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# DEPARTMENT OF WATER AND POWER
# OF THE CITY OF LOS ANGELES
# POWER SYSTEM

Financial Statements and
Required Supplementary Information

June 30, 2024 and 2023

(With Independent Auditors' Report Thereon)

**DEPARTMENT OF WATER AND POWER**
**OF THE CITY OF LOS ANGELES**
**POWER SYSTEM**

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# Independent Auditors' Report

The Board of Water and Power Commissioners
City of Los Angeles
Department of Water and Power:

## Report on the Audit of the Financial Statements

*Opinion*

We have audited the financial statements of the Power Revenue Fund of the Department of Water and Power of the City of Los Angeles (the Power System), as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Power System's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Power System as of June 30, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

*Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department of Water and Power of the City of Los Angeles and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Emphasis of Matter*

As discussed in note 1(a), the financial statements present only the Power System and do not purport to, and do not, present fairly the financial position of the City of Los Angeles as of June 30, 2024 and 2023, and changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

*Responsibilities of Management for the Financial Statements*

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

*Auditors' Responsibilities for the Audit of the Financial Statements*

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Power System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–18 and the other required supplementary information on pages 110–115 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2024 on our consideration of the Power System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Power System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Power System's internal control over financial reporting and compliance.

KPMG LLP

Los Angeles, California
December 10, 2024

The following discussion and analysis of the financial performance of the Department of Water and Power (the Department) of the City of Los Angeles' Power Revenue Fund (the Power System) provides an overview of the financial activities for the fiscal years ended June 30, 2024 and 2023. Descriptions and other details pertaining to the Power System are included in the notes to the financial statements. This discussion and analysis should be read in conjunction with the Power System's financial statements, which begin on page 19.

## Using this Financial Report

This annual financial report consists of the Power System's financial statements and required supplementary information and reflects the self-supporting activities of the Power System that are funded primarily through the sale of energy, transmission, and distribution services to the public it serves.

## Statements of Net Position; Statements of Revenue, Expenses, and Changes in Net Position; and Statements of Cash Flows

The financial statements provide an indication of the Power System's financial health. The statements of net position include all of the Power System's assets, deferred outflows, liabilities, deferred inflows, and net position using the accrual basis of accounting, 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 as of June 30, 2024 and 2023. The statements of revenue, expenses, and changes in net position report all of the revenue and expenses during the time periods indicated. The statements of cash flows report the cash provided by and used in operating activities, noncapital financing activities, capital and related financing activities, and investing activities during the fiscal years ended June 30, 2024 and 2023.

The following tables summarize the financial position and changes in net position of the Power System as of and for the fiscal years ended June 30, 2024, 2023, and 2022:

**Table 1 – Condensed Schedule of Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position**
(Amounts in millions)

| | | Year Ended June 30 | | |
|---|---|---|---|---|
| **Assets and Deferred Outflows** | | **2024** | **2023** | **2022** |
| Utility plant, net | $ | 15,732 | 14,820 | 14,088 |
| Restricted investments | | 698 | 666 | 655 |
| Other noncurrent assets | | 1,633 | 1,498 | 3,388 |
| Current assets | | 4,155 | 4,036 | 3,843 |
| Deferred outflows | | 1,149 | 1,017 | 443 |
| Total assets and deferred outflows | $ | 23,367 | 22,037 | 22,417 |
| **Net Position, Liabilities, and Deferred Inflows** | | | | |
| Net position: | | | | |
| Net investment in capital assets | $ | 2,786 | 2,226 | 2,122 |
| Restricted | | 1,474 | 1,313 | 1,004 |
| Unrestricted | | 3,351 | 3,488 | 3,299 |
| Total net position | | 7,611 | 7,027 | 6,425 |
| Liabilities and deferred inflows: | | | | |
| Long-term debt, net of current portion | | 12,377 | 12,118 | 12,058 |
| Other long-term liabilities | | 1,418 | 1,209 | 542 |
| Current liabilities | | 1,206 | 1,088 | 1,308 |
| Deferred inflows | | 755 | 595 | 2,084 |
| Total liabilities and deferred inflows | | 15,756 | 15,010 | 15,992 |
| Total net position, liabilities, and deferred inflows | $ | 23,367 | 22,037 | 22,417 |


(Continued)

**Table 2 – Condensed Schedule of Revenue, Expenses, and Changes in Net Position**

(Amounts in millions)

| | | Year ended June 30 | |
|---|---|---|---|
| | **2024** | **2023** | **2022** |
| Operating revenues: | | | |
| Residential | $ 1,679 | 1,718 | 1,637 |
| Commercial and industrial | 3,037 | 2,858 | 2,785 |
| Sales for resale | 118 | 326 | 230 |
| Other | 45 | 60 | 54 |
| Uncollectible accounts | (54) | (3) | (113) |
| Total operating revenues | 4,825 | 4,959 | 4,593 |
| Operating expenses: | | | |
| Fuel for generation and purchased power | (1,554) | (1,885) | (1,637) |
| Maintenance and other operating expenses | (1,694) | (1,570) | (1,431) |
| Depreciation and amortization | (805) | (762) | (724) |
| Total operating expenses | (4,053) | (4,217) | (3,792) |
| Operating income | 772 | 742 | 801 |
| Nonoperating revenue (expenses): | | | |
| Net investment income (loss) | 149 | 43 | (118) |
| Federal bond subsidies | 24 | 25 | 25 |
| Other nonoperating revenue, net | 222 | 346 | 94 |
| Debt expense, net | (408) | (399) | (371) |
| Total nonoperating revenue (expenses), net | (13) | 15 | (370) |
| Income before capital contributions and transfers | 759 | 757 | 431 |
| Capital contributions | 70 | 77 | 101 |
| Transfers to the reserve fund of the City | (245) | (232) | (225) |
| Increase in net position | 584 | 602 | 307 |
| Beginning balance of net position | 7,027 | 6,425 | 6,118 |
| Ending balance of net position | $ 7,611 | 7,027 | 6,425 |



(Continued)

### Assets and Deferred Outflows

*Utility Plant*

During fiscal years 2024 and 2023, the Power System's net utility plant increased $912 million and $733 million, respectively. Net utility plant consists of significant investments in generation, transmission, distribution, and general plant infrastructure and fuel resources less accumulated depreciation.

During fiscal year 2024, depreciable utility plant additions totaled $1,202 million and construction work in progress (CWIP) expenditures totaled $365 million. Major CWIP additions/expenditures during the year included $45 million for design and construction of the new Receiving Station to serve LAX, $45 million to upgrade the 230 kV transmission line between Barren Ridge and Haskell Canyon Switching Stations, $35 million for the McCullough to Victorville Lines 1&2 Series Compensation upgrade project, $23 million for the design and construction of the new Rosamond Switching Station, $21 million for re-expansion of Barren Ridge Switching Station, $20 million for implementation support and system infrastructure cost for new Enterprise Resource Planning (ERP) software, $15 million for Distribution Automation System upgrade, $11 million to upgrade existing circuit breakers at Victorville Switching Station, and $10 million for the expansion of Distribution Station 111. $285 million in CWIP projects were transferred from CWIP to plant accounts. Transfers from CWIP included $143 million for installation of the new Scattergood-Olympic B cables, $82 million to convert the existing 115 kV Power Plant 1 and Power Plant 2 transmission lines into new 230 kV transmission lines between Haskell Canyon and Sylmar Switching Stations, $27 million to upgrade and increase the capacity of the Victorville to Los Angeles Basin Transmission Path, and $7 million for Substation reliability improvements. The above-mentioned projects were the primary drivers behind the increase in CWIP additions of $57 million.

Direct additions are mostly related to improvements in distribution infrastructure as part of the Power System Reliability Program (PSRP). Many of the Department's assets were installed between 1920 and 1970. The PSRP is a program that evaluates and prioritizes which assets should be replaced first to reduce the frequency of electric service disruptions and the duration of each disruption. Approximately $848 million and $25 million were direct additions to distribution and transmission plant accounts, respectively. Major direct additions included $189 million for replacement of deteriorated poles and crossarms, $121 million for new business line customer facilities, $102 million for reliability replacement of 4.8 kV and 34.5 kV cables, $33 million to relocate and replace power distribution infrastructure for customer-driven projects, and $27 million to replace deteriorated and faulty equipment.

The accumulated depreciation balance increased by a net of $567 million in fiscal year 2024, which included retirements of $55 million offset by annual depreciation of $622 million net of depreciation charged to shared services.

During fiscal year 2023, depreciable utility plant additions totaled $954 million and construction work in progress (CWIP) expenditures totaled $414 million. Major CWIP additions/expenditures during the year included $72 million to install new 230kV line between Haskell Canyon Switching Station and Sylmar Switching Station $54 million for Scattergood-Olympic Cable B Install project, $40 million for design and construction of a new Receiving Station to serve LAX, $24 million for Victorville to Los Angeles Basin Power Injection Upgrade, $23 million for re-expansion of Barren Ridge Switching Station, $22 million for implementation support cost for new Enterprise Resource Planning (ERP) software, $20 million for the McCullough to Victorville Lines 1&2

Series Compensation upgrade project, $11 million for Distribution Substations expansions, $10 million for Distribution Automation System upgrade, and $10 million to upgrade the 230kV transmission line between Barren Ridge Switching Station and Haskell Canyon Switching Station. $178 million in CWIP projects were transferred from CWIP to plant accounts. Transfers from CWIP included $30 million for the new Castaic Powerplant to Haskell Switching Station Line 3, $28 million for the replacement of transformer banks at various Receiving Stations, $22 million for tenant improvement costs for new office space facilities, and $21 million for high-voltage transformer replacements. The above-mentioned projects were the primary drivers behind the increase in CWIP additions of $200 million.

Direct additions are mostly related to improvements in distribution infrastructure as part of the Power System Reliability Program (PSRP). Many of the Department's assets were installed between 1920 and 1970. The PSRP is a program that evaluates and prioritizes which assets should be replaced first to reduce the frequency of electric service disruptions and the duration of each disruption. Approximately $703 million and $14 million were direct additions to distribution and transmission plant accounts, respectively. Major direct additions included $139 million for replacement of deteriorated poles and crossarms, $97 million for new business line customer facilities, $81 million for reliability replacement of 4.8 kV and 34.5 kV cables, $28 million for installing, reinforcing, and modifying 4.8kV and 34.5kv circuits at various distributing stations, $27 million to design and replace aging distribution infrastructure for customers, and $22 million for customer stations design and construction.

The accumulated depreciation balance increased by a net of $545 million in fiscal year 2023, which included retirements of $54 million offset by annual depreciation of $599 million net of depreciation charged to shared services. Additional information regarding the Power System's utility plant assets can be found in note 3 to the accompanying financial statements.

The Power System is a vertically integrated utility, meaning it owns its own energy-generating assets, transmission system, and distribution system. The Power System has diverse power resources. The tables that follow summarize the generating resources available to the Power System as of June 30, 2024. These resources include those owned by the Power System (either solely or jointly with other utilities), as well as resources available through long-term purchase agreements. Generating station capacity is measured in megawatts (MWs).

**Table 3 – Power System–Owned Facilities**
**As of June 30, 2024**

| Type of fuel | Number of facilities | Number of units | Net maximum capacity (MWs) [1] | Net dependable capacity (MWs) [1] |
|---|---|---|---|---|
| Natural gas | 4 [2] | 29 [2] | 3,373 | 3,191 |
| Large hydro | 1 | 7 | 1,265 | 1,265 |
| Renewables | 66 | 163 [3] | 417 | 277 [4] |
| Storage | 1 | 1 | 20 | 20 |
| Subtotal | 72 | 200 | 5,075 | 4,753 |
| Less payable to the California Department of Water Resources | — | — | (120) [5] | (48) [5] |
| Total | 72 | 200 | 4,955 | 4,705 |

[1] Based on 2023-2024 capacity ratings

[2] Consists of the four Los Angeles Basin Stations (Haynes, Valley, Harbor, and Scattergood) discussed and defined below. See *Once-Through-Cooling Units Phase-Out* below for information regarding the future expected phase out of certain natural gas units.

[3] Includes 22 of the hydro units at the Los Angeles Aqueduct, Owens Valley, and Owens Gorge hydro units that are certified as renewable resources by the California Energy Commission. Also included are Department-built photovoltaic solar installations, the Pine Tree Wind Project, and a local small hydro plant. Not included are the units that were upgraded at the Castaic Plant.

[4] Figure based on statistical modeling of likely output without consideration of weather conditions that may affect the ability of certain renewable resources to reach its dependable capacity

[5] Energy payable to the California Department of Water Resources for energy generated at the Castaic Plant. This amount varies weekly up to a maximum of 120 MWs.

**Table 4 – Jointly Owned Facilities, Long-Term Purchase Commitments and Energy Entitlements
As of June 30, 2024**

| Type | Number of facilities | | Department's net maximum capacity entitlement (MWs) | | Department's net dependable capacity entitlement (MWs) | |
|---|---|---|---|---|---|---|
| Coal – Intermountain Power Project | 1 | | 1,202 | [1] | 1,175 | |
| Natural gas – Apex Generating Station | 1 | | 578 | | 483 | |
| Large hydro – Hoover Power Plant | 1 | | 496 | [2] | 270 | [2] |
| Nuclear – Palo Verde Nuclear Generating Station | 1 | | 387 | [3] | 380 | |
| Renewables/Distributed generation (DG) | 84,654 | [4][6] | 3,246 | | 1,062 | [5] |
| Total | 84,658 | | 5,909 | | 3,370 | |

[1] The Department's Intermountain Power Project (IPP) entitlement is 48.62% of the maximum net plant capacity of 1,800 MWs. An additional 18.17% portion of the IPP entitlement is subject to variable recall as set forth under *Intermountain Power Project – Power Recalls* below.

[2] The Department's Hoover Power Plant contract entitlement is 496 MW, which is 23.90% of the Hoover total contingent capacity and 14.7% of the firm energy. Hoover Power Plant output constantly varies due to low water levels at Lake Mead resulting from drought conditions.

[3] The Department's Palo Verde Nuclear Generating Station entitlement is 9.66% of the maximum net plant capacity of 4,003 MWs. See *Palo Verde Nuclear Generating Station* below.

[4] The Department's contract renewable resources in-service includes a hydro unit in the Los Angeles area; wind farms in Oregon, Washington, Utah, and Wyoming, and customer solar photovoltaic installations and other DG units located in the Los Angeles region.

[5] Figure based on statistical modeling of likely output without consideration of weather conditions that may affect the ability of certain renewable resources to reach its dependable capacity.

[6] The Power System is a member of the SCPPA, which is a California Joint Powers Agency that finances the construction or acquisition of generation, transmission, and renewable energy projects. The Power System records its transactions with SCPPA as purchased power expense, and the assets purchased by SCPPA and related debt are on SCPPA's financial statements.

*Other Noncurrent Assets and Deferred Outflows*

During fiscal year 2024, other noncurrent assets had a net increase of approximately $135 million primarily due to an increase of $148 million in net other postemployment benefits (OPEB) assets due to GASB 75 valuation, a $70 million increase in cash and cash equivalents, and an increase in prepayments of $20 million, offset by a decrease in other regulatory assets of $56 million, a decrease in regulatory assets associated with OPEB of $30 million, a decrease in derivative instrument assets of $15 million, and a decrease in long-term underrecovered costs of $2 million. Decreases in regulatory assets related to OPEB were due to actual expense being less than actuarially determined contributions.

During fiscal year 2024, deferred outflows increased approximately $132 million due primarily to an increase in deferred outflows related to pension of $52 million, a $46 million increase in deferred outflows related to year-over-year contributions made after the measurement date for pension, a $9 million increase for deferred outflows on debt refunding due to amortization of gains and losses on bond refinancing, a $33 million increase in asset retirement obligation and a $1 million increase in deferred outflows on derivative instruments, offset by a decrease of $7 million related to OPEB and a $2 million decrease in deferred outflows related to year-over-year contributions made after the measurement date for OPEB.

During fiscal year 2023, other noncurrent assets had a net decrease of approximately $1,890 million primarily due to a decrease of $1,120 million in net pension assets and $161 million decrease in net other postemployment benefits (OPEB) assets due to GASB 75 valuation, a decrease in cash and cash equivalents of $399 million, a decrease in regulatory assets associated with OPEB of $102 million, a decrease in derivative instrument assets of $86 million, a decrease in other regulatory assets of $35 million, a decrease in long-term underrecovered costs of $6 million, a decrease in notes receivable of $1 million offset by an increase in prepayments of $20 million and an increase in restricted investments of $11 million. Decreases in regulatory assets related to pension and OPEB were due to actual expense being less than actuarially determined contributions.

During fiscal year 2023, deferred outflows increased approximately $574 million due primarily to an increase in deferred outflows related to pension of $506 million and $31 million related to OPEB, a $31 million increase in deferred outflows related to year-over-year contributions made after the measurement date for pension, a $5 million increase in asset retirement obligation, a $3 million increase in deferred outflows related to year-over-year contributions made after the measurement date for OPEB, offset by a $4 million decrease for deferred outflows on debt refunding due to amortization of gains and losses on bond refinancing.

*Current Assets*

During fiscal year 2024, current assets had a net increase of approximately $119 million, or 3%. This increase is primarily comprised of a $166 million increase in customer and other accounts receivable net of allowance for losses in 2024 and 2023, a $114 million increase in the current portion of underrecovered costs, a $110 million increase in restricted cash and cash equivalents, a $110 million increase due from the Water System, a $35 million increase in materials and fuel, and a $1 million increase in prepayments and other current assets, offset by a $403 million decrease in unrestricted cash and cash equivalents as a result of a decrease in cash provided by operating activities, a decrease of $8 million in cash collateral received from securities lending transactions, and a $6 million decrease in current portion of long-term notes receivable.

During fiscal year 2023, current assets increased by approximately $193 million, or 5%. This increase is primarily comprised of a $170 million increase in customer and other accounts receivable net of allowance for losses in 2023 and 2022, a $111 million increase in restricted cash and cash equivalents, a $39 million increase in prepayments and other current assets, a $20 million increase in the current portion of underrecovered costs, a $14 million increase in materials and fuel, a $13 million increase due from the Water System, offset by an $80 million decrease in unrestricted cash and cash equivalents as a result of a decrease in cash provided by operating activities, $68 million decrease in current portion of long-term notes receivable, and a decrease of $26 million in cash collateral received from securities lending transactions.

**Net Position, Liabilities and Deferred Inflows**

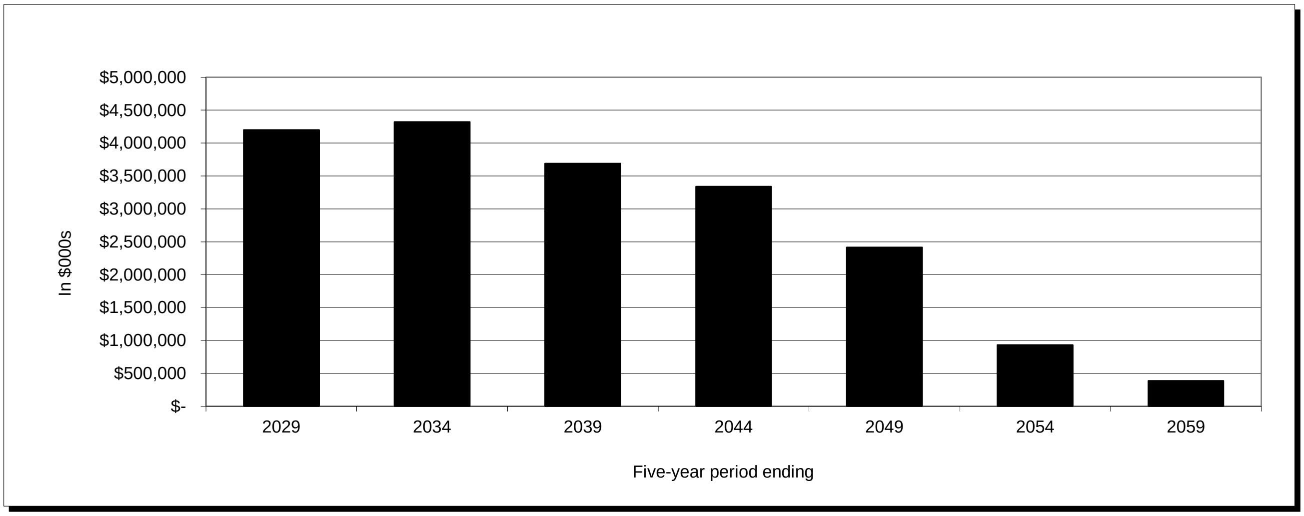
*Long-Term Debt*

As of June 30, 2024, the Power System's total outstanding long-term debt balance, including the current portion, was approximately $12.7 billion. The increase of $288.3 million over the prior year's balance was due to $2.1 billion in new debt issuances at par in fiscal year 2024, $253.0 million in issue premiums, offset by scheduled maturities of $214.0 million, defeasance of $1.6 billion in the Power System's revenue bonds, and $211.8 million in amortization on premiums and discounts. Four issues were to defease debt and two issues were used to defease debt and finance capital improvements.

As of June 30, 2023, the Power System's total outstanding long-term debt balance, including the current portion, was approximately $12.4 billion. The increase of $118.7 million over the prior year's balance was due to $1.0 billion in new debt issuances at par in fiscal year 2023, $78.2 million in issue premiums, offset by scheduled maturities of $190.3 million, defeasance of $636.4 million in the Power System's revenue bonds, and $157.4 million in amortization on premiums and discounts. Two issues were to finance capital improvements, one issue was to defease debt, and one issue was used to defease debt and finance capital improvements.

Outstanding principal, plus scheduled interest as of June 30, 2024, is scheduled to mature as shown in the chart below:

**Chart: Debt Service Requirements**




In addition, the Power System had $515.7 million and $491.6 million in restricted investments available for the use of debt reduction as of June 30, 2024 and 2023, respectively.

In October 2024, Moody's Investors Service and Kroll Bond Rating Agency affirmed the Power System's bond rating of Aa2 and AA, respectively. In November 2024, S&P Global Ratings affirmed the Power System's bond rating of AA-. Also, in May 2024, Fitch Ratings affirmed the Power System's bond rating of AA-. The Power System maintained each of its respective bond ratings as of June 30, 2024.

The Master Bond Resolution allows for parity debt to be issued as long as the Power System's adjusted net income for the applicable calculation period is at least 1.25 times the maximum annual adjusted debt service. The debt service coverage ratio is computed by taking operating revenue, less operating expense, excluding depreciation expense to obtain net revenue. Net revenue is then divided by the current debt service. During fiscal year 2024 and 2023, the Power System debt service coverage was 2.72 and 2.82, respectively.

Additional information regarding the Power System's long-term debt can be found in note 9 to the financial statements.

*Other Long-term Liabilities and Deferred Inflows*

During fiscal year 2024, other long-term liabilities had a net increase of $209 million primarily due to an increase in overrecovered costs related to pension of $129 million and a $44 million increase related to OPEB, a $57 million increase in asset retirement obligation, and a $6 million increase in accrued workers' compensation claims, offset by a decrease in net pension liability of $20 million as a result of a 7.49% return, which was higher than the assumed return of 6.50% resulting in a favorable investment return during the year and changes in actuarial assumptions, and a $5 million decrease in other noncurrent liabilities.

During fiscal year 2024, deferred inflows increased approximately $159 million primarily due to an increase of $83 million from deferred inflows related to debt refunding, an increase of $64 million from deferred inflows related to OPEB, an increase of $40 million from deferred inflows related to regulated business activities, offset by a $15 million decrease from deferred inflows related to derivative instruments, an $11 million decrease from deferred inflows related to pensions, and a $2 million decrease from deferred inflows related to leases.

During fiscal year 2023, other long-term liabilities had a net increase of $667 million primarily due to an increase in net pension liability of $414 million as a result of a (5.37)% return, which was lower than the assumed return of 7% resulting in an unfavorable investment return during the year and changes in actuarial assumptions, an increase in overrecovered costs of $212 million, $37 million increase in other noncurrent liabilities, a $10 million increase in accrued workers' compensation claims, offset by a $6 million decrease in asset retirement obligation.

During fiscal year 2023, deferred inflows decreased approximately $1,489 million primarily due to a decrease of $1,209 million from deferred inflows related to pension and $228 million related to OPEB, and a decrease of $86 million from deferred inflows related to derivative instruments, offset by a $34 million increase from deferred inflows related to debt refunding.

As discussed above, net pension decreased primarily due to the employer's contributions amortizing a portion of the unfunded actuarial accrued liability, which results in a reduction of the net pension liability. Net OPEB assets increased from prior year as a result of actual investment income on plan investment of 6.5% as compared to projected investment income of 7.25%.

*Current Liabilities*

During fiscal year 2024, current liabilities increased by $118 million, or 11%, primarily due to a $82 million increase in accounts payable and accrued expenses, a $21 million increase in accrued employee expenses, a $20 million increase in current portion of variable rate demand bond liquidity advance not made, and a $10 million increase in current portion of long-term debt, offset by an $8 million decrease in securities lending obligations by the City, and a $7 million decrease in accrued interest.

During fiscal year 2023, current liabilities decreased by $219 million, or 17%, primarily due to a $285 million decrease in accounts payable and accrued expenses, a $26 million decrease in securities lending obligations by the City, a $10 million increase in accrued interest, a $23 million increase in accrued employee expenses, a $24 million increase in current portion of long-term debt, and a $35 million increase in current portion of variable rate demand bond liquidity advance not made.

## Changes in Net Position

*Operating Revenue*

The Power System's rates are established by rate ordinances set by the Board of Water and Power Commissioners (the Board) based on the Board's powers and duties established in Section 676 of the City Charter. The Power System recognizes energy costs in the period incurred and accrues for estimated energy sold but not yet billed. Through a set of rate ordinances, the Power System bills its revenue through fixed and pass-through factors. As of April 15, 2016, the effective date of the 2016 Incremental Electric Rate Ordinance, all pass-through billing factors charged as part of the 2016 rates are uncapped, and a base rate revenue target (BRRT) was established for fiscal year 2016 through fiscal year 2023 to ensure sufficient revenue to meet fixed costs while implementing an aggressive energy efficiency program. The base rate revenue target is a decoupling mechanism that separates cost recovery from the energy usage underlying the calculated overall rate. This allows the Power System to meet its financial obligations while still promoting energy conservation.

The operating revenue of the Power System is generated from wholesale and retail customers. There are four major customer categories of retail revenue. These categories include residential, commercial, industrial, and other, which includes public street lighting. Table 5 summarizes the percentage contribution of retail revenue from each customer segment in fiscal years 2024, 2023, and 2022:

**Table 5 – Revenue and Percentage of Revenue by Customer Class**

(Amounts in thousands other than percentages)

| | Fiscal year 2024 | | Fiscal year 2023 | | Fiscal year 2022 | |
|---|---|---|---|---|---|---|
| | **Revenue** | **Percentage** | **Revenue** | **Percentage** | **Revenue** | **Percentage** |
| Type of retail customer: | | | | | | |
| Residential | $ 1,679,399 | 36 % | $ 1,717,646 | 37 % | $ 1,637,120 | 37 % |
| Commercial and industrial | 3,036,936 | 65 | 2,857,601 | 62 | 2,784,691 | 64 |
| Other, net | (9,160) | (1) | 56,945 | 1 | (58,211) | (1) |
| | 4,707,175 | 100 % | 4,632,192 | 100 % | 4,363,600 | 100 % |
| Sales for resale | 118,193 | | 326,347 | | 230,160 | |
| Total revenue | $ 4,825,368 | | $ 4,958,539 | | $ 4,593,760 | |

While commercial customers consume the most electricity, residential customers represent the largest customer class. As of June 30, 2024, 2023, and 2022, the Power System had approximately 1.6 million customers. As shown in Table 6 below, 1.4 million, or 92%, of total customers were in the residential customer class in fiscal years 2024, 2023, and 2022, respectively.

**Table 6 – Number of Customers and Percentage of Customers by Customer Class**

(Amounts in thousands other than percentages)

| | Fiscal year 2024 | | Fiscal year 2023 | | Fiscal year 2022 | |
|---|---|---|---|---|---|---|
| | Number | Percentage | Number | Percentage | Number | Percentage |
| Type of retail customer: | | | | | | |
| Residential | 1,453 | 92 % | 1,440 | 91 % | 1,430 | 91 % |
| Commercial | 118 | 7 | 118 | 8 | 118 | 8 |
| Industrial | 10 | 1 | 10 | 1 | 10 | 1 |
| Other | 7 | — | 7 | — | 7 | — |
| | 1,588 | 100 % | 1,575 | 100 % | 1,565 | 100 % |

*Fiscal Year 2024*

Operating revenue decreased $133 million mainly due to a decrease of $208 million in Sales for Resale, a $51 million decrease of uncollectible accounts, and a $15 million decrease in other revenue, offset by an increase of $141 million in total from retail customers due to an overall increase in consumption.

*Fiscal Year 2023*

Operating revenue increased $365 million mainly due to an increase of $154 million in total from retail customers due to an overall increase in consumption, an increase of $96 million in Sales for Resale, a $6 million increase in other revenue, and a $109 million decrease of uncollectible accounts.

*Operating Expenses*

Fuel for generation and purchased power are two of the largest operating expenses that the Power System incurs each fiscal year. Fuel for generation expense includes the cost of fuel that is used to generate energy. The majority of fuel costs include the cost of natural gas and nuclear fuel.

The table below summarizes the Power System's operating expenses during fiscal years 2024, 2023, and 2022:

**Table 7 – Operating Expenses and Percentage of Expense by Type of Expense**

(Amounts in thousands other than percentages)

| | Fiscal year 2024 | | Fiscal year 2023 | | Fiscal year 2022 | |
|---|---|---|---|---|---|---|
| | Expense | Percentage | Expense | Percentage | Expense | Percentage |
| Type of expense: | | | | | | |
| Fuel for generation | $ 333,636 | 8 % | $ 435,524 | 10 % | $ 327,813 | 8 % |
| Purchased power | 1,220,759 | 30 | 1,448,692 | 35 | 1,309,505 | 35 |
| Other operating expenses | 1,201,360 | 30 | 1,103,990 | 26 | 1,021,818 | 27 |
| Maintenance expenses | 492,387 | 12 | 466,439 | 11 | 409,175 | 11 |
| Depreciation and amortization | 805,263 | 20 | 761,718 | 18 | 724,461 | 19 |
| | $ 4,053,405 | 100 % | $ 4,216,363 | 100 % | $ 3,792,772 | 100 % |

*Fiscal Year 2024*

Fiscal year 2024 operating expenses were $163 million lower when compared to fiscal year 2023, driven primarily by a $228 million decrease in purchase power, a $102 million decrease in fuel for generation, offset by an increase of $123 million in maintenance and other operating expenses, and a $44 million increase in depreciation and amortization expense.

The $26 **million** increase in maintenance expense for utility plant assets is mainly due to higher year-over-year maintenances costs for distribution plant, $25 million; maintenance of steam plant, $4 million; and maintenance costs for hydraulic plant, $4 million; offset by a decrease of maintenance of nuclear plant, $7 million.

The $97 million increase in other operating expense is mainly due to an increase of $34 million in administrative and general corporate expense, a $29 million increase in nuclear decommissioning expense, a $28 million increase in customer service expense, a $19 million increase in distribution expense, a $9 million increase in transmission expense, and a $3 million increase in marketing expense, offset by a decrease of $25 million in production expense.

The $228 million decrease in purchased power costs can be primarily attributed to lower year-over-year costs of generating energy and California Independent System Operator energy purchases.

The $102 million decrease in fuel for generation is primarily due to lower year-over-year natural gas prices.

The $44 million increase in the depreciation and amortization expense can mainly be attributed year-over-year increases in depreciation for distribution plant, $19 million; amortization of intangible plant including software and regulatory assets; $17 million; generation plant, $6 million; and transmission plant, $2 million.

*Fiscal Year 2023*

Fiscal year 2023 operating expenses were $423 million higher when compared to fiscal year 2022, driven primarily by an increase of $139 million in maintenance and other operating expenses, a $139 million increase in purchase power, a $108 million increase in fuel for generation, and a $37 million increase in depreciation and amortization expense.

The $57 **million** increase in maintenance expense for utility plant assets is mainly due to higher year-over-year maintenances costs for distribution plant, $27 million; maintenance of transmission plant, $13 million; maintenance of steam plant, $10 million; and maintenance costs for hydraulic plant, $7 million.

The $82 million increase in other operating expense is mainly due to an increase of $31 million increase in production expense, a $21 million increase in distribution expense, a $12 million in customer service expense, a $7 million increase in transmission expense, an increase of $6 million in administrative and general corporate expense, and a $5 million increase in marketing expense.

The $139 million increase in purchased power costs can be primarily attributed to higher year-over-year costs of generating energy and California Independent System Operator energy purchases.

The $108 million increase in fuel for generation is primarily due to higher year-over-year natural gas prices.

The $37 million increase in the depreciation and amortization expense can mainly be attributed year-over-year increases in depreciation for distribution plant, $15 million; generation plant, $5 million; general (corporate) plant, $2 million; transmission plant, $1 million; and amortization of intangible plant including software and regulatory assets, $14 million.

*Nonoperating Revenue and Expenses*

*Fiscal Year 2024*

The major nonoperating activities of the Power System for fiscal year 2024 included $408 million in debt expenses, the transfer of $245 million to the City General Fund, $229 million in other nonoperating income, investment income of $149 million, and $24 million in federal bond subsidies.

The $107 million increase in investment income can be primarily attributed to the change in the fair market value of the general pool investment between fiscal year 2023 and fiscal year 2024.

The $124 million decrease in other nonoperating income is due mainly to a decrease in revenue recognized for emissions-reduction credits.

The $9 million increase in debt expenses is mainly due to the interest expense from variable rate bonds and refunding.


(Continued)

*Fiscal Year 2023*

The major nonoperating activities of the Power System for fiscal year 2023 included the transfer of $232 million to the City General Fund, grant revenues and corresponding grant expenses of $76 million, $353 million in other nonoperating income, $25 million in federal bond subsidies, investment income of $43 million, and $399 million in debt expenses.

The $161 million increase in investment income can be primarily attributed to the change in the fair market value of the general pool investment between fiscal year 2022 and fiscal year 2023.

The $255 million increase in other nonoperating income is due mainly to an increase in revenue recognized for emissions-reduction credits.

The $28 million increase in debt expenses is mainly due to the interest expense from variable rate bonds and refunding.

**DEPARTMENT OF WATER AND POWER**
**OF THE CITY OF LOS ANGELES**
**POWER SYSTEM**

Statements of Net Position

June 30, 2024 and 2023

(Amounts in thousands)

| **Assets and Deferred Outflows** | | **2024** | **2023** |
|---|---|---|---|
| Noncurrent assets: | | | |
| Utility plant: | | | |
| Generation | $ | 6,693,892 | 6,545,425 |
| Transmission | | 2,765,613 | 2,500,636 |
| Distribution | | 13,141,742 | 12,290,765 |
| General | | 2,730,594 | 2,563,045 |
| Total | | 25,331,841 | 23,899,871 |
| Accumulated depreciation | | (10,937,101) | (10,370,150) |
| Total utility plant, net | | 14,394,740 | 13,529,721 |
| Construction work in progress | | 1,188,078 | 1,131,332 |
| Nuclear fuel, at amortized cost | | 40,092 | 40,040 |
| Natural gas field, net | | 109,437 | 119,129 |
| Total | | 15,732,347 | 14,820,222 |
| Restricted investments | | 697,721 | 666,278 |
| Cash and cash equivalents – restricted | | 570,941 | 500,467 |
| Derivative instrument assets | | — | 14,608 |
| Long-term notes and other receivables, net of current portion | | 23,409 | 25,267 |
| Regulatory assets – other | | 778,830 | 834,901 |
| Regulatory assets – OPEB | | — | 30,568 |
| Net OPEB assets | | 160,199 | 11,772 |
| Prepayments | | 99,899 | 79,549 |
| Total noncurrent assets | | 18,063,346 | 16,983,632 |
| Current assets: | | | |
| Cash and cash equivalents – unrestricted | | 1,090,739 | 1,494,067 |
| Cash and cash equivalents – restricted | | 824,509 | 713,894 |
| Cash collateral received from securities lending transactions | | 2,578 | 10,660 |
| Customer and other accounts receivable, net of $312,475 and $280,399 allowance for losses for 2024 and 2023, respectively | | 911,782 | 745,625 |
| Current portion of long-term notes receivable | | — | 6,308 |
| Current portion of underrecovered costs | | 616,168 | 502,406 |
| Due from Water System | | 177,801 | 67,260 |
| Materials and fuel | | 290,819 | 256,031 |
| Prepayments and other current assets | | 240,721 | 239,982 |
| Total current assets | | 4,155,117 | 4,036,233 |
| Total assets | | 22,218,463 | 21,019,865 |
| Deferred outflows – derivative instruments | | 1,392 | — |
| Deferred outflows – debt refunding | | 16,481 | 7,540 |
| Deferred outflows – asset retirement obligation | | 67,451 | 34,495 |
| Deferred outflows – pension | | 601,259 | 549,149 |
| Deferred outflows – OPEB | | 82,481 | 89,642 |
| Deferred outflows – contributions made after measurement date for pension | | 295,469 | 249,275 |
| Deferred outflows – contributions made after measurement date for OPEB | | 84,682 | 87,206 |
| Total deferred outflows | | 1,149,215 | 1,017,307 |
| Total assets and deferred outflows | $ | 23,367,678 | 22,037,172 |

**DEPARTMENT OF WATER AND POWER**
**OF THE CITY OF LOS ANGELES**
**POWER SYSTEM**

Statements of Net Position

June 30, 2024 and 2023

(Amounts in thousands)

| **Net Position, Liabilities, and Deferred Inflows** | **2024** | **2023** |
|---|---|---|
| Net position: | | |
| Net investment in capital assets | $ 2,786,036 | 2,226,453 |
| Restricted: | | |
| Debt service | 845,019 | 793,610 |
| Other purposes | 629,271 | 518,876 |
| Unrestricted | 3,350,974 | 3,487,700 |
| Total net position | 7,611,300 | 7,026,639 |
| Long-term debt, net of current portion | 12,376,606 | 12,117,868 |
| Other noncurrent liabilities: | | |
| Accrued workers' compensation claims | 66,013 | 60,078 |
| Asset retirement obligation | 274,325 | 218,032 |
| Net pension liability | 393,338 | 413,626 |
| Overrecovered costs – OPEB | 43,841 | — |
| Overrecovered costs – pension | 516,246 | 387,059 |
| Other noncurrent liabilities | 125,167 | 130,361 |
| Total other noncurrent liabilities | 1,418,930 | 1,209,156 |
| Current liabilities: | | |
| Current portion of long-term debt | 223,610 | 214,040 |
| Current portion of variable rate demand bond liquidity advance not made | 134,189 | 114,170 |
| Accounts payable and accrued expenses | 388,770 | 307,193 |
| Accrued interest | 241,014 | 247,655 |
| Accrued employee expenses | 215,762 | 194,449 |
| Obligations under securities lending transactions | 2,578 | 10,660 |
| Total current liabilities | 1,205,923 | 1,088,167 |
| Total liabilities | 15,001,459 | 14,415,191 |
| Deferred inflows – derivative instruments | — | 14,608 |
| Deferred inflows – leases | 21,672 | 24,025 |
| Deferred inflows – debt refunding | 176,056 | 93,255 |
| Deferred inflows – pension | 46,480 | 57,075 |
| Deferred inflows – OPEB | 283,521 | 219,189 |
| Deferred inflows from regulated business activities | 227,190 | 187,190 |
| Total deferred inflows | 754,919 | 595,342 |
| Total net position, liabilities, and deferred inflows | $ 23,367,678 | 22,037,172 |

See accompanying notes to financial statements.

**DEPARTMENT OF WATER AND POWER**
**OF THE CITY OF LOS ANGELES**
**POWER SYSTEM**

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2024 and 2023

(Amounts in thousands)

| | | 2024 | 2023 |
|---|---|---|---|
| Operating revenues: | | | |
| Residential | $ | 1,679,399 | 1,717,646 |
| Commercial and industrial | | 3,036,936 | 2,857,601 |
| Sales for resale | | 118,193 | 326,347 |
| Other | | 44,882 | 60,221 |
| Uncollectible accounts | | (54,042) | (3,276) |
| Total operating revenues | | 4,825,368 | 4,958,539 |
| Operating expenses: | | | |
| Fuel for generation | | 333,636 | 435,524 |
| Purchased power | | 1,220,759 | 1,448,692 |
| Maintenance and other operating expenses | | 1,693,747 | 1,570,429 |
| Depreciation and amortization | | 805,263 | 761,718 |
| Total operating expenses | | 4,053,405 | 4,216,363 |
| Operating income | | 771,963 | 742,176 |
| Nonoperating revenues: | | | |
| Net investment income | | 149,312 | 42,691 |
| Federal bond subsidies | | 24,279 | 25,495 |
| Grant revenues | | — | 76,079 |
| Other nonoperating income | | 229,519 | 353,054 |
| Total nonoperating revenues | | 403,110 | 497,319 |
| Grant expenses | | — | (76,079) |
| Other nonoperating expenses | | (7,817) | (7,432) |
| Total nonoperating revenues, net | | 395,293 | 413,808 |
| Debt expenses: | | | |
| Interest on debt | | 408,392 | 399,111 |
| Total debt expenses | | 408,392 | 399,111 |
| Income before capital contributions and transfers | | 758,864 | 756,873 |
| Capital contributions | | 70,492 | 76,942 |
| Transfers to the reserve fund of the City of Los Angeles | | (244,695) | (232,043) |
| Increase in net position | | 584,661 | 601,772 |
| Net position: | | | |
| Beginning of year | | 7,026,639 | 6,424,867 |
| End of year | $ | 7,611,300 | 7,026,639 |

See accompanying notes to financial statements.

**DEPARTMENT OF WATER AND POWER**
**OF THE CITY OF LOS ANGELES**
**POWER SYSTEM**

Statements of Cash Flows

Years ended June 30, 2024 and 2023

(Amounts in thousands)

| | | 2024 | 2023 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Cash receipts: | | | |
| Cash receipts from customers | $ | 4,890,370 | 4,865,864 |
| Cash receipts from customers for other agency services | | 757,685 | 761,294 |
| Cash receipts from interfund reimbursements | | 754,229 | 835,483 |
| Other cash receipts | | 62,996 | 26,203 |
| Cash disbursements: | | | |
| Cash payments to employees | | (1,021,868) | (984,857) |
| Cash payments to suppliers | | (2,012,927) | (2,545,632) |
| Cash payments for interfund reimbursements | | (1,159,776) | (964,253) |
| Cash payments to other agencies for fees collected | | (760,999) | (735,064) |
| Cash payments for property taxes | | (18,572) | (17,402) |
| Net cash provided by operating activities | | 1,491,138 | 1,241,636 |
| Cash flows from noncapital financing activities: | | | |
| Payments to the reserve fund of the City of Los Angeles | | (244,695) | (232,043) |
| Proceeds from grant receipts | | — | 76,079 |
| Payments for grant expenses | | — | (6,836) |
| Net cash used in noncapital financing activities | | (244,695) | (162,800) |
| Cash flows from capital and related financing activities: | | | |
| Additions to plant and equipment, net | | (1,535,187) | (1,375,321) |
| Capital contributions | | 61,466 | 76,880 |
| Principal payments and maturities on long-term debt | | (214,040) | (190,315) |
| Proceeds from issuance of bonds | | 701,374 | 464,953 |
| Debt interest payments | | (622,981) | (541,492) |
| Federal bond subsidies | | 24,279 | 25,495 |
| Net cash used in capital and related financing activities | | (1,585,089) | (1,539,800) |
| Cash flows from investing activities: | | | |
| Purchases of investment securities | | (494,537) | (523,837) |
| Sale of investment securities | | 475,664 | 513,100 |
| Proceeds from notes receivable | | 6,308 | 68,117 |
| Investment income | | 128,972 | 35,583 |
| Net cash provided by investing activities | | 116,407 | 92,963 |
| Net decrease in cash and cash equivalents | | (222,239) | (368,001) |
| Cash and cash equivalents: | | | |
| Beginning of period | | 2,708,428 | 3,076,429 |
| Ending of period | $ | 2,486,189 | 2,708,428 |



(Continued)

**DEPARTMENT OF WATER AND POWER**
**OF THE CITY OF LOS ANGELES**
**POWER SYSTEM**

Statements of Cash Flows

Years ended June 30, 2024 and 2023

(Amounts in thousands)

| | | 2024 | 2023 |
|---|---|---|---|
| Reconciliation of operating income to net cash provided by operating activities: | | | |
| Operating income | $ | 771,963 | 742,176 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation and amortization | | 805,263 | 761,718 |
| Depletion expense | | 9,706 | 9,627 |
| Amortization of nuclear fuel | | 10,870 | 10,592 |
| Provision for losses on customer and other accounts receivables | | 54,042 | 3,276 |
| Changes in assets and liabilities: | | | |
| Customer and other accounts receivable | | (209,340) | (234,304) |
| Underrecovered costs | | — | 5,734 |
| Current portion of underrecovered costs | | (113,762) | (19,692) |
| Materials and fuel | | (34,788) | (13,906) |
| Regulatory assets | | (46,191) | 9,145 |
| Noncurrent Prepayments | | (20,350) | (20,350) |
| Overrecovered costs – OPEB | | 43,841 | — |
| Overrecovered costs – pension | | 129,187 | 212,452 |
| Due from Water System | | (110,541) | (13,509) |
| Deferred outflows | | (124,636) | (541,580) |
| Accounts payable and accrued expenses | | 34,335 | (127,350) |
| Net pension asset/liability | | (20,288) | 1,534,266 |
| Net OPEB asset | | (148,427) | 160,880 |
| Other noncurrent liabilities | | (3,522) | 1,051 |
| Deferred inflows | | 174,185 | (1,403,221) |
| Asset retirement obligation | | 56,293 | (6,245) |
| Prepayments and other current assets | | 233,298 | 170,876 |
| Net cash provided by operating activities | $ | 1,491,138 | 1,241,636 |

Supplemental disclosures of noncash capital and relating financing activities:

During the year ended June 30, 2024, the Power System issued revenue bonds to refund previously issued debt. The $1,108.5 million of proceeds were deposited immediately into an irrevocable trust for the defeasance of $1,109.8 million of debt. Additionally, $527.4 million of proceeds were deposited immediately to a paying agent for the redemption of $516.0 million of debt. The net gain on refunding, after the write-off of previously recorded unamortized premiums, resulted in $87.2 million, which will be amortized over the debt repayment period and recorded as a deferred inflow.

During the year ended June 30, 2023, the Power System issued revenue bonds to refund previously issued debt. The $606.8 million of proceeds were deposited immediately into an irrevocable trust for the defeasance of $606.4 million of debt. Additionally, $30.0 million of proceeds were deposited immediately to a paying agent for the redemption of $30.0 million of debt. The net gain on refunding, after the write-off of previously recorded unamortized premiums, resulted in $43.6 million, which will be amortized over the debt repayment period and recorded as a deferred inflow.

Accounts payable related to capital expenditures totaled $168.3 million and $121.1 million during fiscal years 2024 and 2023, respectively.

See accompanying notes to financial statements.

## (1) Summary of Significant Accounting Policies

The City of Los Angeles Department of Water and Power (the Department) exists as a separate department of the City of Los Angeles (the City) under and by virtue of the City Charter enacted in 1925 and as revised effective July 2000. The Department's Power Revenue Fund (the Power System) is responsible for the generation, transmission, and distribution of electric power for sale in the City. The Power System is operated as an enterprise fund of the City.

### *(a) Method of Accounting*

The accounting records of the Power System are maintained in accordance with US. generally accepted accounting principles (GAAP) for state and local governmental entities. The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. The Power System is accounted for as an enterprise fund and applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in its accounting and reporting.

The financial statements of the Power System are intended to present the net position, and the changes in net position and cash flows, of only that portion of the business-type activities and each major fund of the City that is attributable to the transactions of the Power System. These financial statements do not purport to, and do not, present fairly the financial position of the City as of June 30, 2024 and 2023, the changes in its financial position, or, where applicable, its cash flows for the years then ended, in conformity with GAAP.

The Power System's rates are determined by the Board of Water and Power Commissioners (the Board) and are subject to review and approval by the Los Angeles City Council (the Council). As a regulated enterprise, the Power System follows the regulatory accounting criteria set forth in GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which requires that the effects of the rate-making process be reported in the financial statements. Such effects primarily concern the time at which various items enter into the determination of changes in net position. Accordingly, the Power System records various regulatory assets and liabilities to reflect the Board's actions and by deferring expenses and revenue that are recoverable or payable from rates provided in the electric rate ordinances. Regulatory liabilities comprise overrecovered costs and deferred inflows, and regulatory assets comprise underrecovered costs (note 6h), regulatory assets, and deferred outflows in the statement of net position. Management believes that the Power System meets the criteria for continued application and will continue to evaluate its applicability based on changes in the regulatory and competitive environment. See note 6.

### *(b) Use of Estimates*

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

### *(c) Utility Plant*

The costs of additions to utility plant and replacements of retired units of property are capitalized. Costs include labor, materials, and allocated indirect charges, such as engineering, supervision, transportation and construction equipment, retirement plan contributions, healthcare costs, and certain administrative and general expenses. The costs of maintenance, repairs, and minor replacements are charged to the appropriate operations and maintenance expense accounts.

### *(d) Intangibles*

The Power System follows GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which requires that an intangible asset be recognized in the statement of net position only if it is considered identifiable. Additionally, it establishes a specified-conditions approach to recognize intangible assets that are internally generated. Effectively, outlays associated with the development of such assets are not capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria are expensed as incurred. Intangible assets consist of land easements, land rights, and computer software and are capitalized and included in general utility plant on the statements of net position.

### *(e) Impairment of Long-Lived Assets*

The Power System follows GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (GASB 42). Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. Under GASB 42, impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the cause of the diminished service utility of the capital asset.

### *(f) Depreciation and Amortization*

Beginning in fiscal year 2017, depreciation expense is computed using the straight-line method for all assets. Depreciation rates are per the 2020 Depreciation Study. For fiscal year 2020 and prior, depreciation expense was computed using the straight-line method based on service lives for all projects completed after July 1, 1973 and for all office and shop structures, related furniture and equipment, and transportation and construction equipment. Depreciation for facilities completed prior to July 1, 1973 was computed using the 5.0% sinking fund method based on estimated service lives.

The Department uses the composite method of depreciation and, therefore, groups assets into composite groups for purposes of calculating depreciation expense. Estimated service lives range from 5 to 75 years. Amortization expense for computer software is computed using the straight-line method over 5 to 15 years. Depreciation and amortization expense as a percentage of average depreciable utility plant in service was 3.0% and 3.2% for fiscal years ended 2024 and 2023, respectively.

### *(g) Nuclear Fuel*

Nuclear fuel is amortized and charged to fuel for generation on the basis of actual thermal energy produced relative to total thermal energy expected to be produced over the life of the fuel. Under the provisions of the Nuclear Waste Policy Act of 1982, the federal government assesses each utility with nuclear operations, including the Power System, $1 per megawatt hour of nuclear generation. The Power System includes this charge as a current-year expense in fuel for generation.

### *(h) Natural Gas Field*

In July 2005, the Power System acquired approximately a 74.5% ownership interest in gas properties located in Pinedale, Wyoming. The Power System uses the successful efforts method of accounting for its investment in gas-producing properties. Costs to acquire the mineral interest in gas-producing properties, to drill and equip exploratory wells that find proven reserves, and to drill and equip development wells are capitalized. Costs to drill exploratory wells that do not find proven reserves are expensed. Capitalized costs of gas-producing properties are depleted by the unit-of-production method based on the estimated future production of the proven wells.

Depletion expense related to the gas field is recorded as a component of fuel for generation expense. During fiscal years 2024 and 2023, the Power System recorded $9.7 million and $9.6 million of depletion expense, respectively.

### *(i) Cash and Cash Equivalents*

As provided for by the State of California Government Code, the Power System's cash is deposited with the City Treasurer in the City's general investment pool for the purpose of maximizing interest earnings through pooled investment activities. The Power System considers the cash on deposit with the City Treasurer to be demand deposits as the amounts are available on demand without prior notice or penalty. Cash and cash equivalents in the City's general investment pool are reported at fair value on a recurring basis, and changes in unrealized gains and losses are recorded in the statements of revenue, expenses, and changes in net position. Interest earned on such pooled investments is allocated to the participating funds based on each fund's average daily cash balance during the allocation period. The City Treasurer invests available funds of the City and its independent operating departments on a combined basis. The Power System classifies all cash and cash equivalents that are restricted either by creditors, the Board, or by law as restricted cash and cash equivalents in the statements of net position. The Power System considers its portion of pooled investments in the City's pool to be unrestricted cash and cash equivalents and the unspent construction funds as long-term restricted cash and cash equivalents.



(Continued)

At June 30, 2024 and 2023, restricted cash and cash equivalents include the following (amounts in thousands):

| | | June 30 | |
|---|---|---|---|
| | | **2024** | **2023** |
| Bond redemption and interest funds | $ | 472,855 | 465,900 |
| Other restricted funds | | 351,654 | 247,994 |
| Restricted cash and cash equivalents – current portion | | 824,509 | 713,894 |
| Self-insurance reserve | | 232,475 | 222,475 |
| Rate stabilization fund | | 220,000 | 180,000 |
| Bond redemption funds | | 97,436 | 83,814 |
| Construction funds | | 1,714 | 9 |
| Other restricted funds | | 19,316 | 14,169 |
| Restricted cash and cash equivalents – noncurrent | | 570,941 | 500,467 |
| Total restricted cash and cash equivalents | $ | 1,395,450 | 1,214,361 |

***(j) Materials and Fuel***

Materials and supplies are recorded at average cost. Fuel is recorded at lower of cost or market on an average-cost basis.

***(k) Customer and Other Accounts Receivable and Allowance for Doubtful Accounts***

The Power System's accounts receivables are reported net of allowance for losses. Customer account receivables result from the sale of energy to City residents. Other receivables consist of billings to customers, federal, state, and local governments for work performed to improve or enhance energy distribution, energy sales to other utilities, and other miscellaneous receivables.

The Power System's residential customers are billed bimonthly, and customers on monthly billings include commercial, governmental, and industrial. The Power System records an estimate for uncollectible accounts for its receivables related to electric customer accounts and other nonelectric customer billings based on an analysis of the balances in the Power System's accounts receivable aging reports. These estimates are reviewed and adjusted annually.

The Power System records bad debt for its estimated uncollectible accounts related to electric customer accounts as a reduction in the Power System operating revenue. The Power System records its estimated uncollectible accounts related to nonelectric customer billings as a reduction to related operating revenue in the Power System.

At June 30, 2024 and 2023, customer and other accounts receivable include the following (amounts in thousands):

| | | June 30 | |
|---|---|---|---|
| | | **2024** | **2023** |
| Customer and other accounts receivable | $ | 1,224,257 | 1,026,024 |
| Allowance for losses | | (312,475) | (280,399) |
| Customer and other accounts receivable, net | $ | 911,782 | 745,625 |

### *(l) Accrued Unbilled Revenue*

Accrued unbilled revenue is the receivable for estimated energy sales during the period for which service has been provided but the customer has not yet been billed. See note 1(w).

### *(m) Investments*

The Power System follows GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and fair value reporting issues related to fair value measurements by clarifying the definition of fair value, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. This statement established a three-level hierarchy of inputs to valuation techniques used to measure fair value. Investments are reported at fair value on a recurring basis, and changes in unrealized gains and losses are recorded in the statements of revenue, expenses, and changes in net position.

### *(n) Accrued Employee Expenses*

Accrued employee expenses include accrued payroll and an estimated liability for vacation leave, sick leave, and compensatory time, which are accrued when employees earn the rights to the benefits. Below is a schedule of accrued employee expenses as of June 30, 2024 and 2023 (amounts in thousands):

| | | June 30 | |
|---|---|---|---|
| | | **2024** | **2023** |
| Type of expenses: | | | |
| Accrued payroll | $ | 52,684 | 44,066 |
| Accrued vacation | | 109,943 | 101,264 |
| Accrued sick leave | | 19,700 | 18,452 |
| Compensatory time | | 33,435 | 30,667 |
| Total | $ | 215,762 | 194,449 |

### *(o) Debt Expenses*

Debt premiums and discounts are capitalized and amortized to interest expense using the effective-interest method over the lives of the related debt issues. Gains and losses on refundings related to bonds redeemed by proceeds from the issuance of new bonds are amortized to interest expense using the effective-interest method over the shorter of the life of the new bonds or the remaining term of the bonds refunded. Debt issuance costs are expensed in the year debt is issued.

### *(p) Accrued Workers' Compensation Claims*

Liabilities for unpaid workers' compensation claims are recorded at their net present value. See note 12(c).

### *(q) Customer Deposits*

Customer deposits represent deposits collected from customers upon opening of new accounts. These deposits are obtained when the customer does not have a previously established credit history with the Department. Original deposits plus interest are paid to the customer after deduction of any unpaid charges or indebtedness due to the Department upon termination of service. An active service account is eligible for deposit refund review once a satisfactory payment history is maintained, generally after two to three years.

The Department's Water Revenue Fund (the Water System) is responsible for collection, maintenance, and refunding of these deposits for all the Department's customers, including those of the Power System. As such, the Water System's statements of net position include a deposit liability of $266 million and $269 million as of June 30, 2024 and 2023, respectively, for all customer deposits collected. In the event that the Water System defaults on refunds of such deposits, the Power System would be required to pay amounts it owes its customers.

### *(r) Capital Contributions*

Capital contributions and other grants received by the Power System for constructing utility plant and other activities are recognized when all applicable eligibility requirements, including time requirements, are met.

### *(s) Use of Restricted and Unrestricted Resources*

The Power System's policy is to use unrestricted resources prior to restricted resources to meet expenses to the extent that it is prudent from an operational perspective. Otherwise, restricted resources will be utilized to meet intended obligations.

### *(t) Pensions*

Eligible employees of the Power System are members of the Water and Power Employees' Retirement Plan (the Plan), which is a single-employer defined-benefit pension plan. The Power System's policy is to fund all the required actuarially determined contributions; such costs to be funded are determined annually as of July 1 by an actuary utilized by the Plan. The assets of the Plan are accumulated and reported at fair value in a special trust fund of the City and, therefore, are not reported in the accompanying financial statements.

The Power System recognizes a net pension liability, which represents the Power System's proportionate share of the excess of the total pension liability over the fiduciary net position of the pension plan as reflected in the financial statements of the Plan. The net pension liability is measured as of the Power System's prior fiscal year-end. Changes in the net pension liability are recorded, in the period incurred, as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) are amortized over the weighted average remaining service life of all participants in the respective pension plan and are recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on pension investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred. Each subsequent year will incorporate an additional closed basis five-year period of recognition. Contributions made after the measurement date are recorded as deferred outflows.

For purposes of measuring the net pension liability and deferred outflows/inflows of resources relating to pensions and pension expense, information about the fiduciary net position of the Power System's pension plan and additions to/deductions from the Plan's fiduciary net position has been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit's terms.

***(u) Other Postemployment Plan Benefits***

Eligible employees of the Power System are members of the Water and Power Employees' Retirement Plan, which comprises a single-employer defined-benefit plan and a system of benefits. In addition to pension benefits, retirees can also receive other postemployment benefits (OPEB), mainly, healthcare and death benefits. The level of benefits is determined based on their years of civil service, age, and which pension tier they belong to.

The Power System's policy is to fund all the required actuarially determined contributions; such costs to be funded are determined annually as of July 1 by an actuary utilized by the Plan. The assets of the Plan are accumulated and reported at fair value in a special trust fund of the City and, therefore, are not reported in the accompanying financial statements.

The Power System recognizes a net OPEB liability (asset), which represents the Power System's proportionate share of the excess of the total OPEB liability over the fiduciary net position of the Plan as reflected in the financial statements of the Plan. The net OPEB liability (asset) is measured as of the Power System's prior fiscal year-end. Changes in the net OPEB liability (assets) are recorded, in the period incurred, as OPEB expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in net OPEB liability (asset) that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) are amortized over the weighted average remaining service life of all participants in the respective OPEB plan and are recorded as a component of OPEB expense beginning with the period in which they are incurred. Projected earnings on pension investments are recognized as a component of OPEB expense. Differences between projected and actual investment earnings on plan investments are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of OPEB expense on a closed basis over a five-year period beginning with the period in which the difference occurred. Each subsequent year will incorporate an additional closed basis five-year period of recognition. Contributions made after the measurement date are recorded as deferred outflows and a reduction to the OPEB regulatory asset.

For purposes of measuring the net OPEB liability (asset) and deferred outflows/inflows of resources relating to OPEB and OPEB expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position has been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

***(v) Asset Retirement Obligations***

Asset retirement obligations (AROs) represent a legally enforceable liability to perform future asset retirement activities related to its tangible capital assets associated with the retirement of a tangible assets. The Power System records a liability and a corresponding deferred outflow at the time there is an external obligating event such as a federal or state regulation, a legally binding contract or court judgment and when there is an internal obligation event. The measurement of an ARO is based on the best estimate of the current value of outlays expected to be incurred using all available evidence. When the Power System has a minority share of an undivided interest arrange in which it jointly owns a tangible capital asset, the ARO is reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility. The ARO is reduced as actual decommissioning costs are paid. Deferred outflows of resources are amortized using the straight-line method over the remaining useful life of the asset or lease term, if leased. Amortization of the deferred outflow of resources is recorded as operating and maintenance expense in the accompanying statements of revenues, expenses, and changes in net assets.

***(w) Revenues***

The Power System's rates are established by two rate ordinances set by the Board based on its powers and duties established in Section 676 of the City Charter. The Power System sells energy to other City departments at rates provided in the ordinance. The Power System recognizes energy costs in the period incurred and accrues for estimated energy sold but not yet billed.

Revenue consists of billings to customers for power consumption at rates specified in the power rate ordinances. These rates include cost adjustment factors that provide the Power System with full recovery of fuel and purchased power expenditures and base rate revenue based upon established revenue targets. Management estimates these costs quarterly or annually for a 12-month prospective period to establish the cost recovery component of customer billings, and any difference between billed and actual costs is adjusted in subsequent billings. This difference of $341 million and $266 million represents regulatory assets that are reported as a component of underrecovered costs in the accompanying statements of net position as of June 30, 2024 and 2023, respectively. See note 6. The remaining portion of underrecovered costs of $275 million and $236 million relates to accrued unbilled amounts related to costs incurred during the years ended June 30, 2024 and 2023, respectively, that will be billed with the current fiscal year's customer consumption but has not been billed at fiscal year-end as the consumption period and billing period have not yet ended.

### *(x) Current Rate Ordinances*

Through a set of rate ordinances, the Power System bills its revenue through fixed and pass-through factors. The legacy rate ordinance has been in effect since July 1, 2008, and the most recent rate ordinance has been in effect since April 15, 2016. The power rates are set for each customer class based upon a completed formal marginal cost of service study, which is common industry practice.

The Power System's rate ordinances contain the following factors: Capped Energy Cost Adjustment Factor (CECAF), Variable Electric Adjustment Factor (VEAF), Variable Renewable Portfolio Standard Energy Adjustment Factor (VRPSEAF), Capped Renewable Portfolio Standard Energy Adjustment Factor (CRPSEAF), Reliability Cost Adjustment Factor (RCAF), Incremental Reliability Cost Adjustment Factor (IRCAF), and Electric Subsidy Adjustment Factor (ESAF). These factors are recovered by amounts included in customers' bills.

The CECAF recovers the costs of fuel, purchased power including renewable resources, and Demand Side Management costs, including revenue losses and other variable operational costs. The VEAF recovers expenditures for non-renewable fuel, nonrenewable purchased power, legal costs, judgments, and settlements, which are beyond the cost recovery ability of the CECAF and contribution from the base rates. The VRPSEAF recovers expenditures for Renewable Portfolio Standard (RPS) projects in which the Department has no ownership interest and recovery of some expenditures for RPS projects in which the Department has indirect ownership interest, which are beyond the cost recovery ability of the CECAF and contribution from the base rates. The CRPSEAF recovers expenditures for RPS projects directly owned by the Department, recovery of debt service and operation and maintenance expenses for RPS projects indirectly owned by the Department, and recovery of expenditures for Demand Side Management measures, which are beyond the cost recovery ability of the CECAF and contribution from the base rates. The RCAF and the IRCAF recover, in part, the costs of improving the reliability of power delivery to customers, and these charges support additional capital investments needed to improve reliability in areas of power distribution, transmission, and generation infrastructures. The ESAF recovers the cost of credits given to lifeline and low-income residential customers, credits to general service customers subsidized under enterprise zone and disaster recovery rates, and certain credits for lighting and traffic control.

Operating revenue is revenue generally derived from activities that are billable in accordance with the power rate ordinances established by the City of Los Angeles. Other types of revenue are generally considered nonoperating.



(Continued)

***(y) Leases***

The Power System follows GASB Statement No. 87, Leases, which provides a methodology for identifying and reporting lease arrangements and obligations. The Power System is both a lessor and a lessee:

(i) *Lessor*

The Power System is a lessor for various noncancelable leases covering building, land and improvements. For leases with a maximum possible term of 12 months or less at commencement, the Power System recognizes revenue based on the provisions in each contract. For all other leases (i.e., those that are not short term), the Power System recognizes a lease receivable and deferred inflows of resources in accordance with GASB Statement No. 87.

At lease commencement, the Power System initially measures the lease receivable at the present value of payments expected to be received during the lease term, reduced by any provision of estimated uncollectible amounts, if any. If the present value of payments expected to be received is below the $100 thousand materiality threshold, then revenues will be recognized as short-term leases. Subsequently, for all other leases, the lease receivable is reduced by the principal portion of lease payments received.

As a lessor, the Power System's long-term land leases cover periods of 30–55 years. A 30-year land lease has an escalation factor of 5% every 5 years, which commenced on April 15, 2011. This land lease also contains an Interconnection agreement for an oil terminal and tank farm for storage, handling, and distribution of crude petroleum and petroleum related products, which can be terminated after 10 years from the effective date or termination of lease agreement.

On behalf of the Customer Service Division (CSD), the Department purchased a six-story Class A office building consisting of approximately 83,904 square feet and approximately 315 parking spaces on approximately 1.59 acres of land. The property was delivered to the Department partially occupied by six existing tenants. Two of the lease agreements and tenancies expired as of December 2023, and three of the lease agreements and tenancies will expire by June 2026. The lease agreement with the remaining tenant, a telecommunications facility located on the roof of the building, will expire by November 2031. The Department does not intend to extend any of the lease terms or renew any of the lease agreements with the existing tenants. The building cost and the future rental incomes will be shared by both the Power and Water Systems.

The deferred inflows of resources are initially measured as the initial amount of the lease receivable plus any prepaid lease payments at or before the lease commencement less any lease incentives paid at or before the lease commencement. Subsequently, the Power System recognizes the deferred inflow of resources on a straight-line basis over the remaining term of the lease.

The Power System used the long-term average Weighted Average Cost of Capital (WACC) for AA-rated utilities as the discount rate for leases, which approximates the Power System's incremental borrowing rate.

The lease term includes the period during which the lessee has a noncancelable right to use an underlying asset plus any additional periods covered where the lessor and/or the lessee have the option to extend the lease and that option is reasonably certain to be exercised. The lease term also includes periods where only the lessor or lessee has the option to terminate the lease, if this termination is reasonably certain not to be exercised. Periods where both the lessee and the lessor have an option to terminate the lease without permission from the other party are cancelable periods and are excluded from the lease term.

The Power System monitors changes in circumstances that may require remeasurement of a lease. When certain changes occur that are expected to significantly affect the amount of the lease receivable, the lease receivable is remeasured and a corresponding adjustment is made to the lease asset. There was no remeasurement of leases during fiscal year 2024.

Lease receivables are reported with long-term receivables under noncurrent assets and the corresponding deferred inflows are reported with other deferred inflows in the statements of net position.

The Power System had the following lessor activities during fiscal year 2024 (amounts in thousands):

| | | Balance, June 30, 2023 | Leases and Additions | Remeasurements | Deductions | Balance, June 30, 2024 |
|---|---|---|---|---|---|---|
| Lessor: | | | | | | |
| Lease receivable – GASB 87 | $ | 25,271 | — | — | (1,858) | 23,413 |
| Deferred inflows – GASB 87 | | 24,025 | — | — | (2,353) | 21,672 |

The Power System had the following lessor activities during fiscal year 2023 (amounts in thousands):

| | | Balances, June 30, 2022 | Leases and Additions | Remeasurements | Deductions | Balance, June 30, 2023 |
|---|---|---|---|---|---|---|
| Lessor: | | | | | | |
| Lease receivable – GASB 87 | $ | 25,335 | 643 | — | (707) | 25,271 |
| Deferred inflows – GASB 87 | | 24,759 | 643 | — | (1,377) | 24,025 |

*(ii) Lessee*

The Power System is a lessee for various noncancelable leases of buildings, vehicles, and land. For leases with a maximum possible term of 12 months or less at commencement, the Power System recognizes expense based on the provisions of the lease contract. For all other leases (i.e., those that are not short term), the Power System recognizes a lease liability and an intangible right-of-use lease asset.

At lease commencement, the Power System initially measures the lease liability at the present value of payments expected to be made during the lease term. If the present value of payments expected to be made is below the $100 thousand materiality threshold, then expenses will be recognized as short-term leases. Subsequently, for all other leases, the lease liability is reduced by the principal portion of lease payments made at or before the lease commencement date.

The lease asset (right-of-use) is initially measured as the initial amount of the lease liability plus ancillary cost to place the asset into use, plus lease payments and lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term. The lease asset is amortized into amortization expense on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

The Power System generally uses its estimated incremental borrowing rate as the discount for leases unless the rate that the lessor/vendor charges is known. The Power System's incremental borrowing rate is based on the long-term average WACC for AA-rated utilities as the discount rate for leases unless the rate that the lessor charges is known. The Power System's incremental borrowing rate for leases is based on the rate of interest it would need to pay if it issued general obligation bonds to borrow an amount equal to the lease under similar terms at the commencement or remeasurement date.

The lease term includes the period during which a lessee has a noncancelable right to use an underlying asset plus any additional periods covered where the lessor and/or the lessee have the option to extend the lease and that option is reasonably certain to be exercised. The lease term also includes periods where only the lessor or lessee has the option to terminate the lease, if this termination is reasonably certain not to be exercised. Periods where both the lessee and the lessor have an option to terminate the lease without permission from the other party are cancelable periods and are excluded from lease term.

The Power System monitors changes in circumstances that may require remeasurement of a lease. When certain changes occur that are expected to significantly affect the amount of the lease liability, the liability is remeasured and a corresponding adjustment is made to the lease asset, respectively. There was no remeasurement of leases during fiscal year 2024.

Lease assets are reported with capital assets and lease liabilities are reported with current liabilities and other noncurrent liabilities (long-term) in the statements of net position.

The Power System had the following lease assets (lessee) during fiscal year 2024 (amounts in thousands):

| | Balance, June 30, 2023 | Additions | Remeasurements | Deductions | Balance, June 30, 2024 |
|---|---|---|---|---|---|
| Lessee | | | | | |
| Lease assets: | | | | | |
| Buildings | $ 53,822 | — | — | — | 53,822 |
| Vehicles | 8,007 | 3,828 | — | — | 11,835 |
| Land, right-of-use | 1,251 | 2,021 | — | — | 3,272 |
| Total lease assets (right-of-use) | 63,080 | 5,849 | — | — | 68,929 |
| Less accumulated amortization | | | | | |
| Buildings | (6,360) | (5,559) | — | — | (11,919) |
| Vehicles | (2,690) | (6,874) | — | — | (9,564) |
| Land, right-of-use | (92) | (331) | — | (239) | (662) |
| Total accumulated amortization (right-of-use) | (9,142) | (12,764) | — | (239) | (22,145) |
| Total lease assets, net | $ 53,938 | (6,915) | — | (239) | 46,784 |

The Power System had the following lease liability (lessee) during fiscal year 2024 (amounts in thousands):

| | Balance, June 30, 2023 | Additions | Remeasurements | Deductions | Balance, June 30, 2024 | Amount due in FY 2025 |
|---|---|---|---|---|---|---|
| Lease liability | $ 54,299 | 5,849 | — | (12,144) | 48,004 | 8,255 |

The Power System had the following lease assets (lessee) during fiscal year 2023 (amounts in thousands):

| | Balance, June 30, 2022 | Additions | Remeasurements | Deductions | Balance, June 30, 2023 |
|---|---|---|---|---|---|
| Lessee | | | | | |
| Lease assets: | | | | | |
| Buildings | $ 16,948 | 36,874 | — | — | 53,822 |
| Vehicles | 2,443 | 5,564 | — | — | 8,007 |
| Land, right-of-use | 1,251 | — | — | — | 1,251 |
| Total lease assets (right-of-use) | 20,642 | 42,438 | — | — | 63,080 |
| Less accumulated amortization | | | | | |
| Buildings | (2,526) | (3,834) | — | — | (6,360) |
| Vehicles | (1,116) | (1,574) | — | — | (2,690) |
| Land, right-of-use | (46) | (46) | — | — | (92) |
| Total accumulated amortization (right-of-use) | (3,688) | (5,454) | — | — | (9,142) |
| Total lease assets, net | $ 16,954 | 36,984 | — | — | 53,938 |

The Power System had the following lease liability (lessee) during fiscal year 2023 (amounts in thousands):

| | Balance, June 30, 2022 | Additions | Remeasurements | Deductions | Balance, June 30, 2023 | Amount due in FY 2024 |
|---|---|---|---|---|---|---|
| Lease liability | $ 17,410 | 42,438 | — | (5,549) | 54,299 | 11,972 |

As of June 30, 2024, annual principal and interest for the lease liability are as follows (amounts in thousands):

| | | Principal | Interest |
|---|---|---|---|
| Fiscal year(s) ending June 30: | | | |
| 2025 | $ | 8,255 | 1,834 |
| 2026 | | 4,139 | 1,807 |
| 2027 | | 4,441 | 1,634 |
| 2028 | | 4,811 | 1,436 |
| 2029 | | 5,214 | 1,212 |
| 2030–2034 | | 19,311 | 2,218 |
| 2035–2039 | | 657 | 352 |
| 2040–2044 | | 673 | 196 |
| 2045–2049 | | 406 | 82 |
| 2050–2054 | | 97 | 8 |
| Total requirements | $ | 48,004 | 10,779 |

As of June 30, 2023, annual principal and interest for the lease liability are as follows (amounts in thousands):

| | | Principal | Interest |
|---|---|---|---|
| Fiscal year(s) ending June 30: | | | |
| 2024 | $ | 11,972 | 1,822 |
| 2025 | | 3,848 | 1,943 |
| 2026 | | 3,847 | 1,786 |
| 2027 | | 4,143 | 1,618 |
| 2028 | | 4,508 | 1,426 |
| 2029–2033 | | 24,123 | 3,336 |
| 2034–2038 | | 616 | 363 |
| 2039–2043 | | 768 | 209 |
| 2044–2048 | | 434 | 74 |
| 2049–2053 | | 40 | 2 |
| Total requirements | $ | 54,299 | 12,579 |

Variable lease payments, other than those payments that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease liability. Such amounts are recognized as expense in the period in which the obligations for those payments are incurred. The amounts recognized as outflows (expense) for variable lease payments not included in the measurement of the lease liabilities were $1.6 million and $470 thousand during fiscal years 2024 and 2023, respectively.

The Power System, as lessee, has a lease agreement with the City of Los Angeles Department of General Services, as lessor. This lease agreement and any lease agreements with other City Departments are excluded from GASB Statement No.87 because the control is not conveyed to another legal entity; hence, this type of lease agreements should not be reported as leases in the Power System's financial statements.

### *(z) SBITAs*

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs),* effective for the Power System's fiscal year beginning July 1, 2022. The objective of this statement is to enhance consistency in accounting and financial reporting by requiring government entities to recognize a right-to-use subscription asset and corresponding subscription liability for such contracts with a specified term. The Power System adopted the provisions of GASB Statement No. 96 on July 1, 2022 and the Power System's financial statements for the fiscal years ended June 30, 2023 and 2024 reflect the implementation of this statement.

The Power System has various noncancelable SBITAs of cloud hosting fees, software subscription fees, and enterprise services subscription fees. For SBITAs with a maximum possible term of 12 months or less at commencement, the Power System recognizes expense based on the provisions of the SBITA contract. For all other SBITAs (i.e., those that are not short term), the Power System recognizes a subscription liability and an intangible right-to-use subscription asset.

At the commencement of the subscription term, the Power System initially measures the subscription liability at the present value of payments expected to be made during the subscription term. If the present value of payments expected to be made are below the $100 thousand materiality threshold, then expenses will be recognized as short-term subscriptions. Subsequently, for all other subscriptions, the subscription liability is reduced by the principal portion of subscription payments made at or before the subscription commencement date.

The subscription asset (right-of-use) is initially measured as the initial amount of the subscription liability plus payments associated with the SBITA contract made to the SBITA vendor at the commencement of the subscription term plus capitalizable initial implementation costs before the commencement of the subscription term. The subscription asset is amortized into amortization expense on a straight-line basis over the shorter of the subscription term or the useful life of the underlying asset.

The Power System generally uses its estimated incremental borrowing rate as the discount for subscriptions unless the rate that the vendor charges is known. The Power System's incremental borrowing rate is based on the long-term average WACC for AA-rated utilities as the discount rate for subscriptions unless the rate that the SBITA vendor charges is known. The Power System's incremental borrowing rate for subscriptions is based on the rate of interest it would need to pay if it issued general obligation bonds to borrow an amount equal to the subscription under similar terms at the commencement or remeasurement date.

The subscription term includes the period during which the Power System has a noncancelable right to use and underlying SBITA asset, plus any additional periods covered by either the Power System or the vendor's unilateral option to (1) extend for which it is reasonably certain to be exercised or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both the Power System and the vendor have an option to terminate (or if both parties have to agree to extend) are excluded from the subscription term.

The Power System monitors changes in circumstances that may require a remeasurement of subscriptions. When certain changes occur that are expected to significantly affect the amount of the subscription liability, the liability is remeasured and a corresponding adjustment is made to the subscription asset right of use, respectively. There was no remeasurement of subscriptions during fiscal year 2024.

Subscription assets are reported with capital assets and subscription liabilities are reported with current liabilities and other noncurrent liabilities (long-term) are reported in the statement of net position.

The Power System had the following subscription assets during fiscal year 2024 (amounts in thousands):

| | Balance, June 30, 2023 | Additions | Remeasurements | Deductions | Balance, June 30, 2024 |
|---|---|---|---|---|---|
| SBITAs | | | | | |
| Subscription assets: | $ 10,979 | 1,576 | — | — | 12,555 |
| Less accumulated amortization Subscription assets (right-of-use) | (1,840) | (2,467) | — | — | (4,307) |
| Total SBITA assets, net | $ 9,139 | (891) | — | — | 8,248 |

The Power System had the following subscription liability during fiscal year 2024 (amounts in thousands):

| | Balance, June 30, 2023 | Additions | Remeasurements | Deductions | Balance, June 30, 2024 | Amount due in FY 2025 |
|---|---|---|---|---|---|---|
| Subscription liability | $ 8,151 | 1,576 | — | (3,181) | 6,546 | 505 |

The Power System had the following subscription assets during fiscal year 2023 (amounts in thousands):

| | Balance, July 1, 2022 | Additions | Remeasurements | Deductions | Balance, June 30, 2023 |
|---|---|---|---|---|---|
| SBITAs | | | | | |
| Subscription Assets: | $ 3,575 | 7,404 | — | — | 10,979 |
| Less Accumulated Amortization Subscription Assets (right-of-use) | — | (1,840) | — | — | (1,840) |
| Total SBITA assets, net | $ 3,575 | 5,564 | — | — | 9,139 |

The Power System had the following subscription liability during fiscal year 2023 (amounts in thousands):

| | | Balance, July 1, 2022 | Additions | Remeasurements | Deductions | Balance, June 30, 2023 | Amount due in FY 2024 |
|---|---|---|---|---|---|---|---|
| Subscription Liability | $ | 3,575 | 7,404 | — | (2,828) | 8,151 | 1,627 |

As of June 30, 2024, annual principal and interest for the subscription liability are as follows (amounts in thousands):

| | | Principal | Interest |
|---|---|---|---|
| Fiscal year ending June 30: | | | |
| 2025 | $ | 505 | 32 |
| 2026 | | 2,586 | 323 |
| 2027 | | 2,683 | 190 |
| 2028 | | 772 | 42 |
| Total requirements | $ | 6,546 | 587 |

As of June 30, 2023, annual principal and interest for the subscription liability are as follows (amounts in thousands):

| | | Principal | Interest |
|---|---|---|---|
| Fiscal year(s) ending June 30: | | | |
| 2024 | $ | 1,627 | — |
| 2025 | | 2,376 | 347 |
| 2026 | | 2,645 | 228 |
| 2027 | | 731 | 83 |
| 2028 | | 772 | 42 |
| Total requirements | $ | 8,151 | 700 |

Variable payments, excluding those dependent on an index or rate or those that are fixed in substance, are not considered when measuring the subscription liability. These amounts are recognized as expense in the period when the obligation for such payments is incurred.

As of June 30, 2024, the Power System, under the Department of Water and Power, has a SBITA agreement with Workday, Inc. for the purchase of a cloud-based, Enterprise Resource Planning (ERP) Software-as-a-Service (SaaS) subscription licenses. The agreement is for a term of five years and is currently in the implementation stage.

## (2) Recent Accounting Pronouncements

### *(a) GASB Statement No. 99*

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This statement is effective for the Power System's fiscal year beginning July 1, 2023 for the requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53. The Power System adopted these provisions of Statement No. 99 in fiscal year 2024, which did not have a significant impact on the financial statements.

### *(b) GASB Statement No. 100*

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62*, which establishes accounting and financial reporting requirements for accounting changes and the correction of an error in previously issued financial statements. The Power System adopted the provisions of Statement No. 100 in fiscal year 2024, which did not have a significant impact on the financial statements.

### (3) Utility Plant

The Power System had the following activities in utility plant during fiscal year 2024 (amounts in thousands):

| | | Balance June 30, 2023 | Additions | Retirements and disposals | Transfers | Balance June 30, 2024 |
|---|---|---|---|---|---|---|
| Nondepreciable utility plant: | | | | | | |
| Land and land rights | $ | 250,072 | — | — | — | 250,072 |
| Construction work in progress | | 1,131,332 | 365,279 | (23,804) | (284,729) | 1,188,078 |
| Nuclear fuel | | 40,040 | 10,922 | (10,870) | — | 40,092 |
| Natural gas field | | 119,129 | 14 | (9,706) | — | 109,437 |
| Total nondepreciable utility plant | | 1,540,573 | 376,215 | (44,380) | (284,729) | 1,587,679 |
| Depreciable utility plant: | | | | | | |
| Generation | | 6,496,784 | 150,345 | (3,486) | 1,615 | 6,645,258 |
| Transmission | | 2,392,172 | 25,480 | (181) | 239,582 | 2,657,053 |
| Distribution | | 12,248,220 | 848,080 | (40,105) | 43,090 | 13,099,285 |
| General | | 2,512,623 | 177,961 | (10,853) | 442 | 2,680,173 |
| Total depreciable utility plant | | 23,649,799 | 1,201,866 | (54,625) | 284,729 | 25,081,769 |
| Accumulated depreciation: | | | | | | |
| Generation | | (3,166,871) | (190,408) | 3,486 | — | (3,353,793) |
| Transmission | | (761,977) | (43,783) | 181 | — | (805,579) |
| Distribution | | (5,147,047) | (301,556) | 40,105 | — | (5,408,498) |
| General | | (1,294,255) | (85,829) | 10,853 | — | (1,369,231) |
| Total accumulated depreciation | | (10,370,150) | (621,576) | 54,625 | — | (10,937,101) |
| Total utility plant, net | $ | 14,820,222 | 956,505 | (44,380) | — | 15,732,347 |

The Power System had the following activities in utility plant during fiscal year 2023 (amounts in thousands):

| | Balance June 30, 2022 | Additions | Retirements and disposals | Transfers | Balance June 30, 2023 |
|---|---|---|---|---|---|
| Nondepreciable utility plant: | | | | | |
| Land and land rights | $ 241,103 | 8,969 | — | — | 250,072 |
| Construction work in progress | 931,642 | 413,915 | (35,859) | (178,366) | 1,131,332 |
| Nuclear fuel | 40,291 | 10,341 | (10,592) | — | 40,040 |
| Natural gas field | 128,695 | 61 | (9,627) | — | 119,129 |
| Total nondepreciable utility plant | 1,341,731 | 433,286 | (56,078) | (178,366) | 1,540,573 |
| Depreciable utility plant: | | | | | |
| Generation | 6,390,895 | 79,498 | (812) | 27,203 | 6,496,784 |
| Transmission | 2,346,677 | 14,380 | (12) | 31,127 | 2,392,172 |
| Distribution | 11,516,931 | 703,067 | (45,792) | 74,014 | 12,248,220 |
| General | 2,316,241 | 157,283 | (6,923) | 46,022 | 2,512,623 |
| Total depreciable utility plant | 22,570,745 | 954,228 | (53,539) | 178,366 | 23,649,799 |
| Accumulated depreciation: | | | | | |
| Generation | (2,974,848) | (192,835) | 812 | — | (3,166,871) |
| Transmission | (719,731) | (42,258) | 12 | — | (761,977) |
| Distribution | (4,909,404) | (283,435) | 45,792 | — | (5,147,047) |
| General | (1,220,845) | (80,333) | 6,923 | — | (1,294,255) |
| Total accumulated depreciation | (9,824,828) | (598,861) | 53,539 | — | (10,370,150) |
| Total utility plant, net | $ 14,087,648 | 788,653 | (56,078) | — | 14,820,222 |

Depreciation and amortization expense during fiscal years 2024 and 2023 was $805.3 million and $761.7 million, respectively. Depreciation and amortization expense on the statements of revenues, expenses, and changes in net position and cash flows includes amortization expense on software and regulatory assets, which is not included in additions to accumulated depreciation above.

Land and land rights are included in the statement of net position as utility plant assets in their functional category.

## (4) Jointly Owned Utility Plant

The Power System has undivided direct interests in several electric generating stations and transmission systems that are jointly owned with other utilities. As of June 30, 2024 and 2023, utility plant includes the following amounts related to the Power System's ownership interest in each jointly owned utility plant (amounts in thousands, except as indicated):

| | | | Utility plant in service June 30, 2024 | | Utility plant in service June 30, 2023 | |
|---|---|---|---|---|---|---|
| | Ownership interest | Share of capacity (MWs) | Cost | Accumulated depreciation | Cost | Accumulated depreciation |
| Palo Verde Nuclear Generating Station | 5.7 % | 224 | $ 646,157 | 461,959 | 682,392 | 453,940 |
| Mohave Generating Station | 30 % | — | 3,409 | 229 | 3,409 | 229 |
| Pacific Intertie DC Transmission Line | 40 % | 1,240 | 343,578 | 116,745 | 339,792 | 110,444 |
| Other transmission systems | Various | Various | 133,302 | 81,335 | 130,695 | 78,795 |
| | | | $ 1,126,446 | 660,268 | 1,156,288 | 643,408 |

The Power System will incur certain minimal operating costs related to the jointly owned facilities, regardless of the amount or its ability to take delivery of its share of energy generated. The Power System's proportionate share of the operating costs of the joint plants is included in the corresponding categories of operating expenses.

## (5) Purchased Power Commitments

As of June 30, 2024, the Power System has entered into a number of energy and transmission service contracts that, regardless of the energy they take, they are obligated to pay the following minimum costs to cover debt service on these facilities through 2053 when the debt is repaid (amounts in thousands, except as indicated):

| | | | The Power System's interest in agency's share | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Agency | Agency share | Interest | Capacity (MWs) | | Principal payments | Interest payments (receipts) | Total |
| Intermountain Power Project | IPA | 100.0 % | 58.2 | 1,047 | | $ — | — | — |
| Intermountain Repower Project FY25-FY28 | IPA | 100.0 | 58.2 | 489 | | 59,175 | 187,480 | 246,655 |
| Intermountain Repower Project FY29-FY46 | IPA | 100.0 | 71.4 | 600 | | 1,093,759 | 568,225 | 1,661,984 |
| Mead-Adelanto Transmission Project | SCPPA | 68.0 | 48.9 | 539 | | 15,980 | 2,951 | 18,931 |
| Mead-Phoenix Transmission Project | SCPPA | 17.8–22.4 | 50.4 | 647 | | 12,975 | 2,396 | 15,371 |
| Southern Transmission System Project | SCPPA | 100.0 | 59.5 | 1,429 | | 69,378 | 6,919 | 76,297 |
| Southern Transmission System Renewal Project* | SCPPA | 100.0 | 90.5 | — | | 1,130,386 | 1,111,983 | 2,242,369 |
| Milford Wind I Project | SCPPA | 100.0 | 92.5 | 185 | | 69,953 | 10,991 | 80,944 |
| Windy Point/Windy Flats Project | SCPPA | 100.0 | 100.0 | 262 | * | 161,845 | 31,093 | 192,938 |
| Linden Wind Energy Project | SCPPA | 100.0 | 100.0 | 50 | * | 74,765 | 42,788 | 117,553 |
| Milford Wind II Project | SCPPA | 100.0 | 100.0 | 102 | * | 66,385 | 14,125 | 80,510 |
| Apex Power Project | SCPPA | 100.0 | 100.0 | 520 | | 192,625 | 63,019 | 255,644 |
| Total | | | | | | $ 2,947,226 | 2,041,970 | 4,989,196 |

* The Power System will receive 100% of the energy, unless the City of Glendale exercises its option to repurchase any of its contract output entitlement share.

As of June 30, 2023, the Power System has entered into a number of energy and transmission service contracts that, regardless of the energy they take, they are obligated to pay the following minimum costs to cover debt service on these facilities through 2046 when the debt is repaid (amounts in thousands, except as indicated):

| | | | The Power System's interest in agency's share | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Agency | Agency share | Interest | Capacity (MWs) | | Principal payments | Interest payments (receipts) | Total |
| Intermountain Power Project | IPA | 100.0 % | 66.1 | 1,190 | | $ 4,219 | (35) | 4,184 |
| Intermountain Repower Project FY24-FY28 | IPA | 100.0 | 66.1 | 840 | | 33,040 | 128,454 | 161,494 |
| Intermountain Repower Project FY29-FY46 | IPA | 100.0 | 71.4 | 840 | | 534,115 | 272,458 | 806,573 |
| Mead-Adelanto Transmission Project | SCPPA | 68.0 | 48.9 | 539 | | 17,850 | 3,797 | 21,647 |
| Mead-Phoenix Transmission Project | SCPPA | 17.8–22.4 | 50.4 | 647 | | 14,510 | 3,075 | 17,585 |
| Southern Transmission System Project | SCPPA | 100.0 | 59.5 | 1,429 | | 106,780 | 11,247 | 118,027 |
| Southern Transmission System Renewal Project* | SCPPA | 100.0 | 90.5 | — | | 621,002 | 626,076 | 1,247,078 |
| Milford Wind I Project | SCPPA | 100.0 | 92.5 | 185 | | 79,749 | 14,732 | 94,481 |
| Windy Point/Windy Flats Project | SCPPA | 100.0 | 100.0 | 262 | * | 249,855 | 40,626 | 290,481 |
| Linden Wind Energy Project | SCPPA | 100.0 | 100.0 | 50 | * | 86,605 | 29,159 | 115,764 |
| Milford Wind II Project | SCPPA | 100.0 | 100.0 | 102 | * | 73,005 | 17,610 | 90,615 |
| Apex Power Project | SCPPA | 100.0 | 100.0 | 520 | | 240,865 | 104,740 | 345,605 |
| Total | | | | | | $ 2,061,595 | 1,251,939 | 3,313,534 |

* The Power System will receive 100% of the energy, unless the City of Glendale exercises its option to repurchase any of its contract output entitlement share.

IPA – The Intermountain Power Agency (IPA) is an agency of the State of Utah established to own, acquire, construct, operate, maintain, and repair the Intermountain Power Project (IPP). The Power System serves as the project manager and operating agent of IPP. IPA and the Power Purchasers including the Power System executed the Second Amendatory Power Sales Contracts which provides that the IPP be repowered, and the IPA offer the Purchasers renewal in their generation and transmission entitlements through the Renewal Power Sales Contracts (the "Renewal Contracts"), the term of which commences upon the termination of the current Power Sales Contracts on June 15, 2027. IPA and Purchasers approved changes to the repowering that constitute an Alternative Repowering under the Power Sale Contracts, which is scheduled to be completed by July 1, 2025. IPP is considered a related party. See note 13.

SCPPA – The Southern California Public Power Authority (SCPPA) is a California joint powers agency that finances the construction or acquisition of generation, transmission, and renewable energy projects. The Power System is a member of SCPPA. SCPPA is considered a related party. See note 13.

Unlike joint utility plant disclosed in note 4, the Power System does not have ownership of any assets related to these service contracts. As costs are paid each year, they are recorded as purchased power expense in the statements of revenue, expenses, and changes in net position.

The Power System is required to pay an average annual charge of approximately $170 million during each of the next five years for fixed expenses and an average annual charge of approximately $650 million during each of the next five years for operating and maintenance costs related to purchased power agreements. The Power System made total payments under these agreements of approximately $832 million and $918 million in fiscal years 2024 and 2023, respectively, and they are recorded as purchased power expense in the statements of revenue, expenses, and changes in net position. These agreements are scheduled to expire from 2027 to 2046.

The Power System is reimbursed for services provided to IPP under the IPP project manager and operating agent agreements totaling $62.6 million and $44.9 million in fiscal years 2024 and 2023, respectively. These fees are recorded as a reduction to maintenance and other expense on the accompanying statements of revenue, expenses, and net position.

***(a) Long-Term Notes Receivable***

Under the terms of its purchase power agreement with IPA, the Power System is charged for its output entitlements based on its share of IPA's costs, including debt service. During fiscal year 2000 and 2005, the Power System restructured a portion of this obligation by transferring a total of $1.28 billion to IPA in exchange for long-term notes receivable. The funds transferred were obtained from the debt reduction funds and through the issuance of new variable rate debentures. IPA used the proceeds from these transactions to defease and tender various bonds.

The IPA notes are subordinate to all of IPA's publicly held debt obligations. The Power System's future payments to IPA will be partially offset by interest payments and principal maturities from the subordinated notes receivable. The IPA notes pay interest and principal monthly and matured on July 1, 2023. The net IPA notes receivable balance was $0 as of June 30, 2024 and totaled $6 million as of June 30, 2023.

***(b) Energy Entitlement Contracts***

The Power System has a contract through September 2067 with the U.S. Department of Energy for the purchase of available energy generated at the Hoover Power plant. The Power System's contractual share of contingent capacity at Hoover is 23.92% of the available capacity. The Boulder Canyon Project (BCP) cost was approximately $16.0 million and $15.0 million as of June 30, 2024 and 2023, respectively. The BCP cost includes power purchased under the contract as well as fund contributions to the Lower Colorado River Multi-Species Conservation Program.

The Power System has entered into contracts with SCPPA to purchase available renewable energy generated at various renewable energy project sites.

Unlike service contracts noted earlier in note 5, the Power System only pays costs related to these contracts if energy is delivered. As of June 30, 2024, the Power System energy entitlement contracts with SCPPA allowed for additional capacity with the associated cost over the life of the contract as follows (dollar amounts in millions):

| | | | The Power System's interest in agency's share | | | |
|---|---|---|---|---|---|---|
| | **Agency** | **Agency share** | **Interest** | **Capacity (MWs)** | **Cost of power purchased** | **Contract expiration** |
| Pebble Springs Wind Project | SCPPA | 100 | 70 | 69 | $ 16 | 2027 |
| Don A Campbell I | SCPPA | 100 | 85 | 14 | 10 | 2034 |
| Don A Campbell II | SCPPA | 100 | 100 | 16 | 8 | 2035 |
| Copper Mountain Solar 3 | SCPPA | 100 | 84 | 210 | 49 | 2035 |
| Heber 1 Geothermal | SCPPA | 100 | 78 | 41 | 25 | 2026 |
| Springbok 1 Wind Farm | SCPPA | 100 | 100 | 105 | 20 | 2041 |
| Springbok 2 Wind Farm | SCPPA | 100 | 100 | 155 | 23 | 2043 |
| Ormat Northern Nevada | SCPPA | 100 | 100 | 185 | 108 | 2043 |
| Ormesa | SCPPA | 100 | 86 | 30 | 16 | 2042 |
| Springbok 3 Wind Farm | SCPPA | 100 | 100 | 90 | 12 | 2046 |
| Roseburg Biomass Project | SCPPA | 62 | 79 | 5 | 1 | 2026 |
| Red Cloud Wind Project | SCPPA | 100 | 100 | 331 | 50 | 2041 |
| Total purchase power costs under entitlement agreements | | | | | $ 338 | |

As of June 30, 2023, the Power System energy entitlement contracts with SCPPA allowed for additional capacity with the associated cost over the life of the contract as follows (dollar amounts in millions):

| | | | The Power System's interest in agency's share | | | |
|---|---|---|---|---|---|---|
| | **Agency** | **Agency share** | **Interest** | **Capacity (MWs)** | **Cost of power purchased** | **Contract expiration** |
| Pebble Springs Wind Project | SCPPA | 100 | 70 | 69 | $ 15 | 2027 |
| Don A Campbell I | SCPPA | 100 | 85 | 14 | 9 | 2034 |
| Don A Campbell II | SCPPA | 100 | 100 | 16 | 9 | 2035 |
| Copper Mountain Solar 3 | SCPPA | 100 | 84 | 210 | 48 | 2035 |
| Heber 1 Geothermal | SCPPA | 100 | 78 | 36 | 10 | 2026 |
| Springbok 1 Wind Farm | SCPPA | 100 | 100 | 105 | 20 | 2041 |
| Springbok 2 Wind Farm | SCPPA | 100 | 100 | 155 | 24 | 2043 |
| Ormat Northern Nevada | SCPPA | 100 | 100 | 185 | 102 | 2043 |
| Ormesa | SCPPA | 100 | 86 | 30 | 18 | 2042 |
| ARP-Loyalton Biomass | SCPPA | 67 | 74 | 9 | — | 2023 |
| Springbok 3 Wind Farm | SCPPA | 100 | 100 | 90 | 13 | 2046 |
| Roseburg Biomass Project | SCPPA | 62 | 79 | 5 | 1 | 2026 |
| Red Cloud Wind Project | SCPPA | 100 | 100 | 331 | 49 | 2041 |
| Total purchase power costs under entitlement agreements | | | | | $ 318 | |

### *(c) Electricity Swap and Forward Contracts*

In order to obtain the highest market value on energy that is sold into the wholesale market, the Power System monitors the sales price of energy, which varies based on which hub the energy is to be delivered. There are three primary hubs within the Power System's transmission region: Palo Verde, Nevada Oregon Border, and Mead. The Power System enters into various locational swap transactions with other electric utilities in order to effectively utilize its transmission capacity and to achieve the most economical exchange of energy purchased and sold.

The Power System enters into power and natural gas forward contracts in order to meet the electricity requirements to serve its customers. To assist the Power System in achieving its RPS, forward purchases of renewable energy were made.

The Power System does not enter into swap and forward transactions for trading purposes. All of these transactions are intended to be used in the Power System's normal course of operations. The Power System is exposed to risk of nonperformance if the counterparties default or if the swap agreements are terminated.

As of June 30, 2024 the Power System had entered into the following Electricity Forward Contracts, which are not recorded in the Power System's financial statements based on the criteria in GASB Statement No. 53 (amounts in thousands):

| Transaction type | Term | Quantity | Price |
|---|---|---|---|
| Fixed-price Renewable Power Purchase | January 1, 2024–June 30, 2025 | Up to 82.2 MWs delivered output from wind generation facility | $75/MWh |
| Fixed-price Power Purchase | July 1, 2024-September 30, 2024 | 30,800 MWs | $178/MWh |
| Fixed-price Power Purchase | July 1, 2024-September 30, 2024 | 18,480 MWs | $178/MWh |
| Fixed-price Power Purchase | October 1, 2024-October 31, 2024 | 12,400 MWs | $88/MWh |
| Fixed-price Power Sales | July 1, 2024-September 30, 2024 | 49,280 MWs | $237/MWh |
| Fixed Price Power Sales | October 1, 2024-October 31, 2024 | 12,400 MWs | $132/MWh |

As of June 30, 2023, the Power System had entered into the following Electricity Forward Contract, which is not recorded in the Power System's financial statements based on the criteria in GASB Statement No. 53 (amounts in thousands):

| Transaction type | Term | Quantity | Price |
|---|---|---|---|
| Fixed-price Renewable Power Purchase | July 1, 2022–December 31, 2023 | Up to 82.2 MWs delivered output from wind generation facility | $65/MWh |

For the years ended June 30, 2024 and 2023 the Power System either took delivery of or sold the commodities in its electricity forward contracts.

**(6) Regulatory Assets and Liabilities**

Regulatory assets and liabilities are created by the actions of the Board of Water and Power Commissioners by deferring certain expenses and revenue that are recoverable or payable by future rate charges in accordance with the current rate ordinances so as to more evenly match the recognition of revenue and expenses with the electric rates charged to retail customers.

Below is a summary of the Power System's regulatory assets and deferred inflows (amounts in thousands):

| Description | | June 30, 2023 | Additions | Reductions | June 30, 2024 |
|---|---|---|---|---|---|
| Assets: | | | | | |
| (a) Underrecovered costs – long term | $ | — | — | — | — |
| (b) Regulatory assets – legal settlements | | 16,000 | — | (16,000) | — |
| (c) Regulatory assets – solar incentive programs | | 150,375 | — | (13,895) | 136,480 |
| (d) Regulatory assets – energy efficiency programs | | 649,093 | 95,043 | (118,178) | 625,958 |
| (e) Regulatory assets – CC&B | | 19,433 | — | (3,041) | 16,392 |
| Regulatory assets – other | | 834,901 | 95,043 | (151,114) | 778,830 |
| (f) Regulatory assets – OPEB | | 30,568 | — | (30,568) | — |
| Total regulatory assets – noncurrent | | 865,469 | 95,043 | (181,682) | 778,830 |
| (g) Underrecovered costs – current | | 265,848 | 75,638 | — | 341,486 |
| Total regulatory assets | $ | 1,131,317 | 170,681 | (181,682) | 1,120,316 |
| Deferred inflows: | | | | | |
| (h) Deferred inflows from business activities | $ | 187,190 | 40,000 | — | 227,190 |
| Total regulatory deferred inflows | $ | 227,190 | — | — | 227,190 |

| Description | | June 30, 2022 | Additions | Reductions | June 30, 2023 |
|---|---|---|---|---|---|
| Assets: | | | | | |
| (a) Underrecovered costs – long term | $ | 5,734 | — | (5,734) | — |
| (b) Regulatory assets – legal settlements | | 32,000 | — | (16,000) | 16,000 |
| (c) Regulatory assets – solar incentive programs | | 163,920 | — | (13,545) | 150,375 |
| (d) Regulatory assets – energy efficiency programs | | 651,953 | 110,550 | (113,410) | 649,093 |
| (e) Regulatory assets – CC&B | | 22,475 | — | (3,042) | 19,433 |
| Regulatory assets – other | | 876,082 | 110,550 | (151,731) | 834,901 |
| (f) Regulatory assets – OPEB | | 132,286 | — | (101,718) | 30,568 |
| Total regulatory assets – noncurrent | | 1,008,368 | 110,550 | (253,449) | 865,469 |
| (g) Underrecovered costs – current | | 217,973 | 47,875 | — | 265,848 |
| Total regulatory assets | $ | 1,226,341 | 158,425 | (253,449) | 1,131,317 |
| Deferred inflows: | | | | | |
| (h) Deferred inflows from business activities | $ | 187,190 | — | — | 187,190 |
| Total regulatory deferred inflows | $ | 187,190 | — | — | 187,190 |

### *(a) Underrecovered Costs – Long Term*

These represent future receivables from customers related to costs incurred for renewable energy projects and the investments made in power reliability. The 2012 and 2016 Electric Rate Ordinances allow for these costs to be recovered through current rates. The costs were amortized over a 10-year period and the remaining underrecovered costs were recovered during the year ended June 30, 2023.

### *(b) Regulatory Assets – Legal Settlement*

In June 2007, the Power System reached an agreement from the courts related to the inclusion of capital components in the rates charged to other governmental organizations. The agreement required the payment of $160,000 thousand to the governmental organizations. The payment settlement included an immediate payout of $127,800 thousand bill credits of $17,200 thousand to be issued over a 10-year period, and $15,000 thousand in payments to be paid over a 3-year period.

As provided in the Power System's rate structure, beginning in July 2014, customers' bills include a charge for this legal settlement to be collected over a 10-year period. As rates are established at a level sufficient to recover all such costs, the Power System recorded a regulatory asset.

### *(c) Regulatory Assets – Solar Incentive Programs*

As part of the California Solar Incentive Program, initiated by 2006 Senate Bill 1 (SB1), the Power System implemented a multiyear program to provide customers with solar incentives for installing solar panels and necessary equipment to generate energy. The programs, per SB1, concluded at the end of calendar year 2018. Some payments for these incentives were processed in 2020 and 2021.

As provided in the Power System's rate structure, beginning April 2011, customers' bills include a charge for these solar incentive programs to be collected over a 20-year period. As rates are established at a level sufficient to recover all such costs, the Power System recorded a regulatory asset.

### *(d) Regulatory Assets – Energy Efficiency Programs*

As part of the Power System's ongoing efforts to reduce energy consumption and improve the environment, the Power System implemented numerous multiyear programs. The program began in June 2012 and is expected to continue through 2024. At June 30, 2024, the Power System has 26 energy efficiency programs.

As provided in the Power System's rate structure, beginning July 2011, customers' bills include a charge for these energy efficiency programs to be collected over a 5 to 15-year period, depending on the program. As rates are established at a level sufficient to recover all such costs, the Power System recorded a regulatory asset.

### *(e) Regulatory Assets – Customer Care and Billing System*

In 2013, the Power System implemented the customer care and billing system (CC&B). The implementation of the system required significant investment in training of the Power System's employees.

As provided in the Power System's rate structure, beginning January 2014, customers' bills include a charge related to training for the CC&B to be collected over a 15-year period. As rates are established at a level sufficient to recover all such costs, the Power System recorded a regulatory asset.

During fiscal year 2019, the Power System management determined certain costs originally capitalized as a regulatory asset were not expected to move forward for regulatory asset rate recovery. As a result, $68,801 thousand was removed from regulatory assets and reclassified as operating expenses or general plant assets based on the expenditure. Remaining costs in CC&B regulatory asset relate to training costs on the system and will be recovered through future rates.

### *(f) Regulatory Assets – OPEB*

In connection with the recognition of the net OPEB liability (asset) under GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,* the Power System established a regulatory asset in the amount of $451,182 thousand equal to the net OPEB liability reported at July 1, 2017, less the calculated balance of OPEB deferred outflows for contributions after the measurement date. Amortization of the regulatory asset is the difference between amounts paid toward actuarially determined contributions and actual OPEB expense which totaled $74,409 thousand and $101,718 thousand for the years ended June 30, 2024 and 2023, respectively. During the year ended June 30, 2024, the difference between the amounts paid toward actuarially determined contributions and actual OPEB expense exceeded the remaining balance in the regulatory asset and resulted in the recognition of overrecovered costs – OPEB in the amount of $43,841 thousand.

***(g) Regulatory Assets – Underrecovered Costs***

As provided in the electric rate ordinances, the Power System is required to maintain balancing accounts to record differences between specific costs incurred and amounts billed through rates to recover those costs. The net amount of these balancing accounts is presented on the statement of net position as a current asset when costs are underbilled (current portion of underrecovered costs) or as a current liability when costs are overbilled (overrecovered costs). All of these balancing accounts are expected to be settled within a 12-month period through the adjustment of pass-through rates during the billing process and are reported as a component of underrecovered costs in the accompanying statement of net position.

At fiscal year-end June 30, 2024 and 2023, regulatory asset related to current underrecovered costs of $341,486 thousand and $265,848 thousand, respectively, were composed of the following (amounts in thousands):

| | | As of June 30 | |
|---|---|---|---|
| | | 2024 | 2023 |
| Underrecovered balancing accounts – regulatory asset | $ | 483,710 | 284,560 |
| Less overrecovered balancing accounts – regulatory liability | | (142,224) | (18,712) |
| Net underrecovered balancing accounts – regulatory asset | $ | 341,486 | 265,848 |

***(h) Deferred Inflows from Regulated Business Activities***

These amounts represent revenue collected from customers where funds are deferred for future stabilization. For the years ended June 30, 2021 through June 30, 2024, the Power System did not utilize these funds and did not recognize any of this revenue. The Power System has $227,190 thousand and $187,190 thousand in these accounts at June 30, 2024 and 2023, respectively.

## (7) Cash, Cash Equivalents, and Investments

### *(a) Restricted and Other Investments*

A summary of the Power System's restricted investments is as follows (amounts in thousands):

| | | June 30 | |
|---|---|---|---|
| | | **2024** | **2023** |
| Restricted and other investments: | | | |
| Restricted investments: | | | |
| Debt reduction funds | $ | 515,742 | 491,551 |
| Nuclear decommissioning funds | | 156,153 | 140,489 |
| Natural gas fund | | 12,785 | 18,854 |
| Hazardous waste treatment fund | | 2,527 | 2,416 |
| CAISO markets trust fund | | 10,514 | 12,968 |
| Total restricted investments | $ | 697,721 | 666,278 |

The Power System also has $2.6 million of cash collateral received from securities lending transactions in the City's securities lending program as of June 30, 2024.

All restricted investments are to be used for a specific purpose as follows:

*(i) Debt Reduction Funds*

The debt reduction funds were established to provide for funding of the payment of principal and interest on long-term debt obligations and purchased power obligations arising from the Power System's participation in IPP and SCPPA. The Power System has transferred funds from purchased power precollections into these funds. Funds from operations may also be transferred by management as funds become available. See note 5.

*(ii) Nuclear Decommissioning Funds*

Nuclear decommissioning funds will be used to pay the Power System's share of decommissioning Palo Verde Nuclear Generating System at the end of its useful life. See note 14(b).

*(iii) Natural Gas Fund*

The natural gas fund was established to serve as a depository to pay for costs and post margin or collateral in connection with contracts for the purchase and delivery of financial transactions for natural gas. These transactions are entered into to stabilize the natural gas portion of the Power System's fuel for generation costs.

*(iv) Hazardous Waste Treatment Storage and Disposal Fund*

The hazardous waste treatment, storage, and disposal fund was established to provide financial assurance for closure of the Main Street treatment and disposal facility.

*(v) CAISO Markets Trust Fund*

The California Independent System Operator (CAISO) Markets Trust Fund was established to facilitate timely and efficient settlement of CAISO Energy Market Transactions.

As of June 30, 2024 and 2023, the Power System's restricted investments and their maturities are as follows (amounts in thousands):

| 2024 | | Investment maturities | | | | |
|---|---|---|---|---|---|---|
| Investment type | Fair value | 1–30 days | 31–60 days | 61–365 days | 366 days to 5 years | Over 5 years |
| U.S. government securities | $ 15,856 | — | 4,985 | 1,964 | 8,907 | — |
| U.S. government agencies securities | 424,264 | 12,124 | 3,190 | 56,948 | 344,940 | 7,062 |
| Supranationals | 11,372 | — | — | 5,437 | 5,935 | — |
| Medium-term corporate notes | 102,889 | — | 3,975 | 18,295 | 80,619 | — |
| Certificates of deposit | 27,827 | 12,432 | — | 15,395 | — | — |
| California local agency bonds | 52,651 | — | 20,866 | 9,163 | 22,622 | — |
| California state bonds | 9,855 | — | — | 4,817 | 5,038 | — |
| Other state bonds | 29,696 | 1,000 | 996 | 10,451 | 17,249 | — |
| Money market funds | 23,311 | 23,311 | — | — | — | — |
| | $ 697,721 | 48,867 | 34,012 | 122,470 | 485,310 | 7,062 |

| 2023 | | Investment maturities | | | | |
|---|---|---|---|---|---|---|
| Investment type | Fair value | 1–30 days | 31–60 days | 61–365 days | 366 days to 5 years | Over 5 years |
| U.S. government securities | $ 49,480 | 4,991 | — | 29,986 | 10,111 | 4,392 |
| U.S. government agencies securities | 245,387 | 4,993 | 10,414 | 119,035 | 106,393 | 4,552 |
| Supranationals | 19,609 | — | — | 13,521 | 6,088 | — |
| Medium-term corporate notes | 139,784 | 1 | — | 59,650 | 80,133 | — |
| Commercial paper | 6,889 | — | — | 6,889 | — | — |
| Certificates of deposit | 42,011 | 22,274 | 1,148 | 18,589 | — | — |
| California local agency bonds | 78,574 | 1,500 | 26,023 | 8,299 | 42,752 | — |
| California state bonds | 7,837 | — | — | 3,881 | 3,956 | — |
| Other state bonds | 44,824 | 1,000 | 1,288 | 20,315 | 22,221 | — |
| Money market funds | 31,883 | 31,883 | — | — | — | — |
| | $ 666,278 | 66,642 | 38,873 | 280,165 | 271,654 | 8,944 |

*(vi) Interest Rate Risk*

The Power System's investment policy limits the maturity of its investments to a maximum of 30 years for U.S. government and U.S. government agency securities; 5 years for medium-term corporate notes, California local agency obligations, California state obligations, and other state obligations; 270 days for commercial paper; 397 days for certificates of deposit; and 180 days for bankers' acceptances.

*(vii) Credit Risk*

Under its investment policy and the California Government Code, the Power System is subject to the prudent investor standard of care in managing all aspects of its portfolios. The prudent investor standard requires that the Power System "shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and in familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

The U.S. government securities in the portfolio consist of securities issued by or explicitly guaranteed by the U.S. government. All of the U.S. government securities in the portfolio, $15.9 million as of June 30, 2024 and $49.4 million as of June 30, 2023, carried the highest or second highest credit ratings of the Nationally Recognized Statistical Rating Organizations (NRSROs) that rated them.

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, 2024 and 2023, the U.S. government agency securities in the portfolio carry the following credit ratings by the NRSROs that rated them (amounts in thousands):

| | June 30, 2024 | | June 30, 2023 | |
|---|---|---|---|---|
| **Categories** | **Securities** | **Percentage** | **Securities** | **Percentage** |
| AAA or AA | $ 362,175 | 85 % | $ 233,433 | 95 % |
| Not rated | 62,089 | 15 | 11,954 | 5 |
| | $ 424,264 | 100 % | $ 245,387 | 100 % |

The Power System's investment policy specifies that supranational notes must be rated "AA" or its equivalent or better by an NRSRO upon purchase. As of June 30, 2024 and 2023, the Power System's investments in supranational notes were rated with the highest possible credit ratings by each of the NRSROs that rated them.

The Power System's investment policy specifies that medium-term corporate notes must be rated in a rating category of A or its equivalent or better by a NRSRO. The Power System's investments in corporate notes as of June 30, 2024 and 2023 were rated in the category of A or its equivalent or better by at least one NRSRO as follows (amounts in thousands):

| | June 30, 2024 | | June 30, 2023 | |
|---|---|---|---|---|
| **Categories** | **Corporate notes** | **Percentage** | **Corporate notes** | **Percentage** |
| AAA | $ 11,038 | 11 % | $ 20,498 | 15 % |
| AA | 36,024 | 35 | 37,156 | 26 |
| A | 55,827 | 54 | 82,129 | 59 |
| Not rated | — | — | 1 | — |
| | $ 102,889 | 100 % | $ 139,784 | 100 % |

The Power System's investment policy specifies that commercial paper must be of the highest ranking or of the highest letter and number rating as provided for by at least two NRSROs. As of June 30, 2024, there were no investments in commercial paper. As of June 30, 2023, all of the Power System's investments in commercial paper were rated with at least the highest letter and number rating as provided by at least two NRSROs.

The Power System's investment policy provides that negotiable certificates of deposit must be of the highest ranking or letter and number rating as provided for by at least two NRSROs and that for nonnegotiable certificates of deposit, the full amount of principal and interest is insured by the Federal Deposit Insurance Corporation or National Credit Union Administration. As of June 30, 2024 and 2023, all of the Power System's investments in certificates of deposit consisted of negotiable certificates of deposit with at least the highest letter and number rating as provided by at least two NRSROs.

The Power System's investment policy specifies that bankers' acceptances must be of the highest ranking or letter and number rating as provided for by at least two NRSROs. As of June 30, 2024 and 2023, there were no investments in bankers' acceptances.

The Power System's investment policy specifies that California local agency obligations must be rated in a rating category of A or its equivalent or better by a NRSRO. The Power System's investments in California local agency bonds as of June 30, 2024 and 2023 were rated in the following categories by at least one NRSRO as follows (amounts in thousands):

| | | June 30, 2024 | | | June 30, 2023 | |
|---|---|---|---|---|---|---|
| **Categories** | | **California Local Agency Bonds** | **Percentage** | | **California Local Agency Bonds** | **Percentage** |
| AAA | $ | 12,475 | 24 % | $ | 9,551 | 12 % |
| AA | | 40,176 | 76 | | 69,023 | 88 |
| A | | — | — | | — | — |
| | $ | 52,651 | 100 % | $ | 78,574 | 100 % |

The Power System's investment policy specifies that State of California obligations must be rated in a rating category of A or its equivalent or better by a NRSRO. As of June 30, 2024 and 2023, the Power System's investments in State of California obligations were rated in the category of A or the equivalent or better short-term rating by at least one NRSRO as follows (amounts in thousands):

| | | June 30, 2024 | | | June 30, 2023 | |
|---|---|---|---|---|---|---|
| **Categories** | | **State of California Obligations** | **Percentage** | | **State of California Obligations** | **Percentage** |
| AAA | $ | 919 | 9 % | $ | 889 | 11 % |
| AA | | 8,936 | 91 | | 6,948 | 89 |
| A | | — | — | | — | — |
| | $ | 9,855 | 100 % | $ | 7,837 | 100 % |

The Power System's investment policy specifies that obligations of other states in addition to California must be rated in a rating category of A or its equivalent or better by a NRSRO. The Power System's investments in other state obligations as of June 30, 2024 and 2023 were rated in the category of A or the equivalent or better short-term rating by at least one NRSRO as follows (amounts in thousands):

| Categories | | June 30, 2024 Other state obligations | June 30, 2024 Percentage | | June 30, 2023 Other state obligations | June 30, 2023 Percentage |
|---|---|---|---|---|---|---|
| AAA | $ | 8,492 | 29 % | $ | 10,462 | 23 % |
| AA | | 21,204 | 71 | | 33,183 | 74 |
| A | | — | — | | 1,179 | 3 |
| | $ | 29,696 | 100 % | $ | 44,824 | 100 % |

The Power System's investment policy specifies that money market funds may be purchased as allowed under the Government Code, which requires that the fund must have either (1) attained the highest ranking or highest letter and numerical rating provided by not less than two NRSROs or (2) retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission (SEC) with not less than five years' experience in managing money market mutual funds with assets under management in excess of $500 million. As of June 30, 2024 and 2023, each of the money market funds in the portfolio had the highest possible ratings by at least two NRSROs.

*(viii)* *Concentration of Credit Risk*

The Power System's investment policy specifies that there is no percentage limitation on the amount that can be invested in U.S. government agency securities, except that a maximum of 30% of the cost value of the portfolio may be invested in the securities of any single U.S. government agency issuer.

The Power System's total investments as of June 30, 2024 and 2023 in securities issued by U.S. government agencies are as follows (amounts in thousands):

| | | June 30, 2024 Securities | June 30, 2024 Percentage | | June 30, 2023 Securities | June 30, 2023 Percentage |
|---|---|---|---|---|---|---|
| Federal Home Loan Bank | $ | 180,642 | 26 % | $ | 131,773 | 20 % |
| Federal Home Loan Mortgage Corp. | | 102,901 | 15 | | 36,706 | 5 |
| Federal Agricultural Mortgage Corp. | | 62,088 | 9 | | 11,954 | 2 |
| Federal National Mortgage Assoc. | | 53,779 | 8 | | 24,689 | 4 |
| Federal Farm Credit Bank | | 24,854 | 3 | | 40,265 | 6 |
| | $ | 424,264 | 61 % | $ | 245,387 | 37 % |

*(ix)* *Custodial Risk*

All investments are held in the Power System's name, and therefore, they do not have custodial risk.

*(x) Fair Value Measurements*

The Power System holds investments and derivative instruments that are measured at fair value on a recurring basis. Because investing is not a core part of the Power System's mission, the Power System determines that the disclosures related to these investments only need to be disaggregated by major type. The Power System chooses a tabular format for disclosing the levels within the fair value hierarchy. The Power System categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP.

The hierarchy is based on the valuation inputs used to measure the fair value of the asset, as follows:

Level 1 inputs are quoted prices for identical assets or liabilities in an active market.

Level 2 inputs are quoted prices of similar assets or liabilities in active or not active markets.

Level 3 inputs are unobservable inputs using the best information available to management.

| | | (In thousands) Fair value using | | | |
|---|---|---|---|---|---|
| | June 30, 2024 | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Not classified |
| Investments by fair value level: | | | | | |
| Debt securities: | | | | | |
| U.S. government securities | $ 15,856 | 15,856 | — | — | — |
| U.S. government agencies securities | 424,264 | — | 424,264 | — | — |
| Supranationals | 11,372 | — | 11,372 | — | — |
| Medium-term corporate notes | 102,889 | — | 102,889 | — | — |
| California local agency bonds | 52,651 | — | 52,651 | — | — |
| California state bonds | 9,855 | — | 9,855 | — | — |
| Other state bonds | 29,696 | — | 29,696 | — | — |
| Total debt securities | 646,583 | 15,856 | 630,727 | — | — |
| Other: | | | | | |
| Commercial paper | — | — | — | — | — |
| Certificates of deposit | 27,827 | — | 27,827 | — | — |
| Money market funds | 23,311 | — | — | — | 23,311 |
| Total other | 51,138 | — | 27,827 | — | 23,311 |
| Total investments by fair value level | $ 697,721 | 15,856 | 658,554 | — | 23,311 |

| | June 30, 2023 | (In thousands) Fair value using: Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Not classified |
|---|---|---|---|---|---|
| Investments by fair value level: | | | | | |
| Debt securities: | | | | | |
| U.S. government securities | $ 49,480 | 49,480 | — | — | — |
| U.S. government agencies securities | 245,387 | — | 245,387 | — | — |
| Supranationals | 19,609 | — | 19,609 | — | — |
| Medium-term corporate notes | 139,784 | — | 139,784 | — | — |
| California local agency bonds | 78,574 | — | 78,574 | — | — |
| California state bonds | 7,837 | — | 7,837 | — | — |
| Other state bonds | 44,824 | — | 44,824 | — | — |
| Total debt securities | 585,495 | 49,480 | 536,015 | — | — |
| Other: | | | | | |
| Commercial paper | 6,889 | — | 6,889 | — | — |
| Certificates of deposit | 42,011 | — | 42,011 | — | — |
| Money market funds | 31,883 | — | — | — | 31,883 |
| Total other | 80,783 | — | 48,900 | — | 31,883 |
| Total investments by fair value level | $ 666,278 | 49,480 | 584,915 | — | 31,883 |

Debt and other securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical securities. Debt securities classified as Level 2 of the fair value hierarchy are valued using a multidimensional relationship model or matrix pricing model utilizing market data, including, but not limited to, benchmark yields, reported trades, and broker-dealer quotes. Money market funds with maturity dates of one year or less from the statement of net position date are recorded at amortized cost and not required to be categorized.

### *(b) Pooled Cash*

The Power System's cash and cash equivalents and its collateral value of the City's securities lending program are included within the City Treasury's general and special investment pools. As of June 30, 2024 and 2023, the Power System's total share of the City's general and special investment pools was $2,488.8 million and $2,719.1 million, respectively, which represents approximately 16.4% and 17.8% of the pool funds, respectively. Amounts pooled in the City Treasury's general and special investment pools are not required to be classified in the fair value hierarchy per GASB Statement No. 72 since they are part of an internal investment pool.

Pooled cash is recorded as follows on the statements of net position as of June 30, 2024 and 2023 (in thousands):

| | | June 30 | |
|---|---|---|---|
| | | **2024** | **2023** |
| Cash and cash equivalents – unrestricted | $ | 1,090,739 | 1,494,067 |
| Cash and cash equivalents – restricted noncurrent | | 570,941 | 500,467 |
| Cash and cash equivalents – restricted current | | 824,509 | 713,894 |
| Subtotal cash and cash equivalents | | 2,486,189 | 2,708,428 |
| Cash – securities lending transactions | | 2,578 | 10,660 |
| Total pooled cash | $ | 2,488,767 | 2,719,088 |

In accordance with GASB Statement No. 31, the Power System records its investment pool funds at fair market value. This fair market value adjustment is recognized as investment income (loss) on the statement of revenues, expenses, and changes in net position and is also recorded as an increase (decrease) to cash and cash equivalents – unrestricted on the statement of net position. The fair value gain (loss) recognized on the Power System's financial statements was $38,932 thousand and $(32,711) thousand at June 30, 2024 and 2023, respectively.

The cash balances of substantially all funds on deposit in the City Treasury are pooled and invested by the City Treasurer for the purpose of maximizing interest earnings through pooled investment activities, but safety and liquidity still take precedence over return. Investments in special investment pools will be managed in accordance with the respective pool's policy. If no policy exists, then investments must comply with the California State Government Code Sections 53600–53635 et seq. Special pool participants include the City, Airports, Power System and Water System, Harbor, Sewer, and MICLA.

Interest earned on pooled investments is allocated to and recorded in certain participating funds, as authorized by the Council and permitted by the City Charter and the California Government Code, based on each fund's average daily deposit balance. Unless allocation provisions are specifically stipulated in a City ordinance, Council action, or funding source, interest earned on certain funds is allocated to and recorded in the General Fund. The City measures and categorizes its investments using fair value measurement guidelines established by generally accepted accounting principles.

Pursuant to California Government Code Section 53607 (State Code) and the Council File No. 94- 2160, the City Treasury shall render to the Council a statement of investment policy (the Policy) annually. Council File No. 21-1494 was adopted on September 23, 2022, as the City's investment policy. This policy shall remain in effect until the Council and the Mayor approve a subsequent revision. As of June 30, 2024, Council File No. 23-0357 (the subsequent revision of Investment Policy dated February 15, 2023) was still pending in Committee. The Policy governs the City's pooled investment practices. The Policy addresses soundness of financial institutions in which the City Treasurer will deposit funds and types of investment instruments permitted by California Government Code Sections 53600-53638, 16340 and 16429.1. The City Treasury further reports that the current policy allows for the purchase of Bonds issues by a local agency, United States Treasury obligations and Federal agency or United States government-sponsored enterprises with maturities up to 30 years.

The City issues a publicly available financial report that includes complete disclosures related to the City's pooled investments. The report may be obtained by writing to the City of Los Angeles, Office of the Controller, 200 North Main Street, City Hall East Suite 300, Los Angeles, CA 90012, or the Los Angeles City Controller's website http://www.lacontroller.org/reports.

*General Investment Pool Securities Lending Program*

Securities lending is permitted and limited under provisions of California Government Code Section 53601. The Council approved the Securities Lending Program (the SLP) on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP in priority order are safety of loaned securities and prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines. The Power System invested $2,578 thousand and $10,660 thousand in the City's securities lending program as of June 30, 2024 and 2023, respectively.

The City's custodial bank acts as the securities lending agent. In the event a counterparty defaults by reason of an act of insolvency, the bank shall take all actions, which it deems necessary or appropriate to liquidate permitted investment and collateral in connection with such transaction, and shall make a reasonable effort for two business days (the Replacement Period) to apply the proceeds thereof to the purchase of securities identical to the loaned securities not returned. If during the Replacement Period the collateral liquidation proceeds are insufficient to replace any of the loaned securities not returned, the bank shall, subject to payment by the City of the amount of any losses on any permitted investments, pay such additional amounts, as necessary, to make such replacement.

Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the General Investment Pool (the Pool) is available for lending. The City loans out U.S. Treasury Notes, U.S. Agencies Securities, and Medium-Term Notes. The City receives cash as collateral on the loaned securities, which is reinvested in securities permitted under the Policy. In addition, the City receives securities as collateral on loaned securities, which the City has no ability to pledge or sell without borrower default. In accordance with the California Government Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans where either party can terminate a lending contract on demand, term loans have a maximum life of 92 days. Earnings from securities lending accrue to the Pool and are allocated on a pro rata basis to all Pool participants.

During fiscal year 2024, collateralizations on all loaned securities were compliant with the required 102% of the market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the fiscal year. There was no credit risk exposure to the City because the amounts owed to the borrowers exceeded the



(Continued)

amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

## (8) Derivative Instruments

In accordance with GASB Statement No. 53, the Power System records the fair value of its financial natural gas hedges on the statement of net position. As of June 30, 2024 and 2023, the fair values of the financial natural gas hedges were approximately $(1.4) million and approximately $14.6 million, respectively, and were recorded as noncurrent (liabilities) assets in 2024 and 2023 on the statements of net position. The Power System enters into natural gas hedging contracts to stabilize the cost of gas needed to produce electricity to serve its customers. It is designed to cap gas prices over a portion of the forecasted gas requirements. The Power System does not speculate when entering into financial transactions. Financial hedges are variable to fixed-price swaps, and hedge transactions are layered in to achieve dollar-cost averaging.

As of June 30, 2024, the Power System's financial natural gas hedges by fiscal year are as follows (fair value in thousands):

| Derivative description | Notional amount (total contract quantities*) | Contract price range dollar per unit | First effective date | Last termination date | Fair value |
|---|---|---|---|---|---|
| Financial natural gas: | | | | | |
| FY 2024-25 | 26,030,000 | $ 2.20-6.69 | July 1, 2024 | June 30, 2025 | $ (2,898) |
| FY 2025-26 | 23,470,000 | 2.23-4.75 | July 1, 2025 | June 30, 2026 | 3,267 |
| FY 2026-27 | 14,940,000 | 3.49-5.04 | July 1, 2026 | June 30, 2027 | (825) |
| FY 2027-28 | 9,775,000 | 3.49-4.66 | July 1, 2027 | June 30, 2028 | (806) |
| FY 2028-29 | 4,110,000 | 3.61-4.31 | July 1, 2028 | June 30, 2029 | (130) |
| Total | 78,325,000 | | | | $ (1,392) |

* Contract quantities in MMBtu – Metric Million British Thermal Units

As of June 30, 2023, the Power System's financial natural gas hedges by fiscal year are the following (fair value in thousands):

| Derivative description | Notional amount (total contract quantities*) | | Contract price range dollar per unit | First effective date | Last termination date | | Fair value |
|---|---|---|---|---|---|---|---|
| Financial natural gas: | | | | | | | |
| FY 2023–2024 | 24,425,000 | $ | 1.88-5.42 | July 1, 2023 | June 30, 2024 | $ | 11,213 |
| FY 2024–2025 | 12,640,000 | | 2.20-5.14 | July 1, 2024 | June 30, 2025 | | 6,421 |
| FY 2025–2026 | 13,560,000 | | 2.23-4.75 | July 1, 2025 | June 30, 2026 | | 3,224 |
| FY 2026–2027 | 8,605,000 | | 3.49-5.04 | July 1, 2026 | June 30, 2027 | | (3,478) |
| FY 2027–2028 | 3,890,000 | | 4.15-4.66 | July 1, 2027 | June 30, 2028 | | (2,772) |
| Total | 63,120,000 | | | | | $ | 14,608 |

* Contract quantities in MMBtu – Metric Million British Thermal Units

The fair value of the natural gas hedges decreased by $16.0 million during the year ended June 30, 2024 due to a decrease in natural gas prices during the year, and the balance of ($1.4) million at June 30, 2024 is reported as a noncurrent liability and is offset by a deferred outflow on the statement of net position. All fair values were estimated using Platt's forward curves, based on published settlement prices and supplemented by Platt's proprietary models wherever there is less liquid market activity.

### *(a) Credit Risk*

The Power System is exposed to credit risk related to nonperformance by its counterparties under the terms of contractual agreements. In order to limit the risk of counterparty default, the Department has implemented a Counterparty Evaluation Credit Policy (Credit Policy). The Credit Policy has been amended from time to time, and the latest Board approval was on November 28, 2017. The Credit Policy's current scope includes physical power, transmission, physical natural gas, financial natural gas, and environmental products. Also, the credit limit structure is categorized into short-term and long-term structures where the short-term structure is applicable to transactions with terms of up to 18 months and the long-term structure covers transactions beyond 18 months.

The Policy includes provisions to limit risk, including the assignment of internal credit ratings to all of the Power System's counterparties based on counterparty and/or debt ratings; the use of expected default frequency equivalent credit rating for short-term transactions; the requirement for credit enhancements (including advance payments, irrevocable letters of credit, escrow trust accounts, and parent company guarantees) for counterparties that do not meet an acceptable level of risk; and the use of standardized agreements, which allow for the netting of positive and negative exposures associated with a single counterparty.

As of June 30, 2024, the five financial natural gas hedge counterparties were rated by Moody's as follows: one at Aa1, one Aa2, two at A1, and one at A2. The counterparties were rated by S&P as follows: one at AA-, one at A+, two at A-, and one at BBB+. As of June 30, 2023, the five financial natural gas hedge counterparties were rated by Moody's as follows: one at Aa1, three at A1, and one at A2. The counterparties were rated by S&P as follows: one at AA-, one at A+, two at A-, and one at BBB+.

Based on the International Swap Dealers Association agreements, the Power System or the counterparty may be required to post collateral to support the financial natural gas hedges subject to credit risk in the form of cash, negotiable debt instruments (other than interest-only and principal-only securities), or eligible letters of credit. As of June 30, 2024, the fair values of the financial natural gas hedges were within the counterparties' credit limits and there were no cash and securities collateral posted. As of June 30, 2023, the fair values of the financial natural gas hedges were above the credit limits of three counterparties; cash and securities collateral were posted totaling to approximately $6.7 million.

***(b) Basis Risk***

The Department is exposed to minimal to no basis risk between the financial natural gas hedges and the equivalent physical gas deliveries as both are settled using the first-of-the-month NW Rocky Mountains Index, while the physical gas deliveries are received at Kern River Opal, where the Department negotiated firm transmission rights. Both locations are in the same region and are highly correlated.

***(c) Termination Risk***

The Power System or its counterparties may terminate the contractual agreements if the other party fails to perform under the terms of the contract. No termination events have occurred and there are no out of the ordinary termination events contained in contractual documents.

## (9) Long-Term Debt

Long-term debt outstanding as of June 30, 2024 and 2023 consists of revenue bonds and refunding revenue bonds due serially in varying annual amounts as follows (amounts in thousands):

| Bond issues | Date of issue | Effective interest rate % | Fiscal year of last scheduled maturity | Principal outstanding 2024 | Principal outstanding 2023 |
|---|---|---|---|---|---|
| Issue of 2001, Series B | June 5, 2001 | Variable | 2035 | $ 322,800 | 322,800 |
| Issue of 2002, Series A | August 22, 2002 | Variable | 2036 | 218,900 | 218,900 |
| Issue of 2010, Series A | June 2, 2010 | 3.898 | 2040 | — | 316,000 |
| Issue of 2010, Series C | August 25, 2010 | 2.188 | 2028 | 139,775 | 139,775 |
| Issue of 2010, Series D | December 2, 2010 | 4.342 | 2046 | 660,200 | 660,200 |
| Issue of 2012, Series A | October 25, 2012 | 2.936 | 2036 | 4,195 | 4,195 |
| Issue of 2013, Series A | April 2, 2013 | 2.504 | 2025 | 205 | 1,755 |
| Issue of 2013, Series C | June 4, 2013 | 4.441 | 2038 | 27,855 | 27,855 |
| Issue of 2014, Series A | May 6, 2014 | Variable | 2039 | — | 200,000 |
| Issue of 2014, Series B | June 10, 2014 | 4.008 | 2042 | 2,925 | 307,320 |
| Issue of 2014, Series C | August 5, 2014 | 2.912 | 2030 | — | 171,230 |
| Issue of 2014, Series D | October 23, 2014 | 3.785 | 2045 | — | 423,245 |
| Issue of 2014, Series E | January 8, 2015 | 3.833 | 2045 | — | 214,975 |
| Issue of 2015, Series A | April 16, 2015 | 3.636 | 2037 | 415,935 | 415,935 |
| Issue of 2016, Series A | May 19, 2016 | 3.265 | 2047 | 198,260 | 216,390 |
| Issue of 2016, Series B | June 23, 2016 | 3.259 | 2047 | 216,075 | 218,365 |
| Issue of 2017, Series A | February 9, 2017 | 3.782 | 2048 | 488,950 | 497,430 |
| Issue of 2017, Series B | April 4, 2017 | 3.666 | 2040 | 338,255 | 338,255 |
| Issue of 2017, Series C | July 13, 2017 | 3.710 | 2048 | 365,950 | 371,055 |
| Issue of 2018, Series A | April 19, 2018 | 3.357 | 2039 | 334,140 | 337,970 |
| Issue of 2018, Series B | November 1, 2018 | 2.244 | 2027 | 60,380 | 92,340 |
| Issue of 2018, Series C | November 1, 2018 | 2.290 | 2027 | 45,485 | 59,155 |
| Issue of 2018, Series D | December 20, 2018 | 3.587 | 2049 | 377,430 | 380,475 |
| Issue of 2019, Series A | February 7, 2019 | 3.827 | 2050 | 345,845 | 345,845 |
| Issue of 2019, Series B | May 9, 2019 | 2.305 | 2036 | 235,215 | 308,875 |
| Issue of 2019, Series C | October 1, 2019 | 3.215 | 2050 | 325,000 | 325,000 |

| Bond issues | Date of issue | Effective interest rate% | Fiscal year of last scheduled maturity | Principal outstanding 2024 | Principal outstanding 2023 |
|---|---|---|---|---|---|
| Issue of 2019, Series D | December 23, 2019 | 3.196 | 2050 | $ 281,530 | 281,530 |
| Issue of 2020, Series A | May 1, 2020 | 1.146 | 2030 | 338,480 | 338,480 |
| Issue of 2020, Series B | July 1, 2020 | 3.060 | 2051 | 433,080 | 433,080 |
| Issue of 2021, Series A | January 26, 2021 | Variable | 2052 | 250,000 | 250,000 |
| Issue of 2021, Series B | June 29, 2021 | 2.962 | 2052 | 358,800 | 358,800 |
| Issue of 2021, Series C | December 1, 2021 | 2.851 | 2052 | 401,705 | 401,705 |
| Issue of 2022, Series A | February 3, 2022 | 3.058 | 2052 | 375,000 | 375,000 |
| Issue of 2022, Series B | April 20, 2022 | 3.547 | 2053 | 360,000 | 360,000 |
| Issue of 2022, Series C | June 30, 2022 | 4.123 | 2053 | 399,365 | 399,365 |
| Issue of 2022, Series D | December 1, 2022 | 3.372 | 2027 | 28,455 | 28,455 |
| Issue of 2022, Series E | December 1, 2022 | 3.016 | 2031 | 203,365 | 238,060 |
| Issue of 2023, Series A | April 4, 2023 | 2.456 | 2033 | 294,475 | 308,055 |
| Issue of 2023, Series B | June 28, 2023 | 3.869 | 2054 | 100,000 | 100,000 |
| Issue of 2023, Series C | June 28, 2023 | Variable | 2058 | 350,000 | 350,000 |
| Issue of 2023, Series D | November 1, 2023 | 4.215 | 2044 | 303,260 | — |
| Issue of 2023, Series E | December 21, 2023 | 3.727 | 2054 | 428,120 | — |
| Issue of 2023, Series F | December 28, 2023 | Variable | 2049 | 200,185 | — |
| Issue of 2024, Series A | April 2, 2024 | 3.298 | 2045 | 372,480 | — |
| Issue of 2024, Series B | April 18, 2024 | 3.279 | 2040 | 275,615 | — |
| Issue of 2024, Series C | June 27, 2024 | 3.956 | 2055 | 507,305 | — |
| Total principal amount | | | | 11,384,995 | 11,137,870 |
| Unamortized premiums and discounts, net | | | | 1,349,410 | 1,308,208 |
| Revenue bonds, net | | | | 12,734,405 | 12,446,078 |
| Debt due within one year, long-term debt | | | | (223,610) | (214,040) |
| Debt due within one year, variable rate demand bond liquidity advance not made | | | | (134,189) | (114,170) |
| Revenue bonds, noncurrent, net | | | | $ 12,376,606 | 12,117,868 |

Revenue bonds generally are callable 10 years after issuance. The Power System has agreed to certain covenants with respect to bonded indebtedness. Significant covenants include the requirement that the Power System's net income, as defined, will be sufficient to pay certain amounts of future annual bond interest and of future annual aggregate bond interest and principal maturities. Revenue bonds and refunding bonds are collateralized by the future revenue of the Power System.

### *(a) Long-Term Debt Activity*

The Power System had the following activity in long-term debt for the fiscal years ended June 30, 2024 and 2023 (amounts in thousands):

| | Balance June 30, 2023 | Additions | Reductions | Balance June 30, 2024 |
|---|---|---|---|---|
| Revenue bonds: | | | | |
| Principal: | | | | |
| Beginning balance | $ 10,937,870 | — | — | 10,937,870 |
| Issuances | — | 613,125 | — | 613,125 |
| Refunding bonds | — | 1,473,840 | — | 1,473,840 |
| Scheduled maturities | — | — | (214,040) | (214,040) |
| Refunded/defeased bonds | — | — | (1,425,800) | (1,425,800) |
| | 10,937,870 | 2,086,965 | (1,639,840) | 11,384,995 |
| Premium (discount): | | | | |
| Beginning balance | 1,308,208 | — | — | 1,308,208 |
| Issuances | — | 88,249 | — | 88,249 |
| Refunding bonds | — | 164,781 | — | 164,781 |
| Scheduled amortization | — | — | (113,306) | (113,306) |
| Written off due to refunding | — | — | (98,522) | (98,522) |
| | 1,308,208 | 253,030 | (211,828) | 1,349,410 |
| Revenue bonds, net | 12,246,078 | 2,339,995 | (1,851,668) | 12,734,405 |
| Direct placements | 200,000 | — | (200,000) | — |
| Total | $ 12,446,078 | 2,339,995 | (2,051,668) | 12,734,405 |

| | Balance June 30, 2022 | Additions | Reductions | Balance June 30, 2023 |
|---|---|---|---|---|
| Revenue bonds: | | | | |
| Principal: | | | | |
| Beginning balance | $ 10,739,980 | — | — | 10,739,980 |
| Issuances | — | 450,000 | — | 450,000 |
| Refunding bonds | — | 574,570 | — | 574,570 |
| Scheduled maturities | — | — | (190,315) | (190,315) |
| Refunded/defeased bonds | — | — | (636,365) | (636,365) |
| | 10,739,980 | 1,024,570 | (826,680) | 10,937,870 |
| Premium (discount): | | | | |
| Beginning balance | 1,387,444 | — | — | 1,387,444 |
| Issuances | — | 14,953 | — | 14,953 |
| Refunding bonds | — | 63,233 | — | 63,233 |
| Scheduled amortization | — | — | (111,050) | (111,050) |
| Written off due to refunding | — | — | (46,372) | (46,372) |
| | 1,387,444 | 78,186 | (157,422) | 1,308,208 |
| Revenue bonds, net | 12,127,424 | 1,102,756 | (984,102) | 12,246,078 |
| Direct placements | 200,000 | — | — | 200,000 |
| Total | $ 12,327,424 | 1,102,756 | (984,102) | 12,446,078 |

### *(b) New Issuances*

*(i) Fiscal Year 2024*

In November 2023, the Power System issued $303.3 million of Power System Revenue Bonds, 2023 Series D. The net proceeds of $325.5 million, including a $22.2 million issue premium net of underwriter's discount, were used to refund a portion of the outstanding Power System Revenue Bonds, 2014 Series B, amounting to $293.9 million, and a portion of the outstanding Power System Revenue Bonds, 2018 Series B, amounting to $32.0 million. The transaction resulted in a net present value savings of $23.1 million and a net gain for accounting purposes of $26.0 million, which was capitalized as deferred inflows on debt refunding and is being amortized over the life of the refunding bonds.

In December 2023, the Power System issued $428.1 million of Power System Revenue Bonds, 2023 Series E. The net proceeds of $493.4 million, including a $65.3 million issue premium net of underwriter's discount, were used to pay for capital improvements and refund a portion of the outstanding Power System Revenue Bonds, 2014 Series B, amounting to $6.4 million. The transaction resulted in a net present value savings of $223.0 thousand and a net gain for accounting purposes of $188.7 thousand, which was capitalized as deferred inflows on debt refunding and is being amortized over the life of the refunding bonds.

In December 2023, the Power System issued $200.2 million of Power System Variable Rate Demand Revenue Bonds, 2023 Series F. The net proceeds of $200.0 million, net of underwriter's discount, were used to refund all of the outstanding Power System Revenue Bonds, 2014 Series A, amounting to $200.0 million.

In April 2024, the Power System issued $372.5 million of Power System Revenue Bonds, 2024 Series A. The net proceeds of $427.3 million, including a $54.8 million issue premium net of underwriter's discount, were used to refund a portion of the outstanding Power System Revenue Bonds, 2014 Series C, amounting to $54.5 million, a portion of the outstanding Power System Revenue Bonds, 2014 Series D, amounting to $162.3 million, and all of the outstanding Power System Revenue Bonds, 2014 Series E, amounting to $211.1 million. The transaction resulted in a net present value savings of $67.9 million and a net gain for accounting purposes of $42.8 million, which was capitalized as deferred inflows on debt refunding and a portion is being amortized over the life of the refunded bonds while the remaining is being amortized over the life of the refunding bonds.

In April 2024, the Power System issued $275.6 million of Power System Revenue Bonds, 2024 Series B. The net proceeds of $327.4 million, including a $51.8 million issue premium net of underwriter's discount, were used to refund all of the outstanding Power System Revenue Bonds, 2010 Series A, amounting to $316.0 million. The transaction resulted in a net present value savings of $7.1 million and a net loss for accounting purposes of $11.4 million, which was capitalized as deferred outflows on debt refunding and is being amortized over the life of the refunding bonds.

In June 2024, the Power System issued $507.3 million of Power System Revenue Bonds, 2024 Series C. The net proceeds of $562.3 million, including a $55.0 million issue premium net of underwriter's discount, were used to pay for capital improvements, refund all of the outstanding Power System Revenue Bonds, 2014 Series C, amounting to $96.3 million, and refund all of the outstanding Power System Revenue Bonds, 2014 Series D, amounting to $253.4 million. The transaction resulted in a net present value savings of $38.8 million and a net gain for accounting purposes of $29.6 million, which was capitalized as deferred inflows on debt refunding and is being amortized over the life of the refunding bonds.

*(ii) Fiscal Year 2023*

In December 2022, the Power System issued $28.5 million of Power System Revenue Bonds, 2022 Series D. The net proceeds of $30.0 million, including a $1.5 million issue premium net of underwriter's discount, were used to refund a portion of the outstanding Power System Revenue Bonds, 2018 Series B, amounting to $30.0 million. The transaction resulted in a net gain for accounting purposes of $65.0 thousand, which was capitalized as deferred inflows on debt refunding and is being amortized over the life of the refunded bonds.

In December 2022, the Power System issued $238.1 million of Power System Revenue Bonds, 2022 Series E. The net proceeds of $254.0 million, including a $15.9 million issue premium net of underwriter's discount, were used to refund a portion of the outstanding Power System Revenue Bonds, 2013 Series A, amounting to $253.8 million. The transaction resulted in a net present value savings of $17.0 million and a net gain for accounting purposes of $17.3 million, which was capitalized as deferred inflows on debt refunding and is being amortized over the life of the refunding bonds.

In April 2023, the Power System issued $308.0 million of Power System Revenue Bonds, 2023 Series A. The net proceeds of $352.8 million, including a $44.8 million issue premium net of underwriter's discount, were used to refund a portion of the outstanding Power System Revenue Bonds, 2012 Series A, amounting to $7.6 million, a portion of the outstanding Power System Revenue Bonds, 2013 Series A, amounting to $625.0 thousand, and all of the outstanding Power System Revenue Bonds, 2013 Series B, amounting to $344.3 million. The transaction resulted in a net present value savings of $48.1 million and a net gain for accounting purposes of $26.2 million, which was capitalized as deferred inflows on debt refunding and is being amortized over the life of the refunded bonds.

In June 2023, the Power System issued $100.0 million of Power System Revenue Bonds, 2023 Series B. The net proceeds of $114.7 million, including a $14.7 million issue premium net of underwriter's discount, were used to pay for capital improvements.

In June 2023, the Power System issued $350.0 million of Power System Variable Rate Demand Revenue Bonds, 2023 Series C. The net proceeds of $349.7 million, net of underwriter's discount, were used to pay for capital improvements.

### *(c) Outstanding Debt Defeased*

The Power System defeased certain revenue bonds in the current and prior years by placing cash and the proceeds of new revenue bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Power System's financial statements. At June 30, 2024, the following revenue bonds outstanding are considered defeased (amounts in thousands):

| Bond issues | | Principal outstanding |
|---|---|---|
| Second issue of 1993 | $ | 3,450 |
| Issue of 1994 | | 2,300 |
| Issue of 2014 Series C | | 150,775 |
| Issue of 2014 Series D | | 415,765 |
| Issue of 2014 Series E | | 211,065 |
| | $ | 783,355 |

### (d) Variable Rate Bonds

As of June 30, 2024 and 2023, the Power System had variable rate bonds outstanding in the amounts of $1,341.9 million and $1,341.7 million, respectively. In December 2023, the Power System issued $200.2 million of Power System Variable Rate Demand Revenue Bonds, 2023 Series F, to refund all of the outstanding direct placement Power System Revenue Bonds, 2014 Series A, amounting to $200.0 million. Of the variable rate bonds outstanding as of June 30, 2023, $200.0 million were in direct placement bonds as discussed in note 9(e). The variable rate bonds currently bear interest at weekly and daily rates ranging from 1.90% to 4.70% as of June 30, 2024 and 1.30% to 3.40% as of June 30, 2023. The Power System can elect to change the interest rate period of the bonds with certain limitations. The bondholders have the right to tender the bonds to the tender agent on any business day with seven days' prior notice. The Power System has entered into standby and line of credit agreements with a syndicate of commercial banks to provide liquidity for the variable rate bonds in the amount $323 million, $219 million, $250 million, $350 million, and $200 million as of June 30, 2024. The extended standby agreements expire in July 2026 for the $250 million, January 2027 for the $323 million, June 2027 for the $200 million, November 2027 for the $219 million, and in June 2028 for the $350 million.

Under the agreements, $573 million variable rate bonds will bear interest that is payable monthly at the greatest of (a) the prime rate plus 1.00%, (b) the federal funds rate plus 2.00%, and (c) 7.50%; $219 million variable rate bonds will bear interest that is payable monthly at the greatest of (a) the prime rate plus 1.00%, (b) the federal funds rate plus 2.00%, and (c) 7.00%; $350 million variable rate bonds will bear interest that is payable monthly at the greatest of (a) the prime rate plus 2.50%, (b) the federal funds rate plus 3.00%, and (c) 8.00%; and $200 million variable rate bonds will bear interest that is payable monthly at the greatest of (a) the prime rate and (b) 7.50%. The unpaid principal of each liquidity advance made by the liquidity provider is payable in 10 equal semiannual installments 90 days immediately following the related liquidity advance. At its discretion, the Power System has the ability to convert the outstanding bonds to fixed-rate obligations, which cannot be tendered by the bondholders.

The variable rate bonds have been classified as long term in the statements of net position as the liquidity facilities give the Power System the ability to refinance on a long-term basis and the Power System intends to either renew the facility or exercise its right to tender the debt as a long-term financing. The portion that would be due in the next fiscal year in the event that the outstanding variable rate bonds were tendered and purchased by the commercial banks under the standby agreements has been included in the current portion of long-term debt and was $134 million and $114 million at June 30, 2024 and 2023, respectively.

### (e) Direct Placements and Line of Credit

Under GASB No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements,* the Power System has the following direct placement debt and unused line of credit:

In May 2020, the Power System entered into a Continuing Covenant Agreement (CCA) with Bank of America, N.A. (Bank of America) for the placement of the $200 System Revenue Bonds, 2014 Series A (Power 2014A Bonds) under a direct purchase structure. In May 2014, the Power System initially sold $200 million of Power 2014A Bonds in an index floating rate mode under a direct purchase structure with Wells Fargo Municipal Capital Strategies, LLC (Wells Fargo) through a continuing covenant agreement that expired on May 5, 2017. The continuing covenant agreement with Wells Fargo was amended in May 2017 to extend for another three years and expired on May 4, 2020. The CCA with Bank of America was expected to expire on May 2, 2025. Under the CCA with Bank of America, the Power 2014A Bonds will pay interest at a fixed spread of 27 basis points (0.27%) above the Securities Industry and Financial Markets Association Index for the five-year term. At the end of the five-year term, the Power System would have the option to either renegotiate and renew a new index floating rate term with Bank of America or another bank or convert the bonds to another mode, such as a fixed rate mode or a traditional variable rate mode, which utilizes a standby agreement. Certain default provisions under the CCA include, but are not limited to, failure to pay amounts due under the CCA and certain other obligations of the Power System, failure to perform certain covenants under the CCA, actions taken in connection with a debt restructuring or similar of the Department, significant rating downgrades of obligations payable from the Power Revenue Fund, and significant nonappealable judgments against the Department. Such defaults may result in a mandatory redemption of the Power 2014A Bonds or other remedial actions taken by Bank of America. As of June 30, 2024, these terms are no longer applicable to the Power System, but they were applicable during the period that the direct purchase was outstanding. As discussed in notes 9(b) and 9(d), in December 2023, the Power System issued $200.2 million of Power System Variable Rate Demand Revenue Bonds, 2023 Series F, to refund all of the outstanding Power System Revenue Bonds, 2014 Series A. The Power System does not have any assets pledged as collateral for direct placement debt, termination events with finance related consequences, or subjective acceleration clauses as of June 30, 2024 and 2023.

On May 25, 2023, the Power System entered into a Second Amended and Restated Revolving Credit Agreement (Second Amended RCA) and the related Second Amended and Restated Fee and Interest Rate Agreement with Wells Fargo Bank, National Association with a $300 million commitment and the option to request additional commitment, as needed up to a total commitment of $500 million. The Department can request loans for Water System improvements, Power System improvements and/or such other lawful purposes of LADWP. The interest charged for tax-exempt loans is based on daily Secured Overnight Financing Rate (SOFR) plus a spread of 0.39%. The interest charge for taxable loans is based on daily SOFR plus a spread of 0.47%. The Second Amended RCA expires in May 2026. As of June 30, 2024 and 2023, the Power System has no obligations outstanding under the Second Amended RCA.

### (f) Principal Maturities and Interest

As of June 30, 2024, annual principal maturities and interest on an accrual basis are as follows (amounts in thousands):

| | | Principal | Interest and amortization |
|---|---|---|---|
| Fiscal year(s) ending June 30: | | | |
| 2025 | $ | 223,610 | 424,506 |
| 2026 | | 295,575 | 418,082 |
| 2027 | | 315,921 | 413,259 |
| 2028 | | 362,677 | 395,726 |
| 2029 | | 381,029 | 384,936 |
| 2030–2034 | | 2,199,483 | 1,717,975 |
| 2035–2039 | | 2,096,400 | 1,308,419 |
| 2040–2044 | | 2,296,055 | 882,122 |
| 2045–2049 | | 1,958,255 | 391,644 |
| 2050–2054 | | 797,165 | 125,221 |
| 2055–2059 | | 361,389 | 26,861 |
| Total requirements | | 11,287,559 | 6,488,751 |
| Debt service payments already paid to sinking fund – 2010C bonds | | 97,436 | — |
| | $ | 11,384,995 | 6,488,751 |

Interest and amortization are net of $1,509 million of unamortized discount/premium and gain/loss due to issuances of new and refunding bonds.

The schedule above is presented assuming that the tender options on the variable rate bonds, as discussed in notes 9(d) and 9(e) will not be exercised and should the bondholders exercise the tender options, the Power System would be required to redeem the $1,341.9 million in variable rate bonds over the next six years as follows: $134.2 million in fiscal year 2025, $268.4 million in fiscal years 2026 through 2029, and $134.2 million in fiscal year 2030. Accordingly, the statements of net position recognize the possibility of the exercise of the tender options and reflect the $134.2 million that could be due in fiscal year 2025 as a current portion of long-term debt payable. Interest and amortization include interest requirements for variable rate bonds over the regularly scheduled maturity period. Variable debt interest rate in effect at June 30, 2024 averages 4.33%. Should the tender options be exercised, the interest would be payable at the rate in effect at the time the standby agreements are activated.

## (10) Retirement Plan

### *(a) Plan Description*

The Power System has a funded contributory retirement plan covering substantially all of its employees. The Water and Power Employees' Retirement Fund (The Fund Plan) operates as a single-employer defined-benefit plan to provide pension benefits to eligible department employees. The Fund Plan's assets are held in a special trust fund of the City. Plan benefits are generally based on years of service, age at retirement, and the employee's highest 12 consecutive months of salary before retirement. Active participants who joined the Plan on or after June 1, 1984 are required to contribute 6% of their annual covered payroll. Participants who joined the Plan prior to June 1, 1984 contribute an amount based upon an entry-age percentage rate. A new Tier 2 was added to the Plan and applies to members hired on or after January 1, 2014. Tier 2 plan participants are required to contribute 10% of their salary, and plan benefits are based on a three-year final average salary period.

Under the provisions of the City Charter, the Retirement Board of Administration (the Retirement Board) has the responsibility and authority to administer the Plan and to invest its assets. The Retirement Board members serve as trustees and must act in the exclusive interest of the Plan's members and beneficiaries. The Retirement Board has seven members: one member of the Board of Water and Power Commissioners, the general manager, the chief accounting employee, three employee members who are elected for three-year terms by active members of the Plan, and one retiree who is appointed by the Board of Water and Power Commissioners for a three-year term.

Plan amendments must be approved by both the Retirement Board and the Board of Commissioners of the Department. The Plan issues separately available financial statements on an annual basis. Such financial statements can be obtained from the Department of Water and Power Retirement Office, 111 North Hope, Room 357, Los Angeles, CA 90012.

### *(b) Benefits Provided*

The Plan provides retirement benefits to eligible employees. Most employees of the Power System become members of the Plan effective on the first day of biweekly payroll following employment or immediately following transfer from another City department. Members employed prior to January 1, 2014 are designated as Tier 1, and those hired on or after January 1, 2014 are designated as Tier 2 (unless a specific exemption applies to employee providing a right to Tier 1 status).

Tier 1 members are eligible to retire once they attain the age of 60 with 5 or more years of service or at age 55 with 10 or more years of service acquired in the last 12 years prior to retirement. A Tier 1 member with 30 years of service is eligible to retire regardless of age. Tier 2 members are eligible to retire once they attain the age of 60 with at least 5 years of continuous Department service or at any age with 30 years of service. For both tiers, combined years of service between the Plan and the Los Angeles City Employees' Retirement System is used to determine retirement eligibility and at least 5 years must be actual employment at the Department or the City (not purchased). For both tiers, members receiving Permanent Total Disability benefits may retire regardless of age. For Tier 1, to be eligible for a Formula Pension, the employee must have worked or been paid disability 4 of the last 5 years immediately preceding eligibility to retire, or while eligible to retire.

The Formula Pension benefit the member will receive is based upon age at retirement, monthly average salary base, and years of retirement service credit. The Tier 1 Formula Pension is equal to 2.1% times years of service credit times monthly average salary base. In addition, members retiring after attaining age 55 with 30 years of service credit receive an increase in the benefit factor from 2.1% to 2.3%. A reduced early retirement benefit is paid for those members attaining age 55 with 10 years of service or any age (under 55) with 30 years of service. The reduction is 1.5% for each year of retirement age between 60 and 55 and 3.0% for each year of retirement before age 55.

Under Tier 2, there are various benefit factors that apply, as shown below:

- 1.5% at age 60 with 5 years of continuous Department service (or 10 years of qualifying service)
- 2.0% at age 55 with 30 years of service credit
- 2.0% at age 60 with 30 years of qualifying service
- 2.0% at age 63 with 5 years of continuous Department service (or 10 years of qualifying service)
- 2.1% at age 63 with 30 years of qualifying service

Reduced early retirement benefits are still available at any age (under 55) with 30 years of service and the reduction factors are the same as Tier 1. Note that these reduction factors continue to include the reduction from age 60 to 55 and from 55 to age at retirement.

For Tier 1 members, the maximum monthly retirement allowance is 100% of monthly average salary base. For Tier 2 members, the maximum monthly retirement allowance is 80% of monthly average salary base. Under Tier 1, pension benefits are calculated based on the highest average salary earned during a 12-month period. Under Tier 2, pension benefits are calculated based on the average salary earned during a 36-month period.

The member may elect the full allowance or choose an optional retirement allowance. The full allowance provides the highest monthly benefit and up to a 50% continuance to an eligible surviving spouse or domestic partner. There are five optional retirement allowances the member may choose. Each of the optional retirement allowances requires a reduction in the full allowance in order to allow the member the ability to provide various benefits to a surviving spouse, domestic partner, or named beneficiary.

### *(c) Plan Membership*

As of the June 30, 2023 and 2022, measurement dates for the June 30, 2024 and 2023 net pension liability, pension plan membership, which consisted of Water and Power System members, consisted of the following:

| | 2024 | 2023 |
|---|---|---|
| Retired members or beneficiaries currently receiving benefits | 9,756 | 9,716 |
| Vested terminated members entitled to, but not yet receiving, benefits | 1,765 | 1,735 |
| Active members | 11,039 | 10,799 |
| Total | 22,560 | 22,250 |

### *(d) Contributions*

The Department contributes $1.10 for each $1 contributed by participants plus an actuarially determined annual required contribution (ARC) as determined by the Plan's independent actuary. The required contributions are allocated between the Power System and the Water System based on the current-year labor costs.

Employer contribution rates are adopted annually based upon recommendations received from the Plan's actuary after the completion of the annual actuarial valuation. The average employer contribution rates for fiscal years 2024, 2023, and 2022 (based on the July 1, 2023, 2022, and 2021 valuations) were 31.40%, 29.84%, and 26.04% of compensation, respectively. The average member contribution rates for fiscal years 2024, 2023, and 2022 (based on the July 1, 2023, 2022, and 2021 valuations) were 8.11%, 7.95% and 7.85% of compensation, respectively. Most Tier 1 members contribute at 6% of compensation and all Tier 2 members contribute at 10% of compensation. Employer contributions in fiscal years 2024, 2023, and 2022 amounted to $295 million, $249 million, and $218 million, respectively.

### *(e) Net Pension Liability*

At June 30, 2024 and 2023, the Power System reported a liability of $393 million and $414 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023 and 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuations as of July 1, 2023 and 2022, respectively. The Power System's proportion of the net pension liability was based on the Power System's projected compensation for the year following the measurement date, relative to the projected compensation for the same period for both the Water System and the Power System. At June 30, 2024, the Power System's proportion was 67.6% compared to 67.1% and 67.6% as of June 30, 2023 and 2022, respectively.



(Continued)

### *(f) Actuarial Assumptions*

The Department's net pension liability as of June 30, 2024 and 2023 was measured as of June 30, 2023 and 2022 using actuarial valuations as of July 1, 2023 and 2022, respectively. The actuarial assumptions used in the July 1, 2023 and 2022 valuations were based on the results of experience studies for the period from July 1, 2018 through June 30, 2021. The following assumptions were applied to all periods included in the measurement for the July 1, 2023 and 2022 actuarial valuations:

| Actuarial assumptions | 2023 | 2022 |
|---|---|---|
| Inflation | 2.50 % | 2.50 % |
| Salary increases | 4.25 %–10.00 % | 4.25 %–10.00 % |
| Investment rate of return | 6.50 % | 6.50 % |
| Cost-of-living adjustments | 2.75 % (Actual increases are contingent upon CPI increases, with a 3.00% maximum for Tier 1 and 2.00% maximum for Tier 2.) | 2.75 % (Actual increases are contingent upon CPI increases, with a 3.00% maximum for Tier 1 and 2.00% maximum for Tier 2.) |
| Mortality | Postretirement: Pub-2010 General Healthy Retiree Headcount-Weighted Above-Median Mortality Table times 105% for males and 100% for females, projected generationally with the two-dimensional mortality improvement scale MP-2021 | Postretirement: Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table times 105% for males and 100% for females, projected generationally with the two-dimensional mortality improvement scale MP-2021 |

### *(g) Discount Rate*

The discount rate used to measure the total pension liability was 6.50% as of June 30, 2023 and 2022. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability at June 30, 2024 and 2023.

### *(h) Long-Term Expected Rate of Return*

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset proportionate share, adding expected inflation and subtracting expected investment expenses. The target allocation and projected best estimates of arithmetic real rates of return for each major asset class, after deducting inflation but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

| | June 2024 | | June 2023 | |
|---|---|---|---|---|
| Asset class | Targeted allocation | Long-term expected arithmetic real rate of return | Targeted allocation | Long-term expected arithmetic real rate of return |
| Large Cap U.S. equity | 21.10 % | 5.13 % | 21.10 % | 5.13 % |
| Small Cap U.S. equity | 2.10 % | 5.86 % | 2.10 % | 5.86 % |
| Developed international large cap equity | 12.20 % | 6.01 % | 12.20 % | 6.01 % |
| Developed international small cap equity | 1.80 % | 5.72 % | 1.80 % | 5.72 % |
| Global equity | 2.70 % | 5.94 % | 2.70 % | 5.94 % |
| Emerging market equity | 5.10 % | 8.16 % | 5.10 % | 8.16 % |
| TIPS | 3.50 % | (0.23) % | 3.50 % | (0.23) % |
| Real estate | 7.00 % | 4.60 % | 7.00 % | 4.60 % |
| Cash and equivalents | 1.00 % | (0.77) % | 1.00 % | (0.77) % |
| Commodities | 1.50 % | 2.77 % | 1.50 % | 2.77 % |
| Private equity | 10.00 % | 10.46 % | 10.00 % | 10.46 % |
| Private credit | 2.40 % | 5.94 % | 2.40 % | 5.94 % |
| Hedge funds | 5.00 % | 1.85 % | 5.00 % | 1.85 % |
| Non-Core real estate | 3.00 % | 7.14 % | 3.00 % | 7.14 % |
| Custom fixed income | 21.60 % | 0.68 % | 21.60 % | 0.68 % |
| Total | 100.00 % | | 100.00 % | |



(Continued)

### *(i) Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability of the Power System as of June 30, 2024 and 2023, calculated using the discount rate of 6.50%, as well as what the Department's pension liability would be as of June 30, 2024 if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate (amounts in thousands):

| Net pension liability | | 1% Decrease (5.50 %) | Current discount rate (6.50 %) | 1% Increase (7.50 %) |
|---|---|---|---|---|
| June 30, 2024 | $ | 1,961,082 | 393,338 | (896,454) |

| Net pension liability | | 1% Decrease (5.50 %) | Current discount rate (6.50 %) | 1% Increase (7.50 %) |
|---|---|---|---|---|
| June 30, 2023 | $ | 1,889,043 | 413,626 | (800,907) |

### *(j) Pension Plan Fiduciary Net Position*

The pension plan's fiduciary net position is determined based on the accrual basis of accounting, which is on the same basis of accounting as the Plan. Pension plan investments are recorded at fair value except for short-term investments, which are recorded at amortized cost. Benefit payments include costs as designated by the plan document, refunds of employee contributions due to terminations and member deaths, and administrative expenses.

### *(k) Pension Expense, Deferred Outflow of Resources, and Deferred Inflow of Resources*

The Power System recognized pension expense of $165,673 thousand and $37,023 thousand for the years ended June 30, 2024 and 2023, respectively. Pension expense is recorded as operation and maintenance expense or construction work in progress, depending on where the related payroll is charged. At June 30, 2024 and 2023, the Power System reported $601,259 thousand and $549,149 thousand, respectively, for deferred outflows of resources and deferred inflows of resources of $46,480 thousand and $57,075 thousand, respectively.

The below tables summarize the deferred inflows of resources and deferred outflows of resources related to pensions at June 30, 2024 and 2023 (amounts in thousands):

| Deferred outflows of resources | | June 30 2024 | June 30 2023 |
|---|---|---|---|
| Changes in proportion and differences between entity contributions and proportionate share of contributions | $ | 510 | 864 |
| Net difference between projected and actual earnings on pension plan investments | | 115,230 | 200,089 |
| Difference between actual and expected experience in the total pension liability | | 218,156 | 28,943 |
| Changes of assumptions and other inputs | | 267,363 | 319,253 |
| Total deferred outflows of resources | $ | 601,259 | 549,149 |

| Deferred inflows of resources | | June 30 2024 | June 30 2023 |
|---|---|---|---|
| Changes in proportion and differences between entity contributions and proportionate share of contributions | $ | 5,187 | 6,650 |
| Difference between projected and actual earnings on pension plan investments | | — | — |
| Difference between expected and actual experience in the total pension liability | | 41,293 | 50,425 |
| Total deferred inflows of resources | $ | 46,480 | 57,075 |

In addition to the deferred outflows of resources noted above, there are also $295,469 thousand and $249,275 thousand of deferred outflows related to pension contributions made after the measurement date as of June 30, 2024 and 2023, respectively. These deferred outflows of resources are recognized as a reduction of the net pension liability in the subsequent fiscal year.

The net amount of deferred outflows of resources and deferred inflows of resources related to pensions that will be recognized in pension expense during the next five years and thereafter by the Power System is as follows (in thousands):

| Year | | June 30 2024 | June 30 2023 |
|---|---|---|---|
| 2024 | $ | — | 55,311 |
| 2025 | | 54,056 | 42,265 |
| 2026 | | (8,156) | (19,534) |
| 2027 | | 334,819 | 321,164 |
| 2028 | | 54,924 | 43,134 |
| 2029 | | 81,696 | 49,240 |
| 2030 | | 32,621 | 492 |
| 2031 | | 4,819 | — |
| Total | $ | 554,779 | 492,072 |

### *(l) Overrecovered Costs – Pension*

In connection with the recognition of the net pension liability under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27, the Power System established a regulatory asset in the amount of $1,563,012 thousand, equal to the net pension liability reported at July 1, 2013. Amortization of this pension regulatory asset was recognized over the years as the difference between amounts paid toward actuarially determined contributions and actual pension expense. During fiscal year 2023, the difference between amounts paid toward actuarially determined contributions and actual pension expense exceeded the remaining balance in the pension regulatory asset and resulted in the recognition of overrecovered costs – pension in the amount of $387,059 thousand.

During fiscal year 2024, the amounts paid toward actuarially determined contributions exceeded actual pension expense by $129,187 thousand, resulting in an overrecovered costs – pension balance of $516,246 thousand.

## (11) Other Postemployment Benefit Plans

### *(a) General Information About the Plan*

The Department provides retirees medical and dental benefits and death benefits to active and retired employees and their dependents. The retiree healthcare plan and death benefit plan are administered by the Department and the Retirement Board, respectively. The Retirement Board and the Board of Commissioners have the authority to approve provisions and obligations. Eligibility for benefits for retired employees is dependent on a combination of age and service of the participants pursuant to a predetermined formula. Any changes to these provisions must be approved by the Retirement Board and the Board.

The retiree healthcare and death benefit plans are single-employer, defined-benefit plans. Plan assets are administered through irrevocable trusts for each fund used solely for the benefit of providing benefits to eligible participants in the Plan. Assets of the trust are legally protected from creditors and dedicated to providing postemployment reimbursement of eligible medical, dental, and vision expenses to current and eligible future retirees and their spouses in accordance with the terms of the Plan. Death benefits are provided to active and inactive employees in accordance with terms of the Plan.

The funds are administered in separate trust funds and presented as part of the retirement system financial statements. Such financial statements can be obtained from the Department of Water and Power Retirement Office, 111 North Hope, Room 357, Los Angeles, California 90012.

***(b) Benefits Provided***

For retiree healthcare, a medical subsidy is computed by a formula related to years of service and attained age of retirement. The subsidy limit is applied to the combined medical carrier and Medicare Part B premium but not the dental premium. For Tier 1, the monthly medical subsidy ranges from $30.32 to $1,896.76 depending on age and service at retirement. For Tier 2, the monthly medical subsidy ranges from $30.32 to $948.38, depending on age and service at retirement. The monthly dental subsidy for most retirees is $37.71. The dental subsidy is not available to pay for premiums for married and surviving spouses or domestic partners. All members hired before January 1, 2014 are Tier 1. All members hired on or after January 1, 2014 are Tier 2.

The death benefit fund pays death benefits to the beneficiaries of eligible employees. Generally, to be eligible for the family death benefit allowance, an employee must be a full member of the Plan and contributing to the Plan at the time of death. If death occurs after retirement, then, the retired member must be receiving a monthly retirement allowance from the Plan and had a least five years of department service at retirement. The Family Death Benefit program pays a monthly allowance of $416 to the surviving spouse of a member with minor (or disabled) children plus $416 for each minor (or disabled) child up to a maximum monthly allowance of $1,170. In addition, the spouse's portion will not be paid if the spouse is receiving a survivor's optional death benefit allowance or an eligible spouse allowance from the retirement plan.

The Supplemental Family Death Plan, which is part of the Death Benefit Fund, is optional and subject to making additional member contributions. The Supplemental Family Death Benefit Plan pays a monthly allowance of $520 for each surviving spouse or child, in addition to the amounts payable from the Family Death Benefit Plan, subject to a maximum of $1,066 for the additional benefits. The insured lives death benefit plan for contributing members provides death benefits to the beneficiaries of the active employees after they die. Generally, to be eligible, an employee must be a full member of the Plan and contributing to the Plan at the time of death. The benefit paid from the death benefit fund is a single sum that is equal to 14 times the member's monthly compensation with no maximum.

The insured lives death benefit plan for noncontributing members provides death benefits to employees who were employed by the Department for at least five years and death occurred after retirement. The death benefit is paid in a single sum that is equal to the lesser of 14 times the member's monthly full retirement allowance or $20,000.

### *(c) Employees Covered by Benefit Terms*

At the Department's measurement date of June 30, 2023 for the June 30, 2024 reporting period, the following employees were covered by the benefit terms:

| Plan membership | Retiree healthcare | Death benefit |
|---|---|---|
| Beneficiaries currently receiving benefits | — | 85 |
| Retired members currently receiving benefits | 8,552 | 7,819 |
| Vested terminated members not receiving benefits | — | 575 |
| Active members | 11,039 | 11,039 |
| Total | 19,591 | 19,518 |

At the Department's measurement date of June 30, 2022 for the June 30, 2023 reporting period, the following employees were covered by the benefit terms:

| Plan membership | Retiree healthcare | Death benefit |
|---|---|---|
| Beneficiaries currently receiving benefits | — | 93 |
| Retired members currently receiving benefits | 8,557 | 7,760 |
| Vested terminated members not receiving benefits | — | 595 |
| Active members | 10,799 | 10,799 |
| Total | 19,356 | 19,247 |

### *(d) Contributions*

The Board of Commissioners establishes rates for retiree healthcare plan based on an actuarially determined rate. For the years ended June 30, 2024 and 2023, the Department's average contribution rate was 9.0% and 9.5% of covered employee payroll, respectively. Employees are not required to contribute to the retiree healthcare plan. Power System contributions to the retiree healthcare plan were $72.2 million and $75.9 million including administrative expenses of $0.7 million and $0.7 million for the fiscal years ended June 30, 2024 and 2023, respectively.



(Continued)

The Department contributes to the death benefit plan based on actuarially determined contribution rates adopted by the board of administration. Employer contribution rates are adopted annually based on recommendations received from the Plan's actuary after the completion of the review of the death benefit fund. The employer and member contribution rates as of June 30, 2024 are as follows:

| | | Members | |
|---|---|---|---|
| | Department | Active | Retired |
| Total death benefit fund | 1.21 % of payroll | N/A | N/A |
| Supplemental family death benefit insured lives | | $2.25 biweekly | $4.90 monthly |
| Contributing | | $1.00 biweekly | N/A |
| Noncontributing | | N/A | N/A |

Power System contributions to the death benefits plan were $12.5 million including administrative expenses of $1.3 million for the fiscal year ended June 30, 2024.

The employer and member contribution rates as of June 30, 2023 are as follows:

| | | Members | |
|---|---|---|---|
| | Department | Active | Retired |
| Total death benefit fund | 1.11 % of payroll | N/A | N/A |
| Supplemental family death benefit insured lives | | $2.25 biweekly | $4.90 monthly |
| Contributing | | $1.00 biweekly | N/A |
| Noncontributing | | N/A | N/A |

Power System contributions to the death benefits plan were $11.3 million including administrative expenses of $1.4 million for the fiscal year ended June 30, 2023.

### *(e) Net OPEB Liability (Asset)*

The Power System reported an asset of $(160) million and $(12) million for its proportionate share of the net OPEB liability (asset) for retiree healthcare plan and the death benefit plan as of June 30, 2024 and 2023 reporting dates, respectively. The net OPEB liabilities (assets) for each of the plans was measured as of June 30, 2023 and 2022 and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by actuarial valuations for health benefit as of June 30, 2023 and 2022 and death benefit as of July 1, 2023 and 2022. The Power System's proportion of the net OPEB liability (asset) was based on the Power System's projected compensation for the year following the measurement date, relative to the projected compensation for the same period for both the Water System and the Power System. At June 30, 2024 and 2023, the Power System's proportion of the retiree healthcare plan and the death benefit plan net OPEB liabilities was 67.6% and 67.1%, respectively.

The following table shows the Power System's proportionate share of the net OPEB liability (asset) for each of the plans as of June 30, 2024 and 2023 (amounts in thousands):

| | | 2024 | 2023 |
|---|---|---|---|
| OPEB liability (asset) for retiree healthcare plan | $ | (233,654) | (87,399) |
| OPEB liability for death benefit plans | | 73,455 | 75,627 |
| Net OPEB liability (asset) | $ | (160,199) | (11,772) |

The total OPEB liability in the June 30, 2023 actuarial valuations used for the Power System's June 30, 2024 financial statements was determined using the following actuarial assumptions:

| | Retiree healthcare plan | Family death benefit | Supplemental death benefit | Insured lives benefit (contributing active members) | Insured lives death benefit (noncontributing members) |
|---|---|---|---|---|---|
| Cost method | Entry Age | Entry Age | Entry Age | Entry Age | Entry Age |
| Investment rate of return | 6.50 % | 2.75 % | 2.75 % | 2.75 % | 2.75 % |
| Inflation rate | 2.50 % | 2.50 % | 2.50 % | 2.50 % | 2.50 % |
| Real across the board salary increases | 0.50 % | 0.50 % | 0.50 % | 0.50 % | 0.50 % |
| Projected salary increase | 4.25 % to 10.00 % | 4.25 % to 10.00 % | 4.25 % to 10.00 % | 4.25 % to 10.00 % | 4.25 % to 10.00 % |
| Mortality table | Pub-2010 mortality table reflected for mortality experience as of the measurement date | — | — | — | — |
| Medical cost trends: | | | | | |
| Non-Medicare medical plan | 7.00 %, graded down to 4.50 % over 10 years | — | — | — | — |
| Medicare medical plans | 6.25 %, graded down to 4.50 % over 7 years | — | — | — | — |
| Dental and Medicare Part B | 3.00 and 4.50 % | — | — | — | — |
| Member contribution rate | None | None | $2.25 per biweekly period or $4.90 per month if retired | $1.00 per biweekly payroll period | None |

| | Retiree healthcare plan | Family death benefit | Supplemental death benefit | Insured lives benefit (contributing active members) | Insured lives death benefit (noncontributing members) |
|---|---|---|---|---|---|
| Department contribution rate | 9.02 % | 1.21 % of Payroll | — | — | — |
| Age and service requirement | Tier 1 – Age 60 with 5 years of service; age 55 with 10 years of service in the last 12 years; any age with 30 years of service; or receiving permanent total disability benefits from the Plan. Tier 2 – Age 60 with 5 years of continuous service with the Plan immediately prior to reaching eligibility; or age 60 with 10 years. of service; or any age with 30 years of service; or receiving permanent total disability benefits from the Plan | Preretirement death of an active, full, contributing member at any age; or postretirement death of a member receiving a monthly retirement from WPERP with at least five years of service at retirement | Preretirement death of an active, full, contributing member at any age; or postretirement death of a member receiving monthly retirement from WPERP | Any age with six months of continuous service. Preretirement death of an active, full, contributing member to WPERP | Death occurs after retirement and member was receiving a retirement monthly allowance from WPERP and had at least five years of service at retirement |

| | Retiree healthcare plan | Family death benefit | Supplemental death benefit | Insured lives benefit (contributing active members) | Insured lives death benefit (noncontributing members) |
|---|---|---|---|---|---|
| Monthly benefit | Tier 1 – $30.32 to $1,896.76. Tier 2 – $30.32 to $948.38 | $416 per month to each surviving child plus $416 per month to eligible spouse | $520 per month to each surviving child plus $520 per month to eligible spouse | A single sum distribution equal to 14 times the monthly salary | A single sum distribution equal to 14 times the member's full retirement allowance up to $20,000 |
| Participation rate | 100 % for medical and 100 % for dental | — | — | — | — |
| Retirement rates | Based on 2022 experience study covering the period from July 1, 2018 through June 30, 2021 | — | — | — | — |

Mortality rates in the June 30, 2023 valuation were based on the Pub-2010 General Healthy Retiree Headcount-Weighted Above-Median Mortality Table increased by 5% for males, projected generationally with the two-dimensional mortality improvement scale MP-2021. The actuarial assumptions used in the June 30, 2023 valuation were based on the long-term expected rate of return on OPEB plan investments, which was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

At June 30, 2024, the target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table for each fund:

| Asset class | Targeted allocation | Long-term expected arithmetic real rate of return |
|---|---|---|
| Large Cap U.S. equity | 21.10 % | 5.13 % |
| Small Cap U.S. equity | 2.10 % | 5.86 % |
| Developed international large cap equity | 12.20 % | 6.01 % |
| Developed international small cap equity | 1.80 % | 5.72 % |
| Global equity | 2.70 % | 5.94 % |
| Emerging market equity | 5.10 % | 8.16 % |
| TIPS | 3.50 % | (0.23) % |
| Real estate | 7.00 % | 4.60 % |
| Cash and equivalents | 1.00 % | (0.77) % |
| Commodities | 1.50 % | 2.77 % |
| Private equity | 10.00 % | 10.46 % |
| Private credit | 2.40 % | 5.94 % |
| Hedge funds | 5.00 % | 1.85 % |
| Non-Core real estate | 3.00 % | 7.14 % |
| Custom fixed income | 21.60 % | 0.68 % |
| Total | 100.00 % | |

| | Targeted allocation | Long-term expected arithmetic real rate of return |
|---|---|---|
| Death benefit: | | |
| Fixed income | 100 % | 0.36 % |
| | 100 % | |

At June 30, 2024, for the retiree healthcare fund, the discount rate used to measure the total OPEB liability was 6.50% for the year ended June 30, 2024. The projection of cash flows used to determine the discount rate assumed that Department's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

At June 30, 2024, for the death benefit fund, projected investment earnings were based on the assumed investment rate of return of 2.75% per annum. The plan fiduciary net position was projected to be available to make all projected future benefit payments for current Plan members. There is no projected "cross-over date" when projected benefits are not covered by projected assets. The long-term expected rate of return on Plan investments of 2.75% per annum was applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2023.

The total OPEB liability in the June 30, 2022 actuarial valuations used for the Power System's June 30, 2023 financial statements was determined using the following actuarial assumptions:

| | Retiree healthcare plan | Family death benefit | Supplemental death benefit | Insured lives benefit (contributing active members) | Insured lives death benefit (noncontributing members) |
|---|---|---|---|---|---|
| Cost method | Entry Age | Entry Age | Entry Age | Entry Age | Entry Age |
| Investment rate of return | 6.5 % | 2.75 % | 2.75 % | 2.75 % | 2.75 % |
| Inflation rate | 2.50 % | 2.50 % | 2.50 % | 2.50 % | 2.50 % |
| Real across the board salary increases | 0.5 % | 0.50 % | 0.50 % | 0.50 % | 0.50 % |
| Projected salary increase | 4.25 % to 10.00 % | 4.25 % to 10.00 % | 4.25 % to 10.00 % | 4.25 % to 10.00 % | 4.25 % to 10.00 % |
| Mortality table | Pub-2010 mortality table reflected for mortality experience as of the measurement date | — | — | — | — |
| Medical cost trends: | | | | | |
| Non-Medicare medical plan | 7.25 %, graded down to 4.50 % over 11 years | — | — | — | — |
| Medicare medical plans | 6.50 %, graded down to 4.50 % over 8 years | — | — | — | — |
| Dental and Medicare Part B | 3.00 and 4.50 % | — | — | — | — |
| Member contribution rate | None | None | $2.25 per biweekly period or $4.90 per month if retired | $1.00 per biweekly payroll period | None |
| Department contribution rate | 9.51 % | 1.11% of Payroll | — | — | — |

| | Retiree healthcare plan | Family death benefit | Supplemental death benefit | Insured lives benefit (contributing active members) | Insured lives death benefit (noncontributing members) |
|---|---|---|---|---|---|
| Age and service requirement | Tier 1 – Age 60 with 5 years of service; age 55 with 10 years of service in the last 12 years; any age with 30 years of service; or receiving permanent total disability benefits from the Plan. Tier 2 – Age 60 with 5 years of continuous service with the Plan immediately prior to reaching eligibility; or age 60 with 10 years. of service; or any age with 30 years of service; or receiving permanent total disability benefits from the Plan | Preretirement death of an active, full, contributing member at any age; or postretirement death of a member receiving a monthly retirement from WPERP with at least five years of service at retirement | Preretirement death of an active, full, contributing member at any age; or postretirement death of a member receiving monthly retirement from WPERP | Any age with six months of continuous service. Preretirement death of an active, full, contributing member to WPERP | Death occurs after retirement and member was receiving a retirement monthly allowance from WPERP and had at least five years of service at retirement |
| Monthly benefit | Tier 1 – $30.32 to $1,996.58. Tier 2 – $30.32 to $998.29 | $416 per month to each surviving child plus $416 per month to eligible spouse | $520 per month to each surviving child plus $520 per month to eligible spouse, subject to a maximum of $1,066 for the additional benefits | A single sum distribution equal to 14 times the monthly salary | A single sum distribution equal to 14 times the member's full retirement allowance up to $20,000 |
| Participation rate | 100 % for medical and 100 % for dental | | — | — | — |
| Retirement rates | Based on 2022 experience study covering the period from July 1, 2018 through June 30, 2021 | | — | — | — |


(Continued)

At June 30, 2023, mortality rates were based on the Pub-2010 General Healthy Retiree Headcount-Weighted Above-Median Mortality Table increased by 5% for males, projected generationally with the two-dimensional mortality improvement scale MP-2018. The actuarial assumptions used in the June 30, 2022 valuation were based on the long-term expected rate of return on OPEB plan investments, which was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

At June 30, 2023, the target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table for each fund:

| Asset class | Targeted allocation | Long-term expected arithmetic real rate of return |
|---|---|---|
| Large Cap U.S. equity | 21.10 % | 5.13 % |
| Small Cap U.S. equity | 2.10 % | 5.86 % |
| Developed international large cap equity | 12.20 % | 6.01 % |
| Developed international small cap equity | 1.80 % | 5.72 % |
| Global equity | 2.70 % | 5.94 % |
| Emerging market equity | 5.10 % | 8.16 % |
| TIPS | 3.50 % | (0.23) % |
| Real estate | 7.00 % | 4.60 % |
| Cash and equivalents | 1.00 % | (0.77) % |
| Commodities | 1.50 % | 2.77 % |
| Private equity | 10.00 % | 10.46 % |
| Private credit | 2.40 % | 5.94 % |
| Hedge funds | 5.00 % | 1.85 % |
| Non-Core real estate | 3.00 % | 7.14 % |
| Custom fixed income | 21.60 % | 0.68 % |
| Total | 100 % | |



(Continued)

| | Targeted allocation | Long-term expected arithmetic real rate of return |
|---|---|---|
| Death benefit: | | |
| Fixed income | 100 % | 0.36 % |
| | 100 % | |

At June 30, 2023, for the retiree healthcare fund, the discount rate used to measure the total OPEB liability was 7.00% for the year ended June 30, 2022. The projection of cash flows used to determine the discount rate assumed that Department's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

At June 30, 2023, for the death benefit fund, projected investment earnings were based on the assumed investment rate of return of 2.75% per annum. The plan fiduciary net position was projected to be available to make all projected future benefit payments for current Plan members. There is no projected "crossover date" when projected benefits are not covered by projected assets. The long-term expected rate of return on Plan investments of 2.75% per annum was applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2022.

### *(f) Sensitivity of Net OPEB Liability (Asset) to Changes in the Discount Rate Rates*

The following table represents the net OPEB liability (asset) of the Power System, calculated using the stated discount rate assumption as well as what the Power System's net OPEB liability (asset) would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate (amounts in thousands):

| | June 30, 2024 | | |
|---|---|---|---|
| | 1% Decrease | Current | 1% Increase |
| Discount rate | 5.50 % | 6.50 % | 7.50 % |
| Net OPEB liability (asset) – Retiree healthcare plan | $ 30,074 | (233,654) | (449,121) |
| Discount rate | 1.75 % | 2.75 % | 3.75 % |
| Net OPEB liability – Death benefit plan | $ 91,129 | 73,455 | 59,450 |

| | | June 30, 2023 | | |
|---|---|---|---|---|
| | | 1% Decrease | Current | 1% Increase |
| Discount rate | | 5.50 % | 6.50 % | 7.50 % |
| Net OPEB liability (asset) – Retiree healthcare plan | $ | 172,899 | (87,399) | (300,278) |
| Discount rate | | 1.75 % | 2.75 % | 3.75 % |
| Net OPEB liability – Death benefit plan | $ | 93,059 | 75,627 | 61,822 |

### (g) *Sensitivity to Net OPEB Liability (Asset) to Changes in Healthcare Cost Trend Rates*

The following table represents the net OPEB liability (asset) of the Power System, calculated using the stated healthcare cost trend assumption as well as what the Power System's net OPEB liability (asset) would be if it were calculated using a healthcare cost trend that is one percentage point lower or one percentage point higher than the current healthcare cost trend rates (amounts in thousands):

| | | June 30, 2024 | | |
|---|---|---|---|---|
| | | 1% Decrease | Current* | 1% Increase |
| Net OPEB liability (asset) – Retiree healthcare plan | $ | (473,476) | (233,654) | 68,971 |

* Current trend rates: 7.00% graded down to 4.50% over 10 years for non-Medicare medical plan costs; 6.25% graded down to 4.50% over 7 years for Medicare medical plan costs, and 3.00% for all years for dental subsidy costs and 4.50% for all years for Medicare Part B subsidy costs

There is no trend rate assumption used in valuing the death benefit plan.

| | | June 30, 2023 | | |
|---|---|---|---|---|
| | | 1% Decrease | Current* | 1% Increase |
| Net OPEB liability (asset) – Retiree healthcare plan | $ | (323,415) | (87,399) | 209,599 |

* Current trend rates: 7.25% graded down to 4.50% over 11 years for non-Medicare medical plan costs; 6.50% graded down to 4.50% over 8 years for Medicare medical plan costs, and 3.00% for all years for dental subsidy costs and 4.50% for all years for Medicare Part B subsidy costs

There is no trend rate assumption used in valuing the death benefit plan.

### (h) *OPEB Plan Fiduciary Net Position*

Detailed information about the Plan's fiduciary net position is available in the separately issued plan financial report. The OPEB plans' fiduciary net positions are determined based on the accrual basis of accounting, which is on the same basis of accounting as the Plan. OPEB plan investments are recorded at fair value except for short-term investments, which are recorded at amortized cost. Benefit payments include costs designed by the plan document and administrative expenses.

### *(i) OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB*

In addition to amortization expense of the regulatory asset discussed in note 6, the Power System recognized OPEB expense of $4.4 million and $7.8 million for its proportionate share of the retiree healthcare and death benefits plans, respectively, for the year ended June 30, 2024. At June 30, 2024, the Power System reported deferred outflows and inflows of resources related to OPEB plans from the following sources (in thousands):

| | Retiree healthcare plan | | Death benefits plan | | Total | |
|---|---|---|---|---|---|---|
| | Deferred outflows of resources | Deferred inflows of resources | Deferred outflows of resources | Deferred inflows of resources | Deferred outflows of resources | Deferred inflows of resources |
| Change in proportion and differences between employer category's contributions | $ 2,277 | 1,805 | 608 | 872 | 2,885 | 2,677 |
| Changes of assumptions | 32,745 | 131,213 | 8,769 | 2,629 | 41,514 | 133,842 |
| Net difference between projected and actual earnings on OPEB plan investments | 12,343 | — | 3,232 | — | 15,575 | — |
| Differences between expected and actual experience | 20,948 | 145,830 | 1,559 | 1,172 | 22,507 | 147,002 |
| | 68,313 | 278,848 | 14,168 | 4,673 | 82,481 | 283,521 |
| Employer contributions subsequent to the measurement date | 72,225 | — | 12,457 | — | 84,682 | — |
| Totals | $ 140,538 | 278,848 | 26,625 | 4,673 | 167,163 | 283,521 |

In addition to amortization expense of the regulatory asset discussed in note 6, the Power System recognized OPEB expense of $(18.2) million and $7.1 million for its proportionate share of the retiree healthcare and death benefits plans, respectively, for the year ended June 30, 2023.

At June 30, 2023, the Power System reported deferred outflows and inflows of resources related to OPEB plans from the following sources (in thousands):

| | Retiree healthcare plan | | Death benefits plan | | Total | |
|---|---|---|---|---|---|---|
| | Deferred outflows of resources | Deferred inflows of resources | Deferred outflows of resources | Deferred inflows of resources | Deferred outflows of resources | Deferred inflows of resources |
| Change in proportion and differences between employer category's contributions | $ 2,318 | 2,472 | 285 | 1,108 | 2,603 | 3,580 |
| Changes of assumptions | 45,480 | 24,141 | 10,137 | 3,661 | 55,617 | 27,802 |
| Net difference between projected and actual earnings on OPEB plan investments | 27,020 | — | 2,933 | — | 29,953 | — |
| Differences between expected and actual experience | — | 186,053 | 1,469 | 1,754 | 1,469 | 187,807 |
| | 74,818 | 212,666 | 14,824 | 6,523 | 89,642 | 219,189 |
| Employer contributions subsequent to the measurement date | 75,864 | — | 11,342 | — | 87,206 | — |
| Totals | $ 150,682 | 212,666 | 26,166 | 6,523 | 176,848 | 219,189 |

Contributions after the measurement date shown above will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in future reporting periods as follows (in thousands):

| | For the year ended June 30, 2023 | | |
|---|---|---|---|
| | **Retiree healthcare plan** | **Death benefits plan** | **Total** |
| Year ending June 30: | | | |
| 2025 | $ (49,413) | 871 | (48,542) |
| 2026 | (59,576) | 1,472 | (58,104) |
| 2027 | (3,545) | 1,917 | (1,628) |
| 2028 | (43,319) | 1,660 | (41,659) |
| 2029 | (20,579) | 1,665 | (18,914) |
| 2030 | (17,871) | 1,614 | (16,257) |
| 2031 | (13,455) | 269 | (13,186) |
| 2032 | (2,777) | 27 | (2,750) |
| Thereafter | — | — | — |
| | $ (210,535) | 9,495 | (201,040) |

| | For the year ended June 30, 2023 | | |
|---|---|---|---|
| | **Retiree healthcare plan** | **Death benefits plan** | **Total** |
| Year ending June 30: | | | |
| 2024 | $ (39,729) | 413 | (39,316) |
| 2025 | (31,873) | 563 | (31,310) |
| 2026 | (41,966) | 1,160 | (40,806) |
| 2027 | 13,691 | 1,602 | 15,293 |
| 2028 | (25,819) | 1,347 | (24,472) |
| 2029 | (7,306) | 1,551 | (5,755) |
| 2030 | (4,616) | 1,501 | (3,115) |
| 2031 | (229) | 164 | (65) |
| Thereafter | — | — | — |
| | $ (137,847) | 8,301 | (129,546) |

### *(j) Overrecovered Costs – OPEB*

In connection with the recognition of the net OPEB liability (asset) under GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, the Power System established a regulatory asset in the amount of $451,182 thousand equal to the net OPEB liability reported at July 1, 2017, less the calculated balance of OPEB deferred outflows for contributions after the measurement date. Amortization of the regulatory asset is the difference between amounts paid toward actuarial determined contributions and OPEB expense, which totaled $74,409 and $101,718 thousand for the years ended June 30, 2024 and 2023, respectively.

During the year ended June 30, 2024, the difference between amounts paid toward actuarially determined contributions and actual OPEB expense exceeded the remaining balance in the regulatory asset and resulted in the recognition of overrecovered costs – OPEB in the amount of $43,841 thousand.

### *(k) Disability Benefits*

The Power System's allocated share of disability benefit plan costs and administrative expenses totaled $13 million and $11 million for fiscal years 2024 and 2023, respectively. Disability benefits are paid to active employees who qualify under the Plan's provisions and terminate with the employee's retirement.

## (12) Other Long-Term Liabilities and Deferred Inflows

### *(a) Other Long-Term Liabilities and Deferred Inflows*

The Power System has the following other long-term liabilities and deferred inflows of resources (amounts in thousands):

| | | Balance, June 30, 2023 | Additions | Reductions | Balance, June 30, 2024 |
|---|---|---|---|---|---|
| Deferred inflows from regulated business activities: | | | | | |
| Rate stabilization | $ | 180,000 | 40,000 | — | 220,000 |
| Green Power Program | | 7,190 | — | — | 7,190 |
| | $ | 187,190 | 40,000 | — | 227,190 |
| Accrued workers' compensation claims | $ | 60,078 | 5,935 | — | 66,013 |
| Other noncurrent liabilities: | | | | | |
| Subscription-based technology liability | | 6,524 | — | (483) | 6,041 |
| Lease liability | | 42,327 | — | (2,578) | 39,749 |
| Environmental remediation liability | | 81,510 | — | (3,524) | 77,986 |
| Derivative instrument liabilities | | — | 1,391 | — | 1,391 |
| | $ | 130,361 | 1,391 | (6,585) | 125,167 |

| | | Balance, June 30, 2022 | Additions | Reductions | Balance, June 30, 2023 |
|---|---|---|---|---|---|
| Deferred inflows from regulated business activities: | | | | | |
| Rate stabilization | $ | 180,000 | — | — | 180,000 |
| Green Power Program | | 7,190 | — | — | 7,190 |
| | $ | 187,190 | — | — | 187,190 |
| Accrued workers' compensation claims | $ | 50,234 | 9,844 | — | 60,078 |
| Other noncurrent liabilities: | | | | | |
| Subscription-based technology liability | | — | 6,524 | — | 6,524 |
| Lease liability | | 12,779 | 29,548 | — | 42,327 |
| Environmental remediation liability | | 80,459 | 1,051 | — | 81,510 |
| | $ | 93,238 | 37,123 | — | 130,361 |

### *(b) Deferred Inflows from Regulated Business Activities*

The Power System has deferred inflows that are related to revenue collected from customers but have not been earned. These funds are deferred and recognized as costs related to these deferrals are incurred.

*(i) Rate Stabilization Account*

In April 2008, the City Council approved an amendment to the electric rate ordinance, which required the balance of the rate stabilization account to be maintained separately from the energy cost adjustment account. The ordinance also directed that the deferred amount within the energy cost adjustment account be the beginning balance of the rate stabilization account.

In October 2024, the Board adopted a resolution setting the rate stabilization account target at $220 million as of June 30, 2024, deferring $40 million to the rate stabilization deferred revenue account, and restricting $40 million of cash to match the rate stabilization account balance. As of June 30, 2024 and 2023, the balance in the rate stabilization account was $220 million and $180 million, respectively.

### *(c) Accrued Workers' Compensation Claims*

Liabilities for unpaid workers' compensation claims are recorded at their net present value when they are probable of occurrence and the amount can be reasonably estimated. The liability is actuarially determined based on an estimate of the present value of the claims outstanding and an amount for claim events incurred but not reported based on the Power System's loss experience, less the amount of claims and settlements paid to date. The discount rate used to calculate the accrued workers' compensation liability as presented in the statements of net position was 2% at both June 30, 2024 and 2023. The Power System has third-party insurance coverage for workers' compensation claims over $1 million.

Overall indicated reserves for workers' compensation claims for both the Water System and the Power System, undiscounted, have been estimated at $110 million and $99 million for both June 30, 2024 and 2023, respectively. Workers' compensation claims typically take longer than one year to settle and close out. The entire discounted liability is shown as long term on the statements of net position as of June 30, 2024 and 2023.

Changes in the Department's undiscounted workers' compensation liability since June 30, 2021 are summarized as follows (amounts in thousands):

| | June 30 | | |
|---|---|---|---|
| | **2024** | **2023** | **2022** |
| Balance at beginning of year | $ 98,516 | 83,569 | 76,409 |
| Current-year claims and changes in estimates | 43,611 | 48,526 | 34,548 |
| Payments applied | (32,058) | (33,579) | (27,388) |
| Balance at end of year | $ 110,069 | 98,516 | 83,569 |

The Power System's portion of the discounted accrued workers' compensation liability is estimated at $66 million and $60 million for the fiscal years ended June 30, 2024 and 2023, respectively.

## (13) Related Parties

### *(a) The City*

Under the provisions of the City charter, the Power System transfers funds at its discretion to the reserve fund of the City. Pursuant to covenants contained in the bond indentures, the transfers may not be in excess of the increase in net position before transfers to the reserve fund of the City of the prior fiscal year. Management believes such payments are not in lieu of taxes and are recorded as a transfer in the statements of revenue, expenses, and changes in net position. The Power System also reimburses the City for administrative and Office of Public Accountability costs incurred on behalf of the Power System. During fiscal years 2024 and 2023, the Power System transferred $244.7 million and $232 million in transfers and $27.4 million and $28.1 million in payments for services rendered by the Office of Public Accountability and the City, respectively. See note 14(a).

### *(b) Southern California Public Power Authority*

SCPPA is a California Joint Powers Agency that finances the construction or acquisition of generation, transmission, and renewable energy projects. The Power System is a member of SCPPA and records its transactions as purchased power expense. See note 5 of the financial statements for a description of the purchased power commitments the Power System has with SCPPA.

### *(c) Intermountain Power Agency*

The Intermountain Power Agency (IPA) is an agency of the State of Utah established to own, acquire, construct, operate, maintain, and repair the Intermountain Power Project. The Power System serves as the project manager and operating agent of IPP. See note 5 of the financial statements for a description of the financial activities of IPA.

### *(d) La Kretz Innovative Campus*

During fiscal year June 30, 2015, the Power System entered into a 50-year prepaid lease agreement to lease an office building to the La Kretz Innovative Campus (LKIC), a 501(c)(3) nonprofit organization. LKIC leased some of the workspaces in the building to assist energy innovation companies with the resources needed to validate energy efficient technology. The Power System also had energy efficiency staff located at the building to work with inventors and determine if there are new energy efficiency programs to launch.

In June 2024, the LKIC Board voted to dissolve the nonprofit organization. Concurrent with this dissolution, LKIC contributed certain assets to the Power System, which resulted in a recognition of $9 million in capital contributions by the Power System.

## (14) Commitments and Contingencies

### *(a) Transfers to the Reserve Fund of the City of Los Angeles*

Under the provisions of the City's charter, at the close of each fiscal year, the Power System transfers funds at its discretion to the reserve fund of the City. The transfer is based on the prior year's operating revenue. Pursuant to covenants contained in the bond indentures, the transfers may not be in excess of the increase in fund net assets before transfers to the reserve fund of the City of the prior fiscal year. Such payments are not in lieu of taxes and are recorded as a transfer in the statements of revenue, expenses, and changes in fund net assets.

On September 14, 2017, the Los Angeles County Superior Court preliminarily approved a settlement of a class action lawsuit under which revenue collected under the 2016 Incremental Electric Rate Ordinance (the 2016 Ordinance) is precluded from being transferred to the reserve fund of the City. As of June 30, 2017, the Power System had billed approximately $52 million under the 2016 Ordinance that under-the-settlement agreement needed to be returned to customers' net of attorneys' fees and other administrative costs. Accordingly, for the fiscal year ended June 30, 2017, the Power System reduced retail revenue by the same $52 million and increased current accrued expenses accordingly. In October 2017, $52 million was placed in an escrow account for return to customers. Upon proof of such return, the Power System can request funds from the escrow account accordingly. Going forward, the 2016 Ordinance rates will be reduced through the variable energy cost adjustment so that no revenue for transfers is billed under the 2016 Ordinance.

During fiscal year 2024, the 2008 Electric Rate Ordinance (the 2008 Ordinance) and the 2016 Ordinance were in effect. Revenue from each ordinance is listed below as well as revenue from other sources, including contracts for wholesale energy and transmission revenue. The 12.628 cents under the 2008 Ordinance is determined based on the fiscal year's revenue billed and kilowatt hour (kWh) usage as of November 3, 2010. The 2008 Ordinance was the only ordinance in effect at that time.

The following table relates to revenue billed to customers for the year ended June 30, 2024 (in thousands), which is the basis for the FY 2024-2025 City transfer:

| Revenue type | Basis of revenue | kWh | Rate per kWh under the 2008 ordinance | | Revenue |
|---|---|---|---|---|---|
| Retail sales (2008 Ordinance) | The 2008 Ordinance | 20,828,936,823 | 0.12628 | $ | 2,630,278 |
| Retail sales (2016 Ordinance) | The 2016 Ordinance | 20,828,936,823 | | | 2,003,960 |
| Wholesale sales | Contract | | | | 66,738 |
| Transmission sales | Contract | | | | 40,280 |
| Rent from electric property | Contract | | | | 2,121 |
| Other service charges | Fee schedule | | | | 22,271 |
| Unbilled sales | Estimated | | | | 113,762 |
| Bad debt expense | Estimated | | | | (54,042) |
| **Total operating revenue** | | | | $ | 4,825,368 |

The following table relates to revenue billed to customers for the year ended June 30, 2023 (in thousands), which is the basis for the FY 2023-2024 City transfer:

| Revenue type | Basis of revenue | kWh | Rate per kWh under the 2008 ordinance | | Revenue |
|---|---|---|---|---|---|
| Retail sales (2008 Ordinance) | The 2008 Ordinance | 21,741,974,855 | 0.12628 | $ | 2,745,576 |
| Retail sales (2016 Ordinance) | The 2016 Ordinance | 21,741,974,855 | | | 1,858,180 |
| Wholesale sales | Contract | | | | 221,559 |
| Transmission sales | Contract | | | | 93,564 |
| Rent from electric property | Contract | | | | 4,503 |
| Other service charges | Fee schedule | | | | 24,475 |
| Unbilled sales | Estimated | | | | 13,958 |
| Bad debt expense | Estimated | | | | (3,276) |
| **Total operating revenue** | | | | $ | 4,958,539 |

The Power System authorized total transfers of $245 million and $232 million in fiscal years 2024 and 2023, respectively, from the Power System to the reserve fund of the City.

### *(b) Asset Retirement Obligations*

The Power System is a minority owner of Palo Verde Nuclear Generating Station. The Power System's minority share interest is 5.7% of the total decommissioning liability of $3,880,870 thousand and $3,279,130 thousand at June 30, 2024 and 2023, respectively Arizona Public Service has operating responsibility as well as minority interest (29.1%). Other minority owners are Salt River Project (17.5%), El Paso Electric Company (15.8%), Public Service Company of New Mexico (10.2%), and Southern California Public Power Authority (5.9%). The Power System recorded its proportionate share of the asset retirement obligation based on its ownership percentage of estimates made by the primary owner of the asset.

The Power System had the following asset retirement obligations at June 30, 2024 (in thousands):

| Asset | Obligation event | Timeframe required for decommissioning | June 30, 2023 | Additions | Payments | June 30, 2024 |
|---|---|---|---|---|---|---|
| Navajo Generating Station | Legal agreements resulting from Sales Contract with Salt River Project | Plant was put out of commission as of December 2019 | $ 21,882 | 28,179 | (6,365) | 43,696 |
| Palo Verde Nuclear Generating Station | Ownership agreement | Unit 1: June 1, 2045<br>Unit 2: April 24, 2046<br>Unit 3: November 25, 2047 | 186,910 | 34,300 | — | 221,210 |
| Other | Lessee or ownership agreements | 2029 – 2064 | 9,240 | 179 | — | 9,419 |
| Total asset retirement obligation liability | | | $ 218,032 | 62,658 | (6,365) | 274,325 |

The Power System had the following asset retirement obligations at June 30, 2023 (in thousands):

| Asset | Obligation event | Timeframe required for decommissioning | June 30, 2022 | Additions | Payments | June 30, 2023 |
|---|---|---|---|---|---|---|
| Navajo Generating Station | Legal agreements resulting from Sales Contract with Salt River Project | Plant was put out of commission as of December 2019 | $ 34,620 | — | (12,738) | 21,882 |
| Palo Verde Nuclear Generating Station | Ownership agreement | Unit 1: June 1, 2045<br>Unit 2: April 24, 2046<br>Unit 3: November 25, 2047 | 180,590 | 6,320 | — | 186,910 |
| Other | Lessee or ownership agreements | 2029 – 2064 | 9,067 | 173 | — | 9,240 |
| Total asset retirement obligation liability | | | $ 224,277 | 6,493 | (12,738) | 218,032 |

The Power System has restricted investments in the amount of $156.2 million and $140.5 million for the years ended June 30, 2024 and 2023, respectively, related to this reserve.

Deferred outflows of resources related to the Power System's assets retirement obligations are as follows for the year ended June 30, 2024 (in thousands):

| Asset | Remaining useful life of asset/ lease term | June 30, 2023 | Additions | Amortization | June 30, 2024 |
|---|---|---|---|---|---|
| Palo Verde Nuclear Generating Station | 24 | $ 29,968 | 34,299 | (1,303) | 62,964 |
| Other | 6-41 | 4,527 | 179 | (219) | 4,487 |
| Total deferred outflows – asset retirement obligations | | $ 34,495 | 34,478 | (1,522) | 67,451 |

Deferred outflows related to the Power System's assets retirement obligations are as follows for the year ended June 30, 2023 (in thousands):

| Asset | Remaining useful life of asset/ lease term | June 30, 2022 | Additions | Amortization | June 30, 2023 |
|---|---|---|---|---|---|
| Palo Verde Nuclear Generating Station | 25 | $ 24,676 | 6,320 | (1,028) | 29,968 |
| Other | 7-42 | 4,543 | 173 | (189) | 4,527 |
| Total deferred outflows – asset retirement obligations | | $ 29,219 | 6,493 | (1,217) | 34,495 |



(Continued)

### *(c) Environmental Liabilities*

Numerous federal, state, and local environmental laws and regulations affect the Power System's facilities and operations. The Power System monitors its compliance with laws and regulations and reviews its remediation obligations on an ongoing basis. The Power System follows GASB Statement No. 49, *Accounting and Financial Reporting for Pollution and Remediation Obligations*. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as site assessments and cleanups.

The Power System estimates its environmental liabilities using the expected cash flow method as required by GASB No. 49. This method estimates the current value of outlays expected to be incurred and measured as a sum of the probability weighted amounts in a range of possible estimated amounts. The Power System's environmental liabilities are primarily related to generating and service stations it owns that have had release of hazardous materials or waste it is obligated by a regulator to clean up. The estimated timeframe for cleanup and monitoring of these sites is 5–25 years. The Power System's obligations are included in other noncurrent liabilities on the statements of net position and were approximately $78 million and $82 million as of June 30, 2024 and 2023, respectively. These estimates are reviewed and updated annually.

### *(d) Litigation*

A number of claims and suits are pending against the Power System for alleged damages to persons and property and for other alleged liabilities arising out of its operations. In the opinion of management, any ultimate liability, which may arise from these actions, is not expected to materially impact the Power System's financial position, results of operations, or cash flows as of June 30, 2024.

### *(e) Risk Management*

The Power System is subject to certain business risks common to the utility industry. The majority of these risks are mitigated by external insurance coverage obtained by the Power System. For other significant business risks, however, the Power System has elected to self-insure. Management believes that exposure to loss arising out of self-insured business risks will not materially impact the Power System's financial position, results of operations, or cash flows as of June 30, 2024.

### *(f) Credit Risk*

Financial instruments, which potentially expose the Power System to concentrations of credit risk, consist primarily of retail and wholesale receivables. The Power System's retail customer base is concentrated on commercial, industrial, residential, and governmental customers located within the City. Although the Power System is directly affected by the City's economy, management does not believe significant credit risk exists as of June 30, 2024 except as provided in the allowance for losses. The Power System manages its credit exposure by requiring credit enhancements from certain customers and through procedures designed to identify and monitor credit.

### *(g) FBI Investigation*

Federal investigators conducted an investigation related to issues that arose over the class action litigation and settlement regarding the Department's billing system. The Department cooperated fully with the investigators in connection with their investigation and understands that the investigation is now closed.

The Department does not believe that the billing system related lawsuits will have a material adverse effect on the Department's operations or financial position.

## (15) Subsequent Events

### *Bond Issuance*

In August 2024, the Power System issued $270.5 million of revenue bonds, 2024 Series D. The net proceeds of $302.9 million, including a $32.4 million issue premium net of underwriter's discount, will be used to pay for capital improvements to the Power System.

In December 2024, the Power System issued $507.9 million of revenue bonds, 2024 Series E. The net proceeds of $579.4 million, including a $71.5 million issue premium net of underwriter's discount, will be used to refund all of the outstanding Power System 2015 Series A and pay for capital improvements to the Power System.

**DEPARTMENT OF WATER AND POWER**
**OF THE CITY OF LOS ANGELES**
**POWER SYSTEM**

Required Supplementary Information

June 30, 2024

(Unaudited)

**Schedule of the Power System's Proportionate Share of the Net Pension Liability***

Last 10 fiscal years

(Amounts in thousands other than percentages)

| | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| Power System's proportion of the collective net pension liability | 67.576 % | 67.127 % | 67.564 % | 67.681 % | 68.390 % | 67.879 % | 68.252 % | 68.108 % | 67.397 % | 67.656 % |
| Power System's proportionate share of the collective net pension liability | $ 393,338 | 413,626 | (1,120,640) | 752,368 | 564,130 | 618,010 | 916,758 | 1,492,508 | 771,122 | 860,748 |
| Power System's covered payroll | 850,947 | 790,766 | 757,984 | 764,838 | 703,197 | 647,319 | 609,032 | 586,967 | 565,606 | 554,732 |
| Power System's proportionate share of the collective net pension liability as a percentage of covered payroll | 46 % | 52 % | (148) % | 98 % | 80 % | 95 % | 151 % | 254 % | 136 % | 155 % |
| Pension plan's fiduciary net position as a percentage of total pension liability | 97 % | 96 % | 111 % | 92 % | 94 % | 93 % | 89 % | 82 % | 90 % | 88 % |

* The measurement period for each year presented is on a one-year lag and thus the measurement periods are June 30, 2014–2023 for the Power System's fiscal years of June 30, 2015–2024, respectively.

See accompanying independent auditors' report.

**DEPARTMENT OF WATER AND POWER**
**OF THE CITY OF LOS ANGELES**
**POWER SYSTEM**

Required Supplementary Information

June 30, 2024

(Unaudited)

### Schedule of the Department's Pension Contributions*

Last 10 fiscal years

(Amounts in thousands other than percentages)

| Reporting date for Power System June 30 [(1)] | | Actuarially determined contributions | Contributions in relation to the actuarially required contributions [(2)] | Contributions deficiency (excess) | Covered payroll | Contributions as a percentage of covered employee payroll |
|---|---|---|---|---|---|---|
| 2024 | $ | 435,599 | 425,304 | 10,295 | 1,403,031 | 30.31 % |
| 2023 | | 372,209 | 361,586 | 10,623 | 1,259,246 | 28.71 |
| 2022 | | 302,800 | 318,874 | (16,074) | 1,178,016 | 27.07 |
| 2021 | | 373,374 | 378,990 | (5,616) | 1,121,884 | 33.78 |
| 2020 | | 424,375 | 422,017 | 2,358 | 1,130,066 | 37.34 |
| 2019 | | 408,750 | 410,165 | (1,415) | 1,028,212 | 39.89 |
| 2018 | | 425,512 | 433,413 | (7,901) | 953,636 | 45.45 |
| 2017 | | 403,780 | 391,717 | 12,063 | 892,331 | 43.90 |
| 2016 | | 368,600 | 362,360 | 6,240 | 861,819 | 42.05 |
| 2015 | | 387,465 | 376,902 | 10,563 | 839,213 | 44.91 |

(1) The measurement date under GASB Statement No. 68 is on a one-year lag.

(2) Contributions do not include administrative expenses paid to the Plan.

* Information in this schedule was not separately available for the Power System.

See accompanying independent auditors' report.



(Continued)

**Schedule of Power System's Proportionate Share of the Net OPEB Liability (Asset) – Retiree Healthcare Plan**

Last 10 fiscal years

(Amounts in thousands other than percentages)

| Reporting date of employer | Measurement date | Proportionate share of net OPEB liability (asset) | Proportionate share of net OPEB liability (asset) | Projected compensation | Covered payroll | Proportionate share of the net OPEB liability (asset) as a percentage of covered payroll | Plan's fiduciary net position as a percentage of the total OPEB liability (asset) |
|---|---|---|---|---|---|---|---|
| June 30, 2024 | June 30, 2023 | 67.58 % | $ (233,654) | 975,615 | $ 850,947 | 27.46 % | 113.17 % |
| June 30, 2023 | June 30, 2022 | 67.13 | (87,399) | 879,262 | 790,766 | (11.05) | 104.95 |
| June 30, 2022 | June 30, 2021 | 67.56 | (235,688) | 833,238 | 757,984 | (31.09) | 113.58 |
| June 30, 2021 | June 30, 2020 | 67.68 | 126,221 | 820,155 | 764,838 | 16.50 | 92.51 |
| June 30, 2020 | June 30, 2019 | 68.39 | 316,575 | 780,931 | 703,197 | 45.02 | 82.75 |
| June 30, 2019 | June 30, 2018 | 67.88 | 260,393 | 728,719 | 647,319 | 40.23 | 84.46 |
| June 30, 2018 | June 30, 2017 | 68.25 | 297,306 | 676,930 | 609,032 | 48.82 | 81.44 |
| June 30, 2017 | June 30, 2016 | 68.11 | 436,658 | 632,647 | 586,967 | 79.34 | 72.53 |

Note: Information before measurement date June 30, 2016 is not available.

See accompanying independent auditors' report.

### Schedule of Power System's Proportionate Share of the Net OPEB Liability – Death Benefit Plan

Last 10 fiscal years

(Amounts in thousands other than percentages)

| Reporting date of employer | Measurement date | Proportionate share of net OPEB liability | Proportionate share of net OPEB liability | Projected compensation | Covered payroll | Proportionate share of the net OPEB liability as a percentage of covered payroll | Plan's fiduciary net position as a percentage of the total OPEB liability |
|---|---|---|---|---|---|---|---|
| June 30, 2024 | June 30, 2023 | 67.58 % | $ 73,455 | 975,615 | $ 850,947 | 8.63 % | 29.98 % |
| June 30, 2023 | June 30, 2022 | 67.13 | 75,627 | 879,262 | 790,766 | 9.56 | 26.45 |
| June 30, 2022 | June 30, 2021 | 67.56 | 63,037 | 833,238 | 757,984 | 8.32 | 30.39 |
| June 30, 2021 | June 30, 2020 | 67.68 | 65,226 | 820,155 | 764,838 | 8.53 | 27.94 |
| June 30, 2020 | June 30, 2019 | 68.39 | 72,118 | 780,931 | 703,197 | 10.26 | 21.46 |
| June 30, 2019 | June 30, 2018 | 67.88 | 79,188 | 728,719 | 647,319 | 12.23 | 18.91 |
| June 30, 2018 | June 30, 2017 | 68.25 | 81,373 | 676,930 | 609,032 | 13.36 | 18.79 |
| June 30, 2017 | June 30, 2016 | 68.11 | 89,173 | 632,647 | 586,967 | 13.66 | 19.32 |

Note: Information before measurement date June 30, 2016 is not available.

See accompanying independent auditors' report.

### Schedule of Department Contributions – Retiree Healthcare Plan*

Last 10 fiscal years

(Amounts in thousands other than percentages)

| Reporting date for the Power System June 30 | Actuarially determined contributions (1) | Contributions in relation to the actuarially required contributions (2) | Contributions deficiency (excess) | Covered payroll | Contributions as a percentage of covered employee payroll |
|---|---|---|---|---|---|
| 2024 | $ 47,975 | 114,570 | (66,595) | 1,403,031 | 8.17 % |
| 2023 | 55,585 | 113,571 | (57,986) | 1,259,246 | 9.02 |
| 2022 | 49,688 | 112,081 | (62,393) | 1,178,016 | 9.51 |
| 2021 | 63,165 | 109,282 | (46,117) | 1,121,884 | 9.74 |
| 2020 | 95,375 | 109,401 | (14,026) | 1,130,066 | 9.68 |
| 2019 | 80,851 | 101,595 | (20,744) | 1,028,212 | 9.88 |
| 2018 | 85,339 | 95,233 | (9,894) | 953,635 | 9.99 |
| 2017 | 93,920 | 90,310 | 3,610 | 892,332 | 10.12 |
| 2016 | 61,971 | 79,896 | (17,925) | 861,819 | 9.27 |
| 2015 | 70,748 | 78,497 | (7,749) | 839,214 | 9.35 |

(1) All actuarially determined contributions through June 30, 2016 were determined as the annual requirement under GASB Statements No. 43 and No. 45.

(2) Contributions do not include administrative expenses paid to the Plan.

* Information in this schedule was not separately available for the Power System.

See accompanying independent auditors' report.

**DEPARTMENT OF WATER AND POWER**
**OF THE CITY OF LOS ANGELES**
**POWER SYSTEM**

Required Supplementary Information

June 30, 2024

(Unaudited)

## Schedule of Department Contributions – Death Benefit Plan*

Last 10 fiscal years

(Amounts in thousands other than percentages)

| Reporting date for the Power System June 30 | | Actuarially determined contributions [1] | Contributions in relation to the actuarially required contributions | Contributions deficiency (excess) | Covered payroll | Contributions as a percentage of covered employee payroll |
|---|---|---|---|---|---|---|
| 2024 | $ | 15,995 | 16,475 | (477) | 1,403,031 | 1.17 % |
| 2023 | | 15,237 | 14,632 | 605 | 1,259,246 | 1.16 |
| 2022 | | 13,076 | 13,134 | (58) | 1,178,016 | 1.11 |
| 2021 | | 12,565 | 12,899 | (334) | 1,121,884 | 1.15 |
| 2020 | | 13,335 | 13,300 | 35 | 1,130,066 | 1.18 |
| 2019 | | 7,260 | 7,260 | — | 1,028,212 | 0.71 |
| 2018 | | 7,137 | 7,137 | — | 953,636 | 0.75 |
| 2017 | | 7,138 | 7,138 | — | 892,332 | 0.80 |
| 2016 | | 7,207 | 7,207 | — | 861,819 | 0.84 |

(1) Contributions do not include administrative expenses paid to the Plan.

* Information in this schedule was not available separately for the Power System.

See accompanying independent auditors' report.