

Northern California Gas Authority No. 1

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

NORTHERN CALIFORNIA GAS AUTHORITY No. 1
TABLE OF CONTENTS

Independent Auditors' Report	1
Required Supplementary Information	
Management's Discussion and Analysis (Unaudited)	3
Basic Financial Statements	
Statements of Net Position	7
Statements of Revenues, Expenses and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Financial Statements	
Note 1. Organization and Operations	10
Note 2. Summary of Significant Accounting Policies	11
Note 3. Cash, Cash Equivalents, and Investments	13
Note 4. Prepaid Gas Supply	15
Note 5. Long-term Debt	15
Note 6. Commitments	17
Note 7. Contingencies	18

NORTHERN CALIFORNIA GAS AUTHORITY No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Using this Financial Report

This annual financial report for Northern California Gas Authority No. 1 (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 2007. 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 to be delivered over a twenty-year period by Morgan Stanley Capital Group, Inc. (MSCG) under a Prepaid Gas Purchase and Sale Agreement (Prepaid Gas Supply) between the Agency and MSCG. The Agency then sells the natural gas to SMUD. The Agency issued bonds in May 2007 and commenced gas sales in June 2007.

SMUD purchases all of the natural gas delivered to the Agency pursuant to the Gas Supply Contract between SMUD and the Agency. In 2023, SMUD requested to have its entire daily contract quantity remarketed for each gas day of each month from November 1, 2023, until May 31, 2027. MSCG shall purchase all of the remarketed gas for its own account and make payment of such disposition proceeds to the Agency consistent with the terms of the Prepaid Agreement. 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	\$ 56,361	\$ 51,027	\$ 45,409
Noncurrent assets	16,284	52,230	84,273
	<u>\$ 72,645</u>	<u>\$ 103,257</u>	<u>\$ 129,682</u>
Liabilities			
Long-term debt - net	\$ 34,825	\$ 66,245	\$ 94,540
Current liabilities	33,187	30,366	27,315
Total liabilities	<u>68,012</u>	<u>96,611</u>	<u>121,855</u>
Net position			
Restricted	16,528	14,954	12,500
Unrestricted	<u>(11,895)</u>	<u>(8,308)</u>	<u>(4,673)</u>
Total net position	<u>4,633</u>	<u>6,646</u>	<u>7,827</u>
	<u>\$ 72,645</u>	<u>\$ 103,257</u>	<u>\$ 129,682</u>
Total liabilities and net position			

TOTAL ASSETS

Total assets in 2025 decreased \$30.6 million or 29.7% over 2024, primarily due to a \$31.9 million decrease in prepaid gas supply due to amortization for gas delivered in 2025, partially offset by a \$1.3 million increase in restricted cash and cash equivalents due to higher reserves for long-term debt due within one year.

Total assets in 2024 decreased \$26.4 million or 20.4% over 2023, primarily due to a \$28.5 million decrease in prepaid gas supply due to amortization for gas delivered in 2024, partially offset by a \$2.0 million increase in restricted cash and cash equivalents due to higher reserve for long-term debt due within one year.

TOTAL LIABILITIES & NET POSITION

Total liabilities in 2025 decreased \$28.6 million or 29.6% over 2024, primarily due to a \$28.3 million decrease in long-term debt as a result of scheduled principal payment.

Net position in 2025 decreased \$2.0 million or 30.3% over 2024, based on results of operations and a \$0.8 million distribution to Member.

Total liabilities in 2024 decreased \$25.2 million or 20.7% over 2023, primarily due to a \$25.5 million decrease in long-term debt as a result of scheduled principal payment.

Net position in 2024 decreased \$1.2 million or 15.1% over 2023, based on results of operations and a \$0.6 million distribution to Member.

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

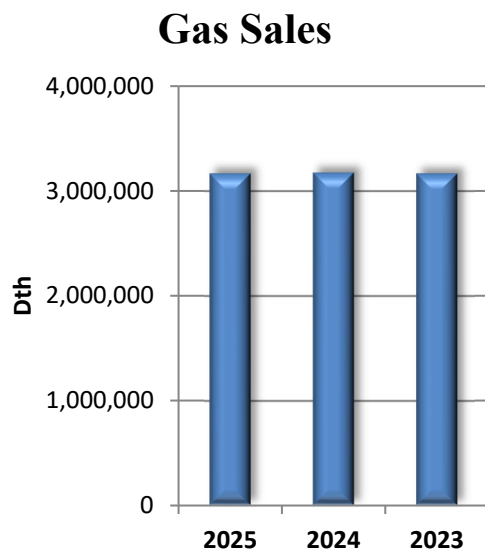
	2025	2024	2023
Operating revenues	\$ 33,530	\$ 31,774	\$ 29,999
Operating expenses	(32,106)	(28,659)	(25,361)
Operating income	1,424	3,115	4,638
Interest income	781	889	615
Interest on debt	(3,476)	(4,688)	(5,819)
Change in net position before distributions and contributions	(1,271)	(684)	(566)
Distributions to Member	(821)	(572)	(659)
Member contributions	79	75	63
Change in net position	(2,013)	(1,181)	(1,162)
Net position - beginning of year	6,646	7,827	8,989
Net position - end of year	<u>\$ 4,633</u>	<u>\$ 6,646</u>	<u>\$ 7,827</u>

OPERATING REVENUES

Total operating revenues were \$33.5 million for 2025, an increase of \$1.8 million or 5.5% over 2024. The gas dekatherm (Dth) sales decreased 0.3% compared to 2024. Gas swap settlement - net increased \$0.9 million due to higher net swap price and gas sales to Member increased \$0.8 million as a result of higher gas price index.

Total operating revenues were \$31.8 million for 2024, an increase of \$1.8 million or 5.9% over 2023. The Dth sales increased 0.3% compared to 2023. Gas swap settlement - net increased \$5.3 million due to higher net swap price, offset by a decrease of \$3.5 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 \$32.1 million for 2025, an increase of \$3.4 million or 12.0% over 2024, primarily due to an increase of \$3.4 million amortization of the prepaid gas supply.

Total operating expenses were \$28.7 million for 2024, an increase of \$3.3 million or 13.0% over 2023, primarily due to an increase of \$3.3 million amortization of the prepaid gas supply.

Requests for Information

For more information about the Northern California Gas Authority No. 1, visit our website at www.smud.org or contact us at customerservices@smud.org.

NORTHERN CALIFORNIA GAS AUTHORITY No. 1
STATEMENTS OF NET POSITION

	December 31,	
	2025	2024
ASSETS		
CURRENT ASSETS		
Restricted cash and cash equivalents	\$ 17,241,388	\$ 15,971,864
Receivables:		
Gas sales to Member	626,031	366,437
Accrued interest and other	2,546,913	2,646,275
Prepaid gas supply	35,826,118	31,921,769
Other prepayments	15,630	15,630
Regulatory costs to be recovered within one year	104,796	104,796
Total current assets	56,360,876	51,026,771
NONCURRENT ASSETS		
Prepaid gas supply	16,223,607	52,049,725
Regulatory costs for future recovery	52,401	157,197
Prepaid bond insurance costs	7,816	23,446
Total noncurrent assets	16,283,824	52,230,368
TOTAL ASSETS	\$ 72,644,700	\$ 103,257,139
LIABILITIES		
LONG-TERM DEBT - net	\$ 34,825,000	\$ 66,245,000
CURRENT LIABILITIES		
Payable due to Member	1,053,492	1,053,492
Long-term debt due within one year	31,420,000	28,295,000
Accrued interest and other	712,875	1,017,326
Total current liabilities	33,186,367	30,365,818
TOTAL LIABILITIES	68,011,367	96,610,818
NET POSITION		
Restricted	16,528,513	14,954,464
Unrestricted	(11,895,180)	(8,308,143)
TOTAL NET POSITION	4,633,333	6,646,321
TOTAL LIABILITIES AND NET POSITION	\$ 72,644,700	\$ 103,257,139

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

NORTHERN CALIFORNIA GAS AUTHORITY No. 1
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended December 31,	
	2025	2024
OPERATING REVENUES		
Gas sales to Member	\$ 1,931,574	\$ 1,088,135
Gas swap settlement - net	31,598,485	30,686,490
Total operating revenues	33,530,059	31,774,625
OPERATING EXPENSES		
Prepaid gas amortization	31,921,769	28,478,928
Administrative and general	78,941	75,670
Regulatory amounts collected in rates	104,796	104,796
Total operating expenses	32,105,506	28,659,394
OPERATING INCOME	1,424,553	3,115,231
NON-OPERATING REVENUES (EXPENSES)		
Interest income	780,509	889,288
Interest on debt	(3,475,723)	(4,688,833)
Total non-operating revenues (expenses)	(2,695,214)	(3,799,545)
CHANGE IN NET POSITION BEFORE DISTRIBUTIONS AND CONTRIBUTIONS		
	(1,270,661)	(684,314)
Distributions to Member	(821,268)	(571,710)
Member contributions	78,941	75,670
CHANGE IN NET POSITION	(2,012,988)	(1,180,354)
NET POSITION - BEGINNING OF YEAR	6,646,321	7,826,675
NET POSITION - END OF YEAR	\$ 4,633,333	\$ 6,646,321

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

NORTHERN CALIFORNIA GAS AUTHORITY No. 1
STATEMENTS OF CASH FLOWS

	December 31,	
	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from gas sales to Member	\$ 1,305,544	\$ 721,698
Receipts from others	32,064,509	31,610,605
Net cash provided by operating activities	33,370,053	32,332,303
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Repayment of long-term debt	(28,295,000)	(25,530,000)
Interest payments on long-term debt	(3,764,547)	(5,091,795)
Distributions to Member	(821,268)	(571,710)
Net cash used in noncapital financing activities	(32,880,815)	(31,193,505)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	780,286	897,335
Net cash provided by investing activities	780,286	897,335
Net increase in cash and cash equivalents	1,269,524	2,036,133
Cash and cash equivalents - beginning of the year	15,971,864	13,935,731
Cash and cash equivalents - end of the year	\$ 17,241,388	\$ 15,971,864
RECONCILIATION OF OPERATING INCOME TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 1,424,553	\$ 3,115,231
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization of prepaid gas supply	31,921,769	28,478,928
Regulatory amortization	104,796	104,796
Changes in operating assets and liabilities:		
Receivables	(160,009)	(146,563)
Payables and accruals	78,944	779,911
Net cash provided by operating activities	\$ 33,370,053	\$ 32,332,303
SUPPLEMENTAL DISCLOSURE OF NONCASH		
INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Amortization of debt related premiums	\$ (15,630)	\$ (15,630)
Contributions from Member	78,941	75,670

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

NORTHERN CALIFORNIA GAS AUTHORITY No. 1
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2025 and 2024

NOTE 1. ORGANIZATION AND OPERATIONS

The Northern California Gas Authority No. 1 (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 to be delivered over a twenty-year period (Gas Project) by Morgan Stanley Capital Group, Inc. (MSCG) under a Prepaid Gas Purchase and Sale Agreement (Prepaid Agreement) between the Agency and MSCG. The Prepaid Agreement terminates on May 31, 2027. MSCG is obligated to make payments to the Agency for any shortfall of gas not delivered or taken under the Prepaid Agreement for any reason, including force majeure.

The Agency has entered into a Gas Supply Contract (GSC) with SMUD that provides for the sale of all of the natural gas delivered to the Agency over the term of the Prepaid Agreement. SMUD is obligated to pay the Agency for the quantities of gas delivered under the GSC and to pay damages for gas that SMUD fails to take pursuant to the terms of the GSC. SMUD has no obligation to pay for gas that the Agency fails to deliver. The Agency anticipates that SMUD will be the only project participant with respect to the Gas Project during the term of the Prepaid Agreement. However, in the event of a default by SMUD under the GSC, the Agency has agreed to terminate the GSC and may enter into a replacement GSC with one or more municipal utilities on substantially the same terms as the GSC. In 2023, SMUD requested to have its entire daily contract quantity remarketed for each gas day of each month from November 1, 2023 until May 31, 2027. MSCG, pursuant to the Gas remarketing provisions of the Prepaid Agreement shall purchase all of the remarketed gas for its own account at a price equal to the monthly index price minus an administrative charge of \$0.05 per million British Thermal Units (MMBtu) and make payment of such disposition proceeds to the Agency consistent with the terms of the Prepaid Agreement.

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

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. Gas 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 natural gas to the Gas 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 MSCG. If the Prepaid Agreement is terminated, MSCG 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 Gas 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. Natural gas sale revenues, gas swap payments and purchase costs that are directly related to delivery of natural gas are reported as operating revenues and expenses. All other revenues and expenses are reported as non-operating revenues and expenses.

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

Restricted Assets. The Agency's restricted assets are comprised of U.S. government comprised money market funds and commercial paper 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 a synthetic guaranteed investment contract (see Note 3) in 2007 and is exposed to credit risk related to nonperformance by its investment provider. This contract requires the investment provider, MSCG, to post collateral if their credit ratings fall below agreed upon levels. The amount is recorded as current restricted asset with an associated current liability on the Statements of Net Position.

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.

Receivable from/Payable to Member. The Agency records as a receivable from Member the amounts due from SMUD and a payable to Member the amounts due to SMUD for the purchase of natural gas from the Gas Project.

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

Regulatory Deferrals. As a regulated entity, the Agency's financial statements are prepared in accordance with GASB Statement No. 62, *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board and American Institute of Certified Public Accountants Pronouncements,"* which require that the effects of the rate making process be recorded in the financial statements. The Agency records regulatory assets and credits to reflect rate-making actions of the Commission. The account includes the unamortized debt issuance costs of previously issued bonds of the Agency. The regulatory asset is amortized using the straight line method over the remaining life of the associated bonds and recorded in Regulatory amounts collected in rates in the Statements of Revenues, Expenses and Changes in Net Position.

Prepaid Bond Insurance Costs. The Agency recorded a prepaid asset for the prepaid bond insurance portion of unamortized debt issuance costs of previously issued bonds of the Agency. The prepaid bond insurance costs will be amortized using the straight line method over the remaining life of the associated bonds and recorded in Interest on Debt in the Statements of Revenues, Expenses and Changes in Net Position.

Derivative Instruments. The Agency enters into forward contracts (interest rate swap and natural gas commodity price swap agreements) to manage its exposure to interest rate risk and market volatility of natural gas 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 for the gas swap are reported as a component of Operating Revenues in the Statement of Revenues, Expenses and Changes in Net Position.

Gas Swap Agreement. The Agency uses forward contracts to hedge the impact of market volatility on gas commodity prices for its GSC.

Interest Rate Swap Agreements. The Agency enters into interest rate swap agreements to modify the effective interest rates on outstanding debt. Interest expense is reported net of the swap payments received or paid as a component of Interest on Debt in the Statement of Revenues, Expenses and Changes in Net Position.

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.
- **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. Amounts received by SMUD for the purchases of natural gas from the Gas Project are recorded as revenues when the natural gas is delivered.

Operating Expenses. Operating expenses include the cost of sales and services, administrative expenses and amortization on prepaid gas supply assets and regulatory amounts collected in rates and are recorded when incurred.

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

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

Subsequent Events. Subsequent events for the Agency have been evaluated through 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.

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 a minimum, "A-1" or equivalent for short-term investments and "A" or equivalent for medium-term corporate notes by a nationally recognized rating agency.

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 unsecured deposits in commercial paper and money market funds of \$17.2 million and \$16.0 million which were uninsured and held in trust for the benefit of the Agency, respectively. There is no collateral deposit held at December 31, 2025 or 2024.

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. To limit the Agency’s credit risk for commercial paper purchased under the Debt Service Fund Agreement, the aggregate maturity amount invested in any combination of one issuer, affiliate of issuer, or backed by any one credit support, cannot exceed \$30.0 million. The Agency has concentrations of risk greater than five percent invested in Chesham of 100% at December 31, 2025 and 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. At December 31, 2025 and 2024, all of the Agency’s investments had maturities of one year or less.

Debt Service Fund Agreement. The Agency has entered into a synthetic guaranteed investment contract, in the form of a forward supply agreement, in which it has agreed to purchase securities with the debt service deposit amounts for a guaranteed fixed rate of return of 5.148%. Commercial paper delivered under the forward supply agreement is included within the investments below. The agreement terminates on June 30, 2027.

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 and cash equivalents consist of the following:

	Credit Rating	December 31,	
		2025	2024
Cash and cash equivalents:			
Money market funds	AAAm	\$ 1,956,219	\$ 2,239,891
Commercial paper	A-1	<u>15,285,169</u>	<u>13,731,973</u>
Total cash and cash equivalents		<u>\$ 17,241,388</u>	<u>\$ 15,971,864</u>

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

	December 31,	
	2025	2024
Cash and cash equivalents:		
Debt service fund	<u>\$ 17,240,951</u>	<u>\$ 15,969,371</u>
Other restricted funds:		
Interest on credit support	77	74
Revenue fund	<u>360</u>	<u>2,419</u>
Total other restricted funds	<u>437</u>	<u>2,493</u>
Total cash and cash equivalents	<u>\$ 17,241,388</u>	<u>\$ 15,971,864</u>

NOTE 4. PREPAID GAS SUPPLY

The Agency's prepaid gas supply is presented below:

	December 31,	
	2025	2024
Prepaid gas supply	\$ 51,750,614	\$ 83,474,785
Prepaid gas supply revenue	<u>299,111</u>	<u>496,709</u>
Total prepaid gas supply	52,049,725	83,971,494
Less: amounts due within one year	<u>(35,826,118)</u>	<u>(31,921,769)</u>
Total prepaid gas supply - noncurrent portion	<u>\$ 16,223,607</u>	<u>\$ 52,049,725</u>

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

	January 1, 2025	Terminations	Amortization	December 31, 2025
Prepaid gas supply	\$ 83,474,785	\$ -0-	\$ (31,724,171)	\$ 51,750,614
Prepaid gas supply revenue	<u>496,709</u>	<u>-0-</u>	<u>(197,598)</u>	<u>299,111</u>
Total prepaid gas supply	<u>\$ 83,971,494</u>	<u>\$ -0-</u>	<u>\$ (31,921,769)</u>	<u>\$ 52,049,725</u>

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

	January 1, 2024	Terminations	Amortization	December 31, 2024
Prepaid gas supply	\$ 111,766,389	\$ -0-	\$ (28,291,604)	\$ 83,474,785
Prepaid gas supply revenue	<u>684,033</u>	<u>-0-</u>	<u>(187,324)</u>	<u>496,709</u>
Total prepaid gas supply	<u>\$ 112,450,422</u>	<u>\$ -0-</u>	<u>\$ (28,478,928)</u>	<u>\$ 83,971,494</u>

The prepaid gas supply is the discounted NPV of the fixed monthly natural gas prices per MMBtu as specified in, and over the remaining term of, the Prepaid Agreement. The prepaid gas supply revenue is the discounted NPV of \$0.07 per MMBtu over the remaining term of the Prepaid Agreement.

NOTE 5. LONG-TERM DEBT

The Agency issued \$668.5 million of 2007 Series B Gas Project Revenue Bonds (Bonds) in May 2007 maturing in July 2027.

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

	December 31,	
	2025	2024
2007 Series B Gas project revenue bonds, variable rates, 2026-2027	\$ 66,245,000	\$ 94,540,000
Less: amounts due within one year	<u>(31,420,000)</u>	<u>(28,295,000)</u>
Total long-term debt - net	<u>\$ 34,825,000</u>	<u>\$ 66,245,000</u>

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

	January 1, 2025	Additions	Payments/ Amortizations	December 31, 2025
2007 Gas project revenue bonds	\$ 94,540,000	\$ -0-	\$ (28,295,000)	\$ 66,245,000
Total long-term debt	<u>\$ 94,540,000</u>	<u>\$ -0-</u>	<u>\$ (28,295,000)</u>	<u>\$ 66,245,000</u>

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

	January 1, 2024	Additions	Payments/ Amortizations	December 31, 2024
2007 Gas project revenue bonds	\$ 120,070,000	\$ -0-	\$ (25,530,000)	\$ 94,540,000
Total long-term debt	<u>\$ 120,070,000</u>	<u>\$ -0-</u>	<u>\$ (25,530,000)</u>	<u>\$ 94,540,000</u>

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

Year	Principal	Interest	Total
2026	\$ 31,420,000	\$ 2,513,106	\$ 33,933,106
2027	34,825,000	1,124,151	35,949,151
Total	<u>\$ 66,245,000</u>	<u>\$ 3,637,257</u>	<u>\$ 69,882,257</u>

Interest in the preceding table includes interest requirements for fixed rate debt at their stated rates and variable rate debt covered by interest rate swaps at their fixed swap rate.

The Agency had pledged future net revenues to repay \$66.2 million and \$94.5 million at December 31, 2025 and 2024, respectively, for Bonds issued in May 2007. Proceeds from the Bonds were used to purchase the Gas Project from MSCG at a price of \$754.1 million with the remaining amounts used to fund the appropriate accounts for the Agency. The Bonds, payable through 2027, are secured solely by a pledge of and lien on the trust estate under the Indenture which includes bond proceeds, rights under the GSC, 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 was \$69.9 million and \$101.9 million at December 31, 2025 and 2024, respectively. Debt service payments on the Bonds are made quarterly on January 1, April 1, July 1 and October 1. Principal and interest paid was \$32.1 million and \$30.6 million for 2025 and 2024, respectively. Total gross revenues were \$34.5 million and \$33.7 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 Gas Project. If the Prepaid Agreement were to terminate, a termination payment would be received into the trust estate from MSCG. 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 MSCG performs its gas delivery obligations under the Prepaid Agreement. The Members are not obligated to pay debt service costs if the Gas Project is unable to operate pursuant to the Prepaid Agreement or if revenues generated by the Gas Project are insufficient to meet debt service obligations.

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

Interest Rate Swap Agreements - 2007 Series B Bonds.

The following summarizes the Agency's swap agreement at December 31, 2025:

<u>Notional Amount</u>	<u>Agency Pays</u>	<u>Fixed Rate</u>	<u>Floating Rate</u>	<u>Termination Date</u>	<u>Credit Support Provider Credit Rating (S&P)</u>
\$ 66,245,000	Fixed	4.304%	67% of SOFR + .89528%	07/01/27	A+

The following summarizes the Agency's swap agreement at December 31, 2024:

<u>Notional Amount</u>	<u>Agency Pays</u>	<u>Fixed Rate</u>	<u>Floating Rate</u>	<u>Termination Date</u>	<u>Credit Support Provider Credit Rating (S&P)</u>
\$ 94,540,000	Fixed	4.304%	67% of SOFR +.89528%	07/01/27	A+

The Agency has a variable-to-fixed interest rate swap agreement with a counterparty. The Agency pays the counterparty a fixed rate on the notional amount and receives a floating rate equal to 67% of the three-month Chicago Mercantile Exchange Term SOFR (3.99% for 2025 and 4.59% for 2024) plus an interest spread, as specified in the swap agreement. The total notional amount of the swap at December 31, 2025 and 2024 was \$66.2 million and \$94.5 million, respectively, and was equivalent to the outstanding principal balance on the Agency's Bonds. The swap is amortized over the life of the swap agreement in a manner corresponding to the principal repayment schedule of the Bonds. Early termination of the swap would occur upon termination of the Prepaid Agreement for any reason. Upon early termination, the swap would have no value to either party.

Variable Rate 2007 Series B Bonds. The Agency's variable rate Bonds bear interest at a quarterly rate of 3.56% and 3.97% at December 31, 2025 and 2024, respectively.

NOTE 6. COMMITMENTS

Natural Gas Commodity Price Swap Agreement. The Agency has entered into a floating-to-fixed natural gas commodity price swap agreement (Gas Swap Agreement) with a counterparty for the purpose of fixing the variable price on the Agency's natural gas sales to SMUD under the GSC. The Agency pays an index-based natural gas price over the twenty-year period and receives a fixed natural gas price as specified in the Gas Swap Agreement, for notional quantities of natural gas at a pricing point corresponding to the daily contract quantity and the delivery point under the Prepaid Agreement. The Gas Swap Agreement terminates on May 31, 2027. The total notional amount of the Gas Swap Agreement remaining at December 31, 2025 was 4.5 million MMBtu. Presently, the Gas Swap Agreement is 8,675 MMBtu per calendar day, and this amount will change on June 1 of each remaining year of the Gas Swap Agreement and will range from 8,673 to 8,675 MMBtu per calendar day. Early termination of the Gas Swap Agreement would occur upon termination of the Prepaid Agreement for any reason whatsoever. Upon early termination, the Gas 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 natural gas to the Gas Project under the Prepaid Agreement. The Members are not obligated to make principal and interest debt service payments in the event the Gas Project does not operate and there are insufficient funds to pay the bondholders. The Agency expects that the natural gas 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.
