

Northern California Energy Authority

Financial Statements
and Independent Auditors' Report
December 31, 2025 and 2024

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

Using this Financial Report

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

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

Overview of the Financial Statements

The following discussion and analysis of the financial performance of the Agency provides an overview of the financial activities for the years ended December 31, 2025 and 2024. This discussion and analysis should be read in conjunction with the Agency’s financial statements and accompanying notes, which follow this section.

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

The Statements of Revenues, Expenses and Changes in Net Position report all of the Agency’s revenues and expenses during the periods shown.

The Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and debt financing, and other cash uses such as payments for debt service.

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

Organization and Nature of Operations

The Agency is a joint powers authority (JPA) formed by the Sacramento Municipal Utility District (SMUD) and the Sacramento Municipal Utility District Financing Authority (SFA) in 2018. SFA is a JPA formed by SMUD and the Modesto Irrigation District. The Agency was formed for the purpose of prepaying for a fixed quantity supply of natural gas and electricity to be delivered over a thirty-year period by J. Aron & Company LLC (J. Aron) under a Prepaid Commodity Sales Agreement (Prepaid Agreement) between the Agency and J. Aron. The Prepaid Agreement, which originally terminates in May 2049, has been amended to terminate in October 2054. The Agency then sells the natural gas and electricity to SMUD. The Agency issued bonds in December 2018 and commenced gas sales in June 2019. In April 2024, the Agency issued 2024 Commodity Supply Revenue Refunding bonds for the purpose of refunding the debt associated with the 2018 bonds and increasing the value of the prepaid commodity.

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

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

FINANCIAL POSITION

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

CONDENSED STATEMENTS OF NET POSITION

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Assets			
Current assets	\$ 41,008	\$ 43,720	\$ 43,765
Noncurrent assets	<u>678,266</u>	<u>687,870</u>	<u>509,358</u>
Total assets	<u>\$ 719,274</u>	<u>\$ 731,590</u>	<u>\$ 553,123</u>
Liabilities			
Long-term debt - net	\$ 710,347	\$ 722,286	\$ 525,193
Current liabilities	19,245	19,824	27,630
Noncurrent liabilities	<u>126</u>	<u>60</u>	<u>248</u>
Total liabilities	729,718	742,170	553,071
Deferred Inflows of Resources	2,107	2,567	-0-
Net position			
Restricted	12,163	15,263	8,931
Unrestricted	<u>(24,714)</u>	<u>(28,410)</u>	<u>(8,879)</u>
Total net position	<u>(12,551)</u>	<u>(13,147)</u>	<u>52</u>
Total liabilities and net position	<u>\$ 719,274</u>	<u>\$ 731,590</u>	<u>\$ 553,123</u>

TOTAL ASSETS

Total assets in 2025 decreased \$12.3 million or 1.7% over 2024, primarily due to a \$9.5 million decrease in prepaid commodity supply due to the amortization for gas delivered in 2025 and \$1.8 million decrease in restricted investments due to lower reserve for long-term debt due within one year.

Total assets in 2024 increased \$178.5 million or 32.3% over 2023, primarily due to a \$187.9 million increase in prepaid commodity supply due to the amendment to the prepaid commodity sales agreement, offset by a \$8.4 million decrease in prepaid commodity supply due to the amortization for gas delivered in 2024.

TOTAL LIABILITIES & NET POSITION

Total liabilities in 2025 decreased \$12.5 million or 1.7% over 2024, primarily due to a \$12.6 million decrease in long-term debt - net as a result of \$5.5 million scheduled principal payment and \$7.1 million amortization of bond premium.

Net position in 2025 increased \$0.6 million over 2024, based on results of operations, offset by a \$2.5 million distribution to Member.

Total liabilities in 2024 increased \$189.1 million or 34.2% over 2023, primarily due to a \$195.8 million increase in long-term debt - net as a result of the issuance of 2024 Commodity Supply Revenue Refunding bonds for the purpose of refunding the debt associated with the 2018 bonds, offset by a \$6.6 million amortization of bond premium.

Net position in 2024 decreased \$13.2 million over 2023, based on results of operations.

RESULTS OF OPERATIONS

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

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

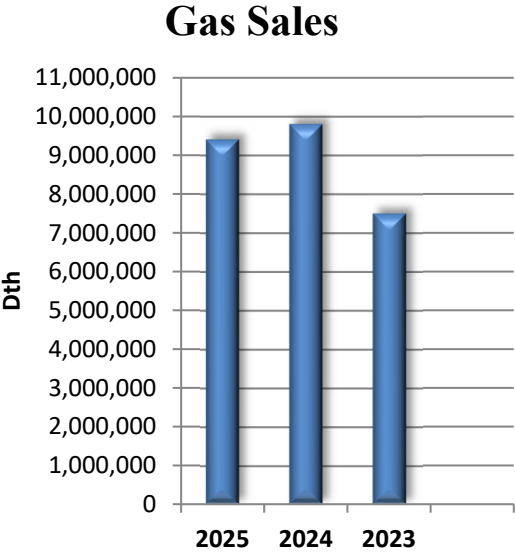
	2025	2024	2023
Operating revenues	\$ 38,417	\$ 38,290	\$ 26,303
Operating expenses	(9,549)	(8,500)	(4,366)
Operating income	28,868	29,790	21,937
Interest income - net	967	514	552
Interest on debt	(26,813)	(24,229)	(16,831)
Other expenses	-0-	(19,772)	-0-
Change in net position before distributions and contributions	3,022	(13,697)	5,658
Distributions to Member	(2,508)	-0-	(1,103)
Member contributions	82	498	107
Change in net position	596	(13,199)	4,662
Net position - beginning of year	(13,147)	52	(4,610)
Net position - end of year	<u>\$ (12,551)</u>	<u>\$ (13,147)</u>	<u>\$ 52</u>

OPERATING REVENUES

Total operating revenues were \$38.4 million for 2025, an increase of \$0.1 million or 0.3% over 2024. The gas dekatherm (Dth) sales decreased 4.1% compared to 2024. Gas sales to Member increased \$3.5 million due to higher gas price index, offset by a decrease of \$3.3 million in gas swap settlement - net due to lower net swap price.

Total operating revenues were \$38.3 million for 2024, an increase of \$12.0 million or 45.6% over 2023. The Dth sales increased 30.8% compared to 2023. Gas swap settlement - net increased \$48.8 million due to higher net swap price, offset by a decrease of \$36.8 million in gas sales to Member as a result of lower gas price index.

The following chart shows gas sales to Member for the past three years.



OPERATING EXPENSES

Total operating expenses were \$9.5 million for 2025, an increase of \$1.0 million or 12.3% over 2024, primarily due to an increase of \$1.1 million amortization of the prepaid commodity supply.

Total operating expenses were \$8.5 million for 2024, an increase of \$4.1 million or 94.7% over 2023, primarily due to an increase of \$4.1 million amortization of the prepaid commodity supply.

NON-OPERATING REVENUES (EXPENSES)

Total non-operating revenues (expenses) were (\$25.8) million expenses for 2025, a decrease of \$17.6 million expense or 40.6% over 2024, primarily due to \$19.8 million cost of issuance incurred in 2024 as a result of refunding of the 2018 bonds, partially offset by a higher interest expense of \$2.6 million as a result of a higher debt balance.

Total non-operating revenues (expenses) were (\$43.5) million expenses for 2024, an increase of \$27.2 million expense or 167.1% over 2023, primarily due to \$19.8 million cost of issuance and \$7.4 million increase in interest expense as a result of refunding of the 2018 bonds.

Requests for Information

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

**NORTHERN CALIFORNIA ENERGY AUTHORITY
STATEMENTS OF NET POSITION**

	December 31,	
	2025	2024
ASSETS		
CURRENT ASSETS		
Restricted cash and cash equivalents	\$ 10,121	\$ 1,175,575
Restricted investments	26,684,200	28,516,848
Receivables:		
Gas sales to Member	4,709,520	4,313,340
Accrued interest and other	-0-	246,636
Prepaid commodity supply	9,604,298	9,467,057
Total current assets	41,008,139	43,719,456
NONCURRENT ASSETS		
Prepaid commodity supply	678,266,114	687,870,412
Total noncurrent assets	678,266,114	687,870,412
TOTAL ASSETS	\$ 719,274,253	\$ 731,589,868
LIABILITIES		
LONG-TERM DEBT - net	\$ 710,346,818	\$ 722,285,686
CURRENT LIABILITIES		
Long-term debt due within one year	4,840,000	5,455,000
Accrued interest and other	14,404,648	14,368,751
Total current liabilities	19,244,648	19,823,751
NONCURRENT LIABILITIES		
Arbitrage rebate liability	126,300	60,402
Total noncurrent liabilities	126,300	60,402
TOTAL LIABILITIES	729,717,766	742,169,839
DEFERRED INFLOWS OF RESOURCES		
Unamortized bond gains	2,107,473	2,567,285
TOTAL DEFERRED INFLOWS OF RESOURCES	2,107,473	2,567,285
NET POSITION		
Restricted	12,163,373	15,263,270
Unrestricted	(24,714,359)	(28,410,526)
TOTAL NET POSITION	(12,550,986)	(13,147,256)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 719,274,253	\$ 731,589,868

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

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

	Years Ended December 31,	
	2025	2024
OPERATING REVENUES		
Gas sales to Member	\$ 27,785,336	\$ 24,301,041
Gas swap settlement - net	10,631,645	13,973,910
Other gas sales	-0-	15,548
Total operating revenues	38,416,981	38,290,499
OPERATING EXPENSES		
Prepaid commodity amortization	9,467,057	8,394,357
Administrative and general	82,281	106,157
Total operating expenses	9,549,338	8,500,514
OPERATING INCOME	28,867,643	29,789,985
NON-OPERATING REVENUES (EXPENSES)		
Interest income - net	966,543	513,894
Interest on debt	(26,812,673)	(24,228,323)
Other expenses	-0-	(19,772,300)
Total non-operating revenues (expenses)	(25,846,130)	(43,486,729)
CHANGE IN NET POSITION BEFORE DISTRIBUTIONS AND CONTRIBUTIONS		
	3,021,513	(13,696,744)
Distributions to Member	(2,507,524)	-0-
Member contributions	82,281	497,961
CHANGE IN NET POSITION	596,270	(13,198,783)
NET POSITION - BEGINNING OF YEAR	(13,147,256)	51,527
NET POSITION - END OF YEAR	\$ (12,550,986)	\$ (13,147,256)

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

**NORTHERN CALIFORNIA ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS**

	Years Ended December 31,	
	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from gas sales to Member	\$ 27,389,156	\$ 26,227,592
Other receipts/payments - net	11,027,825	11,436,050
Net cash provided by operating activities	38,416,981	37,663,642
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from bond issuance, net of premium	-0-	192,318,022
Repayment of long-term debt	(5,455,000)	-0-
Payments for prepaid commodity supply	-0-	(187,893,579)
Payments for debt issue costs	-0-	(9,627,969)
Interest payments on long-term debt	(34,485,000)	(25,819,768)
Distributions to Member	(2,507,524)	-0-
Net cash used in noncapital financing activities	(42,447,524)	(31,023,294)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	41,175,646	38,524,138
Purchases of investments	(39,342,998)	(48,551,575)
Interest received	1,032,441	747,538
Net cash provided by (used in) investing activities	2,865,089	(9,279,899)
Net decrease in cash and cash equivalents	(1,165,454)	(2,639,551)
Cash and cash equivalents - beginning of year	1,175,575	3,815,126
Cash and cash equivalents - end of the year	\$ 10,121	\$ 1,175,575
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 28,867,643	\$ 29,789,985
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization of prepaid gas supply	9,467,057	8,394,357
Changes in operating assets and liabilities:		
Receivables	(149,544)	1,679,915
Prepaid expenses	-0-	29,365
Payables and accruals	231,825	(2,229,980)
Net cash provided by operating activities	\$ 38,416,981	\$ 37,663,642
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES		
Amortization of debt related premium and gain on refunding	\$ 7,558,680	\$ 6,901,882
Gain on refunding of long-term debt	-0-	2,907,035
Contributions from Member	82,281	497,961
Net proceeds from bond refundings deposited directly into escrow account	-0-	541,184,510
Underwriter's discount on bond refunding	-0-	3,433,289

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

NORTHERN CALIFORNIA ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

NOTE 1. ORGANIZATION AND OPERATIONS

The Northern California Energy Authority (Agency) is a joint powers authority (JPA) formed by the Sacramento Municipal Utility District (SMUD) and the Sacramento Municipal Utility District Financing Authority (SFA) pursuant to the California Government Code (collectively, Members). SFA is a JPA formed by SMUD and the Modesto Irrigation District. The purpose of the Agency is to prepay for a supply of a fixed quantity of natural gas and electricity (commodity) to be delivered over a thirty-year period (Commodity Project) by J. Aron & Company LLC (J. Aron) under a Prepaid Commodity Sales Agreement (Prepaid Agreement) between the Agency and J. Aron. The Prepaid Agreement, which originally terminates in May 2049, has been amended to terminate in October 2054. J. Aron is obligated to make payments to the Agency for any shortfall of commodity not delivered or taken under the Prepaid Agreement for any reason, including force majeure.

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

The Agency has no employees. The Commodity Project is operated by SMUD's staff. SMUD is obligated to contribute to the Agency the actual costs of providing administrative and general services. SMUD contributed \$0.1 and \$0.5 million in 2025 and 2024, respectively.

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Credit and Market Risk. The Agency entered into guaranteed investment contracts and are exposed to credit risk related to nonperformance by its investment provider.

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

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

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

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

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

Gains/Losses on Bond Refundings. Gains and losses resulting from bond refundings are included as a component of Deferred Inflows of Resources or Deferred Outflows of Resources in the Statements of Net Position and amortized as a component of Interest on Debt in the Statements of Revenues, Expenses and Changes in Net Position over the shorter of the life of the refunded debt or the new debt using the effective interest method.

Deferred Inflows of Resources. A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized and an inflow of resources (revenue) until that future time.

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

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

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

- **Restricted** - This component of net position consists of assets with constraints placed on their use, either externally or internally. Constraints include those imposed by debt indentures, grants or laws and regulations of other governments, by law through constitutional provisions or enabling legislation, or by the Commission. These restricted assets are reduced by liabilities related to those assets. Restricted net assets are composed of cash and cash equivalents set aside to pay the principal and interest bond requirements due within one year, offset by accrued interest and other and the arbitrage rebate liability.
- **Unrestricted** - This component of net position consists of net amount of the assets and liabilities that do not meet the definition of "Restricted."

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

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

Other Non-operating Expenses. Other non-operating expenses include debt issuance costs on bond refunding.

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

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

Subsequent Events. Subsequent events for the Agency have been evaluated through March 6, 2026 which is the date that the financial statements were available to be issued.

Recent Accounting Pronouncements, adopted. In December 2023, GASB issued SGAS No. 102, "*Certain Risk Disclosures*" (GASB No. 102), to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. A concentration is defined as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. This Statement requires a government to disclose such risks if a concentration or constraint could cause a substantial impact within 12 months of the financial statement date. The Agency evaluated its operations and determined that no concentrations or constraints met the criteria for disclosure for the period ending December 31, 2025.

Recent Accounting Pronouncements, not yet adopted. In April 2024, GASB issued SGAS No. 103, “*Financial Reporting Model Improvements*” (GASB No. 103), to improve key components of the financial reporting model. The purposes of the improvements are to (a) enhance the effectiveness of the financial reporting model in providing information that is essential for decision making and assessing a government’s accountability and (b) address certain application issues. This Statement is effective for the Agency in 2026. The Agency is currently assessing the impact of adopting this statement.

In September 2024, GASB issued SGAS No. 104, “*Disclosure of Certain Capital Assets*” (GASB No. 104), to require certain types of capital assets to be disclosed separately in the capital assets note disclosures. Lease assets and intangible right-to-use assets should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets should also be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class and requires additional disclosures for capital assets held for sale. This Statement is effective for the Agency in 2026. The Agency is currently assessing the impact of adopting this statement.

In December 2025, GASB issued SGAS No. 105, “*Subsequent Events*” (GASB No. 105), to enhance the consistency and quality of financial reporting related to subsequent events. Subsequent events are transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued. The Statement defines the “date the financial statements are available to be issued” as the date when the financial statements are complete in accordance with GAAP and all necessary approvals for issuance have been obtained. It also clarifies the distinction between recognized and nonrecognized events and requires disclosure of the date through which subsequent events were evaluated. The requirements of this Statement are effective for the Agency in 2027. The Agency is currently assessing the disclosure impact of adopting this statement.

NOTE 3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Equivalents and Investments. The Agency’s investment policy is governed by the California State and Municipal Codes and its Indenture, which allow Agency investments to include: obligations which are unconditionally guaranteed by the U.S. Government or its agencies or instrumentalities; direct and general obligations of the State or any local agency within the State; bankers’ acceptances; commercial paper; certificates of deposit; repurchase and reverse repurchase agreements; medium term corporate notes; Local Agency Investment Fund; and money market funds. The Agency’s investment policy also includes restrictions for investments relating to maximum amounts invested as a percentage of total portfolio and with a single issuer, maximum maturities, and minimum credit ratings. The Agency uses the credit ratings of Massachusetts Mutual Life Insurance (MassMutual) and Toronto Dominion Bank (TD Bank).

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

Custodial Credit Risk. This is the risk that in the event of the failure of a depository financial institution or counterparty to a transaction, the Agency’s deposits may not be returned or the Agency will not be able to recover the value of its deposits, investments or securities that are in the possession of another party. The Agency does not have a deposit or investment policy for custodial credit risk. At December 31, 2025 and 2024, the Agency had money market funds of \$0.01 million and \$1.2 million, respectively, which were uninsured and held in trust for the benefit of the Agency, respectively. At December 31, 2025 and 2024, the Agency had no investments subject to custodial credit risk.

Concentration of Credit Risk. This is the risk of loss attributed to the magnitude of an entity’s investment in a single issuer. The Agency places no limit on the amounts invested in any one issuer for federal agency securities. The Agency has concentrations of risk greater than five percent invested in TD Bank of 72% and MassMutual of 28% at December 31, 2025 and in TD Bank of 73% and MassMutual of 27% at December 31, 2024.

Interest Rate Risk. This is the risk that investments are exposed to fair value losses arising from increasing interest rates. Though the Agency has restrictions as to the maturities of some of the investments, it does not have a formal policy for interest rate risk. The Agency had no investments subject to this risk at December 31, 2025 and 2024. At December 31, 2025 and 2024, all investment funds were in guaranteed investment contracts that will terminate on August 1, 2030.

Investment Agreement. The Agency has entered into guaranteed investment contracts in which it has agreed to invest the debt service fund for a fixed rate of return of 4.52% with TD Bank, and the debt service reserve and the swap reserve funds for a guaranteed fixed rate of return of 4.72% with MassMutual. These agreements terminate on August 1, 2030.

The following schedules present credit risk by type of security held at December 31, 2025 and 2024. The credit ratings listed are from Standard & Poor’s.

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

	Credit Rating	<u>December 31,</u>	
		<u>2025</u>	<u>2024</u>
Cash and cash equivalents:			
Money market funds	AAAm	\$ 10,121	\$ 1,175,575
Total cash and cash equivalents		10,121	1,175,575
Investments:			
Guaranteed investment contracts	A+/AA+	<u>26,684,200</u>	<u>28,516,848</u>
Total investments		<u>26,684,200</u>	<u>28,516,848</u>
Total cash, cash equivalents, and investments		<u>\$ 26,694,321</u>	<u>\$ 29,692,423</u>

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

	<u>December 31,</u>	
	<u>2025</u>	<u>2024</u>
Cash, cash equivalents, and investments:		
Debt service funds	<u>\$ 23,684,227</u>	<u>\$ 25,528,092</u>
Total debt service funds	23,684,227	25,528,092
Other restricted funds:		
Working capital fund	3,000,000	3,000,000
Revenue fund	<u>10,094</u>	<u>1,164,331</u>
Total other restricted funds	<u>3,010,094</u>	<u>4,164,331</u>
Total cash, cash equivalents, and investments	<u>\$ 26,694,321</u>	<u>\$ 29,692,423</u>

NOTE 4. PREPAID COMMODITY SUPPLY

In April 2024, the original 2018 Prepaid Agreement was amended and restated through 2054, as a result of the issuance of the 2024 Commodity Supply Revenue Refunding Bonds.

The Agency’s prepaid commodity supply is presented below:

	<u>December 31,</u>	
	<u>2025</u>	<u>2024</u>
Prepaid commodity supply	\$ 687,870,412	\$ 697,337,469
Less: amounts due within one year	<u>(9,604,298)</u>	<u>(9,467,057)</u>
Total prepaid commodity supply - noncurrent portion	<u>\$ 678,266,114</u>	<u>\$ 687,870,412</u>

The following summarizes prepaid commodity supply activity for the year ended December 31, 2025:

	January 1, 2025	Additions	Amortizations	December 31, 2025
Prepaid commodity supply	\$ 697,337,469	\$ -0-	\$ (9,467,057)	\$ 687,870,412

The following summarizes prepaid commodity supply activity for the year ended December 31, 2024:

	January 1, 2024	Additions	Amortizations	December 31, 2024
Prepaid commodity supply	\$ 524,549,289	\$ 187,893,579	\$ (15,105,399)	\$ 697,337,469

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

NOTE 5. LONG-TERM DEBT

The Agency issued \$689.7 million of 2024 Commodity Supply Revenue Refunding Bonds (Bonds) in April 2024 maturing in December 2054, with a mandatory tender purchase in August 2030.

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

	December 31,	
	2025	2024
2024 Commodity supply revenue refunding bonds, fixed rate 5.0%, 2026-2054	\$ 684,245,000	\$ 689,700,000
Unamortized premiums	30,941,818	38,040,686
Total long-term debt	715,186,818	727,740,686
Less: amounts due within one year	(4,840,000)	(5,455,000)
Total long-term debt - net	\$ 710,346,818	\$ 722,285,686

The following summarizes long-term debt activity for the year ended December 31, 2025:

	January 1, 2025	Additions	Payments/ Amortizations	December 31, 2025
2024 Commodity supply revenue refunding bonds	\$ 689,700,000	\$ -0-	\$ (5,455,000)	\$ 684,245,000
Unamortized premiums	38,040,686	-0-	(7,098,868)	30,941,818
Total long-term debt	\$ 727,740,686	\$ -0-	\$ (12,553,868)	\$ 715,186,818

The following summarizes long-term debt activity for the year ended December 31, 2024:

	January 1, 2024	Additions	Defeasance, Payments or Amortizations	December 31, 2024
2024 Commodity supply revenue refunding bonds	\$ -0-	\$ 689,700,000	\$ -0-	\$ 689,700,000
2018 Commodity supply revenue bonds	537,295,000	-0-	(537,295,000)	-0-
Unamortized premiums	<u>2,403,431</u>	<u>43,346,310</u>	<u>(7,709,055)</u>	<u>38,040,686</u>
Total long-term debt	<u>\$ 539,698,431</u>	<u>\$ 733,046,310</u>	<u>\$ (545,004,055)</u>	<u>\$ 727,740,686</u>

At December 31, 2025 scheduled annual principal maturities and interest are as follows:

Year	Principal	Interest	Total
2026	\$ 4,840,000	\$ 34,212,250	\$ 39,052,250
2027	5,085,000	33,970,250	39,055,250
2028	7,625,000	33,716,000	41,341,000
2029	6,775,000	33,334,750	40,109,750
2030	10,045,000	32,996,000	43,041,000
2031 – 2035 (combined)	127,260,000	150,271,250	277,531,250
2036 – 2040 (combined)	155,165,000	115,064,000	270,229,000
2041 – 2045 (combined)	97,175,000	82,669,750	179,844,750
2046 – 2050 (combined)	127,410,000	55,517,000	182,927,000
2051 – 2054 (combined)	<u>142,865,000</u>	<u>19,487,000</u>	<u>162,352,000</u>
Total	<u>\$ 684,245,000</u>	<u>\$ 591,238,250</u>	<u>\$ 1,275,483,250</u>

Interest in the preceding table includes interest requirements at current fixed rate coupon of 5.0 percent until mandatory remarketing date on August 1, 2030, and an assumed 5.0 percent fixed rate after mandatory remarketing. Principal in the preceding table includes known principal payments until mandatory remarketing date and the amortization schedule after mandatory remarketing date.

The Agency had pledged future net revenues to repay \$684.2 million and \$689.7 million at December 31, 2025 and 2024, respectively, for Bonds issued in April 2024. Proceeds from the Bonds were used to purchase the Commodity Project from J. Aron with the remaining amounts used to fund the appropriate accounts for the Agency. The Bonds, payable through 2054, are secured solely by a pledge of and lien on the trust estate under the Indenture which includes bond proceeds, rights under the CSC, revenues, any termination payment and any investment income. Annual principal and interest payments on the Bonds are expected to require approximately 100% of the Agency's net revenues. The total principal and interest remaining to be paid on the Bonds is \$852.5 million and \$892.4 million at December 31, 2025 and 2024, respectively. The remaining balances to be paid excludes the assumed interest payments after mandatory remarketing. Debt service payments on the Bonds are made semi-annually on February 1 and August 1. The Agency made the first bond principal payment on August 1, 2025 in the amount of \$5.5 million. Interest paid was \$34.5 million and \$27.6 million for 2025 and 2024, respectively. The 2024 interest paid includes interest payments on the 2024 and 2018 bonds. Total gross revenues were \$39.4 million and \$38.8 million for 2025 and 2024, respectively.

The ability of the Agency to pay related principal and interest payments associated with the Bonds is contingent upon the continued successful operation of the Commodity Project. If the Prepaid Agreement were to terminate, a termination payment would be received into the trust estate from J. Aron. The amount of the termination payment, together with the amounts required to be on deposit in certain funds and accounts held by the trustee, has been calculated to provide a sum sufficient to pay the redemption price of the Bonds upon early termination of the Prepaid Agreement. The amount of termination payment

declines over time as J. Aron performs its commodity delivery obligations under the Prepaid Agreement. The Members are not obligated to pay debt service costs if the Commodity Project is unable to operate pursuant to the Prepaid Agreement or if revenues generated by the Commodity Project are insufficient to meet debt service obligations.

2024 Bond Issuance. In April 2024, the Agency issued \$689.7 million of 2024 Commodity Supply Revenue Refunding bonds. The 2024 Bonds mature in December 2054 and come with a mandatory tender purchase in August 2030. The purpose of this transaction was to refund the debt associated with 2018 Commodity Supply Revenue bonds. Proceeds from the 2024 Bonds refunded all the outstanding 2018 Bonds. A total of \$537.3 million of bonds were defeased through a legal defeasance, and accordingly, the liability for the defeased bonds has been removed from Long-term Debt - net in the Statements of Net Position. The refunding resulted in the recognition of a deferred gain on bond refunding of \$2.9 million, which is being amortized over the life of the refunding issue.

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

NOTE 6. COMMITMENTS

Commodity Price Swap Agreement. The Agency has entered into a floating-to-fixed natural gas and electricity commodity price swap agreement (Commodity Swap Agreement) with a counterparty for the purpose of fixing the variable price on the Agency's commodity sales to SMUD under the CSC. The Agency pays an index-based commodity price over the thirty-year period and receives a fixed commodity price as specified in the Commodity Swap Agreement, for notional quantities of commodity at a pricing point corresponding to the daily contract quantity and the delivery point under the Prepaid Agreement. The Commodity Swap Agreement terminates on October 1, 2054. The total notional amount of the Commodity Swap Agreement remaining at December 31, 2025 through June 30, 2028, is 23.7 million MMBtu for gas and 23.9 million MWh for electricity for July 1, 2028 through October 1, 2054. Presently, the Commodity Swap Agreement is an average of 25,982 MMBtu per calendar day through June 30, 2028 for gas, and 2,482 MWh per day for electricity starting July 1, 2028. Actual daily commodity deliveries will vary from month to month, changing on the first day of the month. Early termination of the Commodity Swap Agreement would occur upon termination of the Prepaid Agreement for any reason whatsoever. Upon early termination, the Commodity Swap Agreement would have no value to either party.

NOTE 7. CONTINGENCIES

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

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