

California Department of Water Resources



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DWR RELEASES NEWLY UPDATED REVENUE REQUIREMENT Public Workshop is Planned Prior to Filing with CPUC

Sacramento - The California Department of Water Resources today released a newly updated revenue requirement showing a 20 percent decrease in projected power cost from previous estimates.

The update to the revenue requirement was necessary following significant changes in market conditions, including: conservation, lower natural gas prices, continued reduction in spot market prices due to market stability established by long-term contracts, and an increase in direct access allowed by the California Public Utilities Commission (CPUC).

Compared to the Department's August 7, 2001 filing with the CPUC, the Department's projected total costs from Jan. 17, 2001 through Dec. 31, 2002, fell from \$21.45 billion to the current estimate of \$17.2 billion. The Department's California Energy Resources Scheduling division as has been purchasing power since Jan. 17, 2001 on behalf of Pacific Gas & Electric, Southern California Edison and San Diego Gas & Electric.

"The reality is that the long-term contracts were a significant factor in creating stability and reliability in a market that was completely in disarray when we began buying energy," said Pete Garris, who oversees the Department's power buying division.

The projections, however, would have dropped significantly more for ratepayers had the CPUC acted to suspend direct access on July 1, 2001, as it had originally intended, instead of on Sept. 20, 2001. As a result, based on information provided to the Department by the CPUC and investor owned utilities, direct access participation increased from an estimated 2 percent of total investor owned utility customers' loads to about 13 percent. Direct

access participants are allowed to choose another power supplier without paying costs already incurred on their behalf. The remaining customers must then absorb those additional costs.

"Unfortunately, all of the savings generated by the improving market conditions will not be immediately passed along to ratepayers," Garris explained. "Put simply, the PUC's delay in suspending direct access means DWR's costs will have to be recovered from fewer customers and the impact will be greatest on smaller, retail customers."

In addition, the CPUC failure to approve a rate agreement with DWR in a timely manner also delayed issuance of long-term bonds to recover costs. The delay forced the DWR to convert its \$4.3 billion interim financing into a three-year term loan with substantially higher annual costs. The additional costs for the interim financing and the delay the long-term bond issuance have increased the revenue requirement approximately \$1.2 billion.

"As soon as we can go forward with issuing the long-term bonds, the Department may be in a position to lower its costs further, with a possible reduction in customer electrical rates as a result," Garris added. The Department has scheduled a public workshop on the updated revenue requirements from 1 p.m. to 5 p.m. Monday, Oct. 22, 2001, at the California Environmental Protection Agency building, 1001 I Street, Central Valley Conference Room, 2nd Floor, in Sacramento.

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