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

Financial Statements and
Required Supplementary Information

June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)

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

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Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Power Revenue Fund of the Department of Water and Power of the City of Los Angeles (the Power System) as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Power System as of June 30, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1(a), the financial statements present only the Power System and do not purport to, and do not, present fairly the financial position of the City of Los Angeles as of June 30, 2022 and 2021, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-17 and the other required supplementation information on pages 100–105 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2022 on our consideration of the Department of Water and Power of the City of Los Angeles' internal control over financial reporting of the Power System and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department of Water and Power of the City of Los Angeles' internal control over financial reporting of the Power System or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department of Water and Power of the City of Los Angeles' internal control over financial reporting of the Power System and compliance.

KPMG LLP

Los Angeles, California
December 19, 2022

The following discussion and analysis of the financial performance of the Department of Water and Power of the City of Los Angeles' Power Revenue Fund (the Power System) provides an overview of the financial activities for the fiscal years ended June 30, 2022 and 2021. Descriptions and other details pertaining to the Power System are included in the notes to the financial statements. This discussion and analysis should be read in conjunction with the Power System's financial statements, which begin on page 18.

Using this Financial Report

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

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

The financial statements provide an indication of the Power System's financial health. The statements of net position include all of the Power System's assets, deferred outflows, liabilities, deferred inflows, and net position using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes and which assets are restricted as a result of bond covenants and other commitments as of June 30, 2022 and 2021. The statements of revenue, expenses, and changes in net position report all of the revenue and expenses during the time periods indicated. The statements of cash flows report the cash provided by and used in operating activities, noncapital financing activities, capital and related financing activities, and investing activities during the fiscal years ended June 30, 2022 and 2021.

The following tables summarize the financial position and changes in net position of the Power System of and for the fiscal years ended June 30, 2022, 2021, and 2020:

Table 1 – Condensed Schedule of Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

(Amounts in millions)

		June 30		
Assets and Deferred Outflows		**2022**	**2021**	**2020**
Utility plant, net	$	14,088	13,458	12,827
Restricted investments		655	684	653
Other noncurrent assets		3,388	2,013	2,079
Current assets		3,843	3,329	2,849
Deferred outflows		443	750	673
Total assets and deferred outflows	$	22,417	20,234	19,081
Net Position, Liabilities, and Deferred Inflows				
Net position:				
Net investment in capital assets	$	2,122	2,086	2,057
Restricted		1,003	1,014	950
Unrestricted		3,299	3,018	2,695
Total net position		6,424	6,118	5,702
Long-term debt, net of current portion		12,058	11,093	10,528
Other long-term liabilities		542	1,315	1,334
Current liabilities		1,308	1,126	1,030
Deferred inflows		2,085	582	487
Total liabilities and deferred inflows		15,993	14,116	13,379
Total net position, liabilities, and deferred inflows	$	22,417	20,234	19,081

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

(Amounts in millions)

		Year ended June 30		
		2022	2021	2020
Operating revenues:				
Residential	$	1,637	1,614	1,361
Commercial and industrial		2,785	2,492	2,373
Sales for resale		230	187	61
Other		54	53	50
Uncollectible accounts		(113)	(78)	(38)
Total operating revenues		4,593	4,268	3,807
Operating expenses:				
Fuel for generation and purchased power		(1,637)	(1,530)	(1,449)
Maintenance and other operating expenses		(1,431)	(1,323)	(1,364)
Depreciation and amortization		(724)	(671)	(630)
Total operating expenses		(3,792)	(3,524)	(3,443)
Operating income		801	744	364
Nonoperating revenue (expenses):				
Net investment income		(118)	7	111
Federal bond subsidies		25	28	34
Other nonoperating revenue, net		94	110	123
Debt expense, net		(371)	(359)	(370)
Total nonoperating expenses, net		(370)	(214)	(102)
Income before capital contributions and transfers		431	530	262
Capital contributions		101	103	58
Transfers to the reserve fund of the City		(225)	(218)	(230)
Increase in net position		307	415	90
Beginning balance of net position		6,117	5,702	5,612
Ending balance of net position	$	6,424	6,117	5,702

(Continued)

Assets

Utility Plant

During fiscal years 2022 and 2021, the Power System's net utility plant increased $630 million and $631 million, respectively. Net utility plant consists of significant investments in generation, transmission, distribution, and general plant infrastructure and fuel resources less accumulated depreciation.

During fiscal year 2022, depreciable utility plant additions totaled $884 million and construction work in progress (CWIP) expenditures totaled $333 million. Major CWIP additions/expenditures during the year included $81 million for Scattergood-Olympic 230kV underground transmission cable project, $39 million for Victorville to Los Angeles Basin Power Injection Upgrade, $33 million for re-expansion of Barren Ridge Switching Station, $30 million for Distribution Automation System upgrade, $25 million for design and construction of new Receiving Station to serve LAX, $15 million to install new 230kV line between Haskell Switching Station and Sylmar Switching Station, $14 million for implementation support cost for new Enterprise Resource Planning (ERP) Software, $10 million for Receiving Station Transformer Replacement Program, and $10 million for design and construction of new office facilities. $80 million in CWIP projects were transferred from CWIP to plant accounts. Transfers from CWIP included $28 million for Valley – Rinaldi 230 kV Line 1 & 2 upgrade and reconductoring, $11 million for the Budget System Replacement Project, $8 million for Substations Automation System Upgrade, and $7 million for the Generating Station Transformer Replacement Program. The above mentioned projects were the primary drivers behind the increase in CWIP additions of $252.3 million.

Direct additions are mostly related to improvements in distribution infrastructure as part of the Power System Reliability Program (PSRP). Many of the Department's assets were installed between 1920 and 1970. The PSRP is a program that evaluates and prioritizes which assets should be replaced first to reduce the frequency of electric service disruptions and the duration of each disruption. Approximately $641 million and $13 million were direct additions to distribution and transmission plant accounts, respectively. Major direct additions included $143 million for replacement of deteriorated poles and crossarms, $86 million for new business line customer facilities, $80 million for reliability replacement of 4.8 kV and 34.5 kV cables, $29 million for customer stations design and construction, $22 million to design and replace aging distribution infrastructure, and $18 million for installing, reinforcing, and modifying 34.5 kV trunk and peddler circuits.

The accumulated depreciation balance increased by a net of $524 million in fiscal year 2022, which included retirements of $52 million offset by annual depreciation of $577 million net of depreciation charged to shared services.

During fiscal year 2021, depreciable utility plant additions totaled $858 million and construction work in progress (CWIP) expenditures totaled $312 million. Major CWIP additions/expenditures during the year included $37 million for Victorville to Los Angeles Basin Power Injection Upgrade, $29 million for Distribution Automation System, $24 million for re-expansion of Barren Ridge Switching Station, $18 million for Underground Transmission Cable Replacement, and $12 million for implementation cost for Casio-run Energy Imbalance Market (EIM), $12 million for design and construction of new receiving station to serve LAX, $10 million to install new 230 kV line between Castaic-Haskell line 3, $10 million for design and construction of new office facilities, and $9 million for Receiving Station Transformer Replacement Program. $295 million in CWIP projects were transferred from CWIP to plant accounts. Transfers from CWIP included $44 million for Cable Replacement Project of 138 kV underground transmission lines, $24 million for Power System Reliability Program (PSRP) Major Overhauls to various generating stations, $22 million for design and construction of Power System-built Solar Generation, and $16 million for long-term Transmission Development Project. The completion of these large projects along with current year CWIP additions caused the balance in the CWIP account to increase by $5.4 million.

Direct additions are mostly related to improvements in distribution infrastructure as part of the PSRP. Many of the Power System's assets were installed between 1920 and 1970. The PSRP is a program that evaluates and prioritizes which assets should be replaced first to reduce the frequency of electric service disruptions and the duration of each disruption. Approximately, $636 million and $42 million were direct additions to distribution and transmission plant accounts, respectively. Major direct additions included $160 million for replacement of deteriorated poles and crossarms, $86 million for new business line customer facilities, $80 million for reliability replacement of 4.8 kV and 34.5 kV cables, $26 million for replacement of 138 kV Underground Transmission cables, $23 million to enhance circuit capacity, and $23 million for customer stations design and construction.

The accumulated depreciation balance increased by a net of $447 million in fiscal year 2021, which included retirements of $64 million offset by annual depreciation of $511 million net of depreciation charged to shared services.

Additional information regarding the Power System's utility plant assets can be found in note 3 to the accompanying financial statements.

The Power System is a vertically integrated utility, meaning it owns its own energy-generating assets, transmission system, and distribution system. The Power System has diverse power resources. The tables that follow summarize the generating resources available to the Power System as of June 30, 2022. These resources include those owned by the Power System (either solely or jointly with other utilities), as well as resources available through long-term purchase agreements. Generating station capacity is measured in megawatts (MWs).

**Table 3 – Power System-Owned Facilities
As of June 30, 2022**

Type of fuel	Number of facilities	Number of units	Net maximum capacity (MWs)	Net dependable capacity (MWs)
Natural gas	4 [1]	29 [1]	3,373 [4]	3,211 [4]
Large hydro	1 [2]	7	1,265	1,265
Renewables	66	163 [3]	417 [4]	277 [4]
Storage	1	1	20	20
Subtotal	72	200	5,075	4,773
Less payable to the California Department of Water Resources	—	—	(120) [5]	(40) [5]
Total	72	200	4,955	4,733

[1] Consists of the four Los Angeles Basin Stations (Haynes, Valley, Harbor, and Scattergood).

[2] Castaic Plant

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

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

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

**Table 4 – Jointly Owned Facilities, Long-Term Purchase Commitments and Energy Entitlements
As of June 30, 2022**

Type	Number of facilities	Department's net maximum capacity entitlement (MWs)	Department's net dependable capacity entitlement (MWs)
Coal – Intermountain Power Project	1	1,202 [1]	1,202
Natural gas – Apex Generating Station	1	578	483
Large hydro – Hoover Power Plant	1	496 [2]	268
Nuclear – Palo Verde Nuclear Generating Station	1	387 [3]	380
Renewables/distributed generation (DG)	59,908 [4][6]	3,083	938 [5]
Total	59,912	5,746	3,271

(1) The Power System's Intermountain Power Project (IPP) entitlement is 48.6% of IPP's plant capacity of 1,800 MWs. An additional 18.2% of the IPP entitlement is subject to variable recall. The IPP is owned by the Intermountain Power Agency, a subdivision of the State of Utah.

(2) The Power System's Hoover Power Plant (Hoover) contract entitlement is 496 MWs, 23.9% of the Hoover total capacity of 2,075 MWs. As of April 30, 2022, low water levels, procedures relating to the operation of Lake Mead, and scheduled maintenance activities have reduced the Department's dependable capacity to approximately 268 MWs.

(3) The Power System's Palo Verde Nuclear Generating Station entitlement is 9.7% of the maximum net plant capacity of 4,003 MWs.

(4) The Department's contract renewable resources in-service include a hydro unit in the Los Angeles area; wind farms in Oregon, Washington, Utah, and Wyoming; and customer solar photovoltaic installations and other DG units located in the Los Angeles region. During fiscal year 2022, the Southern California Public Power Authority (SCPPA) added Red Cloud Wind Project, located in New Mexico.

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

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

Other Noncurrent Assets and Deferred Outflows

During fiscal year 2022, other noncurrent assets had a net increase of $1,375 million primarily due to an increase of $1,121 million in net pension asset and $173 million increase in net other postemployment benefits (OPEB) assets due to a favorable investment return, an increase in cash and cash equivalents of $415 million, an increase in derivative instrument assets of $59 million, and an increase in prepayments of $59 million offset by a decrease in regulatory assets associated with pension of $233 million, a decrease in regulatory assets associated with OPEB of $142 million, a decrease in notes receivable of $32 million related to note principal payments received from Intermountain Power Agency (IPA) during the year, a decrease in long-term underrecovered costs of $30 million, and a decrease in other regulatory assets of $15 million. Decreases in regulatory assets related to pension and OPEB were due to actual expense being less than actuarially determined contributions.

During fiscal year 2022, deferred outflows decreased approximately $307 million due primarily to a decrease in deferred outflows related to pension of $225 million and $39 million related to OPEB, a $40 million decrease in deferred outflows related to year-over-year contributions made after the measurement date for pension, a $4 million decrease for deferred outflows on debt refunding due to amortization of gains and losses on bond refinancing, and $1 million decrease in asset retirement obligation offset by a $2 million increase in deferred outflows related to year-over-year contributions made after the measurement date for OPEB.

During fiscal year 2021, other noncurrent assets had a net decrease of $66 million primarily due to a decrease in regulatory assets associated with OPEB of $63 million, a decrease in notes receivable of $53 million related to note principal payments received from IPA during the year, a decrease in other regulatory assets of $33 million, a decrease in long-term underrecovered costs of $30 million, a decrease in regulatory assets associated with pension of $14 million, offset by an increase in cash and cash equivalents of $85 million and in derivative instrument assets of $41 million.

During fiscal year 2021, deferred outflows increased approximately $77 million due primarily to a $99 million increase in deferred outflows related to pension, as well as $12 million for OPEB, and a $2 million increase in asset retirement obligation, offset by a $30 million decrease in deferred outflows related to year-over-year contributions made after the measurement date for pension, a decrease of $4 million in derivative instruments, and a decrease of $3 million for deferred outflows on debt refunding due to amortization of gains and losses on bond refinancing.

Current Assets

During fiscal year 2022, current assets increased by approximately $515 million, or 15%. This increase is primarily comprised of a $142 million increase in unrestricted cash and cash equivalents as a result of increase in cash provided by operating activities, a $114 million increase in the current portion of underrecovered costs, a $113 million increase in restricted cash and cash equivalents, a $51 million increase in prepayments and other current assets, a $35 million increase in materials and fuel, a $34 million increase due from the Water System, a $20 million increase in cash collateral received from securities lending transactions and a $6 million increase in current portion of long-term notes receivable.

During fiscal year 2021, current assets increased by $480 million, or 17%. This increase is primarily comprised of a $308 million increase in unrestricted cash and cash equivalents as a result of an increase in cash provided by operating activities, a $181 million increase net accounts receivable primarily due to COVID-19, a $49 million increase in the current portion of underrecovered costs, a $19 million increase in restricted cash and cash equivalents, a $19 million increase due from the Water System, a $5 million increase in cash collateral received from securities lending transactions, a $3 million increase in materials and fuel offset by a $88 million decrease in the current portion of long-term notes receivable and $15 million in prepayments and other current assets.

Liabilities and Net Position

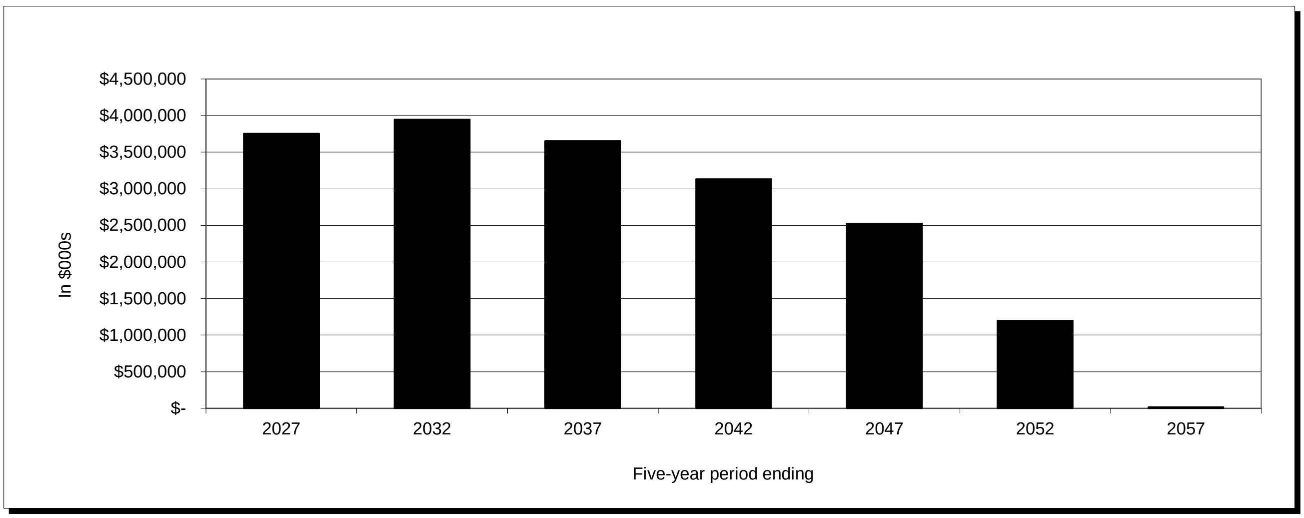
Long-Term Debt

As of June 30, 2022, the Power System's total outstanding long-term debt balance, including the current portion, was approximately $12.3 billion. The increase of $966.6 million over the prior year's balance was due to $1.5 billion in new debt issuances at par in FY 2022, $320.4 million in issue premiums, offset by scheduled maturities of $187.7 million, defeasance of $557.0 million in the Power System's revenue bonds, and $145.1 million in amortization on premiums and discounts. Two issues were to finance capital improvements, one issue was to defease debt, and one issue was used to defease debt and finance capital improvements.

As of June 30, 2021, the Power System's total outstanding long-term debt balance, including the current portion was approximately $11.4 billion. The increase of $599.1 million over the prior year's balance was due to $1.1 billion in new debt issuances at par in FY 2021, $252.8 million in issue premiums, offset by scheduled maturities of $179.0 million, defeasance of $493.4 million in the Power System's revenue bonds, and $102.8 million in amortization on premiums and discounts. One issue was to finance capital improvements, and two issues were used to defease debt and finance capital improvements.

Outstanding principal, plus scheduled interest as of June 30, 2022, is scheduled to mature as shown in the chart below:

Chart: Debt Service Requirements



In addition, the Power System had $483.4 million and $491.4 million in restricted investments available for the use of debt reduction as of June 30, 2022 and 2021, respectively.

In June 2022, Moody's Investors Service affirmed the Power System's bond rating of Aa2 and Fitch Ratings affirmed the Power System's bond rating of AA-. Also, in June 2022, Kroll Bond Rating Agency affirmed the Power System's bond rating of AA, which was assigned in May 2021. In May 2022, S&P Global Ratings affirmed the Power System's bond rating to AA-.

The Master Bond Resolution allows for parity debt to be issued as long as the Power System's adjusted net income for the applicable calculation period is at least 1.25 times the maximum annual adjusted debt service. The debt service coverage ratio is computed by taking operating revenue less operating expense excluding depreciation expense to obtain net revenue. Net revenue is then divided by the current debt service. During fiscal year 2022 and 2021, the Power System debt service coverage was 2.44 and 2.60. respectively.

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

Other Long-term Liabilities and Deferred Inflows

During fiscal year 2022, other long-term liabilities had a net decrease of $772 million primarily due to a decrease in net pension liability of $752 million as a result of a 26.30% return which was higher than the assumed return of 7% resulting in a favorable investment return during the year, a $192 million reduction of the net OPEB and death benefits liabilities due to favorable investment and premium renewal experience, and a $12 million decrease in asset retirement obligation, offset by an increase in overrecovered costs of $175 million, a $5 million increase in other noncurrent liabilities and a $4 million increase in workers' compensation liability.

During fiscal year 2021, other long-term liabilities decreased $20 million primarily due to a $197 million reduction of the net OPEB liabilities due to favorable investment and premium renewal experience, a $9 million decrease in other noncurrent liabilities, and a $188 million increase in net pension liability as a result of actual investment income on plan investments of 3.55% as compared to projected investment income of 7% during the measurement year.

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

Current Liabilities

During fiscal year 2022, current liabilities increased by $182 million, or 16%, primarily due to a $133 million increase in accounts payable and accrued expenses, a $21 million increase in securities lending obligations by the City, a $14 million increase in accrued interest, a $11 million increase in accrued employee expenses, and a $3 million increase in current portion of long-term debt.

During fiscal year 2021, current liabilities increased by $96 million, or 9%, primarily due to a $33 million increase in accounts payable and accrued expenses, a $28 million increase in accrued employee expenses, a $25 million increase in current portion of variable rate demand bonds not tendered, a $9 million increase in the current portion of long-term debt, and an increase of $5 million in securities lending obligations by the City, offset by a $3 million decrease in accrued interest.

Changes in Net Position

Operating Revenue

The Power System's rates are established by rate ordinances set by the Board of Water and Power Commissioners (the Board) based on the Board's powers and duties established in Section 676 of the City Charter. The Power System recognizes energy costs in the period incurred and accrues for estimated energy sold but not yet billed. Through a set of rate ordinances, the Power System bills its revenue through fixed and pass-through factors. As of April 15, 2016, the effective date of the 2016 Incremental Electric Rate Ordinance, all pass-through billing factors charged as part of the 2016 rates are uncapped, and a base rate revenue target (BRRTA) was established for fiscal year 2016 through fiscal year 2022 to ensure sufficient revenue to meet fixed costs while implementing an aggressive energy efficiency program. The base rate revenue target is a decoupling mechanism that separates cost recovery from the energy usage underlying the calculated overall rate. This allows the Power System to meet its financial obligations while still promoting energy conservation.

The operating revenue of the Power System is generated from wholesale and retail customers. There are four major customer categories of retail revenue. These categories include residential, commercial, industrial, and other, which includes public street lighting. Table 5 summarizes the percentage contribution of retail revenue from each customer segment in fiscal years 2022, 2021, and 2020:

Table 5 – Revenue and Percentage of Revenue by Customer Class

(Amounts in thousands other than percentages)

	Fiscal year 2022		Fiscal year 2021		Fiscal year 2020	
	Revenue	**Percentage**	**Revenue**	**Percentage**	**Revenue**	**Percentage**
Type of retail customer:						
Residential	$ 1,637,120	37 %	$ 1,614,033	40 %	$ 1,360,648	36 %
Commercial and Industrial	2,784,691	64	2,492,138	61	2,372,533	63
Other, net	(58,211)	(1)	(24,399)	(1)	12,655	1
	4,363,600	100 %	4,081,772	100 %	3,745,836	100 %
Sales for resale	230,160		186,706		61,455	
Total revenue	$ 4,593,760		$ 4,268,478		$ 3,807,291	

While commercial customers consume the most electricity, residential customers represent the largest customer class. As of June 30, 2022, 2021, and 2020, the Power System had approximately 1.6 million customers. As shown in table 6 below, 1.4 million, or 91%, of total customers were in the residential customer class in fiscal years 2022, 2021, and 2020, respectively.

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

(Amounts in thousands other than percentages)

	Fiscal year 2022		Fiscal year 2021		Fiscal year 2020	
	Number	**Percentage**	**Number**	**Percentage**	**Number**	**Percentage**
Type of retail customer:						
Residential	1,430	91 %	1,414	91 %	1,405	91 %
Commercial	118	8	116	8	116	8
Industrial	10	1	10	1	10	1
Other	7	—	7	—	7	—
	1,565	100 %	1,547	100 %	1,538	100 %

Fiscal Year 2022

Operating revenue increased $325 million mainly due to an increase of $316 million in total from retail customers due to an overall increase in consumption, an increase of $43 million in Sales for Resale, and a $1 million increase in other revenue, offset by a $35 million increase of uncollectible accounts.

Fiscal Year 2021

Operating revenue increased $461 million mainly due to an increase of $373 million in total from retail customers, an increase of $125 million in Sales for Resale, and a $3 million increase in other revenue, offset by a $40 million increase of uncollectible accounts and the deferral of $40 million to the Rate Stabilization account.

Operating Expenses

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

The table below summarizes the Power System's operating expenses during fiscal years 2022, 2021, and 2020:

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

(Amounts in thousands other than percentages)

	Fiscal year 2022		Fiscal year 2021		Fiscal year 2020	
	Expense	Percentage	Expense	Percentage	Expense	Percentage
Type of expense:						
Fuel for generation	$ 327,813	8 %	$ 228,697	6 %	$ 207,043	6 %
Purchased power	1,309,505	35	1,301,394	37	1,242,068	36
Other operating expenses	1,021,818	27	945,993	27	1,010,716	29
Maintenance expenses	409,175	11	377,165	11	353,587	10
Depreciation and amortization	724,461	19	671,090	19	629,896	19
	$ 3,792,772	100 %	$ 3,524,339	100 %	$ 3,443,310	100 %

Fiscal Year 2022

Fiscal year 2022 operating expenses were $268 million higher when compared to fiscal year 2021, driven primarily by a $99 million increase in fuel for generation, a $76 million increase in other operating expense, an increase of $8 million in purchased power, a $53 million increase in depreciation and amortization expense, and $32 million increase in maintenance expenses.

The $8 million increase in purchased power costs can be primarily attributed to higher year-over-year billings from SCPPA (purchase of renewable energy) and IPA.

The $53 million increase in the depreciation and amortization expense can mainly be attributed year-over-year increases in depreciation and amortization for regulatory assets, $16 million; distribution plant, $2 million; and general (corporate), $35 million.

The $99 million increase in fuel for generation is primarily due to higher year-over-year natural gas prices.

(Continued)

The $32 million increase in maintenance expense for utility plant assets is mainly due to higher year-over-year maintenances costs for distribution plant, $25 million; maintenance of steam plant, $5 million; and maintenance of transmission plant, $9 million, partially offset by a decrease in other production of plant, $6 million; and maintenance costs for hydraulic plant, $1 million.

The $76 million increase in other operating expense is mainly due to an increase of $55 million in A&G corporate expense, an increase of $14 million in customer service expense and, a $7 million increase in transmission expense.

Fiscal Year 2021

Fiscal year 2021 operating expenses were $81 million higher when compared to fiscal year 2020, driven primarily by a $59 million increase in purchased power costs, a $41 million increase in depreciation and amortization expense, a $22 million increase in fuel for generation, and $24 million increase in maintenance expenses, offset by a $65 million decrease in other operating expenses.

The $59 million increase in purchased power costs can be primarily attributed to higher year-over-year billings from SCPPA (purchase of renewable energy) and IPA.

The $41 million increase in the depreciation and amortization expense can mainly be attributed year-over-year increases in depreciation and amortization for regulatory assets ($11.7 million), distribution plant ($19.3 million), steam plant ($4.4 million), transmission plant ($4.6 million), and general (corporate) ($1 million).

The $22 million increase in fuel for generation is primarily due to higher year-over-year natural gas prices.

The $24 million increase in maintenance expense for utility plant assets is mainly due to higher year-over-year maintenance costs for distribution plant, $29 million; steam plant, $1 million; nuclear plant, $1 million; and other production plant, $1 million, partially offset by a decrease in maintenance costs for hydraulic plant, $8 million.

The $65 million decrease in other operating expense is mainly due to a decrease in customer services expense, $24 million; decrease in transmission expense, $22 million; decrease in other production expense, $19 million; decrease in customer accounts and collection expense, $13 million; and a decrease in decommissioning expense of $11 million, offset by an increase in distribution expense, $16 million; and an increase in A&G corporate expense, $8 million.

Nonoperating Revenue and Expenses

Fiscal Year 2022

The major nonoperating activities of the Power System for fiscal year 2022 included the transfer of $225 million to the City General Fund, grant revenues and corresponding grant expenses of $203 million, $98 million in other nonoperating income, $25 million in federal bond subsidies, investment loss of $118 million, and $371 million in debt expenses.

The $125 million decrease in investment income can be primarily attributed to the change in the fair market value of the general pool investment between FY 2021 and FY 2022.

The $15 million decrease in other nonoperating income is due mainly to a decrease in revenue recognized for emissions reduction credits.

The $12 million increase in debt expenses is mainly due to the interest expense from variable rate bonds and refunding.

Fiscal Year 2021

The major nonoperating activities of the Power System for fiscal year 2021 included the transfer of $218 million to the City General Fund, $113 million in other nonoperating income, $28 million in federal bond subsidies, investment income of $7 million, and $359 million in debt expenses.

The $104 million decrease in investment income can be primarily attributed to the change in the fair market value of the general pool investment between FY 2020 and FY 2021.

The $13 million decrease in other nonoperating income is due mainly to a decrease in revenue recognized for emissions reduction credits.

The $11 million decrease in debt expenses is mainly due to the interest expense from variable rate bonds and refunding.

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

Statements of Net Position

June 30, 2022 and 2021

(Amounts in thousands)

Assets and Deferred Outflows	**2022**	**2021**
Noncurrent assets:		
Utility plant:		
Generation	$ 6,439,756	6,324,818
Transmission	2,454,908	2,404,437
Distribution	11,559,491	10,929,207
General	2,357,693	2,241,655
Total	22,811,848	21,900,117
Accumulated depreciation	(9,824,828)	(9,300,373)
Total utility plant, net	12,987,020	12,599,744
Construction work in progress	931,642	679,306
Nuclear fuel, at amortized cost	40,292	39,316
Natural gas field, net	128,694	139,416
Total	14,087,648	13,457,782
Restricted investments	655,384	684,227
Cash and cash equivalents – restricted	899,648	484,788
Derivative instrument assets	100,746	41,431
Long-term notes and other receivables, net of current portion	26,696	58,309
Underrecovered costs	5,734	35,712
Regulatory assets – other	870,348	884,932
Regulatory assets – OPEB	132,286	274,667
Regulatory assets – pension	—	233,406
Net OPEB assets	172,652	—
Net pension assets	1,120,640	—
Prepayments	59,199	—
Total noncurrent assets	18,130,981	16,155,254
Current assets:		
Cash and cash equivalents – unrestricted	1,574,470	1,432,492
Cash and cash equivalents – restricted	602,311	489,558
Cash collateral received from securities lending transactions	36,925	16,366
Customer and other accounts receivable, net of $309,669 and $245,639 allowance for losses for 2022 and 2021, respectively	575,398	575,233
Current portion of long-term notes receivable	74,425	68,365
Current portion of underrecovered costs	482,714	368,997
Due from Water System	53,751	20,131
Materials and fuel	242,125	207,016
Prepayments and other current assets	200,918	150,364
Total current assets	3,843,037	3,328,522
Total assets	21,974,018	19,483,776
Deferred outflows on debt refunding	11,347	14,926
Deferred outflows – asset retirement obligation	29,219	30,409
Deferred outflows – pension	42,862	268,133
Deferred outflows – OPEB	58,056	96,574
Deferred outflows – contributions made after measurement date for pension	218,209	258,574
Deferred outflows – contributions made after measurement date for OPEB	83,769	81,281
Total deferred outflows	443,462	749,897
Total assets and deferred outflows	$ 22,417,480	20,233,673

(Continued)

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

Statements of Net Position

June 30, 2022 and 2021

(Amounts in thousands)

Net Position, Liabilities, and Deferred Inflows	**2022**	**2021**
Net position:		
Net investment in capital assets	$ 2,122,139	2,086,159
Restricted:		
Debt service	749,956	742,942
Other purposes	253,830	270,825
Unrestricted	3,298,942	3,017,666
Total net position	6,424,867	6,117,592
Long-term debt, net of current portion	12,057,939	11,093,929
Other noncurrent liabilities:		
Accrued workers' compensation claims	50,234	46,451
Asset retirement obligation	224,277	236,596
Net OPEB liability	—	191,446
Net pension liability	—	752,368
Overrecovered costs - pension	174,607	—
Other noncurrent liability	93,238	87,887
Total other noncurrent liabilities	542,356	1,314,748
Current liabilities:		
Current portion of long-term debt	190,315	187,683
Current portion of variable rate demand bond liquidity advance not made	79,170	79,170
Accounts payable and accrued expenses	591,921	459,218
Accrued interest	237,859	223,487
Accrued employee expenses	171,427	159,653
Obligations under securities lending transactions	36,925	16,366
Total current liabilities	1,307,617	1,125,577
Total liabilities	13,907,912	13,534,254
Deferred inflows on derivative instrument	100,746	41,431
Deferred inflows - leases	24,759	—
Deferred inflows on debt refunding	58,802	25,767
Deferred inflow – pension	1,266,441	67,081
Deferred inflow – OPEB	446,763	261,075
Deferred inflows from regulated business activities	187,190	186,473
Total deferred inflows	2,084,701	581,827
Total net position, liabilities, and deferred inflows	$ 22,417,480	20,233,673

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2022 and 2021

(Amounts in thousands)

		2022	2021
Operating revenues:			
Residential	$	1,637,120	1,614,033
Commercial and industrial		2,784,691	2,492,138
Sales for resale		230,160	186,706
Other		54,395	53,130
Uncollectible accounts		(112,606)	(77,529)
Total operating revenues		4,593,760	4,268,478
Operating expenses:			
Fuel for generation		327,813	228,697
Purchased power		1,309,505	1,301,394
Maintenance and other operating expenses		1,430,993	1,323,158
Depreciation and amortization		724,461	671,090
Total operating expenses		3,792,772	3,524,339
Operating income		800,988	744,139
Nonoperating revenues:			
Net investment income (loss)		(118,115)	7,249
Federal bond subsidies		25,475	27,800
Grant revenues		202,788	—
Other nonoperating income		98,420	113,361
Total nonoperating revenues		208,568	148,410
Grant expenses		(202,788)	—
Other nonoperating expenses		(4,298)	(3,107)
Total nonoperating revenues, net		1,482	145,303
Debt expenses:			
Interest on debt		371,045	358,959
Total debt expenses		371,045	358,959
Income before capital contributions and transfers		431,425	530,483
Capital contributions		100,865	103,459
Transfers to the reserve fund of the City of Los Angeles		(225,015)	(218,355)
Increase in net position		307,275	415,587
Net position:			
Beginning of year		6,117,592	5,702,005
End of year	$	6,424,867	6,117,592

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2022 and 2021

(Amounts in thousands)

		2022	2021
Cash flows from operating activities:			
Cash receipts:			
Cash receipts from customers	$	4,610,412	4,387,288
Cash receipts from customers for other agency services		707,601	680,277
Cash receipts from interfund reimbursements		760,946	717,466
Other cash receipts		6,571	—
Cash disbursements:			
Cash payments to employees		(865,306)	(814,761)
Cash payments to suppliers		(2,334,616)	(1,958,489)
Cash payments for interfund reimbursements		(929,717)	(907,606)
Cash payments to other agencies for fees collected		(698,211)	(688,939)
Cash payments for property taxes		(16,987)	(15,855)
Other cash payments		—	(15,081)
Net cash provided by operating activities		1,240,693	1,384,300
Cash flows from noncapital financing activities:			
Payments to the reserve fund of the City of Los Angeles		(225,015)	(218,355)
Proceeds from grant receipts		202,788	—
Payments for grant expenses		(18,284)	—
Net cash provided by noncapital financing activities		(40,511)	(218,355)
Cash flows from capital and related financing activities:			
Additions to plant and equipment, net		(1,231,704)	(1,230,577)
Capital contributions		100,926	90,905
Principal payments and maturities on long-term debt		(187,683)	(179,405)
Proceeds from issuance of bonds		1,298,327	880,325
Debt interest payments		(497,096)	(460,722)
Federal bond subsidies		25,475	27,800
Net cash used in capital and related financing activities		(491,755)	(871,674)
Cash flows from investing activities:			
Purchases of investment securities		(478,558)	(643,023)
Sale of investment securities		477,536	605,998
Proceeds from notes receivable		68,365	155,920
Investment loss		(106,179)	(1,081)
Net cash used in investing activities		(38,836)	117,814
Net increase (decrease) in cash and cash equivalents		669,591	412,085
Cash and cash equivalents:			
Beginning of period		2,406,838	1,994,753
Ending of period	$	3,076,429	2,406,838

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

Statements of Cash Flows

Years ended June 30, 2022 and 2021

(Amounts in thousands)

		2022	2021
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	800,988	744,139
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		724,461	671,090
Depletion expense		10,810	12,366
Amortization of nuclear fuel		10,810	13,268
Provision for losses on customer and other accounts receivables		112,606	77,529
Changes in assets and liabilities:			
Customer and other accounts receivable		(322,220)	(259,868)
Underrecovered costs		29,979	29,979
Current portion of underrecovered costs		(113,717)	(48,555)
Materials and fuel		(35,109)	(2,629)
Regulatory assets		270,662	(2,358)
Noncurrent Prepayments		(59,199)	—
Overrecovered costs - pension		174,607	—
Due from water system		(33,620)	(18,523)
Deferred outflows		315,635	(83,914)
Accounts payable and accrued expenses		108,172	60,642
Net pension asset/liability		(1,873,009)	188,238
Net OPEB asset/liability		(364,098)	(197,247)
Other noncurrent liability		(7,429)	(5,007)
Deferred inflows		1,443,558	53,468
Asset retirement obligation		(12,319)	(765)
Prepayments and other current assets		59,125	152,447
Net cash provided by operating activities	$	1,240,693	1,384,300

Supplemental disclosures of noncash capital and relating financing activities:

During the year ended June 30, 2022, the Power System issued revenue bonds to refund previously issued debt. The $438.6 million of proceeds was deposited immediately into an irrevocable trust for the defeasance of $438.5 million of debt. Additionally, $118.5 million of proceeds was deposited immediately to a paying agent for the redemption of $118.5 million of debt. The net gain on refunding, after the write-off of previously recorded unamortized premiums, resulted in $37.3 million, which will be amortized over the debt repayment period and recorded as a deferred inflow.

During the year ended June 30, 2021, the Power System issued revenue bonds to refund previously issued debt. The $193.1 million of proceeds was deposited immediately into an irrevocable trust for the defeasance of $193.0 million of debt. Additionally, $300.0 million of proceeds was deposited immediately to a paying agent for the redemption of $300.0 million of debt. The net gain on refunding, after the write-off of previously recorded unamortized premiums, resulted in $1.5 million, which will be amortized over the debt repayment period and recorded as a deferred inflow.

Accounts payable related to capital expenditures totaled $92.5 million and $68.0 million during fiscal years 2022 and 2021, respectively.

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

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

(a) Method of Accounting

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

The financial statements of the Power System are intended to present the net position, and the changes in net position and cash flows, of only that portion of the business-type activities and each major fund of the City that is attributable to the transactions of the Power System. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2022 and 2021, the changes in its financial position, or, where applicable, its cash flows for the years then ended, in conformity with GAAP.

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

(b) Use of Estimates

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

(c) Utility Plant

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

(d) Intangibles

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

(e) Impairment of Long-Lived Assets

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

(f) Depreciation and Amortization

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

The Department uses the composite method of depreciation and, therefore, groups assets into composite groups for purposes of calculating depreciation expense. Estimated service lives range from 5 to 75 years. Amortization expense for computer software is computed using the straight-line method over 5 to 15 years. Depreciation and amortization expense as a percentage of average depreciable utility plant in service was 3.0% and 2.9% for fiscal years ended 2022 and 2021, respectively.

(Continued)

(g) Nuclear Fuel

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

(h) Natural Gas Field

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

Depletion expense related to the gas field is recorded as a component of fuel for generation expense. During fiscal years 2022 and 2021, the Power System recorded $10.8 million and $12.4 million of depletion expense, respectively.

(i) Cash and Cash Equivalents

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

At June 30, 2022 and 2021, restricted cash and cash equivalents include the following (amounts in thousands):

	June 30	
	2022	**2021**
Bond redemption and interest funds	$ 433,763	416,528
Other restricted funds	168,548	73,030
Restricted cash and cash equivalents – current portion	602,311	489,558
Self-insurance reserve	222,165	246,311
Rate stabilization fund	180,000	180,000
Bond redemption funds	70,701	58,477
Construction funds	426,782	—
Restricted Cash and cash equivalents – noncurrent	899,648	484,788
Total restricted cash and cash equivalents	$ 1,501,959	974,346

(j) Materials and Fuel

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

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

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

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

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

At June 30, 2022 and 2021, customer and other accounts receivable include the following (amounts in thousands):

		June 30	
		2022	**2021**
Customer and other accounts receivable	$	885,067	820,872
Allowance for losses		(309,669)	(245,639)
Customer and other accounts receivable, net	$	575,398	575,233

(l) Accrued Unbilled Revenue

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

(m) Investments

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

(n) Accrued Employee Expenses

Accrued employee expenses include accrued payroll and an estimated liability for vacation leave, sick leave, and compensatory time, which are accrued when employees earn the rights to the benefits. Below is a schedule of accrued employee expenses as of June 30, 2022 and 2021 (amounts in thousands):

		June 30	
		2022	**2021**
Type of expenses:			
Accrued payroll	$	36,219	35,748
Accrued vacation		92,241	81,579
Accrued sick leave		17,159	17,020
Compensatory time		25,808	25,306
Total	$	171,427	159,653

(o) Debt Expenses

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

(p) Accrued Workers' Compensation Claims

Liabilities for unpaid workers' compensation claims are recorded at their net present value. See note 15(c).

(q) Customer Deposits

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

The Department's Water Revenue Fund (the Water System) is responsible for collection, maintenance, and refunding of these deposits for all the Department's customers, including those of the Power System. As such, the Water System's statements of net position include a deposit liability of $243 million and $230 million as of June 30, 2022 and 2021, respectively, for all customer deposits collected. In the event that the Water System defaults on refunds of such deposits, the Power System would be required to pay amounts it owes its customers.

(r) Capital Contributions

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

(s) Use of Restricted and Unrestrictive Resources

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

(t) Pensions

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

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

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

(u) Other Postemployment Plan Benefits

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

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

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

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

(v) Asset Retirement Obligations

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

(w) Revenues

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

(Continued)

Revenue consists of billings to customers for power consumption at rates specified in the power rate ordinances. These rates include cost adjustment factors that provide the Power System with full recovery of fuel and purchased power expenditures and base rate revenue based upon established revenue targets. Management estimates these costs quarterly or annually for a 12-month prospective period to establish the cost recovery component of customer billings, and any difference between billed and actual costs is adjusted in subsequent billings. This difference of $218 million and $130 million is reported as a component of underrecovered costs in the accompanying statements of net position as of June 30, 2022 and 2021, respectively (see note 6). The remaining portion of underrecovered costs of $265 million and $239 million relates to accrued unbilled amounts related to costs incurred during the years ending June 30, 2022 and 2021, respectively, that will be billed with the current fiscal year's customer consumption but has not been billed at fiscal year-end as the consumption period and billing period has not yet ended.

(x) Current Rate Ordinances

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

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

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

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

(2) Recent Accounting Pronouncements

(a) GASB Statement No. 87

In June 2017, the GASB issued Statement No. 87, *Leases*, effective for the Power System's fiscal year beginning July 1, 2021. The purpose of this Statement is to enhance consistency in accounting and financial reporting by providing a methodology for identifying and reporting lease arrangements and obligations. The Power System adopted the provisions of GASB Statement No. 87 on July 1, 2021 and the Power System's financial statements for the fiscal year ended June 30, 2022 reflect the implementation of this statement. The Power System's financial statements for the fiscal year ended June 30, 2021 have not been restated to reflect the implementation of Statement 87 as the Department does not believe the effects of this statement have a material effect on the presentation of these financial statements.

The Power System is both a lessor and a lessee:

(i) *Lessor*

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

At lease commencement, the Power System initially measures the lease receivable at the present value of payments expected to be received during the lease term, reduced by any provision of estimated uncollectible amounts, if any. If the present value of payments expected to be received is below the $100,000 materiality threshold, then revenues will be recognized as short-term leases. Subsequently, for all other leases, the lease receivable is reduced by the principal portion of lease payments received.

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

A 55-year secondary land lease was commenced on February 1, 1997. This lease follows the standard conditions for secondary land use of transmission line right-of-way for nursery, landscape, greenbelt and agricultural purposes which includes a 30-day written revocation clause by lessor, Power System. There is an escalation rate based on CPI (All Urban Consumers for Los Angeles, Anaheim and Riverside) every five years.

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

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

The lease term includes the noncancelable period of the lease plus any additional periods covered by either the Power System or lessee's unilateral option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both the Power System and the lessee have an option to terminate (or if both parties have to agree to extend) are excluded from the lease term.

The Power System monitors changes in circumstances that may require remeasurement of a lease. When certain changes occur that are expected to significantly affect the amount of the lease receivable, the lease receivable is remeasured and a corresponding adjustment is made to the lease asset. There was no remeasurement of leases during fiscal year 2022.

Lease Receivables are reported with long-term receivables under noncurrent assets and the corresponding deferred inflows are reported with other deferred inflows in the Statement of Net Position.

The Power System had the following lessor activities during fiscal year 2022 (amounts in thousands):

		Balances as of July 1, 2021	Leases and Additions	Remeasurements	Deductions	Balance, June 30, 2022
Lessor:						
Lease Receivable – GASB 87	$	26,055	—	—	(720)	25,335
Deferred Inflows – GASB 87		26,055	—	—	(1,296)	24,759

(ii) Lessee

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

At lease commencement, the Power System initially measures the lease liability at the present value of payments expected to be made during the lease term. If the present value of payments expected to be made are below the $100,000 materiality threshold, then expenses will be recognized as short-term leases. Subsequently, for all other leases, the lease liability is reduced by the principal portion of lease payments made at or before the lease commencement date.

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

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

The lease term includes the noncancelable period of the lease, plus any additional periods covered by either the Power System or lessor’s unilateral option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both the Power System and the lessor have an option to terminate (or if both parties have to agree to extend) are excluded from the lease term.

The Power System monitors changes in circumstances that may require remeasurement of a lease. When certain changes occur that are expected to significantly affect the amount of the lease liability, the liability is remeasured and a corresponding adjustment is made to the lease asset, respectively. There was no remeasurement of leases during fiscal year 2022.

Lease assets are reported with capital assets and lease liabilities are reported with current liabilities and other noncurrent liabilities (long-term) in the Statement of Net Position.

(Continued)

The Power System had the following lease assets (lessee) during fiscal year 2022 (amounts in thousands):

	Balance, July 01, 2021	Additions	Remeasurements	Deductions	Balance, June 30, 2022
Lessee					
Lease Assets:					
Buildings	$ 15,530	1,418	—	—	16,948
Vehicles	—	2,443	—	—	2,443
Land, right-of-use	1,251	—	—	—	1,251
Total Lease assets (right-of-use)	16,781	3,861	—	—	20,642
Less Accumulated Amortization					
Buildings	—	2,526	—	—	2,526
Vehicles	—	1,116	—	—	1,116
Land, right-of-use	—	46	—	—	46
Total Lease assets (right-of-use)	—	3,688	—	—	3,688
Total Lease assets, net	$ 16,781	173	—	—	16,954

The Power System had the following lease liability (lessee) during fiscal year 2022 (amounts in thousands):

	Balance, July 01, 2021	Additions	Remeasurements	Deductions	Balance, June 30, 2022	Amount due in FY 2023
Lease Liability	$ 16,781	3,861	—	(3,232)	17,410	4,633

As of June 30, 2022, annual principal and interest for the lease liability are as follows (amounts in thousands):

		Principal	Interest
Fiscal year(s) ending June 30:			
2023	$	4,633	609
2024		1,191	564
2025		1,266	512
2026		1,038	462
2027		1,087	418
2028–2032		6,243	1,192
2033–2037		565	382
2038–2042		835	245
2043–2047		475	97
2048–2052		77	6
Total requirements	$	17,410	4,488

Variable lease payments, other than those payments that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease liability. Such amounts are recognized as expense in the period in which the obligation for those payments are incurred. The amounts recognized as outflows (expense) for variable lease payments not included in the measurement of the lease liabilities were $251,000 during fiscal year 2022.

As of June 30, 2022, the Power System, DWP as lessee, has a lease agreement that has not yet commenced, primarily for office space in the form of a building, located at 233 South Beaudry Avenue. This lease is scheduled to commence in fiscal year 2023 with the lease term of ten years with one extension option for five years. The total undiscounted basis cost of the full ten-year term of this lease, including initial tenant improvements is $49.3 million.

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

(b) GASB Statement No. 96

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs),* effective for the Power System's fiscal year beginning July 1, 2022. The objective of this statement is to enhance consistency in accounting and financial reporting by requiring government entities to recognize a right-to-use subscription asset and corresponding subscription liability for such contracts with a s specified term. Management has not yet determined the impact of

GASB Statement No. 96 on the Power System's financial statements, but plans to adopt new GASB 96 standards in fiscal year 2023.

(3) Utility Plant

The Power System had the following activities in utility plant during fiscal year 2022 (amounts in thousands):

	Balance June 30, 2021	Additions	Retirements and disposals	Transfers	Balance June 30, 2022
Nondepreciable utility plant:					
Land and land rights	$ 241,103	—	—	—	241,103
Construction work in progress	679,306	333,355	(612)	(80,407)	931,642
Nuclear fuel	39,316	11,785	(10,810)	—	40,291
Natural gas field	139,416	89	(10,810)	—	128,695
Total nondepreciable utility plant	1,099,141	345,229	(22,232)	(80,407)	1,341,731
Depreciable utility plant:					
Generation	6,275,065	109,461	(4,271)	10,640	6,390,895
Transmission	2,297,110	13,315	(121)	36,373	2,346,677
Distribution	10,886,637	641,321	(36,231)	25,205	11,516,932
General	2,200,202	119,528	(11,678)	8,189	2,316,241
Total depreciable utility plant	21,659,014	883,625	(52,301)	80,407	22,570,745
Accumulated depreciation:					
Generation	(2,783,228)	(195,891)	4,271	—	(2,974,848)
Transmission	(679,327)	(40,525)	121	—	(719,731)
Distribution	(4,678,258)	(267,377)	36,231	—	(4,909,404)
General	(1,159,560)	(72,963)	11,678	—	(1,220,845)
Total accumulated depreciation	(9,300,373)	(576,756)	52,301	—	(9,824,828)
Total utility plant, net	$ 13,457,782	652,098	(22,232)	—	14,087,648

(Continued)

The Power System had the following activities in utility plant during fiscal year 2021 (amounts in thousands):

	Balance June 30, 2020	Additions	Retirements and disposals	Transfers	Balance June 30, 2021
Nondepreciable utility plant:					
Land and land rights	$ 241,103	—	—	—	241,103
Construction work in progress	673,890	312,071	(11,993)	(294,662)	679,306
Nuclear fuel	43,323	9,261	(13,268)	—	39,316
Natural gas field	151,724	58	(12,366)	—	139,416
Total nondepreciable utility plant	1,110,040	321,390	(37,627)	(294,662)	1,099,141
Depreciable utility plant:					
Generation	6,097,200	93,581	(9,762)	94,047	6,275,065
Transmission	2,158,345	41,940	(431)	97,257	2,297,110
Distribution	10,203,308	635,889	(39,565)	87,005	10,886,637
General	2,110,991	86,837	(13,979)	16,353	2,200,202
Total depreciable utility plant	20,569,844	858,247	(63,737)	294,662	21,659,014
Accumulated depreciation:					
Generation	(2,651,592)	(141,398)	9,762	—	(2,783,228)
Transmission	(636,189)	(43,569)	431	—	(679,327)
Distribution	(4,455,111)	(262,712)	39,565	—	(4,678,258)
General	(1,110,070)	(63,469)	13,979	—	(1,159,560)
Total accumulated depreciation	(8,852,962)	(511,148)	63,737	—	(9,300,373)
Total utility plant, net	$ 12,826,920	668,489	(37,627)	—	13,457,782

Depreciation and amortization expense during fiscal years 2022 and 2021 was $724.5 million and $671.1 million, respectively. Depreciation and amortization expense on the statements of revenue, expenses, and changes in net position and cash flows includes amortization expense on software and regulatory assets, which is not included in additions to accumulated depreciation above.

Land and land rights are included in the balance sheet as utility plant assets in their functional category.

(4) Jointly Owned Utility Plant

The Power System has undivided direct interests in several electric generating stations and transmission systems that are jointly owned with other utilities, as defined in GASB Statement No. 14, *The Financial Reporting Entity*. As of June 30, 2022 and 2021, utility plant includes the following amounts related to the Power System's ownership interest in each jointly owned utility plant (amounts in thousands, except as indicated):

	Ownership interest	Share of capacity (MWs)	Utility plant in service June 30, 2022 Cost	Utility plant in service June 30, 2022 Accumulated depreciation	Utility plant in service June 30, 2021 Cost	Utility plant in service June 30, 2021 Accumulated depreciation
Palo Verde Nuclear Generating Station	5.7%	224	$ 634,717	443,377	625,838	436,408
Mohave Generating Station	30.0%	—	3,409	229	3,409	229
Pacific Intertie DC Transmission Line	40.0%	1,240	339,766	104,143	342,895	97,760
Other transmission systems	—	Various	128,846	76,291	127,536	73,771
			$ 1,106,738	624,040	1,099,678	608,168

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

(5) Purchased Power Commitments

As of June 30, 2022, the Power System has entered into a number of energy and transmission service contracts that, regardless of the energy they take, they are obligated to pay the following minimum costs to cover debt service on these facilities through 2044 when the debt is repaid (amounts in thousands, except as indicated):

	Agency	Agency share	The Power System's interest in agency's share: Interest	Capacity (MWs)		Principal payments	Interest payments/ (receipts)	Total
Intermountain Power Project	IPA	100.0 %	63.6	1,145		$ 52,262	(3,188)	49,074
Intermountain Repower Project	IPA	100.0	71.4	840		569,825	429,175	999,000
Mead-Adelanto Transmission Project	SCPPA	68.0	48.9	539		19,630	4,734	24,364
Mead-Phoenix Transmission Project	SCPPA	17.8–22.4	50.4	647		15,985	3,815	19,800
Southern Transmission System Project	SCPPA	100.0	59.5	1,429		142,152	17,365	159,517
Milford Wind I Project	SCPPA	100.0	92.5	185		89,096	18,946	108,042
Windy Point/Windy Flats Project	SCPPA	100.0	100.0	262	*	261,535	53,411	314,946
Linden Wind Energy Project	SCPPA	100.0	100.0	50	*	91,115	33,985	125,100
Milford Wind II Project	SCPPA	100.0	100.0	102	*	79,305	21,417	100,722
Apex Power Project	SCPPA	100.0	100.0	520		251,355	116,026	367,381
Total						$ 1,572,260	695,686	2,267,946

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

IPA – The Intermountain Power Agency (IPA) is an agency of the State of Utah established to own, acquire, construct, operate, maintain, and repair the Intermountain Power Project (IPP). The Power System serves as the project manager and operating agent of IPP. IPA and the Power Purchasers including the Power System executed the Second Amendatory Power Sales Contracts which provides that the IPP be repowered, and the IPA offer the Purchasers renewal in their generation and transmission entitlements through the Renewal Power Sales Contracts, the term of which commences upon the termination of the current Power Sales Contracts on June 15, 2027. IPA and Purchasers approved changes to the repowering that constitute an Alternative Repowering under the Power Sale Contracts which is scheduled to be completed by July 1, 2025. IPP is considered a related party. See note 16.

SCPPA – The Southern California Public Power Authority (SCPPA) is a California joint powers agency that finances the construction or acquisition of generation, transmission, and renewable energy projects. The Power System is a member of SCPPA. SCPPA is considered a related party. See note 16.

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

The Power System is required to pay an average annual charge of approximately $119 million during each of the next five years for fixed expenses and an average annual charge of approximately $550 million during each of the next five years for operating and maintenance costs related to purchased power agreements. The Power System made total payments under these agreements of approximately $920 million and $1,010 million in fiscal years 2022 and 2021, respectively, and they are recorded as purchased power expense in the statements of revenue, expenses, and changes in net position. These agreements are scheduled to expire from 2027 to 2045.

The Power System is reimbursed for services provided to IPP under the IPP project manager and operating agent agreements totaling $43.6 million and $35.6 million in fiscal years 2022 and 2021, respectively. These fees are recorded as a reduction to maintenance and other expense on the accompanying statements of revenue, expenses, and net position.

(a) Long-Term Notes Receivable

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

The IPA notes are subordinate to all of IPA's publicly held debt obligations. The Power System's future payments to IPA will be partially offset by interest payments and principal maturities from the subordinated notes receivable. The net IPA notes receivable balance totaled $76 million and $127 million as of June 30, 2022 and 2021, respectively.

The IPA notes pay interest and principal monthly and mature on July 1, 2023. The interest rates are subject to adjustments related to IPA bond refundings.

Scheduled annual principal maturities are as follows (amounts in thousands):

		Amount
Year:		
2023	$	74,425
2024		6,308
		80,733
Unamortized discount		(4,947)
		75,786
Less current portion		(74,425)
Noncurrent portion	$	1,361

(b) Energy Entitlement Contracts

The Power System has a contract through September 2067 with the U.S. Department of Energy for the purchase of available energy generated at the Hoover Power plant. The Power System's contractual share of contingent capacity at Hoover is 23.92% of the available capacity. The Boulder Canyon Project (BCP) cost was approximately $14.6 million and $14.4 million as of June 30, 2022 and 2021, respectively. The BCP cost includes power purchased under the contract as well as fund contributions to the Lower Colorado River Multi-Species Conservation Program.

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

Unlike service contracts noted earlier in note 5, the Power System only pays costs related to these contracts if energy is delivered. As of June 30, 2022, the Power System energy entitlement contracts with SCPPA allowed for additional capacity with the associated cost over the life of the contract as follows (dollar amounts in millions):

			The Power System's interest in agency's share			
	Agency	Agency share	Interest	Capacity (MWs)	Cost of power purchased	Contract expiration
Pebble Springs Wind Project	SCPPA	100.0	69.6	68.7	$ 15.3	2027
Don A Campbell I	SCPPA	100.0	84.6	13.7	10.8	2034
Don A Campbell II	SCPPA	100.0	100.0	16.2	9.3	2035
Copper Mountain Solar 3	SCPPA	100.0	84.0	210.0	50.4	2035
Heber 1 Geothermal	SCPPA	100.0	78.0	35.9	16.2	2026
Springbok 1 Wind Farm	SCPPA	100.0	100.0	105.0	20.9	2041
Springbok 2 Wind Farm	SCPPA	100.0	100.0	155.0	24.8	2043
Ormat Northern Nevada	SCPPA	100.0	100.0	185.0	83.1	2043
Ormesa	SCPPA	100.0	85.7	30.0	19.0	2042
ARP-Loyalton Biomass	SCPPA	66.6	74.1	8.9	0.1	2023
Springbok 3 Wind Farm	SCPPA	100.0	100.0	90.0	11.5	2046
Roseburg Biomass Project	SCPPA	62.1	79.4	5.4	0.9	2026
Red Cloud Wind Project	SCPPA	100.0	100.0	331.0	27.0	2041
Total purchase power costs under entitlement agreements					$ 289.3	

As of June 30, 2021, the Power System energy entitlement contracts with SCPPA allowed for additional capacity with the associated cost over the life of the contract as follows (dollar amounts in millions):

			The Power System's interest in agency's share			
	Agency	Agency share	Interest	Capacity (MWs)	Cost of power purchased	Contract expiration
Pebble Springs Wind Project	SCPPA	100.0	69.6	68.7	$ 17.3	2027
Don A Campbell I	SCPPA	100.0	84.6	13.7	11.2	2034
Don A Campbell II	SCPPA	100.0	100.0	16.2	10.1	2035
Copper Mountain Solar 3	SCPPA	100.0	84.0	210.0	50.2	2035
Heber 1 Geothermal	SCPPA	100.0	78.0	35.9	21.7	2026
Springbok 1 Wind Farm	SCPPA	100.0	100.0	105.0	20.5	2041
Springbok 2 Wind Farm	SCPPA	100.0	100.0	155.0	24.6	2043
Ormat Northern Nevada	SCPPA	100.0	100.0	185.0	71.6	2043
Ormesa	SCPPA	100.0	85.7	30.0	18.2	2042
ARP-Loyalton Biomass	SCPPA	66.6	74.1	8.9	0.4	2023
Springbok 3 Wind Farm	SCPPA	100.0	100.0	90.0	13.0	2046
Roseburg Biomass Project	SCPPA	62.1	79.4	5.4	0.3	2026
Total purchase power costs under entitlement agreements					$ 259.1	

(c) Electricity Swap and Forward Contracts

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

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

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

As of June 30, 2022, the Power System had entered into the following Electricity Forward Contract:

Transaction Type	Term	Quantity	Price
Fixed-price Renewable Power Purchase	7/1/2022 – 12/31/2023	Up to 82.2 MWs delivered output from wind generation facility	$65/MWh

As of June 30, 2021, the Power System did not have any Electricity Forward Contracts.

(6) Regulatory Assets and Liabilities

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

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

Description		2021	Additions	Reductions	2022
Assets:					
(a) Underrecovered costs – long term	$	35,712	—	(29,978)	5,734
(b) Regulatory assets – legal settlements		48,000	—	(16,000)	32,000
(c) Regulatory assets – solar incentive programs		177,958	—	(14,038)	163,920
(d) Regulatory assets – energy efficiency programs		633,459	123,546	(105,052)	651,953
(e) Regulatory assets – customer care and billing system		25,515	—	(3,040)	22,475
Regulatory assets – other		884,932	123,546	(138,130)	870,348
(f) Regulatory assets (liabilities) – pension		233,406	—	(233,406)	—
(g) Regulatory assets – OPEB		274,667	—	(142,381)	132,286
Total regulatory assets – noncurrent		1,428,717	123,546	(543,895)	1,008,368
(h) Underrecovered costs – current		129,767	217,973	(129,767)	217,973
Total regulatory assets	$	1,558,484	341,519	(673,662)	1,226,341
Deferred inflows:					
(i) Deferred inflows from regulated business activities	$	186,473	717	—	187,190
Total regulatory deferred inflows	$	186,473	717	—	187,190

Description		June 30, 2020	Additions	Reductions	June 30, 2021
Assets:					
(a) Underrecovered costs – long term	$	65,691	—	(29,979)	35,712
(b) Regulatory assets – legal settlements		64,000	—	(16,000)	48,000
(c) Regulatory assets – solar incentive programs		190,977	933	(13,952)	177,958
(d) Regulatory assets – energy efficiency programs		634,268	97,065	(97,874)	633,459
(e) Regulatory assets – customer care and billing system		28,553	—	(3,038)	25,515
Regulatory assets – other		917,798	97,998	(130,864)	884,932
(f) Regulatory assets – pension		247,536	—	(14,130)	233,406
(g) Regulatory assets – OPEB		337,894	—	(63,227)	274,667
Total regulatory assets – noncurrent		1,568,919	97,998	(238,200)	1,428,717
(h) Underrecovered costs – current		87,100	129,767	(87,100)	129,767
Total regulatory assets	$	1,656,019	227,765	(325,300)	1,558,484
Deferred inflows:					
(i) Deferred inflows from regulated business activities	$	145,696	40,777	—	186,473
Total regulatory deferred inflows	$	145,696	40,777	—	186,473

(a) Underrecovered Costs – Long Term

These represent future receivables from customers related to costs incurred for renewable energy projects and the investments made in power reliability. The 2012 and 2016 Electric Rate Ordinances allow for these costs to be recovered though current rates. The costs are amortized over a 10-year period and are expected to be fully recovered by 2022, and thus, the Power system has classified them as noncurrent.

(b) Regulatory Assets – Legal Settlement

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

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

(c) Regulatory Assets – Solar Incentive Programs

As part of the California Solar Incentive Program, initiated by 2006 Senate Bill 1 (SB1), the Power System implemented a multiyear program to provide customers with solar incentives for installing solar panels and necessary equipment to generate energy. The programs, per SB1, concluded at the end of calendar year 2018. Some payments for these incentives were processed in 2021 and 2022.

As provided in the Power System’s rate structure, beginning April 2011, customers’ bills include a charge for these solar incentive programs to be collected over a 15-year period. As rates are established at a level sufficient to recover all such costs, the Power System recorded a regulatory asset.

(d) Regulatory Assets – Energy Efficiency Programs

As part of the Power System’s ongoing efforts to reduce energy consumption and improve the environment, the Power System implemented numerous multiyear programs. The program began in June 2012 and is expected to continue through 2020. At June 30, 2022, the Power System has 26 energy efficiency programs.

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

(e) Regulatory Assets – Customer Care and Billing System

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

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

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

(f) Regulatory Assets – Pension

In connection with the recognition of the net pension liability under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27, the Power System established a regulatory asset in the amount of $1,563,012 thousand, equal to the net pension liability reported at July 1, 2013. The pension regulatory asset is expected to be amortized over a period not to exceed 15 years. Amortization of the regulatory asset is the difference between amounts paid toward actuarially determined contributions and actual pension expense and totaled $233,406 thousand and $14,130 thousand for the years ended June 30, 2022 and 2021, respectively. During the year ended June 30, 2022, the difference between amounts paid toward actuarially determined contributions and actual pension expense exceeded the remaining balance in the regulatory asset and resulted in the recognition of overrecovered costs – pension in the amount of $174,607 thousand.

(g) Regulatory Assets – OPEB

In connection with the recognition of the net OPEB liability under GASB Statement No. 75, the Power System established a regulatory asset in the amount of $451,182 thousand equal to the net OPEB liability reported at July 1, 2017, less the calculated balance of OPEB deferred outflows for contributions after the measurement date. The OPEB regulatory asset is expected to be amortized over a period not to exceed 15 years. Amortization of the regulatory asset is the difference between amounts paid toward actuarial determined contributions and OPEB expense and totaled $142,381 thousand and $63,227 thousand for the years ended June 30, 2022 and 2021.

(h) Regulatory Assets - Underrecovered Costs

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

At fiscal year-end June 30, 2022 and 2021, regulatory asset related to current underrecovered costs of $217,973 thousand and $129,767 thousand, respectively, was composed of the following (amounts in thousands):

		As of June 30	
		2022	**2021**
Underrecovered balancing accounts – regulatory asset	$	272,474	318,748
Less overrecovered balancing accounts – regulatory liability		(54,501)	(188,981)
Net underrecovered balancing accounts – regulatory asset	$	217,973	129,767

(i) Deferred Inflows from Regulated Business Activities

These amounts represent revenue collected from customers where funds are deferred for future stabilization or deferred because the earnings process is not complete. For the year ended June 30, 2022, the Power System did not recognize any of this revenue. The Power System has $187,190 thousand and $186,473 thousand in these accounts at June 30, 2022 and 2021, respectively. For the years ended June 30, 2022 and 2021, the Power System did not recognize any revenue related to any of these accounts.

(7) Cash, Cash Equivalents, and Investments

(a) Restricted and Other Investments

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

		June 30	
		2022	**2021**
Restricted and other investments:			
Restricted investments:			
Debt reduction funds	$	483,350	491,424
Nuclear decommissioning funds		140,369	148,006
Natural gas fund		15,641	22,107
Hazardous waste treatment fund		2,371	2,406
CAISO markets trust fund		13,653	20,284
Total restricted investments	$	655,384	684,227

The Power System also has $36.9 million and $16.4 million of cash collateral received from securities lending transactions in the City's securities lending program as of June 30, 2022 and 2021, respectively.

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

(i) Debt Reduction Funds

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

(ii) Nuclear Decommissioning Funds

Nuclear decommissioning funds will be used to pay the Power System's share of decommissioning PVNGS at the end of its useful life. See note 17(b).

(iii) Natural Gas Fund

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

(iv) Hazardous Waste Treatment Storage and Disposal Fund

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

(v) CAISO Markets Trust Fund

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

As of June 30, 2022 and 2021, the Power System's restricted investments and their maturities are as follows (amounts in thousands):

2022 Investment type	Fair value	Investment maturities 1–30 days	31–60 days	61–365 days	366 days to 5 years	Over 5 years
U.S. government securities	$ 51,045	—	1,000	15,895	25,087	9,063
U.S. agencies	187,521	10,155	—	42,215	120,418	14,733
Supranationals	39,651	—	—	19,954	19,697	—
Medium-term corporate notes	121,234	4	6,451	37,612	77,167	—
Commercial paper	19,306	6,497	—	12,809	—	—
Certificates of deposit	43,788	5,174	—	38,614	—	—
California local agency bonds	104,716	5,200	18,344	12,150	69,022	—
California state bonds	10,787	—	—	8,043	2,744	—
Other state bonds	48,034	6,150	495	14,822	26,567	—
Money market funds	29,302	29,302	—	—	—	—
	$ 655,384	62,482	26,290	202,114	340,702	23,796

2021 Investment type	Fair value	Investment maturities 1–30 days	31–60 days	61–365 days	366 days to 5 years	Over 5 years
U.S. government securities	$ 41,166	11,005	6,019	5,028	15,061	4,053
U.S. agencies	179,499	2,106	4	30,484	122,634	24,271
Supranationals	46,989	3,238	—	10,183	33,568	—
Medium-term corporate notes	117,929	7	1,000	33,500	83,422	—
Certificates of deposit	27,173	1,600	3,301	22,272	—	—
Bankers' acceptances	7,539	2,740	4,799	—	—	—
California local agency bonds	122,957	2,675	16,446	19,955	83,881	—
California state bonds	34,659	5,000	—	21,047	8,612	—
Other state bonds	63,672	2,830	7,847	26,937	26,058	—
Money market funds	42,644	42,644	—	—	—	—
	$ 684,227	73,845	39,416	169,406	373,236	28,324

(vi) Interest Rate Risk

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

(vii) Credit Risk

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

The U.S. government securities in the portfolio consist of securities issued by or explicitly guaranteed by the U.S. government. All of the U.S. government securities in the portfolio, $51,045 thousand as of June 30, 2022 and $41,166 thousand as of June 30, 2021, carried the highest or second highest credit ratings of the Nationally Recognized Statistical Rating Organizations (NRSROs) that rated them.

The U.S. government agency securities in the portfolio consist of securities issued by government sponsored enterprises, which are not explicitly guaranteed by the U.S. government. As of June 30, 2022 and 2021, the U.S. government agency securities in the portfolio carry the following credit ratings by the NRSROs that rated them (amounts in thousands):

	June 30, 2022		June 30, 2021	
Categories	**Securities**	**Percentage**	**Securities**	**Percentage**
AAA or AA	$ 177,173	95 %	$ 171,378	96 %
Not Rated	10,348	5	8,121	4
	$ 187,521	100 %	$ 179,499	100 %

The Power System's investment policy specifies that supranational notes must be rated "AA" or its equivalent or better by an NRSRO upon purchase. As of June 30, 2022 and 2021, the Power System's investments in supranational notes were rated with the highest possible credit ratings by each of the NRSROs that rated them.

The Power System's investment policy specifies that medium-term corporate notes must be rated in a rating category of A or its equivalent or better by a NRSRO. The Power System's investments in corporate notes as of June 30, 2022 and 2021 were rated in the category of A or its equivalent or better by at least one NRSRO as follows (amounts in thousands):

Categories	June 30, 2022 Corporate Notes	June 30, 2022 Percentage	June 30, 2021 Corporate Notes	June 30, 2021 Percentage
AAA	$ 12,750	10 %	$ 4,013	3 %
AA	31,153	26	45,292	38
A	77,327	64	68,617	58
Not Rated	4	-	7	1
	$ 121,234	100 %	$ 117,929	100 %

The Power System's investment policy specifies that commercial paper must be of the highest ranking or of the highest letter and number rating as provided for by at least two NRSROs. As of June 30, 2022 and 2021, all of the Power System's investments in commercial paper were rated with at least the highest letter and number rating as provided by at least two NRSROs.

The Power System's investment policy provides that negotiable certificates of deposit must be of the highest ranking or letter and number rating as provided for by at least two NRSROs and that for nonnegotiable certificates of deposit, the full amount of principal and interest is insured by the Federal Deposit Insurance Corporation or National Credit Union Administration. As of June 30, 2022 and 2021, all of the Power System's investments in certificates of deposit consisted of negotiable certificates of deposit with at least the highest letter and number rating as provided by at least two NRSROs.

The Power System's investment policy specifies that banker's acceptances must be of the highest ranking or letter and number rating as provided for by at least two NRSROs. As of June 30, 2022 there were no investments in banker's acceptances. As of June 30, 2021 all of the Power System's investments in banker's acceptances were rated with at least the highest letter and number rating as provided by at least two NRSROs.

The Power System's investment policy specifies that California local agency obligations must be rated in a rating category of A or its equivalent or better by a NRSRO. The Power System's investments in California local agency bonds as of June 30, 2022 and 2021 were rated in the following categories by at least one NRSRO as follows (amounts in thousands):

Categories	June 30, 2022 California Local Agency Bonds	June 30, 2022 Percentage	June 30, 2021 California Local Agency Bonds	June 30, 2021 Percentage
AAA	$ 13,914	13 %	19,034	15 %
A	85,802	82	95,373	78
A	5,000	5	8,500	7
	$ 104,716	100 %	122,907	100 %

The Power System's investment policy specifies that State of California obligations must be rated in a rating category of A or its equivalent or better by a NRSRO. As of June 30, 2022 and 2021, the Power System's investments in State of California obligations were rated in the category of A or the equivalent or better short-term rating by at least one NRSRO as follows (amounts in thousands):

		June 30, 2022			June 30, 2021	
Categories		**State of California Obligations**	**Percentage**		**State of California Obligations**	**Percentage**
AAA	$	2,883	27	%	1,999	6 %
AA		7,397	68		20,159	58
A		507	5		12,501	36
	$	10,787	100	%	34,659	100 %

The Power System's investment policy specifies that obligations of other states in addition to California must be rated in a rating category of A or its equivalent or better by a NRSRO. The Power System's investments in other state obligations as of June 30, 2022 and 2021 were rated in the category of A or the equivalent or better short-term rating by at least one NRSRO as follows (amounts in thousands):

		June 30, 2022			June 30, 2021	
Categories		**Other state obligations**	**Percentage**		**Other state obligations**	**Percentage**
AAA	$	13,160	27	%	8,205	13 %
AA		28,409	59		46,307	73
A		6,465	14		9,160	14
	$	48,034	100	%	63,672	100 %

The Power System's investment policy specifies that money market funds may be purchased as allowed under the Government Code, which requires that the fund must have either (1) attained the highest ranking or highest letter and numerical rating provided by not less than two NRSROs or (2) retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission (SEC) with not less than five years' experience in managing money market mutual funds with assets under management in excess of $500 million. As of June 30, 2022 and 2021, each of the money market funds in the portfolio had the highest possible ratings by at least two NRSROs.

(viii) Concentration of Credit Risk

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

of the cost value of the portfolio may be invested in the securities of any single U.S. government agency issuer.

The Power System's total investments as of June 30, 2022 and 2021 in securities issued by U.S. government agencies are as follows (amounts in thousands):

	June 30, 2022		June 30, 2021	
	Securities	**Percentage**	**Securities**	**Percentage**
Federal Home Loan Bank	$ 59,794	9 %	$ 53,543	8 %
Federal Farm Credit Bank	51,632	8	43,379	6
Federal Home Loan Mortgage Corp	41,142	6	54,548	8
Federal National Mortgage Association	24,605	4	19,909	3
Federal Agricultural Mortgage Corp	10,348	2	8,120	1
	$ 187,521	29 %	$ 179,499	26 %

(ix) Custodial Risk

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

(x) Fair Value Measurements

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

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

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

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

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

			(In thousands) Fair value using		
	June 30, 2022	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Not classified**
Investments by fair value level:					
Debt securities:					
U.S. government securities	$ 51,045	51,045	—	—	—
U.S. agencies	187,521	—	187,521	—	—
Supranationals	39,651	—	39,651	—	—
Medium-term corporate notes	121,234	—	121,234	—	—
California local agency bonds	104,716	—	104,716	—	—
California state bonds	10,787	—	10,787	—	—
Other state bonds	48,034	—	48,034	—	—
Total debt securities	562,988	51,045	511,943	—	—
Other:					
Commercial Paper	19,306	—	19,306	—	—
Certificates of deposit	43,788	—	43,788	—	—
Money market funds	29,302	—	—	—	29,302
Total other	92,396	—	63,094	—	29,302
Total investments by fair value level	$ 655,384	51,045	575,037	—	29,302

Money market funds have maturities of less than one year and thus are recorded at amortized cost and not required to be classified.

	June 30, 2021	(In thousands) Fair value using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Not classified
Investments by fair value level:					
Debt securities:					
U.S. government securities	$ 41,166	41,166	—	—	—
U.S. agencies	179,499	—	179,499	—	—
Supranationals	46,989	—	46,989	—	—
Medium-term corporate notes	117,929	—	117,929	—	—
California local agency bonds	122,957	—	122,957	—	—
California state bonds	34,659	—	34,659	—	—
Other state bonds	63,672	—	63,672	—	—
Total debt securities	606,871	41,166	565,705	—	—
Other:					
Certificates of deposit	27,173	—	27,173	—	—
Bankers' acceptances	7,539	—	7,539	—	—
Money market funds	42,644	—	—	—	42,644
Total other	77,356	—	34,712	—	42,644
Total investments by fair value level	$ 684,227	41,166	600,417	—	42,644

(b) Pooled Cash

The Power System's cash and cash equivalents and its collateral value of the City's securities lending program are included within the City Treasury's general and special investment pool. As of June 30, 2022 and 2021, the Power System's share of the City's general and special investment pool was $3,113.4 million and $2,423.2 million, respectively, which represents approximately 21.7% and 18.5% of the pool, respectively. Amounts pooled in the City Treasury's general and special investment pool are not required to be classified in the fair value hierarchy per GASB Statement No. 72 since they are part of an internal investment pool.

Pooled cash is recorded as follows on the statements of net position as of June 30, 2022 and 2021 (in thousands):

	June 30	
	2022	**2021**
Cash and cash equivalents – unrestricted	$ 1,574,470	1,432,492
Cash and cash equivalents – restricted noncurrent	899,648	484,788
Cash and cash equivalents – restricted current	602,311	489,558
Subtotal cash and cash equivalents	3,076,429	2,406,838
Cash – securities lending transactions	36,925	16,366
Total pooled cash	$ 3,113,354	2,423,204

The cash balances of substantially all funds on deposit in the City Treasury are pooled and invested by the City Treasurer for the purpose of maximizing interest earnings through pooled investment activities, but safety and liquidity still take precedence over return. Special pool participants include the City, Airports, Power, Water, Harbor, Sewer, and MICLA. Interest earned on pooled investments is allocated to and recorded in certain participating funds, as authorized by the Council and permitted by the City Charter and the California Government Code, based on each fund's average daily deposit balance. Unless allocation provisions are specifically stipulated in City ordinance, Council action, or funding source, interest earned on certain funds are allocated to and recorded in the General Fund. Examples of investments permitted by the City's investment policy include U.S. Treasury bills, U.S. Treasury notes, U.S. agency Securities, medium-term notes, commercial paper, asset-backed securities, and supranational obligations. The City measures and categorizes its investments using fair value measurement guidelines established by generally accepted accounting principles.

Pursuant to California Government Code Section 53607 (State Code) and the Council File No. 94-2160, the City Treasury shall render to the Council a statement of investment policy (the Policy) annually. Council File No. 11-1740 was adopted on December 2, 2020 as the City's investment policy. This Policy shall remain in effect until the Council and the Mayor approve a subsequent revision. The Policy governs the City's pooled investment practices. The Policy addresses soundness of financial institutions in which the City Treasurer will deposit funds and types of investment instruments permitted by California Government Code Sections 53600-53638, 16340, and 16429.1. The City Treasury further reports that the current policy allows for the purchase of investments with maturities up to 30 years.

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

General Investment Pool Securities Lending Program

Securities lending is permitted and limited under provisions of California Government Code Section 53601. The Council approved the Securities Lending Program (the SLP) on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP in priority order are safety of loaned securities and prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines. The Power System invested $36,925 thousand and $16,366 thousand in the City's securities lending program as of June 30, 2022 and 2021, respectively.

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

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

During fiscal year 2022, collateralizations on all loaned securities were compliant with the required 102% of the market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the fiscal year. There was no credit risk exposure to the City because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

(8) Derivative Instruments

In accordance with GASB Statement No. 53, the Power System records the fair value of its financial natural gas hedges, on the statement of net position. As of June 30, 2022 and 2021, the fair values of the financial natural gas hedges were approximately $100.7 million and approximately $41.4 million, respectively, and were recorded as derivative instrument assets in 2022 and 2021 on the statement of net position. The Power System enters into natural gas hedging contracts in order to stabilize the cost of gas needed to produce electricity to serve its customers. It is designed to cap gas prices over a portion of the forecasted gas requirements. The Power System does not speculate when entering into financial transactions. Financial hedges are variable to fixed-price swaps, and hedge transactions are layered in to achieve dollar cost averaging.

As of June 30, 2022, the Power System's financial natural gas hedges by fiscal year are as follows (amounts in thousands):

Derivative description	Notional amount (total contract quantities*)	Contract price range dollar per unit	First effective date	Last termination date	Fair value
Financial natural gas:					
FY 2022–23	21,340,000	$ 1.84–4.61	07/01/22	06/30/23	$ 55,520
FY 2023–24	16,020,000	1.88–4.39	07/01/23	06/30/24	26,324
FY 2024–25	8,990,000	2.20–3.40	07/01/24	06/30/25	12,268
FY 2025–26	7,915,000	2.23–4.25	07/01/25	06/30/26	6,342
FY 2026–27	3,055,000	3.49–4.30	07/01/26	06/30/27	292
Total	57,320,000				$ 100,746

* Contract quantities in MMBtu – Million British Thermal Units

As of June 30, 2021, the Power System's financial natural gas hedges by fiscal year are the following (fair value in thousands):

Derivative description	Notional amount (total contract quantities*)	Contract price range dollar per unit	First effective date	Last termination date	Fair value
Financial natural gas:					
FY 2020–22	22,070,000	$ 1.92–3.27	07/01/21	06/30/22	$ 27,912
FY 2020–23	15,845,000	1.84–2.71	07/01/22	06/30/23	9,445
FY 2020–24	8,855,000	1.88–2.63	07/01/23	06/30/24	3,213
FY 2020–25	2,900,000	2.20–2.61	07/01/24	06/30/25	522
FY 2020–26	1,527,500	2.23–2.46	07/01/25	06/30/26	339
Total	51,197,500				$ 41,431

* Contract quantities in MMBtu – Million British Thermal Units

The fair value of the natural gas hedges increased by $59.3 million during the year ended June 30, 2022 due to an increase during the year in natural gas prices and is reported as a noncurrent asset and is offset by a deferred inflow on the statement of net position. All fair values were estimated using Platt's forward curves, based on published settlement prices and supplemented by Platt's proprietary models wherever there is less liquid market activity.

(a) Credit Risk

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

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

As of June 30, 2022, the five financial natural gas hedge counterparties were rated by Moody's as follows: one at Aa1, one at A1, and three at A2. The counterparties were rated by S&P as follows: one at AA-, one at A+, two at A-, and one at BBB+. As of June 30, 2021, the five financial natural gas hedge counterparties were rated by Moody's as follows: one at Aa2, two at A2, and two at A3. The counterparties were rated by S&P as follows: one at AA-, one at A+, one at A-, and two at BBB+.

Based on the International Swap Dealers Association agreements, the Power System or the counterparty may be required to post collateral to support the financial natural gas hedges subject to credit risk in the form of cash, negotiable debt instruments (other than interest-only and principal-only securities), or eligible letters of credit. As of June 30, 2022, the fair values of the financial natural gas hedges were above the credit limits of three counterparties; cash and securities collateral were posted totaling to approximately $46.2 million. As of June 30, 2021, the fair values of the financial natural gas hedges were above the credit limits of two counterparties; cash and securities collateral were posted totaling to approximately $19.1 million.

(b) Basis Risk

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

(c) Termination Risk

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

(9) Long-Term Debt

Long-term debt outstanding as of June 30, 2022 and 2021 consists of revenue bonds and refunding revenue bonds due serially in varying annual amounts as follows (amounts in thousands):

Bond issues	Date of issue	Effective interest rate%	Fiscal year of last scheduled maturity	Principal outstanding 2022	Principal outstanding 2021
Issue of 2001, Series B	06/05/01	Variable	2035	$ 322,800	322,800
Issue of 2002, Series A	08/22/02	Variable	2036	218,900	218,900
Issue of 2006, Series C4	03/01/06	4.040	2022	—	3,038
Issue of 2010, Series A	06/02/10	3.898	2040	316,000	316,000
Issue of 2010, Series C	08/25/10	2.188	2028	139,775	139,775
Issue of 2010, Series D	12/02/10	4.342	2046	660,200	660,200
Issue of 2011, Series A	06/30/11	2.715	2022	—	99,545
Issue of 2012, Series A	10/25/12	2.936	2036	11,840	100,355
Issue of 2012, Series B	10/25/12	4.164	2044	—	350,000
Issue of 2013, Series A	04/02/13	2.504	2032	294,650	333,170
Issue of 2013, Series B	06/04/13	3.347	2033	355,995	362,880
Issue of 2013, Series C	06/04/13	4.441	2038	27,855	27,855
Issue of 2014, Series A	05/06/14	Variable	2039	200,000	200,000
Issue of 2014, Series B	06/10/14	4.008	2044	311,270	315,050
Issue of 2014, Series C	08/05/14	2.912	2030	184,620	184,620
Issue of 2014, Series D	10/23/14	3.785	2045	430,350	437,170
Issue of 2014, Series E	01/08/15	3.833	2045	218,765	222,295
Issue of 2015, Series A	04/16/15	3.636	2041	415,935	415,935
Issue of 2016, Series A	05/19/16	3.265	2047	233,830	246,980
Issue of 2016, Series B	06/23/16	3.259	2047	220,105	225,000
Issue of 2017, Series A	02/09/17	3.782	2048	500,000	500,000
Issue of 2017, Series B	04/04/17	3.666	2040	338,255	338,255
Issue of 2017, Series C	07/13/17	3.710	2048	375,000	375,000
Issue of 2018, Series A	04/19/18	3.357	2039	341,675	346,445
Issue of 2018, Series B	11/01/18	2.244	2027	122,340	240,845
Issue of 2018, Series C	11/01/18	2.290	2027	59,155	59,155
Issue of 2018, Series D	12/20/18	3.587	2049	383,365	386,115
Issue of 2019, Series A	02/07/19	3.827	2050	345,845	345,845

Bond issues	Date of issue	Effective interest rate%	Fiscal year of last scheduled maturity		Principal outstanding 2022	Principal outstanding 2021
Issue of 2019, Series B	05/09/19	2.305	2036	$	308,875	308,875
Issue of 2019, Series C	10/01/19	3.215	2050		325,000	325,000
Issue of 2019, Series D	12/23/19	3.196	2050		281,530	281,530
Issue of 2020 Series A	05/01/20	1.146	2030		338,480	338,480
Issue of 2020, Series B	07/01/20	3.060	2051		433,080	433,080
Issue of 2021, Series A	01/26/21	Variable	2052		250,000	250,000
Issue of 2021, Series B	06/29/21	2.962	2052		438,420	438,420
Issue of 2021, Series C	12/1/2021	2.851	2052		401,705	—
Issue of 2022, Series A	02/03/22	3.058	2052		375,000	—
Issue of 2022, Series B	04/20/22	3.547	2053		360,000	—
Issue of 2022, Series C	06/30/22	4.123	2053		399,365	—
Total principal amount					10,939,980	10,148,613
Unamortized premiums and discounts, net					1,387,444	1,212,169
Revenue bonds, net					12,327,424	11,360,782
Debt due within one year, long-term debt					(190,315)	(187,683)
Debt due within one year, variable rate demand bond liquidity advance not made					(79,170)	(79,170)
Revenue bonds, noncurrent, net				$	12,057,939	11,093,929

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

(a) Long-Term Debt Activity

The Power System had the following activity in long-term debt for the fiscal years ended June 30, 2022 and 2021 (amounts in thousands):

	Balance June 30, 2021	Additions	Reductions	Balance June 30, 2022
Revenue bonds:				
Principal:				
Beginning balance	$ 9,948,613	—	—	9,948,613
Issuances	—	1,035,000	—	1,035,000
Refunding bonds	—	501,070	—	501,070
Scheduled maturities	—	—	(187,683)	(187,683)
Refunded/defeased bonds	—	—	(557,020)	(557,020)
	9,948,613	1,536,070	(744,703)	10,739,980
Premium (discount):				
Beginning balance	1,212,169	—	—	1,212,169
Issuances	—	263,327	—	263,327
Refunding bonds	—	57,063	—	57,063
Scheduled amortization	—	—	(106,476)	(106,476)
Written off due to refunding	—	—	(38,639)	(38,639)
	1,212,169	320,390	(145,115)	1,387,444
Revenue bonds, net	11,160,782	1,856,460	(889,818)	12,127,424
Direct placements	200,000	—	—	200,000
Total	$ 11,360,782	1,856,460	(889,818)	12,327,424

	Balance June 30, 2020	Additions	Reductions	Balance June 30, 2021
Revenue bonds:				
Principal:				
Beginning balance	$ 9,499,533	—	—	9,499,533
Issuances	—	730,000	—	730,000
Refunding bonds	—	391,500	—	391,500
Scheduled maturities	—	—	(179,035)	(179,035)
Refunded/defeased bonds	—	—	(493,385)	(493,385)
	9,499,533	1,121,500	(672,420)	9,948,613
Premium (discount):				
Beginning balance	1,062,161	—	—	1,062,161
Issuances	—	150,325	—	150,325
Refunding bonds	—	102,460	—	102,460
Scheduled amortization	—	—	(100,911)	(100,911)
Written off due to refunding	—	—	(1,866)	(1,866)
	1,062,161	252,785	(102,777)	1,212,169
Revenue bonds, net	10,561,694	1,374,285	(775,197)	11,160,782
Direct placements	200,000	—	—	200,000
Total	$ 10,761,694	1,374,285	(775,197)	11,360,782

(b) New Issuances

(i) Fiscal Year 2022

In December 2021, the Power System issued $401.7 million of Power System Revenue Bonds, 2021 Series C. The net proceeds of $507.0 million, including a $105.3 million issue premium net of underwriter’s discount, were used to pay for capital improvements and refund a portion of the outstanding Power System Revenue Bonds, 2018 Series B, amounting to $118.5 million. The transaction resulted in a net gain for accounting purposes of $0.3 million, which was capitalized as deferred inflows on debt refunding and is being amortized over the life of the refunded bonds.

In February 2022, the Power System issued $375 million of Power System Revenue Bonds, 2022 Series A. The net proceeds of $481.1 million, including a $106.1 million issue premium net of underwriter’s discount, were used to pay for capital improvements.

In April 2022, the Power System issued $360 million of Power System Revenue Bonds, 2022 Series B. The net proceeds of $426.4 million, including a $66.4 million issue premium net of underwriter's discount, were used to pay for capital improvements.

In June 2022, the Power System issued $399.4 million of Power System Revenue Bonds, 2022 Series C. The net proceeds of $438.6 million, including a $39.2 million issue premium net of underwriter's discount, were used to refund a portion of the outstanding Power System Revenue Bonds, 2012 Series A, amounting to $88.5 million, and all of the outstanding Power System Revenue Bonds, 2012 Series B, amounting to $350.0 million. The transaction resulted in a net present value savings of $44.8 million and a net gain for accounting purposes of $37.0 million, which was capitalized as deferred inflows on debt refunding and is being amortized over the life of the refunded bonds.

(ii) Fiscal Year 2021

In July 2020, the Power System issued $433.1 million of Power System Revenue Bonds, 2020 Series B. The net proceeds of $566.5 million, including a $133.4 million issue premium net of underwriter's discount, were used to pay for capital improvements and refund a portion of the outstanding Power System Revenue Bonds, 2010 Series A, amounting to $300.0 million. The transaction resulted in a net present value savings of $65.8 million.

In January 2021, the Power System issued $250.0 million of Power System Variable Rate Demand Revenue Bonds, 2021 Series A. The net proceeds of $249.8 million, net of underwriter's discount, were used to pay for capital improvements.

In June 2021, the Power System issued $438.4 million of Power System Revenue Bonds, 2021 Series B. The net proceeds of $555.8 million, including a $117.4 million issue premium net of underwriter's discount, were used to pay for capital improvements, and refund a portion of the outstanding Power System Revenue Bonds, 2010 Series D, amounting to $100.0 million, and a portion of the outstanding Power System Revenue Bonds, 2011 Series A, amounting to $93.0 million. A portion of the Power System Revenue Bonds, 2011 Series A was cash defeased, amounting to $370 thousand. The transaction resulted in a net present value savings of $35.5 million and a net gain for accounting purposes of $1.5 million, which was capitalized as deferred inflows on debt refunding and is being amortized over the life of the refunded bonds.

(c) Outstanding Debt Defeased

The Power System defeased certain revenue bonds in the current and prior years by placing cash and the proceeds of new revenue bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Power System's financial statements.

At June 30, 2022, the following revenue bonds outstanding are considered defeased (amounts in thousands):

Bond issues		Principal outstanding
Second issue of 1993	$	4,140
Issue of 1994		2,760
Issue of 2013 Series A		2,125
Issue of 2012 Series A		88,515
Issue of 2012 Series B		350,000
	$	447,540

(10) Variable Rate Bonds

As of June 30, 2022 and 2021, the Power System had variable rate bonds outstanding in the amounts of $991.7 million and $991.7 million, respectively. Of these variable rate bonds, $200 million is in direct placement bonds as discussed in note 11. In January 2021, the Power System issued $250.0 million of Power System Variable Rate Demand Revenue Bonds, 2021 Series A, to pay costs of capital improvements of the Power System. The variable rate bonds currently bear interest at weekly and daily rates ranging from 0.27% to 0.90% as of June 30, 2022 and 0.01% to 0.03% as of June 30, 2021. The Power System can elect to change the interest rate period of the bonds with certain limitations. The bondholders have the right to tender the bonds to the tender agent on any business day with seven days' prior notice. The Power System has entered into standby and line of credit agreements with a syndicate of commercial banks to provide liquidity for the variable rate bonds in the amount of $323 million, $219 million, and $250 million as of June 30, 2022. The extended standby agreements expire in January 2023 for the $323 million, May 2024 for the $219 million, and in July 2023 for the $250 million (see note 18(a)).

Under the agreements, $514 million variable rate bonds will bear interest that is payable monthly at the greatest of (a) the prime rate plus 1.00%; (b) the federal funds rate plus 2.00%; and (c) 7.50%, $59 million variable rate bonds will bear interest that is payable at the greatest of (a) the prime rate; and (b) the federal funds rate plus 0.5% , while $219 million variable rate bonds will bear interest that is payable monthly at the greatest of (a) the prime rate plus 1.00%; (b) the federal funds rate plus 2.00%; and (c) 7.00%. The unpaid principal of each liquidity advance made by the liquidity provider is payable in 10 equal semiannual installments 90 days immediately following the related liquidity advance. At its discretion, the Power System has the ability to convert the outstanding bonds to fixed-rate obligations, which cannot be tendered by the bondholders.

The variable rate bonds have been classified as long term in the statements of net position as the liquidity facilities give the Power System the ability to refinance on a long-term basis and the Power System intends to either renew the facility or exercise its right to tender the debt as a long-term financing. The portion that would be due in the next fiscal year in the event that the outstanding variable rate bonds were tendered and purchased by the commercial banks under the standby agreements has been included in the current portion of long-term debt was $79 million at June 30, 2022 and 2021.

(11) Direct Placements and Line of Credit

Under GASB 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, the Power System has the following direct placement debt and unused line of credit:

In May 2020, the Power System entered into a Continuing Covenant Agreement (CCA) with Bank of America, N.A. (Bank of America) for the placement of the $200 million–Power System Revenue Bonds, 2014 Series A (Power 2014A Bonds) under a direct purchase structure. In May 2014, the Power System initially sold $200 million of Power 2014A Bonds in an index-floating rate mode under a direct purchase structure with Wells Fargo Municipal Capital Strategies, LLC (Wells Fargo) through a continuing covenant agreement that expired on May 5, 2017. The continuing covenant agreement with Wells Fargo was amended in May 2017 to extend for another three years and expired on May 4, 2020. The CCA with Bank of America will expire on May 2, 2025. Under the CCA with Bank of America, the Power 2014A Bonds will pay interest at a fixed spread of 27 basis points (0.27%) above the Securities Industry and Financial Markets Association Index for the five-year term. At the end of the five-year term, the Power System would have the option to either renegotiate and renew a new index floating rate term with Bank of America or another bank or convert the bonds to another mode, such as a fixed-rate mode or a traditional variable-rate mode, which utilizes a standby agreement. Certain default provisions under the CCA include, but are not limited to, failure to pay amounts due under the CCA and certain other obligations of the Power System, failure to perform certain covenants under the CCA, actions taken in connection with a debt restructuring or similar of the Department, significant rating downgrades of obligations payable from the Power Revenue Fund, and significant nonappealable judgments against the Department. Such defaults may result in a mandatory redemption of the Power 2014A Bonds or other remedial actions taken by Bank of America. The Power System does not have any assets pledged as collateral for direct placement debt, termination events with finance-related consequences, or subjective acceleration clauses as of June 30, 2022 and June 30, 2021.

On December 14, 2018, the Power System entered into an Amended and Restated Revolving Credit Agreement (Amended RCA) and the related Amended and Restated Fee and Interest Rate Agreement with Wells Fargo Bank, National Association with a $300 million–commitment and the option to request additional commitment, as needed up to a total commitment of $500 million. LADWP can request loans for Water System improvements, Power System improvements and/or such other lawful purposes of LADWP. The interest charged for tax-exempt loans is based on SIFMA plus a spread of 0.50% or 75% of one month LIBOR plus a spread of 0.45%. The interest charge for taxable loans is based on one month LIBOR plus a spread of 0.45%. The Amended RCA expires in December 2023. As of June 30, 2022 and 2021, the Power System has no obligations outstanding under the Amended RCA.

(12) Principal Maturities and Interest

As of June 30, 2022, annual principal maturities and interest on an accrual basis are as follows (amounts in thousands):

		Principal	Interest and amortization
Fiscal year(s) ending June 30:			
2023	$	190,315	391,616
2024		263,873	384,915
2025		245,536	377,230
2026		301,536	369,119
2027		356,296	358,535
2028–2032		2,007,407	1,569,964
2033–2037		2,151,681	1,236,590
2038–2042		2,114,535	840,053
2043–2047		2,094,950	345,649
2048–2052		1,126,100	56,461
2053–2057		17,050	—
Total requirements		10,869,279	5,930,132
Debt service payments already paid to sinking fund – 2010C bonds		70,701	—
	$	10,939,980	5,930,132

Interest and amortization are net of $1,435 million of unamortized discount/premium and gain/loss due to issuances of new and refunding bonds.

The schedule above is presented assuming that the tender options on the variable rate bonds, as discussed in notes 10 and 11 will not be exercised and should the bondholders exercise the tender options, the Power System would be required to redeem the $991.7 million in variable rate bonds and direct placement over the next six years, as follows: $79.2 million in fiscal year 2023, $158.3 million in each of the fiscal years 2024 through 2025, $198.3 million in each of the fiscal years 2026 through 2027, $119.2 million in fiscal year 2028, and $40 million in each of the fiscal years 2029 through 2030. Accordingly, the statements of net position recognize the possibility of the exercise of the tender options and reflect the $79.2 million that could be due in fiscal year 2023 as a current portion of long-term debt payable. Interest and amortization include interest requirements for variable rate bonds over the regularly scheduled maturity period. Variable debt interest rate in effect at June 30, 2022 averages 0.69%. Should the tender options be exercised, the interest would be payable at the rate in effect at the time the standby agreements are activated.

(13) Retirement Plan

(a) Plan Description

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

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

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

(b) Benefits Provided

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

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

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

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

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

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

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

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

(Continued)

(c) Plan Membership

As of the June 30, 2021 and 2020 measurement dates for the June 30, 2022 and 2021 net pension liability (asset), pension plan membership, which consisted of Water and Power System members, consisted of the following:

	2022	2021
Retired members or beneficiaries currently receiving benefits	9,564	9,443
Vested terminated members entitled to, but not yet receiving, benefits	1,708	1,690
Active members	10,605	10,778
Total	21,877	21,911

(d) Contributions

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

Employer contribution rates are adopted annually based upon recommendations received from the Plan's actuary after the completion of the annual actuarial valuation. The average employer contribution rates for fiscal years 2022, 2021, and 2020 (based on the July 1, 2021, 2020, and 2019 valuations) were 26.04%, 33.55%, and 37.97% of compensation, respectively. The average member contribution rates for fiscal years 2022, 2021, and 2020 (based on the July 1, 2021, 2020, and 2019 valuations) were 7.85%, 7.68% and 7.43% of compensation, respectively. Most Tier 1 members contribute at 6% of compensation, and all Tier 2 members contribute at 10% of compensation. Employer contributions in fiscal years 2022, 2021, and 2020 amounted to $218 million, $259 million, and $289 million, respectively.

(e) Net Pension Liability (Asset)

At June 30, 2022 and 2021, the Power System reported an asset of $1,121 million and a liability of $752 million, respectively, for its proportionate share of the net pension liability (asset), respectively. The net pension liability (asset) was measured as of June 30, 2021 and 2020, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of the same dates. The Power System's proportion of the net pension liability (asset) was based on the Power System's projected compensation for the year following the measurement date, relative to the projected compensation for the same period for both the Water System and the Power System. At June 30, 2022, the Power System's proportion was 67.6% compared to 67.7% and 68.4% as of June 30, 2021 and 2020, respectively.

(f) Actuarial Assumptions

The Department's net pension liability (asset) as of June 30, 2022 and 2021 was measured as of June 30, 2021 and 2020 using actuarial valuations as of July 1, 2021 and 2020, respectively. The actuarial assumptions used in the July 1, 2020 and 2019 valuations were based on the results of an experience study for the period from July 1, 2015 through June 30, 2018. The following assumptions were applied to all periods included in the measurement for the July 1, 2021 and 2020 actuarial valuations:

Actuarial assumptions	2021	2020
Inflation	2.75%	2.75%
Salary increases	4.50%–10.25%	4.50%–10.00%
Investment rate of return	7.00%	7.25%
Cost-of-living adjustments	2.75% (Actual increases are contingent upon CPI increases, with a 3.00% maximum for Tier 1 and 2.00% maximum for Tier 2.)	2.75% (Actual increases are contingent upon CPI increases, with a 3.00% maximum for Tier 1 and 2.00% maximum for Tier 2.)
Mortality	Postretirement: Pub-10 General Healthy Retiree Amount-Weighted Above Median Mortality Table times 105% for males and 100% for females, projected generationally with the two-dimensional mortality improvement scale MP-2018	Postretirement: Pub-10 General Healthy Retiree Amount-Weighted Above Median Mortality Table times 105% for males and 100% for females, projected generationally with the two-dimensional mortality improvement scale MP-2018

(g) Discount Rate

The discount rate used to measure the pension liability (asset) was 7.00% as of June 30, 2021 and 2020. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments, which is estimated to be 104 years, to determine the total pension liability at June 30, 2022 and 2021.

(h) Long-Term Expected Rate of Return

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

	June 2022		June 2021	
Asset class	Target allocation	Long-term expected real rate of return	Target allocation	Long-term expected real rate of return
Large Cap U.S. Equity	22.95 %	5.44 %	22.95 %	5.44 %
Small Cap U.S. Equity	1.75 %	6.18 %	1.75 %	6.18 %
Developed International Large	13.06 %	6.54 %	13.06 %	6.54 %
Developed international Small	2.18 %	6.64 %	2.18 %	6.64 %
Global Equity	2.90 %	6.45 %	2.90 %	6.45 %
Emerging Market Equity	5.16 %	8.73 %	5.16 %	8.73 %
Real Estate	8.00 %	4.60 %	8.00 %	4.60 %
Cash and Equivalents	1.00 %	0.25 %	1.00 %	0.25 %
Private Equity	8.00 %	9.27 %	8.00 %	9.27 %
Hedge Funds	5.00 %	3.53 %	5.00 %	3.53 %
Custom Fixed Income	25.00 %	1.65 %	25.00 %	1.65 %
Custom Real Return	5.00 %	2.07 %	5.00 %	2.07 %
Total	100 %		100 %	

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

The following presents the net pension liability (asset) of the Power System as of June 30, 2022 and 2021, calculated using the discount rate of 7.00%, as well as what the Department's pension liability (asset) would be as of June 30, 2022 if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate (amounts in thousands):

Net pension liability (asset)		1% Decrease (6.00%)	Current discount rate (7.00%)	1% Increase (8.00%)
June 30, 2022	$	237,616	(1,120,640)	(2,241,562)

Net pension liability (asset)		1% Decrease (6.00%)	Current discount rate (7.00%)	1% Increase (8.00%)
June 30, 2021	$	2,065,743	752,368	(332,281)

(j) Pension Plan Fiduciary Net Position

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

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

In addition to amortization expense of the regulatory asset discussed in note 6, the Power System recognized pension expense of $(188,552) thousand and $243,664 thousand for the years ended June 30, 2022 and 2021, respectively. Pension expense is recorded as operation and maintenance expense or construction work in progress, depending on where the related payroll is charged. At June 30, 2022 and 2021, the Power System reported $42,862 thousand and $268,133 thousand, respectively, for deferred outflows of resources and deferred inflows of resources of $1,266,441 thousand and $67,081 thousand, respectively.

The below tables summarize the deferred inflows of resources and deferred outflows of resources related to pensions at June 30, 2022 and 2021 (amounts in thousands):

		June 30	
Deferred outflows of resources		**2022**	**2021**
Changes in proportion and differences between entity contributions and proportionate share of contributions	$	1,218	2,495
Net difference between projected and actual earnings on pension plan investments		—	157,364
Difference between actual and expected experience in the total pension liability		38,455	47,862
Changes of assumptions and other inputs		3,189	60,412
Total deferred outflows of resources	$	42,862	268,133

		June 30	
Deferred inflows of resources		**2022**	**2021**
Changes in proportion and differences between entity contributions and proportionate share of contributions	$	8,346	9,267
Difference between projected and actual earnings on pension plan investments		1,201,421	—
Difference between expected and actual experience in the total pension liability		56,674	57,814
Total deferred inflows of resources	$	1,266,441	67,081

In addition to the deferred outflows noted above, there are also $218,209 thousand and $258,574 thousand of deferred outflows related to pension contributions made after the measurement date as of June 30, 2022 and 2021, respectively. These deferred outflows of resources are recognized as a reduction of the net pension liability (asset) in the subsequent fiscal year.

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

		June 30	
Year		**2022**	**2021**
2022	$	—	3,084
2023		(315,262)	37,015
2024		(270,319)	82,036
2025		(283,455)	68,877
2026		(345,655)	6,569
2027		(2,743)	3,471
2028		(6,145)	—
Total	$	(1,223,579)	201,052

(14) Other Postemployment Benefit Plans

(a) General Information About the Plan

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

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

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

(b) Benefits Provided

For retiree healthcare, a medical subsidy is computed by a formula related to years of service and attained age of retirement. The subsidy limit is applied to the combined medical carrier and Medicare Part B premium but not the dental premium. For Tier 1, the monthly medical subsidy ranges from $30.32 to $1,870.87 depending on age and service at retirement. Tier 2, the monthly medical subsidy ranges from $30.32 to $935.44, depending on age and service at retirement. The monthly dental subsidy for most retirees is $37.58. The dental subsidy is not available to pay for premiums for married and surviving spouses or domestic partners. All members hired before January 1, 2014 are Tier 1. All members hired after January 1, 2014 are Tier 2.

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

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

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

(c) Employees Covered by Benefit Terms

At the Department's measurement date of June 30, 2021 for the June 30, 2022 reporting period, the following employees were covered by the benefit terms:

Plan membership	Retiree healthcare	Death benefit
Beneficiaries currently receiving benefits	—	82
Retired members currently receiving benefits	8,432	7,621
Vested terminated members not receiving benefits	—	599
Active members	10,605	10,605
Total	19,037	18,907

At the Department's measurement date of June 30, 2020 for June 30, 2021 reporting period, the following employees were covered by the benefit terms:

Plan membership	Retiree healthcare	Death benefit
Beneficiaries currently receiving benefits	—	88
Retired members currently receiving benefits	8,321	7,472
Vested terminated members not receiving benefits	—	619
Active members	10,778	10,778
Total	19,099	18,957

(d) Contributions

The Board of Commissioners establishes rates for retiree healthcare plan based on an actuarially determined rate. For the years ended June 30, 2022 and 2021, the Department's average contribution rate was 9.7% and 9.7% of covered-employee payroll, respectively. Employees are not required to contribute to the retiree healthcare plan. Power System contributions to the retiree healthcare plan were $73.7 million and $71.1 million including administrative expenses of $0.7 and $0.8 million for the fiscal years ended June 30, 2022 and 2021, respectively.

The Department contributes to the death benefit plan based on actuarially determined contribution rates adopted by the board of administration. Employer contribution rates are adopted annually based on recommendations received from the Plan's actuary after the completion of the review of the death benefit fund. The employer and member contribution rates as of June 30, 2022 are as follows:

		Members	
	Department	Active	Retired
Total death benefit fund	1.12% of Payroll	N/A	N/A
Supplemental family death benefit insured lives		$2.25 biweekly	$4.90 monthly
Contributing		$1.00 biweekly	N/A
Noncontributing		N/A	N/A

Power System contributions to the death benefits plan were $10.1 million including administrative expenses of $1.3 million for the fiscal year ended June 30, 2022.

The employer and member contribution rates as of June 30, 2021 are as follows:

		Members	
	Department	Active	Retired
Total death benefit fund	1.18% of Payroll	N/A	N/A
Supplemental family death benefit insured lives		$2.25 biweekly	$4.90 monthly
Contributing		$1.00 biweekly	N/A
Noncontributing		N/A	N/A

Power System contributions to the death benefits plan were $10.1 million including administrative expenses of $1.4 million for the fiscal year ended June 30, 2021.

(e) Net OPEB Liability (Asset)

The Power System reported an asset of $173 million and a liability of $191 million for its proportionate share of the net OPEB liability (asset) for retiree healthcare plan and the death benefit plan as of June 30, 2022 and 2021 reporting dates, respectively. The net OPEB liabilities (assets) for each of the plans was measured as of June 30, 2020 and 2019 and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by actuarial valuations as of June 30, 2020 and 2019. The Power System's proportion of the net OPEB liability (asset) was based on the Power System's projected compensation for the year following the measurement date, relative to the projected compensation for the same period for both the Water System and the Power System. At June 30, 2022 and 2021, the Power System's proportion of the retiree healthcare plan and the death benefit plan net OPEB liabilities was 67.6% and 67.7%, respectively.

The following table shows the Power System's proportionate share of the net OPEB liability (asset) for each of the plans as of June 30, 2022 and 2021 (amounts in thousands):

		2022	2021
OPEB liability (asset) for retiree healthcare plan	$	(235,689)	126,221
OPEB liability for death benefit plans		63,037	65,225
Net OPEB liability (asset)	$	(172,652)	191,446

The total OPEB liability in the June 30, 2021 actuarial valuations used for the Power System's June 30, 2022 financial statements was determined using the following actuarial assumptions:

	Retiree healthcare plan	Family death benefit	Supplemental death benefit	Insured lives benefit (contributing active members)	Insured lives death benefit (noncontributing members)
Cost method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Investment rate of return	7.00%	3.50%	3.50%	3.50%	3.50%
Inflation rate	2.75%	2.75%	2.75%	2.75%	2.75%
Real across the board salary increases	0.50%	0.50%	0.50%	0.50%	0.50%
Projected salary increase	4.50% to 10.25%	4.50% to 10.25%	4.50% to 10.25%	4.50% to 10.25%	4.50% to 10.25%
Mortality table	Pub-2010 mortality table reflected for mortality experience as of the measurement date	—	—	—	—
Medical cost trends:					
Non-Medicare medical plan	7.50%, graded down to 4.50% over 12 years				
Medicare medical plans	6.50%, graded down to 4.50% over 8 years	—	—	—	—
Dental and Medicare Part B	4.00 and 4.50%				
Member contribution rate	None	None	$2.25 per biweekly period or $4.90 per month if retired	$1.00 per biweekly payroll period	None
Department contribution rate	9.74 %	1.12% of Payroll	—	—	—

	Retiree healthcare plan	Family death benefit	Supplemental death benefit	Insured lives benefit (contributing active members)	Insured lives death benefit (noncontributing members)
Age and service requirement	Tier 1 – Age 60 with 5 years of service; age 55 with 10 years of service in the last 12 years; any age with 30 years of service; or receiving permanent total disability benefits from the Plan. Tier 2 – Age 60 with 5 years of continuous service with the Plan immediately prior to reaching eligibility; or age 60 with 10 years. of service; or any age with 30 years of service; or receiving permanent total disability benefits from the Plan	Preretirement death of an active, full, contributing member at any age; or postretirement death of a member receiving a monthly retirement from WPERP with at least five years of service at retirement	Preretirement death of an active, full, contributing member at any age; or postretirement death of a member receiving monthly retirement from WPERP	Any age with six months of continuous service. Preretirement death of an active, full, contributing member to WPERP	Death occurs after retirement and member was receiving a retirement monthly allowance from WPERP and had at least five years of service at retirement
Per capita cost development	The assumed per capita claims cost by age is calculated using age-based factors for retiree ranging from 90.4% to 122.7% and Spouse ranging from 71.2% to 122.7% and applying these factors to premiums (eligible spouses and survivors are not eligible for DWP dental subsidy)	—	—	—	—

	Retiree healthcare plan	Family death benefit	Supplemental death benefit	Insured lives benefit (contributing active members)	Insured lives death benefit (noncontributing members)
Monthly benefit	Tier 1 – $30.32 to $1,870.87. Tier 2 – $30.32 to $935.44	$416 per month to each surviving child plus $416 per month to eligible spouse	$520 per month to each surviving child plus $520 per month to eligible spouse	A single sum distribution equal to 14 times monthly salary	A single sum distribution equal to 14 times the member's full retirement allowance up to $20,000
Participation rate	95% for medical and 95% for dental	—	—	—	—
Retirement rates	Based on 2019 experience study covering the period from July 1, 2015 through June 30, 2018	—	—	—	—

At June 30, 2022, mortality rates were based on the Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table times 105% for males and 100% for females, projected generationally with the two-dimensional mortality improvement scale MP-2018. The actuarial assumptions used in the June 30, 2021 valuation were based on the long-term expected rate of return on OPEB plan investments, which was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

At June 30, 2022, the target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table for each fund:

Asset Class	Targeted allocation	Long-term expected arithmetic real rate of return
Large Cap U.S. Equity	22.95 %	5.44 %
Small Cap U.S. Equity	1.75 %	6.18 %
Developed International Large Cap Equity	13.06 %	6.54 %
Developed International Small Cap Equity	2.18 %	6.64 %
Global Equity	2.90 %	6.45 %
Emerging Market Equity	5.16 %	8.73 %
Real Estate	8.00 %	4.60 %
Cash and Equivalents	1.00 %	0.25 %
Private Equity	8.00 %	9.27 %
Hedge Funds	5.00 %	3.53 %
Custom Fixed Income	25.00 %	1.65 %
Custom Real Return	5.00 %	2.07 %
Total	100 %	

	Targeted allocation	Long-term expected arithmetic real rate of return
Death benefit:		
Fixed income	96 %	1.42 %
Cash and cash equivalents	4	0.25
	100 %	

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

At June 30, 2022, for the death benefit fund, projected investment earnings were based on the assumed investment rate of return of 3.50% per annum. The Plan Fiduciary Net Position was projected to be available to make all projected future benefit payments for current Plan members. There is no projected "cross-over date" when projected benefits are not covered by projected assets. The long-term expected rate of return on Plan investments of 3.50% per annum was applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2021.

The total OPEB liability in the June 30, 2020 actuarial valuations used for the Power System's June 30, 2021 financial statements was determined using the following actuarial assumptions:

	Retiree healthcare plan	Family death benefit	Supplemental death benefit	Insured lives benefit (contributing active members)	Insured lives death benefit (noncontributing members)
Cost method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Investment rate of return	7.0 %	3.5 %	3.5 %	3.5 %	3.5 %
Inflation rate	2.75 %	2.75 %	2.75 %	2.75 %	2.75 %
Real across the board salary increases	0.5 %	0.5 %	0.5 %	0.5 %	0.5 %
Projected salary increase	4.50% to 10.25%	4.50% to 10.25%	4.50% to 10.25%	4.50% to 10.25%	4.50% to 10.25%
Mortality table	Pub-2010 mortality table reflected for mortality experience as of the measurement date	—	—	—	—
Medical cost trends:					
Non-Medicare medical plan	6.75%, graded down to 4.50% over 9 years	—	—	—	—
Medicare medical plans	6.25%, graded down to 4.50% over 7 years	—	—	—	—
Dental and Medicare Part B	4.00% and 4.50%	—	—	—	—
Member contribution rate	None	None	$2.25 per biweekly period or $4.90 per month if retired	$1 per biweekly payroll period	None
Department contribution rate	9.68 %	1.18% of Payroll	—	—	—

	Retiree healthcare plan	Family death benefit	Supplemental death benefit	Insured lives benefit (contributing active members)	Insured lives death benefit (noncontributing members)
Age and service requirement	Tier 1 – Age 60 with 5 years of service; age 55 with 10 years of service in the last 12 years; any age with 30 years of service; or receiving permanent total disability benefits from the Plan. Tier 2 – Age 60 with 5 years of continuous service with the Plan immediately prior to reaching eligibility; or age 60 with 10 years. of service; or any age with 30 years of service; or receiving permanent total disability benefits from the Plan	Preretirement death of an active, full, contributing member at any age; or postretirement death of a member receiving a monthly retirement from WPERP with at least five years of service at retirement	Preretirement death of an active, full, contributing member at any age; or postretirement death of a member receiving monthly retirement from WPERP	Any age with six months of continuous service. Preretirement death of an active, full, contributing member to WPERP	Death occurs after retirement and member was receiving a retirement monthly allowance from WPERP and had at least five years of service at retirement
Per capita cost development	The assumed per capita claims cost by age is calculated using age-based factors for retiree ranging from 77.6% to 123.4% and spouse ranging from 71.3% to 122.8% and applying these factors to premiums (eligible spouses and survivors are not eligible for DWP dental subsidy)	—	—	—	—
Monthly benefit	Tier 1 – $30.32 to $1,821.26. Tier 2 – $30.32 to $910.63	$416 per month to each surviving child plus $416 per month to eligible spouse	$520 per month to each surviving child plus $520 per month to eligible spouse	A single sum distribution equal to 14 times the monthly salary	A single sum distribution equal to 14 times the member's full retirement allowance up to $20,000

	Retiree healthcare plan	Family death benefit	Supplemental death benefit	Insured lives benefit (contributing active members)	Insured lives death benefit (noncontributing members)
Participation rate	95% for medical and 95% for dental	—	—	—	—
Retirement rates	Based on 2019 experience study covering the period from July 1, 2015 through June 30, 2018	—	—	—	—

At June 30, 2021, mortality rates were based on the Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table times 105% for males and 100% for females, projected generationally with the two-dimensional mortality improvement scale MP-2018. The actuarial assumptions used in the June 30, 2020 valuation were based on the long-term expected rate of return on OPEB plan investments, which was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

At June 30, 2021, the target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table for each fund:

	Targeted allocation	Long-term expected arithmetic real rate of return
Retiree healthcare:		
Domestic equity	25 %	5.44 %
Developed international equity	15	6.54
Fixed income	25	1.65
Real estate	8	4.60
Real return	5	2.07
Private equity	16	9.27
Covered calls	5	3.53
Cash and equivalents	1	0.25
	100 %	

(Continued)

	Targeted allocation	Long-term expected arithmetic real rate of return
Death benefit:		
Fixed income	96 %	1.42 %
Cash and cash equivalents	4	0.25
	100 %	

At June 30, 2021, for the retiree healthcare fund, the discount rate used to measure the total OPEB liability was 7.00% for the year ended June 30, 2021. The projection of cash flows used to determine the discount rate assumed that Department's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

At June 30, 2021, for the death benefit fund, projected investment earnings were based on the assumed investment rate of return of 3.50% per annum. The Plan Fiduciary Net Position was projected to be available to make all projected future benefit payments for current Plan members. There is no projected "cross-over date" when projected benefits are not covered by projected assets. The long-term expected rate of return on Plan investments of 3.50% per annum was applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2020.

(f) Sensitivity of Net OPEB Liability (asset) to Changes in the Discount Rate Rates

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

		June 30, 2022		
		1% Decrease	Current	1% Increase
Discount rate		6.00 %	7.00 %	8.00 %
Net OPEB liability (asset)– Retiree healthcare plan	$	3,745	(235,688)	(432,768)
Discount rate		2.50 %	3.50 %	4.50 %
Net OPEB liability – Death benefit plan	$	77,575	63,036	51,464

		June 30, 2021		
		1% Decrease	**Current**	**1% Increase**
Discount rate		6.00 %	7.00 %	8.00 %
Net OPEB liability – Retiree healthcare plan	$	358,497	126,221	(64,922)
Discount rate		2.50 %	3.50 %	4.50 %
Net OPEB liability – Death benefit plan	$	79,737	65,225	53,678

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

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

		June 30, 2022		
		1% Decrease	**Current***	**1% Increase**
Net OPEB liability (asset) – Retiree healthcare plan	$	(451,108)	(235,688)	32,247

* Current trend rates: 7.50% graded down to 4.50% over 12 years for non-Medicare medical plan costs; 6.50% graded down to 4.50% over 8 years for Medicare medical plan costs, and 4.00% for all years for dental subsidy costs and 4.50% for all years for Medicare Part B subsidy costs

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

		June 30, 2021		
		1% Decrease	**Current***	**1% Increase**
Net OPEB liability – Retiree healthcare plan	$	(82,808)	126,221	386,056

* Current trend rates: 5.90% graded down to 4.50% over 9 years for non-Medicare medical plan costs; 4.30% graded down to 4.50% over 7 years for Medicare medical plan costs, and 4.00 for all years for dental subsidy costs and 4.50% for all years for Medicare Part B subsidy costs

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

(h) OPEB Plan Fiduciary Net Position

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

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

In addition to amortization expense of the regulatory asset discussed in note 6, the Power System recognized OPEB expense of $(59.1) million and $4.9 million for its proportionate share of the retiree healthcare and death benefits plans, respectively for the year ended June 30, 2022. At June 30, 2022, the Power System reported deferred outflows and inflows of resources related to OPEB plans from the following sources (in thousands):

	Retiree healthcare plan		Death benefits plan		Total	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Change in proportion and differences between employer category's contributions	$ 2,834	3,139	383	904	3,217	4,043
Changes of assumptions	54,129	34,884	—	4,741	54,129	39,625
Net difference between projected and actual earnings on OPEB plan investments	—	213,498	—	353	—	213,851
Differences between expected and actual experience	—	186,884	710	2,360	710	189,244
	56,963	438,405	1,093	8,358	58,056	446,763
Employer contributions subsequent to the measurement date	73,685	—	10,083	—	83,768	—
Totals	$ 130,648	438,405	11,176	8,358	141,824	446,763

For the year ended June 30, 2021, the Power System recognized OPEB expense of $17.7 million and $4.7 million for its proportionate share of the healthcare and death benefits plans, respectively. At June 30, 2021, the Power System reported deferred outflows and inflows of resources related to OPEB plans from the following sources (in thousands):

	Retiree healthcare plan		Death benefits plan		Total	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Change in proportion and differences between employer category's contributions	$ 2,692	3,806	480	970	3,172	4,776
Changes of assumptions	66,700	41,543	—	5,806	66,700	47,349
Net difference between projected and actual earnings on OPEB plan investments	26,425	—	—	1,029	26,425	1,029
Differences between expected and actual experience	—	204,961	277	2,960	277	207,921
	95,817	250,310	757	10,765	96,574	261,075
Employer contributions subsequent to the measurement date	71,137	—	10,144	—	81,281	—
Totals	$ 166,954	250,310	10,901	10,765	177,855	261,075

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

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

	For the year ended June 30, 2022		
	Retiree healthcare plan	Death benefits plan	Total
Year ending June 30:			
2023	$ (87,749)	(1,736)	(89,485)
2024	(82,248)	(1,884)	(84,132)
2025	(74,339)	(1,733)	(76,072)
2026	(84,499)	(1,133)	(85,632)
2027	(28,479)	(688)	(29,167)
Thereafter	(24,128)	(91)	(24,219)
	$ (381,442)	(7,265)	(388,707)

	For the year ended June 30, 2021		
	Retiree healthcare plan	Death benefits plan	Total
Year ending June 30:			
2022	$ (36,440)	(1,792)	(38,232)
2023	(23,432)	(1,931)	(25,363)
2024	(17,900)	(2,080)	(19,980)
2025	(9,706)	(1,928)	(11,634)
2026	(20,385)	(1,327)	(21,712)
Thereafter	(46,630)	(949)	(47,579)
	$ (154,493)	(10,007)	(164,500)

(j) Healthcare Reform Legislation

The Patient Protection and Affordable Care Act (PPACA) was signed into law on March 23, 2010. One key provision of the PPACA is the assessment of the excise tax on high-cost plans beginning in 2018. Under this act, a 40% excise tax applies to plans with costs exceeding certain annual thresholds for non-Medicare retirees aged 55–64 ($11,850 for single coverage and $30,950 for family coverage). For all other retirees, the thresholds in 2019 and 2018 are $10,200 for single coverage and $27,500 for family coverage. Significant uncertainties exist regarding the impact of the excise tax on high-cost plans without further regulatory guidance. Management estimated the potential impact of this tax on the liability is based on unadjusted thresholds and assuming the tax is shared between the Department and its participants in the same way that the current costs are shared. The estimated impact of the 40% excise tax provision on high-cost plans beginning in 2018, under the healthcare reform, is reflected in all actuarial valuation reports after July 1, 2010. Subsequent to the June 30, 2019 valuation, the excise tax was repealed and is no longer reflected.

(k) Disability Benefits

The Power System’s allocated share of disability benefit plan costs and administrative expenses totaled $12 million for both fiscal year 2022 and 2021. Disability benefits are paid to active employees who qualify under the Plan’s provisions and terminate with the employee’s retirement.

(15) Other Long-Term Liabilities and Deferred Inflows

(a) Other Long-Term Liabilities and Deferred Inflows

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

	Balance, June 30, 2021	Additions	Reductions	Balance, June 30, 2022
Deferred inflows from regulated business activities:				
Rate stabilization	$ 180,000	—	—	180,000
Green Power Program	6,473	717		7,190
	$ 186,473	717	—	187,190
Accrued workers' compensation claims	$ 46,451	3,783	—	50,234
Other noncurrent liabilities:				
Derivative instrument liabilities	—	12,779	—	12,779
Environmental remediation liability	87,887	—	(7,428)	80,459
	$ 87,887	12,779	(7,428)	93,238

		Balance, June 30, 2020	Additions	Reductions	Balance, June 30, 2021
Deferred inflows from regulated business activities:					
Rate stabilization	$	140,000	40,000	—	180,000
Green Power Program		5,696	777	—	6,473
	$	145,696	40,777	—	186,473
Accrued workers' compensation claims	$	47,257	—	(806)	46,451
Other liabilities:					
Derivative instrument liabilities		3,928	—	(3,928)	—
Environmental remediation liability		92,894	14,384	(19,391)	87,887
	$	96,822	14,384	(23,319)	87,887

(b) Deferred Inflows from Regulated Business Activities

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

(i) Rate Stabilization Account

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

In November 2021, the Board adopted a resolution setting the rate stabilization account target at $180 million as of June 30, 2022, deferring $40 million to the rate stabilization deferred revenue account, and restricting $40 million of cash to match the rate stabilization account balance. As of June 30, 2022 and 2021, the balance in the rate stabilization account was $180 million and $180 million, respectively.

(c) Accrued Workers' Compensation Claims

Liabilities for unpaid workers' compensation claims are recorded at their net present value when they are probable of occurrence and the amount can be reasonably estimated. The liability is actuarially determined based on an estimate of the present value of the claims outstanding and an amount for claim events incurred but not reported based on the Power System's loss experience, less the amount of claims and settlements paid to date. The discount rate used to calculate the accrued workers' compensation liability as presented in the statements of net position was 2% at both June 30, 2022 and

2021. The Power System has third-party insurance coverage for workers' compensation claims over $1 million.

Overall indicated reserves for workers' compensation claims for both the Water System and the Power System, undiscounted, have been estimated at $84 million and $76 million for both June 30, 2022 and 2021, respectively. Workers' compensation claims typically take longer than one year to settle and close out. The entire discounted liability is shown as long term on the statements of net position as of June 30, 2022 and 2021.

Changes in the Department's undiscounted workers' compensation liability since June 30, 2020 are summarized as follows (amounts in thousands):

		June 30		
		2022	2021	2020
Balance at beginning of year	$	76,409	77,044	88,240
Current-year claims and changes in estimates		34,548	25,430	17,635
Payments applied		(27,388)	(26,065)	(28,831)
Balance at end of year	$	83,569	76,409	77,044

The Power System's portion of the discounted accrued workers' compensation liability is estimated at $50 million and $46 million for the fiscal years ended June 30, 2022 and 2021, respectively.

(16) Related Parties

(a) City of Los Angeles

Under the provisions of the City's charter, the Power System transfers funds at its discretion to the reserve fund of the City. Pursuant to covenants contained in the bond indentures, the transfers may not be in excess of the increase in net position before transfers to the reserve fund of the City of the prior fiscal year. Management believes such payments are not in lieu of taxes and are recorded as a transfer in the statements of revenue, expenses, and changes in net position. The Power System also reimburses the City for administrative and Office of Public Accountability costs incurred on behalf of the Power System. During fiscal years 2022 and 2021, the Power System transferred $225 million and $218 million in transfers and $22.9 million and $7.8 million in payments for services rendered by the Office of Public Accountability and City, respectively. See note 17(a).

(b) Southern California Public Power Authority

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

(c) Intermountain Power Agency

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

(d) La Kretz Innovative Campus

The Power System has entered into a 50-year prepaid lease agreement for $12 million to lease an office building to the La Kretz Innovative Campus (LKIC), a 501(c)(3) nonprofit organization. LKIC prepaid the lease in fiscal year 2015, and the $12 million is amortized to other nonoperating income starting February 2016. LKIC, in turn, leases some of the work spaces in the building to assist energy innovation companies with the resources needed to validate energy-efficient technology. The Power System has energy efficiency staff also located at the building to work with inventors and determine if there are new energy efficiency programs to launch.

(17) Commitments and Contingencies

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

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

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

During fiscal year 2022, the 2008 Electric Rate Ordinance (the 2008 Ordinance) and the 2016 Ordinance were in effect. Revenue from each ordinance is listed below as well as revenue from other sources, including contracts for wholesale energy and transmission revenue. The 12.628 cents under the 2008 Ordinance is determined based on the fiscal year's revenue billed and kilowatt hour (kWh) usage as of November 3, 2010. The 2008 Ordinance was the only ordinance in effect at that time.

The following table relates to revenue billed to customers for the year ended June 30, 2022 (in thousands), which is the basis for the FY 2022-23 city transfer:

Revenue type	Basis of revenue	kWh	Rate per kWh under the 2008 ordinance		Revenue
Retail sales (2008 Ordinance)	The 2008 Ordinance	21,310,156	0.12628	$	2,691,046
Retail sales (2016 Ordinance)	The 2016 Ordinance	21,310,156			1,688,626
Wholesale sales	Contract				125,614
Transmission sales	Contract				93,152
Rent from electric property	Contract				205
Other service charges	Fee schedule				21,384
Unbilled sales	Estimated				86,339
Bad debt expense	Estimated				(112,606)
Total operating revenue				$	4,593,760

The following table relates to revenue billed to customers for the year ended June 30, 2021 (in thousands), which is the basis for the FY 2021-22 city transfer:

Revenue type	Basis of revenue	kWh	Rate per kWh under the 2008 ordinance		Revenue
Retail sales (2008 Ordinance)	The 2008 Ordinance	20,837,903	0.12628	$	2,631,410
Retail sales (2016 Ordinance)	The 2016 Ordinance	20,837,903			1,467,184
Wholesale sales	Contract				126,925
Transmission sales	Contract				49,630
Rent from electric property	Contract				2,435
Other service charges	Fee schedule				18,730
Unbilled sales	Estimated				49,693
Bad debt expense	Estimated				(77,529)
Total operating revenue				$	4,268,478

The Power System authorized total transfers of $225 million and $218 million in fiscal years 2022 and 2021, respectively, from the Power System to the reserve fund of the City.

(b) Asset Retirement Obligations

The Power System is a minority owner of Palo Verde Nuclear Generating System. The Power System's minority share interest is 5.7% of the total decommissioning liability of $3,168,241 thousand and $3,061,103 thousand at June 30, 2022 and 2021. Arizona Public Service has operating responsibility as well as minority interest (29.1%). Other minority owners are Salt River Project (17.5%), El Paso Electric Company (15.8%), Public Service Company of New Mexico (10.2%), and Southern California Public Power Authority (5.9%). The Power System recorded its proportionate share of the asset retirement obligation based on its ownership percentage of estimates made by the primary owner of the asset.

The Power System had the following asset retirement obligations at June 30, 2022 (in thousands):

Asset	Obligation event	Timeframe required for decommissioning	June 30, 2021	Additions	Payments	June 30, 2022
Navajo Generating Station	Legal agreements resulting from Sales Contract with Salt River Project	Plant was put out of commission as of December 2019	$ 47,504	—	(12,884)	34,620
Palo Verde Nuclear Generating Station	Ownership agreement	Unit 1: June 1, 2045 Unit 2: April 24, 2046 Unit 3: November 25, 2047	174,483	6,107	—	180,590
Other	Lessee or ownership agreements	2029 - 2064	14,609	—	(5,542)	9,067
Total asset retirement obligation liability			$ 236,596	6,107	(18,426)	224,277

The Power System had the following asset retirement obligations at June 30, 2021 (in thousands):

Asset	Obligating event	Timeframe required for decommissioning	June 30, 2020	Additions	Payments	June 30, 2021
Navajo Generating Station	Legal agreement resulting from sales contract with Salt River Project	Plant was put out of commission as of December 2019	$ 51,770	3,866	(8,132)	47,504
Palo Verde Nuclear Generating Station	Ownership agreement	Unit 1: June 1, 2045 Unit 2: April 24, 2046 Unit 3: November 25, 2047	168,583	5,900	—	174,483
Other	Lessee or ownership agreements	2029–2064	17,008	354	(2,753)	14,609
Total asset retirement			$ 237,361	10,120	(10,885)	236,596

The Power System has restricted investments in the amount of $140 million and $148.0 million for the years ended June 30, 2022 and 2021, respectively, related to this reserve.

Deferred outflows related to the Power System's assets retirement obligations are as follows for the year ended June 30, 2022:

Asset	Remaining useful life of asset/ lease term		June 30, 2021	Additions	Amortization	June 30, 2022
Palo Verde Nuclear Generating Station	26	$	19,343	6,107	(774)	24,676
Other	8–43		11,066	—	(6,523)	4,543
Total deferred outflows – asset retirement obligations		$	30,409	6,107	(7,297)	29,219

Deferred outflows related to the Power System's assets retirement obligations are as follows for the year ended June 30, 2021 (in thousands):

Asset	Remaining useful life of asset/ lease term		June 30, 2020	Additions	Amortization	June 30, 2021
Palo Verde Nuclear Generating Station	27	$	13,981	5,900	(538)	19,343
Other	9–44		14,479	354	(3,767)	11,066
Total deferred outflows – asset retirement obligations		$	28,460	6,254	(4,305)	30,409

In fiscal year 2019, the Power System amortized the remaining balance of its deferred outflow on the Navajo Generating Station due to the announcement of the plant's closure in December 2019.

(c) Environmental Liabilities

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

The Power System estimates its environmental liabilities using the expected cash flow method as required by GASB No. 49. This method estimates the current value of outlays expected to be incurred and measured as a sum of the probability weighted amounts in a range of possible estimated amounts. The Power System's environmental liabilities are primarily related to generating and service stations it owns that have had release of hazardous materials or waste it is obligated by a regulator to clean up.

The estimated timeframe for cleanup and monitoring of these sites is 5–25 years. The Power System's obligations are included in other noncurrent liabilities on the statements of net position and were approximately $80 million and $88 million as of June 30, 2022 and 2021, respectively. These estimates are reviewed and updated annually.

(d) Litigation

A number of claims and suits are pending against the Power System for alleged damages to persons and property and for other alleged liabilities arising out of its operations. In the opinion of management, any ultimate liability, which may arise from these actions, is not expected to materially impact the Power System's financial position, results of operations, or cash flows as of June 30, 2022.

(e) Risk Management

The Power System is subject to certain business risks common to the utility industry. The majority of these risks are mitigated by external insurance coverage obtained by the Power System. For other significant business risks, however, the Power System has elected to self-insure. Management believes that exposure to loss arising out of self-insured business risks will not materially impact the Power System's financial position, results of operations, or cash flows as of June 30, 2022.

(f) Credit Risk

Financial instruments, which potentially expose the Power System to concentrations of credit risk, consist primarily of retail and wholesale receivables. The Power System's retail customer base is concentrated on commercial, industrial, residential, and governmental customers located within the city. Although the Power System is directly affected by the city's economy, management does not believe significant credit risk exists as of June 30, 2022 except as provided in the allowance for losses. The Power System manages its credit exposure by requiring credit enhancements from certain customers and through procedures designed to identify and monitor credit.

(g) FBI Investigation

In July 2019, the Federal Bureau of Investigation began conducting an investigation of the Department and the Office of the City Attorney. The Department is cooperating fully with the investigators. The Department has been requested by the investigating agency to exercise confidentiality with respect to the investigation. The Department can generally state that the search warrants served by the Federal Bureau of Investigation on the Department and the Office of the City Attorney relate to issues that have arisen over the class action litigation and settlement regarding the Department's billing system and the lawsuit against PricewaterhouseCoopers. Based on the Department's understanding of the nature of the investigation and the current status of the lawsuits relating to the new billing system, the Department does not believe that the investigation or the billing-system-related lawsuits will have a material adverse effect on the Department's operations or financial position.

(18) Subsequent Events

(a) Variable Rate Bonds

In November 2022, the Board authorized the Power System to execute a substitute standby agreement for the $322.8 million standby agreements expiring in January 2023. The substitute standby agreement will expire in January 2027.

(b) Bond Issuance

In December 2022, the Power System issued $28.5 million of revenue bonds, 2022 Series D. The net proceeds of $30.0 million, including a $1.5 million issue premium net of underwriter's discount, will be used to refund a portion of the Power System 2018 Series B.

In December 2022, the Power System issued $238.1 million of revenue bonds, 2022 Series E. The net proceeds of $254.0 million, including a $15.9 million issue premium net of underwriter's discount, will be used to refund a portion of the Power System 2013 Series A.

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

Required Supplementary Information

June 30, 2022

(Unaudited)

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

Last 10 fiscal years*

(Amounts in thousands other than percentages)

		2022	2021**	2020	2019	2018	2017	2016	2015	2014
Power System's proportion of the collective net pension liability (asset)		67.564 %	67.681 %	68.390 %	67.879 %	26.252 %	68.108 %	67.397 %	67.656 %	67.427 %
Power System's proportionate share of the collective net pension liability (asset)	$	(1,120,640)	752,368	564,130	618,010	916,758	1,492,508	771,122	860,748	1,207,513
Power System's covered payroll		757,984	764,838	703,197	647,319	609,032	586,967	565,606	554,731	551,159
Power System's proportionate share of the collective net pension liability (asset) as a percentage of covered payroll		(148)%	98.00 %	80.00 %	95.00 %	151.00 %	254.00 %	136.00 %	155.16 %	219.08 %
Pension plan's fiduciary net position as a percentage of total pension liability (asset)		111.05	92.00	94.00	93.00	89.00	82.00	90.00	88.41 %	82.30 %

* The Power System implemented GASB Statement No. 68 effective July 1, 2013; therefore, no information is available for the measurement periods prior to July 1, 2013.

** The measurement period for each year presented is on a one-year lag and thus the measurement periods are June 30, 2013–2020 for the Power System's fiscal years of June 30, 2014–2022, respectively.

See accompanying independent auditors' report Schedule of the Department's Pension Contributions*

Last 10 fiscal years

(Amounts in thousands other than percentages)

Reporting date for Power System June 30 [(1)]		Actuarially determined contributions [(2)]	Contributions in relation to the actuarially required contributions [(3)]	Contributions deficiency (excess)	Covered payroll	Contributions as a percentage of covered employee payroll
2022	$	302,800	318,874	(16,074)	1,178,016	27.07 %
2021		373,374	378,991	(5,616)	1,121,884	33.78
2020		424,375	422,017	2,358	1,130,066	37.34
2019		408,750	410,165	(1,415)	1,028,212	39.89
2018		425,512	433,413	(7,901)	953,636	45.45
2017		403,780	391,717	12,063	892,331	43.90
2016		368,600	362,360	6,240	861,819	42.05
2015		387,465	376,902	10,563	839,213	44.91
2014		387,824	384,266	3,558	819,924	46.87
2013		376,668	368,426	8,242	817,421	45.07

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

(2) All actuarially determined contributions through June 30, 2014 were determined as the annual requirement under GASB Statements No. 25 and No. 27.

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

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

See accompanying independent auditors' report.

Required Supplementary Information

June 30, 2022

(Unaudited)

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

Last 10 fiscal years

(Amounts in thousands other than percentages)

Reporting date of employer	Measurement date	Proportionate share of net OPEB liability (asset)	Proportionate share of net OPEB liability (asset)	Projected compensation	Covered payroll	Proportionate share of the net OPEB liability (asset) as a percentage of covered payroll	Plan's fiduciary net position as a percentage of the total OPEB liability (asset)
June 30, 2022	June 30, 2021	67.56 %	$ (235,688)	833,238	$ 757,984	(31.09) %	113.58 %
June 30, 2021	June 30, 2020	67.68	126,221	820,155	764,838	16.50	92.51
June 30, 2020	June 30, 2019	68.39	316,575	780,931	703,197	45.02	82.75
June 30, 2019	June 30, 2018	67.88	260,393	728,719	647,319	40.23	84.46
June 30, 2018	June 30, 2017	68.25	297,306	676,930	609,032	48.82	81.44

See accompanying independent auditors' report.

(Continued)

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

Required Supplementary Information

June 30, 2022

(Unaudited)

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

Last 10 fiscal years

(Amounts in thousands other than percentages)

Reporting date of employer	Measurement date	Proportionate share of net OPEB liability	Proportionate share of net OPEB liability	Projected compensation	Covered payroll	Proportionate share of the net OPEB liability as a percentage of covered payroll	Plan's fiduciary net position as a percentage of the total OPEB liability
June 30, 2022	June 30, 2021	67.56 %	$ 63,036	833,238	$ 757,984	8.32 %	30.39 %
June 30, 2021	June 30, 2020	67.68	65,225	820,155	764,838	8.53	27.94
June 30, 2020	June 30, 2019	68.39	72,118	780,931	703,197	10.26	21.46
June 30, 2019	June 30, 2018	67.88	79,188	728,719	647,319	12.23	18.91
June 30, 2018	June 30, 2017	68.25	81,373	676,930	609,032	13.36	18.79

See accompanying independent auditors' report.

(Continued)

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

Required Supplementary Information

June 30, 2022

(Unaudited)

Schedule of Department Contributions – Retiree Healthcare Plan*

Last 10 fiscal years

(Amounts in thousands other than percentages)

Reporting date for the Power System June 30	Actuarially determined contributions (1)	Contributions in relation to the actuarially required contributions (2)	Contributions deficiency (excess)	Covered payroll	Contributions as a percentage of covered employee payroll
2022	$ 49,688	112,081	(62,393)	1,178,016	9.51 %
2021	63,165	109,282	(46,117)	1,121,884	9.74
2020	95,375	109,401	(14,026)	1,130,066	9.68
2019	80,851	101,595	(20,744)	1,028,212	9.88
2018	85,339	95,233	(9,894)	953,635	9.99
2017	93,920	90,310	3,610	892,332	10.12
2016	61,971	79,896	(17,925)	861,819	9.27
2015	70,748	78,497	(7,749)	839,214	9.35
2014	58,453	74,106	(15,653)	819,924	9.04
2013	36,908	67,563	(30,655)	817,421	8.27

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

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

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

See accompanying independent auditors’ report.

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

Required Supplementary Information

June 30, 2022

(Unaudited)

Schedule of Department Contributions – Death Benefit Plan*

Last 10 fiscal years

(Amounts in thousands other than percentages)

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

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

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

See accompanying independent auditors' report.