,389	113,615
2011 Principal	10,375	1,540	11,715	8,930	32,990	4,560	12,540	2,929	6,941	5,715	11,400	109,635
2011 Interest	4,372	678	7,102	14,387	35,916	2,814	8,729	1,871	4,405	25,157	3,004	108,435
2012 Principal	10,685	1,600	12,345	9,310	35,650	4,840	13,310	3,368	7,972	5,295	12,100	116,475
2012 Interest	3,802	614	6,472	14,004	33,951	2,497	7,856	1,756	4,132	24,881	2,211	102,176
2013 Principal	11,005	1,670	13,010	9,695	54,140	5,160	14,190	2,549	6,015	4,805	12,900	135,139
2013 Interest	3,214	537	5,808	13,595	31,921	2,159	6,928	1,640	3,857	24,629	1,366	95,654
2014 - 2018 Principal	47,430	9,685	84,140	50,705	253,475	25,945	84,155	10,975	25,745	20,895	13,800	626,950
2014 - 2018 Interest	6,619	1,313	15,376	60,836	133,213	6,357	21,195	6,628	15,582	120,005	465	387,589
2019 - 2023 Principal	-	-	14,990	42,930	333,715	17,875	59,850	7,691	18,054	38,200	-	533,305
2019 - 2023 Interest	-	-	1,320	49,661	58,914	1,060	3,555	4,123	9,700	112,952	-	241,285
2024 - 2028 Principal	-	-	-	53,700	69,515	-	-	5,766	13,559	72,310	-	214,850
2024 - 2028 Interest	-	-	-	39,064	1,721	-	-	2,243	5,296	98,700	-	147,024
2029 - 2033 Principal	-	-	-	65,670	-	-	-	4,804	11,317	119,690	-	201,481
2029 - 2033 Interest	-	-	-	27,294	-	-	-	696	1,643	74,448	-	104,081
2034 - 2038 Principal	-	-	-	104,025	-	-	-	-	-	178,225	-	282,250
2034 - 2038 Interest	-	-	-	10,792	-	-	-	-	-	37,374	-	48,166
2039 - Principal	-	-	-	-	-	-	-	-	-	53,685	-	53,685
2039 - Interest	-	-	-	-	-	-	-	-	-	1,355	-	1,355
Principal	$ 101,820	$ 17,400	$ 157,865	$ 361,510	$ 841,145	$ 65,305	$ 207,170	$ 42,053	$ 99,007	$ 504,445	$ 50,200	$ 2,447,920
Interest	$ 28,533	$ 4,676	$ 52,043	$ 259,930	$ 371,838	$ 20,996	$ 67,150	$ 22,739	$ 53,523	$ 570,522	$ 13,825	$ 1,465,775

Note 7 - Notes Payable

Notes payable consist mainly of Palo Verde Participants' over billings from prior periods and a note secured from GE Capital Public Finance, Inc., to lease purchased spare parts inventory for the Magnolia Power Project. The notes payable in the Palo Verde Project are to be paid through June 2017. These notes are unsecured, bear an interest rate of 4.97%, and are due in monthly payments of $.6 million. At June 30, 2008, the remaining balance is $51.8 million. The note payable in the Magnolia Power Project has a coupon rate of 4.1%, with principal payments due monthly through July 2010. At June 30, 2008, the remaining principal balance is $2.6 million.

Notes Payable Rollforward (amounts in thousands):

Description	June 30, 2007	Payments	Amortization of Surplus Fund	June 30, 2008
PV prior year overbillings	$ 56,128	$ (4,755)	$ 393	$ 51,766
MPP GE spare parts	3,966	(1,337)	-	2,629
	$ 60,094	$ (6,092)	$ 393	$ 54,395

Note 8 - Advances from Participants

Advances from participants consist mainly of billings to participants related to acquisition, capital drilling, and inventory wherein the matching operating expenses will be recognized at a future date. Also and specific only to the Natural Gas Pinedale Project, advances held by the project are funds from LADWP and TID, both owners independent of SCPPA, are for their share of operating costs and capital expenditures pursuant to their respective Agency Agreements.

Advances from participants rollforward (amounts in thousands):

Description	June 30, 2007	Activity	June 30, 2008
NG Pinedale advances from participants	$ 37,998	$ 247	$ 38,245
NG Barnett advances from participants	10,154	1,448	11,602
MPP advances from participants	19,522	2,602	22,124
San Juan enviromental upgrade	32,000	(32,000)	-
	$ 99,674	$ (27,703)	$ 71,971

Note 9 - Net Assets (Deficit)

The Authority's billing amounts to the participants are determined by its Board of Directors and are subject to review and approval by the participants. Billings to participants are designed to recover "costs" as defined by the power sales, natural gas sales, and transmission service agreements. The billings are structured to systematically provide for debt service requirements, operating funds and reserves in accordance with these agreements. The accumulated difference between billings and the Authority's expenses calculated in accordance with accounting principles generally accepted in the United States of America are presented as net assets (deficit). It is intended that this difference will be recovered in the future through billings for repayment of principal on the related bonds.

Net assets (deficit) are comprised of the following (in thousands):

	June 30, 2006	Fiscal Year 2007 Activity	June 30, 2007	Fiscal Year 2008 Activity	June 30, 2008
GAAP items not included in billings to participants					
Depreciation of plant	$ (987,340)	$ (67,586)	$ (1,054,926)	$ (69,341)	$ (1,124,267)
Nuclear fuel amortization	(19,548)	-	(19,548)	13,688	(5,860)
Decommissioning expense	(164,546)	(11,779)	(176,325)	(11,779)	(188,104)
Amortization of bond discount, debt issue costs, and loss on refundings	(653,205)	(16,800)	(670,005)	(17,516)	(687,521)
Interest expense	(65,597)	(2,065)	(67,662)	2,826	(64,836)
Loss on defeasance of bonds	(85,827)	-	(85,827)	-	(85,827)
Bond requirements included in billings to participants					
Operations and maintenance, net of investment income	295,341	9,698	305,039	8,091	313,130
Costs of acquisition of capacity	16,129	(1,356)	14,773	(1,411)	13,362
Billings to amortize costs recoverable	382,050	-	382,050	-	382,050
Reduction in debt service billings due to transfer of excess funds	(90,020)	-	(90,020)	-	(90,020)
Principal repayments	982,130	78,593	1,060,723	87,628	1,148,351
Other	71,556	28,463	100,019	59,315	159,334
	(318,877)	17,168	(301,709)	71,501	(230,208)
Multiple Project Fund net assets	5,752	(1,768)	3,984	(1,255)	2,729
Projects' Stabilization Fund net assets	66,593	14,049	80,642	6,228	86,870
	$ (246,532)	$ 29,449	$ (217,083)	$ 76,474	$ (140,609)

Note 10 - Commitments and Contingencies

Industry Restructuring - Since the passage of Assembly Bill 1890 (the "Bill") in September 1996, the electric industry in California continues to remain uncertain. The deregulation experiment has, for the most part, been abandoned. The public power participants of SCPPA were not required to comply with the Bill's provisions.

Fuel Supply Pricing Volatility - Most of the SCPPA participants have made investments in gas-fired peaking or base-load generation located in Southern California. The price volatility of natural gas, which is the fuel source for many of California's electric generating units, may contribute to greater volatility in revenues from the sale (and purchase) of electric energy and could materially affect the financial condition of the participants. However, the very competitive prices for a portion of gas supply and additional services provided by SCPPA are intended to maintain and improve the competitive position of the participants.

Public Benefits - The members continue to collect the public benefit charge through existing rate structures and have instituted in excess of $775 million of programs to benefit their customers. The decisions on how these funds are allocated are made by the local governing authority, in most cases this is the city council. Funds (approximately 2.85% of gross revenues) have been spent on conservation and energy efficiency programs, public educational programs, research and development, and low income rate subsidies.

Environmental Matters - Recent California legislation has addressed various issues affecting the utility industry including the need to generate electricity from renewable resources, the need to reduce greenhouse gases, improve air quality, and ensure clean water. In general, these bills provide for reduced greenhouse gas emission standards and greater investment in energy-efficient and environmentally friendly generation alternatives through more stringent renewable resource portfolio standards. The following is a brief summary of certain of these bills:

- **Greenhouse Gas Emissions** - In its 2003 Integrated Energy Policy Report, the California State Energy Resources and Conservation and Development Commission (the "CEC") recommended that utilities account for the cost of greenhouse gas emission reductions in utility procurement decisions. Some of these mandates include, but are not limited to: Executive Order S-3-05 placed an emphasis on such efforts to reduce greenhouse gas emissions by establishing statewide greenhouse gas reduction targets; Executive Order S-06-06 directs the State to meet a 20% biomass utilization target within the renewable generation targets of 2010 and 2020 for the contribution to greenhouse gas emission reduction; Assembly Bill 32, the Global Warming Solutions Act of 2006 (the "GWSA") prescribed a statewide cap on global warming pollution with a goal of reaching 1990 greenhouse gas emission levels by 2020 and 80% below 1990 levels by 2050; Senate Bill 1368 provides for a restriction on the negotiation of contracts with potential base-load fossil fuel electric generating resources that exceed the rate of emissions for greenhouse gases for existing combined-cycle natural gas base-load generation and seeks to allow the CEC to establish a regulatory framework necessary to enforce the greenhouse gas emission performance standard for publicly-owned utilities; Assembly Bill 1925 provides for the CEC to develop a cost effective strategy for the geologic sequestration and management of industrial carbon dioxide; and Senate Bill 1686, which authorizes the Wildlife Conservation Board to take into account the potential of forestlands to beneficially reduce or sequester greenhouse gas emissions when it prioritizes funds available for proposed acquisitions. Many of these Bills restrict or mandate the reduction of existing generating facilities; yet do not have enabling provisions to facilitate new compliant generation or development of the transmission infrastructure required to support new sources and locations of generation. The costs of new generation facilities, required infrastructures, and other requirements will have additional significant financial implications on SCPPA participants.

Note 10 - Commitments and Contingencies (Continued)

- **Renewable Portfolio Standards (RPS)** - Senate Bill 1078 ("SB 1078") directed municipal utilities to implement and enforce an RPS that recognizes the intent of the Legislature to encourage development of renewable resources taking into consideration the impact on a utility's standard on rates, reliability, financial resources, and the goal of environmental improvement. Since the implementation of SB 1078, the California Public Utilities Commission and the State Energy Resources Conservation and Development Commission have taken a number of actions that have had an impact on the renewable energy goals set by legislation primarily seeking to accelerate the time-line for meeting the renewable resource development goals and to provide additional standards for future extension of the goals. SCPPA participants have embraced the objective of increasing renewable resources within their portfolios. However, the costs of renewable generation, required infrastructures, and other requirements will have additional significant financial implications on SCPPA participants.

Nuclear Spent Fuel and Waste Disposal - Under the Nuclear Waste Policy Act, the Department of Energy ("DOE") was to develop the facilities necessary for the storage and disposal of spent fuel and to have the first such facility in operation by 1998. That facility was to be a permanent repository, but the DOE has announced that such a repository could not be completed before 2015. There is ongoing litigation with respect to the DOE's ability to accept spent nuclear fuel and no permanent resolution has been reached to date.

In July 2002, a measure was signed into law designating the Yucca Mountain in the state of Nevada as the nation's high-level nuclear waste repository. This meant that the DOE could then file a construction and operation plan for Yucca Mountain with the Nuclear Regulatory Commission ("NRC"). Due to a series of setbacks including scientific challenges by the National Academy of Science, falsified research data by consultants, delays in submitting the construction application to the Nuclear Regulatory Commission, the DOE expected that the Yucca Mountain site would be open no earlier than 2015. However, the State of Nevada and its congressional delegation are still determined to halt the project through the NRC process or through legal challenges which could put the in-service date further in the future

A feud over a full and adequate funding and budget for the development of the repository between the administration and the Congressional leaders which comprise Nuclear opponents had further delayed the feasibility study and the submission of the construction application. Meanwhile, the Nevada delegation worked diligently to delay the DOE's work on the license application for the Yucca site, in hopes of halting the transfer of nuclear waste to the Nevada facility. As of today, the submission of the construction application to the NRC is still delayed because of an investigation related to the allegation of scientific misconduct during the feasibility study of Yucca Mountain as a permanent disposal facility for nuclear waste. In addition, the original regulatory standard of safe keeping nuclear waste at the disposal facility for 10,000 years was challenged by the National Academy of Sciences, and it is now agreed that the nuclear waste's storage period should increase to 100,000 years. Further engineering studies are being conducted to increase the subsistence of the facility for a longer period of time.

Note 10 - Commitments and Contingencies (Continued)

The spent fuel storage in the wet pool at PVNGS exhausted its capacity in 2003. A Dry Cask Storage Facility (the "Facility"), also called the Independent Spent Fuel Storage Facility, was built and completed in 2003 at a total cost of $33.9 million (about $2 million for the Authority). In addition to the Facility, the costs also account for heavy lift equipment inside the units and at the yard, railroad track, tractors, transporter, transport canister, and surveillance equipment. The Facility has the capacity to store all the spent fuel generated by the PVNGS plant until 2026. To date, over 54 casks, each containing 24 spent fuel assemblies were placed in the Facility. The current plan calls for the removal of between 240 and 288 fuel assemblies from the units to the Facility every year. The costs incurred by the procurement, packing, preparation and transportation of the casks are included as part of the fuel expenses, and will cost approximately $13 million a year (about $760,000 for the Authority). If the permanent repository in Yucca Mountain is opened as scheduled in 2015, the spent fuel from PVNGS will be shipped to the repository starting in 2036. No provision has been included in the accompanying financial statements.

Nuclear Insurance - The Price-Anderson Act (the "Act") requires that all utilities with nuclear generating facilities share in payment for claims resulting from a nuclear incident. The Act limits liability from third-party claims to approximately $10.8 billion per incident. Participants in the Palo Verde Nuclear Generating Station currently insure potential claims and liability through commercial insurance with a $300 million limit; the remainder of the potential liability is covered by the industry-wide retrospective assessment program provided under the Act. This program limits assessments to $101 million per reactor for each licensee for each nuclear incident occurring at any nuclear reactor in the United States; payments under the program are limited to $15 million per reactor, per incident, per year to be indexed for inflation every 5 years. Based on the Authority's 5.91% interest in Palo Verde, the Authority would be responsible for a maximum assessment of $17.8 million per incident for all 3 units, limited to payments of $2.7 million per incident, per year.

In addition to the above, the Authority may be subject to retroactive insurance assessments for its participation in the Neil Property Insurance Program in the amount of $2.9 million.

Other Legal Matters - With respect to the San Juan Generating Station (including the Authority's ownership interest in Unit 3 thereof), the Sierra Club and the Grand Canyon Trust have filed suit against Public Service Company of New Mexico ("PNM") in federal court alleging violations of the Clean Air Act and of the conditions of the San Juan Generating Station's operating permit. PNM is a co-owner of the San Juan Generating Station and is the operating agent of the station. The lawsuit sought penalties as well as injunctive and declaratory relief.

During 2005, the parties achieved a settlement of the substantive elements of the case which has been approved by the United States District Court. A number of environmental upgrades have been made to the San Juan Generating Station as part of the settlement that is expected to mitigate a number of environmental consequences which might otherwise occur in the operation of the plant. The additional costs associated with these environmental upgrades have been shared by the San Juan Generation Station participants. The environmental upgrades affecting Unit 3 and the SCPPA San Juan participants have been added this year. The estimated costs which have been borne by the SCPPA San Juan Generating Station participants totaled approximately $34 million. Since 2005, SCPPA has budgeted for its portion of the added costs of these upgrades which have now been paid by the SCPPA participants.

Note 10 - Commitments and Contingencies (Continued)

Claims and a lawsuit for damages have been filed with the Authority, Intermountain Power Authority (the "IPA") and LADWP seeking $100 million in special damages and a like amount in general damages. The claimants allege, among other things, that due to improper grounding of the transmission line of STS, their dairy herds were damaged and the value of their land was diminished. The claimants also seek injunctive relief. The Authority believed these claims were substantially without merit as to itself because the Authority has no ownership or operational control over the subject transmission lines, and merely acted as a financing agency with respect to STS. In July 2003, the Authority, IPA, and LADWP filed a motion to dismiss, or in the alternative, a motion to stay based upon forum non conveniens, in which the defendants argued that the case had little connection with California and should be heard in Utah. The Los Angeles Superior Court granted the motion and in a 2004 unpublished opinion the California Court of Appeal affirmed this matter on appeal. A Petition for Review was subsequently denied by the California Supreme Court.

In February 2005, the remaining Utah plaintiffs filed a complaint in the Third Judicial District Court in and for Salt Lake County, Utah, which alleged facts similar to those alleged in California. The action was later transferred to the District Court in and for Millard County, Utah. SCPPA moved the Utah court to dismiss the action as to SCPPA. This motion resulted in the dismissal of certain of the causes of action in the complaint against SCPPA however other causes of action still remain. The case has concluded the discovery stage of the litigation and SCPPA and several other defendants have now filed motions for Summary Judgment which are currently pending before the District Court for Millard County, Utah. During the pendency of the Summary Judgment determinations, the plaintiffs in the case moved to disqualify the judge presently presiding over the matter. While the case had originally been scheduled for trial in October 2008, the pending motions could cause this date to be deferred. No provision for this litigation matter has been included in the accompanying financial statements.

Prior to the commencement of the construction of the Magnolia Power Project ("Project"), the Authority entered into an engineering, procurement and construction agreement (the "EPC Agreement") with Kvaerner E&C ("Kvaerner"), a division of Aker Kvaerner, which is headquartered in Oslo, Norway. Under the EPC Agreement, Kvaerner was responsible for the design, engineering procurement, construction, installation, training for operation, commissioning, start-up, testing and completion of the Project. Construction of the Project commenced during 2003 and was substantially completed in late 2005. During 2006, a claim was submitted on behalf of Kvaerner for additional compensation in the amount of approximately $15 million with respect to work on the Project. The Operating Agent, the Authority and the Authority's outside legal counsel on this matter believed that the claim for additional compensation was substantially without merit and violated many provisions of the EPC Agreement. The matter went to mediation and in the mediation, in order to avoid further costly time consuming litigation, SCPPA offered to settle the matter for approximately $1.9 million which was an amount approximately equaling the amount of liquidated damages which, due to the alleged delay in completion, had been withheld from Kvaerner at the conclusion of construction. The mediation of this matter, however, failed to settle the matter. In May 2007, Kvaerner filed a lawsuit against the Authority in California state court for damages for breach of contract and violation of the California prompt payment act. After a number of preliminary filings and motions in connection with the early stages of this litigation, Kvaerner and SCPPA ultimately agreed to settle the matter for the $1,860,000 amount which SCPPA had previously offered. The parties have recently entered into a settlement agreement with respect to this matter and this litigation has now been concluded.

The Authority is also involved in various other legal actions. In the opinion of management, the outcome of such litigation or claims will not have a material effect on the financial position or the results of operations of the Authority or the respective separate Projects.

Note 11 - Subsequent Events

Palo Verde Power Project Subordinate Refunding Bonds - As of June 30, 2008, SCPPA has outstanding $101,820,000 of subordinate bonds relating to the Palo Verde Project, consisting of $12,250,000 aggregate principal amount of the 1996 Subordinate Refunding Series B ("1996 Series B Bonds") and $89,570,000 aggregate principal amount of the 1996 Subordinate Refunding Series C ("1996 Series C Bonds"). The 1996 Series B and C Bonds ("Refunded Bonds") were issued to refund certain Senior Bonds and consist of insured variable rate bonds.

The Palo Verde 2008 Series Subordinate Bonds ("2008 Series A and B Bonds") in the aggregate principal amount of $99,830,000, consisting of $49,915,000 principal amount of 2008 Series A Bonds and $49,915,000 of 2008 Series B Bonds, are being issued to provide funds, together with certain other available moneys, to refund all of SCPPA's outstanding 1996 Series B and C Bonds. This refunding is necessary to remove the current bond insurance, given the continued deterioration in the performance of certain bond insured variable rate debt obligations ("VRDOs"), and to replace them with VRDOs that are supported by bank issued Letter of Credit which are expected to perform better in the current market.

No Senior Palo Verde Bonds are currently outstanding. Upon issuance of the 2008 Series A and B Bonds on August 28, 2008, the 2008 Series A and B Bonds will be the only bonds outstanding relating to SCPPA's interest in Palo Verde. These bonds are subject to optional redemption but will mature on July 1, 2017. The Refunded Bonds were redeemed on or before September 3, 2008.

SUPPLEMENTAL INFORMATION

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
PALO VERDE PROJECT
SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS IN FUNDS REQUIRED BY THE BOND INDENTURE FOR THE YEAR ENDED JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	Debt Service Fund	Debt Service Reserve Fund	Decom-missioning Trust Fund	Deposit Installment	Deposit Reserve Installment	Escrow Account	General Reserve Account	Issue Account	Operating Account	Reserve & Contingency	Revenue Fund	Total
Balance at June 30, 2007	$ -	$ -	$ 143,409	$ -	$ -	$ 356,997	$ -	$ 3,206	$ 86,626	$ 28,086	$ -	$ 618,324
Additions												
Investment earnings	-	-	5,993	-	-	8,953	-	140	3,317	735	19	19,157
Discount on investment purchases	-	-	147	-	-	-	-	110	204	191	-	652
Distribution of investment earnings	-	-	-	-	-	-	-	(250)	(644)	(926)	1,820	-
Revenue from power sales	-	-	-	-	-	-	-	-	-	-	78,711	78,711
Distribution of revenue	-	-	-	-	-	(38)	-	17,390	46,080	17,118	(80,550)	-
Transfer from escrow fund for principal and interest payments	3,704	-	-	-	-	(54,609)	-	50,905	-	-	-	-
Total	3,704	-	6,140	-	-	(45,694)	-	68,295	48,957	17,118	-	98,520
Deductions												
Construction expenditures	-	-	-	-	-	-	-	-	-	19,704	-	19,704
Operating expenditures	-	-	3	-	-	-	-	-	40,961	-	-	40,964
Remarketing/commitment fees	-	-	-	-	-	-	-	270	-	-	-	270
Fuel costs	-	-	-	-	-	-	-	-	22,268	-	-	22,268
Payment of principal	-	-	-	-	-	-	-	11,895	-	-	-	11,895
Interest paid - non escrow	-	-	-	-	-	-	-	3,974	-	-	-	3,974
Premium and interest paid on investment purchases	-	-	59	-	-	(243)	-	-	-	(2)	-	- (186)
Payment of principal and interest paid escrow	3,704	-	-	-	-	-	-	50,905	-	-	-	54,609
Total	3,704	-	62	-	-	(243)	-	67,044	63,229	19,702	-	153,498
Balance at June 30, 2008	$ -	$ -	$ 149,487	$ -	$ -	$ 311,546	$ -	$ 4,457	$ 72,354	$ 25,502	$ -	$ 563,346

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and have been prepared from the trust statements. These balances do not include accrued interest receivable, unrealized gain (loss) on investments, and $83 and $101 held in the revolving fund at June 30, 2008 and 2007, respectively.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
HOOVER UPRATING PROJECT
SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS IN FUNDS REQUIRED BY THE BOND INDENTURE FOR THE YEAR ENDED JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	Debt Service Fund	General Reserve Fund	Advance Payment Fund	Operating Fund	Revenue Fund	Total
Balance at June 30, 2007	$ 1,205	$ 1,703	$ -	$ 1,360	$ -	$ 4,268
Additions						
Investment earnings	6	64	-	30	1	101
Discount on investment purchases	35	5	-	26	-	66
Distribution of investment earnings	(41)	(69)	-	(56)	166	-
Revenue from power sales	-	-	-	-	2,261	2,261
Distribution of revenue	2,095	-	-	333	(2,428)	-
Other	-	-	-	4	-	4
Total	2,095	-	-	337	-	2,432
Deductions						
Operating expenses	-	-	-	259	-	259
Payment of principal	1,370	-	-	-	-	1,370
Interest paid	852	-	-	-	-	852
Total	2,222	-	-	259	-	2,481
Balance at June 30, 2008	$ 1,078	$ 1,703	$ -	$ 1,438	$ -	$ 4,219

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and have been prepared from the trust statements. The balances in the funds consist of cash and investments at original cost. These balances do not include accrued interest receivable, unrealized gain (loss) on investments, and $18 and $21 held in the revolving fund at June 30, 2008 and 2007, respectively.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
SAN JUAN PROJECT
SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS IN FUNDS REQUIRED BY THE BOND INDENTURE FOR THE YEAR ENDED JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	Acquisition Account	Debt Service Reserve Account	Revenue Fund	Operating Fund	Reserve & Contingency Fund	General Reserve Fund	Cost of Issuance Fund	Escrow Account	Total
Balance at June 30, 2007	$ 4,386	$ 21,323	$ -	$ 3,881	$ 21,460	$ 31	$ (1)	$ 76,050	$ 127,130
Additions									
Investment earnings	6	1,101	15	8	365	-	-	3,101	4,596
Discount on investments	240	-	19	117	706	-	-	-	1,082
Distribution of investment earnings	(246)	(1,101)	2,543	(125)	(1,071)	-	-	-	-
Revenue from power sales	-	-	95,856	-	-	-	-	-	95,856
Distribution of revenues	18,568	-	(98,433)	52,733	27,163	(31)	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total	18,568	-	-	52,733	27,163	(31)	-	3,101	101,534
Deductions									
Operating expenses	-	-	-	49,626	-	-	-	-	49,626
Construction expenses	-	-	-	-	35,909	-	-	-	35,909
Payment of principal and interest - escrow	-	-	-	-	-	-	-	3,772	3,772
Premium and interest on investment purchases	-	-	-	-	-	-	-	-	-
Payment of principal	10,050	-	-	-	-	-	-	-	10,050
Interest paid - non-escrow	8,769	-	-	-	-	-	-	-	8,769
Total	18,819	-	-	49,626	35,909	-	-	3,772	108,126
Balance at June 30, 2008	$ 4,135	$ 21,323	$ -	$ 6,988	$ 12,714	$ -	$ (1)	$ 75,379	$ 120,538

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and have been prepared from the trust statements. The balances in the funds consist of cash and investments at original cost. These balances do not include accrued interest receivable, unrealized gain (loss) on investments, and $27 and $34 held in the revolving fund at June 30, 2008 and 2007, respectively.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
MAGNOLIA POWER PROJECT
SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS IN FUNDS REQUIRED BY THE BOND INDENTURE FOR THE YEAR ENDED JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	Debt Service Account	Debt Service Reserve Account	Project Fund	Operating Reserve Fund	Reserve and Contingency	Operating Fund	Revenue Fund	General Reserve Fund	Escrow Fund	Total
Balance at June 30, 2007	$ 10,765	$ 29,922	$ 5,381	$ 4,919	$ 9,554	$ 3,451	$ -	$ 9,108	$ -	$ 73,100
Additions										
Investment earnings	62	1,612	13	137	482	23	16	13	5,342	7,700
Discount on investment purchases	252	49	192	25	28	117	1	342	-	1,006
Distribution of investment earnings	(314)	(1,661)	-	(162)	(510)	(140)	2,787	-	-	-
Transfer of funds for debt service payment	10,119	-	-	-	-	-	-	-	(10,119)	-
Bond Escrow 2007A	-	-	-	-	-	-	-	-	219,059	219,059
Receipt from participants	-	-	-	-	-	-	74,935	-	-	74,935
Distribution of revenues	24,055	-	-	-	1,442	27,750	(77,739)	24,492	-	-
Other transfers	-	-	70	-	-	24,400	-	(24,470)	-	-
Other receipts	-	-	-	-	-	-	-	-	-	-
Total	34,174	-	275	-	1,442	52,150	-	377	214,282	302,700
Deductions										
Construction expenditures	-	-	1,571	-	1,141	98	-	-	-	2,810
Operating expenses	-	-	-	-	5	46,667	-	-	-	46,672
Liquidity & Remarketing Fees	437	-	-	-	-	66	-	-	-	503
Interest paid	21,444	-	-	-	-	-	-	-	-	21,444
Premium and interest on investment purchases	2	-	-	-	(38)	-	-	-	-	(36)
Payment of principal	7,450	-	-	-	-	-	-	-	-	7,450
Debt issuance costs	-	-	360	-	-	-	-	-	-	360
Total	29,333	-	1,931	-	1,108	46,831	-	-	-	79,203
Balance at June 30, 2008	$ 15,606	$ 29,922	$ 3,725	$ 4,919	$ 9,888	$ 8,770	$ -	$ 9,485	$ 214,282	$ 296,597

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and have been prepared from the trust statements. The balances in the funds consist of cash and investments at original cost. These balances do not include accrued interest receivable, unrealized gain (loss) on investments, and $34 and $31 held in the revolving fund at June 30, 2008 and 2007, respectively.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
SOUTHERN TRANSMISSION SYSTEM PROJECT
SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS IN FUNDS REQUIRED BY THE BOND INDENTURE FOR THE YEAR ENDED JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	Debt Service Fund	Escrow Fund	General Reserve Fund	Issue Fund	Operating Fund	Revenue Fund	Total
Balance at June 30, 2007	$ -	$ -	$ -	$ 81,606	$ 3,996	$ -	$ 85,602
Additions							
Investment earnings	-	-	-	2,872	9	17	2,898
Discount on investment purchases	-	-	5	1,113	138	26	1,282
Distribution of investment earnings	-	-	(5)	(3,985)	(147)	4,137	-
Revenue from transmission sales	-	-	-	-	-	87,917	87,917
Distribution of revenue	-	-	-	71,856	20,241	(92,097)	-
Bond Proceeds 2008A	-	50,047	-	-	-	-	50,047
Transfer from/to escrow fund required by refunding bonds issuance	-	80	-	(80)	-	-	-
Transfer 2008A Bond Proceeds from Escrow	-	(50,047)	-	50,047	-	-	-
Other Transfers	-	-	2,118	1,627	-	(3,745)	-
Other Receipts	-	-	-	-	-	3,745	3,745
Total	-	80	2,118	123,450	20,241	-	145,889
Deductions							
Operating expenses	-	-	-	-	18,172	-	18,172
Payment of principal	-	-	-	30,950	-	-	30,950
Interest paid	-	-	-	41,164	-	-	41,164
Arbitrage Rebate	-	-	-	-	1,670	-	1,670
LOC & Remarketing Fees	-	-	-	1,419	-	-	1,419
Debt issuance costs	-	-	-	290	-	-	290
2003A Bond Redemption	-	-	-	50,050	-	-	50,050
Total	-	-	-	123,873	19,842	-	143,715
Balance at June 30, 2008	$ -	$ 80	$ 2,118	$ 81,183	$ 4,395	$ -	$ 87,776

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and have been prepared from the trust statements. These balances do not include accrued interest receivable, unrealized gain (loss) on investments, and $49 and $52 held in the revolving fund at June 30, 2008 and 2007, respectively.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
MEAD-PHOENIX PROJECT
SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS IN FUNDS REQUIRED BY THE BOND INDENTURE FOR THE YEAR ENDED JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	Revenue Fund	Debt Service Account	Debt Service Reserve Account	Operating Fund	Reserve & Contingency Fund	Surplus Fund	Total
Balance at June 30, 2007	$ -	$ 4,841	$ 5,915	$ 362	$ 1,248	$ 1,305	$ 13,671
Additions							
Investment earnings	3	67	435	10	96	3	614
Discount on investment earnings	-	26	-	5	3	54	88
Distribution of investment earnings	689	(83)	(435)	(15)	(99)	(57)	-
Transmission revenue	8,452	-	-	-	-	-	8,452
Distribution of revenues	(9,144)	6,064	-	1,333	1,303	444	-
Payments from Western Area Power Administration	-	-	-	-	-	-	-
Other transfers	-	-	-	-	-	-	-
Total	-	6,074	-	1,333	1,303	444	9,154
Deductions							
Construction expenditures	-	-	-	-	930	-	930
Operating expenses	-	-	-	896	-	-	896
Principal payment	-	3,350	-	-	-	-	3,350
Interest paid	-	3,497	-	-	-	-	3,497
Total	-	6,847	-	896	930	-	8,673
Balance at June 30, 2008	$ -	$ 4,068	$ 5,915	$ 799	$ 1,621	$ 1,749	$ 14,152

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and have been prepared from the trust statements. The balances in the funds consist of cash and investments at original cost. These balances do not include accrued interest receivable, unrealized gain (loss) on investments, and $15 and $18 held in the revolving fund at June 30, 2008 and 2007, respectively.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
MEAD-ADELANTO PROJECT
SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS IN FUNDS REQUIRED BY THE BOND INDENTURE FOR THE YEAR ENDED JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	Debt Service Account	Debt Service Reserve Fund	Operating Fund	Reserve & Contingency	Revenue Fund	Surplus Fund	Total
Balance at June 30, 2007	$ 13,679	$ 16,267	$ 645	$ 6,383	$ -	$ 1,880	$ 38,854
Additions							
Investment earnings	21	1,195	11	469	5	21	1,722
Discount on investment earnings	183	-	9	-	-	70	262
Distribution of investment earnings	(204)	(1,195)	(20)	(469)	1,980	(92)	-
Transmission revenue	-	-	-	-	20,827	-	20,827
Distribution of revenues	19,961	-	1,541	-	(22,812)	1,310	-
Payment from Western Area Power Administration	-	-	-	-	-	-	-
Other transfers	-	-	-	-	-	-	-
Total	19,961	-	1,541	-	-	1,309	22,811
Deductions							
Principal payment	11,150	-	-	-	-	-	11,150
Interest paid	10,756	-	-	-	-	-	10,756
Operating expenses	-	-	1,675	-	-	-	1,675
Total	21,906	-	1,675	-	-	-	23,581
Balance at June 30, 2008	$ 11,734	$ 16,267	$ 511	$ 6,383	$ -	$ 3,189	$ 38,084

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and have been prepared from the trust statements. The balances in the funds consist of cash and investments at original cost. These balances do not include accrued interest receivable, unrealized gain (loss) on investments, and $15 and $18 held in the revolving fund at June 30, 2008 and 2007, respectively.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
MULTIPLE PROJECT FUND
SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS IN FUNDS
REQUIRED BY THE BOND INDENTURE FOR THE YEAR ENDED JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	Proceeds Account	Debt Service Account	Earnings Account	Cost of Redemption Account	Total
Balance at June 30, 2007	$ 64,999	$ 1,305	$ -	$ -	$ 66,304
Additions					
Investment earnings	4,605	176	-	-	4,781
Distribution of investment earnings	(4,595)	7,617	(3,022)	-	-
Transfer for debt service payment	(3,071)	-	3,071	-	-
Transfer from debt service account	-	-	-	-	-
Total	(3,061)	7,793	49	-	4,781
Deductions					
Interest paid	-	3,388	-	-	3,388
Payment of principal	-	-	-	-	-
Redemption of bonds	-	-	-	-	-
Cost of redemption	-	-	-	-	-
Total	-	3,388	-	-	3,388
Balance at June 30, 2008	$ 61,938	$ 5,710	$ 49	$ -	$ 67,697

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and have been prepared from the trust statements. The balances in the funds consist of cash and investments at original cost. These balances do not include accrued interest receivable.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
NATURAL GAS BARNETT PROJECT
SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS IN FUNDS REQUIRED BY THE BOND INDENTURE FOR THE YEAR ENDED JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	Revenue Fund	Operating Fund	Debt Service Fund	General Reserve Fund	Project Fund	Capital Fund	Depository Fund	Total
Balance at June 30, 2007	$ -	$ 175	$ 1,089	$ -	$ 9	$ 303	$ -	$ 1,576
Additions								
Investment earnings	5	14	8	1	5	4	-	37
Discount on investment purchases	-	7	7	-	293	1	-	308
Distribution of investment earnings	10	(6)	(3)	(1)	-	-	-	-
Bond Proceeds 2008A	-	-	50,366	-	54,841	-	-	105,207
Receipt from participants	15,624	3,739	-	-	-	-	-	19,363
Distribution of revenues	(15,639)	5,390	8,160	-	(8,761)	10,850	-	-
Other receipts	-	-	-	-	1	(18)	-	(17)
Other transfer	-	5	-	245	(245)	(5)	-	-
Total	-	9,149	58,538	245	46,134	10,832	-	124,898
Deductions								
Construction expenditures	-	-	-	-	-	10,822	-	10,822
Operating expenses	-	8,615	-	-	-	-	-	8,615
Payment of principal	-	-	51,100	-	-	-	-	51,100
Interest paid	-	-	1,786	-	-	-	-	1,786
Debt Issuance Cost	-	-	-	-	1,093	-	-	1,093
Total	-	8,615	52,886	-	1,093	10,822	-	73,416
Balance at June 30, 2008	$ -	$ 709	$ 6,741	$ 245	$ 45,050	$ 313	$ -	$ 53,058

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and have been prepared from the trust statements. The balances in the funds consist of cash and investments at original cost. These balances do not include accrued interest receivable, unrealized gain (loss) on investments, and $18 and $6 held in the revolving fund at June 30, 2008 and 2007, respectively.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
NATURAL GAS PINEDALE PROJECT
SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS IN FUNDS REQUIRED BY THE BOND INDENTURE FOR THE YEAR ENDED JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	Revenue Fund	Operating Fund	Debt Service Fund	General Reserve Fund	Project Fund	Capital Fund	Depository Fund	Total
Balance at June 30, 2007	$ -	$ 10,837	$ 2,313	$ -	$ 400	$ 15,479	$ -	$ 29,029
Additions								
Investment earnings	9	49	7	1	8	22	-	96
Discount on investment purchases	-	441	48	-	96	720	-	1,305
Distribution of investment earnings	9	(1)	(4)	(1)	-	(3)	-	-
Bond Proceeds 2008A	-	-	25,635	-	16,418	-	-	42,053
Receipt from participants	5,913	19,789	-	-	-	-	-	25,702
Distribution of revenues	(5,931)	2,421	4,093	-	(552)	(31)	-	-
Other receipts	-	3	-	-	-	16	-	19
Other transfer	-	(231)	(4)	47	(47)	235	-	-
Total	-	22,471	29,775	47	15,923	959	-	69,175
Deductions								
Construction expenditures	-	-	-	-	-	3,216	-	3,216
Operating expenses	-	21,151	-	-	-	-	-	21,151
Payment of principal	-	-	28,200	-	-	-	-	28,200
Interest paid	-	-	1,035	-	-	-	-	1,035
Debt Issuance Cost	-	-	-	-	1,093	-	-	1,093
Total	-	21,151	29,235	-	1,093	3,216	-	54,695
Balance at June 30, 2008	$ -	$ 12,157	$ 2,853	$ 47	$ 15,230	$ 13,222	$ -	$ 43,509

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and have been prepared from the trust statements. The balances in the funds consist of cash and investments at original cost. These balances do not include accrued interest receivable, unrealized gain (loss) on investments, and $40 and $18 held in the revolving fund at June 30, 2008 and 2007, respectively.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
PREPAID NATURAL GAS PROJECT No. 1
SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS IN FUNDS REQUIRED BY THE BOND INDENTURE FOR THE YEAR ENDED JUNE 30, 2008
(AMOUNTS IN THOUSANDS)

	Revenue Fund	Operating Fund	Debt Service Fund	Project Fund	Cost of Issuance	Total
Balance at June 30, 2007	$ -	$ -	$ -	$ -	$ -	$ -
Additions						
Investment earnings	-	312	422	3	-	737
Discount on investment purchases	-	-	-	3	-	3
Distribution of investment earnings	312	(312)	-	-	-	-
Bond Proceeds 2007A&B	-	9,613	15,063	485,151	-	509,827
Receipt from participants	-	-	-	-	-	-
Distribution of revenues	(312)	312	-	-	-	-
Other receipts	-	-	4,915	-	-	4,915
Other transfer	-	(27)	-	27	-	-
Total	-	9,898	20,400	485,184	-	515,482
Deductions						
Prepayment to J. Aron & Co	-	-	-	480,600	-	480,600
A & G expenses	-	19	-	27	-	46
Payment of principal	-	-	-	-	-	-
Interest paid	-	-	19,126	-	-	19,126
Debt Issuance Cost	-	-	-	4,533	-	4,533
Total	-	19	19,126	485,160	-	504,305
Balance at June 30, 2008	$ -	$ 9,879	$ 1,274	$ 24	$ -	$ 11,177

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and have been prepared from the trust statements. The balances in the funds consist of cash and investments at original cost. These balances do not include accrued interest receivable.

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LOS ANGELES DEPARTMENT OF WATER AND POWER
POWER SYSTEM

Financial Statements and
Required Supplementary Information

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

LOS ANGELES DEPARTMENT OF WATER AND POWER
POWER SYSTEM

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KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Board of Water and Power Commissioners
Department of Water and Power
City of Los Angeles:

We have audited the accompanying balance sheets of the City of Los Angeles' Department of Water and Power's Power Revenue Fund (Power System), an enterprise fund of the City of Los Angeles, California, as of June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in fund net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Los Angeles Department of Water and Power's (the Department) 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Power 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 the 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.

As discussed in note 1, the financial statements of the Power System are intended to present the financial position, and the changes in financial position and, cash flows of only that portion of the business-type activities, and each major fund of the City of Los Angeles, California that is attributable to the transactions of the Power System. They do not purport to, and do not, present fairly the financial position of the City of Los Angeles as of June 30, 2008 and 2007, the changes in its financial position, or its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Power System as of June 30, 2008 and 2007 and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2008 on our consideration of the Power System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in

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accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis included on pages 3 through 12 and the schedules of funding progress for the pension plan and postemployment healthcare plan on page 62 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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.

KPMG LLP

December 10, 2008

The following discussion and analysis of the financial performance of the City of Los Angeles' (the City) Department of Water and Power's (the Department) Power Revenue Fund (the Power System) provides an overview of the financial activities for the fiscal years ended June 30, 2008 and 2007. Descriptions and other details pertaining to the Power System are included in the notes to the financial statements. This discussion and analysis should be read in conjunction with the Power System's financial statements, which begin on page 13.

Using This Financial Report

This annual financial report consists of the Power System's financial statements and required supplementary information and reflects the self-supporting activities of the Power System that are funded primarily through the sale of energy, transmission, and distribution services to the public it serves.

Balance Sheets, Statements of Revenues, Expenses, and Changes in Fund Net Assets, and Statements of Cash Flows

The financial statements provide an indication of the Power System's financial health. The balance sheets include all of the Power System's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes, and which net assets are restricted as a result of bond covenants and other commitments. The statements of revenues, expenses, and changes in fund net assets report all of the revenues and expenses during the time periods indicated. The statements of cash flows report the cash provided by and used in operating activities, as well as other cash sources and uses, such as investment income and cash payments for bond principal and capital additions and betterments.

The following table summarizes the financial condition and changes in fund net assets of the Power System as of and for the fiscal years ended June 30, 2008, 2007, and 2006:

Table 1 – Summary of Financial Condition and Changes in Fund Net Assets

(Amounts in millions)

		June 30		
Assets		**2008**	**2007**	**2006**
Utility plant, net	$	6,212	5,923	5,709
Restricted investments		723	669	955
Other noncurrent assets		1,843	1,843	1,362
Current assets		2,007	1,535	1,720
	$	10,785	9,970	9,746
Liabilities and Fund Net Assets				
Long-term debt, net of current portion	$	4,802	4,183	4,262
Other long-term liabilities		567	756	710
Current liabilities		1,009	763	662
		6,378	5,702	5,634
Fund net assets:				
Invested in capital assets, net of related debt		1,489	1,582	1,774
Restricted		1,306	1,166	1,159
Unrestricted		1,612	1,520	1,179
Total fund net assets		4,407	4,268	4,112
	$	10,785	9,970	9,746

(Continued)

Revenues, Expenses, and Changes in Fund Net Assets

(Amounts in millions)

	Year ended June 30		
	2008	2007	2006
Residential	$ 884	818	759
Commercial and industrial	1,771	1,643	1,545
Sales for resale	90	103	153
Other	36	36	39
Total operating revenues	2,781	2,600	2,496
Fuel for generation and purchased power	(1,338)	(1,245)	(1,283)
Maintenance and other operating expenses	(1,120)	(1,021)	(1,004)
Total operating expenses	(2,458)	(2,266)	(2,287)
Operating income	323	334	209
Nonoperating revenues (expenses):			
Investment income	159	153	123
Other nonoperating revenues and expenses, net	17	15	13
Debt expenses	(195)	(191)	(167)
Income before capital contributions and transfers	304	311	178
Capital contributions	18	20	30
Transfer to the reserve fund of the City of Los Angeles	(182)	(175)	(158)
Increase in fund net assets	140	156	50
Beginning balance of fund net assets	4,268	4,112	4,062
Ending balance of fund net assets	$ 4,408	4,268	4,112

Assets

Utility Plant

During fiscal years 2008 and 2007, the Power System capitalized $434 million and $281 million of additions, respectively, including transfers from construction work in progress to utility plant in service. Of the $434 million, $312 million, or 72%, mostly related to distribution plant assets to include poles, towers, fixtures, replacement of transformers, underground conductors, and conduit. The increase is attributable to our new Power Reliability Program (PRP) to improve distribution system reliability. In addition, during 2008, the Power System had a net decrease of $85 million for transmission plant. The decrease is a result of retired assets from the Sylmar Converter Station. Of the $281 million during fiscal year 2007, $156 million, or 56%, related to distribution plant assets. In addition, during 2007, the Power System capitalized $53 million related to transmission assets.

Furthermore, the Power System had capital improvements to its transmission and distribution utility plant assets to maintain and support normal load growth of the distribution and transmission systems.

Construction work in progress increased by $116 million in fiscal year 2008 and by $203 million in fiscal year 2007. The 2008 increases were mostly attributable to the Pinetree Wind Project, Generation System, Underground Transmission, and Automated Meter Reading (AMR). The increase in 2007 was mostly attributable to the Pinetree Wind Project and Distribution Control Systems.

Additional information regarding the Power System's utility plant assets can be found in note 4 to the accompanying financial statements.

The Department's strategy is to have generating utility plant assets that can produce energy from a variety of fuel types. This is referred to as a hedged power supply. This is important in that if the costs related to a particular fuel type rise substantially in a short period of time, the Department can utilize its mix of generation assets to meet customer demand and to minimize increases in fuel expense. The Department has implemented a $2.4 billion, Integrated Resource Plan 2007 (IRP) focusing on renewable power, greenhouse gas reduction, and energy efficiency through fiscal year 2015. The IRP is a energy resource planning document that provides a framework for assuring that the future energy needs of customers are reliably met in a cost-effective manner, and are consistent with the City's commitment to environmental leadership. Through June 30, 2008, the Department has incurred $1.3 billion related to such upgrades.

The tables that follow summarize the generating resources available to the Department as of June 30, 2008. These resources include those owned by the Department (either solely or jointly with other utilities) as well as resources available through long-term purchase agreements. Generating station capacity is measured in megawatts (MWs).

Table 2 – Department-Owned Generation Facilities

Type of fuel	Number of facilities	Number of units	Net maximum capability (MWs)	Net dependable capability (MWs)
Natural Gas	4 [1]	22	3,421	3,354
Large Hydro	1	6 [2]	1,175	1,075
Renewables	14	22 [3]	233 [4]	177
Subtotal	19	50	4,829	4,606
CDWR	—	—	(65) [5]	(65)
Total	19	50	4,764	4,541

[1] Consists of the following generating stations: Harbor Station, Haynes Station, Scattergood Station, and Valley Station.

(2) The Castaic Plant currently has six out of seven units available due to ongoing modernization work scheduled to be completed by 2011.

(3) The Department-owned renewable resources include the 22 Los Angeles Aqueduct, Owens Valley, and Owens Gorge small hydro units that qualify under the Department's renewable resource definition. This number does not include two of the Scattergood gas-fueled units that partially burn digester gas in which the output related to the digester gas also qualifies under the Department's renewable resource definition.

(4) Includes 22 MWs of renewable energy generated at the Scattergood Station by burning digester gas from the Hyperion Treatment Plant.

(5) Energy payable to the California Department of Water Resources for energy generated at the Castaic Plant.

Table 3 – Jointly Owned and Contracted Facilities

Type	Number of facilities	Net maximum capability (MWs)	Net dependable capability (MWs)
Large Hydro	1	491 (1)	434
Nuclear	1	387 (2)	381
Coal	3	1,526 (3)	1,526
Renewables/DG	1,317 (4)	141	141
Total(5)	1,322	2,545	2,482

(1) The Department's Hoover Plant contract entitlement is 25.16% of the Hoover total contingent capacity of 1,951 MWs. Current reduced lake level has reduced available capacity to 434 MWs annual average for fiscal years 2007 – 2008.

(2) The Department's Palo Verde Station (PVNGS) entitlement is 9.66% of the maximum net plant capability of 4,008 MWs. Recent capacity increase is from upgrading Unit 3 completed on January 2008.

(3) The Department's current Intermountain Station (IPP) entitlement is 57.67% of the maximum net plant capability of 1,800 MW. A portion of the IPP entitlement is subject to variable recall. The Department's Navajo Station entitlement is 21.20% of the maximum net plant capability of 2,250 MWs. The Mohave Station generating units were removed from service at the end of 2005.

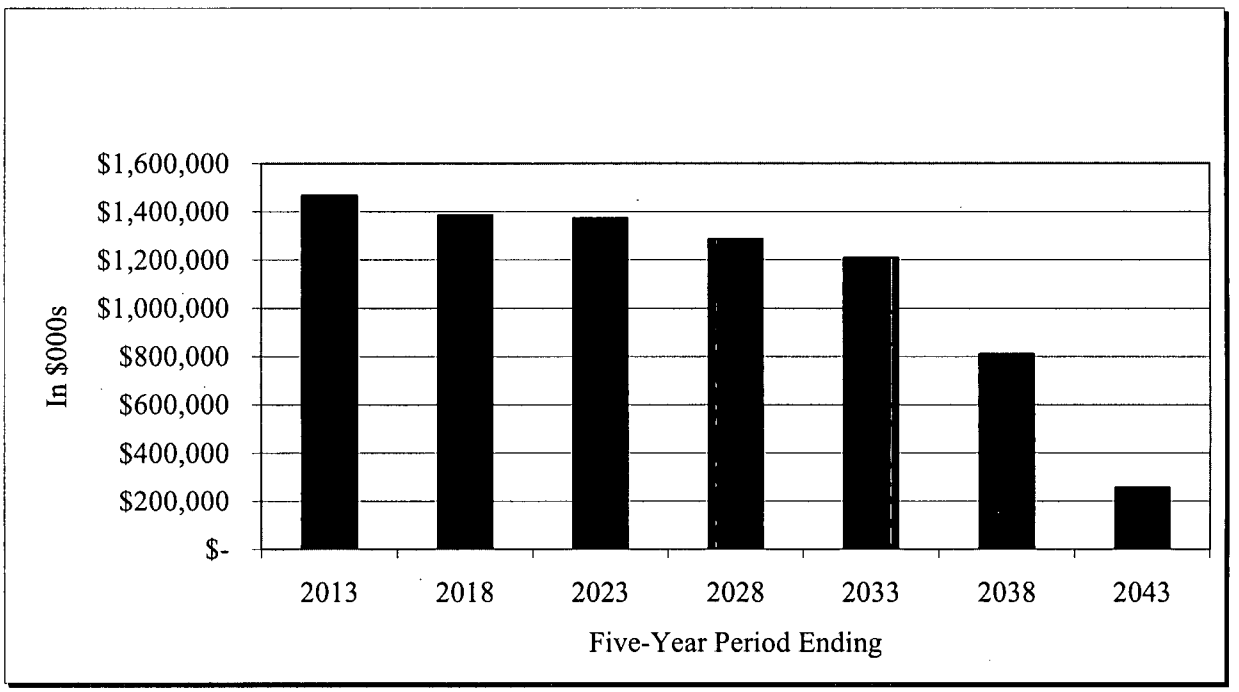
(4) The Department's contract renewable resources include energy generated from various landfills in the Los Angeles area, hydro from British Columbia, Canada, wind from Wyoming, variety of solar photovoltaic resources and fuel cell installations, also located in the Los Angeles area, and green energy purchases. Customer distributed generation (DG) units located in the City also provide energy resources.

Liabilities and Fund Net Assets

Long-Term Debt

As of June 30, 2008, the Power System's total outstanding long-term debt balance was approximately $5.0 billion. The increase of $611 million over the prior year resulted from the sale of $654 million of the Power System revenue bonds and scheduled maturities of $43 million. Outstanding principal, plus scheduled interest as of June 30, 2008, is scheduled to mature as shown in the chart below:

Chart: Debt Service Requirements



As of June 30, 2008, $51 million principal amount of long-term debt is considered defeased and remains outstanding. This debt, together with trust funds set aside for its full repayment at scheduled maturity dates, is not reflected on the balance sheet.

In addition, the Power System had $529 million and $503 million on deposit in trust funds restricted for the use of debt reduction as of June 30, 2008 and 2007, respectively.

In October 2008, Standard & Poor's Rating Services, Moody's Investors Service, and Fitch Ratings affirmed the Power System's bond rating of AA-, Aa3, and AA-, respectively, due to the Power System's broad revenue stream, approval of the rate increases, and the City Council authorizing the unfreezing of the energy cost adjustment factor, which allows the Power System to fully recover changes in purchased power costs, fuel costs, and renewable resource costs. Additional information regarding the Power System's long-term debt can be found in note 10 to the financial statements.

Changes in Fund Net Assets

Operating Revenues

The operating revenues of the Power System are generated from wholesale and retail customers. There are four major customer categories of retail revenue. These categories include residential, commercial, industrial, and other, which includes public street lighting. Table 4 summarizes the percentage contribution of retail revenues from each customer segment in fiscal years 2008 and 2007.

Table 4 – Revenue and Percentage of Revenue by Customer Class

(Amounts in thousands)

	Fiscal year 2008		Fiscal year 2007	
	Revenue	Percentage	Revenue	Percentage
Customer type:				
Residential	$ 883,503	33%	$ 817,642	33%
Commercial	1,535,554	57	1,428,282	57
Industrial	235,502	9	214,795	9
Other	36,390	1	36,353	1
Total retail revenue	$ 2,690,949	100%	$ 2,497,072	100%

While commercial customers consume the most electricity, residential customers represent the largest customer class. As of June 30, 2008 and 2007, the Power System had approximately 1.4 million customers. As shown in Table 5, 1.3 million, or 87%, of total customers were in the residential customer class.

Table 5 – Number of Customers and Percentage of Customers by Customer Class

(Numbers in thousands)

	Fiscal year 2008		Fiscal year 2007	
	Number	Percentage	Number	Percentage
Customer type:				
Residential	1,252	87%	1,247	86%
Commercial	179	12	185	13
Industrial	13	1	14	1
Other	2	—	2	—
	1,446	100%	1,448	100%

Fiscal Year 2008

Retail revenues increased $193.9 million while wholesale revenues decreased $12.6 million from fiscal year 2007. The increase in retail revenue is due to a 1% increase in consumption, an increase in base rates approved by the City Council in April 2008, and an increase in costs that are recoverable through the energy cost adjustment billing factor. The decrease in wholesale revenue is due the deferral of $23.6 million to the rate stabilization account.

Fiscal Year 2007

Retail revenues increased $154.2 million while wholesale revenues decreased $50.5 million from fiscal year 2007. The increase in retail revenue is mostly due to the unfreezing of the energy cost adjustment factor and a 3.2% increase in retail consumption. The decrease in wholesale revenue is due to decreased sales activity.

Operating Expenses

Fuel for generation and purchased power are two of the largest expenses that the Power System incurs each fiscal year. Fuel for generation expense includes the cost of fuel that is used to generate energy. The majority of fuel costs include the cost of natural gas, coal, and nuclear fuel.

Purchased power expense includes the cost of buying power on the open market and paying the current portion of the Power System's purchase power contracts. Under these purchase power contracts, the Department has an entitlement to the energy that is produced at various generating stations and an entitlement to the use of various transmission facilities. Most of these contracts require the Department to pay for these services regardless of whether the energy or transmission is used. These types of contracts are referred to as "take-or-pay" contracts.

Depreciation expense is computed using the straight-line method based on service lives for all projects completed after July 1, 1973, and for all office and shop structures, related furniture and equipment, and transportation and construction equipment. Depreciation for facilities completed prior to July 1, 1973 is computed using the 5% sinking fund method based on estimated service lives. The Department uses the composite method of depreciation and, therefore, groups assets into composite groups for purposes of calculating depreciation expense. Estimated service lives range from 5 to 75 years. Amortization expense for computer software is computed using the straight-line method over five years.

The table below summarizes the Power System's operating expenses during fiscal years 2008 and 2007:

Table 6 – Operating Expenses and Percentage of Expense by Type of Expense
(Amounts in thousands)

	Fiscal year 2008		Fiscal year 2007	
	Expense	Percentage	Expense	Percentage
Type of expense:				
Fuel for generation	$ 647,814	26%	$ 545,221	24%
Purchased power	690,200	28	699,841	31
Other operating costs	591,211	24	496,599	22
Maintenance	246,831	10	254,988	11
Depreciation and amortization	281,541	12	269,587	12
	$ 2,457,597	100%	$ 2,266,236	100%

Fiscal Year 2008

Fiscal year 2008 operating expenses were $191 million higher as compared to fiscal year 2007. Fuel for generation expenses were $103.0 million higher in fiscal year 2008 due to the increase in the price of natural gas.

Other operating costs increased by $95 million with an offset in maintenance expense of $8 million decrease, and depreciation expense increased by $12 million as compared to fiscal year 2007. The increase in other operating costs was primarily due to $45 million in distribution expenses, $18 million in public benefits, $13 million in administrative and general expenses, $12 million in transmission expenses, and $6 million in other production expenses. The decrease in maintenance costs was mostly related to distribution plant.

Fiscal Year 2007

Fiscal year 2007 operating expenses were $21 million lower as compared to fiscal year 2006. Purchased power costs were $42 million lower as compared to fiscal year 2006. The decrease is attributable to lower sales for resale. This decrease was offset by a $4 million increase in fuel for generation expense related to natural gas run plants.

Other operating costs increased by $24 million and were offset by decreases in maintenance and depreciation expense of $5 million and $1 million, respectively. The increase in other operating costs was primarily due to $10 million in customer accounting and collection expenses and $8 million in other production expenses. The decrease in maintenance costs was mostly related to distribution plant.

Nonoperating Revenues and Expenses

Fiscal Year 2008

The major nonoperating activities of the Power System for fiscal year 2008 included the transfer of $182 million to the City's General Fund, interest income earned on investments of $159 million, and $196 million in debt expenses.

The transfer to the City is based on 7% of the previous year's operating revenues. Operating revenues for fiscal year 2007 were $2.6 billion, which generated a city transfer of $182 million.

Interest income increased $6.4 million due to more cash available for investing in fiscal year 2008 as compared to 2007.

The increase in debt expense is due to having 8.5 months of interest on the 2007 series debt that were issued October 2007 offset by lower interest rates on variable rate debt. The variable rate bonds' daily and weekly rate range decrease from 3.70% to 3.76% as of June 30, 2007 to 1.55% to 1.65% as of June 30, 2008.

Fiscal Year 2007

The major nonoperating activities of the Power System for fiscal year 2007 included the transfer of $174.7 million to the City's General Fund, interest income earned on investments of $153 million, and $191 million in debt expenses.

The transfer to the City is based on 7% of the previous year's operating revenues. Operating revenues for fiscal year 2006 were $2.5 billion, which generated a city transfer of $174.7 million.

Interest income increased $30 million due to more cash available for investing in fiscal year 2007 as compared to 2006.

The increase in debt expense is due to having a full year of interest expense on the 2005 series debt that was issued December 2005 offset by slightly lower interest rates on variable rate debt. The variable rate bonds' daily and weekly rate range increased from 3.94% to 3.95% as of June 30, 2006 to 3.70% to 3.76% as of June 30, 2007.

Other Significant Matters

In November 6, 2008 the Power System sold $550 million in fixed rate bonds with an effective interest rate of 5.28%.

LOS ANGELES DEPARTMENT OF WATER AND POWER
POWER SYSTEM

Balance Sheets

June 30, 2008 and 2007

(Amounts in thousands)

Assets		2008	2007
Noncurrent assets:			
Utility plant:			
Generation	$	3,514,113	3,479,754
Transmission		877,550	962,290
Distribution		4,755,330	4,443,792
General		1,033,043	979,960
		10,180,036	9,865,796
Accumulated depreciation		(5,119,238)	(4,969,876)
		5,060,798	4,895,920
Construction work in progress		889,226	773,694
Nuclear fuel, at amortized cost		32,982	18,311
Natural gas field, net		228,824	235,163
		6,211,830	5,923,088
Restricted investments		723,346	668,710
Long-term California wholesale energy receivable, net		116,333	116,339
Long-term notes and other receivables, net of current portion		1,107,510	1,117,142
Deferred debits		160,000	228,181
Net pension asset		77,479	84,710
Net postemployment asset		381,462	296,053
Total noncurrent assets		8,777,960	8,434,223
Current assets:			
Cash and cash equivalents – unrestricted		389,529	448,817
Cash and cash equivalents – restricted		494,512	196,959
Cash collateral received from securities lending transactions		239,703	237,946
Customer and other accounts receivable, net of $14,555 allowance for losses in both 2008 and 2007		323,238	282,897
Current portion of long-term notes receivable		14,032	31,778
Accrued unbilled revenue		153,585	147,335
Under recovered costs		190,609	19,381
Materials and fuel		134,847	118,349
Prepayments and other current assets		67,504	52,350
Total current assets		2,007,559	1,535,812
Total assets	$	10,785,519	9,970,035

(Continued)

LOS ANGELES DEPARTMENT OF WATER AND POWER
POWER SYSTEM

Balance Sheets

June 30, 2008 and 2007

(Amounts in thousands)

Fund Net Assets and Liabilities		2008	2007
Fund net assets:			
Invested in capital assets, net of related debt	$	1,489,096	1,581,687
Restricted:			
Debt service		593,283	546,071
Capital projects		110,234	102,799
Other postemployment benefits		381,462	296,053
Pension benefits		77,479	84,710
Other purposes		143,604	136,487
Unrestricted		1,612,382	1,520,077
Total fund net assets		4,407,540	4,267,884
Long-term debt, net of current portion		4,801,728	4,183,127
Other noncurrent liabilities:			
Accrued liabilities		31,340	228,181
Deferred credits		503,436	499,677
Accrued workers' compensation claims		32,089	28,368
Total other noncurrent liabilities		566,865	756,226
Current liabilities:			
Current portion of long-term debt		175,455	158,756
Accounts payable and accrued expenses		411,006	198,836
Accrued interest		90,682	78,507
Accrued employee expenses		74,090	84,908
Due to Water System		18,450	3,845
Obligation under securities lending transactions		239,703	237,946
Total current liabilities		1,009,386	762,798
Total liabilities		6,377,979	5,702,151
Total liabilities and fund net assets	$	10,785,519	9,970,035

See accompanying notes to financial statements.

LOS ANGELES DEPARTMENT OF WATER AND POWER
POWER SYSTEM

Statements of Revenues, Expenses, and Changes in Fund Net Assets

Years ended June 30, 2008 and 2007

(Amounts in thousands)

	2008	2007
Operating revenues:		
Residential	$ 883,503	817,642
Commercial and industrial	1,771,056	1,643,077
Sales for resale	90,375	102,983
Other	49,043	45,519
Uncollectible accounts	(12,653)	(9,166)
	2,781,324	2,600,055
Operating expenses:		
Fuel for generation	647,814	545,221
Purchased power	690,200	699,841
Maintenance and other operating expenses	838,042	751,587
Depreciation and amortization	281,541	269,587
	2,457,597	2,266,236
Operating income	323,727	333,819
Nonoperating revenues (expenses):		
Investment income	159,334	152,936
Other nonoperating income	22,035	20,556
	181,369	173,492
Other nonoperating expenses	(5,463)	(4,899)
	175,906	168,593
Debt expenses:		
Interest on debt	(210,468)	(201,840)
Allowance for funds used during construction	14,894	10,773
	(195,574)	(191,067)
Income before capital contributions and transfers	304,059	311,345
Capital contributions	17,601	19,719
Transfers to the reserve fund of the City of Los Angeles	(182,004)	(174,747)
Increase in fund net assets	139,656	156,317
Fund net assets:		
Beginning of year	4,267,884	4,111,567
End of year	$ 4,407,540	4,267,884

See accompanying notes to financial statements.

LOS ANGELES DEPARTMENT OF WATER AND POWER
POWER SYSTEM

Statements of Cash Flows

Years ended June 30, 2008 and 2007

(Amounts in thousands)

	2008	2007
Cash flows from operating activities:		
Cash receipts:		
Cash receipts from customers	$ 2,553,451	2,464,217
Cash receipts from customers for other agency services	463,001	379,152
Cash receipts from interfund services provided	416,442	308,898
Other cash receipts	23,603	17,074
Cash disbursements:		
Cash payments to employees	(464,543)	(473,496)
Cash payments to suppliers	(1,622,551)	(1,451,947)
Cash payments for interfund services used	(448,367)	(369,717)
Cash payments to other agencies for fees collected	(451,848)	(366,247)
	469,188	507,934
Cash flows from noncapital financing activities:		
Payments to the reserve fund of the City of Los Angeles	(182,004)	(174,747)
Payments to the Retiree Health Benefits Fund	(68,000)	(425,672)
Interest paid on noncapital revenue bonds	(14,182)	(20,014)
	(264,186)	(620,433)
Cash flows from capital and related financing activities:		
Additions to plant and equipment	(568,469)	(489,135)
Capital contributions	24,425	22,937
Principal payments and maturities on long-term debt	(43,033)	(108,434)
Proceeds from issuance of bonds and revenue certificates	674,136	—
Debt interest payments	(184,326)	(182,981)
	(97,267)	(757,613)
Cash flows from investing activities:		
Purchases of investment securities	(1,299,739)	(1,839,545)
Sales and maturities of investment securities	1,245,102	2,126,176
Proceeds from notes receivable	31,778	32,887
Investment income	153,389	149,867
	130,530	469,385
Net increase (decrease)	238,265	(400,727)
Cash and cash equivalents:		
Cash and cash equivalents at July 1, 2007 and 2006 (including $196,959 and $731,205 reported in restricted accounts, respectively)	645,776	1,046,503
Cash and cash equivalents at June 30, 2008 and 2007 (including $494,512 and $196,959 reported in restricted accounts, respectively)	$ 884,041	645,776

(Continued)

LOS ANGELES DEPARTMENT OF WATER AND POWER
POWER SYSTEM

Statements of Cash Flows

Years ended June 30, 2008 and 2007

(Amounts in thousands)

		2008	2007
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	323,727	333,818
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		281,541	269,587
Depletion expenses		5,668	6,358
Amortization of nuclear fuel		7,411	10,227
Provision for losses on customer and other accounts receivable		12,653	9,166
Changes in assets and liabilities:			
Customer and other accounts receivable		(58,267)	(15,441)
Accrued unbilled revenue		(6,250)	(6,949)
Under recovered costs		(171,228)	(19,382)
Materials and fuel		(16,497)	(6,242)
Deferred debits		68,181	(228,181)
Net pension asset		7,231	15,083
Accounts payable and accrued expenses		212,170	(24,598)
Accrued liabilities		(196,841)	228,181
Deferred credits		3,759	(64,486)
Due to Water System		14,605	(9,562)
Net other postemployment asset		(17,409)	18,795
Workers' compensation liability and other		(1,266)	(8,440)
Net cash provided by operating activities	$	469,188	507,934

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

The City of Los Angeles' (the City) Department of Water and Power (the Department) exists as a separate proprietary department of the City under and by virtue of the City Charter enacted in 1925 and as revised effective July 2000. The Department's Power Revenue Fund (the Power System) is responsible for the generation, transmission, and distribution of electric power for sale in the City. The Power System is operated as an enterprise fund of the City.

(a) Method of Accounting

The accounting records of the Power System are maintained in accordance with U.S. generally accepted accounting principles (GAAP) for governmental entities. The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. The Department has elected to follow all Governmental Accounting Standards Board (GASB) statements and only Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989.

The Department's rates are determined by the board of water and power commissioners (the Board) and are subject to review and approval by the City Council. As a regulated enterprise, the Department utilizes Statement of Financial Accounting Standards (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. Such effects primarily concern the time at which various items enter into the determination of changes in fund net assets. Accordingly, the Power System records various regulatory assets and liabilities to reflect the Board's actions. Regulatory liabilities are recorded in deferred credits and regulatory assets were included as deferred debits and under recovered costs on the balance sheets. Management believes that the Power System meets the criteria for continued application of SFAS No. 71, but will continue to evaluate its applicability based on changes in the regulatory and competitive environment (see notes 3 and 14(d)ii).

(b) Use of Estimates

The preparation of financial statements in conformity with GAAP 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 amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Utility Plant

The costs of additions to utility plant and replacements of retired units of property are capitalized. Costs include labor, materials, an allowance for funds used during construction (AFUDC), and allocated indirect charges, such as engineering, supervision, transportation and construction equipment, retirement plan contributions, healthcare costs, and certain administrative and general expenses. The costs of maintenance, repairs, and minor replacements are charged to the appropriate operations and maintenance expense accounts.

(d) Impairment of Long-Lived Assets

The Department follows GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (GASB No. 42). Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. Under GASB No. 42, impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the cause of the diminished service utility of the capital asset.

(e) Depreciation and Amortization

Depreciation expense is computed using the straight-line method based on service lives for all projects completed after July 1, 1973, and for all office and shop structures, related furniture and equipment, and transportation and construction equipment. Depreciation for facilities completed prior to July 1, 1973 is computed using the 5.0% sinking fund method based on estimated service lives. The Department uses the composite method of depreciation and, therefore, groups assets into composite groups for purposes of calculating depreciation expense. Estimated service lives range from 5 to 75 years. Amortization expense for computer software is computed using the straight-line method over five years. Depreciation and amortization expense as a percentage of average depreciable utility plant in service was 2.8% for both fiscal years 2008 and 2007.

(f) Nuclear Decommissioning

The Department owns a 5.70% direct ownership interest in the Palo Verde Nuclear Generating Station (PVNGS). In addition, through its participation in the Southern California Public Power Authority (SCPPA), the Department is party to a contract for an additional 3.95% of the output of PVNGS. Nuclear decommissioning costs associated with the Power System's output entitlement are included in purchased power expense (see note 6).

Decommissioning of PVNGS is expected to commence subsequent to the year 2024. The total cost to decommission the Power System's direct ownership interest in PVNGS is estimated to be $117 million in 2007 dollars. This estimate is based on an updated site-specific study prepared by an independent consultant in 2008. As of June 30, 2008 and 2007, the Power System has recorded $129.8 million and $122.4 million, respectively, to accumulated depreciation to provide for the decommissioning liability.

Prior to December 1999, the Power System contributed $70.2 million to external trusts established in accordance with the PVNGS participation agreement and Nuclear Regulatory Commission requirements. During fiscal year 2000, the Department suspended contributing additional amounts to the trust funds, as management believes that contributions made, combined with reinvested earnings, will be sufficient to fully fund the Department's share of decommissioning costs. The Department will continue to reinvest its investment income on the trust investments into the decommissioning trusts. The Department reinvested $7.4 million and $5.8 million of investment income in fiscal years

2008 and 2007, respectively. Decommissioning funds, which are included in restricted investments, totaled $110.2 million and $102.8 million as of June 30, 2008 and 2007 (at fair value), respectively. The Department's current accounting policy recognizes any realized and unrealized investment earnings from nuclear decommissioning trust funds as a component of accumulated depreciation.

(g) Nuclear Fuel

Nuclear fuel is amortized and charged to fuel for generation on the basis of actual thermal energy produced relative to total thermal energy expected to be produced over the life of the fuel. Under the provisions of the Nuclear Waste Policy Act of 1982, the federal government assesses each utility with nuclear operations, including the Power System, $1 per megawatt hour of nuclear generation. The Power System includes this charge as a current year expense in fuel for generation. See note 14 for discussion of spent nuclear fuel disposal.

(h) Natural Gas Field

In July 2005, the Power System acquired approximately a 74.5% ownership interest in gas properties located in Pinedale, Wyoming. The Power System uses the successful efforts method of accounting for its investment in gas producing properties. Costs to acquire the mineral interest in gas producing properties, to drill and equip exploratory wells that find proven reserves, and to drill and equip development wells are capitalized. Costs to drill exploratory wells that do not find proven reserves are expensed. Capitalized costs of gas producing properties are depleted by the unit-of-production method based on the estimated future production of the proved developed producing wells.

Depletion expense related to the gas field is recorded as a component of fuel for generation expense. During fiscal years 2008 and 2007, the Power System recorded $7.4 million and $10.2 million of depletion expense, respectively.

(i) Cash and Cash Equivalents

As provided for by the State of California Government Code (the Code), the Power System's cash is deposited with the City Treasurer in the City's general investment pool for the purpose of maximizing interest earnings through pooled investment activities. Cash and cash equivalents in the City's general investment pool are reported at fair value and changes in unrealized gains and losses are recorded in the statements of revenues, expenses, and changes in fund net assets. Interest earned on such pooled investments is allocated to the participating funds based on each fund's average daily cash balance during the allocation period. The City Treasurer invests available funds of the City and its independent operating departments on a combined basis. The Power System classifies all cash and cash equivalents that are restricted either by creditors, the Board, or by law, as restricted cash and cash equivalents on the balance sheets. The Power System considers its portion of pooled investments in the City's pool to be cash and cash equivalents.

At June 30, 2008 and 2007, restricted cash and cash equivalents include the following (amounts in thousands):

	June 30	
	2008	2007
Bond redemption and interest funds	$ 153,485	120,044
Construction funds	254,449	483
Self-insurance fund	83,878	73,868
Other	2,700	2,564
	$ 494,512	196,959

(j) Materials and Fuel

Materials and supplies are recorded at average cost. Fuel is recorded at lower of cost or market, on an average cost basis.

(k) Accrued Unbilled Revenue

Accrued unbilled revenue is the receivable for estimated energy sales during the period for which the customer has not been billed.

(l) Restricted Investments

Restricted investments include primarily commercial paper, U.S. government and governmental agency securities, and corporate bonds. Investments are reported at fair value and changes in unrealized gains and losses are recorded in the statements of revenues, expenses, and changes in fund net assets except for Nuclear Decommissioning Trust Funds. The stated fair value of investments is generally based on published market prices or quotations from major investment dealers (see note 7).

(m) Accrued Employee Expenses

Accrued employee expenses include accrued payroll and an estimated liability for vacation leave, sick leave, and compensatory time, which is accrued when employees earn the rights to the benefits. Below is a schedule of accrued employee expenses as of June 30, 2008 and 2007 (amounts in thousands):

	2008	2007
Type of expenses:		
Accrued payroll	$ 12,793	29,352
Accrued vacation	40,992	37,704
Accrued sick leave	9,433	8,727
Compensatory time	10,872	9,125
Total	$ 74,090	84,908

(n) Debt Expenses

Debt premium, discount, and issue expenses are deferred and amortized to debt expense using the effective-interest method over the lives of the related debt issues. Gains and losses on refundings related to bonds redeemed by proceeds from the issuance of new bonds are amortized to interest on debt using the effective-interest method over the shorter of the life of the new bonds or the remaining term of the bonds refunded.

(o) Gas and Electricity Option and Location Swap Agreements

Gas and electricity option and location swap agreements are accounted for on a settlement basis (see note 9).

(p) Accrued Workers' Compensation Claims

Liabilities for unpaid workers' compensation claims are recorded at their present value, (see note 13).

(q) Customer Deposits

Customer deposits represent deposits collected from customers upon opening of new accounts. These deposits are obtained when the customer does not have a previously established credit history with the Department. Original deposits plus interest are paid to the customer once a satisfactory payment history is maintained, generally after one to three years. The Water System is responsible for collection, maintenance, and refunding of these deposits for all the Department's customers, including those of the Power System. As such, the Water System's balance sheets include a deposit liability of $77.0 million and $80.0 million as of June 30, 2008 and 2007, respectively, for all customer deposits collected. In the event that the Water System defaults on refunds of such deposits, the Power System would be required to pay amounts it owes its customers.

(r) Revenues

The Power System's rates are established by a rate ordinance, which is approved by the City Council. The Power System sells energy to the City's other departments at rates provided in the ordinance. The Power System recognizes energy costs in the period incurred and accrues for estimated energy sold but not yet billed.

Effective October 1, 2006, the Energy Cost Adjustment Factor (ECAF), which is a billing factor defined in the electric rate ordinance was unfrozen. This change allows the Power System to increase or decrease the factor on a quarterly basis in compliance with the ordinance. While this change allows the Power System to fully recover fuel costs, purchased power costs, and other costs outlined in the ordinance, the difference between the amount billed to customers, and the value of the costs allowed to be recovered through the factor create an over/under recovered amount. Costs that are under recovered will be recovered in future periods. Amounts over recovered will be factored into future quarterly rates. As of June 30, 2008 and 2007, the amount of under recovered costs was $190.6 million, and $19.4 million, respectively. These balances are recorded as current assets on the balance sheets.

Operating revenues are revenues derived from activities that are billable in accordance with the electric rate ordinance approved by the City Council.

(s) ***Capital Contributions***

Capital contributions and other grants received by the Department for constructing utility plant and other activities are recognized when all applicable eligibility requirements, including time requirements, are met.

(t) ***Allowance for Funds Used During Construction (AFUDC)***

An AFUDC charge represents the cost of borrowed funds used for the construction of utility plant. Capitalized AFUDC is included as part of the cost of utility plant and as a reduction of debt expenses. As of June 30, 2008 and 2007, the average AFUDC rates were 4.4% and 4.6%, respectively.

(u) ***Use of Restricted and Unrestricted Resources***

The Power System's policy is to use unrestricted resources prior to restricted resources to meet expenses to the extent that it is prudent from an operational perspective. Once it is not prudent, restricted resources will be utilized to meet intended obligations.

(v) ***Reclassifications***

Certain financial statement items for 2007 have been reclassified to conform to the 2008 presentation.

(2) Recent Accounting Pronouncements

(a) ***GASB No. 48***

In September 2006, the GASB issued Statement No. 48, *Board Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* (GASB No. 48). This Statement establishes criteria that governments will use to ascertain whether the proceeds received from an exchange of an interest in expected cash flows for immediate cash payments should be reported as revenue or as a liability. The Department has determined that this statement and the expanded disclosures of pledged revenues does not apply to its stand-alone financial statements as its operations are financed primarily by a single major revenue source.

(b) ***GASB No. 49***

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB No. 49). 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 the document 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. This statement is effective for the Department beginning fiscal year 2009. The Department has not yet determined the financial statement impact of adopting this new statement.

(c) GASB No. 50

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures – an amendment to GASB Statement's No. 25 and No 27* (GASB No. 50). 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 notes to the 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 disclosures and RSI requirements of GASB 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 to requirements of GASB 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*. The Department has implemented these disclosures in fiscal year 2008.

(d) GASB No. 51

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB No. 51). This statement establishes accounting and financial reporting standards for intangible assets. Intangible assets include, but are not limited to, easements, water rights, timber rights, patents, trademarks, and computer software. This statement is effective for the Department beginning fiscal year 2010. The Department has not yet determined the financial statement impact of adopting this new statement.

(e) GASB No. 53

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Common types of derivative instruments used by the Department include electricity swaps, forward contracts, and financial natural gas hedges. Governments enter into derivative instruments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedgeable items); or to lower cost of borrowings. Governments often enter into derivative instruments with the intention of effectively fixing cash flows or synthetically fixing prices. The changes in fair value of derivative instruments that are used for investment purposes or that are reported as investment derivative instruments because of ineffectiveness are reported within the investment revenue classification. Alternatively, the changes in fair value of derivative instruments that are classified as hedging derivative instruments are reported in the statements of net assets or deferrals on the balance sheets. This statement is effective for the Department beginning fiscal year 2010. The Department has not yet determined the financial statement impact of adopting this new statement.

(3) Regulatory Matters

(a) Federal Regulation of Transmission Access

The Energy Policy Act of 1992 (the Energy Policy Act) made fundamental changes in the federal regulation of the electric utility industry, particularly in the area of transmission. As amended by the Energy Policy Act, Sections 211, 212, and 213 of the Federal Power Act (FPA) provide Federal Energy Regulatory Commission (FERC) authority, upon application by any electric utility, federal power marketing agency, or other person or entity generating electric energy for sale or resale, to require a transmitting utility to provide transmission services (including any enlargement of transmission capacity necessary to provide such services) to the applicant at rates, charges, terms, and conditions set by FERC based on standards and provisions in the FPA. Under the Energy Policy Act, electric utilities owned by municipalities and other public agencies, which own or operate electric power transmission facilities that are used for the sale of electric energy at wholesale rates are "transmitting utilities" subject to the requirements of Sections 211, 212, and 213.

FERC has encouraged in the past the voluntary formation of regional transmission organizations (RTOs) independent from owners of generation and other market participants that will provide transmission access on a nondiscriminatory basis to buyers and sellers of power. Investor-owned utilities (IOUs) and publicly owned utilities have been encouraged to participate in the formation and operation of RTOs, but are not, at this time, being ordered by FERC to participate. FERC has adopted a "go slow" approach to the issue of RTO formation in the western United States; it is contemporaneously engaged in a wholesale overhaul of the California market design, referred to initially as the Market Design 2002 proceeding and lately as the Market Redesign and Technology Update (MRTU) proceeding. These FERC proceedings will have potential impacts on every electric utility doing business in California. MRTU involves a comprehensive overhaul of the electricity markets administered by California Independent System Operator (CAISO), including the areas of transmission congestion management, trading and scheduling energy in the day ahead, or spot market, improved market power mitigation, and pricing transparency measures and system improvements to increase operational efficiency and enhance reliability, among other things. Currently, MRTU is scheduled to be implemented on February 1, 2009. It is not certain at this time what impact, if any, FERC's final decision on MRTU will have on the Power System. In addition, CAISO has announced its intention to implement further market changes over the next five years.

(b) Federal Energy Legislation

On August 8, 2005, the Energy Policy Act of 2005 (the EP Act) was enacted, the first comprehensive energy legislation in over a decade. One of the most significant provisions of the EP Act empowers FERC to certify an Electric Reliability Organization (ERO) to improve the reliability of the nation's "bulk-power system" through mandatory and enforceable electric reliability standards (in contrast to the long-standing voluntary system). The definition of "bulk-power system" does not include facilities used in the local distribution of electric energy. The ERO will file any proposed reliability standard or modification with FERC. A "reliability standard" is a requirement that provides for reliable operation of the bulk-power system. Such a standard includes requirements for the operation of existing transmission facilities or the design of planned additions or modifications to the extent necessary to provide for reliable operation. It does not include, and the ERO may not impose, any

requirement to enlarge existing facilities or to construct new transmission or generation. All users, owners, and operators of the bulk-power system are required to comply with the electric reliability standards. The ERO may impose a penalty on a user, owner, or operator for violating a reliability standard, and FERC may order compliance with such a standard and impose a penalty if it finds that a user, owner, or operator is about to engage in an act that would violate a reliability standard.

The EP Act authorizes FERC to require nondiscriminatory access to transmission facilities owned by municipal, cooperative, and other transmission companies not currently regulated by FERC, unless exercising this authority would violate a private activity bond rule for purposes of Section 141 of the Internal Revenue Code of 1986. FERC is prohibited from requiring any such entities to join RTOs. The EP Act also allows FERC to issue permits for the construction of new transmission facilities when states have been unable or unwilling to act and allows load-serving entities to use the firm transmission rights, or equivalent tradable or financial transmission rights, in order to deliver output or purchased energy to the extent required to meet its service obligations. The EP Act does not relieve a load-serving entity from any obligation under state or local law to build transmission or distribution facilities adequate to meet its service obligations, or to abrogate preexisting firm transmission service contracts.

The EP Act directs FERC to establish, by rule, incentive-based rates for transmission no later than August 2006 and requires FERC to establish market transparency rules for the electric wholesale market (entities that have a *de minimis* market presence are exempt from the rules). The EP Act instructs that the market transparency rules must provide for the timely dissemination of information about the availability and prices of wholesale electric energy and transmission service to FERC, state commission, buyers and sellers of wholesale electric energy, users of transmission services, and the public. Within 180 days of the EP Act's enactment, FERC and the Commodity Futures Trading Commission are required to enter into a memorandum of understanding regarding information sharing pursuant to these rules.

In addition, the EP Act prohibits any person from willfully and knowingly reporting false information to any federal agency on the price of wholesale electricity or availability of transmission capacity, or using (directly or indirectly) any manipulative device in contravention of any FERC rule. The EP Act increases civil and criminal penalties, modifies the procedures for review of FERC orders under the FPA, and changes the refund date under the FPA to be effective as of the date an applicable complaint is filed. The EP Act also establishes an entity's right to a refund if (i) it makes a short term sale of electric energy through an organized market in which the rates for the sale are set by a FERC-approved tariff (not by a contract) and (ii) the sale violates the terms of the tariff or applicable FERC rule in effect at the time of the sale.

Based on the EP Act authority vested upon the FERC, the FERC approved the North American Electric Reliability Corporation (NERC) as the ERO, and last year made mandatory more than 80 NERC and Western Electricity Coordinating Council (WECC) reliability standards, all of which are subject to penalties ranging from $1,000 to $1,000,000, depending on the impact of the violation to reliability and other factors. LADWP has implemented a NERC/WECC Reliability Standards Compliance Program to proactively prevent, monitor, and stop any potential violations to these standards.

The overall impact of the EP Act on the Department cannot be predicted at this time.

(4) Utility Plant

The Power System had the following activities in utility plant during fiscal year 2008 (amounts in thousands):

	Balance July 1, 2007	Additions	Retirements and disposals	Transfers	Balance June 30, 2008
Nondepreciable utility plant:					
Land and land rights	$ 143,513	12,194	—	—	155,707
Construction work in progress	773,694	306,635	—	(191,103)	889,226
Nuclear fuel	18,311	20,340	(5,669)	—	32,982
Natural gas field	235,163	1,071	(7,410)	—	228,824
Total nondepreciable utility plant	1,170,681	340,240	(13,079)	(191,103)	1,306,739
Depreciable utility plant:					
Generation	3,465,219	40,280	(29,727)	11,613	3,487,385
Transmission	882,586	6,000	(97,451)	6,710	797,845
Distribution	4,400,292	155,380	(1,587)	157,745	4,711,830
General	974,186	40,872	(2,824)	15,035	1,027,269
Total depreciable utility plant	9,722,283	242,532	(131,589)	191,103	10,024,329
Accumulated depreciation:					
Generation	(2,049,213)	(114,391)	29,727	—	(2,133,877)
Transmission	(376,658)	(19,482)	97,451	—	(298,689)
Distribution	(1,893,791)	(121,925)	1,587	—	(2,014,129)
General	(650,214)	(25,153)	2,824	—	(672,543)
Total accumulated depreciation	(4,969,876)	(280,951)	131,589	—	(5,119,238)
Total utility plant, net	$ 5,923,088	301,821	(13,079)	—	6,211,830

Depreciation and amortization expense during fiscal year 2008 was $281.5 million.

The Power System had the following activities in utility plant during fiscal year 2007 (amounts in thousands):

	Balance July 1, 2006	Additions	Retirements and disposals	Transfers	Balance June 30, 2007
Nondepreciable utility plant:					
Land and land rights	$ 144,621	126	(1,234)	—	143,513
Construction work in progress	570,418	247,773	—	(44,497)	773,694
Nuclear fuel	14,578	10,091	(6,358)	—	18,311
Natural gas field	237,403	7,987	(10,227)	—	235,163
Total nondepreciable utility plant	967,020	265,977	(17,819)	(44,497)	1,170,681
Depreciable utility plant:					
Generation	3,429,568	32,752	(972)	3,871	3,465,219
Transmission	829,496	52,434	—	656	882,586
Distribution	4,245,071	120,410	(998)	35,809	4,400,292
General	939,202	30,886	(63)	4,161	974,186
Total depreciable utility plant	9,443,337	236,482	(2,033)	44,497	9,722,283
Accumulated depreciation:					
Generation	(1,934,917)	(115,268)	972	—	(2,049,213)
Transmission	(357,062)	(19,596)	—	—	(376,658)
Distribution	(1,784,373)	(110,416)	998	—	(1,893,791)
General	(624,654)	(25,623)	63	—	(650,214)
Total accumulated depreciation	(4,701,006)	(270,903)	2,033	—	(4,969,876)
Total utility plant, net	$ 5,709,351	231,556	(17,819)	—	5,923,088

Depreciation and amortization expense during fiscal year 2007 was $269.6 million.

(Continued)

(5) Jointly Owned Utility Plant

The Power System has direct interests in several electricity generating stations and transmission systems, which are jointly owned with other utilities. As of June 30, 2008 and 2007, utility plant includes the following amounts related to the Power System's ownership interest in each jointly owned utility plant (amounts in thousands, except as indicated):

	Ownership interest	Share of capacity (MWs)	Utility plant in service June 30, 2008		Utility plant in service June 30, 2007	
			Cost	Accumulated depreciation	Cost	Accumulated depreciation
Palo Verde Nuclear Generating Station	5.7%	228	$ 567,538	318,491	552,460	309,963
Navajo Generating Station	21.2	477	315,978	269,955	315,940	257,463
Mohave Generating Station	10.0	—	57,913	56,851	68,334	68,273
Pacific Intertie DC Transmission Line	40.0	1,240	161,623	40,678	261,908	71,326
Other transmission systems	—	Various	81,167	43,544	80,792	44,504
			$ 1,184,219	729,519	1,279,434	751,529

The Power System will incur operating costs related to the jointly owned facilities, regardless of the amount or its ability to take delivery of its share of energy generated. The Power System's proportionate share of the operating costs of the joint plants is included in the corresponding categories of operating expenses.

(6) Purchase Power Commitments

The Power System has entered into a number of energy and transmission service contracts, which involve substantial commitments as follows (amounts in thousands, except as indicated):

	Agency	Agency share	The Power System's interest in agency's share		
			Interest	Capacity (MWs)	Outstanding principal
Intermountain Power Project	IPA	100.0%	58.2%	1,022	$ 1,193,590
Palo Verde Nuclear Generating Station	SCPPA	5.9	67.0	159	68,219
Mead-Adelanto Project	SCPPA	68.0	36.0	291	73,972
Mead-Phoenix Project	SCPPA	17.8 – 22.4	25.0	148	16,239
Southern Transmission System	SCPPA	100.0	60.0	1,142	500,767

IPA – The Intermountain Power Agency (IPA) is an agency of the state of Utah established to own, acquire, construct, operate, maintain, and repair the Intermountain Power Project (IPP). The Power System serves as the project manager and operating agent of IPP.

SCPPA – The Southern California Public Power Authority, a California Joint Powers Agency. SCPPA's interest in the Mead-Phoenix Project includes three components.

The above agreements require the Power System to make certain minimum payments, which are based primarily upon debt service requirements. In addition to average annual fixed charges of approximately $276 million during each of the next five years, the Power System is required to pay for operating and maintenance costs related to actual deliveries of energy under these agreements (averaging approximately $321 million annually during each of the next five years). The Power System made total payments under these agreements of approximately $490 million and $497 million in fiscal years 2008 and 2007, respectively. These agreements are scheduled to expire from 2027 to 2030.

The Power System earned fees under the IPP project manager and operating agent agreements totaling $16.0 million and $17.7 million in fiscal years 2008 and 2007, respectively.

(a) Long-Term Notes Receivable

Under the terms of its purchase power agreement with IPA, the Department is charged for its output entitlements based on its share of IPA's costs, including debt service. During fiscal year 2000, the Department restructured a portion of this obligation by transferring $1.11 billion to IPA in exchange for long-term notes receivable. The funds transferred were obtained from the debt reduction trust funds and through the issuance of new variable rate debentures (see notes 7 and 10). IPA used the proceeds from these transactions to defease and to tender bonds with par values of approximately $618 million and $611 million, respectively.

On September 7, 2000, the Department paid $187 million to IPA in exchange for additional long-term notes receivable. IPA used the proceeds to defease bonds with a face value of $198 million.

On July 20, 2005, the Department paid $97 million to IPA in exchange for additional long-term notes receivable. IPA used the proceeds to defease bonds with a face value of $92 million.

The IPA notes are subordinate to all of IPA's publicly held debt obligations. The Power System's future payments to IPA will be partially offset by interest payments and principal maturities from the subordinated notes receivable. The net IPA notes receivable balance totaled $1.12 billion and $1.14 billion as of June 30, 2008 and 2007, respectively.

The IPA notes pay interest and principal monthly and matures on July 1, 2023. The interest rates range from 4.2% to 6.2%.

(b) Energy Entitlement

The Department has a contract through 2017 with the U.S. Department of Energy for the purchase of available energy generated at the Hoover Power Plant. The Power System's share of capacity at Hoover is approximately 500 MWs (maximum capability). The cost of power purchased under this contract was $15 million in fiscal years 2008 and 2007.

(7) Cash, Cash Equivalents, and Investments

(a) Restricted and Other Investments

A summary of the Power System's restricted and other investments is as follows (amounts in thousands):

	June 30	
	2008	2007
Restricted and other investments:		
Restricted investments:		
Debt reduction trust funds	$ 528,988	503,292
Nuclear decommissioning trust fund	110,234	102,799
Natural gas trust fund	25,133	25,050
Power Rate Stabilization Fund	24,397	—
SCPPA Palo Verde Investment	34,594	37,569
Total restricted investments	723,346	668,710
Other investments:		
Cash collateral received from securities lending transactions – Department Program only* (see note 8)	115,409	125,798
Total restricted and other investments	$ 838,755	794,508

* The Power System also has $124,294 and $112,148 of cash collateral received from securities lending transactions in the City's securities lending program as of June 30, 2008 and 2007, respectively (see notes 7(b) and 8).

All restricted and other investments are to be used for a designated purpose as follows:

Debt Reduction Trust Funds

The debt reduction trust funds were established during fiscal year 1997 to provide for the payment of principal and interest on long-term debt obligations and purchased power obligations arising from the Department's participation in IPP and SCPPA (see note 6). The Department has transferred funds from purchased power precollections into these trust funds. Funds from operations may also be transferred by management as funds become available.

Nuclear Decommissioning Trust Funds

Nuclear decommissioning trust funds will be used to pay the Department's share of decommissioning PVNGS at the end of its useful life (see note 1).

Natural Gas Trust Fund

The natural gas trust fund was established to serve as depository to pay for costs and to post margin or collateral in connection with contracts for the purchase and delivery of financial transactions for

natural gas. These transactions are entered into to stabilize the natural gas portion of the Department's fuel for generation costs.

Power Rate Stabilization Fund

The power rate stabilization fund was established in accordance with the general provisions section of the Department's electric rates to offset any unexpected revenue losses.

SCPPA Palo Verde Investment

The SCPPA Palo Verde investment is a fixed rate investment held by SCPPA to be drawn down over the next 9 years to pay for purchased power obligations arising from the Department's participation in the SCPPA Palo Verde project. The fixed interest rate is 4.97% and the maturity date is June 25, 2017.

As of June 30, 2008, the Power System's securities lending cash collateral and restricted investments and their maturities are as follows (in thousands):

		Investment maturities				
Type of investment	Fair value	1 to 30 days	31 to 60 days	61 to 365 days	366 days to 5 years	Over 5 years
U.S. agencies	$ 407,472	7,496	7,477	58,518	277,162	56,819
Medium-term notes	176,767	4,999	32,551	80,379	58,838	—
Bankers acceptances	999	999	—	—	—	—
Commercial paper	61,306	44,289	—	17,017	—	—
Negotiable CDs	39,208	11,200	1,000	27,008	—	—
Money market funds	3,000	3,000	—	—	—	—
Securities lending cash collateral:						
Repurchase agreements	86,000	86,000	—	—	—	—
Commercial paper	15,936	15,936	—	—	—	—
Money market funds	13,473	13,473	—	—	—	—
SCPPA Palo Verde investment	34,594	34,594	—	—	—	—
	$ 838,755	221,986	41,028	182,922	336,000	56,819

As of June 30, 2007, the Power System's securities lending, cash collateral, and restricted investments and their maturities are as follows (in thousands):

		Investment maturities				
Type of investment	Fair value	1 to 30 days	31 to 60 days	61 to 365 days	366 days to 5 years	Over 5 years
U.S. agencies	$ 384,820	29,161	31,080	91,442	200,869	32,268
Medium-term notes	147,227	20,337	9,256	71,318	46,317	—
Commercial paper	54,027	19,789	9,935	24,302	—	—
Negotiable CDs	42,446	—	12,450	29,996	—	—
Money market funds	2,621	2,621	—	—	—	—
Securities lending cash collateral:						
Repurchase agreements	85,000	85,000	—	—	—	—
Commercial paper	39,927	37,937	1,990	—	—	—
Money market funds	871	871	—	—	—	—
SCPPA Palo Verde investment	37,569	37,569	—	—	—	—
	$ 794,508	233,285	64,711	217,058	247,186	32,268

i Interest Rate Risk

The Department's investment policy limits the maturity of its investments to a maximum of 30 years for U.S. government agency securities; 5 years for medium-term corporate notes, 270 days for commercial paper; 397 days for negotiable certificates of deposits; and 45 days for repurchase agreements purchased with cash collateral from securities lending agreements.

ii. Credit Risk

Under its investment policy and the Code, the Department is subject to the prudent investor standard of care in managing all aspects of its portfolios. The prudent investor standard requires that the Department "...shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, which a prudent person acting in a like capacity and in familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

The U.S. government agency securities in the portfolio consist of securities issued by government-sponsored enterprises, which are not explicitly guaranteed by the U.S. government. As of June 30, 2008 and 2007, the U.S. government agency securities in the portfolio carried the highest possible credit ratings by the Nationally Recognized Statistical Rating Organizations (NRSROs) that rated them.

The Department's investment policy specifies that medium-term corporate notes must be rated in a rating category of "A" or its equivalent or better by a NRSRO. Of the Power System's investments in corporate notes as of June 30, 2008, $25,241,490 (15%) was rated in the category of AAA, $70,577,369 (38%) was rated in the category of AA, and $80,947,666 (47%) was rated in the category of A by at least one NRSRO. Of the Power System's

investments in corporate notes as of June 30, 2007, $24,409,663 (17%) was rated in the category of AAA, $93,307,449 (63%) was rated in the category of AA, and $29,510,044 (20%) was rated in the category of A by at least one NRSRO.

The Department's investment policy specifies that commercial paper must be of the highest ranking or of the highest letter and number rating as provided for by at least two NRSROs. As of June 30, 2008 and 2007, all of the Power System's investments in commercial paper were rated with at least the highest letter and number rating as provided by at least two NRSROs.

The Department's investment policy specifies that negotiable certificates of deposit must be of the highest ranking or letter and number rating as provided for by at least two NRSROs. As of June 30, 2008 and 2007, all of the Power System's investments in negotiable certificates of deposits were rated with at least the highest letter and number rating as provided by at least two NRSROs.

The Department's investment policy specifies that money market funds may be purchased as allowed under the Code, which requires that the fund must have either 1) attained the highest ranking or highest letter and numerical rating provided by not less than two NRSROs or 2) retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience in managing money market mutual funds with assets under management in excess of $500 million. As of June 30, 2008 and 2007, each of the money market funds in the portfolio had the highest possible ratings by three NRSROs, specifically AAAm by Standard and Poor's Corporation (S&P) and Aaa by Moody's Investors Service (Moody's), and AAA by Fitch Ratings (Fitch).

The Department's securities lending cash collateral investment policy specifies that repurchase agreement transactions shall be limited to broker/dealers or banks for which a securities lending line has been approved by the securities lending agent. Approved counterparties must be primary dealers in U.S. government securities that work directly with the Federal Reserve Bank of New York. Repurchase agreements must be adequately collateralized based on the margin requirements for the type of security listed in the investment policy. As of June 30, 2008, the counterparty to the repurchase agreement was an approved primary dealer rated with the highest short-term ratings as provided by two NRSROs. The collateral for the repurchase agreement consisted of mortgage-backed securities issued by U.S. government agencies that had minimum credit ratings of AAA with a margin of 102% of the repurchase agreements.

The Department's securities lending cash collateral investment policy specifies that commercial paper must be of the highest ranking or of the highest letter and number rating as provided for by at least two NRSROs. As of June 30, 2008, all of the commercial paper purchased with cash collateral had the highest letter and number rating provided by two NRSROs.

The Department's securities lending cash collateral investment policy specifies that money market funds may be purchased with cash collateral as allowed under the Code. As of June 30, 2008, the money market fund purchased with cash collateral was in compliance with the Code

by having attained the highest possible ratings by at least two NRSROs, specifically AAAm by S&P and Aaa by Moody's.

iii. Concentration of Credit Risk

The Department's investment policy specifies that there is no percentage limitation on the amount that can be invested in U.S. government agency securities, except that a maximum of 30% of the cost value of the portfolio may be invested in the securities of any single U.S. government agency issuer.

Of the Power System's total investments as of June 30, 2008, $145,877,625 (17%) was invested in securities issued by the Federal Home Loan Mortgage Corporation; $128,932,312 (15%) was invested in securities issued by the Federal Home Loan Bank; and $103,799,161 (12%) was invested in securities issued by the Federal National Mortgage Association.

Of the Power System's total investments as of June 30, 2007, $151,897,853 (19%) was invested in securities issued by the Federal National Mortgage Association; $141,413,981 (18%) was invested in securities issued by the Federal Home Loan Bank; and $84,244,675 (11%) was invested in securities issued by the Federal Home Loan Mortgage Corporation.

For overnight or open repurchase agreements, the Department's securities lending policy does not limit the percentage of cash collateral that may be invested with one particular counterparty.

Of the Power System's total investments as of June 30, 2008, cash collateral received from securities lending transactions of $85,000,000 (10%) was invested in an overnight repurchase agreement with Morgan Stanley. In addition, $4,980,630 (1%) was invested in a medium-term corporate note issued by Morgan Stanley, for a total of $89,980,630 (11%) invested in securities issued by Morgan Stanley.

Of the Power System's total investments as of June 30, 2007, cash collateral received from securities lending transactions of $85,000,000 (11%) was invested in an overnight repurchase agreement with Morgan Stanley and $8,000,000 (1%) was invested in commercial paper issued by Morgan Stanley for a total investment of $93,000,000 (12%) in securities issued by Morgan Stanley.

(b) Pooled Investments

The Power System's cash, cash equivalents, and its collateral value of the City's securities lending program are included within the City Treasury's General and Special Investment Pool (the Pool). As of June 30, 2008 and 2007, the Power System's share of the Pool was $1,008,335,000 and $757,924,000, which represents approximately 14% and 10% of the Pool, respectively.

At June 30, 2008, the investments held in the Pool's programs and their maturities are as follows (amounts in thousands):

Type of investment	Amount	Investment maturities 1 to 30 days	31 to 60 days	61 to 365 days	366 days to 5 years
U.S. Treasury notes	$ 1,619,055	—	—	—	1,619,055
U.S. government agencies	1,530,897	230,356	174,594	224,569	901,378
Medium-term notes	1,186,097	—	—	352,990	833,107
Commercial paper	1,984,742	1,450,906	386,282	147,554	—
Guaranteed investment contract	135,224	135,224	—	—	—
Certificates of deposit	8,000	—	—	8,000	—
State of California LAIF	1	1	—	—	—
Short-term investment funds	38	38	—	—	—
Securities lending cash collateral:					
U.S. Treasury notes	918,758	—	—	—	918,758
U.S. government agencies	10,721	—	—	—	10,721
Total general and special pools	$ 7,393,533	1,816,525	560,876	733,113	4,283,019

At June 30, 2007, the investments held in the Pool's programs and their maturities are as follows (amounts in thousands):

Type of investment	Amount	Investment maturities 1 to 30 days	31 to 60 days	61 to 365 days	366 days to 5 years
U.S. Treasury notes	$ 1,651,432	—	—	100,394	1,551,038
U.S. government agencies	2,588,342	270,397	63,258	267,283	1,987,404
Medium-term notes	1,135,468	—	—	364,595	770,873
Commercial paper	900,606	811,138	54,758	34,710	—
Guaranteed investment contract	314,860	314,860	—	—	—
State of California LAIF	2,664	2,664	—	—	—
Short-term investment funds	7	7	—	—	—
Securities lending cash collateral:					
U.S. Treasury notes	898,087	—	—	5,386	892,701
U.S. government agencies	217,385	—	—	—	217,385
Total general and special pools	$ 7,708,851	1,399,066	118,016	772,368	5,419,401

i. Interest Rate Risk

The City's investment policy limits the maturity of its investments to a maximum of five years for U.S. Treasury and federal agency securities, medium-term corporate notes, and bonds issued by local agencies; 270 days for commercial paper; and 92 days for repurchase agreements.

ii. Credit Risk

The City's pooled investment policy requires that for all classes of investments, except linked banking program certificates of deposits, the issuers' minimum credit ratings shall be S&P A-1/A or Moody's P-1/A2; if available, Fitch IBCA F1/A. In addition, domestic banks are limited to those with a current Fitch Ratings BankWatch of "B/C" or better and an A-1 short-term rating. The City Treasurer is granted the authority to specify approved California banks with a Fitch Ratings BankWatch of "C" or better and an A-2 rating where appropriate. Foreign banks with domestic licensed offices must be rated AAA for country risk, "B" or better, and TBW-1 short-term rating by Fitch Ratings BankWatch. Domestic savings banks must be rated "B/C" or better and a TBW-1 short-term rating by Fitch Ratings BankWatch.

Medium-term notes must be issued by corporations operating within the United States and having total assets in excess of $500 million. Commercial paper issuers must meet the preceding requirement or must be issued by corporations organized in the United States as a special purpose corporation, trust, or limited liability company having programwide credit enhancements.

The City's $2.59 billion investments in U.S. government agencies consist of securities issued by government-sponsored enterprises, which are not explicitly guaranteed by the U.S. government. As of June 30, 2008, these securities carried the highest ratings of AAA (S&P) and Aaa (Moody's).

The City's $1.14 billion investments in medium-term notes consist of securities issued by banks and corporations that comply with the requirements discussed above and were rated "A" or better by S&P and "A2" or better by Moody's.

The City's $900.6 million investments in commercial paper comply with the requirements discussed above and were rated A-1+/A-1 by S&P and P-1 by Moody's.

The issuers of the guaranteed investment contracts and the State of California Local Agency Investment Fund (LAIF) are not rated.

iii. Concentration of Credit Risk

The City's investment policy does not allow more than 10% of its investment portfolio, except U.S. Treasury and federal agencies, to be invested in securities of a single issuer, including its related entities. The City's investment policy further provides for a maximum concentration limit of 30% on any individual federal agency or government-sponsored entity. The City's

pooled investments comply with these requirements. GAAP requires disclosure of certain investments in any one issuer that represents 5% or more of total investments; the City does not have such investment as of June 30, 2008 or 2007.

(8) Securities Lending Transactions

The Power System participates in two securities lending programs as follows (collateral amounts in thousands):

Program	June 30 2008	June 30 2007
Department Program	$ 115,409	125,798
City of Los Angeles Program	124,294	112,148
	$ 239,703	237,946

Department Program

In December 1999, the Department initiated a securities lending program managed by its custodial bank to increase interest income. The bank lends up to 20% of the investments held in the debt reduction trust funds, decommissioning trust funds, postemployment healthcare benefits trust for securities, cash collateral or letters of credit equal to 102% of the market value of the loaned securities, and interest, if any. The Department can sell securities received as collateral only in the event of borrower default. Both the investments purchased with the cash collateral received and the related liability to repay the cash collateral are reported on the balance sheets. A summary of the Power System's portion of the Department's securities lending program as of June 30, 2008 and 2007 is as follows (amounts in thousands):

	June 30			
	2008		2007	
Securities lent for cash collateral	Fair value of underlying securities	Collateral value	Fair value of underlying securities	Collateral value
U.S. government and agency securities	$ 113,063	115,409	123,228	125,798

Cash collateral received is reinvested by the lending agent in open repurchase agreements, money market funds, and short-term commercial papers so that the maturities of reinvested cash collateral sufficiently match the maturities of the underlying securities lent. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during fiscal years 2008 and 2007.

General Investment Pool Program

The Power System also participates in the City's securities lending program through the pooled investment fund. The City's program has substantially the same terms as the Department's direct securities lending

program. The Department recognizes its proportionate share of the cash collateral received for securities loaned and the related obligation for the general investment pool. As of June 30, 2008 and 2007, the Power System's attributed share of cash collateral and the related obligation from the City's program were $124.3 million and $112.1 million, respectively.

Management believes that participation in these securities lending programs increases interest earnings and results in minimal credit risk exposure to the Department because the amounts owed to the borrowers exceed the amounts that have been loaned.

Securities lending is permitted and limited under provisions of the Code's Section 53601. The City Council approved the Securities Lending Program (the SLP) on October 22, 1991 under Council File No. 91-1860, which complies with the Code. The objectives of the SLP in priority order are: safety of loaned securities; and prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines, with oversight responsibility of the Investment Advisory Committee.

The City's custodial bank acts as the securities lending agent. In the event a counterparty defaults by reason of an act of insolvency, the bank shall take all actions that it deems necessary or appropriate to liquidate permitted investment and collateral in connection with such transaction and shall make a reasonable effort for two business days (Replacement Period) to apply the proceeds thereof to the purchase of securities identical to the loaned securities not returned, If during the Replacement Period the collateral liquidation proceeds are insufficient to replace any of the loaned securities not returned, the bank shall, subject to payment by the City of the amount of any losses on any permitted investments, pay such additional amounts as necessary to make such replacement.

Under the provisions of the SLP, and in accordance with the Code, no more than 20% of the market value of the General Investment Pool (the Pool) is available for lending. The City receives cash as collateral on loaned securities, which is reinvested in securities permitted under the policy. In accordance with the Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans where either party can terminate a lending contract on demand, term loans have a maximum life of 92 days. Earnings from securities lending accrue to the Pool and are allocated on a pro rata basis to all Pool participants.

At June 30, 2008, the assets and liabilities arising from the reinvested cash collateral were recognized in the respective participants' financial statements. During the fiscal year, collateralizations on all loaned securities were within the required 102% of market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the year. There was no credit risk exposure to the City because the amounts owed to the borrowers exceeded the amounts borrowed, Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

(9) Derivative Instruments

In accordance with GASB Technical Bulletin 2003-01, the Power System does not record its derivative instruments on the balance sheets, but instead discloses the derivatives in the notes to the financial

statement and records the impact upon settlement of the derivatives. The Power System had three main types of derivative instruments as of June 30, 2008 and 2007: electricity swaps, forward contracts, and financial natural gas hedges. As of June 30, 2008 and 2007, the fair values of these outstanding derivative instruments were $213.4 million and $36.8 million, respectively.

(a) Objective of Electricity Swap and Options

In order to obtain the highest market value on energy that is sold into the wholesale market, the Department monitors the sales price of energy, which varies based on which hub the energy is to be delivered. There are three primary hubs within the Department's transmission region: Palo Verde, California Oregon Border, and Mead. The Department enters into various locational swap transactions with other electric utilities in order to effectively utilize its transmission capacity and to achieve the most economical exchange of energy purchased and sold.

A call option is the right, but not the obligation, to buy energy at a fixed price on or before a specific date. Because the Department has excess electric generation available at certain times during the year, it sells call options for a premium to other utilities. If the buyer calls the option, the Department is obligated to sell the energy for a specified dollar amount and deliver it to a specific delivery point. If the buyer does not call the option, the Department has no obligation to deliver energy, but does retain the premium collected.

The Department does not enter into forward and option agreements for trading purposes. The Department is exposed to risk of nonperformance if the counterparties default or if the swap agreements are terminated.

(b) Objective of Forward Contracts

The Department enters into forward contracts in order to meet the electricity requirements to serve its customers.

(c) Objective of Financial Natural Gas Hedges

The Department enters into natural gas hedging contracts in order to stabilize the cost of gas needed to produce electricity to serve its customers.

As of June 30, 2008, the Power System had the following derivatives, which were not recorded on its balance sheet (amounts in thousands):

Derivative description	Total contract quantities	Contract price range $ per unit	First effective date	Last termination date	Fair value	Cash paid at derivative inception
Electricity swaps:						
Purchases	309,120 MW	$ 128.36	07/01/08	12/31/08	$ 193	—
Sales	309,120 MW	130.71	07/01/08	12/31/08	529	—
Forward contracts:						
Electricity	2,041,968 MW	69.30 – 118.31	07/01/08	12/31/11	37,356	—
Natural gas	584,000 MMBtu	8.91 – 11.78	07/01/08	09/30/08	269	—
Financial natural gas:						
Hedges*	78,738,500 MMBtu	4.30 – 9.85	07/01/08	06/30/17	175,060	(81)

* Financial hedges were variable to fixed rate swaps that serve to lock in a fixed cost of natural gas.

As of June 30, 2007, the Power System had the following derivatives, which were not recorded on its balance sheet (amounts in thousands):

Derivative description	Total contract quantities	Contract price range $ per unit	First effective date	Last termination date	Fair value	Cash received at derivative inception
Electricity swaps:						
Purchases	123,200 MW	$ 62.00	10/01/07	12/31/07	$ 83	—
Sales	123,200 MW	65.50	10/01/07	12/31/07	338	—
Electricity options	121,600MW	75.52 – 108.93	07/01/07	09/01/07	(67)	426
Forward contracts:						
Electricity	2,021,400 MW	75.25 – 84.75	07/01/07	12/31/11	(27)	—
Natural gas	310,000 MMBtu	3.43	07/01/07	07/31/07	166	—
Financial natural gas:						
Hedges*	77,610,500 MMBtu	4.30 – 7.50	07/01/07	06/01/11	36,348	—

* Financial hedges were variable to fixed rate swaps that serve to lock in a fixed cost of natural gas.

(d) Fair Value

All fair values were estimated using forward market prices available from broker quotes and exchanges.

(e) Credit Risk

The Power System is exposed to credit risk related to nonperformance by its wholesale counterparties under the terms of contractual agreements. In order to limit the risk of counterparty default, the Department has implemented a Wholesale Marketing Counterparty Evaluation Policy, which was amended and renamed as Counterparty Evaluation Credit Policy (the Policy), and was

approved by the Board on May 6, 2008. Under the new policy, the scope has been expanded beyond physical power to include transmission, physical natural gas, and financial natural gas. Also, the credit limit structure has been categorized into short-term and long-term structures where the short-term structure is applicable to transactions with terms of up to 18 months and the long-term structure to cover transactions beyond 18 months.

The Policy includes provisions to limit risk including: the assignment of internal credit ratings to all Department's counterparties based on counterparty and/or debt ratings; the use of expected default frequency equivalent credit rating for short-term transactions; the requirement for credit enhancements (including advance payments, irrevocable letters of credit, escrow trust accounts, and parent company guarantees) for counterparties that do not meet an acceptable level of risk; and the use of standardized agreements, which allow for the netting of positive and negative exposures associated with a single counterparty.

As of June 30, 2008, the 12 financial natural gas hedge counterparties were rated by Moody's as follows: three at Aaa, five at Aa1, two at Aa3, and two at A1. The counterparties were rated by S&P as follows: two at AA+, four at AA, three at AA, and one at A+, and two at A. As of June 30, 2007, the 10 financial natural gas hedge counterparties were rated by Moody's as follows: two at Aaa, four at Aa1, three at Aa3, and one at A1. The counterparties were rated by S&P as follows: two at AA+, four at AA, three at AA- and one at A+.

Based on the International Swap Dealers Association agreements, the Department obtains collateral to support derivatives subject to credit risk in the form of cash, negotiable debt instruments (other than interest-only and principal-only securities), or eligible letters of credit. Collateral posted by a counterparty is held by a custodian.

As discussed in note 14, during fiscal year 2001, the Power System experienced nonperformance and material counterparty default with the CAISO and the California Power Exchange (CPX). The Power System does not anticipate nonperformance by any other of its counterparties and has no reserves related to nonperformance at June 30, 2008 and 2007, respectively. Apart from the events discussed in note 14, the Power System did not experience any material counterparty default during fiscal year 2008 or 2007.

(f) Basis Risk

The Department mitigates basis risk through long-term physical transportation contracts.

(g) Termination Risk

The Power System or its counterparties may terminate the contractual agreements if the other party fails to perform under the terms of the contract. No termination events have occurred and there are no out-of-the-ordinary termination events contained in contractual documents.

(10) Long-Term Debt

Long-term debt outstanding as of June 30, 2008 and 2007 consists of revenue bonds and refunding revenue bonds due serially in varying annual amounts as follows (amounts in thousands):

Bond issues	Date of issue	Effective-interest rate	Fiscal year of last scheduled maturity	Principal outstanding 2008	Principal outstanding 2007
Issue of 2001, Series A1	03/20/01	4.931%	2025	$ 993,895	993,895
Issue of 2001, Series A2	11/06/01	5.109	2022	109,095	109,095
Issue of 2001, Series B	06/05/01	Variable	2035	580,800	580,800
Issue of 2001, Series C1	11/15/01	4.788	2017	3,117	3,211
Issue of 2002, Series A	08/22/02	Variable	2036	388,500	388,500
Issue of 2002, Series C2	11/22/02	4.375	2018	8,931	11,544
Issue of 2003, Series A1	07/31/03	3.409	2017	347,675	385,670
Issue of 2003, Series A2	08/19/03	4.662	2032	515,830	515,830
Issue of 2003, Series B	08/28/03	5.013	2036	200,000	200,000
Issue of 2004, Series C3	04/07/04	4.298	2020	10,038	11,899
Issue of 2005, Series A1	12/28/05	4.700	2041	616,895	616,895
Issue of 2005, Series A2	12/28/05	4.700	2031	315,195	315,195
Issue of 2006, Series C4	03/01/06	4.040	2017	8,056	8,526
Issue of 2007, Series A1	10/18/07	4.659	2023	337,630	—
Issue of 2007, Series A2	10/18/07	4.638	2032	191,125	—
Issue of 2007, Series B	10/18/07	Variable	2042	125,000	—
Total principal amount				4,751,782	4,141,060
Revenue certificates				200,000	200,000
Unamortized premiums, discounts, and debt-related costs (including net loss on refundings), net				25,401	823
Debt due within one year (including current portion of variable rate debt)				(175,455)	(158,756)
				$ 4,801,728	4,183,127

Revenue bonds generally are callable 10 years after issuance. The Department has agreed to certain covenants with respect to bonded indebtedness. Significant covenants include the requirement that the Power Systems' net income, as defined, will be sufficient to pay certain amounts of future annual bond interest and of future annual aggregate bond interest and principal maturities. Revenue bonds and refunding bonds are collateralized by the future revenues of the Power System.

(a) *Long-Term Debt Activity*

The Power System had the following activity in long-term debt for the fiscal years ended June 30, 2008 and 2007 (amounts in thousands):

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current portion
Long-term debt:					
Bonds	$ 4,141,883	678,946	(43,646)	4,777,183	155,455
Revenue certificates	200,000	—	—	200,000	20,000
Total	$ 4,341,883	678,946	(43,646)	4,977,183	175,455

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current portion
Long-term debt:					
Bonds	$ 4,250,569	—	(108,686)	4,141,883	138,756
Revenue certificates	200,000	—	—	200,000	20,000
Total	$ 4,450,569	—	(108,686)	4,341,883	158,756

(b) *New Issuances*

Fiscal Year 2008

In October 2007, the Power System issued $654 million of Power System Revenue Bonds. The net proceeds of $679 million from the transaction, which included a premium of $25.2 million, were deposited into the construction fund to be used for capital improvements.

(c) *Outstanding Debt Defeased*

The Power System defeased certain revenue bonds in prior years by placing cash or the proceeds of new revenue bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Power System's financial statements.

At June 30, 2008, the following revenue bonds outstanding are considered defeased (amounts in thousands):

Bond issues	Principal outstanding
Second issue of 1993	$ 8,610
Refunding issue of 1994	36,570
Issue of 1994	5,770
	$ 50,950

(Continued)

(d) Variable Rate Bonds and Revenue Certificates

The variable rate bonds currently bear interest at weekly and daily rates (ranging from 1.55% to 1.65% as of June 30, 2008). The Power System can elect to change the interest rate period of the bonds with certain limitations. The bondholders have the right to tender the bonds to the tender agent on any business day with seven days' prior notice. The revenue certificates bear interest at an average rate of 1.71%. The Power System has entered into standby and line-of-credit agreements with a syndicate of commercial banks in an initial amount of $580.8 million, $388.5 million, and $200 million to provide liquidity for the variable rate bonds and revenue certificates. The extended standby agreements expire in January 2010 for the $580.8 million issue and on July 2, 2009 for the $388.5 million issue. The $200 million line-of-credit agreement for the revenue certificates expires in September 2010.

On April 2, 2007, the Power System redeemed $39.8 million of Power System Revenue Bonds 2001, Series B.

Bonds purchased under the agreements will bear interest that is payable quarterly at the greater of the Federal Funds Rate plus 0.50% or the bank's announced base rate, as defined. The unpaid principal of bonds purchased is payable in 10 equal semiannual installments, commencing after the termination of the agreement. At its discretion, the Power System has the ability to convert the outstanding bonds to fixed rate obligations, which cannot be tendered by the bondholders. These bonds have been classified as long-term on the balance sheets as the liquidity facilities give the Power System the ability to refinance on a long-term basis and the Power System intends to either renew the facility or exercise its right to tender the debt as a long-term financing. The portion that would be due in the next fiscal year in the event that the outstanding variable rate bonds were tendered and purchased by the commercial banks under the standby agreements has been included in the current portion of long-term debt and was $116.9 million at both June 30, 2008 and 2007.

(e) Scheduled Principal Maturities and Interest

Scheduled annual principal maturities and interest are as follows (amounts in thousands):

		Principal	Interest and amortization
Fiscal year(s) ending June 30:			
2009	$	58,525	194,193
2010		100,952	190,134
2011		121,345	184,667
2012		128,309	178,774
2013		135,566	172,082
2014 – 2018		621,375	761,512
2019 – 2023		776,226	589,102
2024 – 2028		888,740	390,011
2029 – 2033		964,930	236,751
2034 – 2038		716,915	90,725
2039 – 2043		238,899	18,256
Total requirements	$	4,751,782	3,006,207

The maturity schedule presented above reflects the scheduled debt service requirements for all of the Power System's long-term debt. The schedule is presented assuming that the tender options on the variable rate bonds, as discussed on the previous page, will not be exercised and that the full amount of the revenue certificates will be renewed. Should the bondholders exercise the tender options and the Power System convert all of the revenue certificates under the line of credit, the Power System would be required to redeem the $1,169.3 million in variable rate bonds outstanding over the next six years, as follows: $116.93 million in fiscal year 2009, $233.86 million in each of the fiscal years 2010 through 2013, and $116.93 million in fiscal year 2014. Accordingly, the balance sheets include the possibility of the exercise of the tender options and reflect the $116.93 million that could be due in fiscal year 2009 as a current portion of long-term debt payable. Interest and amortization include interest requirements for variable rate bonds, using the variable debt interest rate in effect at June 30, 2008 of 1.27%.

(11) Retirement, Disability, and Death Benefit Insurance Plan

The Department has a funded contributory retirement, disability, and death benefit insurance plan covering substantially all of its employees. The Water and Power Employees' Retirement, Disability, and Death Benefit Insurance Plan (the Plan) operates as a single-employer defined benefit plan to provide pension benefits to eligible department employees and to provide disability and death benefits from the respective insurance funds. Plan benefits are generally based on years of service, age at retirement, and the employee's highest 12 consecutive months of salary before retirement. Active participants who joined the Plan on or after June 1, 1984 are required to contribute 6.00% of their annual covered payroll. Participants who joined the Plan prior to June 1, 1984 contribute an amount based upon an entry-age percentage rate. The Department contributes $1.10 for each $1.00 contributed by participants plus an actuarially determined

annual required contribution (ARC) as determined by the Plan's independent actuary. The required contributions are allocated between the Power System and the Water System based on the current year labor costs.

The Retirement Board of Administration (the Retirement Board) is the administrator of the Plan. The Plan is subject to provisions of the Charter of the City of Los Angeles and the regulations and instructions of the Board. The Plan is an independent pension trust fund of the City.

Plan amendments must be approved by both the Retirement Board and the Board. The Plan issues separately available financial statements on an annual basis. Such financial statements can be obtained from the Department of Water and Power Retirement Office, 111 N. Hope, Room 357, Los Angeles, California 90012.

The annual pension cost (APC) and net pension obligation (asset) for the Plan consist of the following (amounts in thousands):

	Year ended June 30	
	2008	2007
Annual required contribution	$ 144,744	141,464
Interest on net pension asset	(10,514)	(11,883)
Adjustment to annual required contribution	15,667	17,707
APC (including $42.1 million and $42.7 million of amounts capitalized in fiscal years 2008 and 2007, respectively)	149,897	147,288
Department contributions	(142,874)	(129,057)
Change in net pension asset	7,023	18,231
Net pension asset at beginning of year	(130,333)	(148,564)
Net pension asset at end of year	$ (123,310)	(130,333)

The Power System's allocated share of APC and net pension asset consists of the following (amounts in thousands):

	Year ended June 30	
	2008	2007
Annual required contribution	$ 98,426	96,195
Interest on net pension asset	(7,149)	(8,080)
Adjustment to annual required contribution	10,653	12,041
APC (including $25.0 million and $26.3 million of amounts capitalized in fiscal years 2008 and 2007, respectively)	101,930	100,156
Department contributions	(94,699)	(85,073)
Change in net pension asset	7,231	15,083
Net pension asset at beginning of year	(84,710)	(99,793)
Net pension asset at end of year	$ (77,479)	(84,710)

Annual required contributions are determined through actuarial valuations using the entry-age normal actuarial cost method. The actuarial value of assets in excess of the Department's actuarial accrued liability (AAL) is being amortized by level contribution offsets over the period ended June 30, 2004. As a result of an April 2000 amendment to the Plan, the amortization period was changed to rolling 15-year periods effective July 1, 2000.

In accordance with actuarial valuations, the Department's required contribution rates are as follows:

Fiscal year	Normal cost	Deficit amortization	Contribution rate
2008	10.26%	10.50	21.59%
2007	10.82	10.58	22.25

The significant actuarial assumptions include an investment rate of return of 8.00%, projected inflation adjusted salary increases of 4.25%, and cost-of-living increases of 3.75%. The actuarial value of assets is determined using techniques that smoothen the effects of short-term volatility in the market value of investments over a four-year period. Plan assets consist primarily of corporate and government bonds, common stocks, mortgage-backed securities, and short-term investments.

Trend information for fiscal years 2008, 2007, and 2006 for the Power System is as follows (amounts in thousands):

Year ended June 30	NPO (asset)	Percentage of APC contributed	APC
2008	$ (77,479)	93%	$ 101,930
2007	(84,710)	85	100,156
2006	(99,793)	82	82,318

Disability and Death Benefits

The Power System's allocated share of disability and death benefit plan costs and administrative expenses totaled $16 million and $12 million for fiscal years 2008 and 2007, respectively.

Funded Status and Funding Progress

As of July 1, 2008, the Department's actuarial value of assets was $7.2 billion and AAL for benefits was $7.6 billion, resulting in an UAAL of $371.2 million. The covered payroll (annual payroll of active employees covered by the Plan) was $708.7 million, and the ratio of the UAAL to the covered payroll was 52%.

As of July 1, 2007, the Department's actuarial value of assets was $6.9 billion, and AAL for benefits was $7.5 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $603 million. The covered payroll (annual payroll of active employees covered by the Plan) was $670.4 million, and the ratio of the UAAL to the covered payroll was 90%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the salary increases. Amounts determined regarding the funded status of the Plan and the annual required contributions of the Department are subject to continual revision as actual results are compared with past expectations and new estimates are made for the future. The schedule of funding progress, presented as required supplementary information, presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

(12) Other Postemployment Benefit (Healthcare) Plan

(a) Plan Description

The Department provides certain healthcare benefits to active and retired employees and their dependents. The healthcare plan is administered by the Department. The Retirement Board and the Board have the authority to approve provisions and obligations. Eligibility for benefits for retired employees is dependent on a combination of age and service of the participants pursuant to a predetermined formula. Any changes to these provisions must be approved by the Retirement Board

and the Board. The total number of active and retired department participants entitled to receive benefits was approximately 15,875 and 16,750 at June 30, 2008 and 2007, respectively.

The health plan is a single-employer defined benefit plan. During fiscal year 2007, the Retiree Health Benefits Fund (the Fund) was created to fund the postemployment benefits of the Department. The fund is administered as a trust and has its own financial statements. Such financial statements can be obtained from the Department of Water and Power Retirement Office, 111 N Hope, Room 357, Los Angeles, CA 90012.

(b) Funding Policy

The Department pays a monthly maximum subsidy of $1,146 for medical and dental premiums depending on the employee's work location and benefits earned. Participants choosing plans with a cost in excess of the subsidy they are entitled to are required to pay the difference.

Although no formal funding policy has been established for the future benefits to be provided under this plan, the Department has made significant contributions into the Fund. In fiscal year 2008, the Department transferred $100 million into the Fund and paid an additional $56.5 million in retiree medical premiums. In fiscal year 2007, the Department transferred $626.4 million in investments and cash into the Fund and paid an additional $54.7 million in retiree medical premiums. The Power System's portion of these amounts was $106.5 million and $462.4 million for 2008 and 2007, respectively.

Annual OPEB Cost and Net OPEB Obligation

The annual OPEB cost (expense) is calculated based on the of the employer ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost under each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the Department's annual OPEB cost for the year, the amount actually paid in premiums, and changes in the net OPEB (amounts in thousands):

		Year ended June 30	
		2008	2007
Annual required contribution	$	40,145	78,041
Interest on net OPEB obligation		(35,720)	13,496
Adjustment to annual required contribution		26,652	(9,867)
		31,077	81,670
Contributions made		(156,546)	(681,119)
Change in net OPEB obligation		(125,469)	(599,449)
Net OPEB (asset) obligation – beginning of year		(430,745)	168,704
Net OPEB (asset) obligation – end of year	$	(556,214)	(430,745)

The following table shows the components of the Power System's share in annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB (amounts in thousands):

		Year ended June 30	
		2008	2007
Annual required contribution	$	27,298	53,068
Interest on net OPEB obligation		(24,290)	9,177
Adjustment to annual required contribution		18,124	(6,709)
		21,132	55,536
Contributions made		(106,541)	(462,412)
Change in net OPEB obligation		(85,409)	(406,876)
Net OPEB (asset) obligation – beginning of year		(296,053)	110,823
Net OPEB (asset) obligation – end of year	$	(381,462)	(296,053)

(Continued)

The Department's annual OPEB cost, the percentage of annual required contribution contributed to the plan, and the net postemployment obligation for fiscal years 2008 and 2007 were as follows (amounts in thousands):

		2008	2007	2006
Annual OPEB cost	$	31,077	81,670	112,554
Percentage of the ARC contributed		504%	834%	47%
Net postemployment (asset) obligation	$	(556,215)	(430,745)	168,704

The Power System's share in the annual OPEB cost, the percentage of annual required contribution contributed to the plan, and the net retirement obligation for fiscal years 2008 and 2007 were as follows (amounts in thousands):

		2008	2007	2006
Annual OPEB cost	$	21,132	55,535	74,285
Percentage of the ARC contributed		504%	833%	47%
Net postemployment (asset) obligation	$	(381,462)	(296,053)	110,823

(c) *Funded Status and Funding Progress*

As of July 1, 2007, the Department's actuarial value of assets was $649.1 million, and AAL for benefits was $1.0 billion, resulting in a UAAL of $393 million. The covered payroll (annual payroll of active employees covered by the plan) was $670.4 million, and the ratio of the UAAL to the covered payroll was 58%.

As of July 1, 2006, the Department's AAL for benefits was $1.1 billion resulting in an UAAL of $1.1 billion. The covered payroll (annual payroll of active employees covered by the plan) was $635.7 million, and the ratio of the UAAL to the covered payroll was 166%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the Department are subject to continual revision as actual results are compared with past expectations and new estimates are made for the future. The schedule of funding progress, presented as required supplementary information, presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

(d) *Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the Department and the plan members) and include the types of benefits provided at

the time of each valuation and the historical pattern of sharing of benefit costs between the Department and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in AAL and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007 actuarial valuation, the entry-age normal cost method was used. The actuarial assumptions include 8.00% discount rate, which represents the expected long-term return on plan assets, an annual healthcare cost trend rate of 8.5% initially, reduced by decrements to an ultimate rate of 5.00% after seven years. Both rates include a 3.75% inflation assumption. The actuarial value of assets was determined using techniques that spread UAAL being amortized as a level percentage of projected payroll over a 28-year period.

In the July 1, 2006 actuarial valuation, the entry-age normal cost method was used. The actuarial assumptions include 8.0% discount rate, which represents the expected long-term return on plan assets, an annual healthcare cost trend rate of 9.0% initially, reduced by decrements to an ultimate rate of 5.0% after eight years. Both rates include a 3.75% inflation assumption. The actuarial value of assets was determined using techniques that spread UAAL being amortized as a level percentage of projected payroll over a 29-year period.

(13) Other Long-Term Liabilities

(a) Other Long-Term Liabilities

The Power System has the following other long-term liabilities:

	Balance, July 1, 2007	Additions	Reductions	Balance, June 30, 2008
Accrued liabilities	$ 228,181	—	(196,841)	31,340
Deferred credits:				
Purchased power	457,629	—	(74,975)	382,654
Public benefits	38,215	31,418	—	69,633
Rate stabilization	—	48,128	—	48,128
Other	3,833	—	(812)	3,021
	$ 499,677	79,546	(75,787)	503,436
Accrued workers' compensation claims	$ 28,368	3,721	—	32,089

	Balance, July 1, 2006	Additions	Reductions	Balance, June 30, 2007
Accrued liabilities	$ —	228,181	—	228,181
Deferred credits:				
Purchased power	534,272	—	(76,643)	457,629
Public benefits	25,328	12,887	—	38,215
Other	4,564	—	(731)	3,833
	$ 564,164	12,887	(77,374)	499,677
Accrued workers' compensation claims	$ 35,558	—	(7,190)	28,368

No portion of these liabilities is automatically due within one year.

(b) Accrued Liabilities

In June 2007, a tentative decision was awarded to certain public entities against the Department that claimed that they were charged more than their proportional share of the Department's capital costs in violation of Section 54999 of the Code. The Department accrued a liability of $228.2 million as of June 30, 2007 relative to the court's tentative decision. However, in October 2008, the Department settled the case with the public entities, agreeing to pay the public entities $160 million through a combination of cash payments over a three-year period and bill credits over a 10-year period. Of the $160 million, $128.7 million is recorded as accounts payable and $31.3 million is recorded under long-term accrued liabilities in the June 30, 2008 financial statements.

In addition, a long-term deferred debit for the settlement amount has been accrued since these costs will be recovered in the future. (See note 14(d)ii).

Effective January 1, 2007, the California Legislature has amended Section 54999 of the Code, et seq., to clarify that, consistent with past practices, public agencies providing public utility service, such as the Department, may impose a reasonable fee, including a rate, charge, or other surcharge for any product, commodity, or service provided to a public agency and any public agency receiving service from such public agency providing public utility services will pay the imposed fee.

(c) Deferred Credits

The Department has deferred credits that are related to revenues collected from customers, but have not been fully earned. These funds are deferred and recognized as costs related to these deferrals are incurred.

Purchased Power Deferrals

During fiscal year 2006, the Board approved the suspension of deferring precollected purchased power costs and the reversal of the precollected purchased power costs recorded in prior years. The amount reversed is the cost of energy from IPP less the amount designated in rates for out-of-market

purchased power costs. The reversal of the deferred credit is credited to retail sales. During fiscal years 2008 and 2007, the Power System reversed $75.0 million and $76.6 million, respectively, related to precollected purchase power costs. At June 30, 2008 and 2007, $382.6 million and $457.6 million, respectively, remain as part of deferred credits related to precollected purchased power costs.

Public Benefits

In accordance with Assembly Bill 1890, as amended by Assembly Bill 995 and pursuant to direction from the Board, a percentage of the Department's retail revenue is designated for use for qualifying public benefit programs. Qualifying programs include cost-effective demand side management services to promote energy efficiency and energy conservation, new investment in renewable energy resources and technologies, development and demonstration programs to advance science and technology, and services provided for low-income electricity customers. In accordance with current legislation and the Department's plans, the program is currently expected to cease on January 1, 2012.

The Department defers public benefits revenue from customers in excess of costs incurred under qualifying programs and defers qualifying expenses in excess of collections pursuant to approval received from the Board. During fiscal years 2008 and 2007, the Department spent $33.6 million and $52.0 million, respectively, on qualified public benefits programs. These programs include tree programs, investments in electric buses and vehicles, photovoltaics or solar power and other alternative energy sources, and support for low-income and life support customers. As of June 30, 2008 and 2007, the Department has recorded a deferred credit in the amount of $69.6 million, and $38.2 million due to public benefit expenses below revenues. Regulatory liabilities are reduced when adequate public benefit expenses are incurred, and regulatory assets are recovered when the corresponding revenue is earned.

Rate Stabilization Account

In April 2008, the City Council approved an amendment to the electric rate ordinance, which required the balance of the Rate Stabilization Account to be maintained separately from the Energy Cost Adjustment Account. The ordinance also directed that the deferred amount within the Energy Cost Adjustment Account be the beginning balance of the Rate Stabilization Account. As a result, $24.5 million was reclassified from the Energy Cost Adjustment Account to the Rate Stabilization Account and $23.6 million was deferred from current year sales for resale. As of June 30, 2008, the balance in the rate stabilization fund is $48.1 million.

(d) Accrued Workers' Compensation Claims

Liabilities for unpaid workers' compensation claims are recorded at their present value when they are probable of occurrence and the amount can be reasonably estimated. The liability is actuarially determined, based on an estimate of the present value of the claims outstanding and an amount for claim events incurred but not reported based upon the Department's loss experience, less the amount of claims and settlements paid to date. The discount rate used to calculate this liability at its present

value was 4% at June 30, 2008. The Department has third-party insurance coverage for workers' compensation claims in excess of $1 million.

Changes in the Department's undiscounted liability since June 30, 2006 are summarized as follows (amounts in thousands):

		June 30		
		2008	2007	2006
Balance at beginning of year	$	49,669	61,173	63,785
Current year claims and changes in estimates		28,238	7,409	12,646
Payments applied		(20,150)	(18,913)	(15,258)
Balance at end of year	$	57,757	49,669	61,173

The Power System's portion of the discounted reserves as of June 30, 2008 and 2007 is $32.1 million and $28.4 million, respectively.

(14) Commitments and Contingencies

(a) Transfers to the Reserve Fund of the City of Los Angeles

Under the provisions of the City Charter, the Power System transfers funds at its discretion to the reserve fund of the City. Pursuant to covenants contained in the bond indentures, the transfers may not be in excess of the increase in fund net assets before transfers to the reserve fund of the City of the prior fiscal year. Such payments are not in lieu of taxes and are recorded as a transfer in the statements of revenues, expenses, and changes in fund net assets.

The Department authorized total transfers of $182.0 million and $174.7 million in fiscal years 2008 and 2007, respectively, from the Power System to the reserve fund of the City.

(b) Palo Verde Nuclear Generating Station (PVNGS) Matters

As a joint project participant in PVNGS, the Department has certain commitments with respect to nuclear spent fuel and waste disposal. Under the Nuclear Policy Act, the Department of Energy (the DOE) is to develop facilities necessary for the storage and disposal of spent fuel and to have the first such facility in operation by 1998; however, the DOE has announced that such a repository cannot be completed before 2010. There is an ongoing litigation with respect to the DOE's ability to accept spent nuclear fuel; however, no permanent resolution has been reached. Capacity in existing fuel storage pools at PVNGS was exhausted in 2003. A Dry Cask Storage Facility (also called the Independent Spent Fuel Storage Facility) was built and completed in 2003 at a total cost of $33.9 million (about $3.3 million for the Department). The facility has the capacity to store all the spent fuel generated by the plant until the end of its life in 2026. The Department accrues for current nuclear fuel storage costs as a component of fuel expense as the fuel is burned. The Department's share of spent nuclear fuel costs related to its indirect interest in PVNGS is included in purchased power expense.

The Price-Anderson Act (the Act) requires that all utilities with nuclear generating facilities share in payment for claims resulting from a nuclear incident. Participants in PVNGS currently insure potential claims and liability through commercial insurance with a $300 million limit; the remainder of the potential liability is covered by the industrywide retrospective assessment program provided under the Act. This program limits assessments to a maximum of $100.6 million for each licensee for each nuclear incident occurring at any nuclear reactor in the United States; payments under the program are limited to $10 million per incident, per year. Based on the Department's 5.70% direct interest and its 3.95% indirect investment interest through SCPPA, the Department would be responsible for a maximum assessment of $9 million per incident, limited to payments of $1 million per incident annually.

(c) Environmental Matters

Numerous environmental laws and regulations affect the Power System's facilities and operations. The Department monitors its compliance with laws and regulations and reviews its remediation obligations on an ongoing basis. The following topics highlight some of the major environmental compliance issues affecting the Power System:

Air Quality – Nitrogen Oxide (NOx) Emissions

The Power System's generating station facilities are subject to the Regional Clean Air Incentives Market (RECLAIM) NOx emission reduction program adopted by the South Coast Air Quality Management District (SCAQMD). In accordance with this program, SCAQMD established annual NOx allocations for NOx RECLAIM facilities based on historical emissions and type of emission sources operated. These allocations are in the form of RECLAIM trading emission credits (RTCs). Facilities that exceed their allocations may buy RTCs from other companies that have emissions below their allocations. The Department has a program of installing emission controls and purchasing RTCs, as necessary, to meet its emission requirements.

As a result of the installation of NOx control equipment and the repowering of existing units, the Department has sufficient RTCs to meet its native load requirements for normal operations until 2010. For future years, the Department may need to acquire additional RTCs.

Air Quality – Greenhouse Gas Emissions

In September, Governor Schwarzenegger signed the California Global Warming Solutions Act of 2006 (AB32). The bill requires the California Air Resources Board to develop regulations and market mechanisms that will ultimately reduce California's greenhouse gas emissions by 25% by 2020. Mandatory caps will begin in 2012 for significant sources and be gradually reduced to meet the 2020 goals. As specified in the bill, all emissions from electricity that is consumed in the state, whether it is generated in California or in other states, will be subject to the cap. As a result, the Power System's share of emissions from IPP and other facilities outside California will be subject to this program.

It is uncertain at this time what impact this statute will have on the Power System's operations. If a cap and trade program is established, the primary issue will be how allowances will be allocated to the Department and other power producers. The target date for the Air Resources Board to adopt regulations is January 1, 2011. The goal of the regulations would be to "achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas, including provisions for using both market mechanisms and alternative compliance mechanisms." The Department is actively participating in the rule making process.

SB 1368 was signed into law on September 29, 2006 and requires the California Public Utilities Commission (CPUC) and the California Energy Commission (CEC) to establish a greenhouse gases emissions performance standard and implement regulations for all long-term financial commitments in baseload generation made by load serving entities (LSEs) and local publicly owned electric utilities (POUs), respectively. The greenhouse gas emissions performance standard is not to exceed the rate of greenhouse gases emitted per MW hour associated with combined-cycle, gas turbine baseload generation. The regulations have been adopted by the CPUC for investor-owned utilities and by the CEC for publicly owned utilities and establish an emissions performance standard of 1,100 pounds of carbon dioxide per MW hour of electricity.

Power Plant Once-Through Cooling Water Systems

Once-through cooling is the process where water is drawn from a source, pumped through equipment to provide cooling, and then discharged. Some type of cooling process is necessary for nearly every type of traditional electrical generating station, and the once-through cooling process is utilized by many electrical generating stations located next to large bodies of water. Typically, the water used for cooling is not chemically changed in the process although its temperature is increased.

Due to the Second Circuit Court's decision to remand most of Environmental Protection Agency's (EPA) new 316(b) Rule, EPA suspended its new 316(b) Rule and is in the process of drafting a new rule. In the absence of EPA's 316(b) Rule, the California State Water Resources Control Board has decided to move forward and is in the process of developing their own state-wide once-through cooling policy. In addition, other regulatory changes have been made that could significantly impact operations at the Haynes, Scattergood, and Harbor Generating Stations. The Regional Water Quality Control Board reclassified the body of water that the once-through cooling water is discharged to for the Harbor Generating Station, and sent a letter of intent to reclassify the body of water for the Haynes Generating Station discharge. Even though the Haynes Generating Station will be repowering existing units, should there be a reclassification for the water body discharges at the Haynes Generating Station, there will be requirements that cannot be met with its existing cooling or future repowered configuration. The Department is in the process of reviewing the regulations and conducting studies. Once the studies are reviewed, the Department will determine an appropriate course of action.

(d) Litigation

i. California Receivables and Refund Hearings

During fiscal year 2001, the Power System made sales to two California agencies that were formed by Assembly Bill 1890 to facilitate the purchase and sale of energy and ancillary services in the state of California. Through June 30, 2007, these agencies, the CAISO and the CPX, have made minimal payments since April 2001 on amounts outstanding to counterparties, including the Power System, for certain energy purchases in fiscal years 2000 and 2001. The CPX filed for protection under Chapter 11 of the Federal Bankruptcy Statute in January 2001. Two utilities with significant amounts due to these agencies have paid all amounts due to the CPX; however, the amounts remain in an escrow account pending the resolution of disbursement of the funds.

As of June 30, 2008 and 2007, a total of $166.5 million was due to the Power System from the CAISO and the CPX. Claims have been filed questioning whether amounts charged for energy sold to the CAISO and the CPX during 2000 and 2001 represent "unlawful profits" that should be subject to refund. The Courts have opined that FERC has no jurisdiction over the Department; however, the Courts have stated that the California parties seeking the refund may have a cause of action. As such, the litigation in this area is continuing.

The Power System has recorded a $50.0 million liability as of June 30, 2008 and 2007 against the $166.5 million receivable, for potential refunds pertaining to its wholesale sales during 2000 and 2001. Management believes that this is the most probable amount that will be refunded by the Power System and is based on the most recent formula disclosed by FERC. While management has recorded its estimate of the most probable amounts that will be refunded, management does believe that it is entitled to all amounts due from sales to counterparties in California, including those named above. Furthermore, management believes that interest may be due to it on those amounts but any potential receivable is not estimable at this time. In addition, management does not believe that the Power System's exposure to any additional losses with respect to these receivable balances is currently estimable. If final settlement of these receivables results in an amount less than the recorded balance, net of the $50.0 million liability recorded, the Department will be required to record a loss in future periods.

ii. Capital Facilities Fee Claims

In June 2007, the Department received a tentative decision in favor of the state and a number of local government agencies that are electric customers of the Department that claimed that the Department has rates that include a capital facilities' charge that violates the state's statute. However, in October 2008, the Department settled the case and recorded the $160 million settlement amount. Additionally, as permitted by SFAS No. 71, the Board approved to defer all potential costs associated with the resolution of this litigation and establish a corresponding long-term deferred debit to be recovered through future revenues over a period of up to 10 years, if necessary (see note 13(b)).

iii. Other

A number of claims and suits are also pending against the Department for alleged damages to persons and property and for other alleged liabilities arising out of its operations. In the opinion of management, any ultimate liability, which may arise from these actions, is not expected to materially impact the Power System's financial position, results of operations, or cash flows as of June 30, 2008.

(e) Risk Management

The Power System is subject to certain business risks common to the utility industry. The majority of these risks are mitigated by external insurance coverage obtained by the Power System. For other significant business risks, however, the Power System has elected to self-insure. Management believes that exposure to loss arising out of self-insured business risks will not materially impact the Power System's financial position, results of operations, or cash flows as of June 30, 2008.

(f) Credit Risk

Financial instruments, which potentially expose the Department to concentrations of credit risk, consist primarily of retail and wholesale receivables. The Department's retail customer base is concentrated among commercial, industrial, residential, and governmental customers located within the City. Although the Department is directly affected by the City's economy, management does not believe significant credit risk exists at June 30, 2008, except as provided in the allowance for losses. The Department manages its credit exposure by requiring credit enhancements from certain customers and through procedures designed to identify and monitor credit risk.

(15) Subsequent Event

On November 6, 2008, the Power System sold $550 million in bonds with an effective interest rate of 5.28%.

Recent market conditions have resulted in an unusually high degree of volatility and increased the risks associated with certain investments held by the Power System and the City of Los Angeles, which could impact the value of investments after the date of these financial statements. At June 30, 2008, the Power System held and continues to hold $1.8 million of Lehman Corporate Notes, which were purchased at a cost of $1.8 million. Lehman Brothers filed for bankruptcy protection under Chapter 11 of the bankruptcy act on September 15, 2008. As a result, the current market value of these notes was estimated to be $182,000 at December 1, 2008. The unfolding financial crisis may affect the market value of other investments, but the impact of future events cannot be determined at this time. In addition, on December 1, 2008 the fair value of the Power System's derivative instruments held at June 30, 2008 was a negative $97.8 million, a decline of $311.2 million.

The values of the assets held by the Department's Retirement, Disability and Death Benefit Insurance Plan and its Postemployment Healthcare Plan have also been impacted by recent market conditions. The Plan's actuarial valuations employ a smoothing policy which requires that market gains and losses be recognized in even increments over five years. As a result, the impact of recent market losses will be amortized and evidenced in actuarial valuations and funded status over the next five years and could eventually result in an increase in required Department contributions.

Pension Plan – Schedule of Funding Progress

The following schedule provides information about the Department's overall progress made in accumulating sufficient assets to pay benefits when due, prior to allocations to the Water System and the Power System (amounts in thousands):

Actuarial valuation date July 1	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
2008	$ 7,247,853	7,619,103	371,250	95%	$ 708,732	52%
2007	6,864,084	7,467,285	603,201	92	670,373	90
2006	6,447,763	7,046,571	598,808	92	635,728	94

Postemployment Healthcare Plan – Schedule of Funding Progress

The following schedule provides information about the Department's overall progress made in accumulating sufficient assets to pay benefits when due, prior to allocations to the Water System and the Power System (amounts in thousands):

Actuarial valuation date July 1	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
2007	$ 649,116	1,041,722	392,606	62%	$ 670,400	58%
2006	—	1,053,853	1,053,853	—	635,700	166
2005	—	1,695,666	1,695,666	—	612,270	277