Department of Water Resources
Electric Power Fund
Financial Statements

For the year ended June 30, 2022
(with comparative amounts for 2021)

California
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Independent Auditor's Report

To the Director of the State of California
Department of Water Resources
Sacramento, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the State of California Department of Water Resources Electric Power (Fund), an enterprise fund of the State of California, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Fund's basic 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 respective financial position of the Fund, as of June 30, 2022 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 *(Government Auditing Standards)*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, the Fund has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended June 30, 2022. Accordingly, a restatement has been made as of July 1, 2021, to restate beginning net position. Our opinion is not modified with respect to this matter.

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Individual Fund Financial Statements

As discussed in Note 2 to the financial statements, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the State of California as of June 30, 2022, and the changes in its financial positions and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the 2021 financial statements of the Fund, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 5, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects with the exception of the change in accounting principle identified in the preceding paragraph, with the audited financial statements from which it has been derived.

Responsibilities of Management for the Financial Statements

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

Auditor's 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 auditor's 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 Fund's 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension schedules, and OPEB schedules 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit 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 September 12, 2023, on our consideration of the Fund's internal control over financial reporting 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 Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fund's internal control over financial reporting and compliance.

Eide Bailly LLP

Sacramento, California
September 12, 2023

This Management Discussion and Analysis (MD&A) is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in financial position of the Department of Water Resources Electric Power Fund (the Fund), which is administered by the California Department of Water Resources (DWR or Department). Readers are encouraged to consider the information presented in the MD&A in conjunction with the financial statements that follow. This MD&A and the financial statements do not relate to DWR's other governmental and proprietary funds.

The financial statements include three required statements, which provide different views of the Fund. The three required statements are:

- The Statement of Net Position: includes all assets, liabilities and deferred outflows and inflows of resources as of the period ending date.
- The Statement of Revenues, Expenses and Changes in Net Position: presents all current year's revenues, expenses, and changes in net position.
- The Statement of Cash Flows: reports cash receipts, payments and the net change in cash resulting from four principal types of activities: operating, capital financing, non-capital financing and investing.

These statements provide current and long-term information about the Fund and its activities. These financial statements report information using accounting methods similar (although not identical) to those used by private sector companies. In order for the financial statements to be complete, they must be accompanied by a complete set of Notes. The Notes to Financial Statements provide disclosures which are required to conform to generally accepted accounting principles. The Fund is required to follow accounting standards promulgated by the Governmental Accounting Standards Board (GASB).

PURPOSE OF FUND

The Fund was established in January 2001 through legislation to assist in mitigation of the effects of a statewide energy supply emergency.

The legislation granted the Fund the authority to secure and retain title to power for resale to end use customers in the State's investor-owned utilities (IOUs) service areas under power supply contracts entered into prior to January 1, 2003. The scheduling, dispatch, and certain other administrative functions for the long-term contracts were performed by the IOUs as agents for the Fund. However, the Fund retained the legal and financial responsibility for each contract for the life of the contract or until such time as there was a complete assignment of the contract to an IOU and release of the Fund. The last remaining contract terminated during the 2015 fiscal year, releasing the Fund from substantially all future power supply obligations. The Fund does not have any significant legal or financial responsibility for any power supply contracts entered into pursuant to the legislation establishing its authority.

All debt associated with the Fund was defeased in fiscal year 2022. Prior to the defeasance of the bonds, the Fund was entitled to recover a revenue requirement for authorized activities, including but not limited to, debt service, the cost of power purchases, administrative expenses and reserves. Upon the defeasance of the bonds and all other bond related costs, the rate agreement with the California Public Utilities Commission (CPUC) terminated by its own terms. The Department does not expect to file any more revenue requirements for the collection of customer remittances. The Department is working with the IOUs to ensure any late payment customer remittances are provided to the Fund. As detailed in CPUC Decision 21-12-001, once the Department deems it necessary all remaining funds held by the Department will be returned to ratepayers, and the Fund will be closed.

(amounts in millions unless otherwise stated)

CONDENSED STATEMENT OF NET POSITION

The Fund's assets, deferred outflows / inflows of resources, liabilities, and net position as of June 30 are summarized as follows:

	June 30, 2022	June 30, 2021	June 30, 2020
Assets:			
Long-term restricted cash, equivalents and investments	$ -	$ 793	$ 782
Recoverable costs	-	-	16
Restricted cash and equivalents:			
Administrative cost account	12	5	8
Operating account	16	15	21
Bond charge collection and bond charge payment accounts	-	180	573
Recoverable costs receivable	-	-	102
Interest receivable	-	-	7
Total assets	28	993	1,509
Deferred Outflows of Resources:			
Deferred outflows of resources related to pensions	-	-	1
Deferred outlfows of resources related to OPEB	3	5	7
Deferral of loss on defeasance	-	12	35
Total deferred outflows of resources	3	17	43
Total assets and deferred outflows of resources	$ 31	$ 1,010	$ 1,552
Liabilities:			
Long-term debt, including current portion	$ -	$ 777	$ 1,528
Net pension liability	1	3	3
Net OPEB liability	3	4	5
Other liabilities	-	5	12
Total liabilities	4	789	1,548
Deferred Inflows of Resources:			
Deferred inflows of recoverable cost	22	217	-
Deferred inflows of resources related to pensions	1	1	1
Deferred inflows of resources related to OPEB	4	3	3
Total deferred inflows of resources	27	221	4
Total liabilities and deferred inflow of resources	$ 31	$ 1,010	$ 1,552

Long-Term Restricted Cash, Equivalents and Investments

The Debt Service Reserve Account was $0 as of June 30, 2022, and $793 million as of June 30, 2021. The decrease from June 30, 2021, was due to the payoff of all remaining outstanding bonds which occurred during the year ended June 30, 2022.

The Debt Service Reserve Account was $793 million as of June 30, 2021. The increase from June 30, 2020 was due to the transfer of money from the bond collection and bond charge payment accounts, pursuant to an escrow agreement between the State Treasurer's Office (STO), as Trustee, and DWR.

Restricted Cash and Equivalents

The Administrative Cost Account increased $7 million in fiscal year 2022 due to the transfer of funds from the Bond Charge Collection Account to pay for the Fund's activities, such as salaries and administrative fees.

The Administrative Cost Account decreased $3 million in fiscal year 2021 due to the Fund's bond defeasance of Series 2011N and the Fund stopped collecting money from IOUs.

The Operating Account increased by $1 million in fiscal year 2022 due to the settlement received from the California Power Exchange Corporation.

The Operating Account decreased by $6 million in fiscal year 2021 due to the return of excess amounts to IOU customers.

The Bond Charge Collection and Bond Charge Payment Accounts decreased by $180 million in fiscal year 2022 primarily due to the transfer of funds to the Administrative Cost Account and the return of excess Bond Charge to IOU customers.

The Bond Charge Collection and Bond Charge Payment Accounts decreased by $393 million in fiscal year 2021 primarily due to the funds being used for the defeasance of Bond Series 2011N and the Fund stopped collecting money from the IOU's customers.

Recoverable Costs Receivable

Recoverable costs receivable reflects power and bond charges to customers in the IOU service areas that have not yet been collected and amounts are receivable.

Recoverable costs receivable remained unchanged at $0 as of June 30, 2022 and 2021.

The $0 million of recoverable costs receivable, at June 30, 2021, is $102 million lower than at June 30, 2020. The decrease was due to the defeasance of Bond Series 2011N and pursuant to Public Utilities Code Section 3289 (a)(2), the Fund's Bond Charge ceased to be imposed on participating customers of IOUs on October 1, 2020. Thus, the Fund's receivables and accrued revenues decreased to $0 towards the end of the fiscal year ending June 30, 2021.

Deferred Outflows of Resources

Deferred outflows of resources related to pensions decreased by $0 million in 2022.

Deferred outflows of resources related to pensions was $0 million in 2021.

Deferred outflows of resources related to OPEB decreased by $2 million in 2022.

Deferred outflows of resources related to OPEB was $5 million in 2021.

Deferral of loss on defeasance decreased by $12 million during the fiscal year ending June 30, 2022 due to the underlying bonds being paid off during the fiscal year.

Deferral of loss on defeasance decreased by $23 million during the fiscal year ending June 30, 2021 due to the defeasance of Bond Series 2011N and amortization of deferred loss on defeasance during the fiscal year.

Long-Term Debt

Long-term debt, including the current portion, decreased by $777 million during fiscal year June 30, 2022 as the Fund's outstanding bonds were fully paid off during the fiscal year.

Long-term debt, including the current portion, decreased by $751 million during fiscal year June 30, 2021, from $1,528 million at June 30, 2020. Revenue bond principal outstanding was $765 million at June 30, 2021 and the unamortized bond premium was $12 million at June 30, 2021. Bond principal payments were $503 million in fiscal year 2021 and the defeasance of Bond Series 2011N was $221 million.

Net Pension Liability

The net pension liability was $1 million during fiscal year ended June 30, 2022.

The net pension liability was $3 million during fiscal year ended June 30, 2021.

Net OPEB Liability

The net OPEB liability was $3 million during fiscal year ended June 30, 2022.

The net OPEB liability was $4 million during fiscal year ended June 30, 2021.

Other Liabilities

Other liabilities consist of accounts payable and accrued interest payable. Accounts payable reflects one month's accrual for employees and consultants, as payments are normally made in the latter half of the month following purchase.

Accounts payable remained at $0 as of June 30, 2022.

Accounts payable decreased to $0 at June 30, 2021 and was $2 million during fiscal year 2020.

Accrued interest payable decreased by $5 million as of June 30, 2022 as the Fund's outstanding bonds were fully paid off during the year.

Accrued interest payable at June 30, 2021 was $5 million lower than at June 30, 2020 due to fewer bonds outstanding resulting from the maturity of $765 million in bonds in fiscal year 2021.

Deferred Inflows of Resources

The total $195 million decrease of deferred inflow of recoverable cost during fiscal year 2022, is due to: the recovery of operating costs of $1 million; income less than return to IOU customers and the interest and investment expense by $(194) million.

Recoverable costs decreased from $16 million in fiscal year 2020 to ($217) million in fiscal year 2021 and are classified as a deferred inflow as of June 30, 2021. The total $233 million decrease of recoverable costs, during fiscal year 2021, is due to: the recovery of operating costs of $9 million and income exceeding interest and investment expense by $242 million. The Fund's defeasance of Bond Series 2011N, on September 24, 2020, resulted in an $8 million loss.

Deferred inflows of resources related to pensions remained unchanged at $1 million for fiscal year ended June 30, 2022.

Deferred inflows of resources related to OPEB was $4 million for fiscal year ended June 30, 2022.

(amounts in millions unless otherwise stated)

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Fund's activities for the year ended June 30 are summarized as follows:

	June 30, 2022	June 30, 2021	June 30, 2020
Revenues:			
Power charges, net of refunds	$ (140)	$ (7)	$ (11)
Bond charges	-	265	872
Interest income	-	27	42
Total revenues	(140)	285	903
Expenses:			
Energy and financial settlements	(141)	-	-
Bond charges refund	171	-	-
Power purchases	-	(1)	-
Interest expense	23	42	83
Administrative expenses	2	3	5
Gain or loss on extinguisment of debt	-	8	(5)
Recovery (deferral) of recoverable costs	(195)	233	820
Total expenses	(140)	285	903
Changes in net position	-	-	-
Net position, beginning of year	-	-	-
Net position, end of year	$ -	$ -	$ -

Power Charges

The cost of providing energy was recoverable primarily through Power Charges to IOU customers, non-exempt customers of ESPs, and CCAs. Charges were determined by applying a CPUC adopted rate to the megawatt-hours of power delivered by the Fund to customers in each IOU service area.

Net refunds increased by $133 million during fiscal year ending June 30, 2022. The increase was primarily due to the Fund returning excess amounts of previously received remittances to ratepayers in the IOU service areas during fiscal year 2022.

Net refunds decreased by $4 million to ($7) million during fiscal year ending June 30, 2021 compared to ($11) million for fiscal year ended June 30, 2020. The decrease was primarily due to a lower return of excess remittances to ratepayers.

Bond Charges

Bond Charges provide revenue for the payment of debt service on the revenue bonds and were determined by applying a CPUC adopted rate to the total megawatt hours of power delivered to all non-exempt bundled customers, certain ESP customers, and CCA customers in the IOU service areas.

Bond Charges, for the year ended June 30, 2022, was $0 due to the Fund ceasing the imposition of Bond Charges from participating customers of the IOU's service area on October 1, 2020. This was implemented pursuant to Public Utilities Code Section 3289(a)(2).

Bond Charges for the years ended June 30, 2021, and 2020 were $265 million, and $872 million respectively. The decrease in Bond Charges, during the year ending June 30, 2021, was due to the Fund ceasing the imposition of Bond Charges from participating customers of the IOU’s service area on October 1, 2020. This was implemented pursuant to Public Utilities Code Section 3289(a)(2).

Interest Income

Interest income for fiscal year 2022 was $0 due to the termination of the investments under Forward Purchase Agreement (FPA) and Guaranteed Investment Contracts (GICs). The Fund also received interest income from California Surplus Money Investment Fund (SMIF). However, due to the rounding in the financial statements, this small amount was shown as $0.

Interest income for fiscal year 2021 was $15 million lower than in fiscal year 2020 due to lower interest rates earned on investments in the SMIF and the Fund terminating all investments under FPA and GICs to defease outstanding bonds on September 24, 2020. The average yield earned on SMIF, for the year ended June 30, 2021, was 0.3% compared to 1.24% for the year ended June 30, 2020.

Energy and Financial Settlements

Energy settlements, including those related to complex regulatory proceedings before the Federal Energy Regulatory Commission (FERC), arising from events in California energy markets in 2001, are recorded as a decrease in operating expenses.

Additionally, the Fund is involved in litigation with various financial institutions to resolve alleged manipulation of financial market benchmark interest rates and their impact on the Fund’s bond offerings and interest rate swap agreements previously held by the Fund.

The Fund did receive energy settlement money during the fiscal year ended June 30, 2022. The Fund received $141 million for the California Energy Crisis settlements from the California Power Exchange Corporation, the California Parties, and Commission Federal de Electricidal during fiscal year ended June 30, 2022.

The Fund did not receive any energy settlement money during the fiscal year ended June 30, 2021, or 2020.

Interest Expense

Interest expense was $23 million in fiscal year 2022. The decrease was due to the pay-off of the outstanding bonds.

Interest expense was $41 million lower in fiscal year 2021 when compared to fiscal year 2020. The decrease was due to the defeasance of the Fund’s outstanding Bond Series 2011N that occurred on September 24, 2020.

Administrative Expenses

Administrative expenses were $2 million in fiscal year 2022. The decrease was due to fewer activities occurring after the Fund paid off the outstanding debt.

Administrative expenses were $3 million in fiscal year 2021. The decrease was related to the bond defeasance that occurred during fiscal year 2021.

(amounts in millions unless otherwise stated)

Gain or loss for early redemption

There was no gain or loss for the early redemption for fiscal year 2022.

There was an $8 million loss due to the defeasance of Bond Series 2011N recorded during fiscal year 2021.

Recovery of Recoverable Costs

The individual components of the recovery of recoverable costs are as follows:

	June 30, 2022	June 30, 2021	June 30, 2020
Operations	$ (1)	$ (9)	$ (16)
Debt service and related costs	(194)	242	836
	$ (195)	$ 233	$ 820

Operations

The negative $1 million operations recovery, in the year ended June 30, 2022, is primarily due to a lower return of excess remittances to ratepayers in fiscal year 2022 and lower administrative expenses.

The negative $9 million operations recovery, in the year ended June 30, 2021, is primarily due to lower return of excess remittances to ratepayers in fiscal year 2021 and lower administrative expenses.

Debt Service and Related Costs

The recovery of debt service and related costs in all three years are a result of bond charges and interest income providing funds to pay interest expense and retire debt. The recoveries in fiscal year 2022 is lower than in fiscal year 2021.

Requests for Information

This financial report is designed to provide a general overview of the Fund’s finances for those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Branch Manager, Enterprise Accounting Branch, 715 P Street, 6th Floor, Sacramento, California 95814.

Department of Water Resources Electric Power Fund
Statement of Net Position
June 30, 2022 (with comparative amounts for 2021)
(amounts in millions unless otherwise stated)

	June 30, 2022	June 30, 2021
Assets		
Long-term assets:		
Restricted cash, equivalents and investments:		
Debt service reserve account held with Fiscal Agent	$ -	$ 793
Total long-term assets	-	793
Current assets:		
Restricted cash and equivalents:		
Administrative cost account	12	5
Operating account	16	15
payment accounts	-	180
Total current assets	28	200
Total assets	28	993
Deferred Outflows of Resources		
Deferred outflows of resources related to OPEB	3	5
Deferral of loss on defeasance	-	12
Total assets and deferred outflows of resources	$ 31	$ 1,010
Liabilities		
Non-Current liabilities:		
Net pension liability	1	3
Net OPEB liability	3	4
Total non-current liabilities	4	7
Current liabilities:		
Current portion of long-term debt	-	777
Accrued interest payable	-	5
Total current liabilities	-	782
Total liabilities	4	789
Deferred inflows of resources		
Deferred inflows of recoverable costs	22	217
Deferred inflows of resources related to pensions	1	1
Deferred inflows of resources related to OPEB	4	3
Total liabilities and deferred inflows of resources	$ 31	$ 1,010

Department of Water Resources Electric Power Fund
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2022 (with comparative amounts for 2021)
(amounts in millions unless otherwise stated)

	June 30, 2022	June 30, 2021
Operating revenues:		
Power charges, net of refunds	$ (140)	$ (7)
Total operating revenues	(140)	(7)
Operating expenses:		
Energy and financial settlements	(141)	-
Power purchase	-	(1)
Administrative expenses	2	3
Recovery of recoverable operating costs	(1)	(9)
Total operating expenses	140	7
Income from operations	-	-
Nonoperating revenues and expenses:		
Bond charges	-	265
Bond charges, refunds	(171)	-
Interest income	-	27
Interest expense	(23)	(42)
Recovery of recoverable debt service and related costs	194	(242)
Loss on extinguisment of debt	-	(8)
Total nonoperating revenues and expenses	-	-
Changes in net position	-	-
Net position, beginning of year	-	-
Net position, end of year	$ -	$ -

Department of Water Resources Electric Power Fund
Statement of Cash Flows
For the year ended June 30, 2022 (with comparative amounts for 2021)
(amounts in millions unless otherwise stated)

	June 30, 2022	June 30, 2021
Cash flows from operating activities:		
Receipts:		
Power charges, net of refunds	$ (140)	$ (7)
Energy settlement	141	-
Payments to employees for services	(1)	1
Payments for power purchases and other expenses	(1)	(3)
Net cash flows (used for) operating activities	(1)	(9)
Cash flows from non-capital financing activities:		
Receipt of bond charges, net of refunds	(171)	367
Bond payments	-	(735)
Interest payments	-	(48)
Net cash flows (used for) non-capital financing activities	(171)	(416)
Cash flows from investing activities:		
Purchase of investment securities	-	(491)
Interest received on investments	-	34
Net cash flows (used for) investing activities	-	(457)
Changes in restricted cash and equivalents,	(172)	(882)
Restricted cash and equivalents, beginning of period	200	1,082
Restricted cash and equivalents, end of period	$ 28	$ 200
Restricted cash and equivalents included in:		
Administrative cost account	$ 12	$ 5
Operating account	16	15
Bond charge collection and		
Bond charge payment accounts	-	180
Restricted cash and equivalents, end of year	$ 28	$ 200

Department of Water Resources Electric Power Fund
Statement of Cash Flows (Continued)
For the year ended June 30, 2022 (with comparative amounts for 2021)
(amounts in millions unless otherwise stated)

	June 30, 2022	June 30, 2021
Reconciliation of income from operations to net cash used in operating activities:		
Income from operations	$ -	$ -
Adjustments to reconcile income from operations to net cash used in operating activities:		
Recovery of recoverable operating costs	(1)	(9)
	(1)	(9)
Changes in assets and liabilities to reconcile income from operations to net cash used in operations:		
Net OPEB liability and related deferred inflows/outflows	2	1
Net pension liability and related deferred inflows/outflows	(2)	1
Net change in assets & liabilities:	-	-
Net cash (used for) operating activities	$ (1)	$ (9)
Noncash financing and investing activities:		
Amortization of revenue bond premiums	$ 12	$ 19
Gain/loss from defeasing bonds	-	8
Amortization of deferral of loss on defeasance	12	17

1. Reporting Entity

In January 2001, the Governor of California issued an emergency proclamation directing the DWR to enter into contracts and arrangements for the purchase and sale of electric power to assist in mitigating the effect of a statewide energy supply emergency.

The Fund, administered by DWR, was established in January 2001 through legislation adding Division 27 to the California Water Code (the Code).

The Fund purchased power from wholesale suppliers under contracts entered into prior to January 1, 2003 for resale to customers in the service areas of the State's IOU's: Pacific Gas & Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas and Electric Company (SDG&E). The Code prohibits the Fund from entering into new power purchase agreements after December 31, 2002 but allowed the Fund to enter into gas purchase contracts to provide fuel for power generation.

The Fund's power was delivered to customers through the transmission and distribution systems of the IOUs and payments from customers are collected for the Fund by the IOUs pursuant to servicing arrangements approved and/or ordered by the CPUC.

All debt associated with the fund was defeased in fiscal year 2022. Upon the defeasance of the bonds and all other bond related costs, the rate agreement with the California Public Utilities Commission (CPUC) terminated by its own terms. The Department does not expect to file any more revenue requirements for the collection of customer remittances. The Department is working with the IOUs to ensure any late payment customer remittances are provided to the Fund. As detailed in CPUC Decision 21-12-001, once the Department deems it necessary all remaining funds held by the Department will be returned to ratepayers, and the Fund will be closed.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Fund is accounted for as an enterprise fund and is financed and operated in a manner similar to that of a private business enterprise. The Fund uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles, which considers the Fund a Regulated Operation under GASB Statement No. 62. The Fund is accounted for with a set of self-balancing accounts that comprise of assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses.

The financial statements of the Fund are intended to present the financial position, and the changes in financial position and cash flow, of only that portion of the business-type activities and major funds of the State of California that is attributable to the transactions of the Fund. They do not purport to, and do not, present the financial position of the State of California and the changes in its financial position and its cash flows, in conformity with accounting principles generally accepted in the United States of America.

Comparative data for prior years have been presented for certain sections of the accompanying financial statements in order to provide an understanding of changes in the Fund's financial position and operations.

Long term Debt

Lease liabilities represent DWR's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present value of lease payments are discounted based on a borrowing rate determined by the State of California.

Leased Assets

Right to use leased assets are recognized at the lease commencement date and represent DWR's right to use an underlying asset for the lease term. Right to use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to please the lease asset into service. Right to use leased assets are amortized over the shorter of the lease term or useful live of the underlying asset using the straight-line method.

Current Year GASB Implementations

GASB Statement No. 87 - *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain right to use leased assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The effect of the implementation of this standard on beginning net position is disclosed in Note 10 and the additional disclosures required by this standard is included in Note 3.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The Fund has determined that there is no material impact on the financial statements.

GASB Statement No. 92 – *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. The Fund has determined that there is no material impact on the financial statements.

GASB Statement No. 93 – *Replacement of Interbank Offered Rates*. The objective of this Statement is to address the accounting and financial reporting implications that result from the replacement of an IBOR. The Fund has determined that there is no material impact on the financial statements.

GASB Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* – An Amendment of GASB Statement No. 14 and No. 84 and A Supersession of GASB Statement No. 32. The objective of this Statement is (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution

OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The Fund has determined that there is no material impact on the financial statements.

Restricted Cash, Equivalents and Investments

Under the terms of the Trust Indenture among the State of California, DWR, STO, as Trustee and U.S. Bank, N.A, as Co-Trustee (Trust Indenture) separate restricted cash and investment accounts were established. The accounts and their purpose follow:

Administrative Account:

- Administrative Cost Account: Salaries, and other administrative expenses were previously funded by Power Charges transferred from the Operating Account. Since there are no longer power charge remittances, funds are now transferred from the Bond Charge Payment Account as of January 1, 2016.

Power Charge Account:

- Operating Account: Power Charges (see Revenues and Recoverable Costs) and miscellaneous revenue are deposited into the Operating Account. Monies are available for payment of residual contract obligations, consultant fees and return of excess amounts to ratepayers.

Bond Charge Accounts:

- Bond Charge Collection Account: Bond Charges (see Revenues and Recoverable Costs) are deposited into the Bond Charge Collection Account. Monthly, funds needed for debt service payments and administrative costs are transferred to the Bond Charge Payment Account.
- Bond Charge Payment Account: Monies in the Bond Charge Payment Account are used to pay debt service and related fees for the revenue bonds and administrative costs. After receipt of the monthly transfer from the Bond Charge Collection Account, the balance in the Bond Charge Payment Account must at least equal debt service and fees estimated to accrue or be payable for the next succeeding three months.
- Debt Service Reserve Account: The Debt Service Reserve Account was initially funded with proceeds of the Series 2002 Bonds. The Debt Service Reserve Account is to be funded at all times with the amount of maximum aggregate annual debt service on all outstanding debt. If the Debt Service Reserve Account needed to be replenished, the funds would be transferred from the Bond Charge Collection Account.

Restricted cash and equivalents, for purposes of the Statement of Cash Flows, include cash on hand and deposits in the Surplus Money Investment Fund (SMIF). The Debt Service Reserve Account (net of investments) is classified as long-term restricted cash due to requirements under the Trust Indenture to hold amounts more than anticipated current payments for bond related expenses. Amounts required to be held in reserve are determined annually by the Fund's revenue requirement.

SMIF has an equity interest in the State of California Pooled Money Investment Account (PMIA). Generally, the investments in the PMIA are available for withdrawal on demand. The PMIA cash and investments are recorded at amortized cost, which approximates fair value. The PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code, described in Note 4.

Long-term investments are held solely in the Debt Service Reserve Account by the bond co-trustee and consist of Federal Home Loan Banks and US Treasury Notes. Both investments are carried at fair value.

Net Position

The Fund does not record the difference between assets and liabilities as net position. The difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the Statement of Net Position is presented as recoverable costs such that there is no net position. The Fund anticipates that amounts in the recoverable costs will be recovered in subsequent years prior to program expiration.

Revenues and Recoverable Costs

The Fund was required, while the bonds where outstanding, at least annually, to establish a determination of the revenue requirement to be transmitted to the CPUC, which then set end use customer remittance rates. The Fund's financial statements are prepared in accordance with GASB Statement No. 62, which requires that the effects of the revenue requirement process be recorded in the financial statements. Accordingly, all expenses and credits, normally reflected in the change in net position as incurred, are recognized as recoverable costs in the Statement of Net Position and are recovered from IOU customers. Costs that are recoverable through future billings are recorded as long-term assets.

Customer charges are separated into two primary components, power charges and bond charges. Power charge revenues recover the cost of power purchases, other expenses and operating reserves and are recognized when energy provided by the Fund is delivered to IOU customers. Bond charge revenues recover debt service, debt service reserves and other bond related costs and are recognized when energy provided by the IOU, or an ESP, is delivered to customers in the IOU service areas. Costs are recovered over the life of the bonds as determined by the Fund's revenue requirement process.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Fund's portion of the California Public Employees' Retirement System (CalPERS) Miscellaneous Plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

OPEB

The State of California provides medical and prescription drug benefits to retired state employee and dependents through CalPERS under the Public Employee's Medical and Hospital Care Act, and dental benefits under the State Employees' Dental Care Act. The State, and certain bargaining units and judicial employees (valuation groups) have agreed to refund retiree healthcare benefits. Assets are held in separate accounts by valuation group within the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer defined benefit other postemployment benefits plan administered by CalPERS.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Fund's portion of the CalPERS OPEB plan and additions to or deductions from the plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

3. Leases

The Fund entered into one lease agreement and it is also allocated a portion of eleven other leases entered into by DWR for office space, with beginning and ending on different dates according to their terms. The last lease terminates in June 2035. Under the terms of the leases, the Fund pays a monthly base fee ranging from $31 dollars to $2,041 dollars, increasing up to 3.0% annually according to the terms of the agreements.

At June 30, 2022, the Fund recognized a right to use leased asset of $198 thousand and a lease liability of $200 thousand related to these agreements. During the fiscal year, the Fund recorded $39 thousand in amortization expenses and $2 thousand in interest expenses for the right to use the office spaces. The Fund used discount rates between 0.2% and 1.5%.

The right to use leased asset and lease liability do not appear on the statement of net position due to the rounding in the million dollars.

The obligations associated with these leases are as follows (amounts in thousands):

Fiscal Year Ended June 30	Principal	Interest
2023	49	1.4
2024	46	1.2
2025	39	1.0
2026	22	0.7
2027	15	0.5
2028-2032	18	1.5
2033-2037	11	0.3
Total	200	6.6

The Fund amortized the right to use leased asset as follows during the fiscal year (amounts in thousands):

Right to Use Asset	July 1, 2021	Additions	Subtractions	June 30, 2022
Office Space	$ 237	$ -	$ 39	$ 198
Total Right to Use Asset	$ 237	$ -	$ 39	$ 198

4. Restricted Cash and Investments

As of June 30, 2022 and 2021, the Fund had the following cash, equivalents and investments

Investment	Maturity June 30, 2022	Maturity June 30, 2021	2022	2021
State of California Pooled Money Investment account - Surplus Money Investment fund	10.2 months avg.	6.3 months avg.	$ 28	$ 200
Federal Home Loan Bank		April 29, 2022	-	779
US Treasury Notes		October 31, 2021	-	14
Total cash, equivalents and investments			$ 28	$ 993
Reconciliation to Statement of Net Position:				
Debt service reserve account held with Fiscal Agent			$ -	$ 793
Administrative cost account			12	5
Operating account			16	15
Bond charge collection and Bond charge payment accounts			-	180
			$ 28	$ 993

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The State of California has a deposit policy for custodial credit risk that requires deposits held by financial institutions to be insured by federal depository insurance or secured by collateral held in the State's name.

Interest Rate Risk: Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective maturity, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter maturities. The State Treasurers Investment Policy, PMIA, provides for spreading investments over various maturities to minimize the risk of portfolio depreciation due to a rise in interest rates. The STO's Investment Policy limits investments to the following maximum maturities: U.S. Treasury securities, 5 years; federal agency securities, 5 years; banker's acceptances – domestic and foreign, 180 days; certificates of deposits, 5 years; commercial paper, 180 days; corporate bonds and notes, 5 years; repurchase agreements and reverse repurchase agreements, 1 year.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code, according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. These investments consist of U.S. government securities, securities of federally-sponsored agencies, U.S. corporate bonds, interest bearing time deposits in California banks, prime-rated commercial paper, banker's acceptances, negotiable certificates of deposit, repurchase and reverse repurchase agreements. The PMIA policy limits the use of reverse repurchase agreements to limits of no more than 10% of the PMIA and commercial paper to limits not to exceed 30% of the PMIA. The PMIA does not invest in leveraged products or inverse floating rate securities. The PMIA is not rated.

Concentration of Credit Risk: The SMIF concentration of credit risk is limited by spreading the investment mix over different investment types and issuers to minimize the impact any one industry, investment class, or institution can have on the SMIF portfolio. The ratings of the investments and their relative percentages of total investments is shown in the following table (amounts in millions):

	Amount		S&P Credit Rating	Percent of Total Investments	
	2022	2021		2022	2021
Federal Home Loan Bank	$ -	$ 779	N/A	0.00%	78.45%
US Treasury Notes	-	14	N/A	0.00%	1.41%
	$ -	$ 793			

Interest on deposits in the SMIF varies with the rate of return of the underlying portfolio and approximated 0.65% and 0.28% at June 30, 2022 and 2021, respectively. For the years ended June 30, 2022 and 2021, interest earned on the deposit in the SMIF was $ 0.3 million and $24 million, respectively.

Fair Value Measurement: The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs. Guaranteed Investment Contracts are reported as cost.

The Fund has the following recurring fair value measurements at June 30, 2021:

- The Federal Home Loan Bank (FHLB) investment of $779 million is valued using market approach (Level 2)
- The U.S. Treasury Notes of $14 is valued using market approach (Level 1)

On September 18, 2020, the Fund terminated the previously held Guarantee Investment Contracts and Forward Purchase Agreement investments pursuant to an escrow agreement between the STO (as the Trustee and Escrow Agent) and the Department. The funds were transferred to the escrow agent to legally defease Series 2011N, Series 2015O and Series 2016P Bonds on September 24, 2020.

(amounts in millions unless otherwise stated)

5. Long-Term Debt

The following activity occurred in the long-term debt accounts during the years ended June 30, 2022 and 2021:

	Revenue Bonds	Unamortized Premium	Total
Balance, June 30, 2020	$ 1,489	$ 39	$ 1,528
Defeasance of debt	(221)	-	(221)
Payments	(503)	-	(503)
Amortization	-	(19)	(19)
Loss on defeasance	-	(8)	(8)
Balance, June 30, 2021	765	12	777
Payments	(765)	-	(765)
Amortization	-	(12)	(12)
Balance, June 30, 2022	$ -	$ -	$ -

Long-term debt consists of the following at June 30, 2022 and 2021, respectively:

Series	Rates	Fiscal Year of Final Maturity	Fiscal Year of First Call Date	Amount Outstanding 2022	Amount Outstanding 2021
N	Fixed (3.00-5.00%)	2021	Non-callable	$ -	$ -
O	Fixed (2.00-5.00%)	2022	Non-callable	-	315
P	Fixed (1.71-2.00%)	2022	Non-callable	-	450
				-	765
Plus unamortized bond premium				-	12
				$ -	$ 777

Bond Debt Defeasance

Series 2011N Bonds

On September 24, 2020, pursuant to an escrow agreement between the STO (as the Trustee and Escrow Agent) and the Department, Power Supply Revenue Bonds in the amount of $221 million related to the Series 2011N Bonds were defeased. The Department deposited cash and certain investment securities in the aggregate sum of $232 million to an irrevocable Escrow Fund established by the Trustee for purposes of defeasing the Series 2011N Bonds. The aggregate amount was comprised of amounts from certain investment agreement termination payments, accrued interest, outstanding amounts, liquidated securities, and cash equivalents previously held by the Co-Trustee in connection with the Debt Service Reserve Account for the Power Supply Revenue Bonds, along with amounts released from the Department Bond Charge Payment Account and Bond Charge Collection Account, which were established with respect to the previously issued Power Supply Revenue Bonds. As a result, the Series 2011 N Bonds are considered legally defeased and has been removed from the Statement of Net Position. The Fund's defeasance of Bond Series 2011N resulted in an $8 million loss.

The maturing principal and interest on the investment securities together with the cash amount held in the Escrow Fund are designed to be sufficient to provide for the payment of the principal and interest on the defeased bonds when due. As of June 30, 2021, the outstanding balance of the legally defeased Series 2011N bonds is $0 with the final debt service payment of $221 million made on May 1, 2021.

Series 2015O and 2016P Bonds

On September 24, 2020, pursuant to an escrow agreement between the STO (as the Trustee and Escrow Agent) and the Department, the Department legally defeased all the Series 2015O Bonds and Series 2016P Bonds. The Department deposited cash and certain investment securities in the aggregate sum of $1,348 million to the Escrow Fund established by the Trustee for purposes of legally defeasing the outstanding bonds. This aggregate amount was comprised of amounts from certain investment agreement termination payments, accrued interest, outstanding amounts, liquidated securities, and cash equivalents previously held by the Co-Trustee in connection with the Debt Service Reserve Account for the Power Supply Revenue Bonds, along with amounts released from the Department's Bond Charge Payment Account and Bond Charge Collection Account, which were established with respect to the previously issued Power Supply Revenue Bonds.

The maturing principal and interest on the investment securities together with the cash amount held in the Escrow Fund are sufficient to provide for the payment of the principal and interest on the defeased Series 2015O and 2016P Bonds when due. As of June 30, 2021, the outstanding balance of the legally defeased Series 2015O and 2016P Bonds was $765 million with the final debt service payment of $724 million made on May 1, 2022. As of June 30, 2022, the outstanding balance was $0.

6. Commitments and Contingencies

Litigation and Regulatory Proceedings

Certain pending legal and administrative proceedings involving the Fund or affecting the Fund's power supply program are summarized below.

California Refund Proceedings: During 2001 and 2002, the Fund purchased power in bilateral transactions (both short-term and long-term), sold power to the California Independent System Operator (CAISO), paid for power purchased by the CAISO and purchased power from the CAISO for sale to customers of the IOUs. In July 2001, the FERC initiated an administrative proceeding to calculate refunds for inflated prices in the CAISO and California Power Exchange (CalPX) markets during 2000 and 2001. FERC ruled that the Fund would not be entitled in that proceeding to approximately $3,500 million in refunds associated with the Fund's approximately $5,000 million of short-term purchases because the Fund made those purchases bilaterally, not in the PX or CAISO markets. The Ninth Circuit Court of Appeals affirmed FERC but left open the possibility of refunds on the Fund's bilateral purchases in other FERC proceedings. In contrast, FERC ruled that the Fund is entitled to refunds on purchases made by the CAISO where the Fund actually paid the bill.

Of the Fund's $5,000 million in short-term bilateral purchases, $2,900 million was imbalance energy which the Fund sold to the CAISO at the Fund's cost in order to meet the CAISO's emergency needs during 2001. The Fund is treated in the FERC refund proceeding as a seller of that energy to CAISO, and in May 2004, FERC issued an order requiring the Fund to pay refunds on the sales to the CAISO. In September 2005, the Ninth Circuit Court of Appeals held that FERC does not have authority to order refunds from governmental entities such as the Fund. In November 2008, FERC found that although FERC cannot order a governmental entity, such as the Fund, to pay refunds, it can enforce the terms of the CAISO's tariff, which requires that all purchases and sales in a given hourly settlement period are netted. But for the more than 60 refund settlements the Fund has entered into to date, this order would have resulted in a substantial reduction to the refunds payable to the Fund. Through the Fund's settlements, however, the Fund has been able to resolve all but a few of its short-term refund claims, and has been able to reduce to a de minimums amount, the amount by which its refunds have been reduced on account of the Fund's sales to the CAISO. On April 22, 2020 the California Parties filed a petition at FERC seeking approval of 1) Settlement Overlay Calculations; 2) Final payment of amounts owed and owing, 3) termination of the activities of the CalPX and related relief. On May 20, 2021, FERC approved the Settlement Overlay Filing and the 15-step market clearing process and wind-down of CalPX proposed by the parties. There were no timely appeals filed and the parties are proceeding with the market clearing. On November 1, 2021, the Fund received $140,155,133 in settlement monies as part of the wind-up. There is a possibility that DWR will receive additional monies as escrow accounts are closed or the CalPX received additional wind-up cash. The Fund's remaining short-term refund claims, which are bilateral claims, remain subject to litigation.

Financial Class Action Lawsuits: The Department entered into several long-term swap transactions for Power Supply Revenue Bond debt management purposes during the period of March 2003 through July 2006. The swaps were terminated before the original termination date. All the Department's swap agreements were terminated by October 2010. Several class action lawsuits have been brought by public sector entities on behalf of themselves and any other entities who transacted in certain derivative instruments based on (1) fixed interest rate swaps commonly referred to as International Swaps and Derivati ves Association (ISDA) Instruments and (2) London Interbank Offered Rate Instruments. The Department has submitted claims within the framework described in the class actions. In January 2022 the Department received a settlement in response to a claim filed by the Department related to the London Interbank Offered Rate Instruments.

PG&E Bankruptcy: On January 29, 2019, PG&E filed for protection under Chapter 11 of the U.S. Bankruptcy Code. On June 20, 2020, the US Bankruptcy Court for Northern District of California approved PG&E's Chapter 11 Plan and on July 1, 2020 PG&E emerged from bankruptcy. PG&E provides (and provided during the course of its Chapter 11 case), under servicing arrangement billing and collection services on behalf of DWR bond charges. The Fund's rights with respects to DWR bond charges, and the performance by PG&E of its billing and collection services, were unaffected by PG&E Chapter 11 case.

Other Contingencies

The Fund is self-insured for most risks, including general liability and workers' compensation. Management believes the Fund's exposure to loss is immaterial and that any costs associated with such potential losses are recoverable from customers as part of the Fund's revenue requirement.

(amounts in millions unless otherwise stated)

7. Energy and Financial Settlements

The Fund and other parties have entered into settlement agreements with various energy suppliers which resolve potential and alleged causes of action against suppliers for their part in alleged manipulation of natural gas and electricity commodity, transportation markets during the 2000 - 2001 California energy crisis, and also received settlements from other FERC actions.

Additionally, the Fund is involved in litigation with various financial institutions to resolve alleged manipulation of financial market benchmark interest rates, their impact on the Fund's bond offerings and interest rate swap agreements.

The Fund did receive energy settlement money during the fiscal year ended June 30, 2022. The Fund received $141 million for California Energy Crisis settlements from California Power Exchange Corporation, the California Parties, and Commission Federal de Electricidal during the fiscal year ended June 30, 2022.

The Fund received $0 in energy settlements and $6,000 for financial market manipulation settlements during the fiscal year ended June 30, 2021.

8. Pension Plan

Department of Water Resources adopted GASB No. 68, Accounting and Financial Reporting for Pensions. GASB 68 requires that the report is connected with the liability and asset information within certain defined timeframes. For this FY21-22 report, the following timeframes are applied:

Valuation Date (VD)	June 30, 2020
Measurement Date (MD)	June 30, 2021
Measurement Period (MP)	July 1, 2020 to June 30, 2021

Plan Description

As of the measurement date, all employees of the Fund participate in the CalPERS Miscellaneous Defined Benefit Pension Plan (Plan), which is included in the State of California's State Comprehensive Annual Financial Report (CAFR) as a fiduciary component unit. CalPERS administers the Plan within the Public Employees' Retirement Fund (PERF). PERF is an Agent Multiple-Employer Defined Benefit Pension Plan. Departments and agencies within the State, including the Fund, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State agencies. Since all State agencies and certain related organizations, including the Fund, are considered collectively to be a single employer for plan purposes, the actuarial present value of vested and non-vested accumulated plan benefits attributable to the Fund employees cannot be determined. The significant actuarial assumptions used to compute the actuarially determined State contribution requirements are the same as those used to compute the State pension benefit obligation as defined by CalPERS. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for this plan. This report is available online at www.calpers.ca.gov.

The California Legislature passed, and the Governor signed the "Public Employees' Pension Reform Act of 2013" (PEPRA) on September 12, 2012. PEPRA contained a several provisions intended to reduce future pension obligations. PEPRA primarily affects new pension plan members who are enrolled for the first time after December 2012. Benefit provisions and other requirements are established by State statute.

(amounts in millions unless otherwise stated)

Benefits Provided

The benefits for the Plan are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five or ten years of credited service.

The Plan's provisions and benefits in effect at June 30, 2022 and 2021, are summarized as follows:

First Tier:

Hire date	Prior to January 15, 2011	January 15, 2011 to December 31, 2012	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 to 67	50 to 67	52 to 67
Monthly benefits, as a % of eligible compensation	1.1 to 2.5%	1.092 to 2.418%	1.0 to 2.5%

Second Tier:

Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	1.25% @ 65	1.25% @ 67
Benefit vesting schedule	10 years service	10 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 to 67	52 to 67
Monthly benefits, as a % of eligible compensation	0.5 to 1.25%	0.65 to 1.25%

Contributions

Section 20814(c) of the California Public Employees Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2021 and 2020 (the measurement date) the employer's contribution rates are approximately 29.4% and 31.5% respectively, of annual payroll. Employer contribution rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer-Paid Member Contributions or situations where members are paying a portion of the employer contribution. Contributions to the plan for the fiscal year ended June 30, 2022 and 2021, were $0.2 million and $0.3 million for each year.

Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources related to Pensions

As of June 30, 2022 and 2021, the Fund reported a net pension liability for the proportionate share of the net pension liability of $1 million and $3 million, respectively. The Fund's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2021, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021 using standard update procedures. The Fund's proportion of the net pension liability was based on the State Controller's Office (SCO) projection for the fund. The SCO identified a total of 29 entities that are reported in the State's Annual Comprehensive Financial Report (ACFR) which are proprietary funds (enterprise and internal service) and fiduciary funds (pension and other employee benefit trust funds), component units (discretely presented and fiduciary), and related organizations, that have State employees with pensionable compensation (covered payroll). The SCO calculated and provided these funds/organizations with their allocated pensionable compensation percentages by plan. The Fund's proportionate share of the net pension liability for the Plan measured as of June 30, 2021 was 0.0055%, and measured as of June 30, 2020 was 0.0078%.

For the years ended June 30, 2022 and 2021, the Fund recognized pension expense of $0.7 million and $0.3 million, respectively. At June 30, 2022 and 2021, the Fund reported deferred outflows of resources and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2022	2021	2022	2021
Contributions subsequent to the measurement date	$ 0.20	$ 0.30	$ -	$ -
Changes in proportion	-	-	0.93	1.10
Changes in assumption	-	-	-	0.03
Differences between expected and actual experience	0.08	0.13	-	-
Net differences between projected and actual earnings on pension plan investments	-	0.07	0.52	-
Total	$ 0.28	$ 0.50	$ 1.45	$ 1.13

The $0.2 million reported as deferred outflows of resources related to contributions subsequent to the measurement date at June 30, 2021 will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts in millions):

Year Ended June 30	Pension Expense
2023	$ (0.53)
2024	(0.43)
2025	(0.28)
2026	(0.13)
Total	$ (1.37)

Actuarial Methods and Assumptions

The June 30, 2020 valuation was rolled forward to determine the June 30, 2021 (measurement date). Total pension liabilities, based on the following actuarial method and assumptions:

(amounts in millions unless otherwise stated)

Valuation Date:	June 30, 2020
Actuarial Cost Method:	Entry age Normal
Actuarial Assumptions	
Discount Rate:	7.15%
Inflation:	2.50%
Salary Increases:	Varies by Entry Age and Service
Investment Rate of Return:	7.0% Net of Pension Plan Investment and Administrative Expenes; includes Inflation.
Mortality Rate Table:	The probabilities of mortality are based on the 2018 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries.
Retirement Age:	The probabilities of Retirement are based on the 2018 CalPERS Experience Study for the period from 1997 to 2015.
Payroll Growth:	2.75%

Discount Rate

To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the test revealed the assets would not run out. Therefore, the current 7.15% discount rate is appropriate, and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB 67 & 68 Crossover Testing Report” that can be obtained at CalPERS’ website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS considered both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

(amounts in millions unless otherwise stated)

The following table reflects long-term expected real rate of return by asset class:

Assets class [1]	Assumed asset allocation	Real return Years 1-0 [2]	Real return Year 11+[3]
	%	%	%
Public equity	50.00	4.80	5.98
Fixed income	28.00	1.00	2.62
Inflation assets	0.00	0.77	1.81
Private equity	8.00	6.30	7.23
Real assets	13.00	3.75	4.93
Liquidity	1.00	0.00	-0.92
Total	100%		

(1) In the System's ACFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investment; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(2) An expected inflation of 2.00% used for this period.

(3) An expected inflation of 2.92% used for this period.

Sensitivity of the Fund's Proportionate Share Net Pension Liability to Changes in the Discount Rate

The following table presents the Fund's proportionate share of Plan's net pension liability as of the measurement date, calculated using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage-point higher (8.15%) than the current rate:

	Discount Rate -1% 6.15%	Current Discount Rate 7.15%	Discount Rate +1% 8.15%
The Fund's Proportionate Share of Plan's Net Pension Liability	$ 2	$ 1	$ 0.50

9. Other Post-Employment Health Care Benefits (OPEB)

Plan Description – The State of California provides medical and prescription drug benefits to retired state employees and dependents through CalPERS an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California under the Public Employees' Medical and Hospital Care Act. Dental benefits are provided under the State Employees' Dental Care Act. Departments and agencies within the State, including the Fund, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State agencies. Since all State agencies and certain related organizations, including the Fund, are considered collectively to be a single employer for plan purposes, the actuarial present value of vested and non-vested accumulated plan benefits attributable to the Fund employees cannot be determined.

Benefits Provided - A member is eligible to enroll in a CalPERS health plan if he or she retires within 120 days of separation from employment, was eligible for health benefits upon separation and receives a monthly retirement allowance. CalPERS provides healthcare benefits for retirees and their dependents through payment of insurance premiums up to the maximum State Contribution amount.

The State of California provides medical, prescription drug, and dental benefits (healthcare benefits) to retired statewide employees through a single-employer defined benefit plan. The State participates in the CERBT, an agent multiple-employer plan consisting of an aggregation of single-employer plans.

The State also offers life insurance, long-term care and vision benefits to retirees; however, because these benefits are completely paid for by retirees, there is no GASB Statements No. 74 or 75 liability to the State on behalf of such benefits.

Contribution – The State and certain bargaining units and judicial employees (valuation groups) have agreed to prefund retiree healthcare benefits. Assets are held in separate accounts by valuation group within the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer defined benefit other postemployment benefits plan administered by CalPERS. Assets within each valuation retirees and dependents associated with that valuation group. Contributions are based on a percentage compensation with the ultimate goal of contributions 100% of the actuarially determined normal cost shared equality between the State and employees. Pre-funding contributions and investment income are not available to pay plan benefits until the earlier of 2046 or the year that actuarial liabilities are fully funded. The State also makes pay-as-you-go contributions for benefits paid to current retirees and the portion of benefits paid to future retirees that are not prefunded. For the fiscal year June 30, 2022, the Fund's total contributions was $0.1 million.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

At June 30, 2022 and 2021, the Fund reported a liability of $3 million and $4 million, respectively, for its proportionate share of the Net OPEB liability. The Net OPEB liability was measured as of June 30, 2021, and the total OPEB liability, used to calculate the net OPEB liability, was determined by an actuarial valuation as of the same date. The Fund's proportion of the net OPEB liability was based on the SCO's projection for the Fund. The proportion is based on the Fund's pensionable compensation relative to the pensionable compensation of all valuation groups which includes the Fund's employee. The pensionable compensation amounts are used to calculate each state entity's proportionate share of OPEB amounts for each valuation group. At June 30, 2022, the Fund's total proportionate share of the net OPEB liability for all applicable valuation groups was 0.03%. At June 30, 2021, the Fund's total proportionate share of the net OPEB liability for all applicable valuation groups was 0.04%.

For the year ended June 30, 2022, the Fund recognized an OPEB expense of $1 million. On June 30, 2022, the Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

(amounts in millions unless otherwise stated)

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2022	2021	2022	2021
Contributions subsequent to the measurement date	$ 0.1	$ 0.1	$ -	$ -
Difference between actual and expected contributions	3.2	4.6	-	-
Change in Experience	-	-	0.3	-
Change in Assumptions	0.2	0.1	0.1	0.2
Proportion share and allocation basis change	-	-	3.2	3.0
Total	$ 3.5	$ 4.8	$ 3.6	$ 3.2

$0.1 million reported as deferred outflows of resources related to OPEB resulting from amounts paid by the Fund subsequent to the measurement date will be recognized as a reduction of the Net OPEB liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30	Amount
2023	$ 0.5
2024	0.3
2025	(0.3)
2026	(0.5)
2027	(0.4)
Thereafter	0.2
	$ (0.2)

Actuarial Methods and Assumptions

An actuarial valuation measures the program's funded status and annual funding or accounting costs based on the actuarial assumptions and methods selected. The funded status compares assets to actuarial accrued liabilities, and the annual cost represents the normal cost plus an amortization of the unfunded actuarial accrued liability.

In the actuarial valuation process, certain economic and demographic assumptions are made relating to the projection of benefits and the timing and duration of benefits. The stream of expected projected benefits is discounted to a present value as of the actuarial valuation date. The present value is then spread over past service (actuarial accrued liability), and service for the current year (normal cost) based on the chosen actuarial cost method.

The Actuarial Valuation of the State's OPEB is similar to the Actuarial Valuations performed for the State's pension plans. The demographic assumptions (rates of retirement, termination, disability and mortality, etc.) used in this OPEB Actuarial Valuation were identical to those used in the most recent CalPERS Actuarial Valuations. The demographic assumptions – Age of Spouse: It is assumed that females are three years younger than male spouses.

In addition, the actuarial cost method (entry-age normal) is identical to the one used in the most recent CalPERS Actuarial Valuation for the State Plan of the California Public Employees' Retirement System.

The discount rate selected was 6.0 percent for the actuarial valuation of the fully funded policy. A discount rate of 6.0 percent can be supported for the actuarial valuation as of June 30, 2021, provided the sponsor makes pre-funding contributions as defined by statute and pre-funding contributions are invested in CalPERS CERBT Strategy 1.

(amounts in millions unless otherwise stated)

Discount Rate

The discount rate assumption depends on the purposes of the measurement.

The sponsor's pre-funding policy provides for a 50 percent cost sharing of the normal cost, between active members and the plan sponsor, graded over several years since the adoption of the pre-funding policy. Pre-funding normal cost contributions are deposited into the CERBT and are expected to earn 6.00 percent per year. Pre-funding normal costs and investment income are not available to pay benefits until the earlier of 2046 or the year that the total actuarial liability is fully funded. The sponsor finances benefits on a pay-as-you-go basis prior to the year that pre-funding assets are available to pay benefits. For purposes of developing the full-funding normal cost, actuarial liability and actuarially determined contribution, a discount rate of 6.00 percent was used.

Total OPEB Liability and Service Cost was based on a blended rate for each respective actuarial valuation group comprised of 1.92 percent if pre-funding assets are not available to pay benefits and 6.00 percent if pre-funding assets are available to pay benefits.

Blended Discount Rate

For purposes of GASB No. 75 financial reporting, liabilities are discounted using a blended discount rate. The blended discount rate is based on a (1) 20-year general obligation bond index if benefits are financed on a pay-as-you-go basis and (2) the expected return on trust assets if pre-funding assets are available to pay benefits. The following table shows the blended discount rates at June 30, 2020, and June 30, 2021, for each respective actuarial valuation group.

BLENDED DISCOUNT RATES

Actuarial Valuation Group	June 30, 2020	June 30, 2021
Attorneys and Hearing Officers (BU2)	3.213%	2.863%
Highway Patrol (BU5)	3.380%	2.952%
Corrections (BU6)	3.217%	2.848%
Protective Services and Public Safety (BU7)	3.134%	2.762%
Firefighters (BU8)	3.236%	2.907%
Professional Engineers (BU9)	3.084%	2.731%
Professional Scientific (BU10)	3.229%	2.886%
Craft and Maintenance (BU12)	3.130%	2.766%
Stationary Engineers (BU13)	2.971%	2.595%
Physicians, Dentists, and Podiatrists (BU16)	3.286%	2.951%
Psychiatric Technicians (BU18)	3.136%	2.748%
Health and Social Services/Professional (BU19)	3.261%	2.885%
California State University	2.450%	1.920%
Judicial Branch	3.252%	2.906%
Exempt/Excluded/Executive	3.050%	2.687%
Other	2.450%	1.920%
Service Employees International Union (SEIU)	3.077%	2.710%

Other assumptions and methods unique to OPEB valuations are consistent with CalPERS OPEB assumption parameters, with the exception of the dental trend rates, as follows:

- Healthcare trend – Select and ultimate healthcare trend rates were developed separately for the PPO, HMO, and dental plans. Trend rates are based on a review of supporting documentation provided by CalPERS and a review of various publicly available trend studies.

  For the Pre-Medicare medical and drug plans, select and ultimate trend rates were set at actual increases for 2022, 7.50 percent in 2023 grading down to 4.50 percent in 2029, 4.50 percent from 2030 to 2037, and 4.25 percent on after 2038. The same trend rates were applied to per capita costs and premium rates.

  Separate trend rates were assumed for Medicare per capita costs and Medicare premiums. Trend rates for per capita costs reflect an additional ultimate margin of about five percent to reflect that Medicare costs net of Employer Group Waiver Plan(EGWP) subsidies include a higher proportion of prescription benefits. The margin also considers potential volatility with EGWP subsidies.

  Medicare premium trend rates were set at actual increases for 2022, 7.50 percent in 2023 grading down to 4.50 percent in 2029, 4.50 percent from 2030 to 2037, and 4.25 percent on after 2038.

  Medicare per capita costs trend rates for PERS Care were set at 4.96 percent for 2022, 8.30 percent in 2023 grading down to 4.66 percent in 2030, 4.50 percent from 2031 to 2037, and 4.25 percent on after 2038. Medicare per capita costs trend rates for PERS Choice and PERS Select were set at 5.10 percent for 2022, 8.42 percent in 2023 grading down to 4.68 percent in 2030, 4.50 percent from 2031 to 2037, and 4.25 percent on after 2038.

  For the dental plans, select and ultimate trend rates were set at 0.00 percent for 2022, 2.00 percent for 2023, 3.00 percent for 2024, 4.00 percent for 2025, and 4.25 percent for 2026 and beyond.

- Per capita claim costs – Costs were developed for pre-Medicare and post-Medicare coverage at each respective age and gender, using overall average costs adjusted for morbidity.
- Other healthcare assumptions – The proportion of members selecting a particular plan and coverage at retirement was based on the most current census and enrollment data.

Percent of Disabilities Treated as Post-Medicare*:* Four percent of Public Safety disabilities and 33 percent of all other disabilities are assumed to be eligible for Medicare.

Coverage and Continuance Assumptions*:* It is assumed that 40 percent of participating members will elect one-party coverage, while 60 percent will elect two-party coverage. Of the members electing two-party coverage, we assumed that 100 percent of surviving spouses would continue coverage after the death of the retiree.

Price Inflation*:* Price inflation is assumed to be 2.30 percent.

Wage inflation*:* Wage inflation is assumed to be 2.80 percent.

Aging Factors: In any given year, the cost of medical and prescription drug benefits vary by age. As the ages of employees and retirees in the covered population increase so does the cost of benefits. Morbidity tables are employed to develop Per Capita Costs at every relevant age. The following table represents the percent by which the cost of benefits for non-disabled lives at one age is higher than the cost for the previous age. For example, according to the following table, the cost of benefits for a male in the PPO plan age 55 is 2.58 percent higher than for one age 54. These percentages below are separate from the annual Medical

Trend, which operates to increase costs independent of and in addition to the Aging Factors shown below. These factors, with the exception of the Pre-Medicare HMO rates, were developed using actual experience.

Aging factors for the PPO and prescription drug plans were based on gross claim and enrollment experience data broken out by five-year age bands, for calendar years 2014 through 2018. Average gross costs were developed by gender at each age interval for each respective calendar year. These costs were weighted, smoothed, and the average increase at each age was estimated using interpolation formulas. Aging factors for the HMO were calculated by adjusting the PPO medical factors to account for relative differences between HMO and PPO plans.

Post-retirement Mortality Assumption: Rates vary by age and gender for healthy benefit recipients, for non-industrially disabled (disability not job-related) retirees and for retirees who are industrially disabled (disability is job-related).

Age	Healthy Recipients		Non-Industrially Disabled (Not Job-Related)		Industrially Disabled (Job-Related)	
	Male	Female	Male	Female	Male	Female
50	0.00267	0.00199	0.01701	0.01439	0.00430	0.00311
55	0.00390	0.00325	0.02210	0.01734	0.00621	0.00550
60	0.00578	0.00455	0.02708	0.01962	0.00944	0.00868
65	0.00857	0.00612	0.03334	0.02276	0.01394	0.01190
70	0.01333	0.00996	0.04001	0.02910	0.02163	0.01858
75	0.02391	0.01783	0.05376	0.04160	0.03446	0.03134
80	0.04371	0.03403	0.07936	0.06112	0.05853	0.05183
85	0.08274	0.06166	0.11561	0.09385	0.10137	0.08045
90	0.14539	0.11086	0.16608	0.14396	0.16584	0.12434
95	0.24665	0.20364	0.24665	0.20364	0.24665	0.20364
100	0.36198	0.31582	0.36198	0.31582	0.36198	0.31582
105	0.52229	0.44679	0.52229	0.44679	0.52229	0.44679
110	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000

The postretirement mortality rates above include 15 years of projected ongoing mortality improvement using 80 percent scale MP-2020 published by the Society of Actuaries.

Long-Term Expected Rate of Return: The long-term rate of return is the expected return to be earned over the entire trust portfolio based on the asset allocation of the portfolio.

Sensitivity of the Fund's Proportionate Share of the Net OPEB liability to Changes in the Discount Rate

The following table presents the Fund's proportionate share of the Net OPEB liability as of the measurement date, calculated using the blended discount rate, as well as what the Fund's proportionate share of the Net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current discount rate (amounts in millions):

	1% Decrease	Discount Rate Blended Rate	1% Increase
Net OPEB Liability	$ 3	$ 3	$ 2

Sensitivity of the Fund's Proportionate Share of the Net OPEB liability to Changes in the Healthcare Cost Trend Rates

The following table presents the Fund's proportionate share of the Net OPEB liability as of the measurement date, calculated using the select and ultimate healthcare cost trend rates presented in Actuarial Methods and Assumptions Section, as well as what the Fund's proportionate share of the Net OPEB liability would be if it were calculated using healthcare cost trend rate that are 1 percentage-point lower or 1 percentage-point higher than the current healthcare cost trend rates presented in Actuarial Methods and Assumptions Section (amounts in millions):

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability	$ 2	$ 3	$ 3

10. Restatement of Net Position (amounts in thousands)

As of July 1, 2021, the Fund adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The standard also requires lessors to recognize a lease receivable and deferred inflow of resources. Beginning net position was restated to retroactively adopt the provisions of GASB Statement No. 87 as follows:

Net Position, July 1, 2021, as previously reported	$ -
Restatement:	
Add right-to-use assets	237
Add lease liability	(237)
Net Position, July 1, 2021, as restated	$ -

11. Subsequent Event

The fiscal year 2022 annual comprehensive financial report (ACFR) will be the last year the Fund will publish an audited GAAP Financial Statement. All debt associated with the Fund was defeased in fiscal year 2022. Upon the defeasance of the bonds and all other bond related costs, the rate agreement with the California Public Utilities Commission (CPUC) terminated by its own terms. The Department does not expect to file any more revenue requirements for the collection of customer remittances. The Department is working with the IOUs to ensure any late payment customer remittances are provided to the Fund. As detailed in CPUC Decision 21-12-001, once the Department deems it necessary all remaining funds held by the Department will be returned to ratepayers and the Fund will close.

REQUIRED SUPPLEMENTARY INFORMATION

DEPARTMENT OF WATER RESOURCES ELECTRIC POWER FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE FUND'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last 10 Years*
(amounts in millions)

	2022	2021	2020	2019	2018	2017	2016	2015
Measurement Period	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
The Fund's proportion of the net pension liability	0.00554%	0.00777%	0.01001%	0.0117%	0.01475%	0.01741%	0.01921%	0.01777%
The Fund's proportionate share of the net pension liability	$ 1	$ 3	$ 3	$ 4	$ 5	$ 6	$ 5	$ 5
The Fund's covered payroll	$ 1.1	$ 1.3	$ 1.5	$ 1.8	$ 1.9	$ 1.9	$ 2.0	$ 2.0
The Fund's proportionate share of the net pension liability as a percentage of their covered payroll	90.90%	230.77%	200%	222.22%	263.16%	315.79%	250.00%	250.00%
Plan fiduciary net position as a percentage of the total pension liability	82.39%	71.51%	71.34%	71.83%	66.42%	66.81%	70.68%	73.05%

Notes to Schedule:

Change of benefit terms: For all years presented, there were no changes to the benefit terms.

Change in assumptions: GASB 68 states that the long-term expected rate of return should be determined net of pension plan investment expenses, but without reduction for pension plan administrative expenses. The discount rate changed from 7.65% (net of adminitrative expenses in 2016) to 7.15% as of the June 30, 2017 measurement date to correct the adjustment, which previously reduced the discount rate for administrative expenses.

*Fiscal year 2015 was the 1st year of implementation, therefore only eight years are shown.

DEPARTMENT OF WATER RESOURCES ELECTRIC POWER FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE FUND'S CONTRIBUTIONS FOR PENSIONS
Last 10 Years*
(amounts in millions)

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	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 0.2	$ 0.3	$ 0.4	$ 0.5	$ 1.0	$ 0.5	$ 0.5	$ 0.5
Contribution in relation to the contractually required contribution	(0.2)	(0.3)	(0.4)	(0.5)	(1.0)	(0.5)	(0.5)	(0.5)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Fund's covered payroll	$ 0.7	$ 1.1	$ 1.3	$ 1.5	$ 1.8	$ 1.9	$ 1.9	$ 2.0
Contributions as a percentage of covered payroll	33.62%	26.60%	30.77%	33.33%	55.56%	26.32%	26.32%	25.00%

*Fiscal year 2015 was the 1st year of implementation, therefore only eight years are shown.

DEPARTMENT OF WATER RESOURCES ELECTRIC POWER FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE FUND'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Last 10 Years*
(amounts in millions)

	2022	2021	2020	2019
The fund's proportion of the net OPEB liability	0.03%	0.04%	0.010%	0.013%
The fund's proportionate share of the net OPEB liability	$ 3.0	$ 4.0	$ 5.0	$ 5.4
The fund's covered employee payroll	$ 1.0	$ 1.0	$ 1.0	$ 1.0
The fund's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	584.193%	585.651%	644.082%	622.554%
Plan fiduciary net position as a percentage of the total OPEB liability	4.210%	2.825%	1.722%	0.597%
Measurement date	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018

*Fiscal year 2018 is the first year of implementation, therefore only four years are shown.

DEPARTMENT OF WATER RESOURCES ELECTRIC POWER FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE FUND'S CONTRIBUTION FOR OPEB
Last 10 Years*
(amounts in millions)

	2022	2021	2020	2019
Contractually required contribution	$ 0.1	$ 0.1	$ 0.2	$ 0.2
Contribution in relation to the contractually required contribution	(0.1)	(0.1)	(0.2)	(0.2)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Fund's covered employee payroll	0.3	1.0	1.0	1.0
Contributions as a percentage of covered employee payroll	32.0%	25.6%	21.8%	19.3%

*Fiscal year 2018 is the first year of implementation, therefore only four years are shown.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Director of the State of California
Department of Water Resources
Sacramento, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the State of California Department of Water Resources Electric Power Fund (Fund), an enterprise fund of the State of California, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements and have issued our report thereon dated September 12, 2023. Our report includes an emphasis of matter paragraph regarding that the financial statements present only the Fund and do not purport to and do not present fairly the financial position of the State of California as of June 30, 2022. Our report also includes an emphasis of matter paragraph regarding the Fund's adoption of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, effective July 1, 2021.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Sacramento, California
September 12, 2023

Finding No.	Description of Finding	Status of Corrective Action
2021-001	Material Adjustments	Implemented