Weaving a Pattern of Success

IPA
Intermountain Power Agency
Energy for Today & Tomorrow

Annual Report 2014

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 36 utilities in Utah and California.

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Executive Summary

Just as many Americans take for granted the world's most economical and reliable electricity supply, we often overlook the enormous community contributions made by the institutions that generate that electricity. The Intermountain Power Project is no exception.

Since construction on IPP began in 1982, the project has been an enormous contributor to the Utah economy – particularly supporting rural areas in the state. For the past 28 years of operation, the project has supplied reliable and economical electricity to consumers across an even wider region.

Consider some of the numbers: More than $578 million in direct tax payments have been made in Utah over the life of the Project so far. A report authored by The Utah Foundation concluded that IPP, through a multiplier effect, makes an average annual contribution of $866 million in economic activity to Utah – providing 4,600 non-farm jobs and $222 million in household earnings. More than $1.2 million has been contributed for scholarships in Utah's higher education system.

Although it is often measured in dollars, support for communities goes far beyond simple economics. IPP supports local students by focusing scholarship programs on eight rural high schools near major project facilities. Not surprisingly, the Project is a pillar of Millard County, where its workforce participates in every aspect of community life. But IPP also supports communities in Utah's coal country far from the generating station. For instance, in 2014 IPP was honored with a State of Utah Earth Day Award for a five-year project to construct a nine mile recreational all-terrain vehicle trail on unused IPP railroad property in Carbon County. The project was donated to the City of East Carbon, Utah.

All of this is made possible by the Intermountain Power Project's performance as a model of financial and operating excellence.

Annual Contributions to the Utah Economy*

$866 million in economic activity to the state of Utah

4,600 non-farm jobs

$222 million in household earnings

Tax Payments to State and Local Governments**

Sales and Use Taxes **$25.4 million**

Gross Receipts Taxes **$121.8 million**

Fees in lieu of Taxes **$431.2 million**

Total taxes over life of project so far **$578.4 million**

*Utah Foundation, "Economic and Fiscal Impact Analysis of the Intermountain Power Project," Report Number 698, December 2010

**Although the project is owned by municipalities not required to pay most taxes, IPP annually makes payments in lieu of taxes to support Utah government entities.

Executive Summary

(Continued)

2014 Financial Highlights

Intermountain Power Agency's record of financial stability continued throughout fiscal 2014.

IPA utilized the proceeds of $85 million of refunding bonds, along with certain other funds, to retire approximately $92 million of previously issued bonds payable. The refunding through 2014 Series A and B Bonds resulted in an economic gain of approximately $9.4 million. IPA also retired $680,000 of prior series Bonds with cash.

IPA also maintained favorable bond ratings and completed significant scheduled debt payments. During the fiscal year, approximately $148 million of scheduled principal maturities were paid.

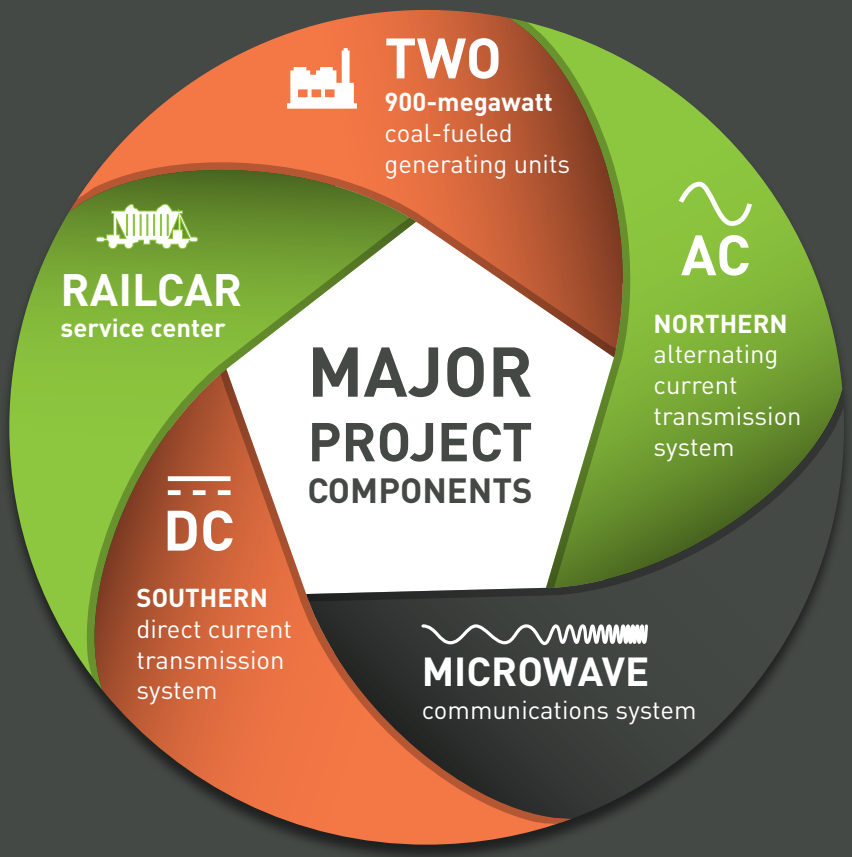
The principal amount of debt outstanding was $1.56 billion on July 1, 2014. The average invested assets were $259.4 million in fiscal 2014, earning $1.7 million for a rate of return of 0.72 percent. Bond ratings remained unchanged from the previous year.

Fuel cost increased by approximately $3 million in fiscal 2014, resulting from a 3 percent increase in tonnage burned compared to the prior year. Fuel cost is the Project's largest single operating expense.

36 entities – mostly municipalities and rural electric cooperatives – participate in the Intermountain Power Project.

Debt Outstanding for financing the Intermountain Power Project is more than **$1.5 billion**.

IPP generates enough electricity to power more than **1.5 million** homes.



Executive Summary

(Continued)

2014 Operations Highlights

For the second consecutive year, the Intermountain Power Project improved its performance in measures of production, efficiency and reliability – solidifying its rebound from two challenging years.

Between 2010 and 2012, the Project undertook a program of unusually high levels of planned maintenance, which was followed by an unusual equipment failure that led to a 151-day unscheduled repair outage for Unit 1.

Fiscal 2014 marked a complete return to normal operations for IPP. The power plant posted net generation and efficiency results that ranked near average for the project's 28 year history and well above average when compared to the rest of the industry.

A six-week planned maintenance outage for Unit 1 was completed at the end of April 2014. During that outage, projects were undertaken on the turbine-generator, the generator step-up transformer, and in several sections of the boiler area.

Gross generation for the year was 13,147 gigawatt-hours, up from 12,656 gigawatt-hours in 2013. Net generation was 12,358 gigawatt-hours, up from 11,885 gigawatt-hours the previous year.

Net unit heat rate for the generating station was 9,691 BTU per kilowatt-hour – an improvement over the previous year's 9,775 BTU per kilowatt-hour. This key measurement of plant efficiency is significantly better than the industry average 10,562 BTU per kilowatt-hour for similarly sized coal-fueled generating units. IPP consumed nearly 5.4 million tons of coal in fiscal 2014.

One of IPP's most remarkable operating accomplishments concluded on February 12, 2014, when Unit 1 experienced a boiler tube leak. Boiler tube leaks – which are common at large coal-fueled power plants – are an unusual event at Intermountain because of the Projects aggressive Boiler Tube Failure Reduction Program. Prior to the February incident, Unit 1 had not experienced a leak since March 12, 2011 – an unparalleled performance of almost three leak free years. Unit 2 reached three leak free years on September 10, 2014, and continues to build on its impressive record.

Generation Statistics through June 2014

366,341,734
Megawatt-hours of gross electrical generation

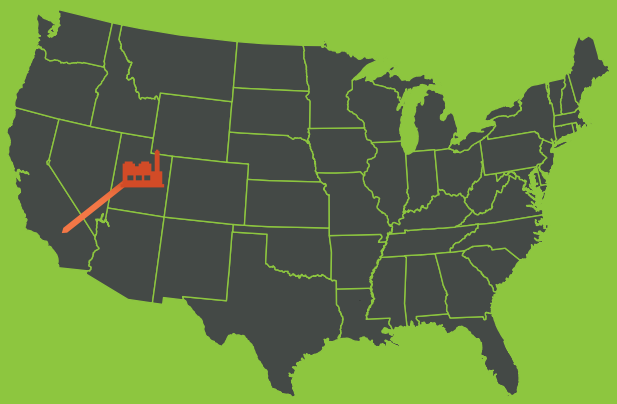
142,283,029
Tons of coal consumed

Compared to the 25 largest coal-fueled power plants in the West*, IPP ranks

Generating Capacity	5th
Coal Quality	4th
Net Station Heat Rate**	1st

*Comparison of 2012 statistics, most current year available
**A key measurement of efficiency

The Intermountain Power Project is a regional energy supplier that includes a transmission line capable of delivering 2,400 megawatts of electricity to southern California.



Executive Summary

(Continued)

Remaining a Foundation for Community

As the Intermountain Generating Station enters its 29th year of operation, efforts continue to position the Project for providing many more decades of community support.

The Utah Legislature in 2014 acted to extend the Intermountain Power Agency's authority to operate through 2077. As first mentioned in last year's Annual Report, the Intermountain Power Project is rapidly becoming a hub for other energy development in the region because of its location on a major regional energy corridor, ownership of two major transmission systems, substantial land holdings and water rights, and excellent access to rail and pipeline transportation networks.

Finally, we continue to pursue the eventual development of between 600 and 1,200 megawatts of natural gas fueled electricity generation on the IPP site. This five-year effort to "Renew IPP" – preparing for the expiration of the Project's current power purchase agreements in 2027 –has involved extensive discussions among our 36 highly diverse Project participants.

We are pleased to report that as the 2014 calendar year draws to a close, 31 of the 36 Project participants have approved the agreements necessary to "Renew IPP." As we move into 2015, we are hopeful that we can obtain the remaining necessary approvals and launch the gas project's subscription process that will help zero in on the ultimate size of the development.

We can help ensure a prosperous future for the communities we serve by diligently planning the next steps for a Project and industry that is sometimes taken for granted. By continuing the extraordinary spirit of cooperation that has made the first three decades of IPP a success, we can turn those plans into reality.

Ted L. Olson

Ted Olson, Chair of the Board

James A. Hewlett

James A. Hewlett, General Manager

Focus on Millard County

As the location of the Intermountain Power Project's largest facility – its generating station – Millard County is the community most affected by the Project's operations and longevity.

Fees in lieu of Taxes paid to Millard County in 2013:

Millard School District	$ 5,282,201
Millard County General Fund	2,912,978
County Assessing & Collecting	203,025
State Assessment/Collection Fees	139,469
Fire District	277,174
Mosquito Abatement	389,490
Other	85
Total	**$ 9,204,425**

This was approximately 39% of all taxes collected in Millard County in 2013.

Payroll: IPSC employs 426 residents of Millard County who had a gross payroll of $40,034,026 in 2013. The total gross payroll for the current 457 employees and the 20 retirees in 2013 was $46,439,631.

Business and Commerce: For the calendar year 2013, IPSC purchased $3,971,786 worth of goods and services from individuals, businesses, and vendors located in Millard County.

Chamber of Commerce Gift Certificates: To date, IPSC has purchased $86,645 worth of gift certificates which are redeemable at Chamber of Commerce business members. These certificates are given to IPSC employees as safety awards.

Community Support: Financial assistance during calendar year 2013 was given to community-wide cultural, civic, business, educational, and humanitarian efforts.

School-to-Careers: Since 1995, 60 Delta High School students have received work experience at IPSC in their career choice.

Employee Community Volunteers: IPSC employees have given many hours of their time serving in programs important to the community.

IPA Management

From left to right:

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

Not Shown

E. Michael Gaines, *Engineering Manager*
(In memoriam, Michael passed away September 30, 2014.)

IPA Board of Directors

From left to right:

Russell F. Fjeldsted, *Logan City* | **Blaine J. Haacke**, *Murray City* | **Ted L. Olson** - *Chair, City of Ephraim*
R. Fred Moss, *City of Bountiful* | **Von Mellor**, *Parowan City*
Eric Larsen, Fillmore City, Town of Holden, Kanosh, and Town of Meadow

Not Shown
Edward M. Collins, *Lehi City*

IPP Coordinating Committee

From left to right:

Randy Ewell, *Mt. Wheeler Power, Inc.* | **Grant J. Earl**, *Moon Lake Electric Association, Inc.* | **Russell F. Fjeldsted**, *City of Logan*
Eric Klinkner, *City of Pasadena* | **Ted L. Olson**, *Utah Municipalities*
James A. Hewlett, *Committee Chairman and IPA General Manager* | **Steve Badgett**, *City of Riverside*
Eric J. Tharp, *Los Angeles Dept. of Water and Power* | **Minh T. Le**, *Operating Agent, Los Angeles Dept. of Water and Power*
Blaine J. Haacke, *Murray City* | **Stephen Sciortino**, *City of Anaheim* | **Lon Peters**, *City of Glendale*

Not Shown
PacifiCorp, City of Burbank, Rural Electric Cooperatives

2014 Financial and Operating Summary

DEBT OUTSTANDING (as of July 1, 2014)

Weighted Average Borrowing Cost	3.69%
Fixed Rate Bonds	$ 530,830,000
Subordinated Notes	856,310,000
Commercial Paper	173,400,000
Total	$ 1,560,540,000

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	$ 259,397,480
Realized Investment Portfolio Earnings	$ 1,729,781
Rate of Return	0.72%

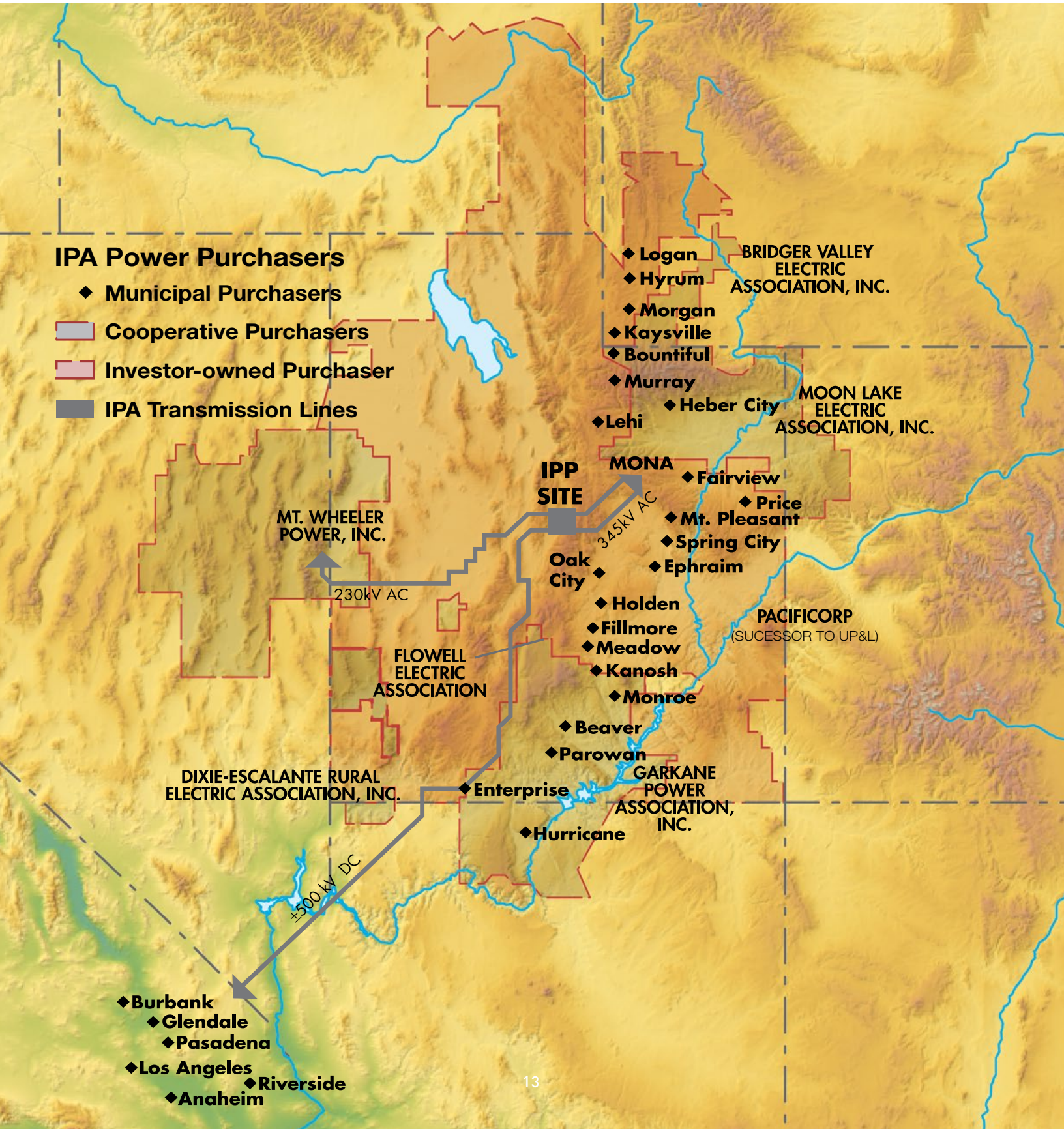
OPERATING SUMMARY

	2014	2013	2012	2011	2010
Gross Generation (gWh)	13,147	12,656	11,508	12,452	15,324
Equivalent Availability	91.95	89.3%	77.7%	81.4%	97.9%
Net Capacity Factor	78.4%	75.4%	68.3%	74.0%	91.4%
Heat Rate (BTU/kWh)	9,691	9,775	9,839	9,829	9,581

Participants' Generation Entitlement Shares

	Generation Entitlement Share
CALIFORNIA PURCHASERS	
Los Angeles Department of Water & Power	44.617 %
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	74.943 %
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	.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 %
UTAH INVESTOR-OWNED PURCHASER	
Utah Power & Light Company (PacifiCorp)	4.000 %
TOTAL: 36 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, 2014 and 2013, 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, 2014 and 2013, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, effective July 1, 2013, IPA adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Independent Auditors' Report
(Continued)

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 3–7 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 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, 2013 and 2014 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 26, 2014
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, 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 36 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, and liabilities 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 not currently billable under the Contracts are deferred as net costs to be recovered from future billings to participants in IPA's statements of net position. The deferred U.S. GAAP expenses will be recovered in future periods when they become billable Project costs in future participant billings. 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, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Assets			
Utility plant, net	$ 1,111,913	$ 1,177,916	$ 1,144,725
Cash, cash equivalents, and investments	349,370	339,743	430,380
Net costs to be recovered from future billings to participants	174,710	289,884	511,770
Other	70,475	72,472	87,253
Total Assets	$ 1,706,468	$ 1,880,015	$ 2,174,128
Deferred Outflows of Resources: Unamortized refunding charge	176,979	216,133	277,250
Total assets and deferred outflows of resources	$ 1,883,447	$ 2,096,148	$ 2,451,378
Liabilities			
Long-term debt	$ 1,474,768	$ 1,629,545	$ 1,887,901
Commercial paper notes	173,400	233,700	290,600
Other	235,279	232,903	272,877
Total liabilities	$ 1,883,447	$ 2,096,148	$ 2,451,378
Revenues and Expenses			
Operating revenues, net	$ 698,049	$ 723,843	$ 706,028
Fuel	(259,421)	(256,399)	(207,501)
Other operating expenses	(225,900)	(112,019)	(256,745)
Operating income	212,728	355,425	241,782
Net interest charges	(98,183)	(133,837)	(131,663)
Nonoperating income	629	298	223
Net costs recovered from billings to participants	**$ 115,174**	**$ 221,886**	**$ 110,342**

FINANCIAL HIGHLIGHTS

ASSETS – The net increase in gross utility plant of $10 million and $37 million in 2014 and 2013, respectively, resulted from additions of approximately $16 million and $31 million in 2014 and 2013, respectively, offset by retirements of approximately $6 million and $7 million in 2014 and 2013, respectively. The additions in 2014 were principally for expenditures on projects related to the renovation of the scrubber modules, replacing the plant fire protection systems, replacement of the mechanical overspeed trip system, the upgrade of fuel oil igniters, and the conversion to a new computer system for plant maintenance management. The additions in 2013 were principally for expenditures on projects related to the replacement of rotors on the LP turbine, replacement of the generator circuit breaker, modification of the generator stator connection, cooling tower mechanical renovation, and the improvement of circulating water line thrust support. In addition, the asset retirement cost included in electric plant in service was increased by approximately $13 million in 2013 due to a revision in the expected settlement date from 2044 to 2027 of Asset Retirement Obligations (ARO) related to certain long-lived assets at or near the generating station. In December 2011, one of the two generating units at the plant, Unit 1, ceased generating electric power resulting in a prolonged outage. Necessary repairs were performed and Unit 1 returned to full operation during May 2012. The total cost to repair Unit 1 was approximately $17 million, which was recorded as operating expense during 2012. Insurance claims totaling $13 million were reimbursed through the end of June 2014, and have been recorded each year as received as a reduction to operating expenses. The net increase in accumulated depreciation of $76 million and $4 million in 2014 and 2013 respectively, resulted from depreciation expense of $82 million and $11 million, respectively, offset by retirements of $6 million and $7 million, respectively.

The increase in cash and cash equivalents and investments, combined current and restricted, of $9 million in 2014 is primarily due to the receipt of insurance proceeds from the Unit 1 outage which occurred in 2012. Reimbursements totaling $10 million were received in May and June 2014. The decrease in cash and cash equivalents and investments, combined current and restricted, of $90 million in 2013 is principally due to a release of $84 million from the Debt Service Reserve Fund that was used to retire debt as part of the 2013 Series A refinancing. The decrease in net costs to be recovered from future billings to participants of $115 million and $222 million in 2014 and 2013, respectively, is outlined in Note 4. Prior year amounts have been restated to reflect the adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. See Note 1 to the financial statements for a further discussion of the effects of adoption of this statement.

The decrease in other assets of $2 million in 2014 was due primarily to a $7 million reduction in fuel inventory due to a 13% reduction in the coal stockpile, offset by a $3 million increase in receivable from participants caused by an increase in variable power taken in June 2014 compared to the prior year, and a $3 million increase in other receivables. The decrease in other assets of $15 million in 2013 was comprised of a decrease of $5 million in receivable from participants due to lower variable power taken in June 2013 compared to the prior year, a $4 million decrease in fuel inventory corresponding with increased capacity at the plant, a $2 million decrease in materials and supplies inventory, and a $4 million decrease in deferred fuel costs.

DEFERRED OUTFLOWS OF RESOURCES – With the adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, unamortized refunding charge is now shown as a deferred outflow of resources rather than as reduction to bonds payable and subordinated notes payable. The 2013 and 2012 amounts are also restated to reflect the adoption of this statement. The decrease of

$39 million in 2014 was due to normal amortization of $39 million, a $5 million reduction resulting from the refunding of 2009 Series A and B bonds, offset by an addition of $5 million related to the issuance of the 2014 Series A and B bonds. The decrease of $61 million in 2013 is due to normal amortization of $40 million, a $77 million reduction resulting from the refunding of the 2003 Series A and 2008 Series A bonds, offset by an addition of $56 million from the issuance of the 2013 Series A Bonds.

LIABILITIES – During 2014, the proceeds of $85 million of refunding bonds, along with certain other funds, were used to retire approximately $92 million of previously issued bonds payable. Additionally, approximately $148 million of scheduled principal maturities on bonds and subordinated notes were paid. Commercial paper notes decreased by approximately $60 million through scheduled sinking fund payments. The increase in other liabilities of $2 million is not significant.

During 2013, the proceeds of $300 million of refunding bonds, along with certain other funds, were used to retire approximately $441 million of previously issued bonds payable. Additionally, approximately $160 million of scheduled principal maturities on bonds and subordinated notes were paid. Commercial paper notes decreased by approximately $57 million through scheduled sinking fund payments. Other liabilities decreased by approximately $40 million. This decrease principally resulted from a $56 million decrease in the personnel service contract obligations related to pension and other postretirement benefit obligations, and an $11 million decrease in interest payable caused by the 2013 Series A refinancing, offset by a $16 million increase in ARO resulting from a revision in the expected settlement date discussed above and current year accretion expense and a $11 million increase in credit to participants.

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.

REVENUES AND EXPENSES – Net operating revenues decreased approximately $26 million in 2014 and increased by approximately $18 million in 2013. The 2014 decrease is primarily due to a $23 million increase in the credit to participants due to current year interest savings resulting from the refinancing and the receipt of insurance proceeds related to the December 2011 Unit 1 outage. The cost of the repairs related to the Unit 1 outage was billed to purchasers in prior years. The 2013 increase was primarily due to a $28 million increase in budgeted power costs, offset by a $10 million increase in the credit to participants due to interest savings resulting from refinancing.

In addition, changes in revenues resulted from corresponding changes to net costs recovered from billings to participants in both 2014 and 2013 due principally to the following: an approximate $2 million increase in 2014 and $11 million decrease in 2013 for bond, subordinated note and commercial paper notes principal requirements, an approximate $95 million decrease in 2014 and $129 million increase in 2013 in billings for previously deferred expenses in conformity with U.S. GAAP, and an approximate decrease of $14 million and $5 million in 2014 and 2013, respectively, for capital improvements and required fund deposits.

Fuel expense increased by $3 million and $49 million in 2014 and 2013, respectively. The 2014 increase in fuel expense was due to 3% increase in tonnage burned compared to the prior year. The 2013 increase resulted from an 11% increase in tonnage burned as

the plant operated at or above its budgeted capacity for the year, along with an 11% increase in the cost per ton. Other operating expense increased by $114 million in 2014 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 plan assets. The related liability decreased by $10 million in 2014 compared to $56 million in 2013, which resulted in a $46 million change in operations. Also, depreciation expense increased by $72 million primarily due to the non-recurring adjustment to depreciation made in the prior year related to the regulatory liability for reclamation. Other operating expense decreased by $145 million in 2013 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 plan assets. The related liability increased by $61 million in the prior year, but decreased by $56 million in 2013, which resulted in a $117 million change in operations. Also during 2013, depreciation expense decreased by $40 million. The useful life of the generating station assets was reduced, which resulted in additional depreciation expense of $26 million, offset by a decrease of $67 million in depreciation expense related to a reduction in the regulatory liability for reclamation that had been recorded within accumulated depreciation. The decrease in the liability was the result of certain funds that had been designated for reclamation having been re-designated and used in 2013 for debt reduction. These were partially offset by a $10 million increase in scheduled maintenance and a $2 million increase in regular operations.

Net interest charges decreased by $36 million in 2014 due to a $17 million reduction in bond and subordinated note interest primarily due to the reduction of bond principal through the 2013 Series A refinancing which removed approximately $140 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 $14 million reduction in the charge on retirement of debt related to the 2014 Series A and B refinancing compared to the 2013 Series A refinancing, a decrease in earnings on investments of approximately $1 million, and a $5 million reduction in financing expenses resulting from less amortization of bond discount and refunding charge on defeasance of debt. The 2013 increase in net interest charges of $2 million was due to a $15 million charge on retirement of debt related to the 2013 Series A refinancing, a decrease in earnings on investments of approximately $2 million, and an increase of $1 million in accretion expense of the ARO due to the revision in the expected settlement date. These were offset by a reduction of interest on bonds and subordinated notes payable of $15 million primarily related to principal payments of bonds payable, and a decrease in financing expenses of approximately $1 million. The increase in non-operating income in 2014 and 2013 was not significant.

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.

* * * * * *

Statements of Net Position

June 30, 2014 and 2013 (in thousands)

	2014	2013
ASSETS		
UTILITY PLANT:		
Electric plant in service	$ 3,001,099	$ 2,990,841
Less accumulated depreciation	(1,889,186)	(1,812,925)
Net	1,111,913	1,177,916
RESTRICTED ASSETS:		
Cash and cash equivalents	26,376	494
Investments	75,703	110,819
Interest receivable	23	24
Total	102,102	111,337
CURRENT ASSETS:		
Cash and cash equivalents	86,934	120,363
Investments	160,015	107,761
Interest receivable	319	282
Receivable from participants	11,598	8,588
Fuel inventories	35,557	43,069
Materials and supplies	20,106	20,592
Other	3,214	20
Total	317,743	300,675
OTHER ASSETS:		
Net costs to be recovered from future billings to participants	174,710	289,884
Other	–	203
Total	174,710	290,087
TOTAL ASSETS	**$ 1,706,468**	**$ 1,880,015**
DEFERRED OUTFLOWS OF RESOURCES:		
Unamortized refunding charge	176,979	216,133
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 1,883,447**	**$ 2,096,148**

(Continued)

See notes to financial statements.

Statements of Net Position

June 30, 2014 and 2013 (in thousands)

	2014	2013
LIABILITIES		
LONG-TERM PORTION OF BONDS PAYABLE - Net	$ 576,823	$ 653,629
LONG-TERM PORTION OF SUBORDINATED NOTES PAYABLE - Net	756,950	828,232
ADVANCES FROM SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY	11,550	11,550
NON-CURRENT LIABILITIES:		
Personnel services contract obligations	74,825	84,633
Asset retirement obligations	42,482	40,115
Total	117,307	124,748
CURRENT LIABILITIES:		
Commercial paper notes	173,400	233,700
Current maturities of bonds payable	65,895	68,935
Current maturities of subordinated notes payable	75,100	78,749
Interest payable	11,923	14,806
Accrued credit to participants	59,726	38,660
Accounts payable and accrued liabilities	34,773	43,139
Total	420,817	477,989
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 1, 5, 6, 7, 10, and 12)		
TOTAL LIABILITIES	**$ 1,883,447**	**$ 2,096,148**

(Concluded)

See notes to financial statements.

Statements of Revenues and Expenses

For the Years Ended June 30, 2014 and 2013 (in thousands)

	2014	2013
OPERATING REVENUES:		
Power sales to participants	$ 757,917	$ 760,831
Less credit to participants	(59,868)	(36,988)
Net revenues	698,049	723,843
OPERATING EXPENSES:		
Fuel	259,421	256,399
Operation	58,298	29,114
Maintenance	65,332	51,605
Depreciation	82,352	10,608
Taxes and payment in lieu of taxes	19,918	20,692
Total expenses	485,321	368,418
OPERATING INCOME	212,728	355,425
NONOPERATING INCOME:		
Other	629	298
Total nonoperating income	629	298
INTEREST CHARGES:		
Interest on bonds and subordinated notes payable	63,125	79,924
Financing expenses (principally amortization of bond discount, bond expense, and refunding charge on defeasance of debt)	35,268	40,869
Charge on retirement of debt	30	14,474
Accretion of asset retirement obligations	2,367	2,235
Earnings on investments	(2,607)	(3,665)
Net interest charges	98,183	133,837
NET COSTS RECOVERED FROM BILLINGS TO PARTICIPANTS	**$ 115,174**	**$ 221,886**

See notes to financial statements.

Statements of Cash Flows

For the Years Ended June 30, 2014 and 2013 (in thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from power billings to participants	$ 716,105	$ 739,818
Other cash receipts	629	298
Cash paid to suppliers	(414,668)	(406,823)
Net cash provided by operating activities	302,066	333,293
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	None	None
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of bonds	92,446	343,136
Defeasance and retirement of bonds	(95,286)	(436,910)
Bond issuance costs	(736)	(1,812)
Bond and subordinated note principal paid	(147,684)	(159,849)
Commercial paper principal paid	(60,300)	(56,900)
Interest paid on bonds, subordinated notes and commercial paper	(65,914)	(85,941)
Additions to electric plant in service	(17,663)	(31,479)
Payments in aid of construction	91	2,160
Net cash used in capital and related financing activities	(295,046)	(427,595)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(202,770)	(226,319)
Proceeds from sales/maturities of investments	185,791	205,307
Interest earnings received on investments	2,412	3,648
Net cash used in investing activities	(14,567)	(17,364)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,547)	(111,666)
CASH AND CASH EQUIVALENTS:		
Beginning balance	120,857	232,523
Ending balance	**$ 113,310**	**$ 120,857**

(Continued)

Statements of Cash Flows

For the Years Ended June 30, 2014 and 2013 (in thousands)

	2014	2013
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 212,728	$ 355,425
Other nonoperating income	629	298
Depreciation	82,352	10,608
Financing expenses, net of amortization of bond discount,		
and refunding charge on defeasance of debt	(1,722)	(2,935)
Changes in operating assets and liabilities:		
Receivable from participants	(3,010)	4,602
Fuel inventories	7,512	4,155
Materials and supplies	486	2,140
Other current assets	(1,225)	3,884
Personnel services contract obligations	(9,808)	(56,109)
Accounts payable and accrued liabilities	(6,942)	(148)
Accrued credit to participants	21,066	11,373
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 302,066	$ 333,293

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Accounts payable and accrued liabilities included $856 and $2,281 at June 30, 2014 and 2013, respectively, of accruals for additions to electric plant in service and other assets.

See notes to financial statements.

(Concluded)

Notes to Financial Statements

For the Years Ended June 30, 2014 and 2013

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 the 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 (see Note 12). Depreciation has historically included, in addition to 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, 2014 and 2013. During the year ended June 30, 2013, a portion of the cash reserves previously designated for the retirement of the Project were utilized in the 2013 Series A Bond refinancing (see Note 5). Accordingly, the amount included in accumulated depreciation was reduced by $67,316,000 with the offset to depreciation expense recorded during the year ended June 30, 2013. Retirements of electric plant in service, including the cost of removal and salvage, are charged to accumulated depreciation.

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 and $737,809,000 as of June 30, 2014 and 2013, respectively, 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 inter-connection agreements with other entities that have made additional payments-in-aid of construction accumulating to approximately $2,037,000 as of June 30, 2014 and 2013.

CASH AND CASH EQUIVALENTS – Cash equivalents include amounts invested in securities purchased under agreements to resell as of June 30, 2014 and June 30, 2013. 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, 2014 and 2013 that were in violation of the requirements of the IPA Bond Resolution.

Investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. All investment income, including changes in fair value of investments, is recognized in the statements of revenues and expenses and reported 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 $19,674,000 and $20,890,000 greater than the stated last-in, first-out value at June 30, 2014 and 2013, 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 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 not currently billable as power costs are deferred and classified as other assets in the accompanying statements of net position. The deferred U.S. GAAP expenses will be recovered in future periods as they become power costs and are included in future participant billings (see Note 4). 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 has also proposed regulation of certain greenhouse gases emissions and flyash. 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, 2014, 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. 27, *Accounting for Pensions by State and Local Governmental Employers*, 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 12).

ACCOUNTING PRONOUNCEMENTS ADOPTED EFFECTIVE JULY 1, 2013 – GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. This statement modifies certain requirements for inclusion of component units in the financial reporting entity. This statement is effective for financial statements for periods beginning after June 15, 2012. Adoption of this statement did not have a material effect on the financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources and recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). This statement is effective for financial statements for periods beginning after December 15, 2012. IPA adopted this statement effective July 1, 2013, and the accounting changes adopted to conform to the provisions of this statement were applied retroactively by restating the financial statements for the prior year presented. The table below shows the restated amounts compared to the amounts originally reported on the financial statements for the year ended June 30, 2013.

	2013	
	Amount as Reclassified	Amount as Originally Reported
STATEMENT OF NET POSITION		
Assets:		
Unamortized bond expense - net	$ –	$ 3,078
Net costs to be recovered from future billngs to participants	289,884	285,382
Deferred Outflows of Resources:		
Unamortized refunding charge	216,133	–
Liabilities:		
Long-term portion of bonds payable - net	653,629	580,558
Long-term portion of subordinated notes payable - net	828,232	683,746
STATEMENT OF REVENUES AND EXPENSES		
Interest Charges:		
Financing expenses (principally amortization of bond discount and refunding charge on defeasance of debt)	40,869	39,934
Charge on retirement of debt	14,474	14,842
NET COSTS RECOVERED FROM BILLINGS TO PATICIPANTS	**$ 221,886**	**$ 222,453**

GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. This statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements. This statement is effective for financial statements for periods beginning after December 15, 2012. Adoption of this statement did not have a material effect on the financial statements.

GASB Statement No. 67, *Financial Reporting for Pension Plans —an amendment of GASB Statement No. 27*. This statement replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The primary objective of this statement is to improve financial reporting by state and local governmental pension plans. This statement is effective for financial statements for fiscal years beginning after June 15, 2013. Adoption of this statement did not have a material effect on the financial statements.

GASB Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees.* The primary objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive non-exchange financial guarantees. This statement is effective for financial statements for fiscal years beginning after June 15, 2013. Adoption of this statement did not have a material effect on the financial statements.

OTHER RECENT ACCOUNTING PRONOUNCEMENTS – GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and GASB Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions by requiring governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement is effective for financial statements for fiscal years beginning after June 15, 2014. IPA is currently evaluating the effects the adoption of this statement will have on the financial statements.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. The primary objective of this statement is to improve accounting and financial reporting standards related to government combinations and disposals of government operations. This statement is effective for financial statements for fiscal years beginning after December 15, 2013. IPA is currently evaluating the effects the adoption of this statement will have on the financial statements.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment or GASB Statement No. 68*. The primary objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68 *Accounting and Financial Reporting for Pensions*. This statement is effective for financial statements for fiscal years beginning after June 15, 2014. 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, 2014 and 2013, is as follows (in thousands):

	July 1, 2013	Increases	Decreases	June 30, 2014
Utility plant not being depreciated -				
Construction work-in-progress	$ 4,640	$ 982	$ (1,777)	$ 3,845
Utility plant being depreciated/amortized:				
Production	2,886,399	11,430	(5,511)	2,892,318
Transmission	794,784	4,568	(279)	799,073
Payments-in-aid of construction - transmission	(739,846)	(91)	–	(739,937)
General	44,864	1,034	(98)	45,800
Total	2,986,201	16,941	(5,888)	2,997,254
Accumulated depreciation	(2,231,510)	(93,514)	6,091	(2,318,933)
Accumulated amortization of payments-in-aid of construction	418,585	11,162	–	429,747
Total accumulated depreciation	(1,812,925)	(82,352)	6,091	(1,889,186)
Utility Plant, Net	**$ 1,177,916**	**$ (64,429)**	**$ (1,574)**	**$ 1,111,913**

	July 1, 2012	Increases	Decreases	June 30, 2013
Utility plant not being depreciated -				
Construction work-in-progress	$ 2,614	$ 2,026	$ –	$ 4,640
Utility plant being depreciated/amortized:				
Production	2,849,941	42,881	(6,423)	2,886,399
Transmission	794,021	898	(135)	794,784
Payments-in-aid of construction - transmission	(737,686)	(2,160)	–	(739,846)
General	44,786	154	(76)	44,864
Total	2,951,062	41,773	(6,634)	2,986,201
Accumulated depreciation	(2,216,396)	(89,063)	73,949	(2,231,510)
Accumulated amortization of payments-in-aid of construction	407,445	11,140	–	418,585
Total accumulated depreciation	(1,808,951)	(77,923)	73,949	(1,812,925)
Utility Plant, Net	**$ 1,144,725**	**$ (34,124)**	**$ 67,315**	**$ 1,177,916**

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments consist of the following at June 30, 2014 and 2013 (in thousands):

	2014		2013	
	Fair Value	Weighted Average Remaining Maturity	Fair Value	Weighted Average Remaining Maturity
Cash and Cash Equivalents:				
Restricted:				
Securities purchased under agreements to resell	$ 23,021	1 day or less	$ –	
Cash	3,355	1 day or less	494	1 day or less
Total Restriced	26,376		494	
Current:				
Securities purchased under agreement to resell	85,210	1 day or less	89,418	1 day or less
Cash	1,724	1 day or less	30,945	1 day or less
Total Current	86,934		120,363	
Total Cash and Cash Equivalents	**$ 113,310**		**$ 120,857**	
Investments:				
Restricted:				
U.S. Agencies	$ 7,308	5.45 years	$ 7,394	6.45 years
Commercial paper	54,706	1 day or less	49,400	1 day or less
Corporate bonds	13,689	1.74 years	54,025	2.74 years
Total Restricted	75,703		110,819	
Current:				
U.S. Treasuries	1,351	1.75 years	1,145	.75 years
U.S. Agencies	42,628	3.33 years	16,841	6.07 years
Corporate bonds	116,036	1.52 years	89,775	1.82 years
Total Current	160,015		107,761	
Total Investments	**$ 235,718**		**$ 218,580**	

Cash and cash equivalents consist of cash and securities purchased under agreements to resell as of June 30, 2014 and June 30, 2013. 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, one of which must be Moody's Investors Service or Standard and Poor's.

CUSTODIAL CREDIT RISK – CASH DEPOSITS: Custodial credit risk is the risk that, in the event of a bank failure, IPA's deposits may not be returned. IPA does not require deposits to be fully insured and collateralized. As of June 30, 2014, approximately $5,079,000 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.

4. NET COSTS TO BE RECOVERED FROM BILLINGS TO PARTICIPANTS

Net costs to be recovered from billings to participants for the years ended June 30, 2014 and 2013 and the accumulated totals as of June 30, 2014 and 2013, consisted of the following (in thousands):

	For the Years Ended June 30,		Accumulated Totals as of June 30,	
	2014	2013	2014	2013
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	82,352	10,608	2,077,998	1,995,646
Amortization of bond discount and refunding on defeasance of bonds	33,546	37,934	1,219,202	1,185,656
Accretion of interest on zero coupon bonds	–	–	349,408	349,408
Charge on retired debt	30	14,474	157,389	157,359
Cumulative effect of a change in accounting principle	–	–	18,241	18,241
Accretion of asset retirement obligations	2,367	2,235	17,148	14,781
Unrealized losses (gains) on investments	(893)	631	153	1,046
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	321	(410)	9,595	9,274
Liabilities	(5,808)	(55,809)	87,591	93,399
Other	(4,939)	2,790	15,780	20,719
Amounts billed to participants under the bond resolution and the power sales contracts:				
Bond and subordinated note principal	(206,025)	(204,143)	(3,569,636)	(3,363,611)
Deferred fuel costs	–	–	(32,228)	(32,228)
Capital improvements	(16,115)	(30,898)	(424,931)	(408,816)
Increase (reduction) of required fund deposits	(10)	702	(4,132)	(4,122)
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) net costs to be recovered from billings to participants	**$ (115,174)**	**$ (221,886)**	**$ 174,710**	**$ 289,884**

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"). As of June 30, 2014 and 2013, for the Senior Bonds and the Subordinated Bonds (collectively, the "Bonds") the principal amount consisted of the following (in thousands):

Series	Bonds Dated	Final Maturity on July 1	2014	2013
Subordinated Bonds				
2007 A	4/3/2007	2019	122,150	126,365
2008 A	4/18/2008	2013	–	37,925
2009 A	4/9/2009	2015	59,205	142,135
2009 B	11/12/2009	2015	30,275	66,530
2013 A	4/2/2013	2023	300,335	300,335
2014 A	6/23/2014	2019	48,910	–
2014 B	6/23/2014	2017	35,850	–
Total Bonds payable			596,725	673,290
Unamortized bond premium			45,993	49,274
Current maturities of Bonds payable			(65,895)	(68,935)
LONG-TERM PORTION OF BONDS PAYABLE - Net			**$ 576,823**	**$ 653,629**

Interest rates on the Bonds payable outstanding range from 0.785% to 5.00% at June 30, 2014 and 2.00% to 5.00% at June 30, 2013.

The changes in the par value of Bonds payable for the years ended June 30, 2014 and 2013, are as follows (in thousands):

	2014	2013
Beginning balance	$ 673,290	$ 887,925
Additions - Refunding Bonds issued	84,760	300,335
Deductions:		
Principal maturities and sinking fund payments	(68,935)	(74,240)
Bonds defeased/retired	(92,390)	(440,730)
Ending balance	**$ 596,725**	**$ 673,290**

The principal amounts of future maturities, sinking fund requirements and interest to be paid for the Bonds outstanding as of June 30, 2014, are as follows (in thousands):

Years ending June 30	Principal	Interest
2015	$ 65,895	$ 23,954
2016	77,210	22,436
2017	81,400	19,222
2018	140,710	14,558
2019	84,790	9,381
2020 – 2024	146,720	16,319
Total	**$ 596,725**	**$ 105,870**

The Bond Resolution stipulates that the Senior Bonds are direct and special obligations of IPA payable solely from and secured solely by (1) the proceeds from the sale of bonds; (2) all revenues, rents, income, and receipts attributable to the Project and interest on all monies or securities held pursuant to the Bond Resolution; and (3) all funds established by the Bond Resolution. 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. There are no Senior Bonds outstanding at June 30, 2014 and 2013.

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. During the year ended June 30, 2013, IPA released $83,990,000 from the Debt Service Reserve Fund as part of the 2013 Series A refunding, which substantially paid off the remaining senior lien debt. 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, 2014 and 2013, is as follows (in thousands):

	2014	2013
Restricted assets:		
Debt Service Fund:		
Debt Service Account	$ –	$ –
Debt Service Reserve Account	–	–
Subordinated Indebtedness Fund:		
Debt Service Account	82,563	89,312
Debt Service Reserve Account	12,065	14,464
STS Upgrade Construction Fund	1	1
Self-Insurance Fund	7,473	7,560
Total restricted assets	102,102	111,337
Revenue Fund (Note 10)	247,268	228,406
Total	**$ 349,370**	**$ 339,743**

The reconciliation of the current assets as reported in the accompanying statements of net position to the Revenue Fund at June 30, 2014 and 2013, is as follows (in thousands):

	2014	2013
Current assets reported in statements of net position:		
Cash and cash equivalents	$ 86,934	$ 120,363
Investments	106,015	107,761
Interest receivable	319	282
Revenue Fund	**$ 247,268**	**$ 228,406**

EARLY REDEMPTION OF BONDS – Bonds outstanding at June 30, 2014 are generally subject to redemption, in whole or in part, prior to maturity at the option of IPA. Redemption prices are 100% 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 is in compliance with all covenants as of June 30, 2014 and 2013.

DEFEASANCE OF DEBT – During the year ended June 30, 2014, the proceeds of the sale of the 2014 Series A and B Bonds and certain other funds were used to defease $91,710,000 of previously issued Bonds. Accordingly, all amounts related to the defeased Bonds were removed from the statement of net position, which resulted in an increase in the deferred refunding charge on defeasance of debt of $240,000. The refunding reduced total debt service payments over the next 10 years by $9,875,000 and results in an economic gain (i.e., the difference between present value of the debt service payments on the old and the new debt) of $9,397,000. The aggregate outstanding principal amount of Bonds extinguished through prior period bond defeasance was $352,275,000 at June 30, 2014.

During the year ended June 30, 2014, $680,000 of prior series Bonds were retired with cash held for such purposes by IPA (see Note 10). Accordingly, all amounts related to the retired Bonds were removed from the statement of net position, which resulted in a charge on retired debt during the year ended June 30, 2014 of $30,000. Because these Bonds were retired rather than defeased through a refunding, the charge on retired debt has been reflected as an expense in the accompanying statements of revenues and expenses.

During the year ended June 30, 2013, the proceeds of the sale of the 2013 Series A Bonds and certain other funds were used to defease $338,780,000 of previously issued Bonds. Accordingly, all amounts related to the defeased Bonds were removed from the statement of net position, which resulted in a decrease in the deferred refunding charge on defeasance of debt of $4,210,000. The refunding reduced total debt service payments over the next 11 years by $52,025,000 and results in an economic gain (i.e., the difference between present value of the debt service payments on the old and the new debt) of $46,285,000.

During the year ended June 30, 2013, $101,950,000 of prior series Bonds were retired with cash released for the defeasance of senior lien debt and with cash held for such purposes by IPA (see Note 10). Accordingly, all amounts related to the retired Bonds were removed from the statement of net position, which resulted in a charge on retired debt during the year ended June 30, 2013 of $14,474,000. Because these Bonds were retired rather than defeased through a refunding, the charge on retired debt has been reflected as an expense in the accompanying statements of revenues and expenses.

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) and are junior and subordinate to Bonds payable and commercial paper notes. As of June 30, 2014 and 2013, the principal amount of interest bearing subordinated notes payable consisted of the following (in thousands):

Note Holder	Issue Date	Final Maturity	2014	2013
LADWP	2/10/2000	7/1/2020	$ 173,521	$ 216,624
LADWP	3/2/2000	7/1/2023	434,346	462,297
LADWP	5/2/2000	7/1/2021	52,838	55,130
LADWP	9/7/2000	7/1/2021	62,120	62,533
LADWP	7/20/2005	7/1/2019	92,385	92,385
City of Pasadena	1/29/2009	7/1/2023	47,752	52,742
Total subordinated notes payable			862,962	941,711
Unamortized discount			(30,912)	(34,730)
Current maturities of subordinated notes payable			(75,100)	(78,749)
Long-term portion of subordinated notes payable			**$ 756,950**	**$ 828,232**

The changes in the par value of subordinated notes payable for the years ended June 30, 2014 and 2013, are as follows (in thousands):

	2014	2013
Beginning balance	$ 941,711	$ 1,012,050
Deductions - principal maturities	(78,749)	(70,339)
Ending balance	**$ 862,862**	**$ 941,711**

The principal amounts of future maturities and interest to be paid (received) on subordinated notes payable as of June 30, 2014, are as follows (in thousands):

Years ending June 30	Principal	Interest
2015	$ 75,100	$ 29,409
2016	92,783	25,200
2017	27,573	24,985
2018	54,637	12,809
2019	127,899	21,044
2020 – 2024	484,970	(14,396)
Total	**$ 862,962**	**$ 99,051**

7. COMMERCIAL PAPER NOTES

An amended subordinated indebtedness resolution allows IPA to issue commercial paper notes in amounts not to exceed $386,200,000 outstanding at any one time. The commercial paper notes outstanding at June 30, 2014 of $173,400,000 bear interest at 0.11% with remaining maturities ranging between 101 and 130 days. The commercial paper notes outstanding at June 30, 2013 of $233,700,000 bore interest at 0.13% to 0.14% and had remaining maturities ranging between 32 and 88 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, 2014 and 2013, 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 IPA's working capital 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 state 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. The timing of future cash flows estimated for settlement of ARO was revised during the year ended June 30, 2013, resulting in an increase of the ARO and a corresponding addition to the asset retirement cost included in electric plant in service.

The changes in the ARO for the years ended June 30, 2014 and 2013, are as follows (in thousands):

	2014	2013
Beginning balance	$ 40,115	$ 24,419
Accretion expense	2,367	2,235
Revision in timing of estimated cash flows	–	13,461
Ending balance	**$ 42,482**	**$ 40,115**

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 36 utilities consisting of six California municipalities ("California Purchasers"), Utah Power & Light Company (UP&L), twenty-three Utah municipalities ("Utah Municipal Purchasers") and six rural electrical cooperatives ("Cooperative Purchasers") (collectively, the "Purchasers"). The California Purchasers, UP&L, Utah Municipal Purchasers and the Cooperative Purchasers have contracted to purchase approximately 75%, 4%, 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 $59,868,000 and $36,988,000 for the years ended June 30, 2014 and 2013, respectively. Such credits to Participants are applied in the subsequent year to reduce power billings in accordance with the Contracts.

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 $68,385,000 and $67,348,000 as of June 30, 2014 and 2013, respectively.

11. RELATED PARTY TRANSACTIONS

LADWP, as Operating Agent, performed engineering and other services for the Project totaling approximately $24,123,000 and $23,751,000 for the years ended June 30, 2014 and 2013, respectively, which has been billed to IPA and charged to operations or utility plant, as appropriate. Operating Agent underpaid billings totaling $140,000 and $986,000 are included in other current assets at June 30, 2014 and 2013, respectively. Power sales to LADWP for the years ended June 30, 2014 and 2013 totaled $481,898,000 and $480,132,000, respectively. The receivable from LADWP at June 30, 2014 and 2013 was $7,949,000 and $6,830,000, respectively.

Power sales to the City of Anaheim for the years ended June 30, 2014 and 2013 totaled $98,578,000 and $97,088,000, respectively. The receivable from the City of Anaheim at June 30, 2014 and 2013 was $1,272,000 and $285,000, respectively.

Subordinated notes payable have been issued to LADWP (see Note 6). Interest expense on these subordinated notes payable of $32,727,000 and $39,076,000 has been recorded for the years ended June 30, 2014 and 2013, respectively, of which $1,853,000 was receivable and $3,327,000 was payable at June 30, 2014 and 2013, respectively.

Subordinated notes payable have been issued to the City of Pasadena (see Note 6). Interest expense on these subordinated notes payable of $2,222,000 and $2,765,000 has been recorded for the years ended June 30, 2014 and 2013, respectively, of which $116,000 was receivable and $221,000 was payable at June 30, 2014 and 2013, respectively.

12. COMMITMENTS AND CONTINGENCIES

COAL SUPPLY – At June 30, 2014, 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	
2015	$ 190,279
2016	110,742
2017	26,080
Total	**$ 327,101**

The actual cost of coal purchases under the coal supply contracts for the years ended June 30, 2014 and 2013 was approximately $252,393,000 and $243,200,000, respectively.

LITIGATION – In February 2005, certain Utah dairy farmers representing 18 dairy farms located in Millard County, Utah filed suit in Utah state court against, among others, IPA, LADWP and IPSC, alleging that the STS was emitting purported stray voltage onto the plaintiffs' dairy farms. On September 30, 2013, trial commenced for six of the dairy farms (the "Original Six Plaintiffs"). Plaintiffs originally alleged compensatory damages in the amount of $250,000,000 for the 18 original dairy farms involved in the suit. Prior to trial, plaintiffs expanded this damages claim to approximately $515,000,000 for the Original Six Plaintiffs.

In November 2013, after the Original Six Plaintiffs had put on their case, a mistrial was declared based on juror misconduct involving communications by a juror with persons that have not been parties to the litigation. 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 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 claim of negligence. Also after the mistrial was declared, the Original Six Plaintiffs filed a motion for sanctions against the defendants 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, all plaintiffs filed a petition with the Utah Supreme Court for leave to appeal the order denying the motion for sanctions and for a change of venue. IPA's and the other defendants' opposition is due by September 29, 2014. The Utah Supreme Court will either itself decide whether to grant the petition for leave to appeal or will transfer the petition to the Utah Court of Appeals for it to make the decision. There is no deadline by which the Utah Supreme Court or, if applicable, the Utah Courts of Appeals, must act on the petition.

Because a mistrial was declared during the first trial, the claims of the Original Six Plaintiffs will need to be re-tried. The trial court has set a hearing for October 7, 2014 to address when and how the case will be tried going forward, although scheduling will likely be affected if the petition for leave to appeal is granted.

LADWP has stated that it believes that on the law and facts, defendants should prevail. However, given, among other factors, that the court declined to dismiss the Original Six Plaintiffs' negligence claim and will allow it to be presented to a jury, and the unpredictable nature of a jury trial, IPA cannot predict the outcome of the plaintiffs' claims, or estimate the amount or range of potential loss, if any, or the impact of any adverse judgment on IPA's business, financial condition or results of operations, including the operation of the Project. The award of substantial damages from the plaintiffs' claims could materially affect the costs of power from the Project and may affect the continued economic viability of the Project. In the event there is an adverse judgment in this litigation, IPA will likely need to consider if there are potential remedial or other actions to address the alleged harm and the potential impact of such actions on IPA, including whether such actions are technically and economically viable.

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.

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% of their load with renewable energy by 2020. 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.

While IPA believes the Power Sales Contracts are fully enforceable through their termination in 2027, it has commenced strategic planning initiatives with all participants and purchasers of power that will potentially allow for Renewal Power Sales Contracts to provide power generation and the sale of electricity beyond 2027. Given the current status of environmental regulation in both California and the nation, the current renewal discussion contemplates the repowering of the Project to be fueled by natural gas.

OTHER ENVIRONMENTAL REGULATION – The Environmental Protection Agency has proposed regulation of certain greenhouse gases emissions and flyash. 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.

13. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The carrying amounts of the commercial paper notes are considered reasonable estimates of fair values. The fair value of Bonds payable was estimated using yields derived from market prices for similar securities. Under these yields, market prices were estimated to call date, to par call date, and to maturity. The lower of the three price estimates was used for each individual maturity. See Note 3 for detail of the financial assets.

The carrying amounts and estimated fair values of financial instruments as of June 30, 2014 and 2013 are as follows (in thousands):

	2014		2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 113,310	$ 113,310	$ 120,857	$ 120,857
Investments	235,718	235,718	218,580	218,580
Total financial assets	**$ 349,028**	**$ 349,028**	**$ 339,437**	**$ 339,437**
Financial liabilities:				
Bonds payable:				
Long-term portion	$ 530,830	$ 586,936	$ 604,355	$ 661,869
Current maturities	65,895	65,895	68,935	68,935
Total bonds payable	596,725	652,831	673,290	730,804
Subordinated notes payable:				
Long-term portion	787,862	803,437	862,962	960,025
Current maturities	75,100	75,100	78,749	78,749
Total subordinated notes payable	862,962	878,537	941,711	1,038,774
Commercial paper notes	173,400	173,400	233,700	233,700
Total financial liabilities	**$ 1,633,087**	**$ 1,704,768**	**$ 1,848,701**	**$ 2,003,278**

14. UNIT 1 PROLONGED OUTAGE

On December 28, 2011, one of the two generating units at the Project, Unit 1, ceased generating electric power as a result of an internal failure within the generating unit. Unit 1 did not resume generating electricity until May 27, 2012, when all repairs had been completed. During the year ended June 30, 2012, the total cost of the repairs was approximately $17 million, which was recorded as operating expense in the accompanying statements of revenues and expenses. IPA submitted and received insurance claims totaling $13 million in reimbursement, of which $10 million was received during the year ended June 30, 2014, and which have been recorded each year as received as a reduction to operating expenses. As of June 30, 2014, all expected insurance recoveries have been received.

Supplemental Schedule

Supplemental Schedule of Changes in Funds Established by the IPA Revenue Bond Resolution for the Years Ended June 30, 2013 and 2014 (in thousands)

		Restricted Assets						
		Debt Service Fund		Subordinated Indebtedness Fund				
	Revenue Fund	Debt Service Account	Debt Service Reserve Account	Debt Service Account	Debt Service Reserve Account	STS Upgrade Construction Fund	Self-Insurance	Total
BALANCE, JULY 1, 2012	$ 210,335	$ 14,536	$ 84,377	$ 95,450	$ 18,024	$ 1	$ 7,657	$ 430,380
ADDITIONS:								
Proceeds from issuance of Bonds	343,136	—	—	—	—	—	—	343,136
Power billings received	739,818	—	—	—	—	—	—	739,818
Other revenues	298	—	—	—	—	—	—	298
Investment earnings	3,454	—	7	36	265	—	(97)	3,665
Payments-in-aid of construction	134	—	—	—	—	2,026	—	2,160
Total	1,086,840	—	7	36	265	2,026	(97)	1,089,077
DEDUCTIONS:								
Defeasance and retirement of Bonds	345,086	2,071	83,990	3,716	2,047	—	—	436,910
Operating expenditures	406,823	—	—	—	—	—	—	406,823
Capital expenditures	29,453	—	—	—	—	2,026	—	31,479
Interest paid	—	8,450	—	77,491	—	—	—	85,941
Bond and subordinated note principal paid	3,817	21,638	—	134,394	—	—	—	159,849
Commercial paper principal paid	—	—	—	56,900	—	—	—	56,900
Bond issuance costs	1,812	—	—	—	—	—	—	1,812
Total	786,991	32,159	83,990	272,501	2,047	2,026	—	1,179,714
TRANSFERS:								
Transfer of revenues to other Funds	(283,365)	17,623	(394)	266,327	(191)	—	—	—
Other transfers	1,587	—	—	—	(1,587)	—	—	—
Excess Fund balances released to Revenue Fund	—	—	—	—	—	—	—	—
Total	(281,778)	17,623	(394)	266,327	(1,778)	—	—	—
BALANCE, JUNE 30, 2013	**$ 228,406**	**$ —**	**$ —**	**$ 89,312**	**$ 14,464**	**$ 1**	**$ 7,560**	**$ 339,743**

(Continued)

Supplemental Schedule

Supplemental Schedule of Changes in Funds Established by the IPA Revenue Bond Resolution for the Years Ended June 30, 2013 and 2014 (in thousands)

		Restricted Assets						
		Debt Service Fund		Subordinated Indebtedness Fund				
	Revenue Fund	Debt Service Account	Debt Service Reserve Account	Debt Service Account	Debt Service Reserve Account	STS Upgrade Construction Fund	Self-Insurance	Total
BALANCE, JULY 1, 2013	$ 228,406	$ —	$ —	$ 89,312	$ 14,464	$ 1	$ 7,560	$ 339,743
ADDITIONS:								
Proceeds from issuance of Bonds	92,446	—	—	—	—	—	—	92,446
Power billings received	716,105	—	—	—	—	—	—	716,105
Other revenues	629	—	—	—	—	—	—	629
Investment earnings	2,612	—	—	26	56	—	(87)	2,607
Payments-in-aid of construction	—	—	—	—	—	91	—	91
Total	811,792	—	—	26	56	91	(87)	811,878
DEDUCTIONS:								
Defeasance and retirement of Bonds	92,447	—	—	2,159	680	—	—	95,286
Operating expenditures	414,668	—	—	—	—	—	—	414,668
Capital expenditures	17,572	—	—	—	—	91	—	17,663
Interest paid	—	—	—	65,914	—	—	—	65,914
Bond and subordinated note principal paid	—	—	—	147,684	—	—	—	147,684
Commercial paper principal paid	—	—	—	60,300	—	—	—	60,300
Bond issuance costs	736	—	—	—	—	—	—	736
Total	525,423	—	—	276,057	680	91	—	802,251
TRANSFERS:								
Transfer of revenues to other Funds	(269,258)	—	—	269,221	37	—	—	—
Other transfers	1751	—	—	61	(1,812)	—	—	—
Total	(267,507)	—	—	269,282	(1,775)	—	—	—
BALANCE, JUNE 30, 2014	**$ 247,268**	**$ —**	**$ —**	**$ 82,563**	**$ 12,065**	**$ 1**	**$ 7,473**	**$ 349,370**

(Concluded)