Annual Report 2016

Celebrating Three Decades of Operations

Intermountain Power Agency

30 Years of Operations • 1986 — 2016

The Intermountain Power Agency (IPA) is an organization of 23 Utah municipalities formed to finance, construct, operate and maintain the Intermountain Power Project. The Los Angeles Department of Water and Power serves as Operating Agent. The Intermountain Power Service Corporation (IPSC) staffs the generating station and related facilities.

The Intermountain Power Project (IPP) includes a two-unit coal-fueled generating station, two transmission systems, a microwave communication system and a railcar service center, all built as a joint undertaking by 35 utilities in Utah and California.

IPA
Intermountain Power Agency
Energy for Today & Tomorrow

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Executive Summary

Thirty years ago, the first unit of the Intermountain Generating Station commenced operations. At a celebration attended by community leaders from several states, Utah Governor Norman H. Bangerter said this:

> "As I look over this tremendous Project, I'm proud of the accomplishment that it represents. Today I'm here to tell you congratulations – congratulations to the participants in this great project, and congratulations to the more than 20,000 productive people who had a hand in this achievement.
>
> This has been a fine example of the benefits that a cooperative venture can provide for all of us. There was extensive employment during the construction of the project. State revenues will benefit for over 40 years. (And as you know, I'm grateful for that.) Six hundred permanent jobs have been created, and many others will be created and have been created in our mining industry and the coal extraction. The surrounding community has had the advantage of a planned and orderly development.
>
> One of the more important benefits has been the demonstration of cooperation between the states and communities within the state. We in Utah are proud of the pioneering spirit and heritage that we enjoy, and we're convinced that this Project demonstrates that spirit."

Many of the people involved in the Intermountain Power Project today were in the audience to hear those words. The Project has been central to the lives and livelihoods of many Utah communities for more than three decades now. Those communities have reciprocated by acting as good stewards of a facility that continues to perform at the top of its class.

Today, the electric utility industry is changing in ways few may have predicted on that windy day 30 years ago. Despite those changes, the

30 Years in Perspective

What did the world look like in 1986, when Intermountain Generating Station first went on line? Consider this:

Average Cost of new house:	$89,430
Average Income per year:.	$22,400
Average Monthly Rent:	$385
1 gallon of gas:.	.89¢
Jar Of Skippy Peanut butter:	$1.49

IBM introduced the first laptop called the PC Convertible in 1986. The first commercially available cell phone was introduced only two years prior. The World Wide Web was still four years in the future and DVDs wouldn't come along until five years after that.

Ronald Reagan was president. The space shuttle Challenger exploded during launch and the Chernobyl nuclear power plant melted down.

Popular movies included Top Gun and The Color of Money, as well as Crocodile Dundee, Platoon, Aliens, Ruthless People, and Karate Kid II. Popular TV shows included Dynasty, Magnum P.I. Cheers, Family Ties, The A-Team, and Growing Pains.

The world's population has increased by more than 2.4 billion since 1986, with the United States population increasing 83.3 million.

Executive Summary

(Continued)

Intermountain Power Agency remains committed to the vision that the Intermountain Power Project should be an economic engine for Utah that improves the quality of life in rural communities.

A report by the Utah Foundation calculated that the Intermountain Power Project makes an average contribution per year of $866 million in economic activity to the state of Utah that, through a multiplier effect, provides 4,600 non-farm jobs and $222 million in household earnings. Intermountain Power Agency also has paid more than $620 million in direct tax payments to Utah and Utah communities. Intermountain Power Agency actively supports local community organizations and has provided more than $1.7 million in scholarship support to Utah colleges and universities.

U.S. Senator Orrin Hatch speaking at the First Generation Celebration commemorating the completion of Unit 1.

Executive Summary (Continued)

The founders of the Intermountain Power Project likely would be both surprised and pleased to see how the Project's infrastructure has begun to attract numerous other types of energy development today. Developments already attracted to Utah because of the Intermountain Power Project's infrastructure include:

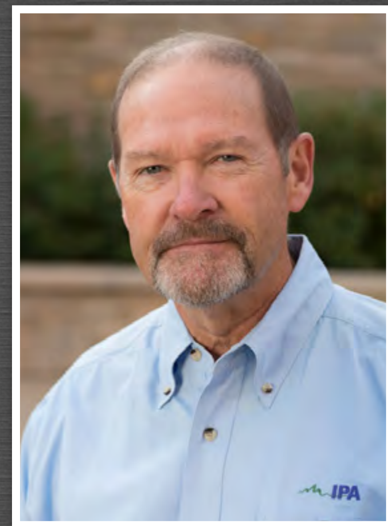
- **Wind Energy.** 306 megawatts of generating capacity from 165 wind turbines located in Millard and Beaver counties connect to the grid at the Intermountain Power Project's switchyard.

- **Storage.** Gulf-style salt dome caverns have been constructed immediately adjacent to the Intermountain Power Project and are currently in operation for storage of natural gas liquids. Future cavern development can provide storage capacity for other materials, such as natural gas or other fuel products, or for compressed air energy storage.

- **Solar Energy.** A group of solar energy developers has announced plans for a 300 megawatt solar farm on 1,754 acres of state land near the Intermountain Power Project.

- **Natural gas electricity generation.** Intermountain Power Agency has made significant progress toward the development of between 600 and 1,200 megawatts of new natural gas-fueled electricity generation on the IPP site, preparing for the expiration of the Intermountain Power Project's current power purchase agreements in 2027.

James Hewlett Retirement



James Hewlett retired from Intermountain Power Agency in 2016 after 35 years of service. Mr. Hewlett served as Intermountain Power Agency's General Manager since 2007, following previous roles as chief financial officer and assistant general manager. Over the course of his IPA career, Mr. Hewlett participated in more than 50 bond offerings and provided leadership to long-term planning efforts that laid the foundation for the Intermountain Power Project to continue operations well beyond the 2027 expiration of its current power purchase agreements.

IPP Renewed
Continues Progress

Last year, Intermountain Power Agency passed a critical milestone when all Intermountain Power Project participants agreed to amend power purchase agreements to allow flexibility in future operations. This accomplishment required several years of cooperation and negotiation among Project participants, not to mention acts of the Utah Legislature.

As a result, 2027 may no longer be the horizon line for the Intermountain Power Project. With “IPP Renewed,” we look forward to continuing cooperation among Intermountain Power Project participants as we pursue development of natural gas-fueled generation and possibly other energy resources that will extend the life of the Project to 2077 and possibly beyond.

Numerous Utah participants have already submitted their subscriptions to continue in the renewed project. California participants are actively pursuing required regulatory approvals from the California Energy Commission that are necessary for them to move forward with their subscriptions, and we anticipate completion of the subscription process early in 2017.

First coal train to arrive at the Project site.

The First Generation Celebration commemorating the completion of Unit 1.

Fiscal 2016 Financial Highlights

Intermountain Power Agency’s record of financial stability continued throughout fiscal 2016.

Opportunities were not available for Intermountain Power Agency to undertake any bond refunding activities during the fiscal year. During fiscal 2016, $170 million of scheduled principal maturities on bonds and subordinated notes were paid.

The principal amount of debt outstanding was $1.16 billion on July 1, 2016. The average invested assets were $249.6 million in fiscal 2016, with realized earnings of $2.1 million for a rate of return of 0.85 percent.

Fuel cost decreased by approximately $47 million in fiscal 2016, primarily because less coal was consumed. Fuel cost is the Project’s largest single operating expense.

Prior to the activities to amend organizational and power purchase agreements to allow flexibility in future operations, Utah Power and Light Company was a power purchaser with entitlement to purchase 4 percent of the net capacity of the Intermountain Power Project. The amended agreements provided for the termination of Utah Power & Light's Power Sales Contract, with Los Angeles Department of Water and Power acquiring Utah Power & Light's share of the net capacity of the Project.


IPP Control Room Then

IPP Control Room Now


Fiscal 2016 Operations Highlights

In fiscal 2016, changes in power markets contributed to lower electricity generation, even as the Intermountain Generating Station achieved excellent levels of availability and reliability.

Net generation was 10,026 Gigawatt-hours, the second lowest output in the Intermountain Power Project's history. Because the generating station operated at a reduced level in response to market demands, efficiency also decreased. Net facility heat rate was 9,767 BTUs per kilowatt-hour – which ranks 25th in Intermountain Power Project history.

Despite reductions in output and efficiency, the Intermountain Generating Station remained a model for availability and reliability. The equivalent availability factor of 93.1 percent ranked 10th out of 29 years, while this fiscal year's equivalent forced outage rate of 0.46 percent was the 4th best performance in Intermountain Power Project history.

Decreased electricity generation resulted in decreased coal consumption. In fiscal 2016, Intermountain Generating Station consumed 4.38 million tons of coal – the fourth lowest annual amount in Project history. As power purchasers continue to demand less coal-fueled electricity, the Intermountain Power Project has taken steps to expand coal storage at the generating station site in order to accommodate committed coal purchases.

Gross generation for the year was 10,743 gigawatt-hours, down from 13,125 gigawatt-hours the previous year. Net generation of 10,026 gigawatt-hours in 2016 compared to 12,334 gigawatt-hours in 2015.

Net facility heat rate for the generating station was 9,767 BTU per kilowatt-hour – a decline from the previous year's 9,551 BTU per kilowatt-hour. However, this key measurement of plant efficiency remains significantly better than the industry average 10,562 BTU per kilowatt-hour for similarly sized coal-fueled generating units.

One of the Intermountain Power Project's most remarkable operating accomplishments continued in fiscal 2016 as no boiler tube leaks were experienced during the fiscal year. Boiler tube leaks, which are common at large coal-fueled power plants, are an unusual event at Intermountain because of the Project's aggressive Boiler Tube Failure Reduction Program. As of September 30, 2016, Unit 1 had completed 968 days without any lost generation caused by tube leaks. Unit 2 had completed 1,854 days – more than five years of operation – with no lost time caused by tube leaks. Intermountain Generating Station has had only one tube leak since September 2011.

Looking Toward the Next 30 Years

It is unlikely that many of the people in the audience celebrating IPP's first generation 30 years ago will still be engaged in the Intermountain Power Project 30 years from now. But it is heartening to know that there will still be an Intermountain Power Project 30 years from now.

The cooperation and pioneering spirit that Governor Bangerter referred to in his dedicating remarks have never departed from the Intermountain Power Project. Today, we apply those values to adapting to a rapidly changing energy world and ensuring more decades of reliable energy supplies and economic benefits for our stakeholders.

Ted L. Olson

Ted Olson, Chairman of the Board

R. Dan Eldredge, General Manager

IPA Management

From left to right:

Cameron R. Cowan, *Treasury Manager* | **R. Dan Eldredge**, *General Manager* | **Vance K. Huntley**, *Audit Manager*
Linford E. Jensen, *Accounting Manager*

IPA Board of Directors

From left to right:
Edward M. Collins, *Lehi City* | **Blaine J. Haacke**, *Murray City* |
Eric Larsen, Fillmore City, Town of Holden, Kanosh, and Town of Meadow | **Nick Tatton**, *Price City*
Bruce Rigby, *Kaysville City* | **Von Mellor**, *Parowan City* | **Ted L. Olson** - *Chair, City of Ephraim*

IPP Coordinating Committee

From left to right:

Ted L. Olson, *Utah Municipalities* | **Stephen M. Zurn**, *City of Glendale* | **Randy Ewell**, *Mt. Wheeler Power, Inc.*
Durand Robison, *Rural Electric Cooperatives* | **Lincoln Bleveans**, *City of Burbank* | **Edward M. Collins**, *Utah Municipalities*
Ramon Z. Abueg, *City of Glendale* | **Blaine J. Haacke**, *Murray City* | **Mark Montgomery**, *Logan City*
Manny Robledo, *City of Anaheim* | **Bob Tang**, *City of Riverside* | **Shari Thomas**, *City of Pasadena*
Hamid V. Nejad, *Los Angeles Dept. of Water and Power* | **R. Dan Eldredge**, *Committee Chair and IPA General Manager*
Brad Packer, *Operating Agent, Los Angeles Dept. of Water and Power*

2016 Financial and Operating Summary

DEBT OUTSTANDING (as of July 1, 2016)

Weighted Average Borrowing Cost for FY 2016		3.24%
Fixed Rate Bonds	$	372,220,000
Subordinated Notes		687,210,000
Commercial Paper		100,000,000
Total	$	1,159,430,000

BOND UNDERLYING RATINGS

	Moody's	Standard & Poor's	Fitch
Subordinate Lien Bonds	A1	A+	AA-
Refunded Bonds	Aaa	AAA	AAA
Commercial Paper	NR	A1	F1+
Defeased Bonds	NR	NR	AAA

INVESTMENT PERFORMANCE

Average Invested Assets	$	249,626,877
Realized Investment Portfolio Earnings	$	2,118,608
Rate of Return		0.85%

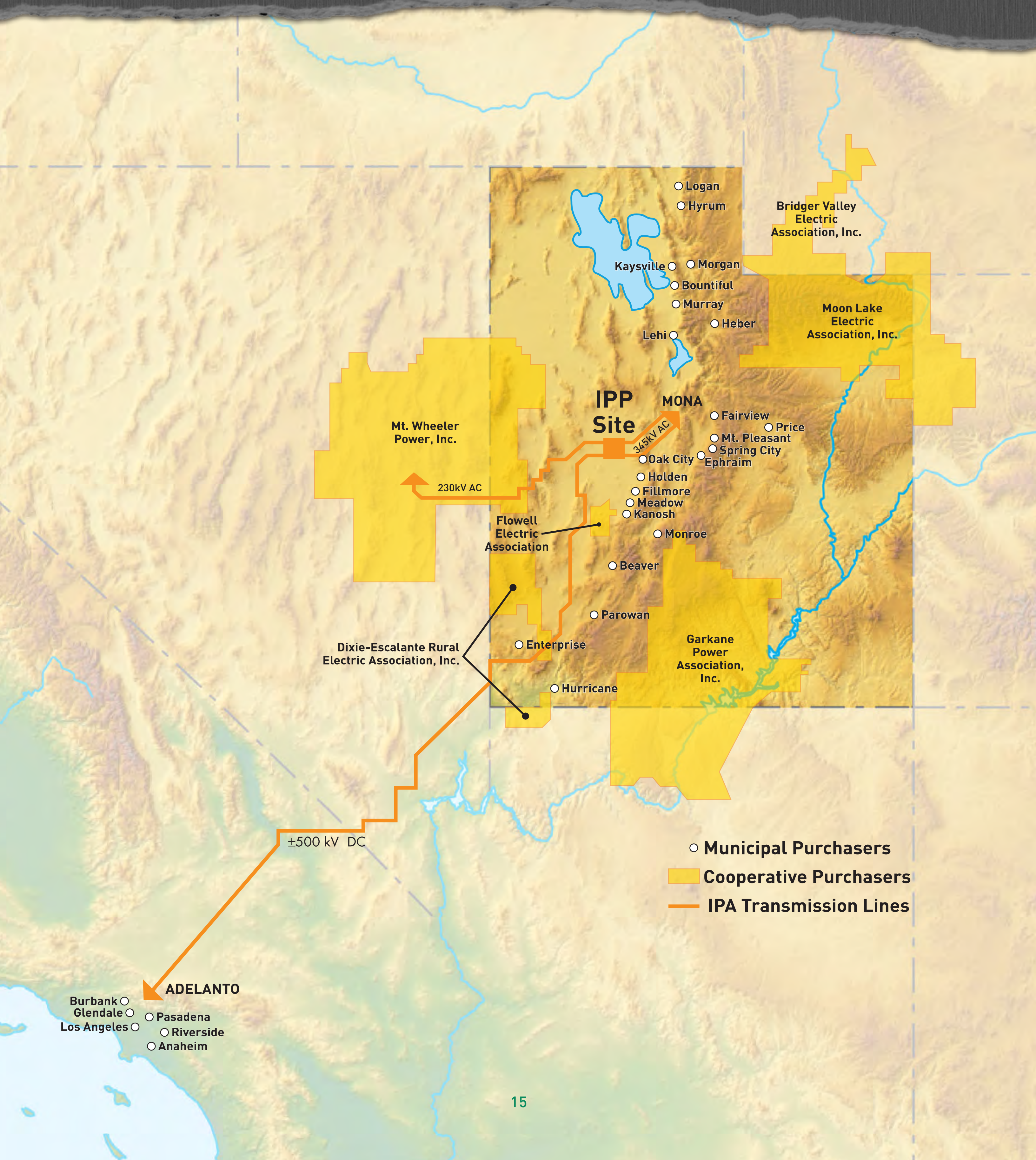
OPERATING SUMMARY

	2016	2015	2014	2013	2012
Gross Generation (gWh)	10,743	13,125	13,147	12,656	11,508
Equivalent Availability	93.1%	91.3%	91.9%	89.3%	77.4%
Net Capacity Factor	63.4%	78.2%	78.4%	75.4%	68.3%
Heat Rate (BTU/kWh)	9,767	9,551	9,691	9,775	9,839

Participants’ Generation Entitlement Shares

	Generation Entitlement Share	
CALIFORNIA PURCHASERS		
Los Angeles Department of Water & Power	48.617	%
City of Anaheim	13.225	
City of Riverside	7.617	
City of Pasadena	4.409	
City of Burbank	3.371	
City of Glendale	1.704	
Total: 6 California Purchasers	78.943	%
UTAH MUNICIPAL PURCHASERS		
Murray City	4.000	%
Logan City	2.469	
City of Bountiful	1.695	
Kaysville City	.739	
Heber Light & Power	.627	
Hyrum City	.551	
Fillmore City	.512	
City of Ephraim	.503	
Lehi City	.430	
Beaver City	.413	
Parowan City	.364	
Price City	.361	
Mount Pleasant	.357	
City of Enterprise	.199	
Morgan City	.190	
City of Hurricane	.147	
Monroe City	.130	
City of Fairview	.120	
Spring City	.060	
Town of Holden	.048	
Town of Meadow	.045	
Kanosh	.040	
Town of Oak City	.040	
Total: 23 Utah Municipal Purchasers	14.040	%
COOPERATIVE PURCHASERS		
Moon Lake Electric Association, Inc.	2.000	%
Mt. Wheeler Power, Inc.	1.786	
Dixie-Escalante Rural Electric Association, Inc.	1.534	
Garkane Power Association, Inc.	1.267	
Bridger Valley Electric Association	.230	
Flowell Electric Association	.200	
Total: 6 Cooperative Purchasers	7.017	%
TOTAL: 35 PURCHASERS	**100.000**	**%**

Participants and Transmission Lines Map



Independent Auditors' Report

TO THE BOARD OF DIRECTORS OF INTERMOUNTAIN POWER AGENCY:

Report on the Financial Statements

We have audited the accompanying financial statements of Intermountain Power Agency (IPA), which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues and expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IPA as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 18 – 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards

Independent Auditors' Report

(Continued)

generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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 Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying Supplemental Schedule of Changes in Funds Established by the IPA Revenue Bond Resolution for the Years Ended June 30, 2015 and 2016 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplemental schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Deloitte & Touche LLP

September 28, 2016
Salt Lake City, Utah

Deloitte.

Management's Discussion and Analysis

The Intermountain Power Agency (IPA) is a political subdivision of the State of Utah formed by twenty-three Utah municipalities pursuant to the provisions of the Utah Interlocal Co-operation Act. IPA owns, finances, operates, and maintains a two-unit, coal-fired, steam-electric generating plant and switchyard located in Millard County, Utah and transmission systems through portions of Utah, Nevada and California (the "Project"). IPA has irrevocably sold the entire capacity of the Project pursuant to Power Sales Contracts (the "Contracts") to 35 utilities (the "Purchasers"). The Purchasers are unconditionally obligated to pay all costs of operation, maintenance and debt service, whether or not the Project or any part thereof is operating or operable, or its output is suspended, interrupted, interfered with, reduced, or terminated.

IPA's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and consist of Management's Discussion and Analysis, statements of net position, statements of revenues and expenses, statements of cash flows, and the related notes to the financial statements. The statements of net position report IPA's assets, deferred outflows of resources, liabilities, and deferred inflows of resources as of the end of the fiscal year. Investments are stated at fair value. No net position is reported in the statements of net position because IPA is completely debt financed and the Contracts contain no provision for profit. The Contracts govern how and when Project costs become billable to the Purchasers. Expenses determined in accordance with U.S. GAAP that are either recovered from billings to participants prior to recognition or recognized but not currently billable under the Contracts are recorded as net costs recovered from billings to participants (a liability) or deferred as net costs to be recovered from future billings to participants (an asset), respectively, in IPA's statements of net position. In future periods, the liability will be settled or the asset will be recovered as the associated expenses are recognized in accordance with U.S. GAAP or when they become billable Project costs in future participant billings, respectively. Over the life of the Project, aggregate U.S. GAAP expenses will equal aggregate billed Project costs. The statements of revenues and expenses report the results of operations and the statements of cash flows report the resulting cash flows for the fiscal year. Net costs recovered from billings to participants reported in the statements of revenues and expenses reflects the extent to which billable Project costs are greater than U.S. GAAP expenses during the fiscal year. The following table summarizes the financial condition and operations of IPA for the years ended June 30, 2016, 2015 and 2014 (in thousands):

	2016	2015	2014
Assets			
Utility plant, net	$ 1,009,290	$ 1,072,880	$ 1,111,913
Cash, cash equivalents, and investments	295,187	333,645	349,370
Net costs to be recovered from future billings to participants	-	24,248	174,710
Other	103,506	64,465	70,475
Total Assets	$ 1,407,983	$ 1,495,238	$ 1,706,468
Deferred outflows of resources	111,667	142,380	176,979
Total assets and deferred outflows of resources	$ 1,519,650	$ 1,637,618	$ 1,883,447
Liabilities			
Long-term debt	$ 1,150,296	$ 1,326,620	$ 1,474,768
Commercial paper notes	100,000	100,000	173,400
Net costs recovered from billings to participants	2,592	-	-
Other	266,441	210,998	235,279
Total liabilities	$ 1,519,329	$ 1,637,618	$ 1,883,447
Deferred inflows of resources	321	-	-
Total liabilities and deferred inflows of resources	$ 1,519,650	$ 1,637,618	$ 1,883,447

(Continued)

	2016	2015	2014
Revenues and Expenses			
Operating revenues, net	$ 597,400	$ 706,141	$ 698,049
Fuel	(200,570)	(247,193)	(259,421)
Other operating expenses	(298,776)	(230,480)	(225,900)
Operating income	98,054	228,468	212,728
Net interest charges	(72,417)	(81,548)	(98,183)
Nonoperating income	1,203	3,542	629
Net costs recovered from billings to participants	**$ 26,840**	**$ 150,462**	**$ 115,174**

(Concluded)

FINANCIAL HIGHLIGHTS

ASSETS – The net increase in gross utility plant of $16 million and $37 million in 2016 and 2015, respectively, resulted from additions of $22 million and $44 million in 2016 and 2015, respectively, offset by retirements of $6 million and $7 million in 2016 and 2015, respectively. The 2016 additions were principally for expenditures on projects related to the installation of variable frequency drives on the primary air fans, improvements of the main generator step-up transformer heat rejection, replacement of circuit breakers at the switchyard, replacement of two pulverizer motors, and continuation of the replacement of the plant fire system. The 2015 additions were principally for expenditures on projects related to the installation of new fuel oil ignitors, continuation of the scrubber renovation project, replacement of the plant fire system, and replacement of circuit breakers. In addition, the asset retirement cost included in utility plant was increased by $18 million due to incremental Asset Retirement Obligations (ARO) related to the Environmental Protection Agency (EPA) Disposal of Coal Combustion Residuals from Electric Utilities final rule (CCR Rule). The CCR Rule is discussed in Note 9. The net increase in accumulated depreciation of $80 million and $76 million in 2016 and 2015, respectively, resulted from depreciation expense of $86 million and $83 million, respectively, offset by retirements of $6 million and $7 million, respectively.

The 2016 decrease in cash and cash equivalents and investments, combined current and restricted, of $38 million is primarily due to an increased investment in coal inventory resulting from a reduction in scheduled energy from budget during the last half of the fiscal year. The decrease in cash and cash equivalents and investments, combined current and restricted, of $16 million in 2015 is primarily due to a budgeted decrease in billings to participants resulting from lower interest requirements on debt service. At June 30, 2016, total accumulated Project costs billed to participants exceeded accumulated U.S. GAAP expenses. Accordingly, the excess of such billings is reported as a liability, net costs recovered from billings to participants at June 30, 2016. The resulting change between the asset, net costs to be recovered from future billings to participant, and the liability, net costs recovered from billings to participants, are outlined in Note 4.

The increase in other assets of $39 million in 2016 was caused primarily by an increase of $41 million in fuel inventory discussed above, and a $2 million increase other assets, offset by a $4 million decrease in receivable from participants caused by a reduction in variable power taken in June 2016 compared to June 2015. The decrease in other assets of $6 million in 2015 was due primarily to a $3 million decrease in receivable from participants caused by a reduction in variable power taken in June 2015 compared to June 2014, and a $3 million decrease in other receivables.

DEFERRED OUTFLOWS OF RESOURCES – Deferred outflows of resources primarily consists of unamortized refunding charge on defeasance of debt. The decrease of $31 million and $35 million in 2016 and 2015, respectively, was due to normal amortization.

LIABILITIES – During 2016, $170 million of scheduled principal maturities on bonds and subordinated notes were paid. Other liabilities increased by $56 million in 2016. The increase was primarily attributable to a $50 million increase in personal service contract obligations related to pension and other postretirement benefit obligations, a $1 million increase in the credit to participants, a $4 million increase in ARO due to current year accretion and a $3 million increase in accounts payable, offset by a $2 million reduction in interest payable.

During 2015, $141 million of scheduled principal maturities on bonds and subordinated notes were paid. Commercial paper notes decreased by $73 million through scheduled sinking fund payments. Other liabilities decreased by $24 million in 2015. This decrease was primarily due to a $35 million decrease in credit to participants, a $9 million reduction in the personal service contract obligations related to pension and other postretirement benefit obligations, and a $3 million decrease in accounts payable, offset by a $20 million increase in ARO resulting primarily from the incremental ARO related to the CCR Rule (See Note 9) and accretion, and a $3 million increase in interest payable.

Standard & Poor's rates IPA's subordinate lien bonds A+ and the commercial paper notes A1. Fitch rates the subordinate lien bonds AA- and the commercial paper notes F1+. Moody's rates IPA's subordinate lien bonds A1. Moody's does not rate the commercial paper notes. The subordinated notes are not rated because they are not publicly traded. Ratings are unchanged from the prior year.

REVENUES AND EXPENSES – Net operating revenues decreased $109 million in 2016 and increased by $8 million in 2015. In 2016, the decrease corresponded with a reduction in plant net capacity factor, which decreased from 78% to 64% for the fiscal year. In 2015, even though budgeted power costs decreased by $27 million, actual costs were nearer to budget causing an offsetting $35 million decrease in the credit to participants.

In addition, changes in revenues resulted from corresponding changes to net costs recovered from billings to participants in both 2016 and 2015 are due principally to the following: a $49 million decrease and $19 million increase in 2016 and 2015, respectively, for bond, subordinated note and commercial paper notes principal requirements, a $63 million decrease in 2016 and $4 million increase in 2015, respectively, in billings for previously deferred expenses in conformity with U.S. GAAP, and an decrease of $11 million in 2016 and an increase of $12 million in 2015 for capital improvements and required fund deposits.

Fuel expense decreased by $47 million and $12 million in 2016 and 2015, respectively. The decrease in 2016 was primarily due to the 19% reduction in plant net capacity factor. The 2015 decrease was due to a 2% decrease in tonnage burned coupled with a 5% decrease in the average cost of fuel burned compared to the prior year. Other operating expenses increased by $68 million in 2016 due primarily to changing interest rates associated with the actuarial estimate of the personnel service contract obligations and changes in the fair value of the underlying assets. The related net liability increased by $50 million in 2016 compared to a decrease of $10 million in 2015, which resulted in a $60 million increase in operating expenses compared to 2015. The increase in other operating expense of $5 million in 2015 was not significant.

Net interest charges decreased by $9 million in 2016 due to a $7 million reduction in bond and subordinated note interest due to the reduction of bond principal through scheduled principal payments of bonds and subordinated notes payable. Also contributing to the decrease was a $2 million reduction in financing expenses resulting from less amortization of bond discount and refunding charge on defeasance of debt, and a $1 million increase in earnings on investments, offset by a $1 million increase in ARO accretion. Net interest charges decreased by $17 million in 2015 due to a $11 million reduction in bond and subordinated note interest primarily due to the reduction of bond principal through the 2014 Series A and B financing which removed $8 million of bond principal through the refunding and corresponding cash defeasance, plus scheduled principal payments of bonds and subordinated notes payable. Also contributing to the decrease was a $7 million reduction in financing expenses resulting from less amortization of bond discount and refunding charge on defeasance of debt, offset by a $1 million decrease in earnings on investments. The $2 million decrease and $3 million increase in non-operating income in 2016 and 2015, respectively, was due primarily to the sale of surplus railcars and leases of surplus property that took place during 2015.

ELECTRIC INDUSTRY LEGISLATION AND REGULATION – Federal and certain state legislatures and regulators, including the California State Legislature and the California Public Utilities Commission, have taken action to increase competition in electric markets and among electric utilities. California has also enacted legislation prohibiting its municipally-owned electric utilities from entering into new long-term financial commitments for base load generation that do not meet certain greenhouse gases emissions performance standards and has required the State's greenhouse gases emissions to be reduced to 1990 levels by 2020. These and other environmental regulation issues are discussed in Note 12 to the financial statements.

PROJECT REPOWERING – Over the past several years, IPA and the Purchasers have engaged in strategic activities so that the Project may continue operation in compliance with current electric industry regulation applicable to its Purchasers, beyond the expiration of the current Power Sales Contracts. IPA and the Purchasers executed the Second Amendatory Power Sales Contracts, which provides that the Project be repowered to natural gas and that IPA offer the Purchasers renewal in their generation and associated transmission entitlements through Renewal Power Sales Contracts, the term of which commences upon the termination of the current Power Sales Contracts on June 15, 2027. In accordance therewith, IPA has offered Renewal Power Sales Contracts to each of the Purchasers and is working to secure sufficient acceptance of the renewal offers to continue progress toward Project development of natural gas fueled electric generation.

* * * * * *

Statements of Net Position

June 30, 2016 and 2015 (in thousands)

	2016	2015
ASSETS		
UTILITY PLANT:		
Electric plant in service	$ 3,054,434	$ 3,038,226
Less accumulated depreciation	(2,045,144)	(1,965,346)
Net	1,009,290	1,072,880
RESTRICTED ASSETS:		
Cash and cash equivalents	12	47
Investments	116,396	116,946
Interest receivable	44	24
Total	116,452	117,017
CURRENT ASSETS:		
Cash and cash equivalents	59,356	82,955
Investments	118,908	133,286
Interest receivable	471	387
Receivable from participants	3,536	8,193
Fuel inventories	76,043	35,257
Materials and supplies	20,305	20,194
Other	2,736	25
Total	281,355	280,297
OTHER ASSETS:		
Net costs to be recovered from future billings to participants	-	24,248
Other	886	796
Total	886	25,044
TOTAL ASSETS	**$ 1,407,983**	**$ 1,495,238**
DEFERRED OUTFLOWS OF RESOURCES:		
Unamortized refunding charge	110,786	142,180
Other	881	200
Total Deferred Outflows of Resources	111,667	142,380
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 1,519,650**	**$ 1,637,618**

(Continued)

See notes to financial statements.

Statements of Net Position

June 30, 2016 and 2015 (in thousands)

	2016	2015
LIABILITIES		
LONG-TERM PORTION OF BONDS PAYABLE - Net	$ 396,647	$ 488,360
LONG-TERM PORTION OF SUBORDINATED NOTES PAYABLE - Net	644,676	668,267
ADVANCES FROM SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY	11,550	11,550
NON-CURRENT LIABILITIES:		
Personnel services contract obligations	114,942	65,053
Asset retirement obligations	66,549	62,994
Net costs recovered from billings to participants	2,592	-
Total	184,083	128,047
CURRENT LIABILITIES:		
Commercial paper notes	100,000	100,000
Current maturities of bonds payable	81,400	77,210
Current maturities of subordinated notes payable	27,573	92,783
Interest payable	12,799	14,740
Accrued credit to participants	25,955	24,516
Accounts payable and accrued liabilities	34,646	32,145
Total	282,373	341,394
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 1, 5, 6, 7, 10, and 12)		
TOTAL LIABILITIES	**$ 1,519,329**	**$ 1,637,618**
DEFERRED INFLOWS OF RESOURCES	321	-
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	**$ 1,519,650**	**$ 1,637,618**

(Concluded)

See notes to financial statements.

Statements of Revenues and Expenses

For the Years Ended June 30, 2016 and 2015 (in thousands)

	2016	2015
OPERATING REVENUES:		
Power sales to participants	$ 623,381	$ 730,766
Less credit to participants	(25,981)	(24,625)
Net revenues	597,400	706,141
OPERATING EXPENSES:		
Fuel	200,570	247,193
Operation	129,660	67,330
Maintenance	62,304	59,523
Depreciation	85,417	82,833
Taxes and payment in lieu of taxes	21,395	20,794
Total expenses	499,346	477,673
OPERATING INCOME	98,054	228,468
NONOPERATING INCOME:		
Other	1,203	3,542
Total nonoperating income	1,203	3,542
INTEREST CHARGES:		
Interest on bonds and subordinated notes payable	45,413	51,963
Financing expenses (principally amortization of bond discount and refunding charge on defeasance of debt)	25,999	28,568
Accretion of asset retirement obligations	3,555	2,506
Earnings on investments	(2,550)	(1,489)
Net interest charges	72,417	81,548
NET COSTS RECOVERED FROM BILLINGS TO PARTICIPANTS	**$ 26,840**	**$ 150,462**

See notes to financial statements.

Statements of Cash Flows

For the Years Ended June 30, 2016 and 2015 (in thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from power billings to participants	$ 603,496	$ 674,336
Other cash receipts	1,203	3,542
Cash paid to suppliers	(407,712)	(408,220)
Net cash provided by operating activities	196,987	269,658
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	None	None
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Bond and subordinated note principal paid	(169,993)	(140,995)
Commercial paper principal paid	-	(73,400)
Interest paid on bonds, subordinated notes and commercial paper	(47,354)	(47,177)
Additions to electric plant in service	(20,648)	(25,300)
Net cash used in capital and related financing activities	(237,995)	(286,872)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(221,046)	(249,643)
Proceeds from sales/maturities of investments	236,095	234,134
Interest earnings received on investments	2,325	2,415
Net cash provided by (used in) investing activities	17,374	(13,094)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(23,634)	(30,308)
CASH AND CASH EQUIVALENTS:		
Beginning balance	83,002	113,310
Ending balance	**$ 59,368**	**$ 83,002**

(Continued)

See notes to financial statements.

Statements of Cash Flows

For the Years Ended June 30, 2016 and 2015 (in thousands)

	2016	2015
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 98,054	$ 228,468
Other nonoperating income	1,203	3,542
Depreciation	85,417	82,833
Financing expenses, net of amortization of bond discount		
and refunding charge on defeasance of debt	(936)	(921)
Changes in operating assets and liabilities:		
Receivable from participants	4,657	3,405
Fuel inventories	(40,786)	300
Materials and supplies	(111)	(88)
Other current assets	(2,711)	1,220
Personnel services contract obligations	49,889	(9,772)
Accounts payable and accrued liabilities	1,322	(3,123)
Accrued credit to participants	1,439	(35,210)
Other assets	(90)	(796)
Deferred outflows of resources - other	(681)	(200)
Deferred inflows of resources - other	321	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 196,987	$ 269,658

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Accounts payable and accrued liabilities included $2,530 and $1,351 at June 30, 2016 and 2015, respectively, of accruals for additions to electric plant in service.

See notes to financial statements.

(Concluded)

Notes to Financial Statements

For the Years Ended June 30, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND PURPOSE – Intermountain Power Agency (IPA), a separate legal entity and political subdivision of the State of Utah, was formed in 1977 by an Organization Agreement pursuant to the provisions of the Utah Interlocal Co-operation Act. The IPA Organization Agreement, as amended, has a term of one hundred years or longer in certain circumstances. IPA's membership consists of 23 municipalities which are suppliers of electric energy in the State of Utah. IPA's purpose is to own, acquire, construct, finance, operate, maintain, repair, administer, manage and control a facility to generate electricity located in Millard County, Utah and transmission systems through portions of Utah, Nevada and California (the "Project"). The operation and maintenance of the Project is managed for IPA by the Department of Water and Power of the City of Los Angeles (LADWP) in its capacity as Operating Agent pursuant to an operating agreement. LADWP has also contracted to purchase a portion of the electric energy generated from the Project (see Note 10). Personnel at the generating plant are employed by Intermountain Power Service Corporation (IPSC), a separate legal non-governmental entity. IPSC is not a component unit of IPA. However, under a Personnel Services Contract ("PSC") between IPA and IPSC, IPA is required to pay all costs incurred by IPSC, including employee pensions and other postretirement benefits offered by IPSC to its employees. Accruals for IPA's obligation under the PSC for IPSC's employee pensions and other postretirement benefits are reported as non-current liabilities in personnel service contract obligations in the accompanying statements of net position.

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BASIS OF ACCOUNTING – IPA maintains its records substantially in accordance with the Federal Energy Regulatory Commission Uniform System of Accounts, as required by its Contracts (see Note 10), and in conformity with U.S. GAAP. IPA applies all of the pronouncements of the Governmental Accounting Standards Board (GASB).

UTILITY PLANT – Electric plant in service is stated at cost, which represents the actual direct cost of labor, materials, and indirect costs, including interest and other overhead expenses, net of related income during the construction period. Depreciation of electric plant in service is computed using the straight-line method over the estimated useful lives of the assets which range from five to fifty years. Depreciation has historically included, in addition to depreciation of assets recorded related to asset retirement obligations (see Note 9), estimates for other future costs related to the reclamation of the Project recorded pursuant to GASB authoritative guidance related to regulated operations, accumulating to $82,000,000, which amount is included in accumulated depreciation at June 30, 2016 and 2015.

PAYMENTS-IN-AID OF CONSTRUCTION – IPA and the Southern California Public Power Authority (SCPPA), which is comprised of certain California Purchasers (see Note 8), have entered into the Southern Transmission System Agreement, as amended, ("STS Agreement") whereby SCPPA has made payments-in-aid of construction accumulating to approximately $737,900,000 as of June 30, 2016 and 2015, to IPA for costs associated with the acquisition, construction and improvements of the Southern Transmission System of the Project ("STS"). Such payments-in-aid are recorded as reductions to utility plant. IPA has also entered into interconnection agreements with other entities that have made additional payments-in-aid of construction accumulating to approximately $2,037,000 as of June 30, 2016 and 2015.

CASH AND CASH EQUIVALENTS – Cash equivalents include amounts invested in securities purchased under agreements to resell as of June 30, 2016 and 2015. IPA considers short-term investments with an original maturity of three months or less to be cash equivalents. As more fully discussed in Note 5, the IPA Bond Resolution required the establishment of certain funds and prescribes the use of monies in these funds. Accordingly, the assets held in certain of these funds are classified as restricted in the accompanying statements of net position. In accordance with GASB requirements, such restricted amounts are considered cash equivalents.

INVESTMENTS – The IPA Bond Resolution, as amended, stipulates IPA may invest in any securities, obligations or investments that are permitted by Utah Law. Investments are held by IPA as beneficial owner in book-entry form. Management believes there were no investments held by IPA during the years ended June 30, 2016 and 2015 that were in violation of the requirements of the IPA Bond Resolution.

Investments are stated at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the changes in fair value of investments, is recognized as an increase or decrease to investment assets and in the statements of revenues and expenses as earnings on investments.

FUEL INVENTORIES, MATERIALS, AND SUPPLIES – Fuel inventories for the Project, principally coal, which have been purchased for the operation of the utility plant are stated at cost (computed on a last-in, first-out basis). The replacement cost of Project fuel inventory is approximately $20,919,000 and $17,569,000 greater than the stated last-in, first-out value at June 30, 2016 and 2015, respectively. Materials and supplies are stated at average cost.

UNAMORTIZED BOND DISCOUNT AND REFUNDING CHARGE ON DEFEASANCE OF DEBT – Unamortized discount related to the issuance of bonds and the unamortized refunding charge related to the refunding of certain bonds are deferred and amortized using the interest method over the terms of the respective bond issues. Bonds payable have been reported net of the unamortized bond discount in the accompanying statements of net position. Unamortized refunding charge is reported as a deferred outflow of resources in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

NET COSTS (RECOVERED) TO BE RECOVERED FROM FUTURE BILLINGS TO PARTICIPANTS – Billings to participants are designed to recover power costs as set forth by the Power Sales Contracts (see Note 10), which principally include current operating expenses, scheduled debt principal and interest, and deposits into certain funds. Pursuant to GASB authoritative guidance related to regulated operations, expenses determined in accordance with U.S. GAAP that are either recovered from billings to participants prior to recognition or recognized but not currently billable under the Contracts are recorded as net costs recovered from billings to participants (a liability) or deferred as net costs to be recovered from future billings to participants (an asset), respectively, in IPA's statements of net position. In future periods, the liability will be settled or the asset will be recovered as the associated expenses are recognized in accordance with U.S. GAAP or when they become billable Project costs in future participant billings, respectively. At June 30, 2016, total accumulated Project costs billed to participants to date exceeded accumulated U.S. GAAP expenses, resulting in a liability, net costs recovered from billings to participants. Over the life of the Power Sales Contracts, aggregate U.S. GAAP expenses will equal aggregate billable power costs.

Federal and certain state legislatures and regulators, including the California State Legislature and the California Public Utilities Commission, have taken action to increase competition in electric markets and among electric utilities. California has also enacted legislation prohibiting its municipally-owned electric utilities from entering into new long-term financial commitments for base-load generation that do not meet certain greenhouse gases emissions performance standards and has required the State's greenhouse gases emissions to be reduced to 1990 levels by 2020. The Environmental Protection Agency (EPA) has also proposed regulation of certain greenhouse gases emissions. Future federal and state legislative and regulatory action may also result from the increasing national and international attention to climate change. Federal legislation has been introduced that would, among other things, create a greenhouse gases cap and trade program and/or required greenhouse gases emissions reductions from fossil fuel-fired electric generation facilities, although none have yet been enacted. Legislative and regulatory actions, both nationally and in California, have had and may yet have significant (yet hard to quantify) effects on IPA and the Purchasers (see Note 10). If these effects, which are not currently determinable, were to cause the Purchasers to be unable to meet their future power sales contract payment obligations, IPA may then be required to apply GASB authoritative guidance, which requires that assets and liabilities recognized pursuant to IPA's regulated operations be removed from the statement of net position when the related application criteria is no longer met unless those costs continue to be recoverable through a separate regulatory billing. As of June 30, 2016, costs deferred are probable of recovery through future billings.

LONG-LIVED ASSETS – IPA evaluates the carrying value of long-lived assets based upon current and anticipated undiscounted cash flows, and recognizes an impairment when such estimated cash flows will be less than the carrying value of the asset. Measurement of the amount of impairment, if any, is based upon the difference between carrying value and fair value.

PENSION AND OTHER POSTRETIREMENT OBLIGATIONS – IPA sponsors a defined benefit pension plan and a postretirement medical plan that are accounted for pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, respectively. No disclosures related to these plans are presented herein because amounts are not significant to the financial statements.

ASSET RETIREMENT OBLIGATIONS – IPA records asset retirement obligations where there is a legal obligation associated with the retirement of its tangible long-lived assets and where the amounts are estimable. The carrying amount of the liability for asset retirement obligations is adjusted upon revisions to the timing or the amount of the future cash flows estimated to settle such obligations. Associated increases or decreases in such obligations are correspondingly recorded as increases or decreases to electric plant in service (see Note 9).

ACCOUNTING PRONOUNCEMENTS ADOPTED EFFECTIVE JULY 1, 2015 – GASB Statement No. 72, *Fair Value Measurement and Application*. This statement 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 establishes a three-level hierarchy of inputs to valuation techniques used to measure fair value. This statement is effective for financial statements for years beginning after June 15, 2015. IPA adopted this statement during the year ended June 30, 2016 and has included the required disclosures in the notes to the financial statements.

OTHER RECENT ACCOUNTING PRONOUNCEMENTS – GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. This statement is effective for financial statements for years beginning after June 15, 2017. IPA is currently evaluating the effects the adoption of this statement will have on the financial statements.

2. UTILITY PLANT

Utility plant activity for the years ended June 30, 2016 and 2015, is as follows (in thousands):

	July 1, 2015	Increases	Decreases	June 30, 2016
Utility plant not being depreciated -				
Construction work-in-progress	$ 3,322	$ 375	$ (741)	$ 2,956
Utility plant being depreciated/amortized:				
Production	2,922,046	11,533	(4,095)	2,929,484
Transmission	804,474	10,952	(1,394)	814,032
Payments-in-aid of construction - transmission	(739,937)	-	-	(739,937)
General	48,321	(292)	(130)	47,899
Total	3,034,904	22,193	(5,619)	3,051,478
Accumulated depreciation	(2,406,368)	(96,665)	5,619	(2,497,414)
Accumulated amortization of payments-in-aid of construction	441,022	11,248	-	452,270
Total accumulated depreciation	(1,965,346)	(85,417)	5,619	(2,045,144)
Utility Plant, Net	**$ 1,072,880**	**$ (62,849)**	**$ (741)**	**$ 1,009,290**

	July 1, 2014	Increases	Decreases	June 30, 2015
Utility plant not being depreciated -				
Construction work-in-progress	$ 3,845	$ 921	$ (1,444)	$ 3,322
Utility plant being depreciated/amortized:				
Production	2,892,318	34,319	(4,591)	2,922,046
Transmission	799,073	7,243	(1,842)	804,474
Payments-in-aid of construction - transmission	(739,937)	-	-	(739,937)
General	45,800	2,761	(240)	48,321
Total	2,997,254	44,323	(6,673)	3,034,904
Accumulated depreciation	(2,318,933)	(94,108)	6,673	(2,406,368)
Accumulated amortization of payments-in-aid of construction	429,747	11,275	-	441,022
Total accumulated depreciation	(1,889,186)	(82,833)	6,673	(1,965,346)
Utility Plant, Net	**$ 1,111,913**	**$ (37,589)**	**$ (1,444)**	**$ 1,072,880**

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments consist of the following at June 30, 2016 and 2015 (in thousands):

	2016		2015	
	Fair Value	Weighted Average Remaining Maturity	Fair Value	Weighted Average Remaining Maturity
Cash and Cash Equivalents:				
Restricted:				
Cash	$ 12	1 day or less	$ 47	1 day or less
Total Restriced	12		47	
Current:				
Securities purchased under agreements to resell	57,253	1 day or less	81,102	1 day or less
Cash	2,103	1 day or less	1,853	1 day or less
Total Current	59,356		82,955	
Total Cash and Cash Equivalents	**$ 59,368**		**$ 83,002**	
Investments:				
Restricted:				
U.S. Agencies	$ 11,655	1.73 years	$ 29,484	1.12 years
Commercial paper	84,632	1 day or less	67,191	1 day or less
Corporate bonds	20,109	1.55 years	20,271	0.70 years
Total Restricted	116,396		116,946	
Current:				
U.S. Treasuries	1,551	0.68 years	1,551	0.68 years
U.S. Agencies	27,867	1.91 years	42,659	2.82 years
Commercial paper	-		9,984	0.30 years
Corporate bonds	89,490	1.31 years	79,092	0.98 years
Total Current	118,908		133,286	
Total Investments	**$ 235,304**		**$ 250,232**	

Cash and cash equivalents consist of cash and securities purchased under agreements to resell as of June 30, 2016 and 2015. The fair value of securities purchased under agreements to resell is determined at the settlement amount received at the maturity of the agreements. Investments consist entirely of U.S. Government Agencies, U.S. Treasuries, commercial paper and corporate bonds whose fair value is derived from inputs using observable market data to estimate current interest rates.

INTEREST RATE RISK – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, IPA manages its exposure to interest rate risk by requiring that the remaining term to maturity of investments not exceed the date the funds will be required to meet cash obligations.

CREDIT RISK – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with its investment policy, IPA manages its exposure to credit risk by limiting its investments to securities authorized for investment of public funds under the Utah Money Management Act, which requires a rating of "A" or higher or the equivalent of "A" or higher by two nationally recognized statistical rating organizations.

CUSTODIAL CREDIT RISK – CASH DEPOSITS: Custodial credit risk is the risk that, in the event of a failure of the counterparty holding the funds, IPA's deposits may not be returned. IPA does not require deposits to be fully insured and collateralized. As of June 30, 2016, approximately $2,115,000 of IPA's bank balances are uninsured and uncollateralized.

CUSTODIAL CREDIT RISK – SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL: IPA policy only permits investments in repurchase agreements with certified dealers.

FAIR VALUE MEASUREMENTS: IPA measures and records its investments using fair value measurement guidelines established by U.S. GAAP. These guidelines recognize a three-tiered fair value hierarchy, as follows:

Level 1 – Quoted prices for identical investments in active markets;
Level 2 – Observable inputs other than quoted market prices; and,
Level 3 – Valuations derived from unobservable inputs.

At June 30, 2016 and 2015, all of IPA's investments are measured using level 2 inputs.

4. NET COSTS (RECOVERED) TO BE RECOVERED FROM BILLINGS TO PARTICIPANTS

Net costs (recovered) to be recovered from billings to participants and the accumulated totals as of June 30, 2016 and 2015, consisted of the following (in thousands):

	For the Years Ended June 30,		Accumulated Totals as of June 30,	
	2016	2015	2016	2015
Items in accordance with U.S. GAAP not billable to participants under the power sales contracts:				
Interest expense in excess of amounts billable	$ -	$ -	$ 452,454	$ 452,454
Depreciation expense	85,417	82,833	2,246,248	2,160,831
Amortization of bond discount and refunding on defeasance of bonds	25,063	27,647	1,271,912	1,246,849
Accretion of interest on zero coupon bonds	-	-	349,408	349,408
Charge on retired debt	-	-	157,389	157,389
Cumulative effect of a change in accounting principle	-	-	18,241	18,241
Accretion of asset retirement obligations	3,555	2,506	23,209	19,654
Unrealized losses (gains) on investments	(461)	314	6	467
Change in fair value of interest rate exchange agreements	-	-	27,652	27,652
Gain on sale of ownership interest in coal mines	-	-	(4,877)	(4,877)
Amortization of deferred fuel costs	-	-	69,379	69,379
Accrued interest earnings	(200)	(114)	9,281	9,481
Liabilities	49,269	(9,772)	127,088	77,819
Other	3,690	(259)	19,211	15,521
Amounts billed to participants under the bond resolution and the power sales contracts:				
Bond and subordinated note principal	(175,830)	(225,280)	(3,970,746)	(3,794,916)
Deferred fuel costs	-	-	(32,228)	(32,228)
Capital improvements	(17,577)	(28,323)	(470,831)	(453,245)
Reduction of required fund deposits	234	(14)	(3,912)	(4,146)
Cash received from sale of assets	-	-	18,904	18,904
Participant funds expended for debt reduction, refinancing and/or other financing costs (Note 10)	-	-	(310,380)	(310,380)
Net costs (recovered) to be recovered from billings to participants	**$ (26,840)**	**$ (150,462)**	**$ (2,592)**	**$ 24,248**

Notes to Financial Statements

5. BONDS PAYABLE

To finance the construction of the Project, IPA has sold Revenue and Revenue Refunding Bonds (the "Senior Bonds") pursuant to IPA's Power Supply Revenue Bond Resolution adopted September 28, 1978, as amended and supplemented (the "Bond Resolution") and IPA has sold Subordinated Revenue Refunding Bonds (the "Subordinated Bonds") pursuant to IPA's Subordinated Power Supply Revenue Resolution adopted March 4, 2004, as supplemented (the "Subordinated Bond Resolution"). There are no Senior Bonds outstanding as of June 30, 2016 and 2015. As of June 30, 2016 and 2015, for Subordinated Bonds (collectively, the "Bonds") the principal amount consisted of the following (in thousands):

Series	Bonds Dated	Final Maturity on July 1	2016	2015
Subordinated Bonds				
2007 A	4/3/2007	2019	$ 122,150	$ 122,150
2009 A	4/9/2009	2015	-	30,260
2009 B	11/12/2009	2015	-	23,370
2013 A	4/2/2013	2023	246,710	270,290
2014 A	6/23/2014	2019	48,910	48,910
2014 B	6/23/2014	2017	35,850	35,850
Total Bonds payable			453,620	530,830
Unamortized bond premium			24,427	34,740
Current maturities of Bonds payable			(81,400)	(77,210)
LONG-TERM PORTION OF BONDS PAYABLE - Net			**$ 396,647**	**$ 488,360**

Interest rates on the Bonds payable outstanding range from 0.785% to 5.00% at June 30, 2016 and June 30, 2015.

The changes in the par value of Bonds payable for the years ended June 30, 2016 and 2015 are as follows (in thousands):

	2016	2015
Beginning balance	$ 530,830	$ 596,725
Deductions - principal maturities	(77,210)	(65,895)
Ending balance	**$ 453,620**	**$ 530,830**

The principal amounts of future maturities, sinking fund requirements and interest to be paid for the Bonds outstanding as of June 30, 2016, are as follows (in thousands):

Years ending June 30:	Principal	Interest
2017	$ 81,400	$ 19,222
2018	140,710	14,558
2019	84,790	9,381
2020	31,695	6,544
2021	24,485	5,139
2022 – 2024	90,540	4,636
Total	**$ 453,620**	**$ 59,480**

The Subordinated Bond Resolution stipulates that the Subordinated Bonds are direct and special obligations of IPA payable from and secured by amounts on deposit in the Subordinated Indebtedness Debt Service Account. The Bond Resolution and the Subordinated Bond Resolution require that after providing for monthly operating expenses and the required monthly deposits of revenues have been made to the Debt Service Fund that revenues in amounts sufficient to provide for the debt service requirements of Subordinated Bonds be deposited each month into the Subordinated Indebtedness Debt Service Account. The security for the Subordinated Bonds has the same priority as the security for the commercial paper notes (see Note 7), is senior to the security for the subordinated notes payable, and is junior to the security for the Senior Bonds.

FUNDS ESTABLISHED BY THE BOND RESOLUTION – The Bond Resolution requires that certain funds be established to account for IPA's receipts and disbursements and stipulates the use of monies, investments held in such funds and balances that are to be maintained in certain of the funds. Balances in the other funds are determined by resolution of the IPA Board of Directors. A summary of funds established by the Bond Resolution and the aggregate amount of assets held in these funds, including accrued interest receivable as of June 30, 2016 and 2015, is as follows (in thousands):

	2016	2015
Restricted assets:		
Subordinated Indebtedness Fund:		
Debt Service Account	$102,068	$ 98,173
Debt Service Reserve Account	9,707	11,273
Self-Insurance Fund	4,677	7,571
Total restricted assets	116,452	117,017
Revenue Fund (Note 10)	178,735	216,628
Total	**$ 295,187**	**$ 333,645**

The reconciliation of the current assets as reported in the accompanying statements of net position to the Revenue Fund at June 30, 2016 and 2015, is as follows (in thousands):

	2016	2015
Current assets reported in statements of net position:		
Cash and cash equivalents	$ 59,356	$ 82,955
Investments	118,908	133,286
Interest receivable	471	387
Revenue Fund	**$ 178,735**	**$ 216,628**

EARLY REDEMPTION OF BONDS – Bonds outstanding at June 30, 2016 are generally subject to redemption, in whole or in part, prior to maturity at the option of IPA. Redemption prices are par value plus accrued interest to the date of redemption.

COVENANTS – The Bond Resolution has imposed certain covenants upon IPA which, among others, include a promise to establish rates sufficient to pay the bondholders scheduled interest and principal payments and to make such payments on a timely basis, keep proper books of record and account, and comply with certain financial reporting and auditing requirements. IPA believes that it is in compliance with all covenants as of June 30, 2016 and 2015.

DEFEASANCE OF DEBT – No bonds were defeased during the years ended June 30, 2016 and June 30, 2015. The aggregate outstanding principal amount of Bonds extinguished through prior period bond defeasance was $119,635,000 at June 30, 2016.

6. SUBORDINATED NOTES PAYABLE

IPA and the California Purchasers (see Note 10) have entered into the Intermountain Power Project Prepayment Agreement ("Prepayment Agreement"). Pursuant to the Prepayment Agreement, a California Purchaser, upon providing IPA sufficient funds, can direct IPA to defease certain IPA outstanding Bonds. In consideration for IPA's use of the California Purchaser's funds to defease such outstanding Bonds, IPA issues to the California Purchaser a subordinated note or notes payable. Such subordinated notes payable are not subject to early redemption by IPA and are not transferable by the holder, but otherwise carry terms substantially equivalent to the defeased Bonds (subject to certain adjustments, some of which can result in negative interest) and are junior and subordinate to Bonds payable and commercial paper notes. As of June 30, 2016 and 2015, the principal amount of interest bearing subordinated notes payable consisted of the following (in thousands):

Note Holder	Issue Date	Final Maturity	2016	2015
LADWP	2/10/2000	7/1/2020	$ 165,327	$ 167,857
LADWP	3/2/2000	7/1/2023	366,706	377,996
LADWP	5/2/2000	7/1/2021	49,700	49,944
LADWP	9/7/2000	7/1/2021	10,275	57,190
LADWP	7/20/2005	7/1/2019	66,122	92,385
City of Pasadena	1/29/2009	7/1/2023	36,949	42,490
Total subordinated notes payable			695,079	787,862
Unamortized discount			(22,830)	(26,812)
Current maturities of subordinated notes payable			(27,573)	(92,783)
Long-term portion of subordinated notes payable			**$ 644,676**	**$ 668,267**

The changes in the par value of subordinated notes payable for the years ended June 30, 2016 and 2015, are as follows (in thousands):

	2016	2015
Beginning balance	$ 787,862	$ 862,962
Deductions - principal maturities	(92,783)	(75,100)
Ending balance	**$ 695,079**	**$ 787,862**

The principal amounts of future maturities and interest to be paid (received) on subordinated notes payable as of June 30, 2016, are as follows (in thousands):

Years ending June 30:	Principal	Interest
2017	$ 27,573	$ 25,005
2018	54,637	13,765
2019	127,899	18,112
2020	165,323	5,860
2021	162,503	(7,157)
2022 – 2024	157,144	(13,233)
Total	**$ 695,079**	**$ 42,352**

7. COMMERCIAL PAPER NOTES

An amended subordinated indebtedness resolution allows IPA to currently issue commercial paper notes in amounts not to exceed $100,000,000 outstanding at any one time. The commercial paper notes outstanding at June 30, 2016 of $100,000,000 bear interest between 0.45% and 0.50% with remaining maturities ranging between 1 and 35 days. The commercial paper notes outstanding at June 30, 2015 of $100,000,000 bore interest between 0.09% and 0.11% with remaining maturities ranging between 71 and 72 days.

IPA has entered into certain credit agreements with third parties equal to the outstanding principal portion of the commercial paper notes. The credit agreements will provide funds, if required, to pay the outstanding principal of the commercial paper notes. The credit agreements, if utilized, create subordinated bank notes. At June 30, 2016 and 2015, there were no borrowings under these agreements.

8. ADVANCES FROM SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

In accordance with the STS Agreement, SCPPA has funded an allocable portion of certain of IPA's reserves. The advances from SCPPA run concurrently with the life of the Project. Management believes that advances from SCPPA in the accompanying financial statements meet those required under the STS Agreement.

9. ASSET RETIREMENT OBLIGATIONS

IPA's transmission facilities are generally located upon land that is leased from the Federal and certain states' governments. Upon termination of the leases, the structures, improvements and equipment are to be removed and the land is to be restored. Because these leases are expected to be renewed indefinitely and because of the inherent value of the transmission corridors, the leases have no foreseeable termination date and, therefore, the fair value of Asset Retirement Obligations (ARO) related to the transmission facilities cannot be reasonably estimated. IPA also has certain ARO related to other long-lived assets at or near the generation station site. These obligations are related to the reclamation of certain rights-of-way, wastewater ponds, settling ponds, landfills and other facilities that may affect ground water quality.

On April 17, 2015, EPA published the Disposal of Coal Combustion Residual (CCR) from Electric Utilities final rule (CCR Rule) in the Federal Register, setting October 19, 2015 as the effective date of the CCR Rule. The CCR rule will regulate the disposal of CCR, including coal ash, as non-hazardous solid waste in landfills and surface impoundments at active generating power plants. Based on initial estimates, IPA recorded incremental ARO (with a corresponding incremental asset retirement cost included within Utility Plant) of approximately $18 million related to the CCR Rule during the year ended June 30, 2015. As changes occur to the expected timing and method of compliance and as the assumptions of underlying cost estimates are refined, the estimated ARO will continue to be updated.

The changes in the ARO for the years ended June 30, 2016 and 2015, are as follows (in thousands):

	2016	2015
Beginning balance	$ 62,994	$ 42,482
Accretion expense	3,555	2,506
Incremental amount related to CCR Rule	-	18,006
Ending balance	**$ 66,549**	**$ 62,994**

10. POWER SALES AND POWER PURCHASE CONTRACTS

IPA has sold the entire capacity of the Project pursuant to Power Sales Contracts, as amended (the "Contracts"), to 35 utilities consisting of six California municipalities ("California Purchasers"), twenty-three Utah municipalities ("Utah Municipal Purchasers") and six rural electrical cooperatives ("Cooperative Purchasers") (collectively, the "Purchasers"). The California Purchasers, Utah Municipal Purchasers and the Cooperative Purchasers have contracted to purchase approximately 79%, 14%, and 7%, respectively, of the capacity of the Project. The Contracts expire on June 15, 2027, but if the Project then continues to be operable, and to the extent permitted by law, the Purchasers have renewal rights for proportionate future participation with substantially equivalent terms and conditions. As long as any of the Bonds are outstanding, the Contracts cannot be terminated nor amended in any manner which will impair or adversely affect the rights of the bondholders. Under the terms of the Contracts, the Purchasers are obligated to pay their proportionate share of all operation and maintenance expenses and debt service on the Bonds and any other debt incurred by IPA, whether or not the Project or any part thereof is operating or operable, or its output is suspended, interrupted, interfered with, reduced, or terminated. In accordance with the Contracts, billings in excess of monthly power costs, as defined, are credited to Purchasers taking power in any fiscal year (the "Participants"). IPA recorded credits to Participants in operating revenue of approximately $25,981,000 and $24,625,000 for the years ended June 30, 2016 and 2015, respectively. Such credits to Participants are applied in the subsequent year to reduce power billings in accordance with the Contracts.

As part of IPA's strategic planning initiatives, IPA and the Purchasers executed the Second Amendatory Power Sales Contracts (the "Renewal Amendment") that provides for the repowering of the Project to be fueled by natural gas and the renewal offer to the Purchasers of generation and transmission entitlements of the Project following the termination of the Contracts on June 15, 2027. The Renewal Amendment became effective on March 16, 2016 and its continued effectiveness is conditioned upon acceptance by the Purchasers of renewal offers representing entitlements of at least 85% of the capacity of the Project, as repowered. In accordance with the Renewal Amendment, IPA has offered Renewal Power Sales Contracts (the "Renewal Contracts") to each of the Purchasers and is working to secure sufficient acceptances for it to become effective. The fifty-year term of the Renewal Contracts is to commence upon termination of the Contracts. Previous to the Renewal Amendment, Utah Power and Light Company (UP&L) was a Purchaser having contracted to purchase 4% of the net capacity of the Project. The Renewal Amendment provided for the termination of UP&L's Power Sales Contract, with LADWP acquiring UP&L's share of the net capacity of the Project.

A Bond Retirement and Financing Account ("BRFA") was established by the Forty-First Supplemental Power Supply Revenue Bond Resolution (the "Forty-First Supplemental Resolution"). Amounts deposited into the BRFA are held in the Revenue Fund and are to be used to purchase, redeem or defease outstanding IPA debt; for contributions required to be made by IPA in refunding bond issues; or for other financing costs since the BRFA was established. The Purchasers have elected to deposit funds into the BRFA in addition to the funds required to be paid by them to IPA for power supply costs. The remaining BRFA funds totaled approximately $70,823,000 and $69,205,000 as of June 30, 2016 and 2015, respectively.

11. RELATED PARTY TRANSACTIONS

LADWP, as Operating Agent, performed engineering and other services for the Project totaling approximately $26,703,000 and $27,905,000 for the years ended June 30, 2016 and 2015, respectively, which has been billed to IPA and charged to operations or utility plant, as appropriate. Operating Agent unbilled costs totaling $914,000 and $772,000 are included in other current assets at June 30, 2016 and 2015, respectively. Power sales to LADWP for the years ended June 30, 2016 and 2015 totaled $407,641,000 and $467,992,000, respectively. The receivable from LADWP at June 30, 2016 and 2015 was $2,625,000 and $6,135,000, respectively.

Power sales to the City of Anaheim for the years ended June 30, 2016 and 2015 totaled $78,060,000 and $93,851,000, respectively. The receivable from the City of Anaheim at June 30, 2016 and 2015 was $301,000 and $683,000, respectively.

Subordinated notes payable have been issued to LADWP (see Note 6). Interest expense on these subordinated notes payable of $23,123,000 and $26,195,000 has been recorded for the years ended June 30, 2016 and 2015, respectively, of which $2,284,000 and $2,408,000 was payable at June 30, 2016 and 2015, respectively.

Subordinated notes payable have been issued to the City of Pasadena (see Note 6). Interest expense on these subordinated notes payable of $1,359,000 and $1,547,000 has been recorded for the years ended June 30, 2016 and 2015, respectively, of which $107,000 and $142,000 was payable at June 30, 2016 and 2015, respectively.

12. COMMITMENTS AND CONTINGENCIES

COAL SUPPLY – At June 30, 2016, IPA was obligated under short and long-term take-or-pay coal supply contracts for the purchase of coal. The cost of coal is computed at a base price per ton, adjusted periodically for various price and quality adjustments and includes transportation to the plant. The contracts require minimum purchases of coal over the lives of the contracts, exclusive of events of force majeure, as follows (computed using the current price under the contracts, in thousands):

Years ending June 30:	
2017	$ 243,937
2018	172,616
2019	161,735
2020	165,273
2021	168,905
Thereafter	620,682
Total	**$ 1,533,148**

The actual cost of coal purchases under the coal supply contracts for the years ended June 30, 2016 and 2015 was approximately $237,514,000 and $240,054,000, respectively.

UTAH DAIRY CASE – On February 7, 2005, certain Utah dairy farmers located in Millard County, Utah filed suit against IPA, LADWP, IPSC and other defendants in the Third Judicial District of Utah (Salt Lake County), in the matter styled *Gunn Hill Dairy Properties, LLC, et al. v. Los Angeles Department of Water and Power, et al.*, Case No. 050700157 (the "Utah Dairy Case"). IPA and other defendants then successfully moved for a transfer of venue to the Fourth Judicial District (Millard County) of Utah. Venue of the case was ultimately changed to Nephi, Utah, in Juab County.

In the Utah Dairy Case, plaintiffs allege that "stray voltage" is emanating from the Project and reaching plaintiffs' dairy farms, causing damage. In pre-trial proceedings, a number of the plaintiffs' claims were dismissed on motion of IPA and other defendants.

On September 20, 2013, the matter proceeded to an initial trial with six of the plaintiffs' (the "Original Six Plaintiffs"). It is contemplated that the remainder of the plaintiffs will have one or more additional trials. The Original Six Plaintiffs amended their economic damages report to seek compensatory damages in excess of $515,000,000, plus punitive damages. The separate trial or trials for the other plaintiffs have not yet commenced, nor have they been scheduled.

In November 2013, a mistrial was declared in the Utah Dairy Case relating to the Original Six Plaintiffs. The mistrial was declared based on juror misconduct involving communications by a juror with family members about the trial.

After the mistrial, the defendants filed a motion for judgment notwithstanding the verdict asserting that the Original Six Plaintiffs had failed to produce enough evidence to submit a case to jury. On April 29, 2014, the court granted the motion in part and denied it in part. The court dismissed all but one of the Original Six Plaintiffs' claims, including their claim for punitive damages, but left open for a further jury trial the Original Six Plaintiffs' claim of negligence. Neither party appealed the court's order with respect to the motion, and the time to seek leave to file an interlocutory appeal has now passed.

Also following the mistrial, plaintiffs filed a motion for sanctions and for a change of venue. On August 29, 2014, the court denied the Original Six Plaintiffs' motion both for sanctions and for a change of venue.

On September 15, 2014, plaintiffs filed a petition with the Utah Supreme Court for leave to take an interlocutory appeal of the order denying the motion for sanctions and for a change of venue. The Utah Supreme Court declined to accept the appeal, but subsequently, the Utah Court of Appeals, an intermediate appeals court, allowed an appeal on the narrow issue of whether the trial court correctly denied plaintiffs' change of venue motion. On October 29, 2015, the Utah Court of Appeals affirmed the trial court's ruling denying plaintiffs' motion to change venue. Plaintiffs subsequently asked the Utah Supreme Court to review the Utah Court of Appeals' decision. On March 23, 2016, the Utah Supreme Court denied plaintiffs' request for further appellate review.

On May 16, 2016, the trial court held a case management conference. During that conference, the trial court scheduled a new trial of the Original Six Plaintiffs, to begin March 9, 2017, and invited the parties to file motions relating to further pretrial proceedings. At the May 16 conference, plaintiffs stated their intention to employ a public opinion research firm to conduct a survey of Juab County residents for the purpose of renewing their motion to change venue.

Among other motions filed by the parties following the May 16 conference, IPA filed a motion for further discovery of the Original Six Plaintiffs' dairy operations and a motion to preclude plaintiffs from conducting a survey. Plaintiffs filed a cross-motion asking the trial court to supervise the survey process.

The trial court held a hearing on the pending motions on August 26, 2016. At the hearing, the trial court denied both motions relating to the survey, leaving plaintiffs free to conduct that survey. At the hearing, the trial court also raised the possibility of changing the configuration of the trial, such as including all eighteen dairies in one trial, which would result in a delay of the trial, perhaps by several years. The court asked the parties to submit briefs on this possibility by September 30, 2016. As a result, while the new trial for the Original Six Plaintiffs is still scheduled to begin in March 2017, it is possible the trial court may alter that schedule, perhaps significantly.

IPA will continue to aggressively defend this litigation. It is not possible to predict the likely outcome of the matter or estimate the amount or range of potential loss, if any.

OTHER LITIGATION – IPA is also in other litigation arising from its operating activities. The probability or extent of unfavorable outcomes of these suits is not presently determinable.

CLEAN AIR ACT NEW SOURCE REVIEW – IPA received in 2010 and 2011 requests for information from EPA, pursuant to Section 114 of the Clean Air Act ("CAA"), concerning the construction, modification and operation of the Project. IPA responded to these requests in 2010-2012, and later provided additional information in response to follow-up questions and requests from EPA. These Section 114 requests are part of a national enforcement initiative that EPA has undertaken under the CAA against owners and operators of electric generating facilities. EPA generally asserts that the industry has failed to comply with the New Source Review provision of the CAA ("NSR"), arguing that industries have made certain physical or operational changes at their plants that should have resulted (or "triggered") additional regulatory requirements under the NSR program. With respect to IPA, EPA asserts that certain uprate projects undertaken at the station in 2002-2004 triggered NSR. On February 19, 2015, IPA received from Sierra Club a Notice of Intent to Sue under the CAA, also alleging that the uprate projects triggered NSR.

IPA has met with EPA and the United States Department of Justice (DOJ) to discuss potential resolution of this investigation on several occasions since 2012, with the most recent meeting taking place May 26, 2016. To date, EPA has not issued a notice of violation, or initiated other formal enforcement action against IPA with regard to this matter. Nor has Sierra Club filed a lawsuit. If the government were to file an enforcement action, and/or if Sierra Club were to file a lawsuit under the citizen suit provisions of the CAA, either could request that the court order injunctive relief to require additional emissions control equipment at the facility and civil penalties of up to $37,500 per day for each violation. (The statutory maximum was recently increased to $93,750 per day for each violation that is alleged to have occurred after November 2, 2015.) It is not possible to predict whether these claims will be asserted or what likelihood there is of any unfavorable outcome.

CALIFORNIA GREENHOUSE GAS INITIATIVES – For several years, California policy makers have sought to limit greenhouse gas emissions in California as a result of power generation. Both the Los Angeles City Council and the State of California have adopted renewable portfolio standards, which, among other things require LADWP and the other California utilities to serve 33% and 50% of their load with renewable energy by 2020 and 2030, respectively. On September 29, 2006, California Senate Bill 1368 – An Act to Impose Greenhouse Gas Performance Standards on Locally Owned Public Utilities (SB 1368) was signed into law. SB 1368 was directed specifically at limiting greenhouse gas emissions associated with electric power consumed in California by prohibiting California electric providers from entering into long-term financial commitments for base load generation unless such generation complies with greenhouse gas emission performance standards. While these and other actions by California policy makers have the potential to impact IPA and its power purchasers, IPA does not believe that any of these initiatives will render existing Power Sales Contracts between IPA and the California Purchasers void, ineffective or unenforceable. However, the actions of the policy makers will preclude the current California participants from purchasing power from IPP, as it currently operates, after the current Power Sales Contracts expire in 2027.

OTHER ENVIRONMENTAL REGULATION – The EPA has proposed regulation of certain greenhouse gases emissions. Future federal and state legislative and regulatory action may also result from the increasing intensity of national and international attention to climate change. Legislative and regulatory actions, both nationally and in California, have had and may yet have significant (yet hard to quantify) effects on IPA and the Purchasers.

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Intermountain Power Agency

Supplemental Schedule of Changes in Funds Established by the IPA Revenue Bond Resolution for the Years Ended June 30, 2015 and 2016 (in thousands)

		Restricted Assets				
		Subordinated Indebtedness Fund				
	Revenue Fund	Debt Service Account	Debt Service Reserve Account	STS Upgrade Construction Fund	Self-Insurance	Total
BALANCE, JULY 1, 2014	$ 247,268	$ 82,563	$ 12,065	$ 1	$ 7,473	$ 349,370
ADDITIONS:						
Power billings received	674,336	—	—	—	—	674,336
Other revenues	3,542	—	—	—	—	3,542
Investment earnings	1,438	29	(76)	—	98	1,489
Total	679,316	29	(76)	—	98	679,367
DEDUCTIONS:						
Operating expenditures	408,220	—	—	—	—	408,220
Capital expenditures	25,300	—	—	—	—	25,300
Interest paid	—	47,177	—	—	—	47,177
Bond and subordinated note principal paid	—	140,995	—	—	—	140,995
Commercial paper principal paid	—	73,400	—	—	—	73,400
Total	433,520	261,572	—	—	—	695,092
TRANSFERS:						
Transfer of revenues to other Funds	(277,257)	277,214	43	—	—	—
Other transfers	821	(61)	(759)	(1)	—	—
Total	(276,436)	277,153	(716)	(1)	—	—
BALANCE, JUNE 30, 2015	**$ 216,628**	**$ 98,173**	**$ 11,273**	**$ —**	**$ 7,571**	**$ 333,645**

(continued)

Intermountain Power Agency

Supplemental Schedule of Changes in Funds Established by the IPA Revenue Bond Resolution for the Years Ended June 30, 2015 and 2016 (in thousands)

		Restricted Assets			
		Subordinated Indebtedness Fund			
	Revenue Fund	Debt Service Account	Debt Service Reserve Account	Self-Insurance	Total
BALANCE, JULY 1, 2015	$ 216,628	$ 98,173	$ 11,273	$ 7,571	$ 333,645
ADDITIONS:					
Power billings received	603,496	—	—	—	603,496
Other revenues	1,203	—	—	—	1,203
Investment earnings	2,170	158	116	106	2,550
Total	606,869	158	116	106	607,249
DEDUCTIONS:					
Operating expenditures	407,712	—	—	—	407,712
Capital expenditures	20,648	—	—	—	20,648
Interest paid	—	47,354	—	—	47,354
Bond and subordinated note principal paid	—	169,993	—	—	169,993
Total	428,360	217,347	—	—	645,707
TRANSFERS:					
Transfer of revenues to other Funds	(221,009)	221,084	(75)	—	—
Other transfers	4,607	—	(1,607)	(3,000)	—
Total	(216,402)	221,084	(1,682)	(3,000)	—
BALANCE, JUNE 30, 2016	**$ 178,735**	**$ 102,068**	**$ 9,707**	**$ 4,677**	**$ 295,187**

(concluded)