



**SOUTHERN CALIFORNIA  
PUBLIC POWER AUTHORITY**

**INDEPENDENT AUDITOR'S REPORT AND  
COMBINED FINANCIAL STATEMENTS**

**JUNE 30, 2006 AND 2005**

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**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2006**

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The following discussion and analysis of the financial performance of Southern California Public Power Authority (the "Authority" or "SCPPA"), provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2006 and 2005. Please read this discussion and analysis in conjunction with the Authority's Combined Financial Statements, which begin on page 24. Description and other details pertaining to the Authority are included in the Notes to Combined Financial Statements.

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

The Authority has interests in the following projects:

**PALO VERDE PROJECT**

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

**SOUTHERN TRANSMISSION SYSTEM PROJECT**

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

**HOOVER UPGRATING PROJECT**

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

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**MEAD-PHOENIX AND MEAD-ADELANTO PROJECTS**

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

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

**MULTIPLE PROJECT FUND**

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

**SAN JUAN PROJECT**

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

**MAGNOLIA POWER PROJECT**

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

### **NATURAL GAS PROJECT**

On July 1, 2005, the Authority, together with LADWP and Turlock Irrigation District, acquired 42.5% of an undivided working interest in three natural gas leases located in the Pinedale Anticline region of the State of Wyoming. The Authority's individual share in these interests equals 14.9%. The purchase includes 38 operating oil and gas wells and associated lateral pipelines, equipment, permits, rights of way, and easements used in production. The natural gas field production is expected to increase for several more years as additional capital is invested on drilling new wells and then decline over a life expectancy greater than 30 years. This purchase, along with similar future purchases, will provide a secure source of gas for the participants, and hedge against volatile prices in the market.

### **ORMAT GEOTHERMAL PROJECT**

The Authority entered into long-term Power Purchase Agreements in December 2005 with divisions of Ormat Technologies, Inc. for 20 megawatts ("MW") of electric generation from geothermal energy facilities located in Heber, California. The Project started delivery of 10 MW in January 2006 and is expected to receive additional deliveries in December 2007. The City of Anaheim acts as the Scheduling Coordinator on behalf of the Project Participants.

### **PROJECTS' STABILIZATION FUND**

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2006**

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**PARTICIPANT OWNERSHIP INTERESTS**

The Authority's participants may elect to participate in the projects. As of June 30, 2006, the members have the following participation percentages in the Authority's operating projects:

<b>Participants</b>	<b>Palo Verde</b>	<b>STS</b>	<b>Hoover Uprating</b>	<b>Mead- Phoenix</b>	<b>Mead- Adelanto</b>	<b>San Juan</b>	<b>Magnolia Power Project</b>	<b>Natural Gas Project</b>	<b>Ormat Geo- thermal Project</b>
City of Los Angeles	67.0%	59.5%	-	24.8%	35.7%	-	-	-	-
City of Anaheim	-	17.6%	42.6%	24.2%	13.5%	-	38.0%	35.7%	60.0%
City of Riverside	5.4%	10.2%	31.9%	4.0%	13.5%	-	-	-	-
Imperial Irrigation District	6.5%	-	-	-	-	51.0%	-	-	-
City of Vernon	4.9%	-	-	-	-	-	-	-	-
City of Azusa	1.0%	-	4.2%	1.0%	2.2%	14.7%	-	-	-
City of Banning	1.0%	-	2.1%	1.0%	1.3%	9.8%	-	-	10.0%
City of Colton	1.0%	-	3.2%	1.0%	2.6%	14.7%	4.2%	7.1%	-
City of Burbank	4.4%	4.5%	16.0%	15.4%	11.5%	-	31.0%	14.3%	-
City of Glendale	4.4%	2.3%	-	14.8%	11.1%	9.8%	16.5%	28.6%	15.0%
City of Cerritos	-	-	-	-	-	-	4.2%	-	-
City of Pasadena	4.4%	5.9%	-	13.8%	8.6%	-	6.1%	14.3%	15.0%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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

The contracts expire as follows:

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

## **CRITICAL ACCOUNTING POLICIES**

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

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

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

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

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

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**CRITICAL ACCOUNTING POLICIES (Continued)**

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

**USING THIS FINANCIAL REPORT**

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

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



**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2006**

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

	JUNE 30,		
	2006	2005	2004
<b>Assets</b>			
Net utility plant	\$ 995,599	\$ 986,292	\$ 958,180
Investments	558,497	689,286	1,218,723
Cash and cash equivalents	80,778	108,240	229,983
Other	112,223	88,015	88,285
Total assets	<u>\$ 1,747,097</u>	<u>\$ 1,871,833</u>	<u>\$ 2,495,171</u>
<b>Liabilities and Net Assets (Deficit)</b>			
Noncurrent liabilities	\$ 1,806,660	\$ 1,961,741	\$ 2,381,299
Current liabilities	186,969	143,123	239,003
Total liabilities	<u>1,993,629</u>	<u>2,104,864</u>	<u>2,620,302</u>
Net assets (deficit)			
Invested in capital assets, net of related debt	(715,204)	(657,908)	(1,251,017)
Restricted net assets	361,732	332,426	1,100,972
Unrestricted net assets	106,940	92,451	24,914
Total net deficit	<u>(246,532)</u>	<u>(233,031)</u>	<u>(125,131)</u>
Total liabilities and net assets (deficit)	<u>\$ 1,747,097</u>	<u>\$ 1,871,833</u>	<u>\$ 2,495,171</u>
<b>Revenues, Expenses and Changes in Net Assets (Deficit)</b>			
Operating revenues	\$ 330,987	\$ 220,813	\$ 320,022
Operating expenses	(248,507)	(171,926)	(165,969)
Operating income	<u>82,480</u>	<u>48,887</u>	<u>154,053</u>
Investment income	18,932	36,631	38,423
Debt expense	(106,198)	(106,083)	(145,340)
Loss on extinguishment of debt	-	(85,827)	(508)
Change in net deficit	<u>(4,786)</u>	<u>(106,392)</u>	<u>46,628</u>
Net deficit - beginning of year	(233,031)	(125,131)	(126,414)
Release of over billings from prior years	-	(22,503)	-
Net contributions/withdrawals by participants	(8,715)	20,995	(45,345)
Net deficit - end of year	<u>\$ (246,532)</u>	<u>\$ (233,031)</u>	<u>\$ (125,131)</u>

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Combined Financial Statements (Continued)**

*Net Deficit -*

During fiscal year 2006, the Authority's net deficit increased by \$14 million, mainly due to the decrease in assets of \$125 million and the decrease in liabilities of \$111 million.

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

- Utility Plant - increased by \$9 million.  
This increase is the net effect of the acquisition of natural gas reserves, capital expenditures in the Natural Gas Project, and construction in the Magnolia Power Project offset by scheduled depreciation in other projects.
- Investments - decreased by \$131 million.  
This decrease is primarily due to the use of funds for the redemption of \$162.1 million in Multiple Project revenue bonds on July 1, 2005; a principal payment of \$11.3 million for the Palo Verde Project on June 7, 2006; a \$4.3 million draw down from the FSA investment agreement in the Palo Verde Project, which provides for withdrawals of guaranteed investment coupons through June 2017 to pay for notes owed to the participants; and capital expenditures for the Magnolia Power Project.
- These decreases were offset by an increase of \$14 million in participant billings for the Mead Phoenix and Mead Adelanto Projects for debt service payments in 2007; an \$18 million increase in the purchase of investments with longer maturity yields over short-term maturities to set aside funds for debt service payments for STS; and \$8 million of San Juan over billings for fiscal years 2005 and 2006, which have been authorized to be accumulated for anticipated environmental upgrades in 2008.
- Cash and cash equivalents – decreased by \$27 million.  
This decrease is primarily due to the use of the funds from the Project Stabilization Fund to acquire the natural gas reserve leases on July 1, 2005 (Glendale and Pasadena deposited \$13 million and \$6.5 million, respectively, on June 30, 2005); the reallocation of investments from short term to long term in STS; and \$12 million of short term securities purchased in the newly acquired Ormat and Natural Gas Projects.

**Combined Financial Statements (Continued)**

- Other Assets – increased by \$24 million.  
This increase is primarily due to the \$9.9 million recognition of spare parts inventory in the Magnolia Power Project. In addition, increases in accounts receivable were recognized in Palo Verde, Magnolia Power, and Natural Gas Projects. Increase in Palo Verde's billings of \$6.5 million mainly due to higher maintenance expense and lower interest earnings allocated to debt service this fiscal year. Accounts receivable in Magnolia Power Project increased by \$2.0 million for outstanding fuel billings, and Natural Gas recorded accounts receivable of \$4.4 million for outstanding capital billings, gas, and oil sales to Coral Energy and Ultra Resources.

The decrease in the Authority's liabilities of \$111 million is primarily the net effect of the redemption of the Multiple Project revenue bonds; an increase in the Authority's liabilities for the financing of the Natural Gas reserve acquisition on behalf of Project A participants (Anaheim, Burbank, and Colton); and an increase in the advances due to the Participants of the Magnolia Power and Natural Gas Projects.

During fiscal year 2005, a significant amount of the Palo Verde bonds were legally defeased on July 1, 2004 as part of the Authority's completion of the Restructuring Plan (See Note 5). As a result of the completion of this plan, long-term investments decreased by \$529 million, cash and cash equivalents and other decreased by \$122 million, and liabilities decreased by \$515 million. In addition, because of the net effect of the continued construction of the Magnolia Power Plant and the accumulated depreciation of other projects, the utility plant increased by \$28 million.

***Net Operating Income -***

During fiscal year 2006, the net increase in operating income of \$34 million is due to the following:

- Increase of \$14 million in participant billings in Mead-Adelanto and Mead-Phoenix projects for debt service payments during the year ended June 30, 2006. Mead-Adelanto and Mead-Phoenix are scheduled to pay principal of \$10.8 million and \$3.2 million, respectively, relating to the 2004 Series A bonds.
- Recognition of net operating income of \$1.5 million this fiscal year relating to the start-up of the natural gas reserve leases.
- Net operating income of \$6.5 million recognized since the Magnolia Power Plant began commercial operation on September 22, 2005.
- Increase of \$8.4 million in participant billings recorded in the Palo Verde Project as of June 30, 2006, mainly as the result of higher maintenance expense due to the replacement of steam generators in Palo Verde Unit 1 and lower interest earnings allocated to debt service.

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**Combined Financial Statements (Continued)**

During fiscal year 2005, operating income decreased by \$105 million primarily due to lower debt service requirements because of the completion of the Palo Verde Restructuring Plan

***Investment Income -***

During fiscal year 2006, investment income decreased by \$18 million due to the following:

- Use of \$162.1 million in funds on July 1, 2005 to redeem the callable Multiple Project revenue bonds.
- Market value of Palo Verde Project's Decommissioning funds decreased by \$3.5 million due to interest rate increases over the past twelve months resulting in the decline of the market value of securities purchased before that period.

***Debt Expense -***

During fiscal year 2005, the decrease in debt expenses of \$39 million was largely due to the decrease in interest expense, amortization of bond discounts and loss on refunding related to the defeasance of the 1987A, 1989A, and the 1997B Palo Verde bonds on July 1, 2004.

***Loss on Extinguishment of Debt -***

The \$85 million Loss on Extinguishment of Debt resulted from the defeasance of the remaining 1987A, 1989A, and 1997B Palo Verde bonds on July 1, 2004. This consists of the write-off of the remaining unamortized debt expenses relating to those issues as of the date of extinguishment and the adjustments made to market value of the related investments which were recorded as of June 30, 2004.

***Supplementary Information -***

During fiscal year 2005, \$22 million of Palo Verde accumulated over billings from prior years was reclassified from cost recoverable to notes payable. The Board of Directors authorized these funds to be released to the participants to pay a portion of the operating and maintenance expenses of the Palo Verde Project.

During fiscal year 2005, cities of Glendale and Pasadena contributed a combined total of \$20 million in cash for their portion of the purchase of the Natural Gas leases which were acquired on July 1, 2005.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY  
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**Combined Financial Statements (Continued)**

**Long-Term Debt** - The Authority has financed the acquisition of most of its Projects through the issuance of revenue bonds. The exception is the Natural Gas Project wherein some of the natural gas participants used cash for their percentage of the acquisition. Capital additions to all of these Projects are financed through revenues received from the Participants.

In May 2005, the Authority issued new refunding bonds for San Juan as follows:

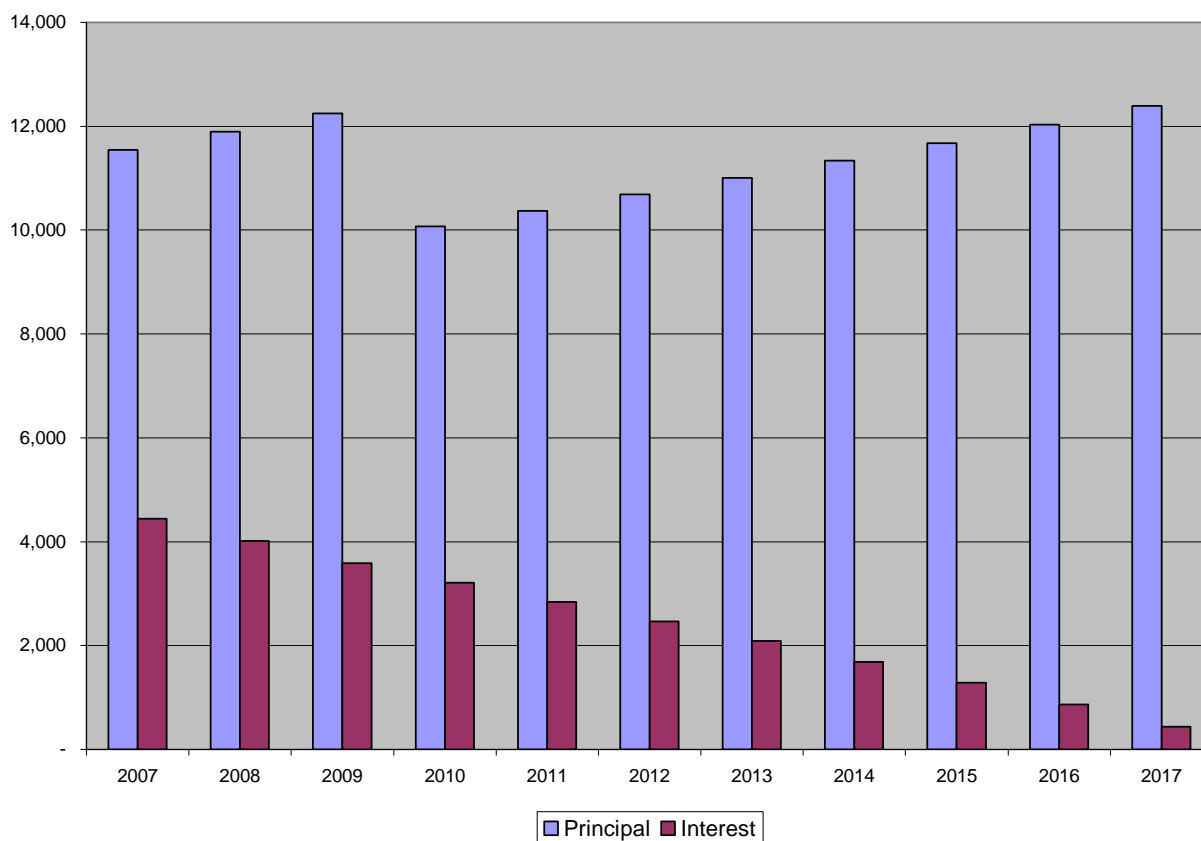
<u>Description of Bonds</u>	<u>Par Amount of Refunded Bonds</u>	<u>Par Amount of Refunding Issue</u>	<u>Debt Service Savings</u>	<u>Net Present Value Savings</u>	<u>Bond Ratings by S&amp;P/Moody's</u>
San Juan Project Revenue Bonds 2005 Refunding Series A	\$ 71,850,000	\$ 71,880,000	\$ 10,026,571	\$ 6,669,244	AAA/Aaa

The following graphs for each of the Authority's Projects provide an indication of the principal and interest payments on the bonds that are due each year following June 30, 2006 until the bonds mature. Interest is reflected on an accrual basis.

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**PALO VERDE PROJECT  
Debt Service Requirements  
Fiscal Year Ending June 30, 2006 (\$ in thousands)**

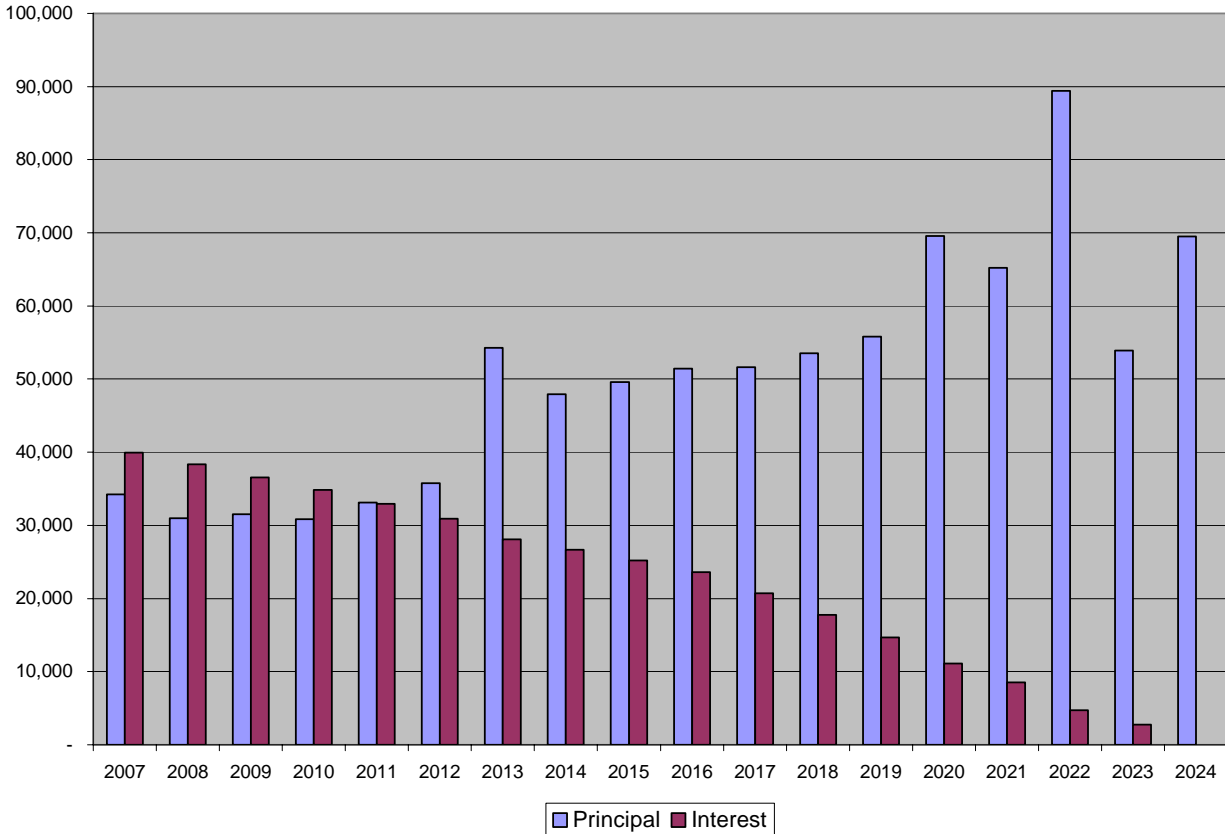


Interest payments on the remaining bonds are payable on the first Wednesday of each month. Principal maturity of \$11.3 million was paid on June 7, 2006. The bonds mature in the fiscal year ended June 30, 2017.

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**SOUTHERN TRANSMISSION SYSTEM PROJECT  
Debt Service Requirements  
Fiscal Year Ending June 30, 2006 (\$ in thousands)**

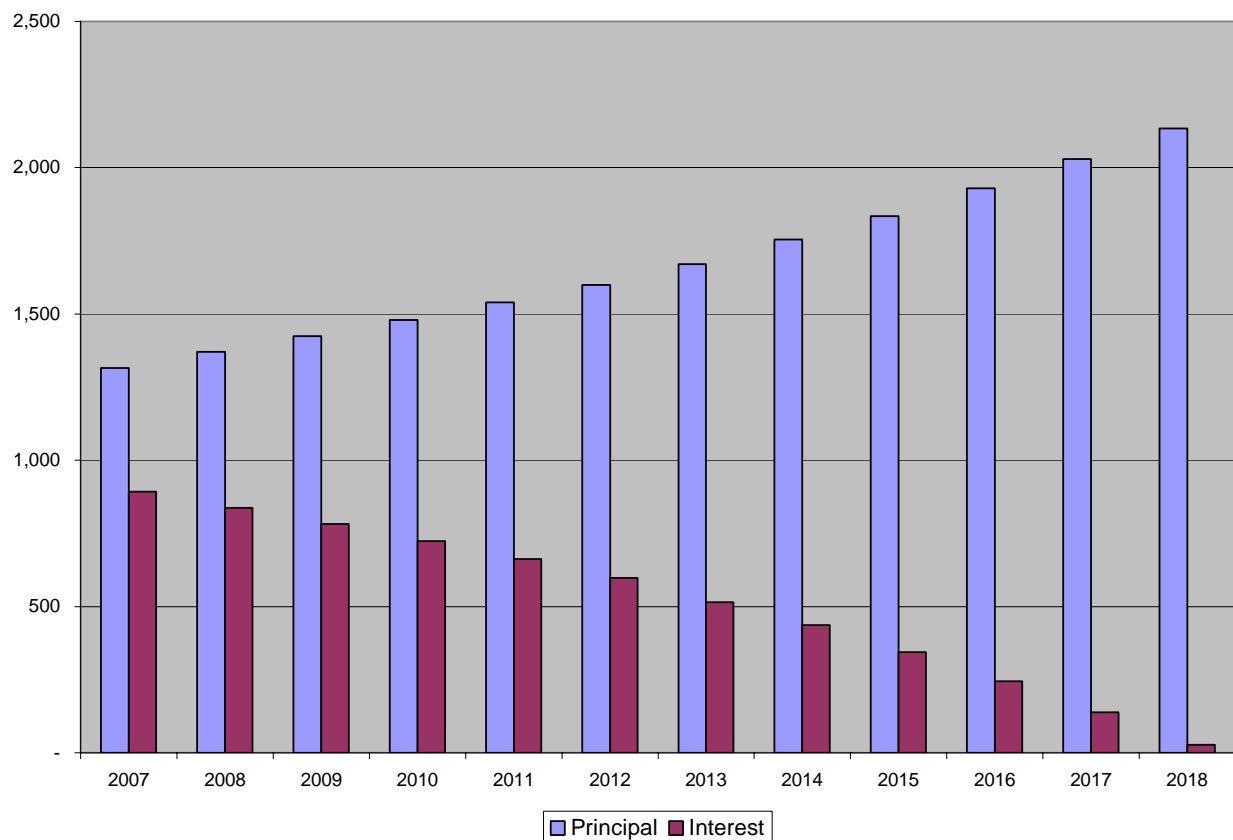


Fixed interest on the bonds is paid semi-annually on July 1 and January 1 of each year. Variable interest is paid monthly, except for the 2003A bonds, which is paid weekly. Principal maturities of \$31.5 million were paid on July 1, 2005. The bonds mature in the fiscal year ended June 30, 2024.

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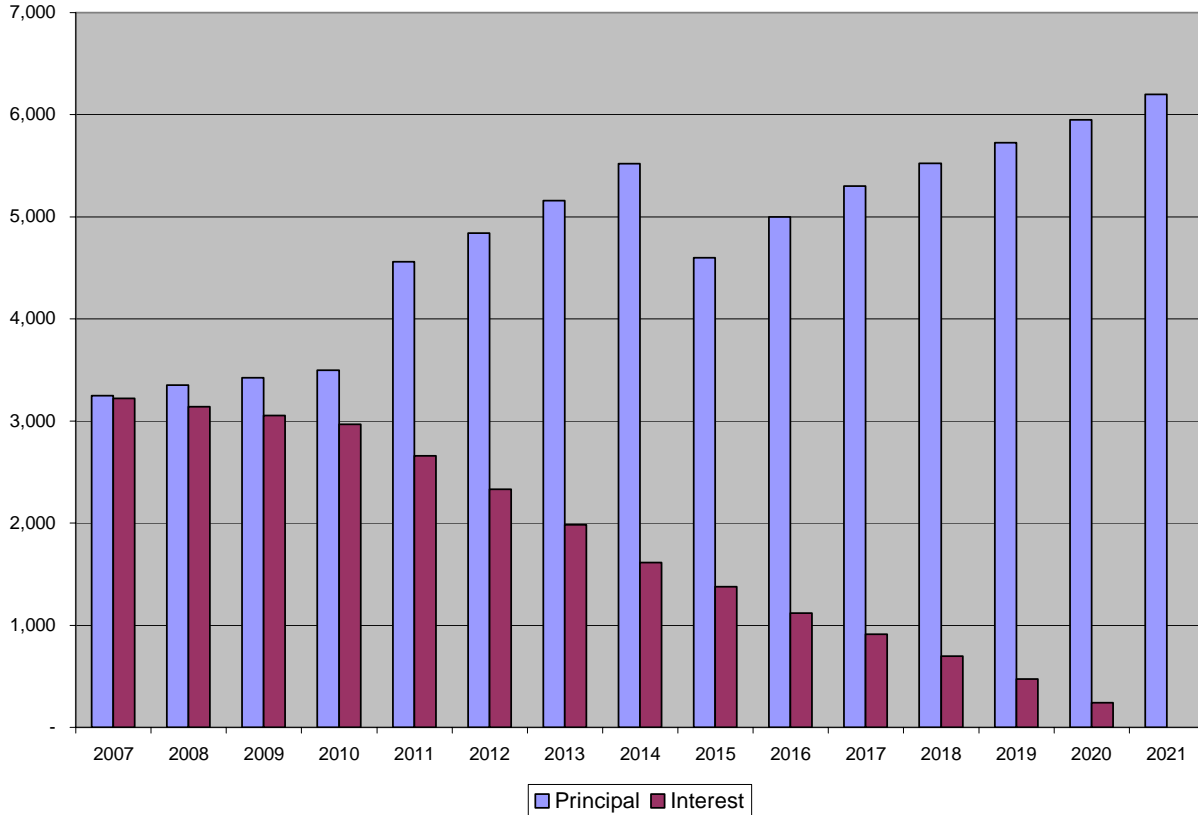
**HOOVER UPRATING PROJECT  
Debt Service Requirements  
Fiscal Year Ending June 30, 2006 (\$ in thousands)**



Interest payments on the bonds are payable semi-annually on October 1 and April 1 of each year. Principal maturities of \$1.3 million were paid on October 1, 2005. The bonds mature in the fiscal year ended June 30, 2018.



**MEAD-PHOENIX PROJECT  
Debt Service Requirements  
Fiscal Year Ending June 30, 2006 (\$ in thousands)**

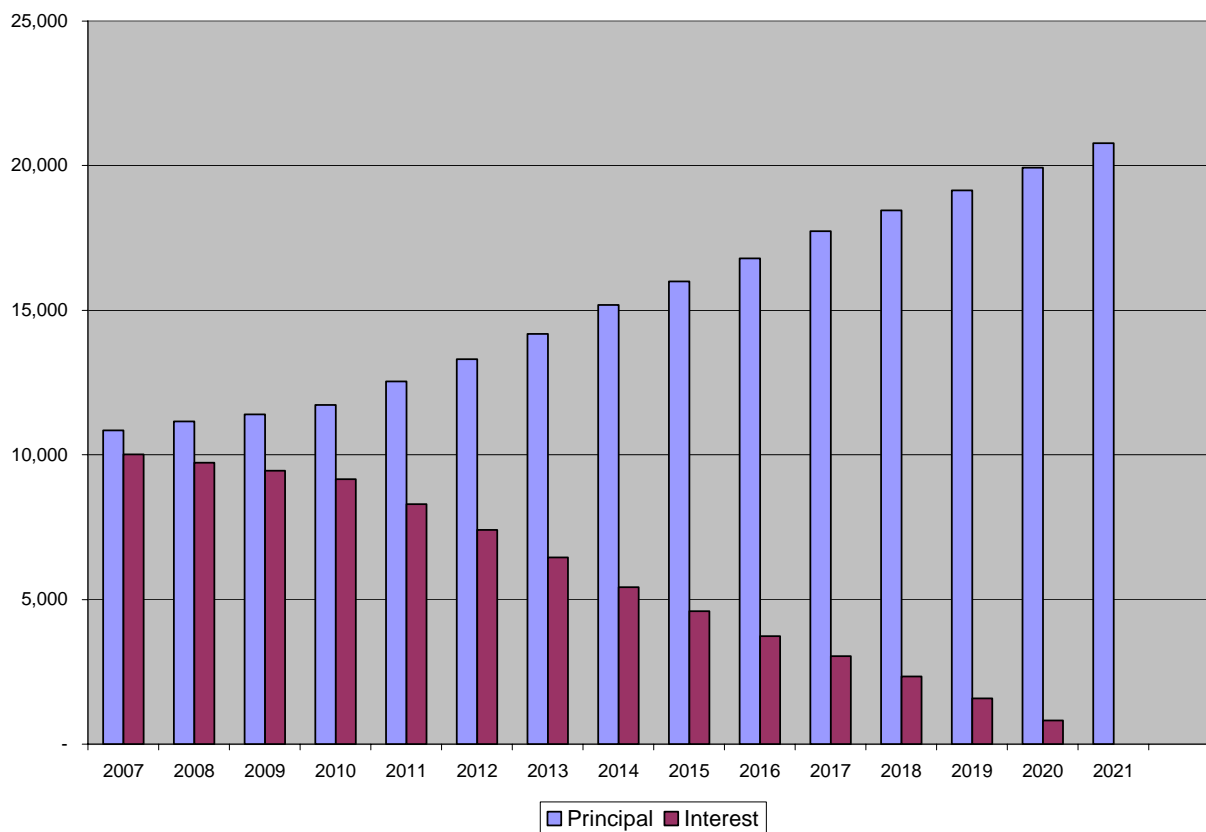


Fixed interest on the bonds is paid semi-annually on July 1 and January 1 of each year. Variable interest is paid weekly. There were no principal maturities for the year ended June 30, 2006. The bonds mature in the fiscal year ended June 30, 2021.

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**MEAD-ADELANTO PROJECT  
Debt Service Requirements  
Fiscal Year Ending June 30, 2006 (\$ in thousands)**

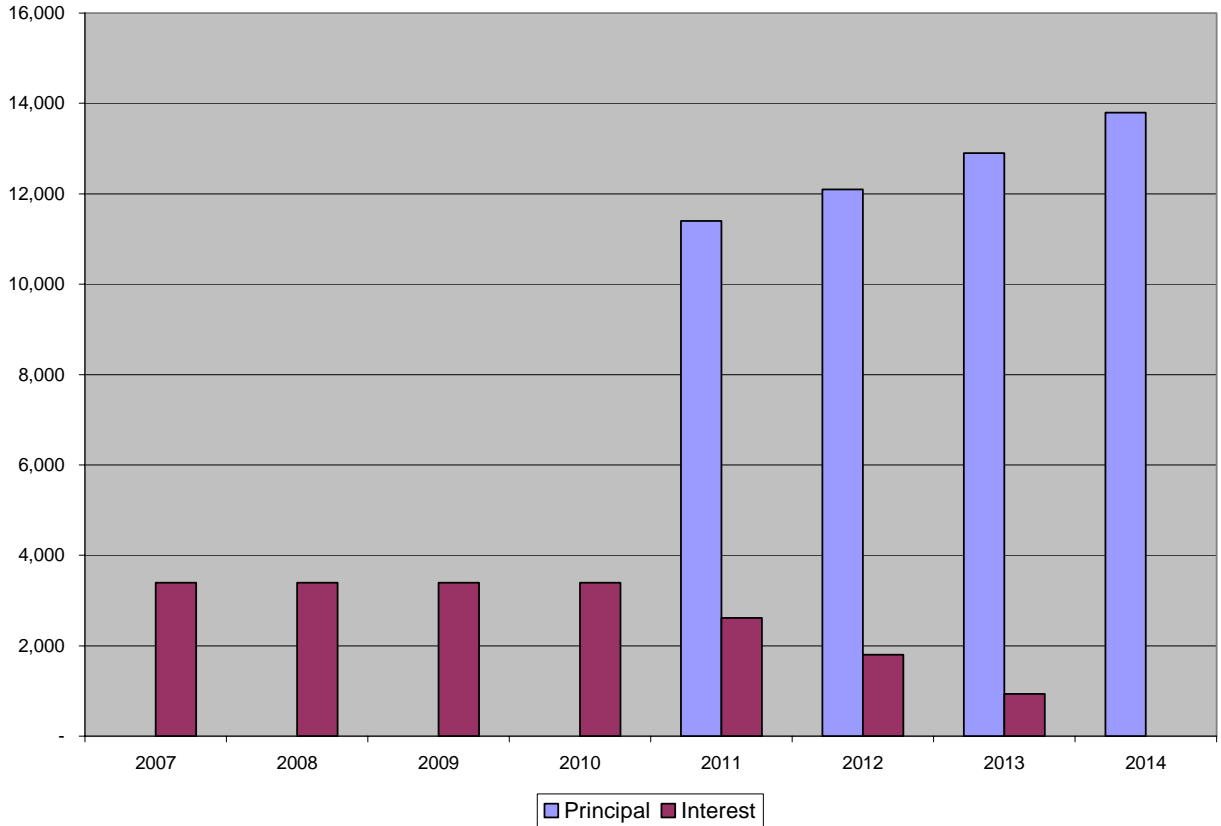


Fixed interest on the bonds is paid semi-annually on July 1 and January 1 of each year. Variable interest is paid Tuesdays, Wednesdays, and Thursdays of every week. There were no principal maturities for the year ended June 30, 2006. The bonds mature in the fiscal year ended June 30, 2021.

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**MULTIPLE PROJECT FUND  
Debt Service Requirements  
Fiscal Year Ending June 30, 2006 (\$ in thousands)**

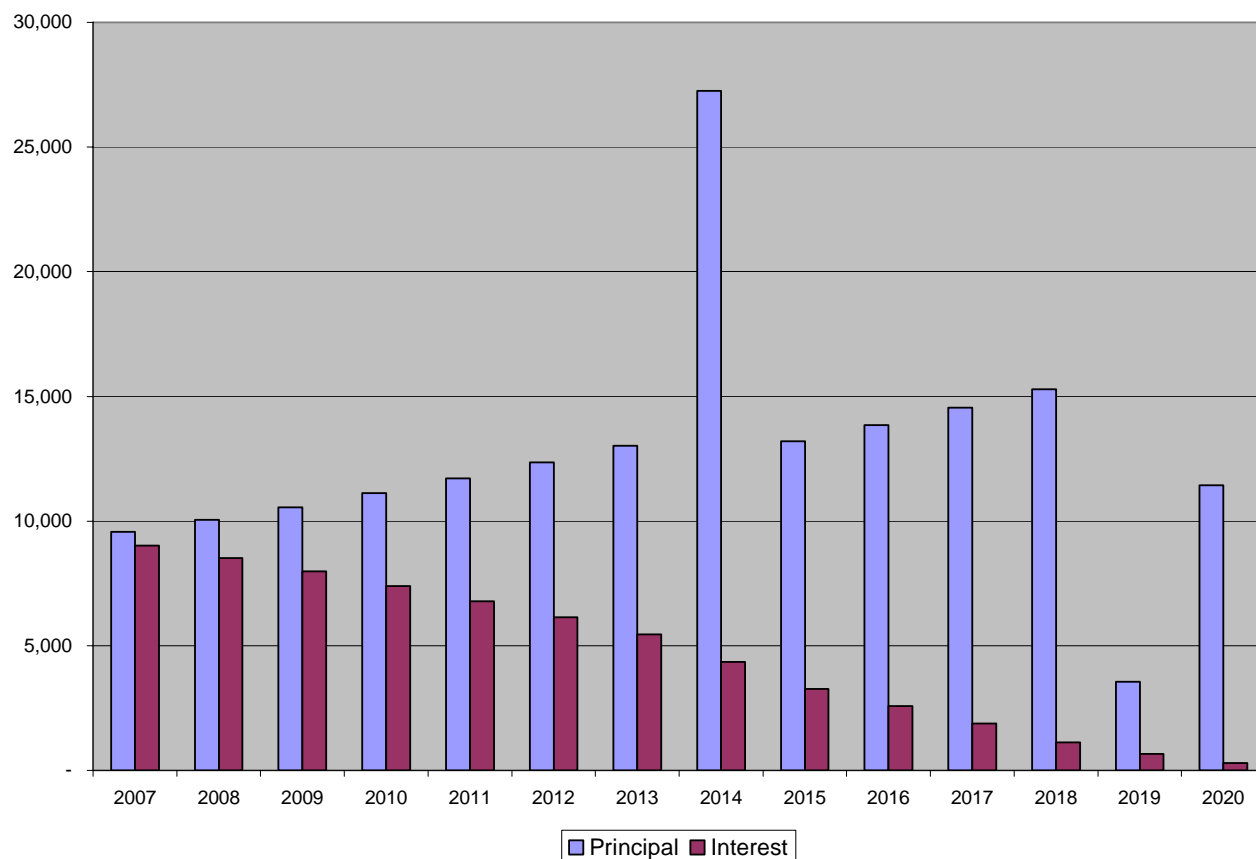


Interest payments on the bonds are payable semi-annually on July 1 and January 1 of each year. Par value of bonds that matured and were redeemed on July 1, 2005 was \$170.2 million. A total of \$50.2 million of the outstanding Multiple Project Revenue Bonds are not subject to redemption prior to maturity. The bonds mature in the fiscal year ended June 30, 2014.

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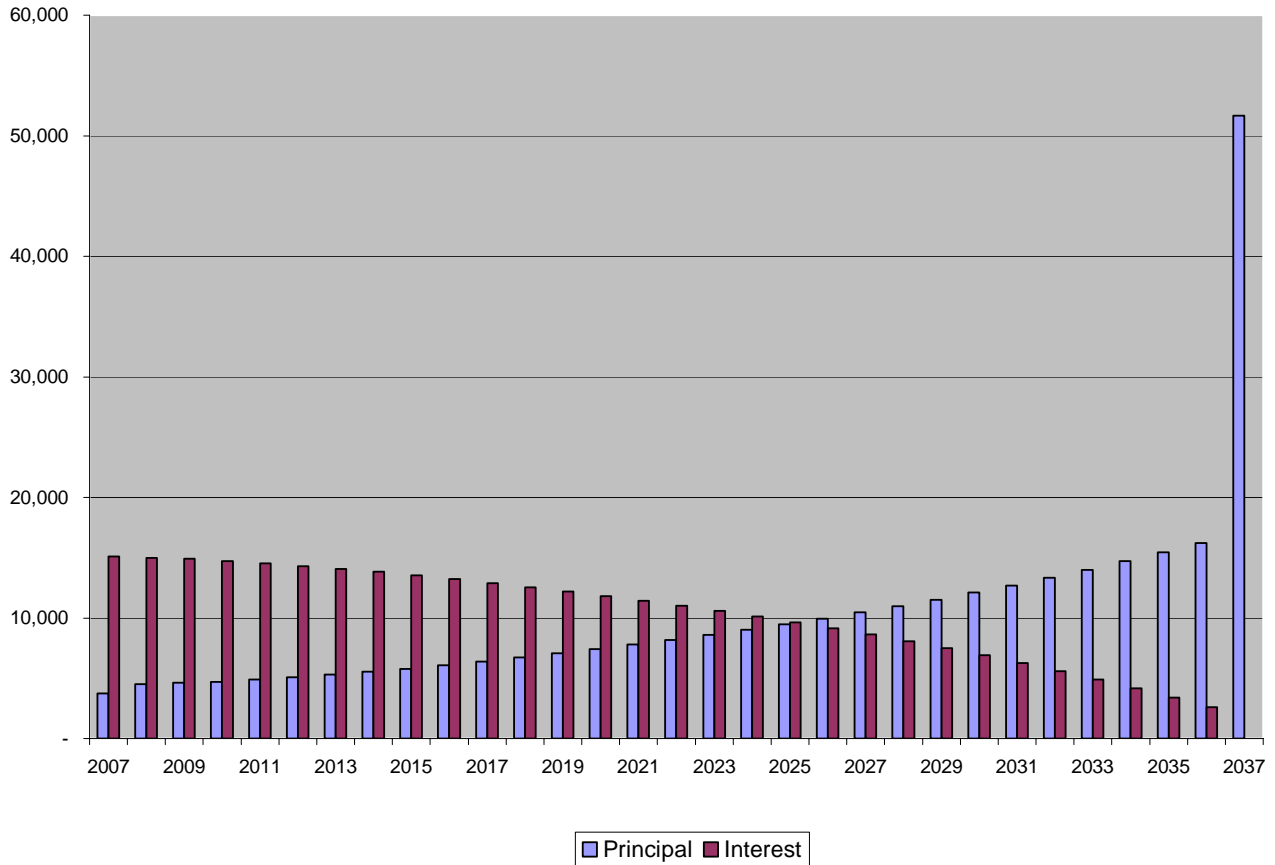
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**SAN JUAN PROJECT  
Debt Service Requirements  
Fiscal Year Ending June 30, 2006 (\$ in thousands)**



Interest payments on the bonds are payable semi-annually on July 1 and January 1 of each year. Principal maturities of \$9.2 million were paid on January 1, 2006. The bonds mature in the fiscal year ended June 30, 2020.

**MAGNOLIA POWER PROJECT  
Debt Service Requirements  
Fiscal Year Ending June 30, 2006 (\$ in thousands)**

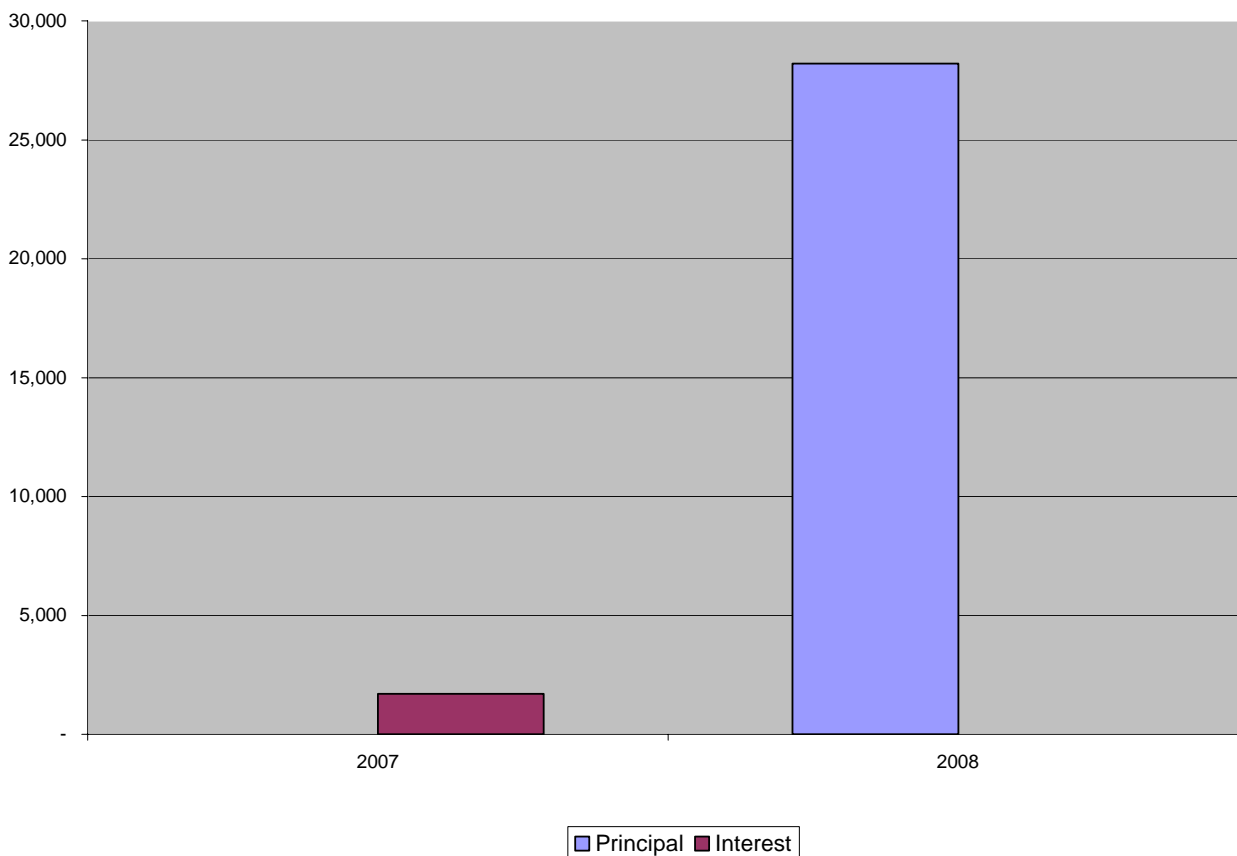


Interest payments on the bonds are payable semi-annually on July 1 and January 1 of each year. There were no principal maturities for the year ended June 30, 2006. The bonds mature in the fiscal year ended June 30, 2037.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2006**

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**NATURAL GAS PROJECT  
Debt Service Requirements  
Fiscal Year Ending June 30, 2006 (\$ in thousands)**



Interest payments on the outstanding amount of the bonds is payable monthly. A portion of the principal totaling \$1.7 million was paid on June 1, 2006. The bonds mature in the fiscal year ended June 30, 2008 unless the maturity is extended with the consent of the owners.

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

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

The Authority has take-or-pay power sales, natural gas sales and transmission service contracts which unconditionally require the Participants to pay for the cost of operating and maintaining the Projects, including debt service, whether or not the Projects are operating or operable. Although the contracts have not been court-tested, a municipal utility's authority to enter into such contracts is rooted in the State's constitutional provisions for municipal electric utilities.

Through the collaborative efforts of its members, the Authority has developed a comprehensive and dynamic strategic plan that provides a common vision for its members and a platform for joint action. SCPPA continues its involvement in legislative and regulatory affairs at both the state and federal levels to protect represented customers, by assuring resource adequacy, excellent reliability, and environmental stewardship. Backed by one of the strongest financial ratings in the utility industry, SCPPA maintains its traditional role of providing financing for its members' natural gas, generation and transmission projects. In addition to the conventional areas of power, investments are also being made to provide customers with more renewable generation and energy efficiency. Renewable energy will continue to play an important role for the future. Investment by SCPPA members in renewable programs, have totaled nearly \$70 million over the past five years.

**Natural Gas Reserve Acquisition Project** - Several SCPPA members, the cities of Anaheim, Burbank, Colton, Glendale, and Pasadena, in addition to LADWP and Turlock Irrigation District, realized one of their goals in acquiring natural gas reserves for their own generating facilities.

On July 1, 2005, the acquisition of natural gas reserves and other real property from Anschutz Corporation in Pinedale, Wyoming was successfully completed. The transaction totaled in excess of \$300 million. SCPPA financed approximately \$26 million on behalf of Anaheim, Burbank, and Colton. Gas began to flow to the participants at 12:01 a.m. on July 1, 2005.

This is a unique project and is believed to be the largest natural gas field owned by public power utilities and should assure the participants a secure long-term and stable supply of natural gas to fuel the various power plants. All of the participants, as well as LADWP and the Turlock Irrigation District, have agreed to pool the operations under an agreement with SCPPA to assure close coordination and operation efficiencies.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2006**

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

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

SCPPA has entered into a Power Purchase Agreement with Ameresco Chiquita Energy LLC for 100% of the electric generation from a landfill gas to energy facility to be located at the landfill site in Valencia, California (Ameresco Landfill Gas to Energy Project). The SCPPA participants in this project include the cities of Anaheim, Burbank, Glendale, and Pasadena, with their respective shares listed below. This project, which is expected to go on-line December 31, 2007, will initially be for 8 Megawatts with an option to increase the output by an additional 8 Megawatts in the future when additional gas becomes available.

<u>Participants</u>	<u>Contract Share</u>
City of Anaheim	33.3333%
City of Burbank	16.6667%
City of Glendale	33.3333%
City of Pasadena	16.6667%

**Summary**

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



## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying combined statements of net assets (deficit) of Southern California Public Power Authority (the Authority) as of June 30, 2006 and 2005 and the related combined statements of revenues, expenses and changes in net assets (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern California Public Power Authority as of June 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis preceding the combined financial statements is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Moss Adams LLP

Vancouver, Washington  
September 1, 2006

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**COMBINED STATEMENTS OF NET ASSETS (DEFICIT)**  
**JUNE 30, 2006**  
**(AMOUNTS IN THOUSANDS)**

	Southern					
	Palo Verde Project	Transmission System Project	Hoover Uprating Project	Mead- Phoenix Project	Mead- Adelanto Project	Multiple Project Fund
<b>ASSETS</b>						
<b>Noncurrent assets</b>						
Utility plant						
Production	\$ 647,672	\$ -	\$ -	\$ -	\$ -	\$ -
Transmission	14,076	674,606	-	50,770	172,319	-
General	2,770	18,911	21	2,640	473	-
Natural gas reserves	-	-	-	-	-	-
	<u>664,518</u>	<u>693,517</u>	<u>21</u>	<u>53,410</u>	<u>172,792</u>	<u>-</u>
Less - accumulated depreciation	560,670	390,618	21	14,834	46,260	-
	<u>103,848</u>	<u>302,899</u>	<u>-</u>	<u>38,576</u>	<u>126,532</u>	<u>-</u>
Construction work in progress	12,401	-	-	80	-	-
Nuclear fuel, at amortized cost	15,830	-	-	-	-	-
Net utility plant	<u>132,079</u>	<u>302,899</u>	<u>-</u>	<u>38,656</u>	<u>126,532</u>	<u>-</u>
<b>Special funds</b>						
Restricted investments						
Escrow accounts	-	6,535	-	-	-	-
Decommissioning funds	133,489	-	-	-	-	-
Other funds	23,629	64,669	2,813	11,394	33,939	65,395
Total restricted investments	<u>157,118</u>	<u>71,204</u>	<u>2,813</u>	<u>11,394</u>	<u>33,939</u>	<u>65,395</u>
Unrestricted investments						
Other funds	82,788	-	560	-	-	-
Total special funds	<u>239,906</u>	<u>71,204</u>	<u>3,373</u>	<u>11,394</u>	<u>33,939</u>	<u>65,395</u>
<b>Other noncurrent assets</b>						
Advance to IPA - restricted	-	11,550	-	-	-	-
Advances for capacity and energy, net - restricted	-	-	16,405	-	-	-
Deferred debit	-	-	-	-	-	-
Unamortized debt expenses	784	6,642	269	807	2,673	-
Other assets	-	-	-	-	-	-
Total other noncurrent assets	<u>784</u>	<u>18,192</u>	<u>16,674</u>	<u>807</u>	<u>2,673</u>	<u>-</u>
Total noncurrent assets	<u>372,769</u>	<u>392,295</u>	<u>20,047</u>	<u>50,857</u>	<u>163,144</u>	<u>65,395</u>
<b>Current assets</b>						
<b>Special funds</b>						
Cash and cash equivalents - restricted	1,824	15,497	18	1,883	3,567	-
Cash and cash equivalents - unrestricted	3,776	1,109	776	291	976	-
Interest receivable	1,414	28	29	300	848	2,130
Accounts receivable	6,934	1,090	-	-	-	-
Due from other project - restricted	-	-	-	5,013	13,787	-
Materials and supplies	6,711	-	-	-	-	-
Prepaid and other assets	37	-	-	-	-	-
Total current assets	<u>20,696</u>	<u>17,724</u>	<u>823</u>	<u>7,487</u>	<u>19,178</u>	<u>2,130</u>
Total assets	<u>\$ 393,465</u>	<u>\$ 410,019</u>	<u>\$ 20,870</u>	<u>\$ 58,344</u>	<u>\$ 182,322</u>	<u>\$ 67,525</u>
<b>LIABILITIES</b>						
<b>Noncurrent liabilities</b>						
Long-term debt	\$ 98,215	\$ 755,702	\$ 16,821	\$ 63,154	\$ 202,596	\$ 41,279
Notes payable	55,736	-	-	-	-	-
Advances from participants	-	-	-	-	-	-
Total noncurrent liabilities	<u>153,951</u>	<u>755,702</u>	<u>16,821</u>	<u>63,154</u>	<u>202,596</u>	<u>41,279</u>
<b>Current liabilities</b>						
Debt due within one year	11,545	34,230	1,315	3,250	10,850	-
Notes payable due within one year	4,526	-	-	-	-	-
Advances from participants due within one year	-	-	-	-	-	-
Accrued interest	360	9,402	233	960	2,824	1,694
Accounts payable and accruals	11,039	1,596	106	531	1,050	-
Accrued property tax	1,830	-	-	-	-	-
Due to other projects	-	-	-	-	-	18,800
Total current liabilities	<u>29,300</u>	<u>45,228</u>	<u>1,654</u>	<u>4,741</u>	<u>14,724</u>	<u>20,494</u>
Total liabilities	<u>183,251</u>	<u>800,930</u>	<u>18,475</u>	<u>67,895</u>	<u>217,320</u>	<u>61,773</u>
<b>NET ASSETS (DEFICIT)</b>						
Invested in capital assets, net of related debt and advances from participants	23,103	(480,390)	-	(26,941)	(84,242)	-
Restricted net assets (deficit)	99,600	88,876	1,163	17,630	49,317	5,752
Unrestricted net assets (deficit)	87,511	603	1,232	(240)	(73)	-
Total net assets (deficit)	<u>210,214</u>	<u>(390,911)</u>	<u>2,395</u>	<u>(9,551)</u>	<u>(34,998)</u>	<u>5,752</u>
Total liabilities and net assets (deficit)	<u>\$ 393,465</u>	<u>\$ 410,019</u>	<u>\$ 20,870</u>	<u>\$ 58,344</u>	<u>\$ 182,322</u>	<u>\$ 67,525</u>

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**COMBINED STATEMENTS OF NET ASSETS (DEFICIT)**  
**JUNE 30, 2006**  
**(AMOUNTS IN THOUSANDS)**

San Juan Project	Magnolia Power Project	Natural Gas Project	Ormat Geothermal Project	Projects' Stabilization Fund	Total	Eliminations	Total Combined
\$ 173,713	\$ 277,109	\$ 592	\$ -	\$ -	\$ 1,099,086	\$ -	\$ 1,099,086
-	15,079	-	-	-	926,850	-	926,850
7,443	14,761	693	-	-	47,712	-	47,712
-	-	44,747	-	-	44,747	-	44,747
181,156	306,949	46,032	-	-	2,118,395	-	2,118,395
137,888	8,492	2,646	-	-	1,161,429	-	1,161,429
43,268	298,457	43,386	-	-	956,966	-	956,966
6,570	-	3,752	-	-	22,803	-	22,803
-	-	-	-	-	15,830	-	15,830
49,838	298,457	47,138	-	-	995,599	-	995,599
-	-	-	-	-	6,535	-	6,535
-	-	-	-	-	133,489	-	133,489
38,589	26,241	3,705	1,733	63,018	335,125	-	335,125
38,589	26,241	3,705	1,733	63,018	475,149	-	475,149
-	-	-	-	-	83,348	-	83,348
38,589	26,241	3,705	1,733	63,018	558,497	-	558,497
-	-	-	-	-	11,550	-	11,550
-	-	-	-	-	16,405	-	16,405
23,853	-	-	-	-	23,853	-	23,853
1,653	5,038	108	-	-	17,974	-	17,974
70	-	-	-	-	70	-	70
25,576	5,038	108	-	-	69,852	-	69,852
114,003	329,736	50,951	1,733	63,018	1,623,948	-	1,623,948
5,081	11,278	3,685	611	3,075	46,519	-	46,519
6,113	14,876	6,342	-	-	34,259	-	34,259
129	375	6	7	500	5,766	-	5,766
835	2,154	4,429	-	-	15,442	-	15,442
-	-	-	-	-	18,800	(18,800)	-
3,427	9,877	-	-	-	20,015	-	20,015
343	216	552	-	-	1,148	-	1,148
15,928	38,776	15,014	618	3,575	141,949	(18,800)	123,149
\$ 129,931	\$ 368,512	\$ 65,965	\$ 2,351	\$ 66,593	\$ 1,765,897	\$ (18,800)	\$ 1,747,097
\$ 171,715	\$ 316,740	\$ 28,200	\$ -	\$ -	\$ 1,694,422	\$ -	\$ 1,694,422
-	3,965	-	-	-	59,701	-	59,701
32,000	1,510	19,027	-	-	52,537	-	52,537
203,715	322,215	47,227	-	-	1,806,660	-	1,806,660
9,570	3,735	-	-	-	74,495	-	74,495
-	1,182	-	-	-	5,708	-	5,708
-	26,652	6,643	-	-	33,295	-	33,295
4,624	7,662	145	-	-	27,904	-	27,904
3,510	11,507	7,087	2,344	-	38,770	-	38,770
219	-	4,748	-	-	6,797	-	6,797
-	-	-	-	-	18,800	(18,800)	-
17,923	50,738	18,623	2,344	-	205,769	(18,800)	186,969
221,638	372,953	65,850	2,344	-	2,012,429	(18,800)	1,993,629
(129,794)	(15,332)	(1,608)	-	-	(715,204)	-	(715,204)
31,027	(996)	2,769	-	66,594	361,732	-	361,732
7,060	11,887	(1,046)	7	(1)	106,940	-	106,940
(91,707)	(4,441)	115	7	66,593	(246,532)	-	(246,532)
\$ 129,931	\$ 368,512	\$ 65,965	\$ 2,351	\$ 66,593	\$ 1,765,897	\$ (18,800)	\$ 1,747,097

See accompanying notes.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**COMBINED STATEMENTS OF NET ASSETS (DEFICIT)**  
**JUNE 30, 2005**  
**(AMOUNTS IN THOUSANDS)**

	Palo Verde Project	Southern Transmission System Project	Hoover Uprating Project	Mead- Phoenix Project	Mead- Adelanto Project
<b>ASSETS</b>					
Noncurrent assets					
Utility plant					
Production	\$ 636,588	\$ -	\$ -	\$ -	\$ -
Transmission	14,057	674,606	-	50,770	172,319
General	2,668	18,911	21	2,640	473
	<u>653,313</u>	<u>693,517</u>	<u>21</u>	<u>53,410</u>	<u>172,792</u>
Less - accumulated depreciation	539,190	370,989	21	13,431	41,760
	<u>114,123</u>	<u>322,528</u>	<u>-</u>	<u>39,979</u>	<u>131,032</u>
Construction work in progress	16,650	-	-	77	-
Nuclear fuel, at amortized cost	14,652	-	-	-	-
Net utility plant	<u>145,425</u>	<u>322,528</u>	<u>-</u>	<u>40,056</u>	<u>131,032</u>
Special funds					
Restricted investments					
Escrow accounts	-	10,545	-	-	-
Decommissioning funds	131,991	-	-	-	-
Other funds	32,038	42,591	2,654	8,765	24,130
Total restricted investments	<u>164,029</u>	<u>53,136</u>	<u>2,654</u>	<u>8,765</u>	<u>24,130</u>
Unrestricted investments					
Other funds	86,592	-	560	-	-
Total special funds	<u>250,621</u>	<u>53,136</u>	<u>3,214</u>	<u>8,765</u>	<u>24,130</u>
Other noncurrent assets					
Advance to IPA - restricted	-	11,550	-	-	-
Advances for capacity and energy, net - restricted	-	-	17,710	-	-
Deferred debit	-	-	-	-	-
Unamortized debt expenses	1,136	7,367	330	931	3,088
Total other noncurrent assets	<u>1,136</u>	<u>18,917</u>	<u>18,040</u>	<u>931</u>	<u>3,088</u>
Total noncurrent assets	<u>397,182</u>	<u>394,581</u>	<u>21,254</u>	<u>49,752</u>	<u>158,250</u>
Current assets					
Special funds					
Cash and cash equivalents - restricted	5,247	36,160	179	1,181	3,007
Cash and cash equivalents - unrestricted	1,832	652	829	262	724
Interest receivable	1,426	28	26	323	888
Accounts receivable	3,390	44	-	30	(7)
Due from other project - restricted	-	-	-	4,656	12,803
Materials and supplies	6,649	-	-	-	-
Total current assets	<u>18,544</u>	<u>36,884</u>	<u>1,034</u>	<u>6,452</u>	<u>17,415</u>
Total assets	<u>\$ 415,726</u>	<u>\$ 431,465</u>	<u>\$ 22,288</u>	<u>\$ 56,204</u>	<u>\$ 175,665</u>
<b>LIABILITIES</b>					
Noncurrent liabilities					
Long-term debt	\$ 107,707	\$ 777,888	\$ 17,716	\$ 65,934	\$ 212,155
Notes payable	59,869	-	-	-	-
Advances from participants due within one year	-	-	-	-	-
Total noncurrent liabilities	<u>167,576</u>	<u>777,888</u>	<u>17,716</u>	<u>65,934</u>	<u>212,155</u>
Current liabilities					
Debt due within one year	11,300	31,470	1,275	-	-
Notes payable due within one year	4,307	-	-	-	-
Accrued interest	1,419	8,214	244	1,013	2,946
Accounts payable and accruals	14,105	2,435	120	310	869
Accrued property tax	1,800	-	-	-	-
Due to other projects	-	-	-	-	-
Total current liabilities	<u>32,931</u>	<u>42,119</u>	<u>1,639</u>	<u>1,323</u>	<u>3,815</u>
Total liabilities	<u>200,507</u>	<u>820,007</u>	<u>19,355</u>	<u>67,257</u>	<u>215,970</u>
<b>NET ASSETS (DEFICIT)</b>					
Invested in capital assets, net of related debt and advances from participants	27,418	(479,463)	-	(24,946)	(78,036)
Restricted net assets (deficit)	100,084	92,660	1,660	13,911	37,882
Unrestricted net assets (deficit)	87,717	(1,739)	1,273	(18)	(151)
Total net assets (deficit)	<u>215,219</u>	<u>(388,542)</u>	<u>2,933</u>	<u>(11,053)</u>	<u>(40,305)</u>
Total liabilities and net assets (deficit)	<u>\$ 415,726</u>	<u>\$ 431,465</u>	<u>\$ 22,288</u>	<u>\$ 56,204</u>	<u>\$ 175,665</u>

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY  
COMBINED STATEMENTS OF NET ASSETS (DEFICIT)  
JUNE 30, 2005  
(AMOUNTS IN THOUSANDS)**

Multiple Project Fund	San Juan Project	Magnolia Power Project	Projects' Stabilization Fund	Total	Eliminations	Total Combined
\$ -	\$ 173,592	\$ -	\$ -	\$ 810,180	\$ -	\$ 810,180
-	-	-	-	911,752	-	911,752
-	7,422	-	-	32,135	-	32,135
-	181,014	-	-	1,754,067	-	1,754,067
-	124,378	-	-	1,089,769	-	1,089,769
-	56,636	-	-	664,298	-	664,298
-	1,339	289,276	-	307,342	-	307,342
-	-	-	-	14,652	-	14,652
-	57,975	289,276	-	986,292	-	986,292
-	-	-	-	10,545	-	10,545
-	-	-	-	131,991	-	131,991
233,873	31,351	35,080	49,116	459,598	-	459,598
233,873	31,351	35,080	49,116	602,134	-	602,134
-	-	-	-	87,152	-	87,152
233,873	31,351	35,080	49,116	689,286	-	689,286
-	-	-	-	11,550	-	11,550
-	-	-	-	17,710	-	17,710
-	13,000	-	-	13,000	-	13,000
-	2,009	5,397	-	20,258	-	20,258
-	15,009	5,397	-	62,518	-	62,518
233,873	104,335	329,753	49,116	1,738,096	-	1,738,096
-	4,766	19,169	24,480	94,189	-	94,189
-	9,752	-	-	14,051	-	14,051
8,322	44	333	517	11,907	-	11,907
-	120	28	-	3,605	-	3,605
-	-	-	-	17,459	(17,459)	-
-	3,336	-	-	9,985	-	9,985
8,322	18,018	19,530	24,997	151,196	(17,459)	133,737
\$ 242,195	\$ 122,353	\$ 349,283	\$ 74,113	\$ 1,889,292	\$ (17,459)	\$ 1,871,833
\$ 202,104	\$ 181,459	\$ 320,909	\$ -	\$ 1,885,872	\$ -	\$ 1,885,872
-	-	-	-	59,869	-	59,869
-	16,000	-	-	16,000	-	16,000
202,104	197,459	320,909	-	1,961,741	-	1,961,741
8,100	9,160	-	-	61,305	-	61,305
-	-	-	-	4,307	-	4,307
6,932	3,632	7,585	-	31,985	-	31,985
-	4,834	20,789	-	43,462	-	43,462
-	264	-	-	2,064	-	2,064
17,459	-	-	-	17,459	(17,459)	-
32,491	17,890	28,374	-	160,582	(17,459)	143,123
234,595	215,349	349,283	-	2,122,323	(17,459)	2,104,864
-	(130,894)	28,013	-	(657,908)	-	(657,908)
7,600	32,529	(28,013)	74,113	332,426	-	332,426
-	5,369	-	-	92,451	-	92,451
7,600	(92,996)	-	74,113	(233,031)	-	(233,031)
\$ 242,195	\$ 122,353	\$ 349,283	\$ 74,113	\$ 1,889,292	\$ (17,459)	\$ 1,871,833

See accompanying notes.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN**  
**NET ASSETS (DEFICIT)**  
**FOR THE YEAR ENDED JUNE 30, 2006**  
**(AMOUNTS IN THOUSANDS)**

	Palo Verde Project	Southern Transmission System Project	Hoover Uprating Project	Mead- Phoenix Project	Mead- Adelanto Project
Operating revenues					
Sales of electric energy	\$ 68,739	\$ -	\$ 2,359	\$ -	\$ -
Sales of transmission services	-	84,061	-	7,017	20,722
Sales of natural gas	-	-	-	-	-
Total operating revenues	<u>68,739</u>	<u>84,061</u>	<u>2,359</u>	<u>7,017</u>	<u>20,722</u>
Operating expenses					
Operations and maintenance	33,714	17,300	2,575	1,119	1,417
Depreciation, depletion and amortization	18,274	19,629	-	1,403	4,500
Amortization of nuclear fuel	6,860	-	-	-	-
Decommissioning	10,156	-	-	-	-
Total operating expenses	<u>69,004</u>	<u>36,929</u>	<u>2,575</u>	<u>2,522</u>	<u>5,917</u>
Operating income (loss)	<u>(265)</u>	<u>47,132</u>	<u>(216)</u>	<u>4,495</u>	<u>14,805</u>
Non operating revenues (expenses)					
Investment income	2,533	4,802	97	742	2,082
Debt expense	(7,273)	(54,303)	(419)	(3,735)	(11,580)
Loss on extinguishment of debt	-	-	-	-	-
Net non operating revenues (expenses)	<u>(4,740)</u>	<u>(49,501)</u>	<u>(322)</u>	<u>(2,993)</u>	<u>(9,498)</u>
Change in net assets (deficit)	(5,005)	(2,369)	(538)	1,502	5,307
Net assets (deficit) - beginning of year	215,219	(388,542)	2,933	(11,053)	(40,305)
Net withdrawal by participants	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets (deficit) - end of year	<u>\$ 210,214</u>	<u>\$ (390,911)</u>	<u>\$ 2,395</u>	<u>\$ (9,551)</u>	<u>\$ (34,998)</u>

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY  
 COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN  
 NET ASSETS (DEFICIT)  
 FOR THE YEAR ENDED JUNE 30, 2006  
 (AMOUNTS IN THOUSANDS)**

Multiple Project Fund	San Juan Project	Magnolia Power Project	Natural Gas Project	Ormat Geothermal Project	Projects' Stabilization Fund	Total Combined
\$ -	\$ 69,123	\$ 69,837	\$ -	\$ 886	\$ -	\$ 210,944
-	-	-	-	-	-	111,800
-	-	-	8,243	-	-	8,243
-	69,123	69,837	8,243	886	-	330,987
-	46,883	54,873	4,150	914	-	162,945
-	10,489	8,492	2,646	-	-	65,433
-	-	-	-	-	-	6,860
-	3,113	-	-	-	-	13,269
-	60,485	63,365	6,796	914	-	248,507
-	8,638	6,472	1,447	(28)	-	82,480
4,245	2,112	988	101	35	1,195	18,932
(6,093)	(9,461)	(11,901)	(1,433)	-	-	(106,198)
-	-	-	-	-	-	-
(1,848)	(7,349)	(10,913)	(1,332)	35	1,195	(87,266)
(1,848)	1,289	(4,441)	115	7	1,195	(4,786)
7,600	(92,996)	-	-	-	74,113	(233,031)
-	-	-	-	-	(8,715)	(8,715)
\$ 5,752	\$ (91,707)	\$ (4,441)	\$ 115	\$ 7	\$ 66,593	\$ (246,532)

*See accompanying notes.*

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN**  
**NET ASSETS (DEFICIT)**  
**FOR THE YEAR ENDED JUNE 30, 2005**  
**(AMOUNTS IN THOUSANDS)**

	Palo Verde Project	Southern Transmission System Project	Hoover Uprating Project	Mead- Phoenix Project	Mead- Adelanto Project
Operating revenues					
Sales of electric energy	\$ 60,341	\$ -	\$ 2,344	\$ -	\$ -
Sales of transmission services	-	83,715	-	3,854	10,237
Total operating revenues	<u>60,341</u>	<u>83,715</u>	<u>2,344</u>	<u>3,854</u>	<u>10,237</u>
Operating expenses					
Operations and maintenance	29,229	18,553	2,461	1,127	1,713
Depreciation, depletion and amortization	18,086	19,629	-	1,403	4,500
Amortization of nuclear fuel	8,241	-	-	-	-
Decommissioning	10,900	-	-	-	-
Total operating expenses	<u>66,456</u>	<u>38,182</u>	<u>2,461</u>	<u>2,530</u>	<u>6,213</u>
Operating income (loss)	<u>(6,115)</u>	<u>45,533</u>	<u>(117)</u>	<u>1,324</u>	<u>4,024</u>
Non operating revenues (expenses)					
Investment income	10,511	3,732	119	663	1,814
Debt expense	(8,793)	(56,131)	(516)	(3,628)	(11,230)
Loss on extinguishment of debt	(85,827)	-	-	-	-
Net non operating revenues (expenses)	<u>(84,109)</u>	<u>(52,399)</u>	<u>(397)</u>	<u>(2,965)</u>	<u>(9,416)</u>
Change in net assets (deficit)	(90,224)	(6,866)	(514)	(1,641)	(5,392)
Net assets (deficit) - beginning of year	327,946	(381,676)	3,447	(9,412)	(34,913)
Release of over billings from prior years	(22,503)	-	-	-	-
Net contribution by participants	-	-	-	-	-
Net assets (deficit) - end of year	<u>\$ 215,219</u>	<u>\$ (388,542)</u>	<u>\$ 2,933</u>	<u>\$ (11,053)</u>	<u>\$ (40,305)</u>



**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY  
 COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN  
 NET ASSETS (DEFICIT)  
 FOR THE YEAR ENDED JUNE 30, 2005  
 (AMOUNTS IN THOUSANDS)**

Multiple Project Fund	San Juan Project	Magnolia Power Project	Projects' Stabilization Fund	Total Combined
\$ -	\$ 60,322	\$ -	\$ -	\$ 123,007
-	-	-	-	97,806
-	60,322	-	-	220,813
-	42,755	-	-	95,838
-	10,216	-	-	53,834
-	-	-	-	8,241
-	3,113	-	-	14,013
-	56,084	-	-	171,926
-	4,238	-	-	48,887
16,582	1,547	-	1,663	36,631
(16,089)	(9,696)	-	-	(106,083)
-	-	-	-	(85,827)
493	(8,149)	-	1,663	(155,279)
493	(3,911)	-	1,663	(106,392)
7,107	(89,085)	-	51,455	(125,131)
-	-	-	-	(22,503)
-	-	-	20,995	20,995
\$ 7,600	\$ (92,996)	\$ -	\$ 74,113	\$ (233,031)

*See accompanying notes.*

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**COMBINED STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2006**  
**(AMOUNTS IN THOUSANDS)**

	Palo Verde Project	Southern Transmission System Project	Hoover Uprating Project	Mead- Phoenix Project	Mead- Adelanto Project
Cash flows from operating activities					
Receipts from participants	\$ 49,275	\$ 84,135	\$ 2,351	\$ 7,083	\$ 20,666
Receipts from sale of oil and gas	-	-	-	-	-
Payments to operating managers	(30,082)	(18,371)	(271)	(1,046)	(1,508)
Other disbursements and receipts	7,633	-	-	-	-
Net cash flows from operating activities	<u>26,826</u>	<u>65,764</u>	<u>2,080</u>	<u>6,037</u>	<u>19,158</u>
Cash flows from noncapital financing activities					
Advances (withdrawals) by participants, net	-	-	-	-	-
Cash flows from capital financing activities					
Additions to plant, net	(20,809)	-	-	(3)	-
Debt interest payments	(5,133)	(41,230)	(954)	(3,436)	(10,653)
Proceeds from notes	-	-	-	-	-
Proceeds from sale of bonds	-	-	-	-	-
Transfer of funds from escrow	-	4,200	-	-	-
Principal payments on debt	(11,300)	(31,470)	(1,275)	-	-
Transfer of funds to escrow	-	-	-	-	-
Payment for bond issue costs	-	-	-	-	-
Net cash used for capital and related financing activities	<u>(37,242)</u>	<u>(68,500)</u>	<u>(2,229)</u>	<u>(3,439)</u>	<u>(10,653)</u>
Cash flows from investing activities					
Interest received on investments	1,604	3,239	118	683	1,884
Purchases of investments	(14,254)	(36,500)	(1,774)	(4,537)	(13,430)
Proceeds from sale/maturity of investments	21,587	15,791	1,591	1,987	3,853
Net cash provided by (used for) investing activities	<u>8,937</u>	<u>(17,470)</u>	<u>(65)</u>	<u>(1,867)</u>	<u>(7,693)</u>
Net increase (decrease) in cash and cash equivalents	(1,479)	(20,206)	(214)	731	812
Cash and cash equivalents, beginning of year	<u>7,079</u>	<u>36,812</u>	<u>1,008</u>	<u>1,443</u>	<u>3,731</u>
Cash and cash equivalents, end of year	<u>\$ 5,600</u>	<u>\$ 16,606</u>	<u>\$ 794</u>	<u>\$ 2,174</u>	<u>\$ 4,543</u>
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ (265)	\$ 47,132	\$ (216)	\$ 4,495	\$ 14,805
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation	18,274	19,629	-	1,403	4,500
Decommissioning	10,156	-	-	-	-
Advances for capacity and energy	-	-	2,310	-	-
Amortization of nuclear fuel	6,860	-	-	-	-
Changes in assets and liabilities					
Accounts receivable	(3,544)	(1,046)	-	30	(7)
Accounts payable and accruals	(4,695)	49	(14)	106	(145)
Other	40	-	-	3	5
Net cash provided by operating activities	<u>\$ 26,826</u>	<u>\$ 65,764</u>	<u>\$ 2,080</u>	<u>\$ 6,037</u>	<u>\$ 19,158</u>
Cash and cash equivalents as stated in the Combined Statements of Net Assets (Deficit)					
Cash and cash equivalents - restricted	\$ 1,824	\$ 15,497	\$ 18	\$ 1,883	\$ 3,567
Cash and cash equivalents - unrestricted	3,776	1,109	776	291	976
	<u>\$ 5,600</u>	<u>\$ 16,606</u>	<u>\$ 794</u>	<u>\$ 2,174</u>	<u>\$ 4,543</u>

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY  
COMBINED STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2006  
(AMOUNTS IN THOUSANDS)**

Multiple Project Fund	San Juan Project	Magnolia Power Project	Natural Gas Project	Ormat Geothermal Energy Project	Projects' Stabilization Fund	Total Combined
\$ -	\$ 70,039	\$ 78,649	\$ 14,228	\$ 3,031	\$ -	\$ 329,457
-	-	-	16,620	-	-	16,620
-	(45,013)	(52,528)	(18,920)	(715)	-	(168,454)
-	-	4	4	-	-	7,641
-	25,026	26,125	11,932	2,316	-	185,264
-	-	6,512	43,860	-	(8,715)	41,657
-	(5,421)	(25,531)	(69,165)	-	-	(120,929)
(8,626)	(8,461)	(15,959)	(1,186)	-	-	(95,638)
-	-	6,109	-	-	-	6,109
-	-	-	29,900	-	-	29,900
-	-	-	-	-	-	4,200
(170,200)	(9,160)	(1,012)	(1,700)	-	-	(226,117)
(89)	-	-	-	-	-	(89)
-	(97)	-	(214)	-	-	(311)
(178,915)	(23,139)	(36,393)	(42,365)	-	-	(402,875)
10,437	1,868	1,471	297	28	1,825	23,454
(418)	(28,558)	(41,284)	(3,697)	(1,733)	(17,070)	(163,255)
168,896	21,479	50,554	-	-	2,555	288,293
178,915	(5,211)	10,741	(3,400)	(1,705)	(12,690)	148,492
-	(3,324)	6,985	10,027	611	(21,405)	(27,462)
-	14,518	19,169	-	-	24,480	108,240
\$ -	\$ 11,194	\$ 26,154	\$ 10,027	\$ 611	\$ 3,075	\$ 80,778
\$ -	\$ 8,638	\$ 6,472	\$ 1,447	\$ (28)	\$ -	\$ 82,480
-	10,489	8,492	2,646	-	-	65,433
-	3,113	-	-	-	-	13,269
-	-	-	-	-	-	2,310
-	-	-	-	-	-	6,860
-	(785)	(12,196)	(2,058)	-	-	(19,606)
-	3,745	23,298	9,992	2,344	-	34,680
-	(174)	59	(95)	-	-	(162)
\$ -	\$ 25,026	\$ 26,125	\$ 11,932	\$ 2,316	\$ -	\$ 185,264
\$ -	\$ 5,081	\$ 11,278	\$ 3,685	\$ 611	\$ 3,075	\$ 46,519
-	6,113	14,876	6,342	-	-	34,259
\$ -	\$ 11,194	\$ 26,154	\$ 10,027	\$ 611	\$ 3,075	\$ 80,778

See accompanying notes.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**COMBINED STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2005**  
**(AMOUNTS IN THOUSANDS)**

	Palo Verde Project	Southern Transmission System Project	Hoover Uprating Project	Mead- Phoenix Project	Mead- Adelanto Project
Cash flows from operating activities					
Receipts from participants	\$ 49,438	\$ 71,742	\$ 2,401	\$ 3,707	\$ 10,649
Payments to operating managers	(29,415)	(14,761)	(226)	(1,304)	(1,881)
Other receipts	3,533	-	-	116	-
Net cash flows from operating activities	<u>23,556</u>	<u>56,981</u>	<u>2,175</u>	<u>2,519</u>	<u>8,768</u>
Cash flows from noncapital financing activities					
Advances (withdrawals) by participants, net	-	-	-	-	-
Cash flows from capital financing activities					
Additions to plant, net	(20,189)	-	-	(65)	-
Debt interest payments	(6,686)	(39,615)	(998)	(3,349)	(10,469)
Proceeds from sale of bonds	-	-	-	-	-
Payment for defeasance of revenue bonds	-	-	-	-	-
Principal payments on debt	(63,680)	(28,535)	(1,230)	-	-
Transfer of funds to escrow	(43,827)	-	-	-	-
Payment for bond issue costs	-	-	-	(49)	(128)
Net cash used for capital and related financing activities	<u>(134,382)</u>	<u>(68,150)</u>	<u>(2,228)</u>	<u>(3,463)</u>	<u>(10,597)</u>
Cash flows from investing activities					
Interest received on investments	1,648	3,157	95	666	1,804
Purchases of investments	(90,071)	(29,245)	(1,010)	(1,047)	(2,190)
Proceeds from sale/maturity of investments	45,873	33,035	735	1,000	1,970
Net cash provided by (used for) investing activities	<u>(42,550)</u>	<u>6,947</u>	<u>(180)</u>	<u>619</u>	<u>1,584</u>
Net increase (decrease) in cash and cash equivalents	(153,376)	(4,222)	(233)	(325)	(245)
Cash and cash equivalents, beginning of year	<u>160,455</u>	<u>41,034</u>	<u>1,241</u>	<u>1,768</u>	<u>3,976</u>
Cash and cash equivalents, end of year	<u>\$ 7,079</u>	<u>\$ 36,812</u>	<u>\$ 1,008</u>	<u>\$ 1,443</u>	<u>\$ 3,731</u>
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ (6,115)	\$ 45,533	\$ (117)	\$ 1,324	\$ 4,024
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation	18,086	19,629	-	1,403	4,500
Decommissioning	10,900	-	-	-	-
Advances for capacity and energy	-	-	2,220	-	-
Amortization of nuclear fuel	8,241	-	-	-	-
Changes in assets and liabilities					
Accounts receivable	(2,518)	3,763	-	(30)	7
Accounts payable and accruals	(5,153)	(11,950)	69	(181)	234
Other	115	6	3	3	3
Net cash provided by operating activities	<u>\$ 23,556</u>	<u>\$ 56,981</u>	<u>\$ 2,175</u>	<u>\$ 2,519</u>	<u>\$ 8,768</u>
Cash and cash equivalents as stated in the Combined Statements of Net Assets (Deficit)					
Cash and cash equivalents - restricted	\$ 5,247	\$ 36,160	\$ 179	\$ 1,181	\$ 3,007
Cash and cash equivalents - unrestricted	1,832	652	829	262	724
	<u>\$ 7,079</u>	<u>\$ 36,812</u>	<u>\$ 1,008</u>	<u>\$ 1,443</u>	<u>\$ 3,731</u>

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY  
COMBINED STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2005  
(AMOUNTS IN THOUSANDS)**

Multiple Project Fund	San Juan Project	Magnolia Power Project	Projects' Stabilization Fund	Total Combined
\$ -	\$ 67,626	\$ -	\$ -	\$ 205,563
-	(41,240)	-	-	(88,827)
-	-	-	-	3,649
-	26,386	-	-	120,385
-	-	9,631	20,996	30,627
-	(1,394)	(78,397)	-	(100,045)
(14,130)	(10,189)	(15,170)	-	(100,606)
-	78,084	-	-	78,084
-	(78,454)	-	-	(78,454)
(7,600)	(8,805)	-	-	(109,850)
-	-	-	-	(43,827)
-	(924)	-	-	(1,101)
(21,730)	(21,682)	(93,567)	-	(355,799)
16,763	1,447	1,814	1,624	29,018
(1,340)	(27,790)	(929)	(5,500)	(159,122)
6,307	23,486	94,337	6,405	213,148
21,730	(2,857)	95,222	2,529	83,044
-	1,847	11,286	23,525	(121,743)
-	12,671	7,883	955	229,983
\$ -	\$ 14,518	\$ 19,169	\$ 24,480	\$ 108,240
\$ -	\$ 4,238	\$ -	\$ -	\$ 48,887
-	10,216	-	-	53,834
-	3,113	-	-	14,013
-	-	-	-	2,220
-	-	-	-	8,241
-	4,678	-	-	5,900
-	4,212	-	-	(12,769)
-	(71)	-	-	59
\$ -	\$ 26,386	\$ -	\$ -	\$ 120,385
\$ -	\$ 4,766	\$ 19,169	\$ 24,480	\$ 94,189
-	9,752	-	-	14,051
\$ -	\$ 14,518	\$ 19,169	\$ 24,480	\$ 108,240

See accompanying notes.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 1 - Organization and Purpose**

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

The Authority has interests in the following projects:

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

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

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

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 1 - Organization and Purpose (Continued)**

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

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

**Multiple Project Fund** - During fiscal year 1990, the Authority issued Multiple Project Revenue Bonds for net proceeds of approximately \$600 million to provide funds to finance costs of construction and acquisition of ownership interests or capacity rights in one or more, then unspecified, projects for the generation or transmission of electric energy. Certain of these funds were used to finance the Authority’s interests in Mead-Phoenix and Mead-Adelanto. On July 1, 2005, \$162.1 million of the Multiple Project Revenue Bonds were redeemed.

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

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

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

**Note 1 - Organization and Purpose (Continued)**

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

**Ormat Geothermal Project** - The Authority entered into long term Power Purchase Agreements in December 2005 with divisions of Ormat Technologies, Inc. for 20 megawatts ("MW") of electric generation from geothermal energy facilities located in Heber, California. The Project started delivery of 10 MW in January 2006 and is expected to receive additional deliveries in December 2007. The City of Anaheim acts as the Scheduling Coordinator on behalf of the Project Participants.

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

**Participant Ownership Interests** - The Authority's participants may elect to participate in the projects. As of June 30, 2006, the members have the following participation percentages in the Authority's operating projects:

Participants	Palo Verde	STS	Hoover Uprating	Mead-Phoenix	Mead-Adelanto	San Juan	Magnolia Power Project	Natural Gas Project	Ormat Geothermal Project
City of Los Angeles	67.0%	59.5%	-	24.8%	35.7%	-	-	-	-
City of Anaheim	-	17.6%	42.6%	24.2%	13.5%	-	38.0%	35.7%	60.0%
City of Riverside	5.4%	10.2%	31.9%	4.0%	13.5%	-	-	-	-
Imperial Irrigation District	6.5%	-	-	-	-	51.0%	-	-	-
City of Vernon	4.9%	-	-	-	-	-	-	-	-
City of Azusa	1.0%	-	4.2%	1.0%	2.2%	14.7%	-	-	-
City of Banning	1.0%	-	2.1%	1.0%	1.3%	9.8%	-	-	10.0%
City of Colton	1.0%	-	3.2%	1.0%	2.6%	14.7%	4.2%	7.1%	-
City of Burbank	4.4%	4.5%	16.0%	15.4%	11.5%	-	31.0%	14.3%	-
City of Glendale	4.4%	2.3%	-	14.8%	11.1%	9.8%	16.5%	28.6%	15.0%
City of Cerritos	-	-	-	-	-	-	4.2%	-	-
City of Pasadena	4.4%	5.9%	-	13.8%	8.6%	-	6.1%	14.3%	15.0%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>



**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 1 - Organization and Purpose (Continued)**

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

The contracts expire as follows:

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

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

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 2 - Summary of Significant Accounting Policies**

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

- **Invested in capital assets, net of related debt, and advances from participants** - This component of net assets consists of (a) capital assets, (b) net of accumulated depreciation, and (c) unamortized debt expenses, reduced by the outstanding balances of any bonds, other borrowings, and advances from participants that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- **Restricted** - This component consists of net assets on which constraints are placed as to their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.
- **Unrestricted** - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt and advances from participants."

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Utility Plant** - The Authority's share of construction and betterment costs, natural gas reserves, intangibles, and nuclear fuel associated with PVNGS, STS, Mead-Phoenix, Mead-Adelanto, SJGS, Magnolia Power Project and the Natural Gas Project are included as utility plant and recorded at cost. Costs include labor, materials, capitalized interest costs on funds used in construction, and allocated indirect charges such as engineering, supervision, transportation and construction equipment, retirement plan contributions, health care costs, and certain administrative and general expenses. The costs of routine maintenance, repairs, and minor replacements incurred to maintain the plant in operating condition are charged to the appropriate operations and maintenance expense accounts in the period incurred. The original cost of property retired, net of removal and salvage costs, is charged to accumulated depreciation.

Depreciation expense is computed using the straight-line method based on the estimated service lives, principally thirty-five years for PVNGS, STS, Mead-Phoenix and Mead-Adelanto, thirty years for Magnolia and twenty-one years for SJGS.

**Natural Gas Reserve Depletion** - Depletion expense for the Natural Gas Project is computed using the unit of production method based on the future production of the proved developed producing wells, estimated at 30 years. For fiscal year 2006, the depletion rate was \$2.13/MMbtu and the estimated total net revenue volume is 20,605,103 MMBtu to the period ending 2034.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

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

	Balance July 1, 2005	Additions	Disposals	Transfers	Balance June 30, 2006
<b>Nondepreciable utility plant</b>					
Land	\$ 42,472	\$ -	\$ -	\$ -	\$ 42,472
Construction work in progress	307,342	37,191	-	(325,482)	19,051
Construction work in progress - gas	-	3,752	-	-	3,752
Nuclear fuel*	14,652	6,330	(5,152)	-	15,830
Total nondepreciable utility plant	<u>364,466</u>	<u>47,273</u>	<u>(5,152)</u>	<u>(325,482)</u>	<u>81,105</u>
<b>Depreciable utility plant</b>					
<b>Production</b>					
Nuclear generation (Palo Verde Project)	635,852	18,160	(7,076)	-	646,936
Coal-fired plant (San Juan Unit 3 Project)	173,591	213	(92)	-	173,712
Gas-fired plant (Magnolia Power Project)	-	-	-	277,109	277,109
Transmission	870,017	18	-	15,080	885,115
General	32,135	141	(18)	14,761	47,019
Acquisition of gas reserves	-	44,747	-	-	44,747
Intangibles	-	592	-	-	592
Well equipment and production facilities	-	693	-	-	693
Total depreciable utility plant	<u>1,711,595</u>	<u>64,564</u>	<u>(7,186)</u>	<u>306,950</u>	<u>2,075,923</u>
Less accumulated depreciation	<u>(1,089,769)</u>	<u>(78,702)</u>	<u>7,042</u>	<u>-</u>	<u>(1,161,429)</u>
Total utility plant, net	<u>\$ 986,292</u>	<u>\$ 33,135</u>	<u>\$ (5,296)</u>	<u>\$ (18,532)</u>	<u>\$ 995,599</u>

\*Nuclear fuel disposals represent amortization.

Interest expense capitalized to construction work in progress net of capitalized interest income for the Magnolia Power Project was \$3,064 and \$13,467 for the years ended June 30, 2006 and 2005, respectively.

**Nuclear Fuel** - Nuclear fuel is amortized and charged to expense on the basis of actual thermal energy produced relative to total thermal energy expected to be produced over the life of the fuel. Under the provisions of the Nuclear Waste Policy Act of 1982, the federal government assesses each entity with nuclear operations, including the participants in PVNGS, \$1 per megawatt hour of nuclear generation. The Authority records this charge as a current year expense. See Note 8 for information about spent nuclear fuel disposal.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Nuclear Decommissioning** - Decommissioning of PVNGS is expected to commence subsequent to the year 2026. The total cost to decommission the Authority's interest in PVNGS is estimated to be \$125.6 million in 2005 dollars (\$339.5 million in 2022 dollars, assuming a 6% estimated annual inflation rate). This estimate is based on an updated site specific study prepared by an independent consultant in 2004. The Authority is providing for its share of the estimated future decommissioning costs over the remaining life of the nuclear power plant through annual charges to expense, which amounted to \$10.2 million and \$10.9 million in fiscal years 2006 and 2005, respectively. The decommissioning liability is included as a component of accumulated depreciation and was \$202.7 and \$192.6 million at June 30, 2006 and 2005, respectively.

The Authority contributes to external trusts set up in accordance with the Arizona Nuclear Power Plant participation agreement and Nuclear Regulatory Commission requirements. As of June 30, 2006, decommissioning funds totaled approximately \$134.6 million, including approximately \$1.1 million of interest receivable.

**Demolition and Site Reclamation** - Demolition and site reclamation of SJGS, which involves restoring the site to a "green" condition, is projected to commence subsequent to the year 2014. Based upon the study performed by an independent engineering firm, the Authority's share of the estimated demolition and site reclamation costs is \$30.8 million in 2003 dollars. The Authority is providing for its share of the estimated future demolition costs over the remaining life of the power plant through annual charges to expense of \$3.1 million. The demolition liability is included as a component of accumulated depreciation and totaled \$40.5 million and \$37.3 million at June 30, 2006 and 2005, respectively.

As of June 30, 2006, the Authority has not billed participants for the cost of demolition nor has it established a demolition fund.

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

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

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Advances for Capacity and Energy** - Advance payments to the United States Bureau of Reclamation for the uprating of the 17 generators at the Hoover Power Plant are included in advances for capacity and energy. These advances are being reduced by the principal portion of the credits on billings to the Authority for energy and capacity.

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

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

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

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

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

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

The recorded liability of the Multiple Project Fund of \$18.8 million (\$5.0 million payable to the Mead-Phoenix Project and \$13.8 million payable to the Mead-Adelanto Project) is a result of the cumulative savings from the 1994 refunding of the 1989 Multiple Project Bonds. The partial refunding within five years of the original issuance triggered a recalculation of the arbitrage yield, reducing the Multiple Project Fund's rebate liability.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Arbitrage Rebate and Yield Restrictions (Continued)**

During the fiscal year ended June 30, 2006, the Authority made rebate payments to the IRS of \$1.47 million for the STS bonds and \$0.87 million for Palo Verde bonds.

Recorded arbitrage rebate and yield restriction liabilities as of June 30, 2006, were \$0.038 million for Palo Verde, \$0.3 million for STS, \$0.3 million for Mead-Phoenix, and \$0.8 million for Mead-Adelanto.

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

In September 1998, the Palo Verde participants approved a resolution authorizing the Authority to bill the participants an additional \$65 million annually through June 30, 2004 to pay for increased debt service costs as a result of a refunding completed in October 1997. In addition, the participants resolved to transfer any over billings, renewal and replacement excess funds or surplus amounts through June 30, 2004 into the Palo Verde reserve account. On November 20, 2003, the Authority adopted a resolution to utilize the amounts on deposit in the reserve accounts to pay a portion of the operating and maintenance expenses of the Palo Verde Project starting July 1, 2004. Funds held in the reserve account as a result of this resolution totaled \$64.5 million and \$68.8 million as of June 30, 2006 and 2005, respectively.

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

In kind contributions are valued at fair market value and recorded as participant revenue and fuel expense to the Magnolia Power Project. SCPPA values the participants' fuel contribution using monthly average pricing from the Project's OEMI fuel purchases. During the fiscal year ended June 30, 2006 the participants' contribution in kind was approximately 2.8 million MMBtu and was valued at approximately \$25.0 million.

**Reclassification** - Certain 2005 balances have been reclassified to conform to 2006 presentation.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 3 - Investments**

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

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

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

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

Eligible securities include:

- United States Treasury Securities, which are bonds or other obligations secured by the full faith and credit of the United States of America;
- Federal Agency Obligations, which have the full financial backing of the U.S. Government;
- Government Sponsored Enterprise Obligations, which are created by acts of Congress to provide liquidity for selected lending programs targeted by Congress;
- Repurchase Agreements, which are collateralized loan contracts where the seller includes a written agreement to repurchase the securities at a later date for a specified amount;
- Negotiable Certificates of Deposit, which are deposit liabilities issued by a nationally or state-chartered bank, a savings or a federal association or by a state-licensed branch of a foreign bank which has a short-term ratings of at least "A-1" by S&P and at least "P-1" by Moody's;
- Banker's Acceptances, a short term draft or bill of exchange guaranteed for payment at face value to the holder of the instrument on its maturity date, which has a short-term rating of at least "A-1" by S&P and at least "P-1" by Moody's;



**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

**Note 3 – Investments (Continued)**

- Commercial Paper, a short-term unsecured promissory note issued by non-financial or financial firms with a rating of at least “A-1” by S&P and at least “P-1” by Moody’s;
- Medium Term Notes rated “A” or better and only those issued by corporations organized and operating within the United States, or by depository institutions licensed by the United States or any state and operating within the United States;
- Equity-Linked Notes, which are categorized as medium-term corporate notes and are subject to the constraints set forth in the Government code and the Authority’s Investment Policy.

Investments at June 30, 2006 and 2005 are as follows:

June 30, 2006												
	Palo Verde Project	Southern Transmission System Project	Hoover Up-rating Project	Mead-Phoenix Project	Mead-Adelanto Project	Multiple Project Fund	San Juan Project	Magnolia Power Project	Natural Gas Project	Ormat Geothermal Project	Projects' Stabilization Fund	Total
U.S. Agencies	\$ 167,590	\$ 995	\$ 2,152	\$ -	\$ -	\$ -	\$ 14,641	\$ 19,423	\$ -	\$ 1,780	\$ 63,018	\$ 269,599
Agency Discount Notes	6,580	40,326	1,964	5,162	14,647	-	12,047	29,877	10,721	-	1,088	122,412
Treasury Coupon	477	-	-	-	-	7,435	-	-	-	-	-	7,912
Guaranteed investment contracts	64,584	37,180	-	8,095	22,990	57,960	21,323	-	-	-	-	212,132
Negotiable CD's	-	-	-	-	-	-	-	60	-	-	-	60
Commercial Paper	-	-	-	-	-	-	-	-	-	-	-	-
Equity Link Notes	4,452	-	-	-	-	-	-	-	-	-	-	4,452
Money Market Funds	1,823	9,309	51	311	845	-	1,772	3,095	2,951	564	1,987	22,708
<b>Total</b>	<b>\$ 245,506</b>	<b>\$ 87,810</b>	<b>\$ 4,167</b>	<b>\$ 13,568</b>	<b>\$ 38,482</b>	<b>\$ 65,395</b>	<b>\$ 49,783</b>	<b>\$ 52,395</b>	<b>\$ 13,732</b>	<b>\$ 2,344</b>	<b>\$ 66,093</b>	<b>\$ 639,275</b>
Restricted investments	\$ 157,118	\$ 71,204	\$ 2,813	\$ 11,394	\$ 33,939	\$ 65,395	\$ 38,589	\$ 26,241	\$ 3,705	\$ 1,733	\$ 63,018	\$ 475,149
Unrestricted investments	82,788	-	560	-	-	-	-	-	-	-	-	83,348
Cash and cash equivalents	5,600	16,606	794	2,174	4,543	-	11,194	26,154	10,027	611	3,075	80,778
<b>Total</b>	<b>\$ 245,506</b>	<b>\$ 87,810</b>	<b>\$ 4,167</b>	<b>\$ 13,568</b>	<b>\$ 38,482</b>	<b>\$ 65,395</b>	<b>\$ 49,783</b>	<b>\$ 52,395</b>	<b>\$ 13,732</b>	<b>\$ 2,344</b>	<b>\$ 66,093</b>	<b>\$ 639,275</b>
June 30, 2005												
	Palo Verde Project	Southern Transmission System Project	Hoover Up-rating Project	Mead-Phoenix Project	Mead-Adelanto Project	Multiple Project Fund	San Juan Project	Magnolia Power Project	Natural Gas Project	Ormat	Projects' Stabilization Fund	Total
Federal agencies	\$ 183,212	\$ 41,468	\$ 4,025	\$ 996	\$ 3,374	\$ -	\$ 23,679	\$ 50,315	\$ -	\$ -	\$ 53,225	\$ 360,294
US Government securities	-	10,544	-	-	-	7,435	-	-	-	-	-	17,979
Guaranteed investment contracts	68,890	36,507	-	8,765	24,130	226,438	21,323	3,696	-	-	-	389,749
Money market investment accounts	1,058	1,391	181	435	346	-	845	224	-	-	58	4,538
Medium term ntes	4,452	-	-	-	-	-	-	-	-	-	-	4,452
Cash	88	38	16	12	11	-	22	14	-	-	20,313	20,514
<b>Total</b>	<b>\$ 257,700</b>	<b>\$ 89,948</b>	<b>\$ 4,222</b>	<b>\$ 10,208</b>	<b>\$ 27,861</b>	<b>\$ 233,873</b>	<b>\$ 45,869</b>	<b>\$ 54,249</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 73,596</b>	<b>\$ 797,526</b>
Restricted investments	\$ 164,029	\$ 53,136	\$ 2,654	\$ 8,765	\$ 24,130	\$ 233,873	\$ 31,351	\$ 35,080	\$ -	\$ -	\$ 49,116	\$ 602,134
Unrestricted investments	86,592	-	560	-	-	-	-	-	-	-	-	87,152
Cash and cash equivalents	7,079	36,812	1,008	1,443	3,731	-	14,518	19,169	-	-	24,480	108,240
<b>Total</b>	<b>\$ 257,700</b>	<b>\$ 89,948</b>	<b>\$ 4,222</b>	<b>\$ 10,208</b>	<b>\$ 27,861</b>	<b>\$ 233,873</b>	<b>\$ 45,869</b>	<b>\$ 54,249</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 73,596</b>	<b>\$ 797,526</b>

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 3 – Investments (Continued)**

**Interest Rate Risk**

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

**Credit Risk**

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

The Authority's investment policy specifies that all project funds may be invested in shares of beneficial interest for temporary periods, pending disbursement or reinvestment as allowed under the state of California Government Code ("Code"). The Code requires that the fund must have either 1) attained the highest ranking or highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations ("NRSRO") or 2) retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience managing money market mutual funds with assets under management in excess of five hundred million dollars. As of June 30, 2006 and June 30, 2005, each of the money market funds in the portfolio have attained the highest possible ratings by three NRSRO's, specifically AAAM by Standard and Poor's, Aaa by Moody's Investors Service, and AAA by Fitch Ratings.

The U.S. government agency securities in the portfolio consist of securities issued by government-sponsored enterprises, which are not explicitly guaranteed by the U.S. government. As of June 30, 2006 and June 30, 2005, the U.S. government agency securities in the portfolio carried the highest possible credit ratings by the NRSRO's that rated them.

The Equity Link Notes (Medium Term Notes) in the portfolio consists of securities issued by corporations and carry a rating of AA by Standard and Poor's, Aa by Moody's Investor Service and AA by Fitch Rating.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 3 – Investments (Continued)**

The Guaranteed Investment Contracts in the portfolio with AIG consist of securities issued by corporations and carry a rating of AA by Standard and Poor's, Aa by Moody's Investor Service and AA by Fitch Rating. The Guaranteed Investment Contracts in the portfolio with PNC carry a rating of A by Standard and Poor's, Aaa by Moody's Investor Service, and A by Fitch Rating.

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

**Concentration of Credit Risk**

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

Of the Authority's total investments as of June 30, 2006, \$203,651,400 (33%), was invested in securities issued by the Federal Home Loan Bank; \$87,416,445 (13%) was invested in securities issued by the Federal National Mortgage Association; \$67,905,700 (11%) was invested in securities issued by the Federal Home Loan Mortgage Corporation; \$64,583,699 (10%) was invested in an investment agreement with Financial Security Assurance (FSA); \$89,045,847 (14%) was invested in a Guaranteed Investment Contract (GIC) with PNC Financial Securities Group; and \$62,953,499 (10%) was invested in a GIC with American International Group (AIG).

Of the Authority's total investments as of June 30, 2005, \$224,678,700 (29%), was invested in securities issued by the Federal Home Loan Bank; \$55,653,843 (7%) was invested in securities issued by the Federal National Mortgage Association; \$62,097,939 (8%) was invested in securities issued by the Federal Home Loan Mortgage Corporation; \$68,890,578 (9%) was invested in an investment agreement with FSA; \$259,333,654 (34%) was invested in a GIC with PNC Financial Securities Group; and \$65,977,462 (9%) was invested in a GIC with AIG.

**Note 4 - Derivative Instruments**

**Objective of the swaps** - In order to protect against the potential of rising interest rates, the Authority has entered into six separate pay-fixed, receive-variable interest rate swaps and one fixed spread basis swap at a cost that is expected to be less over the life of the transaction than what the Authority would have paid to issue fixed-rate debt.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

**Note 4 - Derivative Instruments (Continued)**

**Terms, fair values, and credit risk** - The terms, including the fair values and credit ratings of the counterparties under the outstanding swaps as of June 30, 2006, are included below. In most cases, the notional amount of any swap matches the principal amount of the associated debt. Except as discussed under the rollover risk, the Authority's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated "bonds payable" category.

	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty Credit Rating
MP 2004 Revenue Series A Bonds	\$ 28,700	5/27/2004	3.894%	65% of LIBOR	\$ (501)	7/1/2020	AA+/Aa2/AA+
MA 2004 Revenue Series A Bonds	96,025	5/27/2004	3.890%	65% of LIBOR	(1,641)	7/1/2020	AA+/Aa2/AA+
STS 2004 Fixed Rate Basis Swap	100,000	12/1/2004	BMA	65% of LIBOR plus 0.664%	748	7/1/2023	AA-/Aa2/A+
STS 2003 Subordinate Refunding Series A Bonds	50,950	4/24/2003	3.266%	65% of LIBOR	2,180	7/1/2022	AA-/Aa1/AA+
STS 2001 Subordinate Refunding Series A Bonds	79,795	6/14/2001	4.240%	BMA less 40 basis points	(6,312)	7/1/2021	AA+/Aa2/AA+
STS Swaption/Swap	125,000	2/6/2001	4.250%	60% of LIBOR	(12,437)	7/1/2022	AA-/Aa1/AA+
STS 1991 Revenue Bonds Series A	281,500	4/17/1991	6.380%	Bond variable coupon rate	(50,994)	6/30/2019	AA+/Aa2/-
	<u>\$ 761,970</u>				<u>\$ (68,957)</u>		

- STS 2004 Swap** - In November 2004, the Authority entered into a floating-to-floating Fixed-Spread basis swap. Under the swap agreement, the Authority will pay a variable rate equal to the BMA index, and in exchange will receive 65% of LIBOR plus a fixed margin or spread of 66.4 basis points. The basis swap is expected to produce net positive cash flow for the Authority given the historical positive difference between the floating rate received and the floating rate paid. The fixed margin of 66.4 basis points represents the fair market or breakeven spread differential prevailing at the time the trade was executed. The swap expires on July 1, 2023.
- MP 2004 Swap** - In connection with the issuance of the 2004 Mead-Phoenix Project Revenue Bonds Series A auction-rate security in May 2004, the Authority entered into an interest rate swap on March 3, 2004. The floating-to-fixed rate swap created synthetic fixed-rate debt for the Authority. Under the Swap Agreement, the Authority pays the counterparty a fixed rate of 3.894% and in exchange the Authority receives a floating rate index equal to 65% of one-month LIBOR. The swap agreement expires July 1, 2020. The Authority received approximately \$1.8 million in an upfront payment in connection with the execution of the swap, which has been deferred and is being amortized as an interest yield adjustment over the life of the option. Approximately \$13.5 million in Mead-Phoenix 2004 Project Revenue Bonds Series A are not swapped and remain floating-rate bonds. The floating rate on the related bonds as of June 30, 2006 was 3.80%.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 4 - Derivative Instruments (Continued)**

- **MA 2004 Swap** - In connection with the issuance of the 2004 Mead-Adelanto Revenue Bonds Series A auction-rate security in May 2004, the Authority entered into an interest rate swap on March 3, 2004. The floating-to-fixed rate swap created synthetic fixed-rate debt for the Authority. Under the Swap Agreement, the Authority pays the counterparty a fixed rate of 3.89% for the swap and in exchange the Authority receives a floating rate index equal to 65% of one-month LIBOR. The swap agreement expires July 1, 2020. The Authority received approximately \$5.9 million in an upfront payment in connection with the execution of the swap, which has been deferred and is being amortized as an interest yield adjustment over the life of the swap. Approximately \$45.1 million in Mead-Adelanto 2004 Project Revenue Bonds Series A are not swapped and remain floating-rate bonds. The average floating rate on the related bonds as of June 30, 2006 was 3.80%.
- **STS 2003 Swap** - In April 2003, the Authority entered into an Interest Rate Swap agreement with a third party for the purpose of hedging against interest rate variations arising from the issuance of the 2003 Subordinate Refunding Series A Southern Transmission Project Revenue Bonds. The notional amount of the Swap Agreement is equal to the par value of the bonds. The Swap Agreement provides for the Authority to make payments to the counterparty on a fixed rate basis of 3.266%, and for the counterparty to make reciprocal payments based on a floating rate of 65% of one-month LIBOR. The floating rate on the related bonds at June 30, 2006 and 2005 was 3.70% and 2.00%, respectively. The agreement expires on July 1, 2022.
- **STS Swaption/Swap** - In February 2001, the Authority entered into a transaction whereby it sold an option (the "Swaption") on a floating-to-fixed interest rate swap. The Swaption was exercised on April 1, 2002. The floating rate on the swap paid by the counterparty is 60% of one-month LIBOR; the annual fixed rate on the swap paid by the Authority is 4.25%. In exchange for the right to exercise the Swaption, the counterparty paid the Authority a one-time up front option premium amount of \$7.9 million which has been deferred and is being amortized as an interest yield adjustment over the life of the option. The swap expires on July 1, 2022.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 4 - Derivative Instruments (Continued)**

- **STS 2001 Swap** - In June 2001, the Authority entered into an interest rate swap agreement with a counterparty for the purpose of hedging against interest rate variations arising from the issuance of the 2001 Subordinate Refunding Series A Southern Transmission Project Revenue Bonds. The notional amount of the Swap Agreement is equal to the par value of the bonds. The Swap Agreement provides for the Authority to make payments to the counterparty at a fixed rate of 4.24%, and for the counterparty to make reciprocal payments based on a variable rate. The reset dates of the variable rate occur weekly and the rate for a reset date will be the rate determined by the Bond Market Association Municipal Swap Index (“BMA”) minus 40 basis points. The counterparty has the option to cancel the agreement on July 5, 2006 and on every Fixed Rate Payer Payment Date, thereafter, should the BMA index average more than 7% over a consecutive 180-day period. The floating rates on the bonds were 3.92% and 2.20% at June 30, 2006 and 2005, respectively. The swap expires on July 1, 2021.
- **STS 1991 Swap** - In fiscal year 1991, the Authority entered into an interest rate swap Agreement with a counterparty for the purpose of hedging against interest rate fluctuations arising from the issuance of the 1991 Subordinate Refunding Series Southern Transmission Project Revenue Bonds. The notional amount of the Swap Agreement is equal to the par value of the bonds. Under the Swap Agreement, the Authority pays the counterparty a fixed rate of 6.38%; in exchange, the Authority receives payments mirroring the bond variable coupon rate (3.87% and 2.21% at June 30, 2006 and 2005, respectively). The swap expires on June 30, 2019.

**Fair value** – Except for the STS 2004 and the STS 2003 swaps, all swaps had a negative fair value as of June 30, 2006. These fair values take into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that were received. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market’s best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. While some of SCPPA’s current mark to market values are negative, this valuation would be realized only if the swaps were terminated at the valuation date and only SCPPA retains the right to optionally terminate most of the transactions.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 4 - Derivative Instruments (Continued)**

**Credit risk** - For each counterparty, except for the STS 2004 and the STS 2003 swaps, the net fair values of the Authority's applicable swaps as of June 30, 2006 were negative. However, should interest rates change and the fair values of the swaps become positive, the Authority may be exposed to credit risk in the amount of the derivatives' fair value.

The swap agreements contain varying collateral agreements with the counterparties. The swaps require full collateralization of the fair value of the swap should the counterparty's (or guarantors of the counterparty, as applicable) credit rating fall below AA- as issued by Standard & Poor's or Aa3 as issued by Moody's Investors Service for the 1991 Swap; A+/A1 for the 2004 Fixed Spread Basis Swap; A-/A3 for the 2001, the 2003 and the 2004 Swaps; and Baa1/BBB+ for the Swaption/Swap. Collateral on all swaps is to be in the form of U.S. government securities held by a third-party custodian.

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

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

Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from a swap may not be fully realized. The 2001 swap is based on BMA rate minus 40 basis points; similar to the LIBOR-based swaps, BMA minus 40 bps may not exactly hedge the underlying variable rate. As of June 30, 2006, the BMA rate, minus 40 bps, was 3.398%, whereas 60% of LIBOR was 3.065%, and 65% of LIBOR was 3.321%.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 4 - Derivative Instruments (Continued)**

The following is a summary of interest rates paid to and received from the counterparties as of June 30, 2006:

	Type of Derivative						
	1991 Swap	Swaption/ Swap	2001 Swap	2003 Swap	2004 Swap	MP 2004 Swap	MA 2004 Swap
Payments to counterparty	6.380%	4.250%	4.240%	3.266%	3.679%	3.894%	3.890%
Less, variable payments from counterparty	3.870%	3.065%	3.398%	3.335%	3.321%	3.321%	3.321%
Net interest rate swap payments	2.510%	1.185%	0.842%	-0.069%	0.358%	0.573%	0.569%
Add, variable-rate bond coupon payments	3.870%	N/A	3.920%	3.700%	N/A	3.800%	3.800%
Synthetic interest rate on bonds	6.380%	1.185%	4.762%	3.631%	0.358%	4.373%	4.369%

**Termination risk** - The Authority or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. In addition, the 2001 Swap provides the counterparty with an option to cancel the swap agreement if the consecutive 180-day averaged rate of the BMA index exceeds 7.0%. However, the cancellation option has a 5-year lockout preventing the swap's termination prior to July 5, 2006. If any of the swaps were terminated, any associated variable rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

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

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



**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 4 - Derivative Instruments (Continued)**

**Swap payments and associated debt** - Using rates as of June 30, 2006, debt service requirements of the Authority's outstanding variable rate debt and net swap payments are as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30,	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2007	1,950	25,362	9,857	35,219
2008	14,850	24,788	9,496	34,284
2009	15,775	24,178	9,112	33,290
2010	17,275	23,510	8,698	32,208
2011 - 2015	221,800	95,062	32,970	128,032
2016 - 2020	325,105	37,140	10,229	47,369
2021 - 2023	65,215	2,042	(38)	2,004
	<u>\$ 661,970</u>	<u>\$ 232,082</u>	<u>\$ 80,324</u>	<u>\$ 312,406</u>

**Note 5 - Long-Term Debt**

Long-term debt outstanding at June 30, 2006 consisted of "new money" bonds, refunding bonds and subordinate refunding bonds due in varying annual amounts through 2036. The new money bonds were issued to finance the purchase and construction or acquisition of the Authority's interest in each of the Projects. The subordinate refunding bonds were issued to refund specified new money bonds.

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

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

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

**Note 5 - Long-Term Debt (Continued)**

The Authority has agreed to certain covenants with respect to bonded indebtedness, including the requirement to enforce the natural gas, power and transmission sales agreements with the participants. At the option of the Authority, all outstanding new money bonds and refunding bonds are subject to redemption prior to maturity, except for the 1996 Subordinate Refunding Series A Bonds, the 2002 Subordinate Refunding Series B Bonds, and portions of the 1988A Refunding and 1992 Subordinate Refunding Bonds issued for the Southern Transmission System; the 2002A San Juan Revenue Bonds; and a total of \$125.5 million of the Multiple Project Revenue Bonds.

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

A summary of changes in long-term debt follows:

(Amounts in Thousands)

	Palo Verde Project	Southern Transmission System Project	Hoover Uprating Project	Mead- Phoenix Project	Mead- Adelanto Project	Multiple Project Fund	San Juan Project	Magnolia Power Project	Natural Gas Project	Total
Total long-term debt at June 30, 2005	\$ 107,707	\$ 777,888	\$ 17,716	\$ 65,934	\$ 212,155	\$ 202,104	\$ 181,459	\$ 320,909	\$ -	\$ 1,885,872
Total debt due within one year at June 30, 2005	11,300	31,470	1,275	-	-	8,100	9,160	-	-	61,305
Total debt at June 30, 2005	119,007	809,358	18,991	65,934	212,155	210,204	190,619	320,909	-	1,947,177
Principal payments	(11,300)	(31,470)	(1,275)	-	-	(170,200)	(9,160)	-	(1,700)	(225,105)
Revenue bonds issued	-	-	-	-	-	-	-	-	29,900	29,900
Decrease in unamortized debt-related costs, net	2,053	12,044	420	470	1,291	1,275	(174)	(434)	-	16,945
Total debt at June 30, 2006	109,760	789,932	18,136	66,404	213,446	41,279	181,285	320,475	28,200	1,768,917
Total debt due within one year at June 30, 2006	(11,545)	(34,230)	(1,315)	(3,250)	(10,850)	-	(9,570)	(3,735)	-	(74,495)
Total long-term debt at June 30, 2006	\$ 98,215	\$ 755,702	\$ 16,821	\$ 63,154	\$ 202,596	\$ 41,279	\$ 171,715	\$ 316,740	\$ 28,200	\$ 1,694,422

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

*Bonds Redeemed* - In 1997, the Authority began taking steps designed to accelerate the payment schedule of all fixed rate subordinate bonds relating to the Palo Verde Nuclear Generating Station (PVNGS) so that they would be paid off by July 1, 2004 (the "Restructuring Plan"). Certain outstanding bonds were refunded for savings and the project participants accelerated payments on the bonds issued by the Authority for PVNGS. Accelerated payments were approximately \$65 million per year from 1997 until final payment on July 1, 2004. The Plan resulted in substantial savings to the PVNGS project participants once the principal and interest on these fixed rate subordinate bonds were paid in full. As part of the Restructuring Plan, \$512 million of debt was placed into legal defeasance as of July 1, 2004.

**Southern Transmission System Project** - Debt consists of refunding and subordinate refunding series bonds with fixed and variable interest rates. Fixed interest rates range from 3% to 6.125% and final maturities occur between 2006 and 2023.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 5 - Long-Term Debt (Continued)**

**Hoover Uprating Project** - Debt consists of refunding series bonds with fixed interest rates between 3.5% and 5.25% and a final maturity during 2017.

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

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

**Multiple Project Fund** - Debt consists of revenue bonds with fixed interest rates ranging between 6.75% and 7.0% and final maturity during 2013.

*Bonds Redeemed* - On January 4, 1990, the Authority issued its Multiple Project Revenue Bonds, 1989 Series. Most of the proceeds of the Bonds were used to fund Authority projects, specifically the Mead-Phoenix and the Mead-Adelanto Transmission Projects. In April 2005, the Board determined that a portion of the remaining available proceeds should be used to redeem the callable bonds. In May 2005, the Authority's Board of Directors approved the redemption of \$162.1 million of Multiple Projects Revenue Bonds, 1989 Series, representing all of the callable bonds. The bonds were redeemed on July 1, 2005.

**San Juan Project** - Debt consists of refunding series bonds with fixed interest rates between 4.5% and 5.5% and final maturities during 2014 and 2020.

*San Juan Unit 3 Project Refunding* - In April 2005, the Authority issued \$71.88 million par value SJ 2005 Refunding Series A Bonds to refund all of the outstanding \$71.85 million SJ 2002 Refunding Series B Bonds (the "refunded bonds"). This transaction resulted in a net loss for accounting purposes of \$4.4 million, consisting primarily of the write-off of unamortized debt expenses and the premium associated with the refunded bonds. The loss on refunding of bonds was deferred and will be amortized in accordance with GASB 23 over the remaining life of the old debt or the life of the new debt, whichever is shorter.

San Juan completed the advanced refunding to reduce its total debt service payments over the refunding term by \$9.9 million and to obtain an economic gain, measured as the difference between the present values of the old and new debt service payment requirements of \$6.6 million.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 5 - Long-Term Debt (Continued)**

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

Of the outstanding bonds, \$14.1 million of "Project B Bonds" are secured by lease rental payments to be made by the City of Cerritos (the "City") in connection with the lease of certain facilities and premises owned by the City to the Authority and the leaseback of such facilities and premises to the City. The Base Rental Payments will be equal to the principal and interest on the Project B Bonds. In accordance with the Assignment Agreement between the Authority and the Trustee, the Authority will assign certain of its rights under the Lease, including its right to receive the Base Rental Payments, to the Trustee for the benefit of the Owners of the Project B Bonds.

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

**Natural Gas Project** - On July 1, 2005, the Authority issued taxable Natural Gas Project Revenue Bonds, Draw Down Series 2005A ("the Draw Down Bonds") at an interest rate of the one month LIBOR rate plus fifty basis points. The maximum amount that may be drawn and outstanding on the Draw Down Bonds is \$100,000,000 and the initial draw was \$26,300,100. The bonds were issued on behalf of Anaheim, Burbank and Colton to finance their share of the project. Additional draws may be used to increase the amount of natural gas to which the Natural Gas Project participants are entitled. As of June 30, 2006, the outstanding aggregate principal of the Draw Down Bonds was \$28,200,100.

**Debt Related Costs** - Unamortized debt-related costs, net are as follows as of June 30, 2006 (amounts in thousands):

Unamortized debt-related costs, net	Loss on Refunding	(Premium) Discount	Total
Palo Verde Project	\$ 15,500	\$ -	\$ 15,500
Southern Transmission System Project	97,397	21,021	118,418
Hoover Uprating Project	2,221	(272)	1,949
Mead-Phoenix Project	5,864	(363)	5,501
Mead-Adelanto Project	17,439	(1,716)	15,723
Multiple Project Fund	-	8,922	8,922
San Juan Project	6,879	(10,679)	(3,800)
Magnolia Power Project	-	(6,395)	(6,395)
	\$ 145,300	\$ 10,518	\$ 155,818

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

**Note 5 - Long-Term Debt (Continued)**

**Debt Service** - The scheduled debt service payments for future years ending June 30 are included in the table below. The variable rates used for the PV 1996 Subordinate Refunding Series B and C, and the STS 1996 Subordinate Refunding Series B were the rates at June 30, 2006 of 3.87% and 3.92%, respectively. The variable rates are set by the bond-remarketing agent on a weekly basis based on economic conditions and bond ratings. The variable rate used for the SJ 2002 Revenue Refunding Series B was assumed at 4% per annum starting in January 1, 2012.

	Palo Verde Project	Southern Transmission System Project	Hoover Uprating Project	Mead- Phoenix Project	Mead- Adelanto Project	Multiple Project Fund	San Juan Project	Magnolia Power Project	Natural Gas Project	Total
2007 Principal	11,545	34,230	1,315	3,250	10,850	-	9,570	3,735	-	74,495
2007 Interest	4,438	39,936	893	3,224	10,019	3,389	9,008	15,096	1,700	87,703
2008 Principal	11,895	30,950	1,370	3,350	11,150	-	10,050	4,520	28,200	101,485
2008 Interest	4,017	38,325	838	3,141	9,730	3,389	8,517	15,005	-	82,962
2009 Principal	12,250	31,550	1,425	3,425	11,400	-	10,550	4,610	-	75,210
2009 Interest	3,585	36,566	782	3,055	9,445	3,389	7,982	14,896	-	79,700
2010 Principal	10,075	30,880	1,480	3,500	11,725	-	11,115	4,720	-	73,495
2010 Interest	3,206	34,824	723	2,967	9,152	3,389	7,400	14,735	-	76,396
2011 Principal	10,375	33,115	1,540	4,560	12,540	11,400	11,715	4,880	-	90,125
2011 Interest	2,842	32,925	662	2,660	8,305	2,619	6,787	14,517	-	71,317
2012 - 2016 Principal	56,730	239,050	8,790	25,120	75,480	38,801	79,660	27,785	-	551,416
2012 - 2016 Interest	8,392	134,450	2,136	8,423	27,617	2,734	21,786	68,997	-	274,535
2017 - 2021 Principal	12,390	295,740	4,165	28,700	96,024	-	44,825	35,395	-	517,239
2017 - 2021 Interest	440	72,802	167	2,321	7,765	-	3,957	60,861	-	148,313
2022 - 2026 Principal	-	212,835	-	-	-	-	-	45,280	-	258,115
2022 - 2026 Interest	-	7,486	-	-	-	-	-	50,531	-	58,017
2027 - 2031 Principal	-	-	-	-	-	-	-	57,775	-	57,775
2027 - 2031 Interest	-	-	-	-	-	-	-	37,404	-	37,404
2032 - 2036 Principal	-	-	-	-	-	-	-	73,730	-	73,730
2032 - 2036 Interest	-	-	-	-	-	-	-	20,646	-	20,646
2037 Principal	-	-	-	-	-	-	-	51,650	-	51,650
2037 Interest	-	-	-	-	-	-	-	-	-	-
Principal	\$ 125,260	\$ 908,350	\$ 20,085	\$ 71,905	\$ 229,169	\$ 50,201	\$ 177,485	\$ 314,080	\$ 28,200	\$ 1,924,735
Interest	\$ 26,920	\$ 397,314	\$ 6,201	\$ 25,791	\$ 82,033	\$ 18,909	\$ 65,437	\$ 312,688	\$ 1,700	\$ 936,993

**Fair Value** - The fair value of the Authority's long-term debt (including the current portion) is approximately \$2.0 billion and \$2.2 billion at June 30, 2006 and 2005, respectively. Management has estimated fair value based on the quoted market prices for the same or similar issues or on the current average rates offered to the Authority for debt of approximately the same remaining maturities, excluding the effect of a related interest rate swap agreement.

**Advance Refundings** - The Authority has established irrevocable escrow trusts with the proceeds from issuance of subordinate refunding bonds. These investments will be used to pay specified revenue bonds called at scheduled redemption dates.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 5 - Long-Term Debt (Continued)**

**Defeasance of Debt** - The Authority has defeased specified revenue bonds by placing the proceeds from the issuance of subordinate refunding bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. The trust investments and related liability for bonds that are considered legally defeased are not included in the Authority's financial statements. At June 30, 2006 and 2005, \$702.5 million and \$728.3 million, respectively, of revenue bonds outstanding are considered legally defeased.

The refunded bonds constitute a contingent liability of the Authority only to the extent that cash and investments presently in the control of the refunding trustees are not sufficient to meet debt service requirements, and are therefore excluded from the combined financial statements because the likelihood of additional funding requirements is considered remote.

**Note 6 - Notes Payable**

Notes payable consist mainly of Palo Verde Participants' over billings from prior periods and a note secured from GE Capital Public Finance, Inc., to lease purchased spare parts inventory for the Magnolia Power Project. The notes payable in the Palo Verde Project are to be paid through June 2017. These notes are unsecured, bear an interest rate of 4.97%, and are due in monthly payments of \$636,000. At June 30, 2006, the remaining balance is \$60 million. The note payable in the Magnolia Power Project has a coupon rate of 4.1%, with principal payments due monthly through July 2010. At June 30, 2006, the remaining principal balance is \$5.1 million.

**Note 7 - Net Assets (Deficit)**

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

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

**Note 7 - Net Assets (Deficit) (Continued)**

Net assets (deficit) are comprised of the following (in thousands):

	June 30, 2004	Fiscal Year 2005 Activity	June 30, 2005	Fiscal Year 2006 Activity	June 30, 2006
GAAP items not included in billings to participants					
Depreciation of plant	\$ (868,073)	\$ (53,834)	\$ (921,907)	\$ (65,433)	\$ (987,340)
Nuclear fuel amortization	(19,548)	-	(19,548)	-	(19,548)
Decommissioning expense	(137,264)	(14,013)	(151,277)	(13,269)	(164,546)
Amortization of bond discount, debt issue costs, and loss on refundings	(615,750)	(19,578)	(635,328)	(17,877)	(653,205)
Interest expense	(69,648)	(1,428)	(71,076)	5,479	(65,597)
Loss on defeasance of bonds	-	(85,827)	(85,827)	-	(85,827)
Bond requirements included in billings to participants					
Operations and maintenance, net of investment income	284,132	9,007	293,139	2,202	295,341
Costs of acquisition of capacity	18,698	(1,264)	17,434	(1,305)	16,129
Billings to amortize costs recoverable	382,050	-	382,050	-	382,050
Reduction in debt service billings due to transfer of excess funds	(90,020)	-	(90,020)	-	(90,020)
Principal repayments	862,521	49,397	911,918	70,212	982,130
Other	69,209	(13,511)	55,698	15,858	71,556
	(183,693)	(131,051)	(314,744)	(4,133)	(318,877)
Multiple Project Fund net assets	7,107	493	7,600	(1,848)	5,752
Projects' Stabilization Fund net assets	51,455	22,658	74,113	(7,520)	66,593
	<u>\$ (125,131)</u>	<u>\$ (107,900)</u>	<u>\$ (233,031)</u>	<u>\$ (13,501)</u>	<u>\$ (246,532)</u>

**Note 8 - Commitments and Contingencies**

**Industry Restructuring** - Since the passage of Assembly Bill 1890 (the "Bill") in September 1996, the electric industry in California continues to remain uncertain. The deregulation experiment has, for the most part, been abandoned and the IOU situation is improving. The public power systems in the Authority were not required to comply with the Bill's provisions. They continued to plan for the needs of their customers and avoided customers choosing direct access and leaving the system. Most of the Authority's members have made investments in new gas-fired peaking or base-load generation located in Southern California. The members continue to collect the public benefit charge, and to date, have instituted in excess of \$900 million of programs to benefit their customers. The decisions on how these funds are allocated are made by the local governing authority, in most cases this is the city council. Funds (approximately 2.95% of gross revenues) have been spent on renewable resources, conservation, research and development, and low income rate subsidies. The Authority cannot predict the impact of any future direct access or deregulation programs on energy markets or its participants.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 8 - Commitments and Contingencies (Continued)**

**Nuclear Spent Fuel and Waste Disposal** - Under the Nuclear Waste Policy Act, the Department of Energy (“DOE”) was to develop the facilities necessary for the storage and disposal of spent fuel and to have the first such facility in operation by 1998. That facility was to be a permanent repository, but the DOE has announced that such a repository could not be completed before 2010. There is ongoing litigation with respect to the DOE’s ability to accept spent nuclear fuel and no permanent resolution has been reached to date.

In July 2002, a measure was signed into law designating the Yucca Mountain in the state of Nevada as the nation's high-level nuclear waste repository. This meant that the DOE could then file a construction and operation plan for Yucca Mountain with the Nuclear Regulatory Commission (“NRC”). The DOE expected that the Yucca Mountain site would be open by 2010. However, the State of Nevada and its congressional delegation are still determined to halt the project through the NRC process or through legal challenges.

Also a feud over funding of the repository ensued. The Administration and Congressional leaders pushed for full and adequate funding, in order for the DOE to meet the application deadline of 2004. Meanwhile, the Nevada delegation worked diligently to delay the DOE's work on the license application for the Yucca site, in hopes of halting the transfer of nuclear waste to the Nevada facility. As of today, the submission of the construction application to the NRC is still delayed because of an investigation related to the allegation of scientific misconduct during the feasibility study of Yucca Mountain as a permanent disposal facility for nuclear waste. In addition, the original regulatory standard of safe keeping nuclear waste at the disposal facility for 10,000 years was challenged by the National Academy of Sciences, and it is now agreed that the nuclear waste’s storage period should increase to 100,000 years. Further engineering studies are being conducted to increase the subsistence of the facility for a longer period of time.

The spent fuel storage in the wet pool at PVNGS exhausted its capacity in 2003. A Dry Cask Storage Facility (the “Facility”), also called the Independent Spent Fuel Storage Facility, was built and completed in 2003 at a total cost of \$33.9 million (about \$2 million for the Authority). In addition to the Facility, the costs also account for heavy lift equipment inside the units and at the yard, railroad track, tractors, transporter, transport canister, and surveillance equipment. The Facility has the capacity to store all the spent fuel generated by the PVNGS plant until 2026. To date, over 43 casks, each containing 24 spent fuel assemblies were placed in the Facility. The current plan calls for the removal of between 240 and 288 fuel assemblies from the units to the Facility every year. The costs incurred by the procurement, packing, preparation and transportation of the casks are included as part of the fuel expenses, and will cost approximately \$13 million a year (about \$760,000 for the Authority). If the permanent repository in Yucca Mountain is opened as scheduled in 2010, the spent fuel from PVNGS will be shipped to the repository starting in 2031. No provision has been included in the accompanying financial statements.



**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 8 - Commitments and Contingencies (Continued)**

**Nuclear Insurance** - The Price-Anderson Act (the “Act”) requires that all utilities with nuclear generating facilities share in payment for claims resulting from a nuclear incident. The Act limits liability from third-party claims to approximately \$10.8 billion per incident. Participants in the Palo Verde Nuclear Generating Station currently insure potential claims and liability through commercial insurance with a \$300 million limit; the remainder of the potential liability is covered by the industry-wide retrospective assessment program provided under the Act. This program limits assessments to \$101 million per reactor for each licensee for each nuclear incident occurring at any nuclear reactor in the United States; payments under the program are limited to \$15 million per reactor, per incident, per year to be indexed for inflation every 5 years. Based on the Authority’s 5.91% interest in Palo Verde, the Authority would be responsible for a maximum assessment of \$17.8 million, limited to payments of \$2.7 million per incident, per year.

**Other Legal Matters** - With respect to the San Juan Generating Station (including the Authority’s ownership interest in Unit 3 thereof), the Sierra Club and the Grand Canyon Trust have filed suit against Public Service Company of New Mexico (“PNM”) in federal court alleging violations of the Clean Air Act and of the conditions of the San Juan Generating Station’s operating permit. PNM is a co-owner of the San Juan Generating Station and is the operating agent of the station. The lawsuit sought penalties as well as injunctive and declaratory relief.

During 2005, the parties achieved a settlement of the substantive elements of the case which has been approved by the United States District Court. A number of environmental upgrades are being made to the San Juan Generating Station that is expected to mitigate a number of environmental consequences which might otherwise occur in the operation of the plant. The additional costs associated with these environmental upgrades will be shared by the San Juan Generation Station participants. The environmental upgrades affecting Unit 3 and the SCPPA San Juan participants are not anticipated to be added until approximately 2008. A current estimate which would be borne by the SCPPA San Juan Generating Station participants totals \$32 million. SCPPA has already budgeted for the portion of the added costs of these upgrades which the SCPPA participants will bear. The upgrade expenditures of Unit 3 are not anticipated to occur until Spring 2008, and SCPPA is currently incorporating these costs into current and future budget projects. A liability has been established for \$32 million and is presented as a deferred credit. The corresponding asset has been recorded as a deferred debit less cash already received from the participants.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 8 - Commitments and Contingencies (Continued)**

Claims and a lawsuit for damages have been filed with the Authority, Intermountain Power Authority (the "IPA") and the LADWP seeking \$100 million in special damages and a like amount in general damages. The claimants allege, among other things, that due to improper grounding of the transmission line of STS, their dairy herds were damaged and the value of their land was diminished. The claimants also seek injunctive relief. The Authority believed these claims were substantially without merit as to itself because the Authority has no ownership or operational control over the subject transmission lines, and merely acted as a financing agency with respect to STS. In July 2003, the Authority, IPA, and LADWP filed a motion to dismiss, or in the alternative, a motion to stay based upon forum non conveniens, in which the defendants argued that the case had little connection with California and should be heard in Utah. The Los Angeles Superior Court granted the motion and in a 2004 unpublished opinion the California Court of Appeal affirmed this matter on appeal. A Petition for Review was subsequently denied by the California Supreme Court.

In February 2005, the remaining Utah plaintiffs filed a complaint in the Third Judicial District Court in and for Salt Lake County, Utah, which alleged facts similar to those alleged in California. SCPPA has moved the Utah court to dismiss the action as to SCPPA; however, the motion has not yet come on for hearing before the Court. The motion to dismiss is currently stayed pending the determination for the Utah trial court whether to transfer the action from Salt Lake County to the District Court in Millard County Utah, where the Intermountain Power Project is located. No provision has been included in the accompanying financial statements.

The Authority is also involved in various other legal actions. In the opinion of management, the outcome of such litigation or claims will not have a material effect on the financial position or the results of operations of the Authority or the respective separate Projects.

**Note 9 - Subsequent Events**

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

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (In Thousands)**

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**Note 9 - Subsequent Events (Continued)**

**Interest Rate Amendment** - In July 2006, the Authority executed an amendment to the Southern Transmission System Project \$100 million, floating-to-floating Fixed-Spread basis swap entered into in 2004. Under the amended swap, SCPPA will continue to pay the swap counterparty the Bond Market Association (“BMA”) index but will receive 58.99% of the 10-Year London Interbank Offered Rate (“LIBOR”) plus 66.4 basis points, instead of 65% of 1-month LIBOR plus 66.4 basis points. The amended swap terms will become effective on August 1, 2007.

**SUPPLEMENTAL INFORMATION**

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**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY  
PALO VERDE PROJECT  
SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS IN FUNDS  
REQUIRED BY THE BOND INDENTURE FOR THE YEAR ENDED JUNE 30, 2006  
(AMOUNTS IN THOUSANDS)**

	Debt Service Fund	Debt Service Reserve Fund	Decommissioning Trust Fund	Deposit Installment	Deposit Reserve Installment	Escrow Account	General Reserve Account	Issue Account	Operating Account	Reserve & Contingency	Revenue Fund	Total
Balance at June 30, 2005	\$ 4,003	\$ 24	\$ 133,094	\$ 7	\$ (3)	\$ 428,398	\$ -	\$ 8,978	\$ 88,554	\$ 24,986	\$ -	\$ 688,041
<b>Additions</b>												
Investment earnings	60		4,825				7	82	3,960	684	9	9,627
Discount on investment purchases			42			16,459		292	93	51	5	16,942
Distribution of investment earnings	(60)			(7)	3	1,443	(7)	(374)	(727)	(735)	1,895	1,431
Revenue from power sales											49,277	49,277
Distribution of revenue	(4,062)	(24)						9,017	34,212	12,043	(51,186)	-
Transfer from escrow fund for principal and interest payments	3,209					(54,255)		51,046				-
Other												-
<b>Total</b>	<b>(853)</b>	<b>(24)</b>	<b>4,867</b>	<b>(7)</b>	<b>3</b>	<b>(36,353)</b>	<b>-</b>	<b>60,063</b>	<b>37,538</b>	<b>12,043</b>	<b>-</b>	<b>77,277</b>
<b>Deductions</b>												
Construction expenditures										12,722		12,722
Operating expenditures			2						30,083			30,085
Remarketing/commitment fees								371				371
Fuel costs									8,088			8,088
Payment of principal								11,300				11,300
Interest paid - non escrow								3,896	866			4,762
Premium and interest paid on investment purchases	(59)		(81)						121	68		49
Payment of principal and interest paid escrow	3,209							51,046				54,255
<b>Total</b>	<b>3,150</b>	<b>-</b>	<b>(79)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>66,613</b>	<b>39,158</b>	<b>12,790</b>	<b>-</b>	<b>121,632</b>
Balance at June 30, 2006	\$ -	\$ -	\$ 138,040	\$ -	\$ -	\$ 392,045	\$ -	\$ 2,428	\$ 86,934	\$ 24,239	\$ -	\$ 643,686

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and have been prepared from the trust statements. These balances do not include accrued interest receivable, unrealized gain (loss) on investments and \$78 and \$88 held in the revolving fund at June 30, 2006 and 2005, respectively.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY  
SOUTHERN TRANSMISSION SYSTEM PROJECT  
SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS IN FUNDS  
REQUIRED BY THE BOND INDENTURE FOR THE YEAR ENDED JUNE 30, 2006  
(AMOUNTS IN THOUSANDS)**

	Debt Service					Total
	Fund	Escrow Fund	Issue Fund	Operating Fund	Revenue Fund	
Balance at June 30, 2005	\$ 4,655	\$ 9,919	\$ 73,496	\$ 614	\$ -	\$ 88,684
Additions						
Investment earnings	4	-	2,866	4	12	2,886
Discount on investment purchases	30	3,156	400	53	23	3,662
Distribution of investment earnings	(34)	-	(3,266)	(57)	3,357	-
Revenue from transmission sales	-	-	-	-	84,135	84,135
Distribution of revenue	2,320	-	64,940	20,267	(87,527)	-
Transfer from escrow fund required by refunding bonds issuance	4,200	(6,540)	2,340	-	-	-
Other transfers	-	-	-	-	-	-
Total	6,520	(3,384)	67,280	20,267	-	90,683
Deductions						
Operating expenses	-	-	-	19,807	-	19,807
Payment of principal	4,655	-	22,615	-	-	27,270
Interest and arbitrage paid	-	-	39,794	-	-	39,794
Principal and interest paid on escrow bonds	4,200	-	2,340	-	-	6,540
Total	8,855	-	64,749	19,807	-	93,411
Balance at June 30, 2006	\$ 2,320	\$ 6,535	\$ 76,027	\$ 1,074	\$ -	\$ 85,956

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and have been prepared from the trust statements. These balances do not include accrued interest receivable, unrealized gain (loss) on investments and \$34 and \$38 held in the revolving fund at June 30, 2006 and 2005, respectively.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY  
HOOVER UPRATING PROJECT  
SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS IN FUNDS  
REQUIRED BY THE BOND INDENTURE FOR THE YEAR ENDED JUNE 30, 2006  
(AMOUNTS IN THOUSANDS)**

	Debt Service Fund	General Reserve Fund	Advance Payment Fund	Operating Fund	Revenue Fund	Total
Balance at June 30, 2005	\$ 1,171	\$ 1,700	\$ 3	\$ 1,372	\$ -	\$ 4,246
<b>Additions</b>						
Investment earnings	6	51	-	21	2	80
Discount on investment purchases	26	-	-	29	-	55
Distribution of investment earnings	(32)	(51)	-	(50)	133	-
Revenue from power sales	-	-	-	-	2,351	2,351
Distribution of revenue	2,271	-	-	215	(2,486)	-
Other	-	3	(3)	-	-	-
Total	2,271	3	(3)	215	-	2,486
<b>Deductions</b>						
Operating expenses	-	-	-	271	-	271
Payment of principal	1,275	-	-	-	-	1,275
Interest paid	954	-	-	-	-	954
Total	2,229	-	-	271	-	2,500
Balance at June 30, 2006	\$ 1,213	\$ 1,703	\$ -	\$ 1,316	\$ -	\$ 4,232

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and have been prepared from the trust statements. The balances in the funds consist of cash and investments at original cost. These balances do not include accrued interest receivable, unrealized gain (loss) on investments and \$16 held in the revolving fund at both June 30, 2006 and 2005.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY  
MEAD-PHOENIX PROJECT  
SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS IN FUNDS  
REQUIRED BY THE BOND INDENTURE FOR THE YEAR ENDED JUNE 30, 2006  
(AMOUNTS IN THOUSANDS)**

	Revenue Fund	Debt Service Account	Debt Service Reserve Account	Operating Fund	Reserve & Contingency Fund	Surplus Fund	Cost of Issuance Fund	Escrow Account	Total
Balance at June 30, 2005	\$ -	\$ 2,489	\$ 5,915	\$ 250	\$ 1,231	\$ 310	\$ -	\$ -	\$ 10,195
Additions									
Investment earnings	2	120	435	6	90	3	-	-	656
Discount on investment earnings	-	16	-	3	-	17	-	-	36
Distribution of investment earnings	68	468	(435)	(4)	(90)	(7)	-	-	-
Transmission revenue	7,082	-	-	-	-	-	-	-	7,082
Distribution of revenues	(7,336)	5,277	-	1,254	16	789	-	-	-
Payments from Western Area Power Administration	154	-	-	-	-	-	-	-	154
Other transfers	30	-	-	-	-	-	-	-	30
Total	-	5,881	-	1,259	16	802	-	-	7,958
Deductions									
Construction expenditures	-	-	-	-	3	-	-	-	3
Operating expenses	-	-	-	1,230	-	-	-	-	1,230
Principal payment	-	-	-	-	-	-	-	-	-
Premium and interest paid on defeased bonds	-	-	-	-	-	-	-	-	-
Debt issuance costs	-	-	-	-	-	-	-	-	-
Interest paid	-	3,436	-	-	-	-	-	-	3,436
Total	-	3,436	-	1,230	3	-	-	-	4,669
Balance at June 30, 2006	\$ -	\$ 4,934	\$ 5,915	\$ 279	\$ 1,244	\$ 1,112	\$ -	\$ -	\$ 13,484

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and have been prepared from the trust statements. The balances in the funds consist of cash and investments at original cost. These balances do not include accrued interest receivable, unrealized gain (loss) on investments, and \$12 held in the revolving fund at both June 30, 2006 and 2005.



**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY  
MEAD-ADELANTO PROJECT  
SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS IN FUNDS  
REQUIRED BY THE BOND INDENTURE FOR THE YEAR ENDED JUNE 30, 2006  
(AMOUNTS IN THOUSANDS)**

	Debt Service Account	Debt Service Reserve Fund	Operating Fund	Reserve & Contingency	Revenue Fund	Surplus Fund	Escrow Account	Cost of Issuance Fund	Total
Balance at June 30, 2005	\$ 3,814	\$ 16,267	\$ 713	\$ 6,383	\$ -	\$ 672	\$ -	\$ -	\$ 27,849
Additions									
Investment earnings	115	1,196	8	469	5	1	-	-	1,794
Discount on investment earnings	44	-	22	-	-	45	-	-	111
Distribution of investment earnings	1,411	(1,196)	(12)	(469)	284	(18)	-	-	-
Transmission revenue	-	-	-	-	20,669	-	-	-	20,669
Distribution of revenues	17,909	-	1,743	-	(20,955)	1,303	-	-	-
Payment from Western Area Power Administration	-	-	-	-	27	-	-	-	27
Other transfers	-	-	-	-	(30)	-	-	-	(30)
Total	19,479	-	1,761	-	-	1,331	-	-	22,571
Deductions									
Principal payment	-	-	-	-	-	-	-	-	-
Interest paid	10,653	-	-	-	-	-	-	-	10,653
Debt issuance costs	-	-	-	-	-	-	-	-	-
Operating expenses	-	-	1,508	-	-	-	-	-	1,508
Total	10,653	-	1,508	-	-	-	-	-	12,161
Balance at June 30, 2006	\$ 12,640	\$ 16,267	\$ 966	\$ 6,383	\$ -	\$ 2,003	\$ -	\$ -	\$ 38,259

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and have been prepared from the trust statements. The balances in the funds consist of cash and investments at original cost. These balances do not include accrued interest receivable, unrealized gain (loss) on investments and \$10 held in the revolving fund at both June 30, 2006 and 2005.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY  
 MULTIPLE PROJECT FUND  
 SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS IN FUNDS  
 REQUIRED BY THE BOND INDENTURE FOR THE YEAR ENDED JUNE 30, 2006  
 (AMOUNTS IN THOUSANDS)**

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	Proceeds Account	Debt Service Account	Cost of Redemption Account	Total
Balance at June 30, 2005	\$ 232,533	\$ 1,340	\$ -	\$ 233,873
Additions				
Investment earnings	10,387	50	-	10,437
Transfer of investment earnings to earnings account	(10,387)	10,387	-	-
Transfer to debt service account	(168,896)	168,896	-	-
Transfer from debt service account	1,340	(1,429)	89	-
Total	(167,556)	177,904	89	10,437
Deductions				
Interest paid	-	8,626	-	8,626
Payment of principal	-	8,100	-	8,100
Redemption of bonds	-	162,100	-	162,100
Cost of redemption	-	-	89	89
Total	-	178,826	89	178,915
Balance at June 30, 2006	\$ 64,977	\$ 418	\$ -	\$ 65,395

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and have been prepared from the trust statements. The balances in the funds consist of cash and investments at original cost. These balances do not include accrued interest receivable.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY  
SAN JUAN PROJECT  
SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS IN FUNDS  
REQUIRED BY THE BOND INDENTURE FOR THE YEAR ENDED JUNE 30, 2006  
(AMOUNTS IN THOUSANDS)**

	Acquisition Account	Debt Service Reserve Account	Revenue Fund	Operating Fund	Reserve & Contingency Fund	General Reserve Fund	Cost of Issuance Fund	Escrow Account	Total
Balance at June 30, 2005	\$ 3,296	\$ 21,323	\$ -	\$ 9,712	\$ 11,386	\$ -	\$ 127	\$ 78,454	\$ 124,298
Additions									
Investment earnings	3	1,104	8	6	336	-	2	2,017	3,476
Discount on investments	151	-	12	240	240	-	-	-	643
Distribution of investment earnings	(154)	(1,104)	2,082	(246)	(576)	-	(2)	-	-
Revenue from power sales	-	-	70,039	-	-	-	-	-	70,039
Distribution of revenues	18,950	-	(72,141)	41,363	11,828	-	-	-	-
Bond proceeds	-	-	-	-	-	-	-	-	-
Transfer to escrow funds required by refunding bond issuance	-	-	-	-	-	-	-	-	-
Transfer from escrow fund for principal and interest payments	3,772	-	-	-	-	-	-	(3,772)	-
Other	-	-	-	-	-	31	(31)	-	-
<b>Total</b>	<b>22,722</b>	<b>-</b>	<b>-</b>	<b>41,363</b>	<b>11,828</b>	<b>31</b>	<b>(31)</b>	<b>(1,755)</b>	<b>74,158</b>
Deductions									
Operating expenses	-	-	-	45,013	-	-	-	-	45,013
Construction expenses	-	-	-	-	5,421	-	-	-	5,421
Payment of principal and interest - escrow	3,772	-	-	-	-	-	-	-	3,772
Premium and interest on investment purchases	-	-	-	-	11	-	-	-	11
Payment of principal	9,160	-	-	-	-	-	-	-	9,160
Debt issuance costs	-	-	-	-	-	-	97	-	97
Interest paid - non-escrow	8,461	-	-	-	-	-	-	-	8,461
<b>Total</b>	<b>21,393</b>	<b>-</b>	<b>-</b>	<b>45,013</b>	<b>5,432</b>	<b>-</b>	<b>97</b>	<b>-</b>	<b>71,935</b>
Balance at June 30, 2006	\$ 4,625	\$ 21,323	\$ -	\$ 6,062	\$ 17,782	\$ 31	\$ (1)	\$ 76,699	\$ 126,521

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and have been prepared from the trust statements. The balances in the funds consist of cash and investments at original cost. These balances do not include accrued interest receivable, unrealized gain (loss) on investments, and \$22 held in the revolving fund at both June 30, 2006 and 2005.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY  
MAGNOLIA POWER PROJECT  
SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS IN FUNDS  
REQUIRED BY THE BOND INDENTURE FOR THE YEAR ENDED JUNE 30, 2006  
(AMOUNTS IN THOUSANDS)**

	Debt Service Account	Debt Service Reserve Account	Project Fund	Operating Reserve Fund	Reserve and Contingency	Operating Fund	Revenue Fund	Total
Balance at June 30, 2005	\$ 6,478	\$ 20,013	\$ 13,180	\$ 4,993	\$ 9,793	\$ -	\$ 69	\$ 54,526
Additions								
Investment earnings	8	471	34	7	-	7	11	538
Discount on investment purchases	92	2	89	210	84	757	10	1,244
Distribution of investment earnings	(98)	(278)	(1)	(147)	-	(724)	1,248	-
Transfer of funds for debt service payment	1,211	-	(1,211)	-	-	-	-	-
Receipt from participants	-	-	-	-	-	-	83,941	83,941
Distribution of revenues	18,801	1	3,096	9	-	63,372	(85,279)	-
Transfer to project fund	-	(586)	11,986	(74)	(9,779)	(1,547)	-	-
MPC Transfer	-	-	-	-	-	-	-	-
Other	-	-	4	-	-	-	-	4
Total	20,014	(390)	13,997	5	(9,695)	61,865	(69)	85,727
Deductions								
Construction expenditures	-	-	25,531	-	-	-	-	25,531
Operating expenses	-	-	-	-	-	47,000	-	47,000
Premium and interest on investment purchases	-	4	-	83	98	-	-	185
Interest paid - non-escrow	15,170	-	-	-	-	-	-	15,170
Total	15,170	4	25,531	83	98	47,000	-	87,886
Balance at June 30, 2006	\$ 11,322	\$ 19,619	\$ 1,646	\$ 4,915	\$ -	\$ 14,865	\$ -	\$ 52,367

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and have been prepared from the trust statements. The balances in the funds consist of cash and investments at original cost. These balances do not include accrued interest receivable, unrealized gain (loss) on investments and \$14 held in the revolving fund at both June 30, 2006 and 2005.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY  
NATURAL GAS PROJECT  
SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS IN FUNDS  
REQUIRED BY THE BOND INDENTURE FOR THE YEAR ENDED JUNE 30, 2006  
(AMOUNTS IN THOUSANDS)**

	Revenue Fund	Operating Fund	Fund	General Reserve Fund	Project Fund	Capital Fund	Depository Fund	Total
Balance at June 30, 2005	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Additions</b>								
Investment earnings	2	21	4	-	4	7	9	47
Discount on investment purchases	-	156	30	-	20	9	6	221
Distribution of investment earnings	-	3	-	-	-	2	(5)	-
Bond Proceeds 2005A	-	-	-	-	29,900	-	-	29,900
Receipt from participants	5,763	24,342	-	-	-	19,128	-	49,233
Distribution of revenues	(5,765)	2,676	3,360	-	(2,147)	1,985	(109)	-
Other	-	1,537	-	-	-	205	23,738	25,480
<b>Total</b>	<b>-</b>	<b>28,735</b>	<b>3,394</b>	<b>-</b>	<b>27,777</b>	<b>21,336</b>	<b>23,639</b>	<b>104,881</b>
<b>Deductions</b>								
Acquisition of gas reserves	-	-	-	-	25,963	-	23,245	49,208
Development and completion costs	-	-	-	-	21	19,727	209	19,957
Operating expenses	-	18,735	-	-	-	-	185	18,920
Payment of principal	-	-	1,700	-	-	-	-	1,700
Interest paid	-	-	1,186	-	-	-	-	1,186
Debt issuance costs	-	-	-	-	214	-	-	214
<b>Total</b>	<b>-</b>	<b>18,735</b>	<b>2,886</b>	<b>-</b>	<b>26,198</b>	<b>19,727</b>	<b>23,639</b>	<b>91,185</b>
Balance at June 30, 2006	\$ -	\$ 10,000	\$ 508	\$ -	\$ 1,579	\$ 1,609	\$ -	\$ 13,696

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and have been prepared from the trust statements. The balances in the funds consist of cash and investments at original cost. These balances do not include accrued interest receivable, unrealized gain (loss) on investments, and \$14 held in the revolving fund at both June 30, 2006.