STATE OF CALIFORNIA – CALIFORNIA NATURAL RESOURCES AGENCY

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OCT 21 2010

TO: Distribution List

Assembly Bill 1X (Chapter 4, Statutes of 2001), among other things, established Section 27 of the California Water Code, authorized the Department of Water Resources (DWR) to enter into long-term contracts with power suppliers, authorized DWR to issue revenue bonds and required DWR to make quarterly and annual reports to the Governor and the Legislature regarding California Energy Resources Scheduling Division's (CERS) activities. The accompanying report contains results of operating activities with detail on remittance revenues, long-term power contract and administrative expenditures and CERS financial position as of December 31, 2009.

If you have any questions, please contact me at (916) 653-7007 or your staff may contact Russell Mills, Chief of Financial Management, at (916) 574-2756.

Sincerely,

Mark W. Cowin
Director

Attachment

Distribution List

Electronic copy of one-page summary distributed to all members of the Legislature

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# Report to the Legislature
# Assembly Bill 1X, Chapter 4, Statutes of 2001
# Activities and Expenditures Report for Quarter Ended December 31, 2009

Assembly Bill 1X (Chapter 4, Statutes of 2001), among other things, established Section 27 of the California Water Code, authorized the Department of Water Resources (DWR) to enter into long-term contracts with power generators, created the Power Supply Revenue Bond program and required DWR to make quarterly and annual reports to the Governor and the Legislature regarding California Energy Resources Scheduling Divisions' (CERS) activities.

CERS purchases power under the terms of its existing contracts, all of which were entered into prior to January 1, 2003. The scheduling, dispatch and certain other administrative functions for the existing contracts are managed by the investor owned utilities. CERS continues to have financial and legal responsibility for its contract portfolio and oversees repayment of the outstanding revenue bonds.

As required by Assembly Bill 1X, this report provides historical information with respect to cash receipts, disbursements, bonds outstanding and cash balances for the quarter ended December 31, 2009. There are no unexpected trends, and cash balances at the end of this quarter met or exceeded amounts required by the Trust Indenture for the Power Supply Revenue Bonds. The report also compares CERS' 2010 fiscal year appropriated costs to budget for the quarter ended December 31, 2009, and demonstrates that CERS' expenditures are within budget.

This report is available on the DWR website at:
http://wwwcers.water.ca.gov/pdf_files/021710_epf_qtr_end_123109.pdf

# California Energy Resources Scheduling

## A Division of
## California Department of Water Resources

## Activities and Expenditures Report
## Year Ended December 31, 2009

**(Provides Data as Required by Section 80250 of the California Water Code )**

# Activities and Expenditures Report
## For The Year Ended December 31, 2009


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# Activities and Expenditures Report
## Preface

Pursuant to the reporting requirement in Section 80250 of the California Water Code, the following information reflects energy acquisition activities and expenditures incurred by the California Energy Resources Scheduling Division (CERS) of the Department of Water Resources (DWR) for the year 2009. Included are all costs related to energy acquisition and administration.

CERS purchases power under the terms of its existing contracts, all of which were entered into prior to January 1, 2003. The scheduling, dispatch and certain other administrative functions for the existing contracts are managed by the investor owned utilities. CERS continues to have financial and legal responsibility for its contract portfolio and will oversee repayment of the revenue bonds.

The audited financial statements for the years ended June 30, 2009 and 2008, and the un-audited financial statements for the quarter ended December 31, 2009, prepared in accordance with generally accepted accounting principles, can be referenced at the following link: http://www.cers.water.ca.gov/financial_bonds.cfm

This report is available on the DWR website at www.cers.water.ca.gov.

# CERS History

**Winter 2000-2001**
Spot market prices skyrocket to $2,000 a megawatt hour while averaging about $400 per MWh – nearly 10 times the cost of power at the same time in the previous year.

Debt grows for California's investor-owned utilities (IOUs) as purchased power costs exceed what they are able to recoup from ratepayers. Suppliers refuse to sell to IOUs over credit concerns.

Large amounts of generators off-line resulting in statewide rotating blackouts.

**Governor Issues Emergency Proclamation**
On January 17, 2001, the Governor issues an Emergency Proclamation directing the Department of Water Resources to purchase power on behalf of the State's IOU customers.

DWR created a new division within DWR, CERS division, that immediately began purchasing power. During the summer of 2001 alone, CERS had purchased 17,000 megawatts of electricity, enough power to supply about 17 million homes and businesses. By the end of 2001, CERS spent nearly $11 billion to keep the power flowing in California.

**Long-Term Power Contracts**
To reduce its daily exposure to the volatile spot energy market, CERS entered into various long-term contracts to lock in more stable, predictable prices.

The contracts also resulted in an injection in new power supplies by providing a guaranteed revenue source needed to finance more than 5,000 megawatts of newly built power plants. In total, DWR entered into 58 long-term agreements in 2001 and 2002 at a cost of $42 billion.

# CERS History – Cont.

**Power Markets Stabilize - Reliability Restored**

The average spot market price of electricity fell from $355 per megawatt hour in January 2001 to $72 a megawatt hour just five months later. There were no power interruptions in the summers of 2001 or 2002.

CERS concluded its daily power purchases operation on January 1, 2003, successfully returning that responsibility to the utilities who were able to improve their credit standing during DWR's nearly two years as California's principal power buyer.

**CERS Today**

The utilities currently act as CERS' agent in managing and dispatching the energy associated with the long-term contracts. Absent full assignment of the contracts to the utilities, CERS fulfills its financial and legal responsibilities for the contracts by auditing the utilities' performance to ensure accurate billing and supplier compliance with contract terms, as well as reviewing and approving utility gas supply plans and financial hedging for those contracts with gas tolling arrangements.

CERS also services $9.5 billion in bonds. Initial bond proceeds of $11.3 billion in 2002 were used to repay $6.5 billion to the General Fund, retire a $3.4 billion short-term loan, and to maintain adequate reserve levels.

CERS produces an annual Revenue Requirement – filed with the California Public Utilities Commission (CPUC) – that specifies the contract and bond-related expenses that must be recovered from the utility customers, and actively monitors and reports on its revenue flows and operating balances in compliance with its financial duties related to the bonds.

# Refunds

The state is still seeking refunds on short-term electricity purchases DWR made during the energy crisis on behalf of the IOUs. There are two categories of claims, one from FERC jurisdictional entities (power marketer, investor-owned utilities) and the other from non-FERC jurisdictional entities (municipal utilities, and other governmental entities). The three IOUs – Pacific Gas & Electric (PG&E), Southern California Edison (SCE), and San Diego Gas & Electric (SDG&E) are also seeking refunds on their short-term electricity purchases during the summer 2000 period up to January 2001 when DWR began purchasing electricity on their behalf.

Refund Claims (against Municipal and Non-Jurisdictional Entities) at 100% of Face Value

| | |
|---|---|
| DWR | $645,952,553 |
| All CA Parties (including DWR) | $1,245,387,533 |

Refund Claims (against FERC Jurisdictional Entities) at 100% of Face Value

| | |
|---|---|
| DWR | $1,900,481,846 |
| All CA Parties (including DWR) | $3,058,149,318 |

As of December 31, 2009 DWR will have received $882 million in cash refunds on short-term, electricity purchases during the energy crisis. Another $68 million in refunds to DWR is being held in escrow accounts waiting for resolution of other pending claims against the energy suppliers.

The refunds are used to offset the cost of the electricity DWR is currently purchasing under the long-term energy contracts that it entered into on behalf of the three IOUs.

# Long-Term Contracts Summary

- **Number of Original agreements:** 58
- **Original portfolio projected cost:** $42.5 billion
- **Agreements Renegotiated:** 35
- **Number of original counter-parties:** 30 – Allegheny, Allliance Colton, BPA, CalPeak, Calpine, Capitol, Clearwood, Constellation, High Desert, Coral, Dynegy, El Paso, GWF, Intercom, Kings River, PG&E Energy Trading, PacifiCorp, Pinnacle West, Mirant, Morgan Stanley, Primary Power (Imperial Valley), PX Block Forward, San Francisco, Santa Cruz, Sempra, Soledad, Sunrise, Whitewater Energy, Williams, Wellhead.
- **Number of counter-parties with renegotiated contracts:** 19 -- Calpine, High Desert, Constellation, Whitewater Energy, Capitol Power, CalPeak, GWF, Colton Power, Mountain View Power Partners (formerly PG&E Trading contract), Williams, Clearwood, Wellhead, County of Santa Cruz, Sunrise Power, Goldman Sachs (formerly Allegheny contract), Soledad, El Paso, Morgan Stanley, Mirant.
- **Cost reductions through renegotiations:** Approximately $7.5 billion
- **Agreements expired:** 29
- **Agreements terminated:** 4
- **Number of agreements remaining (from original 58):** 25
- **Current projected portfolio cost (2010-2015):** $4.9 billion
- **Portion of portfolio cost that is the cost of natural gas:** $2.1 billion

DWR's long-term contracts are available at www.cers.water.ca.gov.

# Summary of Current DWR-CERS Contracts Portfolio

| Contract Types | Contracts by IOU Allocation (Contracts in Effect 2009) | | |
|---|---|---|---|
| | PG&E | SCE | SDG&E |
| **Market Resources** (Fixed Price & Quantity) | | Goldman Sachs (formally Alleghany)<br>JP Morgan Gas Supply Contract (formally Williams) | JP Morgan - Product B&C (formally Williams)<br>JP Morgan Gas Supply Contract (formally Williams) |
| **Portfolio of Resources** (May also be provided from market) | Coral<br>Iberdrola (formally Pacificorp) | Sempa | |
| **Unit Specific Resources** (Dispatchable, except 3 wind contracts) | Calpeak (Panoche)<br>Calpeak (Vaca-Dixon)<br>Calpine 2 (Reneg.)<br>Calpine 3<br>CCSF<br>GWF<br>KRCD<br>Wellhead (Fresno)<br>Wellhead (Gates)<br>Wellhead (Panoche) | Colton Power<br>High Desert<br>Mountainview Wind (formally PG&E ET)<br>JP Morgan - Product D (formally Williams) | Calpeak (Border)<br>Calpeak (El Cajon)<br>Calpeak (Enterprise)<br>Sunrise<br>Shell Wind Energy (formally WhtWtr. Cabazon)<br>Shell Wind Energy (formally WhtWtr. Hill) |

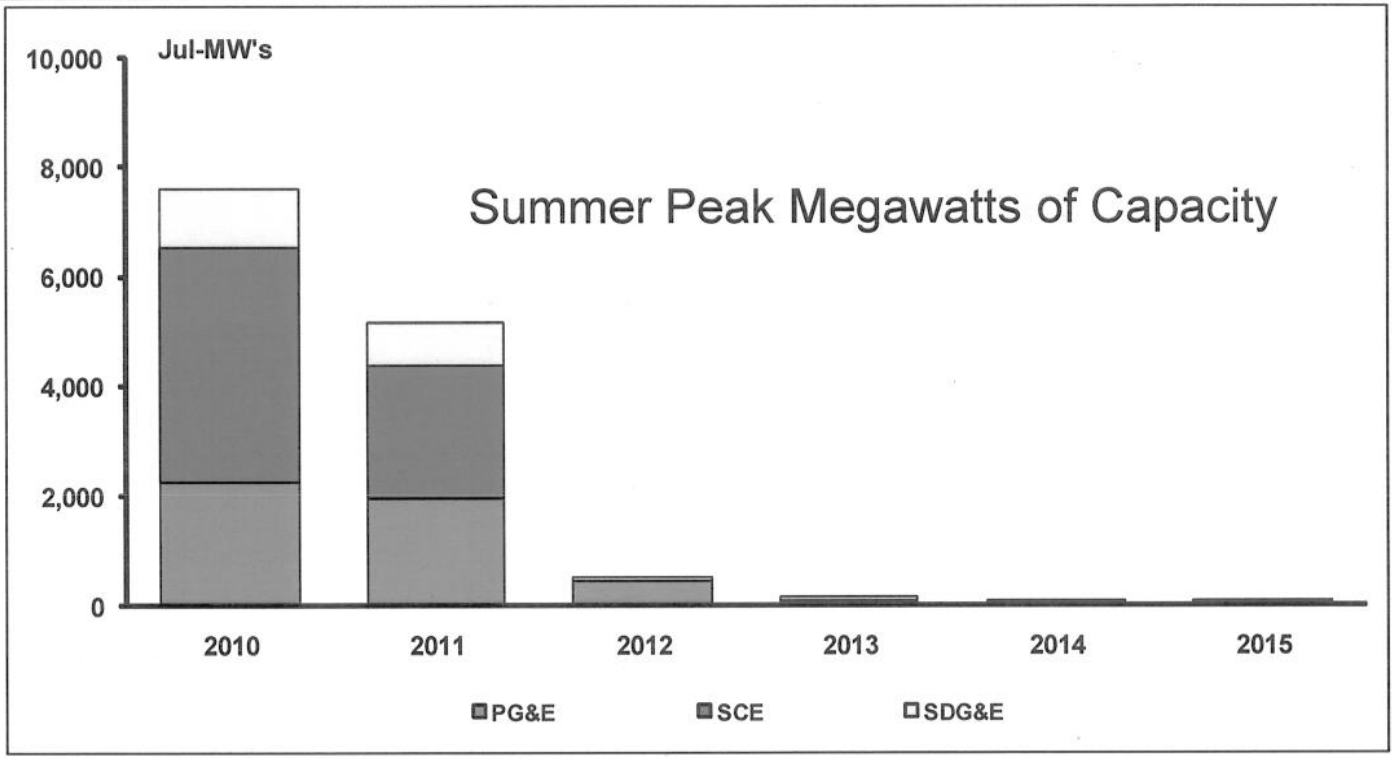
# Expiration Dates of Current DWR-CERS Contract Portfolio

| Contracts in Effect 2010 (Year-end expiration unless otherwise noted) | | | | | | |
|---|---|---|---|---|---|---|
| **2003** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** |
| **Constellation Power** (Prod 1 expired Jun-'03, Prod 2 expired Oct-'03) | **Colton Power** (Oct'-10) | **Calpeak(s)** (2 projects Oct-'11, 3 projects Dec-'11) | **Coral** (Jun-'12) | **Shell Wind Energy** (2 Contracts, formally WhtWtr. Cabazon & Hill) | No Contracts Expire | **Kings River** (Sept-'15) |
| **Goldman Sachs Group** (NP-15 product) | **JP Morgan** (formally Williams) (Product B,C,D, & Gas Supply Contract) | **Calpine 3** (Jul'-11) | **GWF Ph3** (Oct-'12) | | | |
| **Intercom** (Expired Aug-'03) | | **Goldman Sachs** (formally Allegheny) | **Sunrise** (Jun-'12) | | | |
| **Primary Power** | | **GWF** (Phase 1 & 2) | **Calpine 2** (reneg. w/ 3-Yr option) | | | |
| **2004** | | **High Desert** (Mar-'11) | | | | |
| **Dynegy** | | **Mountainview Wind** (formally PG&E ET) (Sept-'11) | | | | |
| **2005** | | **Iberdrola** (formally Pacificorp) (Jun-'11) | | | | |
| **El Paso** | | **Sempra** (Sept-'11) | | | | |
| **Morgan Stanley** | | **Wellhead(s)** 3 projects (Oct-'11) | | | | |
| **2006** | | | | | | |
| **Calpine 4** (San Jose) | | | | | | |
| **Soledad** | | | | | | |
| **2007** | | | | | | |
| **Williams** (Product A) | | | | | | |
| **2008** | | | | | | |
| None | | | | | | |
| **2009** | | | | | | |
| Calpine 1 | | | | | | |
| **Contract MW's Exipring**** (non-coincident) | | | | | | |
| 4,590 | 1,450 | 4,670 | 1,520 | 100 | 0 | 100 |



(**) MW's shown were available during all or part of the calendar year that will not be available the following year. Contract MW's expiring are non-coincident and not cumulative due to expiration date and annual MW's may vary.

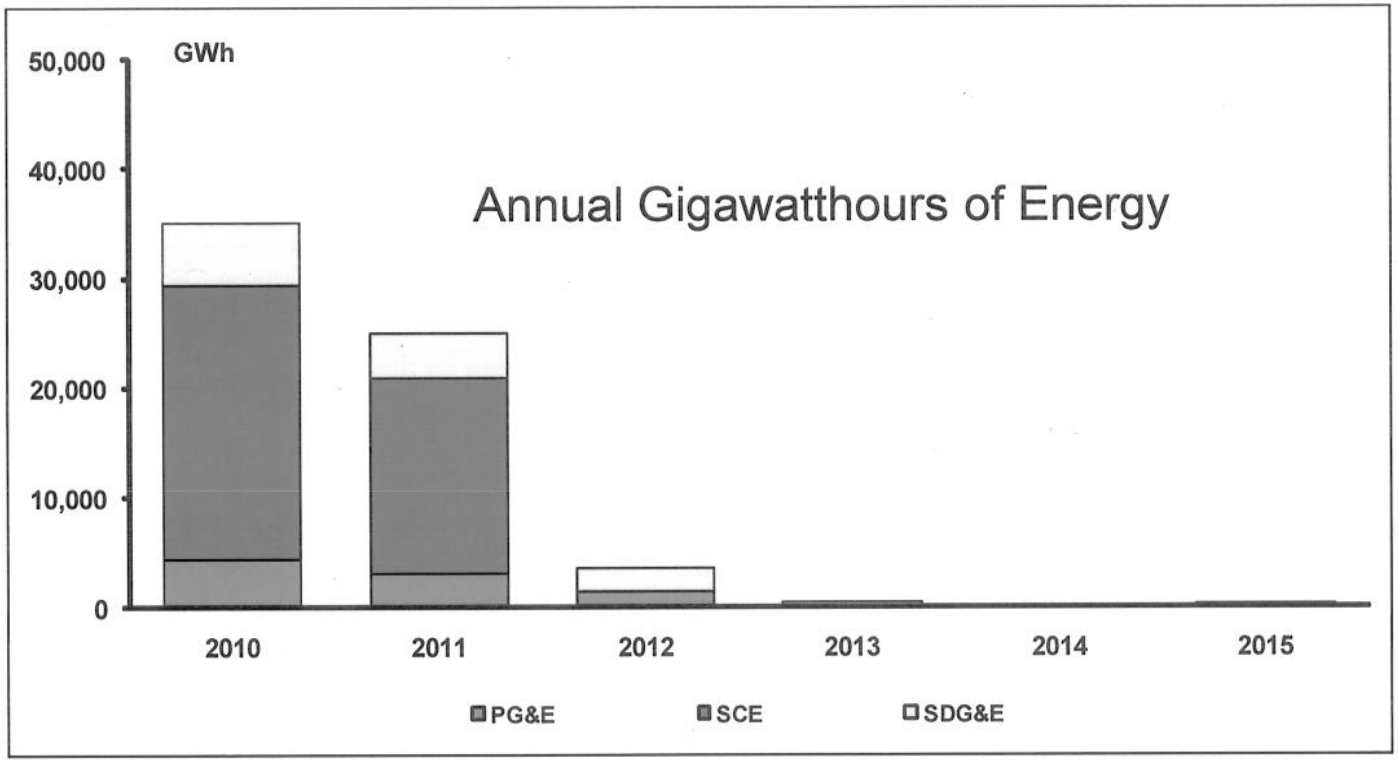
# Contract Allocation Among IOUs




| Contract Capacity (Jul-MW) | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| PG&E | 2,250 | 1,950 | 450 | 100 | 100 | 100 |
| SCE | 4,280 | 2,430 | 0 | 0 | 0 | 0 |
| SDG&E | 1,080 | 760 | 60 | 60 | 0 | 0 |
| TOTAL | 7,610 | 5,140 | 510 | 160 | 100 | 100 |

Data: DWR-CERS revenue requirement model (PM16).

# Contract Allocation Among IOUs

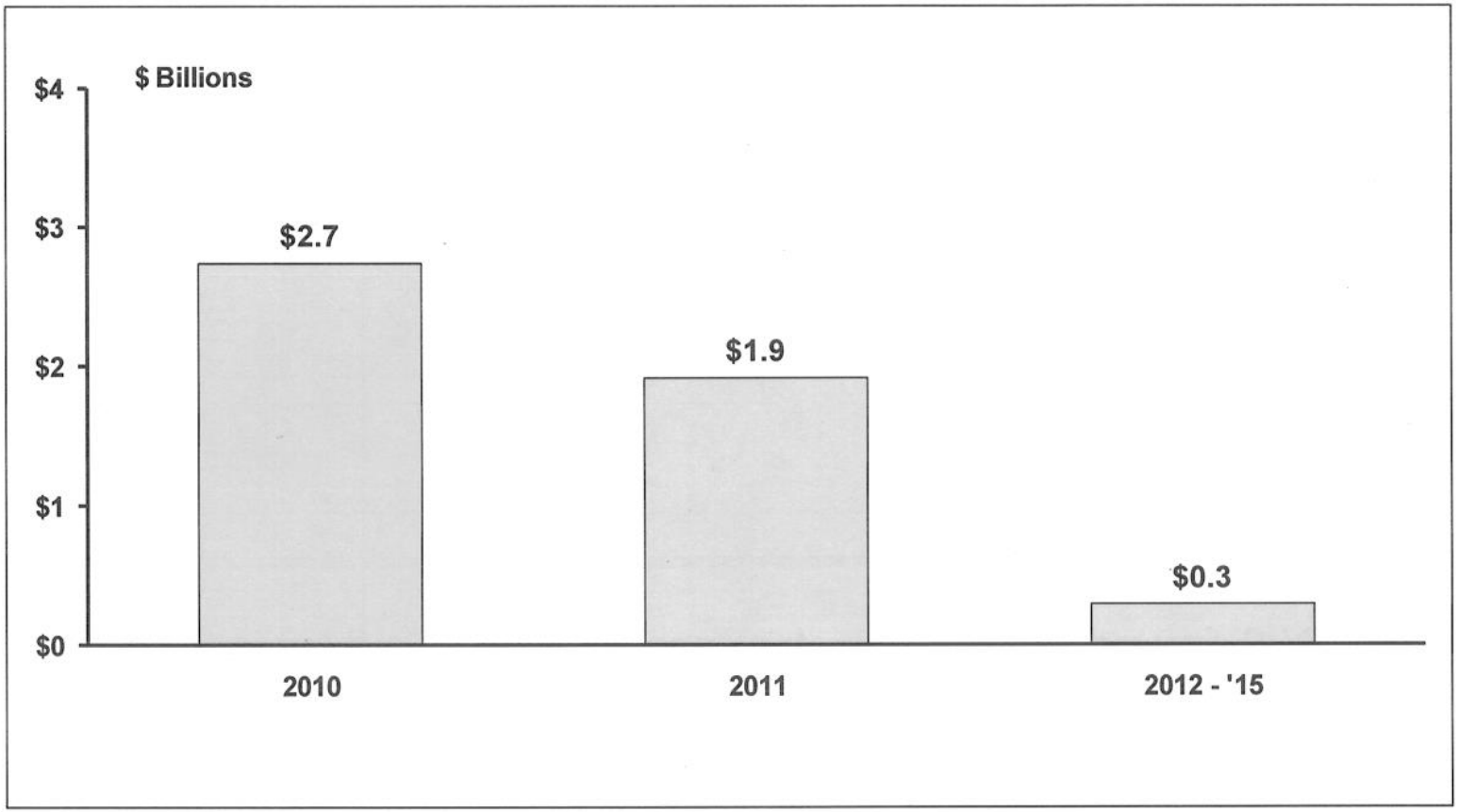



| Contract Energy (GWh) | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| PG&E | 4,400 | 3,100 | 1,400 | 100 | 100 | 200 |
| SCE | 24,900 | 17,800 | 0 | 0 | 0 | 0 |
| SDG&E | 5,800 | 4,100 | 2,200 | 300 | 0 | 0 |
| TOTAL | 35,100 | 25,000 | 3,600 | 400 | 100 | 200 |

Data: DWR-CERS revenue requirement model (PM16).

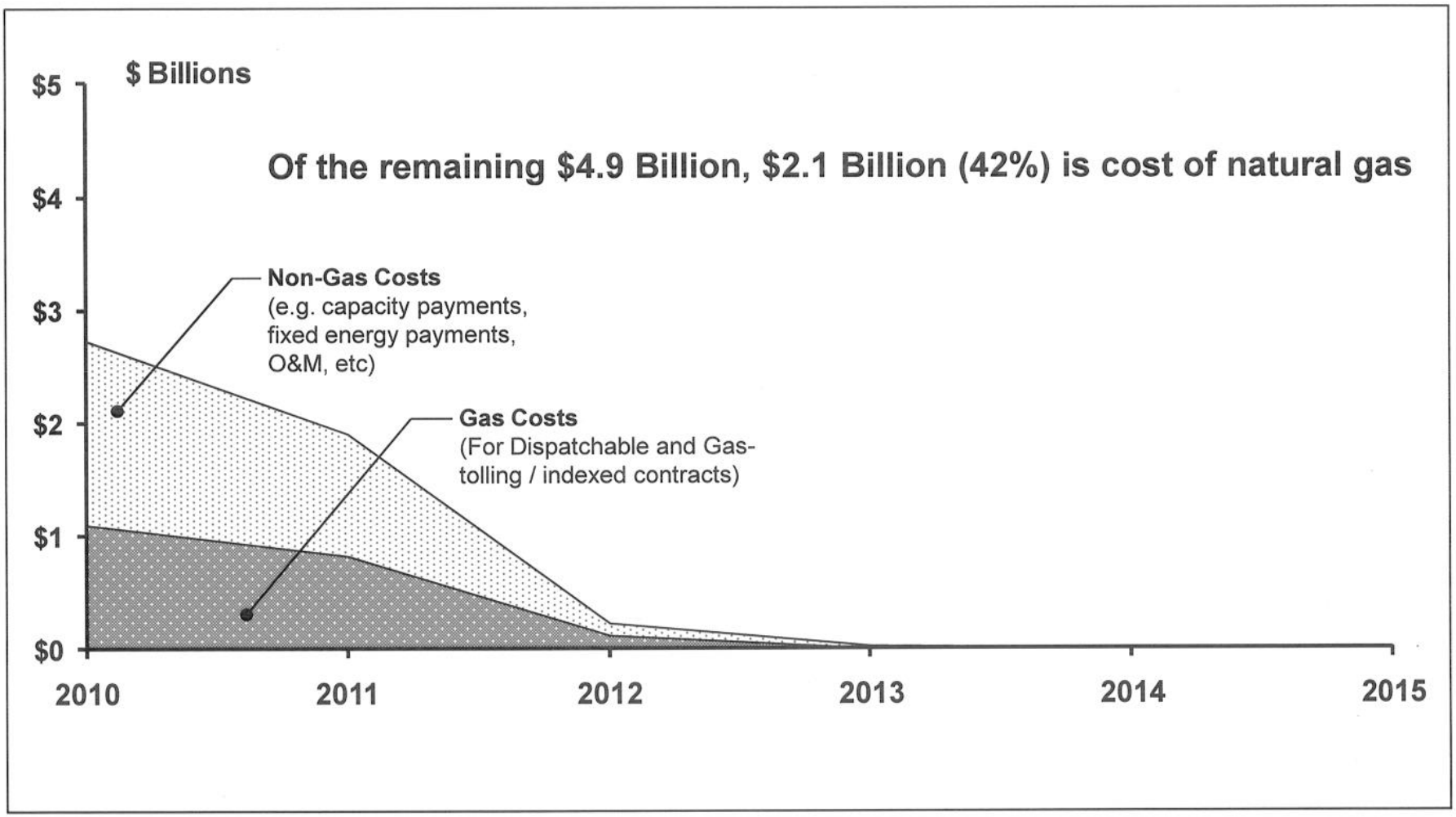
# Summary of DWR-CERS Contract Costs – 2010 thru 2015

The remaining cost for the portfolio of contracts, from 2010 through 2015, is approximately $4.9 billion dollars.




Note: Annual projections may vary due to updates to gas price forecasts, contract utilization, and other assumptions.

# Summary of DWR-CERS Contract Costs – 2010 thru 2015




Note: Data from DWR-CERS revenue requirement model (PM16).

Annual projections may vary due to updates to gas price forecasts, contract utilization, and other assumptions. **Excludes Williams Gas Supply Contract, revenue from surplus energy sales, bond charges, reserves, and other costs.**

# DWR Revenue Requirement

Pursuant to Sections 80110 and 80134 of the California Water Code and the March 8, 2002 Rate Agreement between DWR and CPUC, DWR notifies CPUC of its projected costs for the upcoming calendar year by submitting a Revenue Requirement.

The Revenue Requirement includes projected costs for the energy and administration of the long-term contracts for an upcoming calendar year. These cost projections take into account the amount of energy from the contracts expected to be dispatched to customers, sales from surplus energy, the costs of natural gas, and settlement payments. Because these cost forecasts may be updated throughout the year, DWR may submit a "Supplemental" Revenue Requirement to capture the cost changes to either recover increased costs or to return revenue to customers.

The costs outlined in the Revenue Requirement are ultimately recovered by DWR from payments made by customers and collected by IOUs on behalf of DWR.

The Revenue Requirement determination is produced at least once per year, typically between the months of June and September. Following a public comment period, DWR formally files the final determination with CPUC. CPUC, through a public comment process, then establishes power charges and bond charges sufficient to meet DWR's revenue requirement pursuant to the rate agreement.

Power and Related Costs:

- Costs associated with power supply to be delivered under the CERS' priority long-term contracts
- Administrative and general expenses
- Extraordinary costs
- Operating reserves

Power Charge Revenues:

- Revenues from other power sales
- Interest earnings
- Power Charge revenues (including both Power Charge revenues and Direct Access Power Charge revenues, as defined in the Bond Indenture)

Bond Related Costs:

- Debt service on the bonds
- Changes to Bond Charge Account balances

Bond Charge Revenues:

- Interest earned on Bond Charge Account balances
- Bond Charge Revenues

# Revenue Requirement – continued

**2010 Revenue Requirement**

- DWR's 2010 Revenue Requirement was released for public review and comment on August 6, 2009. DWR finalized its 2010 Revenue Requirement and submitted it to the CPUC on October 27, 2009.
- DWR total Revenue Requirement for 2010 is $3.022 billion consisting of $2.126 billion for power charges and $896 million for bond charges.
- Power charges required for 2010 are $1.504 billion lower than 2009, as a result of declining power costs from the expiration of long term contracts and lower forecasted gas prices reducing total forecasted power costs.
- Lower than expected power costs in 2009 resulted in DWR collecting more from ratepayers than needed to pay for contracted energy allowing DWR to return excess reserves of $698 million through lower rates in 2010.
- Power charge rates are forecasted to be $60/mwh in 2010, down from $89/mwh in 2009.
- Bond charge rates are forecasted to be $5/mwh, similar to prior years as the Power Fund has a level debt service and amortization schedule as part of its financing structure.
- The CPUC approved the 2010 Revenue Requirement during its December 3rd meeting and implemented new rates on January 1, 2010.

DWR's Revenue Requirement filings are available at www.cers.water.ca.gov.

# Bond Refunding Activities

- In 2005, DWR refunded $2.594 billion of the original 2002 Revenue Bonds and issued variable rate 2005 Series F and G bonds to lower interest costs.

- Due to credit rating downgrades to bond insurers whose credit ratings had been lowered to below AAA as a result of the subprime loan crisis, DWR began a refunding process in March 2008 to reduce risk exposure and lower interest costs. In March and April 2008, DWR refunded $1.825 billion bonds Series C, D, and G bonds, issuing Series H, I, J and K bonds, thereby eliminating exposure to bond insurer's experiencing difficulty.

- In November DWR refunded $173 million Series G variable rate bonds to fixed rate. The bonds had expiring credit facilities related to the bonds and DWR could not renew or replace the facilities due to the credit market turmoil negatively impacting many banks that provide credit facilities.

- In January 2009, subsequent to December 31, 2008, DWR refunded an additional $350 million of Series F variable rate bonds to fixed rate due to expiring credit facilities that could not be renewed. The amount of bonds outstanding remained at $9.525 billion after the transaction.

# Power Revenue Bonds
## December 31, 2009 (in millions)

| Series | Initial Principal Amount | December 31, 2009 Outstanding Principal Amount | Interest Rate Mode |
|---|---|---|---|
| Initial Issues | | | |
| Series 2002A | $ 6,314 | $ 2,458 | Fixed |
| Series 2002B | 1,000 | 1,000 | Variable |
| Series 2002C | 2,750 | 2,229 | Variable |
| Series 2002D | 500 | | |
| Series 2002E (Taxable) | 700 | | |
| Total | $ 11,264 | | |
| Refunding Issues | | | |
| Series 2005F | $ 759 | $ 757 | Variable and Fixed |
| Series 2005G | 1,835 | 819 | Variable and Fixed |
| Series 2008H | 1,007 | 1,007 | Fixed |
| Series 2008I | 150 | 150 | Variable |
| Series 2008J | 130 | 330 | Variable |
| Series 2008K | 279 | 279 | Fixed |
| Total | $ 4,160 | | |
| Total Bonds Outstanding | | $ 9,029 | |

# Cash Balances
## December 31, 2009

**(in millions)**

| | | |
|---|---|---|
| **Power Accounts** | | |
| Administrative, Operating and Priority Contract Accounts | $ | 1,334 |
| Operating Reserve Account | | 543 |
| Total Power Account Balances | $ | 1,877 |
| **Bond Accounts** | | |
| Bond Charge Collection Account | $ | 390 |
| Bond Charge Payment Account | | 573 |
| Debt Service Reserve Account | | 950 |
| Total Bond Account Balances | $ | 1,913 |

**Note:** All cash balances met the requirements of the Bond Indenture at quarter end and for each day during the quarter.

# Revenues from IOU Ratepayers
## Year Ended December 31, 2009

(in millions)

| Power Charges | Pacific Gas & Electric | San Diego Gas & Electric | Southern California Edison | Total |
|---|---|---|---|---|
| Quarter Ended March 31, 2009 | $ 270 | $ 118 | $ 470 | $ 858 |
| Quarter Ended June 30, 2009 | 338 | 138 | 343 | 819 |
| Quarter Ended September 30, 2009 | 476 | 131 | 349 | 956 |
| Quarter Ended December 31, 2009 | 481 | 141 | 368 | 990 |
| **Total Power Charges 2009** | $ 1,565 | $ 528 | $ 1,530 | $ 3,623 |
| **Bond Charges** | | | | |
| Quarter Ended March 31, 2009 | $ 86 | $ 21 | $ 88 | $ 195 |
| Quarter Ended June 30, 2009 | 92 | 21 | 92 | 205 |
| Quarter Ended September 30, 2009 | 107 | 23 | 106 | 236 |
| Quarter Ended December 31, 2009 | 100 | 23 | 101 | 228 |
| **Total Bond Charges 2009** | $ 385 | $ 88 | $ 387 | $ 864 |

# DWR Contract Expenditures for the Benefit of Ratepayers

## Year Ended December 31, 2009 (in millions)

| Utility | Total Power Costs | Total MWh | Total Gas Costs | Total MMBtu |
|---|---|---|---|---|
| **Pacific Gas & Electric** | | | | |
| Quarter Ended March 31, 2008 | $ 257 | 3.35 | $ 50 | 1.74 |
| Quarter Ended June 30, 2009 | 216 | 2.96 | 24 | 1.03 |
| Quarter Ended September 30, 2009 | 261 | 4.02 | 19 | 2.21 |
| Quarter Ended December 31, 2009 | 253 | 3.91 | 18 | 2.02 |
| **Southern California Edison** | | | | |
| Quarter Ended March 31, 2008 | 258 | 7.58 | 202 | 32.35 |
| Quarter Ended June 30, 2009 | 252 | 7.27 | 116 | 26.78 |
| Quarter Ended September 30, 2009 | 270 | 6.76 | 129 | 32.64 |
| Quarter Ended December 31, 2009 | 259 | 7.21 | 119 | 31.34 |
| **San Diego Gas & Electric** | | | | |
| Quarter Ended March 31, 2008 | 48 | 1.32 | 38 | 6.42 |
| Quarter Ended June 30, 2009 | 44 | 1.11 | 21 | 6.43 |
| Quarter Ended September 30, 2009 | 109 | 1.38 | 23 | 6.51 |
| Quarter Ended December 31, 2009 | 68 | 1.33 | 30 | 7.46 |
| **Total 2009** | **$ 2,295** | **48.20** | **$ 789** | **156.93** |

# Appropriated Costs Fiscal Year 2010
## Six Months Ended December 31, 2009 (in millions)

| | Annual Budget for Fiscal Year Ended June 30, 2010 | Pro rated Budget for six months Ended December 31, 2009 | Actual Expenditures through December 31, 2009 |
|---|---|---|---|
| Salaries, Benefits and Distributed Administrative Costs | $7.9 | $4.0 | $3.6 |
| Consulting Companies and Personal Service Consultants | 9.0 | 4.5 | 2.2 |
| Other Operating Expenses and Equipment | 1.9 | 1.0 | 0.4 |
| Subtotal | 18.8 | 9.4 | 6.2 |
| Allocation of Statewide Pro-Rata Costs | 7.3 | 3.7 | 3.1 |
| **TOTAL ADMINISTRATIVE COSTS** | $26.1 | $13.1 | $9.3 |