Powering The Center of What's Possible

Electric Utility Enterprise Fund (Silicon Valley Power) Financial Statements

For the year ended June 30, 2023 with comparative totals as of June 30, 2022

City of Santa Clara, California
1500 Warburton Avenue
Santa Clara, CA 95050-3796

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CITY OF SANTA CLARA ELECTRIC UTILITY ENTERPRISE FUND
(SILICON VALLEY POWER)

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MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the City Council
City of Santa Clara, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the City of Santa Clara Electrical Utility Enterprise Fund (Silicon Valley Power) of the City of Santa Clara, California, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Silicon Valley Power's basic financial statements as listed in the Table of Contents. We did not audit the financial statements of Northern California Power Agency (NCPA), Transmission Agency of Northern California (TANC), M-S-R Energy Authority (MSR EA) and M-S-R Public Power Agency (MSR PPA) as of and for the year ended June 30, 2022, related to the calculation of the Investments in Joint Ventures. At June 30, 2023, the Investment in these Joint Ventures collectively represents 4.9%, 6.1% and 1.2%, respectively, of total assets, net position and revenues of Silicon Valley Power. The financial statements of the NCPA, TANC, MSR EA and MSR PPA were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the calculation of the Investments in Joint Ventures, is based solely on the reports of the other auditors.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Silicon Valley Power as of June 30, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management's for the Financial Statements

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

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

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Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

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

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

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

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

Report on Summarized Comparative Information

We have previously audited Silicon Valley Power's June 30, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 30, 2022. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

As discussed in Note 1, the financial statements present only Silicon Valley Power and do not purport to, and do not present fairly the financial position of the City as of June 30, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Changes in Accounting Principles

Management adopted the provisions of Governmental Accounting Standards Board Statement No. 96, *Subscription-based Information Technology Arrangements*, which became effective during the year ended June 30, 2023. As a result, the balances of the SBITA payable and intangible right-to-use assets were $1,437,230 as of July 1, 2022. The Silicon Valley Power restated and increased the balances in that amount, and the net effect on the beginning net position and fund balance was zero. See the SBITA disclosure in Note 4 and 5.

The emphasis of this matter does not constitute a modification to our opinions.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2023, on our consideration of the City of Santa Clara'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 solely 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 effectiveness of the City of Santa Clara's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Santa Clara's internal control over financial reporting and compliance.

Maze & Associates

Pleasant Hill, California
November 30, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) of Silicon Valley Power (SVP) offers a comprehensive overview of SVP's financial activities during the fiscal years concluding on June 30, 2023 and 2022. The purpose of this MD&A is to provide a holistic assessment of SVP's financial performance. To gain a deeper insight into SVP's financial performance, readers are encouraged to examine this MD&A alongside the Basic Financial Statements and their accompanying notes. This combined approach will enhance their comprehension of SVP's financial performance.

SVP, a distinct enterprise fund under the jurisdiction of the City of Santa Clara (City), was created to manage and report on the City's electric power operations. SVP holds ownership of power generation facilities, maintains investments in joint ventures engaged in electricity production, and actively participates in power trading on the open market. These activities are undertaken with the primary objective of ensuring that SVP's retail customers, including the residents, institutions, and businesses within the City, have access to a dependable source of electric power at affordable rates.

The operations of SVP have been significantly influenced by the deregulation of the electric power industry in California, a topic elaborated upon in Note 9 within the financial statements.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2023 are summarized as follows:

- The total assets and deferred outflows of resources surpassed the liabilities and deferred inflows of resources by $1,071.3 million, representing a notable increase of $100.5 million or 10.4% compared to the previous fiscal year's position of $970.8 million. This growth is primarily attributed to a $32.2 million expansion in the net investment of capital assets and a $68.2 million increase in unrestricted net position.

- Operating revenues exhibited a robust increase of $106.1 million or 18.3%, climbing from $581.0 million to $687.1 million. This growth can be chiefly attributed to heightened consumption, the implementation of an 8% rate hike in January 2023, and the recognition of gains in wholesale future trading.

- Operating expenses surged by $90.7 million or 16.1%, ascending from $564.4 million to $655.1 million. This uptick is primarily the result of higher costs associated with purchased resources.

- SVP's total outstanding long-term debt saw a reduction of $14.4 million, declining from $142.8 million to $128.4 million during the current fiscal year.

OVERVIEW OF SVP'S BASIC FINANCIAL STATEMENTS

This annual report comprises a series of financial statements and their accompanying notes, organized to provide readers with a comprehensive understanding of SVP's financial position. The Basic Financial Statements consist of two key components:

1. Management's Discussion and Analysis (this part),
2. The Basic Financial Statements, in conjunction with the Notes to these Basic Financial Statements.

The Basic Financial Statements offer insights into both the short-term and long-term financial aspects of SVP.

These statements include:

- Statements of Net Position: These statements present a comprehensive overview of SVP's financial position, encompassing all long-term liabilities on a full accrual basis.

- Statements of Revenues, Expenses, and Changes in Net Position: These statements provide detailed information on all of SVP's revenues and expenses, also on a full accrual basis, with a focus on measuring the net revenues and expenses of the program.

- Statements of Cash Flows: These statements offer information about cash activities during the fiscal year.

FISCAL YEAR 2022-23 FINANCIAL HIGHLIGHTS

Below is a summary of financial information extracted from the Statements of Net Position (Table1) and the Statements of Revenues, Expenses, and Changes in Net Position (Table 2).

Table 1
Net Position
June 30, 2023, 2022, and 2021
(in millions)

Description	2023	2022 *	Increase (Decrease) Amount	Increase (Decrease) %	2021 *
Pooled cash and investments	$ 461.1	$ 417.6	$ 43.5	10.4%	$ 434.9
Other assets	238.1	263.4	(25.3)	-9.6%	179.5
Capital assets	655.8	635.3	20.5	3.2%	601.7
Total Assets	1,355.0	1,316.3	38.7	2.9%	1,216.1
Deferred outflows on derivative instruments	0.8	0.2	0.6	NA	-
Deferred outflows on refunding	5.3	6.2	(0.9)	-14.5%	7.1
Deferred outflows on pension and OPEB related items	26.8	14.2	12.6	88.7%	15.4
Total Deferred Outflows of Resources	32.9	20.6	12.3	59.7%	22.5
Long-term Debt Outstanding	128.4	142.8	(14.4)	-10.1%	156.5
Right-to-use liabilities	4.4	2.3	2.1	91.3%	-
Net OPEB liability	7.3	13.1	(5.8)	-44.3%	11.9
Net pension liabilities	105.8	73.5	32.3	43.9%	98.4
Other liabilities	42.2	68.8	(26.6)	-38.7%	39.6
Total Liabilities	288.1	300.5	(12.4)	-4.1%	306.4
Deferred inflows on derivative instruments	23.4	42.2	(18.8)	-44.5%	13.0
Deferred inflows on refunding	1.3	1.5	(0.2)	-13.3%	1.8
Deferred inflows on lease revenue	2.3	2.6	(0.3)	NA	-
Deferred inflows on pension related items	0.8	18.4	(17.6)	-95.7%	0.2
Deferred inflows on OPEB related items	0.7	0.9	(0.2)	-22.2%	1.8
Total Deferred Inflows of Resources	28.5	65.6	(37.1)	-56.6%	16.8
Net Position:					
Net investment in capital assets	527.1	494.9	32.2	6.5%	463.7
Restricted for contractual obligation	6.3	6.2	0.1	1.6%	6.8
Unrestricted	537.9	469.7	68.2	14.5%	444.9
Total Net Position	$ 1,071.3	$ 970.8	$ 100.5	10.4%	$ 915.4

* Net Investment in Capital Assets were restated to exclude lease receivables and re-categorize it to unrestricted net position.

Table 2
Revenues, Expenses, and Changes in Net Position
For the years ended June 30, 2023, 2022 and 2021
(in millions)

Description	2023	2022	Increase (Decrease) Amount	Increase (Decrease) %	2021
Revenues:					
Retail	$ 556.2	$ 497.9	$ 58.3	11.7%	$ 453.3
Wholesale	85.0	50.0	35.0	70.0%	22.3
Interest Revenue	8.4	6.1	2.3	37.7%	6.8
Net increase (decrease) in fair value of investments	(2.8)	(21.0)	18.2	86.7%	(4.8)
Rents and royalties	3.8	3.9	(0.1)	-2.6%	3.8
Renewable energy credits	3.9	2.0	1.9	95.0%	1.9
Mandated program receipts	15.9	14.2	1.7	12.0%	13.0
Other	95.0	72.0	23.0	31.9%	32.2
Total Revenues	765.4	625.1	140.3	22.4%	528.5
Expenses:					
Retail	631.0	540.5	90.5	16.7%	432.3
Wholesale	19.4	18.3	1.1	6.0%	12.3
Interest on long term debt and swap termination payment	2.7	3.1	(0.4)	-12.9%	3.8
Mandated program disbursement	4.5	5.5	(1.0)	-18.2%	5.8
Other	3.8	-	3.8	100.0%	-
Total Expenses	661.4	567.4	94.0	16.6%	454.2
Increase (decrease) in net position before transfers	104.0	57.7	46.3	80.2%	74.3
Contribution	-	-	-	-	1.9
Transfers in (out)	(3.5)	(2.3)	(1.2)	-52.2%	(1.7)
Increase (decrease) in net position	100.5	55.4	45.1	81.4%	74.5
Net Position - July 1	970.8	915.4	55.4	6.1%	840.9
Net Position - June 30	$ 1,071.3	$ 970.8	$ 100.5	10.4%	$ 915.4

In fiscal year 2022-23, SVP's retail operating revenues reached $556.2 million, showing substantial growth from $497.9 million in fiscal year 2021-22 and $453.3 million in fiscal year 2020-21. These figures represent significant increases of approximately 11.7% compared to the preceding fiscal year (2021-22) and 9.8% compared to the fiscal year before that (2020-21). The primary driver behind the growth in fiscal year 2022-23 was the implementation of an 8% rate increase effective as of January 1, 2023, coupled with heightened consumption levels.

In fiscal year 2022-23, SVP's retail operating expenses amounted to $631.0 million, representing a significant uptick from $540.5 million as reclassified in fiscal year 2021-22 and $432.3 million in fiscal year 2020-21. These numbers indicate a notable increase of $90.5 million or 16.7% compared to the preceding fiscal year (2021-22) and $108.2 million or 25.0% compared to the fiscal year before that (2020-21). The higher retail operating expenses for fiscal year 2022-23 were primarily driven by the need to make additional market purchases to meet the rising demand for power.

In fiscal year 2022-23, revenues generated from wholesale resources sales, which encompass both gas and power, reached $85.0 million. This figure represents a substantial increase compared to the $50.0 million as reclassified in fiscal year 2021-22 and the $22.3 million reported in fiscal year 2020-21. Simultaneously, the cost of purchasing wholesale resources for SVP was $19.4 million in fiscal year 2022-23, $18.3 million in fiscal year 2021-22, and $12.3 million in fiscal year 2020-21. The $35 million surge in wholesale resource sales during the fiscal year 2022-2023 was attributed to the recognition of a $60 million gain in wholesale future trading, in contrast to the reclassified $14 million gain recognized in FY21-22. However, the increase in wholesale power purchases during this fiscal year was primarily due to the elevated prices prevailing in the resource market.

Interest income for fiscal year 2022-23 amounted to $8.4 million, an increase from the $6.1 million reported in fiscal year 2021-22 and the $6.8 million recorded in fiscal year 2020-21. This increase in the most recent fiscal year can be primarily attributed to the higher interest rate environment. Conversely, interest expense for fiscal year 2022-23 was $2.7 million, which is a decrease from the $3.1 million in fiscal year 2021-22 and the $3.8 million in fiscal year 2020-21. For more detailed information regarding interest income and expense, please refer to Note 5 in the financial statements.

As of June 30, 2023, SVP's net position stood at $1,071.3 million, reflecting a $100.5 million increase from the preceding fiscal year. Within this total, there was a $32.2 million increase in the net investment in capital assets, a $0.1 million increase in the amount restricted for contractual obligations, and a $68.2 million increase in unrestricted net position.

CAPITAL ASSETS

As of the end of fiscal year 2022-23, SVP had invested $655.8 million in capital assets, net of depreciation. Most of this investment was allocated to power generation facilities, with the remaining portion distributed across transmission and distribution assets, right-to-use buildings, and subscriptions for information technology arrangements.

As of June 30, 2023, SVP had several projects that were either completed or in progress. In the fiscal year 2022-23, the Capital Improvement Projects Budget included appropriations for significant investments in substation improvements for the upcoming years.

For more comprehensive information regarding SVP's capital assets, please refer to Note 4 in the financial statements.

DEBT ADMINISTRATION

SVP's debt portfolio and its individual components are comprehensively outlined in Note 5 within the financial statements. As of June 30, 2023, SVP's outstanding debt consists of one issue of Revenue Bonds and three issues of Subordinate Revenue Bonds, amounting to a total of $128.4 million. These bonds are backed by the net electric revenues generated by SVP and have maturity dates spanning from fiscal years 2025 through 2033.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

For detailed information regarding the economic outlook and major initiatives of the City, as well as what is planned for the upcoming year, please refer to the Letter of Transmittal Section of the City's Annual Comprehensive Financial Report for the fiscal year concluding on June 30, 2023. This section provides an in-depth analysis and insight into the City's economic prospects and its key initiatives moving forward.

CONTACTING SVP'S FINANCIAL MANAGEMENT

These Basic Financial Statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of SVP's finances. Questions about these Basic Financial Statements should be directed to the City of Santa Clara Finance Department, 1500 Warburton Avenue, Santa Clara, CA 95050-3796.

CITY OF SANTA CLARA ELECTRIC UTILITY ENTERPRISE FUND
(SILICON VALLEY POWER)
STATEMENTS OF NET POSITION
June 30, 2023
with Comparative Totals as of June 30, 2022

ASSETS	**2023**	**2022**
Current Assets:		
Pooled cash and investments (Note 3)	$ 461,055,857	$ 417,583,298
Investments with fiscal agent (Note 3)	16,197,916	15,196,469
Leases Receivable (Note 2R)	249,167	239,156
Receivables (net of allowances)		
Accounts	91,998,401	98,415,474
Interest	1,768,781	1,614,768
Derivative instrument (Note 5G)	8,294,280	15,462,094
Due from the City of Santa Clara (Note 2E)	3,209,849	2,686,894
Inventory of materials and supplies (Note 2F)	15,827,132	13,804,838
Total Current Assets	598,601,383	565,002,991
Noncurrent Assets:		
Capital assets (Note 4)		
Land	14,371,743	14,371,743
Construction in progress	71,262,465	63,161,131
Buildings, improvements and infrastructure	1,101,647,613	1,065,938,843
Equipment	10,297,966	9,941,798
Right-to-use leased assets	2,916,623	2,916,623
Right-to-use SBITA	3,108,024	-
Accumulated depreciation	(547,761,849)	(520,990,136)
Total Capital Assets (Net of Accumulated Depreciation)	655,842,585	635,340,002
Other Noncurrent Assets:		
Restricted investments (Note 3)	6,324,045	6,146,358
Derivative instrument (Note 5G)	15,163,920	26,724,615
Investments in joint ventures (Note 6)	65,844,941	57,312,242
Investments with fiscal agent (Note 3)	-	3,906,331
Deposits (Note 3)	11,127,179	19,518,954
Leases receivable (Note 2R)	2,112,910	2,365,415
Total Other Noncurrent Assets	100,572,995	115,973,915
Total Noncurrent Assets	756,415,580	751,313,917
Total Assets	1,355,016,963	1,316,316,908
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated decrease in fair value of hedging instruments (Note 5G)	783,790	164,564
Deferred outflow on refunding of debt	5,333,697	6,192,411
Deferred outflows on OPEB related items (Note 8)	616,793	1,217,486
Deferred outflows on pension related items (Note 7)	26,223,040	13,021,377
Total Deferred Outflows of Resources	32,957,320	20,595,838

See accompanying notes to financial statements

CITY OF SANTA CLARA ELECTRIC UTILITY ENTERPRISE FUND
(SILICON VALLEY POWER)
STATEMENTS OF NET POSITION
June 30, 2023
with Comparative Totals as of June 30, 2022

LIABILITIES	**2023**	**2022**
Current Liabilities:		
Accrued liabilities	33,601,331	60,306,912
Interest payable	1,389,163	1,618,146
Accrued compensated absences	566,004	774,797
Current portion of long-term debt (Note 5)	15,140,000	13,580,000
Current portion derivative financial instruments (Note 5G)	783,790	164,564
Current portion of leases obligation (Note 5J)	681,619	654,044
Current portion of SBITA (Note 5K)	392,381	-
Total Current Liabilities	52,554,288	77,098,463
Noncurrent Liabilities:		
Long-term portion accrued compensated absences	5,888,451	5,995,836
Net pension liability (Note 7)	105,823,291	73,533,480
Net OPEB liability (Note 8)	7,288,705	13,057,945
Long-term leases obligation (Note 5J)	951,003	1,632,622
Long-term SBITA (Note 5K)	2,325,628	-
Long-term debt (Note 5)	113,302,932	129,196,165
Total Noncurrent Liabilities	235,580,010	223,416,048
Total Liabilities	288,134,298	300,514,511
DEFERRED INFLOWS OF RESOURCES		
Accumulated increase in fair value of hedging instruments (Note 5G)	23,458,200	42,186,709
Deferred inflow on refunding of debt	1,280,797	1,537,064
Deferred inflow - leases related (Note 2R)	2,282,329	2,571,068
Deferred inflows pension related items (Note 7)	821,311	18,343,263
Deferred inflows OPEB related items (Note 8)	702,262	929,326
Total Deferred Inflows of Resources	28,544,899	65,567,430
NET POSITION		
Net investment in capital assets, restated (Note 12)	527,101,920	494,932,518
Restricted	6,324,045	6,146,358
Unrestricted restated (Note 12)	537,869,121	469,751,929
Total Net Position	1,071,295,086	$ 970,830,805

See accompanying notes to financial statements

CITY OF SANTA CLARA ELECTRIC UTILITY ENTERPRISE FUND
(SILICON VALLEY POWER)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2023
with Comparative Totals for the Year Ended June 30, 2022

	2023	2022
Operating Revenues:		
Residential sales	$ 38,021,218	$ 33,275,452
Commercial sales	17,991,071	16,394,519
Industrial sales	500,189,088	448,256,676
Renewable energy credits	3,916,420	2,024,100
Wholesale resource sales (Note 9)	85,035,267	50,066,651
Mandated program receipts	15,926,482	14,223,250
Other operating revenues	26,084,529	16,802,355
Total Operating Revenues	687,164,075	581,043,003
Operating Expenses:		
Operations	92,744,945	91,250,838
Maintenance	31,152,357	24,972,897
Purchased resource	480,208,227	400,071,728
Wholesale resource purchases (Note 9)	19,474,055	18,370,965
Mandated program disbursement	4,541,142	5,533,938
Amortization	1,051,552	673,067
Depreciation	25,934,672	23,547,718
Total Operating Expenses	655,106,950	564,421,151
Operating Income	32,057,125	16,621,852
Nonoperating Revenues (Expenses):		
Interest revenue	8,392,327	6,065,834
Net changes in the fair value of investments	(2,841,392)	(21,010,694)
Interest expense	(2,659,346)	(3,117,699)
Equity in income (losses) of joint ventures	8,532,699	14,639,161
Rents and royalties	3,845,365	3,898,215
Other revenues	60,399,404	40,626,292
Other expenses	(3,763,379)	-
Total Nonoperating Revenues, net	71,905,678	41,101,109
Income Before Transfers	103,962,803	57,722,961
Transfers from the City of Santa Clara	208,290	330,000
Transfers to the City of Santa Clara	(3,706,812)	(2,637,123)
Net Income	100,464,281	55,415,838
Net Position, Beginning of Year	970,830,805	915,414,967
Net Position, End of Year	$ 1,071,295,086	$ 970,830,805

See accompanying notes to financial statements

CITY OF SANTA CLARA ELECTRIC UTILITY ENTERPRISE FUND
(SILICON VALLEY POWER)
STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2023
with Comparative Totals for the Year Ended June 30, 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 587,190,157	$ 494,683,368
Payments to suppliers	(583,494,659)	(452,491,924)
Payments to employees for salaries and benefits	(52,546,917)	(45,739,420)
Rents and royalties received	3,774,218	3,823,785
Resource energy trading escrow	8,391,775	(13,996,290)
Wholesale resource sales	85,035,267	50,066,651
Wholesale resource purchases	(19,474,055)	(18,370,965)
Renewable energy credits	3,916,420	2,024,100
Other receipts	69,427,502	48,415,239
Net Cash provided by Operating Activities	102,219,708	68,414,544
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Increase (decrease) in due from other funds	(522,955)	(83,679)
Changes in restricted investments	177,687	(662,638)
Transfers in	208,290	330,000
Transfers out	(3,706,812)	(2,637,123)
Net Cash (used in) Noncapital Financing Activities	(3,843,790)	(3,053,440)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets, net	(45,362,719)	(50,687,039)
Principal payments on debt	(14,573,440)	(13,632,958)
Interest paid on debt	(3,089,729)	(3,325,270)
Net Cash (used in) Capital and Related Financing Activities	(63,025,888)	(67,645,267)

See accompanying notes to financial statements

CITY OF SANTA CLARA ELECTRIC UTILITY ENTERPRISE FUND
(SILICON VALLEY POWER)
STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2023
with Comparative Totals for the Year Ended June 30, 2022

	2023	2022
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	8,236,726	5,944,739
Net increase (decrease) in the fair value of investments	(2,841,392)	(21,010,694)
Payments made by fiscal agent	16,555,791	16,294,079
Deposits made with fiscal agent	(13,650,909)	(16,900,863)
Net Cash (used in) Investing Activities	8,300,216	(15,672,739)
Net Increase (Decrease) in Cash and Cash Equivalents	43,650,246	(17,956,902)
Cash and cash equivalent at Beginning of Period	423,729,656	441,686,558
Cash and cash equivalent at End of Period	$ 467,379,902	$ 423,729,656
Reconciliation of Operating Gain (Loss) to Net Cash Provided (Used) by Operating activities:		
Operating income	32,057,125	16,621,852
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
(Decrease) Increase in due to OPEB system	(5,395,611)	(438,425)
(Decrease) Increase in due to retirement system	1,566,196	(4,738,491)
(Decrease) Increase in due to lease and SBITA Obligation	1,006,894	616,466
Depreciation	25,934,672	23,547,718
Change in assets and liabilities:		
Receivable, net	6,417,073	(21,670,483)
Inventory	(2,022,294)	(1,668,043)
Accrued liabilities	(25,723,647)	24,350,379
Restricted cash	(177,687)	662,638
Compensated absences	(316,178)	602,716
Other receipts	64,244,769	44,524,507
Other expenses	(3,763,379)	-
Resource trading escrow	8,391,775	(13,996,290)
Net Cash Provided by Operating Activities	$ 102,219,708	$ 68,414,544
NONCASH TRANSACTIONS:		
Joint Ventures		
Nonoperating Income (Expense)	$ 8,532,699	$ 14,639,161

See accompanying notes to financial statements

For the years ended June 30, 2023 and 2022

NOTE 1 – DEFINITION OF THE REPORTING ENTITY

The City of Santa Clara (the City), California's Electric Utility Enterprise Fund, which began operating as Silicon Valley Power (SVP) in 1997, commenced operations over 100 years ago in 1896. Originally, SVP constructed a lighting plant consisting of forty-six 2000 candlepower direct current lamps and a dynamo (a type of electric generator) which entered into service in October 1896. In late 1903, SVP invested $5,000 to convert the system to alternating current and abandoned the small generating plant. Wholesale power was purchased from United Gas and Electric Company of San Jose.

Between 1903 and 1965, SVP purchased all of its electric power requirements from investor-owned utilities. In 1965, it received an allocation of power from the Federal Central Valley Project and began to diversify its resources. SVP became a charter member of the Northern California Power Agency (NCPA) in June 1968. Throughout the 1970's, SVP and NCPA worked on behalf of all municipal electric utilities in Northern California to gain access to wholesale transmission markets and to jointly develop cost-effective electric generation resources.

In 1980, SVP became a generating utility for the first time in 73 years with the start of operations of the 6-Megawatt Cogen No. 1 power plant. In 1983, the 110 Megawatt NCPA Geothermal Project, the first municipally owned and operated geothermal power plant in the United States, entered service with SVP as lead partner holding a 55% participation share. Subsequently, SVP participated in further jointly owned power generation projects including hydroelectric, natural gas and coal fired generation. In 2005, SVP placed the 147 Megawatt Don Von Raesfeld Power Plant into service.

Today, SVP has grown to approximately 8,431 streetlights and serves approximately 59,271 electric customers. As SVP looks to the future, it continues to be responsive to the electric market development by increasing its renewable power resources, reducing its greenhouse gas (GHG) footprint, and working with its customers to enhance the value they receive from municipal ownership of their electric utility.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

SVP's Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America. The electric enterprise fund is included in the City's Annual

NOTE 2- SUMMARY OF SIGNIIFICANT ACCOUNTING POLICIES (continued)

Comprehensive Financial Report, and therefore, these financial statements do not purport to represent the financial position and changes in financial position of the City.

B. Basis of Accounting

SVP reports its activities as a proprietary fund type (Enterprise Fund) which is maintained on the accrual basis of accounting wherein revenues are recognized in the accounting period in which they are earned regardless of whether they are received, and expenses are recognized in the period in which the related liabilities are incurred. Certain indirect costs are included in program expenses reported for individual functions and activities.

During the year ended June 30, 2022, SVP implemented the following GASB Statement:

The GASB issued Statement No. 87 "Leases." The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. To be consistent with the Citywide implementation, the provisions of this Statement were implemented during fiscal year 2022.

As a result, the beginning the balances of leases receivable and deferred inflows of resources related to leases were $2,832,684 as of July 1, 2021. The balances of the lease payable and intangible right-to-use asset were $2,916,623 as of July 1, 2021. SVP restated and increased the balances in that amount and the net effect on beginning net position was zero.

The GASB issued Statement No. 89 "Accounting for Interest Cost Incurred Before the End of a Construction Period." The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for certain interest costs. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in the financial statements. The provisions of this Statement were implemented during fiscal year 2022. The implementation had no effect on the financial statements.

NOTE 2- SUMMARY OF SIGNIIFICANT ACCOUNTING POLICIES (continued)

The GASB issued Statement No. 93 "Replacement of Interbank Offered Rates." The primary objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). The provisions of this Statement were implemented during fiscal year 2022. The implementation had no effect on the financial statements.

The GASB issued Statement No. 97 "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-An Amendment of GASB Statements No.14 and No. 84, and a Supersession of GASB Statement No. 32." The objectives of this statement are to (1) increase consistency and comparability related to reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. This statement becomes effective for periods beginning after June 15, 2021. The implementation had no effect on the financial statements.

The GASB issued Statement No. 99 "Omnibus 2022." The primary objective of this Statement is to enhance comparability in reporting and improve the consistency of authoritative literature by addressing practice issues identified during implementation and application of certain GASB statements. The provisions of this Statement related to LIBOR, SNAP, and Leases, were implemented during fiscal year 2022.

During the year ended June 30, 2023, SVP implemented the following GASB Statement:

The GASB issued Statement No. 91 "Conduit Debt Obligation." The objective of this statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practices. This statement becomes effective for periods beginning after December 15, 2021. The implementation had no effect on the financial statements.

The GASB issued Statement No. 92 "Omnibus 2020." The objective of this statement is to enhance comparability in reporting and improve the consistency of authoritative literature by addressing practice issues identified during implantation of certain GASB statements. This statement becomes effective upon issuance for requirements related to GASB 87. For GASB 73, GASB 74, and GASB 84 as well as measurement of liabilities associated with asset retirement

NOTE 2- SUMMARY OF SIGNIIFICANT ACCOUNTING POLICIES (continued)

obligations, the requirements become effective for reporting periods beginning after June 15, 2021. The implementation had no effect on the financial statements.

The GASB issued Statement No. 94 "Public-Private and Public-Public Partnerships and Availability Payment Arrangements." The objective of this statement is to address issues related to public-private and public-public partnership arrangements and to provide guidance for accounting and financial reporting for availability payment arrangements. This statement becomes effective for periods beginning after June 15, 2022. The implementation had no effect on the financial statements.

The GASB issued Statement No. 96 "Subscription-Based Information Technology Arrangements." The objective of this statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement becomes effective for periods beginning after June 15, 2022. The provisions of this State were implemented during the fiscal year 2022-23.

As a result, the balances of the SBITA payable and intangible right-to-use SBITA asset were $1,437,230 as of July 1, 2022. SVP restated and increased the balances in that amount, and the net effect on beginning net position and fund balance was zero. See the disclosure in Note 5.

SVP is analyzing the effects of the following pronouncements and plans to adopt them by the effective dates:

The GASB issued Statement No. 100 "Accounting Changes and Errors Corrections." The objective of this statement is to establish accounting and financial reporting requirements for (a) accounting changes and (b) the correction of an error in previously issued financial statements. This statement becomes effective for periods beginning after June 15, 2023. SVP is currently evaluating the impact on the financial statements.

The GASB issued Statement No. 101 "Compensated Absences." The objective of this statement is to amend the existing requirements for the recognition of compensated absences liability. This statement becomes effective for periods beginning after December 15, 2023. SVP is currently evaluating the impact on the financial statements.

C. Measurement Focus

Enterprise funds are accounted for on a cost of services or economic resources measurement focus, which means that all liabilities associated with the activity are included on their Statement of Net Position. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net position. Reported net position is segregated into three categories – net investment in capital assets, restricted, and unrestricted.

NOTE 2- SUMMARY OF SIGNIIFICANT ACCOUNTING POLICIES (continued)

D. Cash and Investments

SVP's cash and investments pool is maintained by the City except for fiscal agent cash and investments.

While maintaining safety and liquidity, the City maximizes investment return by pooling its available cash for investment purposes. Unless there are specific legal or contractual requirements to do otherwise, interest earnings are apportioned among funds according to average monthly cash and investment balances. It is generally the City's intention to hold investments until maturity. City investments are stated at fair value (see Note 3).

Cash and cash equivalents for purposes of the statement of cash flows include pooled cash and investments and cash designated for construction. Transactions with City-wide cash management pools are similar to those with external investment pools; therefore, since pooled cash and investments have the same characteristics as demand deposits in that the City's individual funds and component units may withdraw additional monies at any time without prior notice or penalty, pooled cash and investments are considered essentially demand deposit accounts.

Cash and investments with fiscal agent, a bond reserve investment pool, and amounts classified as deposits are not considered cash and cash equivalents.

E. Due from City of Santa Clara

During the course of operations, transactions occur between SVP and the City for goods provided or services rendered. The related receivables, net, are classified as "Due from the City of Santa Clara" on the accompanying statement of net position.

F. Inventory of Materials and Supplies

Inventory of materials and supplies is accounted for using the consumption method and is stated at average cost. Inventory consists of expendable supplies held for consumption by the electric utility.

G. Capital Assets

All capital equipment and right-to-use equipment with a value of $5,000 or more, buildings, improvements and infrastructure, right-to-use building with costs exceeding $20,000 or more, and the right-to-use SBITA with a value of $400,000 or more, with useful lives exceeding two years are capitalized. These assets are valued at historical cost or estimated historical cost if actual historical cost is not available except for intangible right -to-use assets, the measurement of which discussed in Note 2R and 2S below. Contributed capital assets are valued at their estimated acquisition value on the date contributed. Depreciation is recorded on a straight-line basis over the

NOTE 2- SUMMARY OF SIGNIIFICANT ACCOUNTING POLICIES (continued)

estimated useful lives of the assets (buildings and improvements: 20 to 50 years; equipment: 3 to 25 years; and right-to-use SBITA assets: 3-25 years) and is charged as an expense against operations. Accumulated depreciation is reported on the statement of net position.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Capital assets and the related obligations under lease/purchase agreements are capitalized and accounted for in accordance with Accounting Standards Codification (ASC) Topic 840. Interest is capitalized on construction in progress in accordance with ASC Topic 835, Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings, and Certain Gifts and Grants. Accordingly, interest capitalized is the total interest cost for the date of the borrowings net of any interest earned on temporary investments of the borrowed proceeds until the specified asset is ready for its intended use. There was no interest capitalized for the fiscal years ended June 30, 2022 or 2023.

H. Joint Ventures

SVP participates in several joint ventures in accordance with GAAP. If SVP's equity in net losses of a joint venture exceeds its investments, use of the equity method is suspended except to the extent that SVP is obligated to provide further support or has guaranteed obligations of the joint venture.

SVP advances funds to certain of its joint ventures in the form of refundable advances, project advances, and operating and maintenance advances. Refundable advances accrue interest at rates stated in the related agreements. Operating, maintenance, and project advances are charged to operations when incurred.

Capitalized project costs are charged to operations in the event that a project is determined to be not economically feasible.

I. Compensated Absences

Amounts of vested or accumulated vacation leave and certain benefits that are not expected to be liquidated with expendable available financial resources are reported in the SVP financial statements as an expense and liability.

In accordance with GAAP, Accounting for Compensated Absences, a liability for sick leave and benefits is accrued using the vesting method. The vesting method provides that a governmental entity estimate its accrued sick leave liability based on the sick leave accumulated at the statement of net position date by those employees who currently are eligible to receive termination payments

NOTE 2- SUMMARY OF SIGNIIFICANT ACCOUNTING POLICIES (continued)

as well as other employees who are expected to become eligible in the future to receive such payments. Estimated sick leave payments are recorded as an expense and liability by SVP.

J. Risk Management

SVP is covered under the City's self-insurance programs via Internal Service Funds. There were no significant reductions in insurance coverage from the prior year by major categories of risk and the amount of settlements did not exceed insurance coverage for the past four fiscal years. Additional information with respect to the City's self-insurance programs can be found in the City's Annual Comprehensive Financial Report.

K. Electric Resource Purchased

SVP purchases power from various suppliers and agencies (including joint powers agencies) for resale to its customers (see Note 10). SVP also engages in numerous resource energy transactions with the objective of reducing its overall cost of resource energy. Gross resource energy sales and resource energy purchases are recorded as operating revenue and expense, respectively (see Note 9).

L. Bond Discounts/Issuance Costs

Bond discounts are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recognized in the current period.

M. Revenue Recognition

Operating revenues are recognized based on cycle billings periodically rendered to customers. Operating revenues for services provided, but not billed at the end of the fiscal year, are recognized and accrued based on estimated consumption. Operating revenues primarily include the sales of electric power to residential, commercial, industrial, and municipal customers.

Non-operating revenues primarily represent interest income, grants, rents, and other non-recurring miscellaneous income.

N. Taxes on Income

As an agency of the City, SVP falls under the review of the Internal Revenue Code Section 115 and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to federal income or state franchise taxes.

NOTE 2- SUMMARY OF SIGNIIFICANT ACCOUNTING POLICIES (continued)

O. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. SVP has three items that qualify for reporting in this category: deferred outflow related to the refunding, pension and OPEB.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. In the government-wide financial statements SVP reports deferred amounts related to derivative instruments, refunding, leases and deferred amounts related to pension and OPEB.

P. Net Position and Fund Equity

SVP may fund certain programs with a combination of restricted and unrestricted net position. The policy is to first apply restricted net position followed by unrestricted net position if necessary.

Q. Use of Estimates

The preparation of financial statements in conformity with GAAP in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

R. Lease Agreements

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment.

Lessee - SVP is a lessee for noncancellable lease of buildings. SVP recognizes a lease liability with an initial, and individual value of $100,000 and an intangible right-to-use lease asset (lease asset) in the statement of net position financial statements.

At the commencement of a lease, SVP initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease

NOTE 2- SUMMARY OF SIGNIIFICANT ACCOUNTING POLICIES (continued)

commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how SVP determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments as follows:

- SVP uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, SVP generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.
- Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that SVP is reasonably certain to exercise.

SVP monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Lessor - SVP is a lessor for noncancellable leases of land and building. SVP recognizes a lease receivable and a deferred inflow of resources in the financial statements.

At the commencement of a lease, SVP initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how SVP determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts as follows:

- SVP uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.
- Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

NOTE 2- SUMMARY OF SIGNIIFICANT ACCOUNTING POLICIES (continued)

SVP monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable. SVP has leases related to fiber and land use and the balances related to the leases receivable and deferred inflow of resources as of June 30, 2022 were $2,604,571 and $2,571,068, respectively. SVP recognized $11.894 in lease revenue and $68,494 in interest revenue during the fiscal year 2021-22 related to these leases. The leases receivable and deferred inflow of resources as of June 30, 2023 were $2,362,077 and $2,282,329 respectively. SVP recognized $284,929 in lease revenue and $63,636 in interest revenue during the fiscal year 2022-23 related to these leases.

S. Subscription-Based Information Technology Arrangements (SBITAs) Accounting

A Subscription-Based Information Technology Arrangement (SBITA) is a contract that conveys control of the right to use another party's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

At the commencement of a SBITA, SVP initially measures the subscription liability at the present value of payments expected to be made during the contract term. Subsequently, the subscription liability is reduced by the principal portion of payments made. The subscription asset is initially measured as the initial amount of the subscription liability, adjusted for payments made at or before the SBITA commencement date, plus certain initial direct costs. Subsequently, the subscription asset is amortized on a straight-line basis over shorter of the subscription term or the useful life of the underlying IT assets. SVP recognizes SBITA liabilities with an initial, individual value of $400,000 or more for all funds based on the future SBITA payments remaining at the start of the contract.

Key estimates and judgments related to SBITAs include how SVP determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments as follows:

- SVP uses the interest rate charged by the IT vendor as the discount rate. When the interest rate charged by the IT vendor is not provided, SVP uses its estimated incremental borrowing rate as the discount rate for subscription liabilities.

- The subscription term includes the noncancellable period of the subscription.

- Subscription payments included in the measurement of the subscription liability are composed of fixed payments and purchase option price that SVP is reasonably certain to exercise.

NOTE 2- SUMMARY OF SIGNIIFICANT ACCOUNTING POLICIES (continued)

SVP monitors changes in circumstances that would require a remeasurement of its subscription and will remeasure the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

Subscription assets are reported with other capital assets and subscription liabilities are reported with liabilities on the statement of net position.

T. Prior Year Summarized Comparative Information

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the SVP's financial statements for the year ended June 30, 2022, from which the summarized information was derived.

U. Reclassification

In the past, the gains recognized from futures transactions in natural gas and power were reported as negative expenses in the purchased resource. In fiscal year 2022-23, the gains recognized from futures transactions in natural gas and power are reported as revenues in the wholesale resource sales. This change has been applied retroactively to the comparative financial statement for the fiscal year 2021-22. Consequently, there is a $14,018,411 increase in both wholesale resource sales and purchased resource expenses for that fiscal year. This reclassification has no impact on the net position in fiscal year 2021-22 (See Note 9).

NOTE 3 – CASH AND INVESTMENTS

SVP's cash and investments pool is maintained by the City except for fiscal agent cash and investments. A full description of the City's cash and investment policy is in Note 7 of its Annual Financial Report.

A. Investments Authorized by the California Government Code and the City's Investment Policy

The City's Investment Policy and the California Government Code allow the City to invest in certain types of investments, provided the credit ratings of the issuers are acceptable to the City. The table below also identifies certain provisions of the City's Investment Policy and the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

NOTE 3 – CASH AND INVESTMENTS (continued)

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage or Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	7 years	N/A	100%	100%
U.S. Agency Securities [1]	7 years	Top three ratings categories	80% [2]	40%
Negotiable Certificates of Deposit	5 years	A/A1	30%	5%
Bankers Acceptances	180 days	N/A	25%	5%
Commercial Paper	270 days	A1 / P1	25%	5% [3]
California Local Agency Investment Fund	N/A	N/A	None	$75M Per A/C
Repurchase Agreements	60 days	N/A	50%	20%
Reverse Repurchase Agreements (requires City Council approval)	92 days	N/A	20%	10%
Municipal Obligations	7 years	N/A	20%	5%
Medium Term Corporate Notes	5 years	Top three ratings categories	20%	5%
Mutual Funds / Money Market Funds	N/A	Top rating category	20%	10%
Joint Power Authority Investment	N/A	Top rating category	100%	100%
Supranational Obligations	5 years	AA	20%	10%
Asset-Backed Securities	5 years	AA	10%	5%
Non-Negotiable Certificates of Deposit	5 years	N/A	10%	5%
Mortgage-Backed Securities	12 years [4]	AA	15%	5%

[1] Securities issued by the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), local agencies and other U.S. government sponsored enterprises.

[2] Callable securities are limited to 30% of the portfolio.

[3] No more than 10% of the outstanding commercial paper of any single issuer.

[4] Maximum Weighted Average Life with Current Public Securities Association Assumptions =12 years at time of purchase for Mortgage-Backed Securities (MBS). Maximum Final Maturity for MBS's = 30 years with balloon payments.

B. Investments Authorized by Debt Agreements

The City invests bond proceeds restricted for construction in instruments that are stated in the Investment Policy and in various return-guaranteed investment agreements. These investments

NOTE 3 – CASH AND INVESTMENTS (continued)

are invested in accordance with bond indentures and the maturities of each investment should not exceed the final maturity of each bond. Bond proceed investments are reported monthly to the City Council.

SVP also maintains required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if SVP fails to meet its obligations under these debt issues. The California Government Code 53601 (L) allows these funds to be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, other agreements, or certificates of participation in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

C. Pension Rate Stabilization Program

In February 2017, the City Council approved a Pension Rate Stabilization Program, (PRSP) Trust administered by Public Agency Retirement Services (PARS). The PRSP is an irrevocable trust and qualifies as an Internal Revenue Section 115 trust. This trust will assist the City in mitigating the CalPERS contribution rate volatility. Investments of funds held in Pension Rate Stabilization Program (PRSP) are governed by the Investment Guideline Document for the investment account and by the agreement for administrative services with the Public Agency Retirement Services (PARS), rather than the general provisions of the California Government code or the City's investment policy. The City elected a discretionary investment approach which allows the City to maintain oversight of the investment management, control on target yield and the portfolio' risk tolerance. The assets in this program will eventually be used to fund Pension Plan obligations.

As part of the year-end process for fiscal year 2016-17, the City Council approved SVP to designate and make an initial deposit of $3.5 million in fiscal year 2018 towards pre-funding the City's pension obligations. As of June 30, 2023, the balance in the pension rate stabilization program trust was $6.3 million.

D. Credit and Interest Rate Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Interest rate risk is the risk that changes in market interest rate will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment is the greater the sensitivity of its fair value to changes in market interest rates to be.

NOTE 3 – CASH AND INVESTMENTS (continued)

Information about the sensitivity of the fair values of SVP's investments to market interest rate fluctuations is provided by the following table that shows the distribution to SVP's investment by maturity.

		Maturity				2023	2022
Type of Investment	Credit Rating	Under 180 Days	181 - 365 Days	1 - 3 Years	3 - 5 Years	Fair Value	Fair Value
Cash and Investments - City Treasury:							
Cash	N/A	$ 46,773,624	$ -	$ -	$ -	$ 46,773,624	$ 75,462,582
US Treasury Notes	Aaa	1,959,511	29,049,852	53,909,406	90,659,754	175,578,523	152,469,273
Federal Farm Credit Bank	Aaa	-	2,137,906	19,224,572	-	21,362,478	34,991,626
Federal Home Loan Bank	Aaa	4,307,869	2,124,947	2,100,729	-	8,533,545	10,624,125
Federal National Mortgage Association	Aaa	2,229,310	-	14,160,521	-	16,389,831	20,392,852
Corporation	Aaa	-	-	7,885,349	-	7,885,349	11,620,950
Federal Home Loan Mortgage Corporation Mortagage-Backed Security	Aaa	-	-	-	2,217,115	2,217,115	-
Corporate Notes	Aaa	-	-	6,229,168	-	6,229,168	6,218,423
Corporate Notes	Aa	-	1,772,703	10,785,485	8,513,217	21,071,405	16,936,060
Corporate Notes	A	284,765	9,429,224	34,437,284	5,942,324	50,093,597	44,318,210
Supranational Notes	Aaa	-	-	4,540,810	-	4,540,810	7,529,238
Asset-Backed Securities	Aaa	-	-	3,265,755	860,939	4,126,694	4,707,312
Municipal Notes	Aaa	622,871	-	1,074,708	-	1,697,579	1,068,661
Municipal Notes	Not Rated	-	-	-	-	-	599,091
Certificates of Deposit	A-1	-	-	3,165,831	-	3,165,831	4,637,466
Wells Fargo Money Market Funds	Not Rated	88,900,304	-	-	-	88,900,304	420,314
State Investment Pool (LAIF)	Not Rated	2,490,004	-	-	-	2,490,004	25,587,115
Cash and Investments - City Treasury		147,568,258	44,514,632	160,779,618	108,193,349	461,055,857	417,583,298
Cash and Investments - Other:							
Cash (Debt Fund)	N/A	6,195,375	-	-	-	6,195,375	6,085,210
Cash (Pension Rate Stabilization Investment)	N/A	4,289	-	-	-	4,289	-
Mutual Fund - Goldman FS - Money Market Funds (Debt Funds)	Aaam	-	-	-	-	-	8,473,195
Mutual Fund - JP Morgan - Money Market Funds (Debt Funds)	Aaam	10,002,541	-	-	-	10,002,541	4,544,395
Pension Rate Stabilization Investment (Cash and Equivalents)	Not Rated	280,435	-	-	-	280,435	62,426
Pension Rate Stabilization Investment (Mutual Fund - Equity)	Not Rated	1,823,569	-	-	-	1,823,569	1,927,138
Pension Rate Stabilization Investment (Mutual Fund - Fixed Income)	Not Rated	4,215,752	-	-	-	4,215,752	4,156,794
Collateral Obligations (Archer Daniels Midland and CAISO)	Not Rated	11,127,179	-	-	-	11,127,179	19,518,954
Investments - Other		33,649,140	-	-	-	33,649,140	44,768,112
Total Cash and Investments		$ 181,217,398	$ 44,514,632	$ 160,779,618	$ 108,193,349	$ 494,704,997	$ 462,351,410

NOTE 3 – CASH AND INVESTMENTS (continued)

The City is a voluntary participant in the Local Agency Investment Fund (LAIF). LAIF is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF's investment portfolio mainly consists of Treasuries, loans, Federal Agency securities, and collateralized mortgage obligations. Each regular LAIF account is permitted to have up to 15 transactions per month, with a minimum transaction amount of $5,000, a maximum transaction amount of $75 million and at least 24 hours advance notice for withdrawals of $10 million or more. Bond proceeds accounts are subject to one time deposit with no cap and are set up with a monthly draw down schedule. The carrying value of LAIF approximates fair value.

Mutual funds are available for withdrawal on demand. See City's Annual Financial Report Note 7 to the financial statements for additional detail on the fiscal year 2022-23 investment portfolio.

E. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of the City's cash on deposit. All of the City's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's Investment Policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City, including collateral for repurchase agreements, be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

F. Fair Value Hierarchy

SVP categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation input used to measure the fair value of asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. See City's Annual Financial Report Note 7 to the financial statements for more detailed information.

For the years ended June 30, 2023 and 2022

NOTE 3 – CASH AND INVESTMENTS (continued)

	Fair Value Measurements Using			
	Derivative Instruments Measured at Fair 6/30/2023	Quoted Prices in Active Markets for Identical Assets Level 1	Other Observable Inputs Level 2	Exempt [(1)]
Investments by Fair Value Level				
Short Term Investments				
US Treasury Notes	$ 175,578,523	$ 175,578,523	$ -	$ -
Federal Farm Credit Banks	21,362,478	-	21,362,478	-
Federal Home Loan Banks	8,533,545	-	8,533,545	-
Federal National Mortgage Association	16,389,831	-	16,389,831	-
Federal Home Loan Mortgage Corp	7,885,349	-	7,885,349	-
Federal Home Loan Mortgage Corporation Mortagage-Backed Security	2,217,115	-	2,217,115	-
Corporate notes	77,394,170	-	77,394,170	-
Supranational	4,540,810	-	4,540,810	-
Asset-Backed Securities	4,126,694	-	4,126,694	-
Municipal Bonds	1,697,579	-	1,697,579	-
Certificates of Deposit	3,165,831	-	3,165,831	-
Wells Fargo Money Market Fund	88,900,304	-	-	88,900,304
Total Short Term Investments	411,792,229	175,578,523	147,313,402	88,900,304
Debt Securities and Other				
Mutual Fund - JP Morgan - Money Market Funds (Debt Funds)	10,002,541	-	-	10,002,541
Pension Rate Stabilization Investment (Cash and Equivalents)	280,435	280,435	-	-
Pension Rate Stabilization Investment (Mutual Fund - Equity)	1,823,569	1,823,569	-	-
Pension Rate Stabilization Investment	4,215,752	3,811,507	404,245	-
Collateral Obligations (Archer Daniels Midland and CAISO)	11,127,179	-	-	11,127,179
Total Debt Securities and Other	27,449,476	5,915,511	404,245	21,129,720
Total Investment by Fair Value Level	$ 439,241,705	$ 181,494,034	$ 147,717,647	$ 110,030,024
Investments Measured at the Amortized Cost				
State Investment Pool (LAIF)	2,490,004	-	-	2,490,004
Total Investments	441,731,709	$ 181,494,034	$ 147,717,647	$ 112,520,028
Cash in Banks	52,973,288			
Total Cash and Investment	$ 494,704,997			
Investments Derivative Instruments				
Open contract power trading - current assets	$ 756,675		$ 756,675	
Open contract gas trading - liabilities	(667,540)		(667,540)	
Open contract gas trading - liabilities	(116,250)		(116,250)	
Open contract gas trading - non-current asset	22,701,525		22,701,525	
Total Investment Derivative Instruments	$ 22,674,410		$ 22,674,410	

[(1)] Accounts in exempt column are Mutual Fund-Money Market, Collateral Obligation and LAIF investments which are exempt from fair value hierarchy, or reported at amortized cost.

NOTE 3 – CASH AND INVESTMENTS (continued)

The City utilizes a third party pricing service to determine fair market prices for its individually held investments. Evaluations are based on market information available at the time and generated using proprietary evaluated pricing models and methodologies.

Level 1 investments are valued using a marketable actively traded assets closing price for identical assets. Level 2 investments are determined by using quoted prices for similar assets.

NOTE 4 – CAPITAL ASSETS

A. Capital Assets Summary

Capital asset activity for the years ended June 30, 2023 and 2022 is as follows:

	Balance 6/30/2022 (as restated)	Additions	Retirements	Transfers	Balance June 30, 2023
Non Depreciable Assets:					
Land	$ 14,371,743	$ -	$ -	$ -	$ 14,371,743
Construction In Progress	63,161,131	43,810,104	-	(35,708,770)	71,262,465
Total Non Depreciable Assets	77,532,874	43,810,104	-	(35,708,770)	85,634,208
Capital assets being depreciated:					
Buildings and Improvements	1,065,938,843	-	-	35,708,770	1,101,647,613
Right-to-use leased building	2,916,623	-	-	-	2,916,623
Right-to-use SBITA	1,437,230	1,670,794	-	-	3,108,024
Machinery & Equipment	9,941,798	570,680	(214,512)	-	10,297,966
Total capital assets being depreciated[1]	1,080,234,494	2,241,474	(214,512)	35,708,770	1,117,970,226
Less accumulated depreciation for:					
Buildings and Improvements	(511,596,415)	(25,626,315)	-	-	(537,222,730)
Right-to-use leased building	(673,067)	(673,067)	-	-	(1,346,134)
Right-to-use SBITA	-	(378,485)	-	-	(378,485)
Machinery & Equipment	(8,720,654)	(308,358)	214,512	-	(8,814,500)
Total accumulated depreciation	(520,990,136)	(26,986,225)	214,512	-	(547,761,849)
Net Depreciable Assets[1]	559,244,358	(24,744,751)	-	35,708,770	570,208,377
Enterprise Activity Capital Assets, Net[1]	$ 636,777,232	$ 19,065,353	$ -	$ -	$ 655,842,585

[1] The Statement of Net Position for fiscal year 2021-22 was not restated for implementation of GASB 96, SBITA, discussed in Notes 2B and 5.

For the years ended June 30, 2023 and 2022

NOTE 4 – CAPITAL ASSETS (continued)

	Balance 6/30/2021 (as restated)	Additions	Retirements	Transfers	Balance June 30, 2022
Non Depreciable Assets:					
Land	$ 14,371,743	$ -	$ -	$ -	$ 14,371,743
Construction In Progress	99,971,096	54,622,732	-	(91,432,697)	63,161,131
Total Non Depreciable Assets	114,342,839	54,622,732	-	(91,432,697)	77,532,874
Capital assets being depreciated:					
Buildings and Improvements	974,506,146	-	-	91,432,697	1,065,938,843
Right-to-use leased building	2,916,623	-	-	-	2,916,623
Machinery & Equipment	9,698,465	290,871	(47,538)	-	9,941,798
Total capital assets being depreciated	987,121,234	290,871	(47,538)	91,432,697	1,078,797,264
Less accumulated depreciation for:					
Buildings and Improvements	(488,361,127)	(23,235,288)	-	-	(511,596,415)
Right-to-use leased building	-	(673,067)	-	-	(673,067)
Machinery & Equipment	(8,455,762)	(312,430)	47,538	-	(8,720,654)
Total accumulated depreciation	(496,816,889)	(24,220,785)	47,538	-	(520,990,136)
Net Depreciable Assets	490,304,345	(23,929,914)	-	91,432,697	557,807,128
Enterprise Activity Capital	$ 604,647,184	$ 30,692,818	$ -	$ -	$ 635,340,002

NOTE 4 – CAPITAL ASSETS (continued)

B. Construction in Progress

Construction in progress as of June 30, 2023 and 2022 consisted of the following in SVP Projects.

Projects as of June 30 , 2023	Authorized	Expended	Commitments
Replace NRS 115/60KV Transformers	$ 10,035,632	$ 3,439,488	$ 6,596,144
Sierra Substation	15,954,547	15,695,343	259,204
Implementation Advanced Meter Infrastructure	28,132,392	27,844,679	287,713
Bucks Creek Relicensing	6,447,846	6,318,577	129,269
Electric Vehicle Charging	3,570,049	1,524,954	2,045,095
San Tomas Junction	5,162,977	1,264,724	3,898,253
Memorex Juction Substation	7,969,006	1,239,162	6,729,844
Freedom Circle Junction Substation	4,025,663	1,029,444	2,996,219
Street Light Improvement	2,884,102	1,015,901	1,868,201
Other Projects	106,544,628	11,890,193	94,654,435
Total	$ 190,726,842	$ 71,262,465	$ 119,464,377

Projects as of June 30 , 2022	Authorized	Expended	Commitments
Replace NRS 115/60KV Transformers	$ 9,166,995	$ 1,641,462	$ 7,525,533
Sierra Substation	15,969,974	14,618,579	1,351,395
Implementation Advanced Meter Infrastructure	31,502,512	27,641,081	3,861,431
Bucks Creek Relicensing	6,450,261	6,318,577	131,684
Electric Vehicle Charging	2,492,992	1,168,048	1,324,944
San Tomas Junction	5,180,038	931,796	4,248,242
Other Projects	102,044,261	10,841,588	91,202,673
Total	$ 172,807,033	$ 63,161,131	$ 109,645,902

NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS

Changes in long-term debt for the year ended June 30, 2023, consisted of the following:

Type of Indebtedness Rate, Issue Date and Maturity	Outstanding as of June 30, 2022	Debt Retired / Defeased	Additions and Amortization of Discounts	Outstanding as of June 30, 2023	Current Portion
Obligation Bonds:					
2013 Series A Refunding Revenue Bonds					
3%-5%, 04/24/13-07/01/22	$ 4,545,000	$ 4,545,000	$ -	$ -	$ -
2018 Series A Refunding Revenue Bonds,					
5%, 12/18/18 - 07/01/27	35,325,000	5,110,000	-	30,215,000	5,440,000
Unamortized Discount/Premium	3,766,165	-	(753,233)	3,012,932	-
Subtotal Electric Utility Revenue Bonds	43,636,165	9,655,000	(753,233)	33,227,932	5,440,000
Direct Placement:					
Series 2020-1 Revenue Refunding Bonds,					
1.74%, 04/10/2020 - 07/01/2032	52,985,000	-	-	52,985,000	-
Series 2020-2 Revenue Refunding Bonds,					
1.31%, 04/10/2020 - 07/01/2028	34,315,000	-	-	34,315,000	5,755,000
Series 2020-3 Revenue Refunding Bonds,					
0.58% 04/10/2020 - 07/01/2024	11,840,000	3,925,000	-	7,915,000	3,945,000
Subtotal Electric Utility Revenue Bonds	99,140,000	3,925,000	-	95,215,000	9,700,000
Bonds and Notes from Direct Borrowing	$142,776,165	$ 13,580,000	$ (753,233)	$ 128,442,932	$15,140,000

A. Electric Revenue Refunding Bonds, Series 2013A

On April 24, 2013, the City issued $64.380 million of Electric Revenue Refunding Bonds, Series 2013A (Electric 2013A Bonds), to provide funds, together with other available moneys, to refinance outstanding Electric 2003A Bonds. The Electric 2013A Bonds mature annually beginning on July 1, 2014 through July 1, 2028 and bear coupon rates ranging from 3.00% to 5.00%. Debt service on the Electric 2013A Bonds is secured by a pledge of net revenues of SVP.

As of April 1, 2020, $43.705 million of the Electric 2013A Bonds were outstanding and $30.725 million would be callable at par beginning January 1, 2023. With the passage of the Tax Cuts and Jobs Act on December 22, 2017 eliminated tax-exempt advance refunding of tax-exempt bonds beginning January 1, 2018, and therefore tax-exempt advance refunding is no longer a refinancing option.

On April 10, 2020, SVP refinanced $30.725 million callable portion of the outstanding principal amount of Electric 2013 A Bonds through a direct placement with Bank of America, N.A. under a Taxable to Tax-Exempt Conversion structure. The refunding resulted in overall debt service

NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

savings of $1,706,384. The net present value of the debt service savings is called an economic gain and after an addition for prior funds on hand of $203, amounted to $1,703,470. See Notes below for Subordinated Electric Revenue Refunding Bonds, Series 2020-2.

As of June 30, 2023, SVP has paid off the entire Electric Revenue Refunding Bonds Series 2013A obligation.

B. Electric Revenue Refunding Bonds, Series 2018A

On December 18, 2018, SVP issued $48.8 million of Electric Revenue Refunding Bonds, Series 2018A (Electric 2018A Bonds) to refinance $54.58 million outstanding principal amount of Variable Rate Demand Electric Revenue Refunding Bonds, Series 2008B and terminate a related swap agreement. The Electric 2018A Bonds bear a 5% coupon rate, mature annually beginning on July 1, 2019 through July 1, 2027, and were sold at an All-In True Interest Cost of 2.32%. Debt service on the Electric 2018A Bonds is secured by a pledge of net revenues of SVP.

In the event of default, SVP will transfer to the trustee all adjusted net revenues held by it and received thereafter and the trustee will disburse all adjusted net revenues and any other funds then held or thereafter received by the trustee under the provisions of indenture. In the case of default, the trustee will be entitled to declare the bond obligation of all bonds then outstanding to be due and payable immediately.

C. Subordinate Electric Revenue Refunding Bonds, Series 2020-1

As of April 1, 2020, all $54.830 million of the Electric 2011 A Bonds were outstanding and callable at par beginning July 1, 2021. The passage of the Tax Cuts and Jobs Act on December 22, 2017 eliminated tax-exempt advance refunding of tax-exempt bonds beginning January 1, 2018, and therefore tax-exempt advance refunding is no longer a refinancing option.

The City Council determined that it was in the best interests of the City to enter into a credit facility with a bank for the purpose of refunding all outstanding Electric 2011A Bonds; and for the indebtedness created under such credit facility to be evidenced by a subordinate electric revenue bond to be issued by the City and delivered to the bank as authorized by Resolution No. 20-8834 adopted by the City Council on April 7, 2020.

On April 10, 2020, the City entered into a loan agreement with Bank of America, N.A. (the "Bank") and issued $52.985 million of Subordinate Electric Revenue Refunding Bonds, Series 2020-1 (Electric 2020-1 Bonds) to refinance $54.830 million outstanding principal amount of Electric Series 2011A Bonds under a Taxable to Tax-Exempt Conversion structure. The Electric 2020-1 Bonds bear 1.74% coupon rates, mature annually beginning on July 1, 2028 through July 1, 2032 and were sold at a true interest cost of 1.43% with an average coupon rate of 1.40%. Electric 2020-1 Bonds were priced at taxable rates and was converted to tax-exempt on April 2,

NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

2021. Both the taxable rate and tax-exempt rate after conversion were fixed at time of issuance. Starting April 2, 2021, the Bonds will bear interest at the tax exempt rate of 1.360% per annum. Debt service on the Electric 2020-1 Bonds is secured by a pledge of Available Electric Revenues of SVP on a basis subordinate to outstanding Electric Revenue Bonds, if any.

In the event of default under the loan agreement for the 2020-1 bonds (including a failure by the City to pay principal or interest on the related bonds, a failure by the City to perform or observe its covenants, a default in other specified indebtedness or obligations of the City, certain acts of bankruptcy or insolvency, or other specified events of default), the Bank has the right, upon written notice to the City, to accelerate and declare the City's obligation to repay the related bonds and all other obligations of the City to the Bank under such loan agreement to be immediately due and payable.

D. Subordinate Electric Revenue Refunding Bonds, Series 2020-2

The City Council determined that it was in the best interests of the City to enter into a credit facility with a bank for the purpose of refunding a portion of the outstanding Electric 2013A Bonds; and for the indebtedness created under such credit facility to be evidenced by a subordinate electric revenue bond to be issued by the City and delivered to the Bank as authorized by Resolution No. 20-8834 adopted by the City Council on April 7, 2020.

On April 10, 2020, the City entered into a loan agreement with Bank of America, N.A. (the "Bank") and issued $34.315 million of Subordinate Electric Revenue Refunding Bonds, Series 2020-2 (Electric 2020-2 Bonds) to refinance $30.725 million of the callable portion of the outstanding Electric Revenue Refunding Bonds, Series 2013 A under a Taxable to Tax-Exempt Conversion structure. The Electric 2020-2 Bonds bear 1.31% coupon rates, mature annually beginning on July 1, 2023 through July 1, 2028 and were sold at a true interest cost of 1.21% with an average coupon rate of 1.15%. Electric 2020-2 Bonds were priced at taxable rates and will convert to a tax-exempt rate at the earlier of (i) the call date (1/1/2023) or (ii) the reversal of the advance refunding prohibition. Both the taxable rate and tax-exempt rate at conversion were fixed at the time of issuance, and once converted, the Bonds will bear interest at the tax-exempt rate of 1.02% per annum. Debt service on the Electric 2020-2 Bonds is secured by a pledge of Available Electric Revenues of SVP on a basis subordinate to outstanding Electric Revenue Bonds, if any.

In the event of default under the loan agreement for the 2020-2 Bonds (including a failure by the City to pay principal or interest on the related bonds, a failure by the City to perform or observe its covenants, a default in other specified indebtedness or obligations of the City, certain acts of bankruptcy or insolvency, or other specified events of default), the Bank has the right, upon written notice to the City, to accelerate and declare the City's obligation to repay the related bonds and all other obligations of the City to the Bank under such loan agreement to be immediately due and payable.

NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

E. Subordinate Electric Revenue Refunding Bonds, Series 2020-3

On June 16, 2014, the City entered into a Tax-Exempt Multiple Draw Term Loan with the Bank of America Preferred Funding Corporation (the "Electric 2014 Loan Agreement") to fund the phase-shifting transformer project and the acquisition of property for future utility use. The indebtedness created under such credit facility was evidenced by a subordinate electric revenue bond issued by the City - Subordinated Electric Revenue Bond, Series 2014. As of April 1, 2020, $19.413 million principal amount was outstanding and unpaid.

The City Council determined that it was in the best interests of the City to continue the credit facility with the bank for the purpose of refunding of the outstanding Electric 2014 Loan Agreement at lower interest rate; and for the indebtedness created under such credit facility to be evidenced by a subordinate electric revenue bond to be issued by the City and delivered to the Bank as authorized by Resolution No. 20-8834 adopted by the City Council on April 7, 2020.

On April 10, 2020, the City entered into a loan agreement with Bank of America, N.A. (the "Bank" and issued $16.720 million of Subordinate Electric Revenue Refunding Bonds, Series 2020-3 (Electric 2020-3 Bonds) to refinance $19.413 million outstanding principal amount of Subordinated Electric Revenue Bonds, Series 2014. The Electric 2020-3 Bonds bear 0.58% coupon rates mature annually beginning on July 1, 2020 through July 1, 2024 and were sold at a true interest cost of 0.70%. Debt service on the Electric 2020-3 Bonds is secured by a pledge of Available Electric Revenues of SVP on a basis subordinate to outstanding Electric Revenue Bonds, if any.

In the event of default under the loan agreement for the 2020-3 bonds (including a failure by the City to pay principal or interest on the related bonds, a failure by the City to perform or observe its covenants, a default in other specified indebtedness or obligations of the City, certain acts of bankruptcy or insolvency, or other specified events of default), the Bank has the right, upon written notice to the City, to accelerate and declare the City's obligation to repay the related bonds and all other obligations of the City to the Bank under such loan agreement to be immediately due and payable.

F. Pledge of Future Electric Revenues

The pledge of future Electric Fund revenues ends upon repayment of the $125.4 million in outstanding principal on the bonds which is scheduled to occur in fiscal year 2032-33. For fiscal year 2022-23, Electric Fund revenues including operating revenues and non-operating interest earnings amounted to $635.1 million and operating costs including operating expenses, but not interest, depreciation or amortization amounted to $602.4 million. Net revenues available for debt service amounted to $32.7 million which represented a coverage ratio of 2.01 on the $16.3 million of debt service.

NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

G. Derivative Instruments

In fiscal year 2009-10, SVP implemented GAAP, which addresses recognition, measurement and disclosures related to derivative instruments to determine whether they meet the definition of derivative instruments, and if so, whether they effectively hedge the expected cash flows associated with the interest rate and energy exposures. Under hedge accounting, the increase (decrease) in the fair value of a hedge is reported as a deferred cash flow hedge on the statement of net position.

Notional Amounts and Fair Values – Future Derivative Instruments

SVP maintains a Market Risk Management Policy, which among other things, sets forth the guidelines for the purchase and sale of certain financial instruments defined as hedge instruments in support of market power purchase and sales transactions. The primary goal of these guidelines is to provide a framework for the operation of an energy price hedging program to better manage SVP's risk exposure in order to utilize resources, stabilize pricing and costs for the benefit of SVP and its customers.

Consistent with hedge accounting treatment meeting effectiveness tests, changes in fair value are reported as deferred flows of resources on the statement of net position until the contract expiration that occurs in conjunction with the hedged expected energy purchase/sales transaction. When hedging contracts expire, at the time the purchase/sales transactions occur, the deferred balance is recorded as a component of Purchased Power. For energy derivatives, fair values are estimated by comparing contract prices to forward market prices quoted by third party market participants.

SVP had the following future derivative instruments outstanding at June 30, 2023 with Archer Daniels Midland Company to hedge cash flows on sales of excess resources in CAISO market in June and purchase of power from CAISO in the future months.

NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

Notional Amount (MWh)					Fair Value		Change in Fair Value	
Long	Short	Effective Date	Maturity Date	Average Price	Classification	Amount	Classification	Amount
	18,720	6/1/2022	6/30/2023	$54.00	Derivative Instrument	$ 507,125	Deferred inflow	$ 507,125
20,000		7/1/2022	7/31/2023	95.00	Derivative Instrument	(551,000)	Deferred outflow	(551,000)
21,600		8/1/2022	8/31/2023	95.00	Derivative Instrument	139,320	Deferred inflow	139,320
20,000		9/1/2022	9/30/2023	95.00	Derivative Instrument	88,000	Deferred inflow	88,000
8,600		6/1/2022	7/31/2023	67.75	Derivative Instrument	(110,940)	Deferred inflow	(110,940)
7,800		7/1/2022	8/31/2023	67.75	Derivative Instrument	22,230	Deferred outflow	22,230
8,000		8/1/2022	9/30/2023	67.75	Derivative Instrument	(5,600)	Deferred inflow	(5,600)
						$ 89,135		$ 89,135

Notional Amount (MMBtu)					Fair Value		Change in Fair Value	
Long	Short	Effective Date	Maturity Date	Average Price	Classification	Amount	Classification	Amount
3,655,000		7/1/2020	12/31/2025	$2.42	Derivative Instrument	$ 4,796,510	Deferred inflow	$ 4,796,510
3,655,000		1/1/2021	12/31/2025	0.56	Derivative Instrument	3,597,425	Deferred inflow	3,597,425
8,840,000		1/1/2022	12/31/2025	2.64	Derivative Instrument	8,613,890	Deferred inflow	8,613,890
8,895,000		1/1/2022	12/31/2025	1.03	Derivative Instrument	5,693,700	Deferred inflow	5,693,700
155,000		1/1/2022	8/31/2023	2.70	Derivative Instrument	(116,250)	Deferred inflow	(116,250)
						$ 22,585,275		$ 22,585,275
					Grand Total	$ 22,674,410		$ 22,674,410

Credit Risk

Credit risk is the risk of loss due to a counterparty defaulting on its obligations. SVP is exposed to credit risk if hedging instruments are in asset positions. To eliminate counterparty credit risk, SVP has transacted both long term power and gas contracts on the Futures market on Intercontinental Exchange (ICE). As of June 30, 2023, SVP's open derivative power and gas contracts were in an asset position, reflecting a positive $22.7 million Mark-to Market value.

NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

The open contracts were with ADM Investor Service, Inc., a clearing member of ICE and a subsidiary of Archer Daniels Midland Company who was rated A by Standard & Poor's as of June 30, 2023.

SVP's policy for requiring collateral on hedging instruments varies based on individual contracts and counterparty credit ratings. Under the brokerage agreements with Archer Daniels Midland Company, the accounts are prefunded by SVP. If the account value falls below zero, margin calls are invoked.

It is also SVP's policy to negotiate netting arrangements whenever it has entered into more than one bilateral transactions with counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, the non-defaulting party may accelerate and terminate all outstanding transactions and net their fair values so that a single amount will be owed by (or to) the non-defaulting party.

Termination Risk

SVP's futures contracts are traded over the counter and have no termination risk.

Price Risk

With respect to price risk under power Futures contracts, on purchase contracts (long positions), SVP receives the CAISO NP15 average daily rate at settlement and pays the fixed contracted rate entered into on the trade date; on sales contracts (short positions), SVP pays the CAISO NP15 average daily rate at settlement and receives the fixed contracted rate entered into on the trade date. With respect to price risk under gas Futures contracts, on purchase contracts (long positions), SVP receives PG&E Citygate average daily price at settlement and pays the fixed contracted rate entered into on the trade date; on sales contracts (short positions), SVP pays the PG&E Citygate average daily price at settlement and receives the fixed contracted rate entered into on the trade date. SVP is exposed to risk because the contract prices are different from the settlement prices.

H. Other

Various debt agreements governing SVP's revenue bonds contain a number of covenants including those that require SVP to maintain and preserve the enterprise in good repair and working order, to maintain certain levels of insurance, and to fix and collect rates, fees, and charges so as to maintain certain debt coverage ratios. SVP is in compliance with these specific covenants and all other material covenants governing the particular revenue bond issues. No event of default as defined in the bond indentures has occurred or was occurring as of the date of this report.

NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

I. Repayment Requirements

As of June 30, 2023, the debt service requirements to maturity for SVP's long-term debt are as follows:

Long-term Debt
Future Debt Service Requirements

Year Ending	Senior Revenue Bonds			Subordinate Revenue Bonds from Direct Placement		
June 30	Principal	Interest	Total	Principal	Interest	Total
2024	$ 5,440,000	$ 1,374,750	$ 6,814,750	$ 9,700,000	$ 1,075,725	$ 10,775,725
2025	5,795,000	1,093,875	6,888,875	9,665,000	994,377	10,659,377
2026	6,005,000	798,875	6,803,875	5,910,000	923,678	6,833,678
2027	6,320,000	490,750	6,810,750	5,975,000	863,065	6,838,065
2028	6,655,000	166,375	6,821,375	6,050,000	801,737	6,851,737
2029-2033	-	-	-	57,915,000	1,861,041	59,776,041
	$ 30,215,000	$ 3,924,625	$ 34,139,625	$ 95,215,000	$ 6,519,623	$101,734,623

Reconciliation of Long-term Debt:

Principal Outstanding as of June 30, 2023	$ 125,430,000
Unamortized Discount/Premium - Electric Revenue Bonds	3,012,932
Total Long-term Debt	$ 128,442,932

J. Lease Liabilities

SVP entered into a five-year lease agreement as lessee for the use of office space in November 2015 and the lease was extended to October 2026. SVP is required to make monthly principal and interest payments and common area operating expenses with 3% annual escalation. The lease agreement qualifies as other than short-term leases under GASB87 and therefore, has been recorded at the present value of the future minimum lease payment as of the date of June 30, 2021. The lease liability is measured at a discount rate of 1.10% based on Applicable Federal Rates for real estate as of July 2021.

A summary of the SVP's lease transactions for the fiscal year ended June 30, 2023 and 2022 are as follows:

NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

	Balance June 30, 2022	Addition	Retirment	Balance June 30, 2023	Current portion
Lease liabilities	$ 2,286,666	$ -	$ (654,044)	$ 1,632,622	$ 681,619

	Balance June 30, 2021 (As restated)	Addition	Retirment	Balance June 30, 2022	Current portion
Lease liabilities	$ 2,916,623	$ -	$ (629,957)	$ 2,286,666	$ 654,044

The future principal and interest lease payments as of June 30, 2023, are as follows:

For the Year Ending June 30	Principal	Interest	Total
2024	$ 681,619	$ 14,596	$ 696,215
2025	710,181	6,920	717,101
2026	240,822	553	241,375
Total	$ 1,632,622	$ 22,069	$ 1,654,691

K. Subscription-Based IT Arrangements and Liabilities

In fiscal year 2022-23, SVP implemented the provisions of GASB Statement No. 96, Subscription-Based Information Technology Arrangements, which required the City to record an intangible right-to-use subscription asset. As a result, a right-to-use subscription asset was recorded in the amount of $3,108,024. As of June 30, 2023, the City has recorded a net intangible right-to use subscription asset amounting to $2,729,539, with accumulated amortization of $378,485. The subscription assets are offset with subscription liabilities. A summary of the SVP's SBITA transactions for the fiscal year ended June 30, 2023 are as follows:

	Balance June 30, 2022 (As restated)	Addition	Retirment	Balance June 30, 2023	Current portion
SBITA liabilities	$ 1,437,230	$ 1,670,794	$ (390,015)	$ 2,718,009	$ 392,381

On August 20,2022, SVP entered into a five-year SBITA for the purchases of software services for OASISLive subscription used for California Independent System Operator Congestion Revenue Rights market participation. An initial subscription liability was recorded in the amount of $1,670,794 during fiscal year 2023, at the time the subscription was placed into service.

NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

As of June 30, 2023, the value of the subscription liability was $2,718,009. The City is required to make annual principal and interest payments throughout the life of the subscription. The subscription has an interest rate of 2.85%.

The future principal and interest SBITA payments as of June 30, 2023, are as follows:

For the Year Ending June 30	Principal	Interest	Total
2024	$ 392,381	$ 78,573	470,954
2025	406,699	67,322	474,021
2026	421,745	55,433	477,178
2027	437,181	43,251	480,432
2028	453,148	30,634	483,782
2029-2033	606,855	35,448	642,303
Total	$ 2,718,009	$ 310,661	$ 3,028,670

NOTE 6 – PARTICIPATION IN JOINT VENTURES

A. Investment in Joint Ventures

SVP (through the City) participates in significant joint ventures: Northern California Power Agency (NCPA), Transmission Agency of Northern California (TANC), M-S-R Public Power Agency (MSR PPA), M-S-R Energy Authority (MSR EA).

The separately issued financial statements of these joint ventures (as noted below) are available on request.

	Date of latest audited financial statement	Joint venture's address
NCPA	6/30/2022	651 Commerce Dr. Roseville, CA 95678
TANC	6/30/2022	P.O. Box 15129 Sacramento, CA 95851
MSR EA	12/31/2022	P.O. Box 4060 Modesto, CA 95352
MSR PPA	12/31/2022	P.O. Box 4060 Modesto, CA 95352

NOTE 6 – PARTICIPATION IN JOINT VENTURES (continued)

As described in paragraph (E) below, the carrying value of SVP's investment in MSR EA is $0. SVP's financial statements as of June 30, 2023 and 2022 reflect the following investments in joint ventures:

	June 30, 2023		June 30, 2022		
	Participating percentage	Investment	Participating percentage	Investment	Method of accounting
NCPA		$44,467,652		$43,222,597	
Geothermal	44.39%		44.39%		Equity
Hydroelectric	37.02%		37.02%		
Combustion Turbine	41.67%		41.67%		
Lodi Energy Center	25.75%		25.75%		
TANC	9.65%	7,631,453	9.64%	6,185,241	Equity
MSR EA	33.40%	-	33.40%	-	Suspended
MSR PPA	35.00%	13,745,836	35.00%	7,904,404.00	Equity*
Total		$65,844,941		$57,312,242	

* The equity method of accounting for investment in MSR PPA was suspended prior to fiscal year ended June 30, 2021. Starting in fiscal year 2022, equity method was used for SVP's investment with MSR PPA.

B. Northern California Power Agency (NCPA)

NCPA was formed in 1968 as a joint powers agency in the State of California. Its membership consists of sixteen public agencies. NCPA is generally empowered to sell, purchase, generate, transmit, manage electrical energy and provide regulatory and legislative advocacy. Members participate in the projects of NCPA on an elective basis. Therefore, the participation percentage varies for each project in which it participates.

A Commission comprised of one representative from each joint venture member governs NCPA. The Commission is responsible for the general management of the affairs, property, and business of NCPA. Under the direction of the General Manager, the staff of NCPA is responsible for providing various administrative, operating and planning services for NCPA and its associated power corporations.

Project Financing and Construction

NCPA's project construction and development programs have been individually financed by project revenue bonds collateralized by NCPA's assignment of all payments, revenues and proceeds associated with its interest in each project. Each project participant has agreed to pay its proportionate share of debt service and other costs of the related project, notwithstanding the suspension, interruption, interference, reduction or curtailment of output from the project for any

NOTE 6 – PARTICIPATION IN JOINT VENTURES (continued)

reason. Certain of the revenue bonds are additionally supported by municipal bond insurance credit enhancements.

Hydroelectric Project

NCPA contracted to finance, manage, construct, and operate Hydroelectric Project Number One for the licensed owner, Calaveras County Water District (CCWD). In exchange, NCPA has the right to the electric output of the project for 50 years from February 1982. NCPA also has an option to purchase power from the project in excess of the CCWD's requirements for the subsequent 50 years, subject to regulatory approval.

Geothermal Project

The NCPA Geothermal Plants have historically experienced greater than anticipated declines in steam production from the existing geothermal wells. Although initially operated as baseload generation projects at full capability (238MW), NCPA changed its steam field production from baseload to load-following and reduced average annual steam production. Along with other steam field operators in the area, the Agency began implementing various operating strategies to further reduce the rate of decline in steam production. The Agency has modified both steam turbine units and the associated steam collection system to enable generation with lower pressure steam at higher mass-flow rates to optimize the utilization of the available steam resource. In FY 19-20, NCPA began a well-workover program to restore underperforming wells.

Based upon current operation protocols and forecasted operations, NCPA expects average annual generation and peak capacity to decrease further, reaching approximately 68 MW by the year 2040.

Combustion Turbine Project No. 1

NCPA owns five dual (natural gas and fuel oil) combustion turbine units, each of which is nominally rated at 25 MW, which are collectively known as the Combustion Turbine Project No. 1. These units were completed in 1986 and are designed to provide peak power and reserve requirements and emergency support. Each purchaser is responsible under its power sales contract for paying entitlement share in Combustion Turbine Project No. 1 of all NCPA's costs of such project.

Lodi Energy Center

On May 24, 2010, SVP entered into an agreement with NCPA for a 25.75% interest in the Lodi Energy Center, a 280 MW combined cycle natural gas fired power plant, located in Lodi, California. The project received approval from the California Energy Commission in April 2010 and was placed into operation in November 2012. In January 2020, the Lodi Energy Center suffered a catastrophic turbine failure. NCPA replaced the turbine with a newer state-of-the-art

NOTE 6 – PARTICIPATION IN JOINT VENTURES (continued)

turbine which could use hydrogen as a cleaner fuel source. The majority of the replacement cost was covered by NCPA's insurance resulting in relatively minimal financial impact to project participants.

C. Transmission Agency of Northern California (TANC)

TANC was organized under the California Government Code pursuant to a joint powers agreement entered into by 15 Northern California utilities. The purpose of TANC is to provide electric transmission and other facilities for the use of its members through its authority to plan, acquire, construct, finance, operate and maintain facilities for electric power transmission. The joint powers agreement provides that the costs of TANC's activities can be financed or recovered through assessment of its members or from user charges through transmission contracts with its members. Each TANC member has agreed to pay a pro-rata share of the costs to operate TANC and for payment of debt service, and has the right to participate in future project agreements.

The joint powers agreement remains in effect until all debt obligations and interest thereon have been paid, unless otherwise extended by the members.

California-Oregon Transmission Project

TANC is a participant and also the Project Manager of the California-Oregon Transmission Project (Project), a 340 mile long, 500 kilovolt alternating current transmission project between Southern Oregon and Central California. As Project Manager, TANC is responsible for the overall direction and coordination of all Project operations and maintenance, additions and betterments, and for general and administrative support.

The Project was declared commercially operable on March 24, 1993, with a rated transfer capability of 1,600 megawatts and provides a third transmission path between the electric systems of the Pacific Northwest and those in California. The Project has successfully met and completed all major environmental requirements. As of June 30, 2022, the most recent data available, TANC's investment in the Project was $549.7 million, less accumulated depreciation and amortization of $297.0 million.

In connection with its participation in the Project, TANC has an entitlement balance of the Project's transfer capability of approximately 1,362 megawatts and is obligated to pay an average of approximately 80 percent of the operating costs associated with the Project. TANC incurred and initially capitalized all costs for project construction since they were expected to be recovered through reimbursement from Project participants and from the successful operations of the Project transmission lines. The Project agreement among the participating members provides that each member agrees to make payments, from its revenues, to TANC for project costs incurred and for payment of debt service.

NOTE 6 – PARTICIPATION IN JOINT VENTURES (continued)

SVP has historically been obligated to pay 20.47% of TANC's COTP operating and maintenance expenses and 20.70% of TANC's COTP debt service and 22.16% of the Vernon acquisition debt. SVP has also been entitled to 20.4745% of TANC's share of COTP transfer capability (approximately 278 MW net of third party layoffs of TANC) on an unconditional take-or-pay basis. Starting on July 1, 2014, SVP laid-off 147 MWs of this entitlement to other TANC members under a 25 year agreement. During the term of this agreement the parties taking on the entitlement will pay all associated debt service, operations and maintenance costs, and all administrative and general costs. SVP's portion of the operating and maintenance expenses and the COTP debt service is 10.004 %.

D. M-S-R Public Power Agency (MSR PPA)

MSR PPA is a joint power agency formed in 1980 by the Modesto Irrigation District, the City of Santa Clara, and the City of Redding, California, to develop or acquire and manage electric power resources for the benefit of the members. The personnel of its members and contract professional staff perform the administrative and management functions of MSR PPA. The member's income and expenses sharing ratio is as follows: Modesto Irrigation District – 50 percent, City of Santa Clara – 35 percent, and City of Redding – 15 percent.

Prior to fiscal year ended December 31, 2020, SVP's equity in MSR PPA's net losses exceeds its investments and, therefore, the equity method of accounting for the investment was suspended. Starting in fiscal year ended December 31,2021, SVP was in a positive equity position. The equity method of accounting of SVP's investment in MSR PPA was applied. Under the joint exercise of power agreement, which formed MSR PPA, SVP is responsible for funding up to 35 percent of MSR PPA's operating cost, to the extent such funding is necessary. During the years ended June 30, 2023 and 2022, SVP funded its share of operating costs in SVP's expenses.

MSR PPA's principal activity is a 28.8% ownership interest in a 507-megawatt unit of a coal-fired electricity generating plant located in New Mexico (San Juan Plant). The San Juan plant was jointly owned by the Public Service Company of New Mexico (PNM) (38.5%), MSR PPA (28.8%) and other municipal power entities (32.7%). On December 31, 2017, MSR PPA divested its ownership interest in the San Juan plant and no longer receives electric energy or capacity from the San Juan Generating Station.

In 2006, MSR PPA entered into a Wholesale Purchase and Sale Agreement and a Shaping and Firming Agreement with Avangrid Renewables, Inc. to provide renewable wind energy to the Members from the Big Horn I Wind Energy Project (Big Horn I Project) with a nominal installed capacity of approximately 199.5 MW. SVP receives the power purchased by MSR PPA from the Big Horn I Project. SVP's share equates to approximately a 105 MW share of the output. Power deliveries commenced on October 1, 2006 and will continue through September 30, 2026. Through an amendment of the original agreements MSR PPA has an obligation to continue to take the same

NOTE 6 – PARTICIPATION IN JOINT VENTURES (continued)

output through September 30, 2031, or if the Big Horn Project is repowered MSR PPA will have a right of first offer to negotiate a long-term power purchase for such repowered project. The participation in this project is as follows:

Modesto Irrigation District	12.5%
City of Santa Clara	52.5%
City of Redding	35.0%

In 2009, MSR PPA entered into a Power Purchase Agreement and Redelivery Agreement with Avangrid Renewables Inc. to purchase additional wind power energy from the same site, called Big Horn II, with a nominal installed capacity of 50 MW for a twenty-year period. Deliveries of energy under this project began on November 1, 2010. The participation in this project is as follows: Modesto Irrigation District – 65%; City of Santa Clara – 35%.

MSR PPA San Juan

In 2015, the MSR PPA Commission approved a number of agreements (the “San Juan Restructuring Agreements”) to provide for the interests of MSR PPA and certain other San Juan Participants (the “exiting participants”) in the San Juan Generation Station to be transferred to the remaining San Juan Participants effective December 31, 2017. In addition to the ownership divesture, the San Juan Restructuring Agreements provide for, among other things, the allocation of ongoing responsibility for decommissioning costs, mine reclamation costs and any environmental remediation obligations among the exiting participants and the remaining San Juan Participants, and the establishment and funding of mine reclamation and plant decommissioning trust funds. The San Juan Restructuring Agreements were subsequently executed by all nine San Juan Generation Station owners and PNM Resources Development Company (a non-utility affiliate of PNM) and, following receipt of regulatory approvals, became effective on January 31, 2016. Various other implementing agreements and amendments to existing San Juan project agreements to effect the restructuring have also been executed. Closing of the ownership restructuring of the San Juan Generation Station and the divestiture of M-S-R PPA’s interests in San Juan Unit No. 4 was completed on schedule on December 31, 2017.

E. M-S-R Energy Authority (MSR EA)

MSR EA is a joint power agency formed in 2008 by the Modesto Irrigation District, the City of Santa Clara, and the City of Redding, California, to develop or acquire and manage natural gas resources for the benefit of the members. The personnel of its members and contract professional staff perform the administrative and management functions of MSR EA. Each member’s income and expense sharing ratio is as follows: Modesto Irrigation District – 33.3%; City of Santa Clara – 33.4%; and City of Redding – 33.3%.

NOTE 6 – PARTICIPATION IN JOINT VENTURES (continued)

SVP's equity in MSR EA's net losses exceeds its investment and, therefore, the equity method of accounting for the investment has been suspended. As of December 31, 2022, the date of the latest available audited financial statements, SVP's unrecognized share of member's deficit of MSR EA was $27.2 million. Under the joint exercise of power agreement, which formed MSR EA, SVP is responsible for funding up to 33.4% of MSR EA's operating cost, to the extent such funding is necessary. During the years ended June 30, 2023 and 2022, SVP funded its share of operating costs in SVP's expenses.

In 2009, the City of Santa Clara, along with the Cities of Modesto and Redding participated in the M-S-R Energy Authority Gas Prepay Project. The Gas Prepay Project provides the City, through a Gas Supply Agreement with MSR EA dated September 10, 2009, a secure and long-term supply of natural gas of 7,500 MM Btu (Million British thermal unit) daily or 2,730,500 MM Btu annually through December 31, 2012, and 12,500 MM Btu daily, or 4,562,500 MM Btu annually thereafter until September 30, 2039. The agreement provides this supply at a discounted price below the spot market price (the Pacific Gas & Electric City gate index) over the next 30 years. As of December 31, 2022, bonds issued by MSR EA to finance the City's share of the Gas Prepay Project were outstanding in the principal amount of $500,200,000. These bonds were initially sold on August 27, 2009. Under the Gas Supply Agreement, MSR EA will bill the City for actual quantities of natural gas delivered each month on a "take-and-pay" basis. MSR EA has contracted with Citigroup Energy, Inc. ("CEI") to use the proceeds of the Gas Prepay bond issue to prepay CEI for natural gas. CEI has guaranteed repayment of the bonds, and responsibility for bond repayment is non-recourse to the City. Moreover, any default by the other Gas Prepay Project participants is also non-recourse to the City.

F. Contingent Liability

Under the terms of the various joint venture agreements, SVP is contingently liable for a portion of the long-term debt of the entities under take-or-pay agreements, letters of credit, guarantees or other similar agreements.

Based on the most recent audited financial statements of the individual joint ventures, SVP was contingently liable for long-term debt as of June 30, 2022 as follows:

Agreements	Total Debt (Principal)	Silicon Valley Power's Debt Share	Silicon Valley Power's Contingent Liability
NCPA 06/30/22	$ 547,665,968	34.84%	$ 190,813,080
TANC 06/30/22	167,800,000	9.65%	16,194,663
TOTAL	$ 715,465,968		$ 207,007,743

NOTE 6 – PARTICIPATION IN JOINT VENTURES (continued)

In addition, SVP would be, under certain conditions, liable to pay a portion of costs associated with the operations of the entities. Under certain circumstances, such as default or bankruptcy of the other participants, SVP may also be liable to pay a portion of the debt of these joint ventures on behalf of those participants and seek reimbursement from those participants.

Take-or-Pay commitments expire upon final maturity of outstanding debt for each project. Final fiscal year debt expirations as of June 30, 2022 are as follows:

Project	Debt Expiration	Entitlement Share %	Debt Service Share %
NCPA - Geothermal Project (NGP)	July-2024	44.3905%	44.3905%
NCPA - Hydroelectric Project (NHP)	July-2032	37.0200%	37.0200%
NCPA - Lodi Energy Center (NLEC)**	June-2040	25.7500%	34.5385%
TANC - CA-OR Transmission Project (COTP)	May-2039	9.6514%	9.6512%
MSR PPA -San Juan Plant	July-2022	35.0000%	35.0000%

** The SVP's debt service share in NLEC on issue one is 46.1588%, on issue two is 0%.

A summary of SVP's "Take-or-Pay" contracts and related projects and its contingent liability for the debt service including principal and interest payments at June 30, 2022 is as follows:

Fiscal Year	NGP	NHP	NLEC	COTP	Total
2023	$ 2,198,863	$ 12,870,163	$ 7,567,678	$ 1,008,307	$ 23,645,011
2024	1,541,819	14,375,558	7,565,130	1,348,027	24,830,534
2025	1,545,765	14,399,154	7,565,513	1,465,120	24,975,552
2026	-	7,912,261	7,581,031	1,464,903	16,958,195
2027-2031	-	39,516,428	38,615,584	7,324,369	85,456,381
2032-2036	-	17,218,945	38,621,715	7,324,877	63,165,537
2037-2041	-	-	37,973,144	4,394,758	42,367,902
Total	$ 5,286,447	$ 106,292,509	$ 145,489,795	$ 24,330,361	$ 281,399,112

NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

A. General Information about the Pension Plan

Plan Descriptions

All qualified regular and probationary employees are required to participate in the City's Miscellaneous Agent Multiple-Employer defined benefit plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues a publicly available report that include a full description of the pension plan regarding benefit provisions, assumptions and membership information and can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees or beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The pre-retirement death benefit is the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

The Plan's provisions and benefits in effect at June 30, 2023 and June 30, 2022, are summarized as follows:

	Miscellaneous	
	Prior to	On or after
Hire date	January 1, 2013	January 1, 2013
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.00 - 2.70%	1.00 - 2.50%
Required employee contribution rates	8.00%	6.50%
Required employer contribution rates	11.160%	11.160%

	June 30, 2023	June 30, 2022
Required unfunded liability contribution	$8,696,424	$7,938,737

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. SVP is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

The contributions to the Plan were as follows:

	Miscellaneous	
	June 30, 2023	June 30, 2022
Contributions - employer	$11,321,067	$11,026,399

NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

B. Net Pension Liability, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

SVP reported a net pension liability for its proportionate share of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability	
	June 30, 2023	June 30, 2022
Miscellaneous	$ 105,823,291	$ 73,533,480

SVP's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2022, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 rolled forward to June 30, 2022 using standard update procedures. SVP's proportion of the net pension liability was based on a projection of SVP's long-term share of contributions to the pension plan relative to the projected contributions of all funds of the City. SVP's proportionate share of the net pension liability for the Plan as of June 30, 2023 and 2022 was 32.31%.

For the years ended June 30, 2023 and 2022, SVP recognized pension expense of $12,887,264 and $6,364,608 respectively. At June 30, 2023 and 2022, SVP reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Miscellaneous Plan:

June 30, 2023	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 11,321,067	$ -
Differences between expected and actual experience	602,798	(821,311)
Changes in assumptions	5,541,520	-
Net differences between projected and actual earnings on plan investments	8,757,655	-
Total	$ 26,223,040	$ (821,311)

NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

June 30, 2022	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 11,026,399	$ -
Differences between expected and actual experience	1,994,978	-
Net differences between projected and actual earnings on plan investments	-	(18,343,263)
Total	$ 13,021,377	$ (18,343,263)

$11,878,371 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2023 measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

2023		2022	
Measurement Period Ended June 30	Annual Amortization	Measurement Period Ended June 30	Annual Amortization
2023	$ 3,868,013	2022	$ (3,284,375)
2024	3,237,809	2023	(3,704,830)
2025	1,368,749	2024	(4,335,036)
2026	5,606,091	2025	(5,024,044)

C. Actuarial Assumptions

For the measurement period ended June 30, 2022, the total pension liability was determined by rolling forward the June 30, 2021 total pension liability. The June 30, 2021 total pension liability was based on the following actuarial methods and assumptions:

NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

	Miscellaneous
Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Payroll Growth	2.80%
Projected Salary Increase	Varies by Entry-Age and Service
Investment Rate of Return	7.00% (1)
Post Retirement Benefit Increase	The lesser of Contract COLA or 2.3% until Purchasing Power Protection applies, 2.3% thereafter
Mortality (2)	Derived using CalPERS' Membership Data for all Funds

(1) Net of pension plan investment and administrative expenses; including inflation.

(2) The probabilities of mortality are based on the 2021 CalPERS Experience Study for the period from 2001 to 2019. Pre-retirement and post-retirement mortality rates include generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS' November 2021 experience study report available on CalPERS' website.

The underlying mortality assumptions and all other actual assumptions used in the June 30, 2021 valuation were based on the results of a December 2021 actuarial experience study for the period 2000 to 2019. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability for the Plan was 6.97%. The projection of cash flows used to determine the discount rate for the Plan assumed that contributions from all plan members in the Public Employees Retirement Fund (PERF) will be made at the current member contribution rates and that contributions from employers will be made statutorily required rates, actuarially determined. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members for all plans in the PERF. Therefore, the long-term expected rate of return on plan investments was applied to all period of projected benefit payments to determine the total pension liability for the Plan.

NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' assets classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects the long-term expected real rate of return by asset class.

Asset Class[a]	Assumed Asset Allocation	Real Return[a][b]
Global Equity - Cap-weighted	30.0%	4.54%
Global Equity - Non-Cap-weighte	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed Securities	5.0%	0.50%
Investment Grade Corporates	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.0%	3.57%
Real Assets	15.0%	3.21%
Leverage	-5.0%	-0.59%
	100.0%	

(a) An expected inflation of 2.30% used ofr this period.

(b) Figures are based on the 2021 Asset Liability Management Study.

NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents SVP's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what SVP's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous	
	June 30, 2023	June 30, 2022
1% Decrease	5.90%	6.15%
Net Pension Liability	$ 141,406,186	$ 106,409,645
Current Discount Rate	6.90%	7.15%
Net Pension Liability	$ 105,823,291	$ 73,533,480
1% Increase	7.90%	8.15%
Net Pension Liability	$ 76,286,918	$ 46,131,125

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

D. Subsequent Events

On July 12,2021, CalPERS reported a preliminary 21.3% net return on investments for fiscal year 2020-21. Based on the thresholds specified in CalPERS Funding Risk Mitigation policy, the excess return of 14.3% prescribes a reduction in investment volatility that corresponds to a reduction in the discount rate used for funding purposes of .20% from 7.00% to 6.80%. Since CalPERS was in the final stages of the four-year Asset Liability Management (ALM) cycle, the board elected to defer any changes to the asset allocation until the ALM process concluded, and the board could make its final decision on the asset allocation in November 2021.

On November 17, 2021, the board adopted a new strategic asset allocation. The new asset allocation along with the new capital market assumptions, economic assumptions and administrative expense assumption support a discount rate of 6.90% (net of investment expense but without a reduction of administrative expense) for financial reporting purposes. This includes a reduction in the price inflation assumption from 2.50% to 2.30% as recommended in the November 2021 CalPERS Experience Study and Review of Actuarial Assumptions. This study

NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

also recommended modifications to retirement rates, termination rates, mortality rates and rates of salary increases that were adopted by the board. These new assumptions will be reflected in the GASB 68 accounting valuation reports for the June 30, 2022, measurement date.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS

A. Plan Description

The City's agent multiple-employer defined benefit Other Post Employment Benefit (OPEB) Plan, which was established by City Council in fiscal year 2007-08 in accordance with GAAP, provides reimbursements to retirees for qualified expenses. Employees who have retired from the City with at least ten years of service and meet certain criterion based upon retirement date, household income in the most recent calendar year and age are entitled to reimbursements for qualified expenses. Annual maximum reimbursement amounts differ depending on when an employee retired from City service. The majority of retirees may be eligible for a maximum of annual reimbursements of $4,788 in the fiscal year 2022-23 and $4,626 in the fiscal year 2021-22. Amendments to benefit provisions are negotiated by the various bargaining units at the City and must be approved by Council. In fiscal year 2007-08, the City established an irrevocable exclusive agent multiple-employer defined benefit trust which is administered by Public Agency Retirement Services (PARS). The City is the Plan administrator, and PARS administers the investment trust for the City's Plan. The trust is used to accumulate and invest assets necessary to reimburse retirees. Separate financial reports are issued by PARS for the OPEB Plan Trust. The report can be obtained by writing to PARS at 4350 Von Karman Avenue, Suite 100, Newport Beach, CA 92660, or by calling 1-800-540-6369.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to and deduction from the OPEB's fiduciary net position have been determined on the same bases. For this purpose OPEB benefit payments are recognized when currently due and payable in accordance with the benefits terms. Investments are report at fair value.

Generally accepted accounting principles require that the reporting results must pertain to liability and asset information within certain defined timeframes. For the fiscal year 2022-23 and the fiscal year 2021-22, the following time frames were used.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (continued)

Fiscal year 2022-23	
Measurement Date	June 30, 2023
Measurement Period	July 1, 2022 to June 30, 2023
Actuarial valuation date (1)	June 30, 2022

Fiscal year 2021-22	
Measurement Date	June 30, 2022
Measurement Period	July 1, 2021 to June 30, 2022
Actuarial valuation date (1)	June 30, 2020

(1) Update procedures were used to roll forward the Total OPEB Liability from the valuation date to the measurement date.

B. Contributions

The OPEB Plan trust annual contributions are based upon actuarial determine contributions. The contribution requirements are established and may be amended by the City Council. Plan members do not make contributions to the plan; the plan is funded entirely by employer contributions. For the fiscal year ending June 30, 2023 and June 30, 2022, SVP contributed $758 thousand and $635 thousand.

C. Actuarial Assumptions

The June 30, 2023 total OPEB liability was based on the following actuarial methods and assumptions:

For the years ended June 30, 2023 and 2022

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (continued)

tuarial Assumptions Used in Total OPEB Liability

Actuarial Assumption	June 30, 2023 Measurement Date
Actuarial valuation date	June 30, 2022
Discount rate	4.50% at June 30, 2023 assets
Inflation	2.50%
Salary increases	Aggregate 2.75%
Investment rate of return	4.75% at June 30, 2022
Funding policy	Full pre-funding to PARS trust, PARS portfolio: Moderately Conservative
Mortality, Disability, Termination, and Retirement	CalPERS 2000-2019 Experience Study
Mortality Improvement	Mortality projected fully generational with Scale MP-2021
Healthcare cost trend rates	Non-Medicare - 8.5% for 2023 scaling down to 3.45% for year 2076 Medicare(Non-Kaiser) - 7.5% for 2023 scaling down to 3.45% for year 2076 Medicare(Kaiser) - 6.25% for 2022 scaling down to 3.45% for year 2076
Healthcare participation for future retirees - Cash subsidy	PEMHCA minimum only: Currently covered: 50% Waived: 25% Other plans: Currently covered: 80% Waived: 25%
Healthcare participation for future retirees - PEMHCA implied subsidy	PEMHCA minimum only: Currently covered: 50% Waived: 25% Other plans: Currently covered: 80% Waived: 25%

The June 30, 2022 total OPEB liability was based on the following actuarial methods and assumptions:

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (continued)

ctuarial Assumptions Used in Total OPEB Liability

Actuarial Assumption	June 30, 2022 Measurement Date
Actuarial valuation date	June 30, 2020
Discount rate	4.75% at June 30, 2022 Crossover analysis showed benefit payments always fully funded by plan assets
Inflation	2.75%
Salary increases	Aggregate 3%
Investment rate of return	5.25% at June 30, 2020
Funding policy	Full pre-funding to PARS trust, PARS portfolio: Moderately Conservative
Mortality, Disability, Termination, and Retirement	CalPERS 1997-2015 Experience Study
Mortality Improvement	Mortality projected fully generational with Scale MP-2020
Healthcare cost trend rates	Non-Medicare - 7% for 2022 scaling down to 4.0% for year 2076 Medicare(Non-Kaiser) - 6.1% for 2022 scaling down to 4.0% for year 2076 Medicare(Kaiser) - 5% for 2022 scaling down to 4.0% for year 2076
Healthcare participation for future retirees - Cash subsidy	Currently covered: 80% Waived: 40%
Healthcare participation for future retirees - PEMHCA implied subsidy	Currently covered: 80% Waived: 25%

D. Net OPEB Liability, OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB

SVP’s net OPEB liability for the Plan is measured as the proportionate share of the City’s net OPEB liability as of June 30. The total OPEB liability for the Plan used to calculate the net OPEB liability for the fiscal year 2022-23 was determined by an actuarial valuation as of June 30, 2022, rolled forward to June 30, 2023 using standard actuarial methods, based on actuarial methods and assumptions. The total OPEB liability for the Plan used to calculate the net OPEB liability for the fiscal year 2021-22 was determined by an actuarial valuation as of June 30, 2020, rolled forward to June 30, 2022 using standard actuarial methods, based on actuarial methods and assumptions. SVP’s proportion of the net OPEB liability was based on a projection of SVP’s long-term share of contributions to the OPEB plan relative to the projected contributions of all funds of the City. SVP’s proportionate share of the net OPEB liability for the Plan as of June 30, 2023 and 2022 was 19.32% and 32.31%.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (continued)

For the year ended June 30, 2023, SVP reported a net OPEB liability of $7,289 thousand and recognized OPEB expense of $686 thousand. For the year ended June 30, 2022, SVP reported a net OPEB liability of $13,058 thousand and recognized OPEB expense of $753 thousand. At June 30, 2023 and 2022, SVP reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

June 30, 2023	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 173	$ 341
Differences between expected and actual experience	-	361
Net differences between projected and actual earnings on OPEB plan investments	443	-
Total	$ 616	$ 702

June 30, 2022	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 377	$ 669
Differences between expected and actual experience	-	260
Net differences between projected and actual earnings on OPEB plan investments	840	-
Total	$ 1,217	$ 929

Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

2023		2022	
Measurement Period Ended June 30	Annual Amortization (in thousands)	Measurement Period Ended June 30	Annual Amortization (in thousands)
2024	$ (147)	2023	$ (157)
2025	47	2024	(135)
2026	156	2025	189
2027	(54)	2026	371
2028	(76)	2027	21
Thereafter	(8)	Thereafter	-

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (continued)

E. Discount Rate

The discount rate used to measure the total OPEB liability was 4.50% as of June 30, 2023 and 4.75% as of June 30, 2022. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rate equal to the actuarially determined contributions rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

2023

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Gloabal Equity	30%	4.56%
Mutual Funds - Fixed Income	65%	0.78%
Cash and equivalent	5%	-0.50%
	100%	
Expected Inflation		2.50%
Discount Rate		4.50%

2022

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Mutual Funds - Equity	29%	4.82%
Mutual Funds - Fixed Income	65%	1.47%
REITS	1%	3.76%
Cash and equivalent	5%	0.06%
	100%	
Expected Inflation		2.75%
Discount Rate		4.75%

F. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following table presents the net OPEB liability of the Plan as of June 30 as well as what the plan's net OPEB liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (continued)

	June 30, 2023 (In Thousands)	June 30, 2022 (In Thousands)
1% Decrease	3.50%	3.75%
Net OPEB Liability	$ 8,951	$ 15,941
Current Discount Rate	4.50%	4.75%
Net OPEB Liability	$ 7,289	$ 13,058
1% Increase	5.50%	5.75%
Net OPEB Liability	$ 5,910	$ 10,688

G. Sensitivity of the Net OPEB Liability to Healthcare Cost Trend Rates

The following table presents the net OPEB liability of the City, as of June 30, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% point lower or 1% point higher than the current rate.

	June 30, 2023 (In Thousands)	June 30, 2022 (In Thousands)
Net OPEB Liability 1% Decrease	$5,637	$10,046
Net OPEB Liability Current Rate	$7,289	$13,058
Net OPEB Liability 1% Increase	$9,330	$16,821

NOTE 9 – WHOLESALE ACTIVITIES

A. Long-term Power Purchase Contracts

SVP purchases wholesale electric power from various participants of the Western Systems Power Pool (WSPP), NCPA, MSR Public Power Agency (Note 6), Western Area Power Administration, and other sources to supply the power requirements of Silicon Valley Power's electric utility customers under long-term power purchase agreements (PPAs). SVP actively manages the financial risks inherent in these PPAs, including the risks arising from the changing spot market

NOTE 9 – WHOLESALE ACTIVITIES (continued)

prices that move above and below the contract prices and from contract disputes that may arise from time to time. The proceeds and costs related to generation, either owned or under PPAs, except ancillary services are included in purchased resource expense and excluded from wholesale resources purchases.

B. Restructuring of the California Electric Industry

Deregulation Legislation and Direct Access

The passage of AB1890 in 1998 triggered fundamental changes in the structure of the electric industry in California. Generally, AB1890 provided for creation of the California Power Exchange (Cal PX), which was to be a clearinghouse for energy transactions among investor-owned utilities, independent generators and power marketers, who in turn would serve so called direct-access customers. AB1890 also created the California Independent System Operator (CAISO), which was to manage the state's bulk transmission grid.

However, in 2000 and 2001, the price of electricity at the Cal PX became extremely high, and investor-owned utilities were unable to pay for the energy that they needed from the Cal PX. Eventually the Cal PX filed for bankruptcy and was dismantled. Investor-owned utility PG&E and several energy marketers would also file for bankruptcy and over a decade of litigation ensued.

The CAISO, however, continues to manage the state's bulk electric system and the day-ahead and day-of markets, and it has implemented various price controls and tariffs in an effort to avoid repeating the mistakes of 2000 and 2001. Along with balancing control area responsibility, the CAISO has also announced that it will take on the role of reliability coordinator for the region.

Energy Wholesale Trading and Risk Management

SVP participates in the wholesale gas and power market and the CAISO's centralized market. Since CAISO's Market Redesign and Technology Upgrade (MRTU), CAISO has become the ultimate buyer and seller in the California day ahead market. Therefore, SVP engages in the trading of commodity forward contracts (gas and electric energy contracts) to secure fuel supply and hedge daily power purchase/sales from/to CAISO. The primary type of forward contracts SVP currently engages in is the futures contracts SVP transacts on Intercontinental Exchange (ICE). Activities during the fiscal year were substantially considered hedging transactions and, as such, have been accounted for using the settlement method of accounting. In the past, the gains recognized from futures transactions in natural gas and power were reported as negative expenses in the purchased resource. In fiscal year 2022-23, the gains recognized from futures transactions in natural gas and power are reported as revenues in the wholesale resource sales. This change has been applied retroactively to the comparative financial statement for the fiscal year 2021-22. Consequently, there is a $14,018,411 increase in both wholesale resource sales and purchased

NOTE 9 – WHOLESALE ACTIVITIES (continued)

resource expenses for that fiscal year. Accordingly, wholesale resources gross sales and purchases totaling $85.0 million and $19.5 million, respectively, for fiscal year ended June 30, 2023, wholesale resources gross sales and purchases totaling $50.0 million and $18.4 million, respectively, for fiscal year ended June 30, 2022, have been separately reported on the statement of revenues, expenses and changes in net position.

The restructured electric wholesale market exposes SVP to various risks including market, credit and operational risks. Active and effective management of these risks associated with the power trading activity is critical to its continued success and contribution to the entire utility. A Risk Management Committee administers and monitors compliance with the Council approved risk policies and the related procedures on a regular basis. The City and SVP believe that it has the resource commitment, effective policies and procedures, and is continuing to improve the control structure and oversight for evaluating and managing the market and credit risks to which it is exposed.

Credit Arrangements

SVP has risk policies, regulations, and procedures that help mitigate credit risk and minimize overall credit risk exposure. The policies include transacting only with investment grade counterparties, evaluating of potential counterparties' financial condition and assigning credit limits as applicable. These credit limits are established based on risk and return considerations under terms customarily available in the industry. For counterparties below investment grade or lack of solid financial records, SVP requires collateral in the form of parental guarantee, surety bonds, letter of credit, or cash prepayment. Additionally, The City is a signatory to the WSPP netting agreement supplement and otherwise, enters into master netting arrangements whenever possible and, where appropriate, obtains collateral prior to trade execution. Master netting agreements incorporate rights of setoff that provide for the net settlement of subject contracts with the same counterparty in the event of default.

NOTE 10 – MAJOR SUPPLIERS

SVP purchases electric energy through its participation in the NCPA and M-S-R Public Power Agency joint powers agencies, from the Western Area Power Administration, from the market via the California Independent System Operator (CAISO), and from other sources to supply its retail electric utility customers. Additionally, SVP purchases transmission services through its participation in the TANC and from the CAISO.

The purchases of energy and transmission services that represent 5% or more of the total purchased power costs are shown in the table below:

For the years ended June 30, 2023 and 2022

NOTE 10 – MAJOR SUPPLIERS (continued)

Supplier	June 30, 2023 Power Purchased	% of the Total Purchased Power
NCPA	$ 307,064,381	68.63%
M-S-R Energy Authority	53,305,412	11.91%
Tri-Dam Project	33,708,170	7.53%
EDF Trading North America LLC	23,565,161	5.27%
M-S-R Public Power Agency	22,424,268	5.01%

Supplier	June 30, 2022 Power Purchased	% of the Total Purchased Power
NCPA	$ 205,500,630	50.81%
M-S-R Public Power Agency	37,406,667	9.25%
M-S-R Energy Authority	28,856,522	7.14%
Tri-Dam Project	28,602,808	7.07%

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Commitments and contingencies, undeterminable in amount, include normal recurring pending claims and litigation. In the opinion of management, based upon discussion with legal counsel, there is no pending litigation, which is likely to have a material adverse effect on the financial position of the fund.

SVP has future commitments under construction projects as stated in Construction in Progress in Notes to Financial Statements 4B.

NOTE 12 – NET POSITION AND STABILIZATION AGREEMENTS

A. Net Position

Net Position is the excess of all SVP's assets and deferred outflow of resources over all its liabilities and deferred inflow of resources. Net Position is divided into three categories that are described below:

Net investment in capital assets describes the portion of Net Position which is represented by the current net book value of SVP's capital assets, less the outstanding balance of any debt issued to finance these assets.

NOTE 12 – NET POSITION AND STABILIZATION AGREEMENTS (continued)

Restricted for other agreements describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which SVP cannot unilaterally alter.

Unrestricted describes the portion of Net Position which is not restricted as to use.

SVP reported net position at June 30 as follows:

	2023	2022
Net investment in capital assets:	$ 527,101,920	$ 494,932,518
Restricted:		
Pension benefits	6,324,045	6,146,358
Unrestricted:		
Capital projects	167,116,904	126,114,987
Rate stabilization	207,542,169	167,542,169
Operations	163,210,048	176,094,773
Total Unrestricted	537,869,121	469,751,929
Total Net Position	$ 1,071,295,086	$ 970,830,805

B. Stabilization Agreements

Rate Stabilization Fund

In 1996, SVP established the Rate Stabilization Fund and Cost Reduction Fund to assure that the rates were set properly with sufficient operating cash as well as cost reduction and financial stability of the Electric Utility. In December 2010, Council approved to transfer the Cost Reduction Fund as a subaccount to the Rate Stabilization Fund and continued to be used to offset Electric Utility costs in essentially the same manner. As of June 30, 2023, the balance of the Rate Stabilization Fund was $207,542,169.

Pension Stabilization Fund

In fiscal year 2016-17, the City established an irrevocable pension trust as a way to address unfunded pension liabilities. As part of the year-end process for 2016-17, City Council approved SVP to designate and make an initial deposit of $3.5 million in fiscal year 2018 toward prefunding pension obligations. As of June 30, 2023, the balance of the Pension Stabilization Fund was $6,324,045.

NOTE 12 – NET POSITION AND STABILIZATION AGREEMENTS (continued)

C. Prior Period Adjustment

The City of Santa Clara received review comments from the Government Finance Officers Association on the net Investment of capital assets in the Statement of Net Position in the Electric Utility Fund Statement in the Annual Comprehensive Financial Report for the fiscal year 2021-22. The calculation of the net investment in capital assets should include the capital related deferred outflow discount and inflow refunding premium and exclude the financial assets and lease receivables in the prior fiscal year. Management concurred the suggestion and adopted the changes in the calculation. SVP adjusted the net investment of capital assets and unrestricted net position in the statements of net position for the fiscal year 2021-22. The restated net investment of capital assets and unrestricted net position for prior year are $494,932,518 and $469,751,929.

CITY OF SANTA CLARA ELECTRIC UTILITY ENTERPRISE FUND
(SILICON VALLEY POWER)

REQUIRED SUPPLEMENTARY INFORMATION

This part of the City of Santa Clara Electric Utility Enterprise Fund Financial Statements provides detailed information to better understand the data presented within the financial statements and note disclosures.

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIOS

Discloses the proportionate share of the net pension liability and related ratios, including the proportionate share of fiduciary net position as a percentage of the total pension liability, and proportionate share of the net pension liability as a percentage of covered payroll.

SCHEDULE OF CONTRIBUTIONS – PENSION PLAN

Contains information of the employer's contractually required contribution rates, contributions to the pension plan and related ratios.

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY AND RELATED RATIOS

Discloses the proportionate share of the net OPEB liability and related ratios, including proportionate share of fiduciary net position as a percentage of the total OPEB liability, and the proportionate share of the net OPEB liability as a percentage of covered employee payroll.

SCHEDULE OF PLAN CONTRIBUTIONS - OPEB PLAN

Contains information of the employer's contractually required contribution rates, contributions to the OPEB Plan and related ratios.

Schedule of Proportionate Share of the Net Pension Liability
City of Santa Clara Electric Utility Enterprise Fund Miscellaneous Plan,
a Cost-Sharing Defined Benefit Pension Plan
Last Ten Fiscal Years for the Measurement Periods Ended June 30[1]

Measurement Date	**June 30, 2022**	**June 30, 2021**	**June 30, 2020**
Plan's Proportion of the Net Position Liability/(Asset)	32.31%	32.31%	32.31%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	$ 105,823,291	$ 73,533,480	$ 98,396,395
Plan's Covered Payroll	$ 29,932,874	$ 28,859,863	$ 28,818,319
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of it's Covered Payroll	353.54%	254.79%	341.44%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	62.47%	72.48%	61.90%

Notes to Schedule:

(1) Fiscal year 2014-15 was the first year of implementation.

Schedule of Proportionate Share of the Net Pension Liability
City of Santa Clara Electric Utility Enterprise Fund Miscellaneous Plan,
a Cost-Sharing Defined Benefit Pension Plan
Last Ten Fiscal Years for the Measurement Periods Ended June 30

June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
32.31%	34.97%	34.97%	34.97%	34.97%	34.97%
$ 92,007,139	$ 94,238,259	$ 92,735,319	$ 84,615,916	$ 74,516,387	$ 69,068,338
$ 28,630,755	$ 26,407,732	$ 24,928,548	$ 21,661,244	$ 20,300,577	$ 20,289,905
321.36%	356.86%	372.00%	390.63%	367.07%	340.41%
62.72%	62.97%	62.02%	62.18%	65.57%	67.42%

Schedule of Contributions
City of Santa Clara Electric Utility Enterprise Fund Miscellaneous Plan, a Cost-Sharing Defined Benefit Pension Plan
Last Ten Fiscal Years[1]

	June 30, 2023	June 30, 2022	June 30, 2021
Actuarially determined contribution	$ 11,321,067	$ 11,026,399	$ 10,027,454
Contributions in relation to the actuarially	(11,321,067)	(11,026,399)	(10,027,454)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 32,408,374	$ 29,932,874	$ 28,859,863
Contributions as a percentage of covered payroll	34.93%	36.84%	34.75%
Notes to Schedule			
Valuation date	6/30/2020	6/30/2019	6/30/2018

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	24 years as of valuation date
Asset valuation method	5-year smoothed market
Inflation	2.75% for 2015 to 2019, 2.675% for 2020, and 2.50% for 2021 through 2023.
Salary increases	Varies by Entry Age and Service.
Investment rate of return	7.5% for 2015 to 2018, 7.375% for 2019, 7.25% for 2020, and 7% for 2021 through 2023, net of pension plan investment expense, including inflation.
Retirement age	The probabilities of Retirement are based on the CalPERS Experience Study.
Mortality	The probabilities of mortality are based on CalPERS Experience Study. Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale AA published by the Society of Actuaries for 2015 to 2018. For 2019,2020, 2021 and 2022, pre-retirement and post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries.

[1] Fiscal year 2014-15 was the 1st year of implementation.

Schedule of Contributions
City of Santa Clara Electric Utility Enterprise Fund Miscellaneous Plan,
a Cost-Sharing Defined Benefit Pension Plan
Last Ten Fiscal Years

June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
$ 9,365,958	$ 8,258,503	$ 8,832,105	$ 7,558,410	$ 6,484,674	$ 5,335,643
(9,365,958)	(8,258,503)	(8,832,105)	(7,558,410)	(6,484,674)	(5,335,643)
$ -	$ -	$ -	$ -	$ -	$ -
$ 28,818,319	$ 28,630,755	$ 26,407,732	$ 24,928,548	$ 21,661,244	$ 20,300,577
32.50%	28.84%	33.45%	30.32%	29.94%	26.28%
6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012

Schedule of Proportionate Share of the Net OPEB Liability and Related Ratios
City of Santa Clara Electric Utility Enterprise Fund
OPEB Plan, A Cost-Sharing Defined Benefit Plan
Last Ten Fiscal Years Ended June 30[1]

Measurement Date	June 30, 2023	June 30, 2022	June 30, 2021
Liability/(Asset)	19.32%	32.31%	32.31%
Plan's Proportionate Share of the Net OPEB Liability/(Asset)	$ 7,288,705	$ 13,057,945	$ 11,860,957
Plan's Covered Payroll	$ 34,795,415	$ 54,801,960	$ 52,857,221
Plan's Proportionate Share of the Net OPEB Liability/(Asset) as a Percentage of it's Covered Payroll	20.95%	23.83%	22.44%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total OPEB Liability	44.03%	40.25%	44.03%

	June 30, 2020	June 30, 2019	June 30, 2018
Liability/(Asset)	32.31%	34.97%	34.97%
Liability/(Asset)	$ 12,076,500	$ 13,339,656	$ 16,285,879
Plan's Covered Payroll	$ 53,127,656	$ 52,963,135	$ 47,313,294
Plan's Proportionate Share of the Net OPEB Liability/(Asset) as a Percentage of it's Covered Payroll	22.73%	25.19%	34.42%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total OPEB Liability	40.11%	37.14%	28.90%

Notes to Schedule:

[1] Fiscal year 2017-18 was the first year of implementation.

Schedule of Proportionate Share of Contributions
City of Santa Clara Electric Utility Enterprise Fund
OPEB Plan, A Cost-Sharing Defined Benefit Plan
Last Ten Fiscal Years Ended June 30[1]
(In Thousands)

	June 30, 2023	June 30, 2022	June 30, 2021
Actuarially determined contribution	$ 950	$ 1,534	$ 1,559
Contributions in relation to the actuarially determined contributions	(758)	(635)	(570)
Contribution deficiency (excess)	$ 192	$ 899	$ 989
Covered payroll	$ 34,795	$ 54,802	$ 52,857
Contributions as a percentage of covered payroll	2.18%	1.16%	1.08%

	June 30, 2020	June 30, 2019	June 30, 2018
Actuarially determined contribution	$ 1,512	$ 1,856	$ 1,911
Contributions in relation to the actuarially determined contributions	(638)	(748)	(886)
Contribution deficiency (excess)	$ 874	$ 1,108	$ 1,025
Covered payroll	$ 53,128	$ 52,963	$ 47,313
Contributions as a percentage of covered payroll	1.20%	1.41%	1.87%

Notes to Schedule:

[1] Fiscal year 2017-18 was the first year of implementation.

CITY OF SANTA CLARA ELECTRIC UTILITY ENTERPRISE FUND
(SILICON VALLEY POWER)

Notes to Schedule of Employer Contribution (OPEB Plan)

Methods and Assumptions for 2022-23 Actuarially Determine Contributions	
Actuarial valuation date	June 30, 2020
Actuarial cost method	Entry Age Normal, Level Percentage of Payroll
Amortization method	Level percent of payroll
Unfunded liability amortization	30 years (closed period) for initial UAAL (17 Years remaining on June 30, 2022) 20 years (closed period) for implied subsidy on 06/30/2019 (17 years remaining on June 30, 2022) 15 years (open period) for method, assumption, plan changes, and gains and losses Maximum 30-year combined period
Asset valuation method	Investment gains and losses spread over a 5-year rolling period. Not less that 80% nor greater than 120% of fair value
Discount rate	5.25%
General inflation	2.75%
Healthcare trend	Non-Medicare - 7% for 2022, decreasing to an ultimated rate of 4% in 2076 Medicare (non-Kaiser)- 6.1% for 2022, decreasing to an ultimated rate of 4% in 2076 Medicare (Kaiser)- 5% for 2022, decreasing to an ultimated rate of 4% in 2076
Mortality	CalPERS 1997-2015 Experience Study
Mortality improvement	Post-retirement mortality projected fully generational with Scale MP-2020

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