Department of Water Resources
Electric Power Fund
Financial Statements

March 31, 2015

Department of Water Resources Electric Power Fund
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USING THIS REPORT

This discussion and analysis 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). Readers are encouraged to consider the information presented in the Management's Discussion and Analysis in conjunction with the financial statements that follow. This discussion and analysis 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. They are: the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows. 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. The Statements of Net Position include all assets, liabilities and deferred outflows and inflows of resources as of the period ending date. The Statements of Revenues, Expenses and Changes in Net Position present all of the current year's revenues, expenses, and changes in net position. The Statements of Cash Flows reports cash receipts, disbursements and the net change in cash resulting from four principal types of activities: operating, capital financing, non-capital financing and investing. 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.

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 Fund has the authority to secure and retain title to power for resale to end use customers of the State's investor owned utilities (IOUs) under power supply contracts entered into prior to January 1, 2003. The scheduling, dispatch, and certain other administrative functions for the long-term contracts are performed by the IOUs as agents for the Fund. However, the Fund retains the legal and financial responsibility for each contract for the life of the contract or until such time as there is complete assignment of the contract to an IOU and release of the Fund. Most of the volume of power under contract expired by December 31, 2013. The one remaining power supply contract expires in 2015.

The Fund is entitled to recover revenue requirements for authorized activities, including but not limited to debt service, the costs of power purchases, administrative expenses and reserves. Revenue requirements are determined at least annually and submitted to the California Public Utilities Commission (CPUC) for implementation. Under the terms of the rate agreement between the CPUC and the Fund, the CPUC is required to set rates for the customers of the IOUs and "direct access" Electric Service Providers (ESPs) such that the Fund will always have monies to meet its revenue requirements.

This report should be read in conjunction with the Fund's June 30, 2014 audited financial statements.

CONDENSED STATEMENTS OF NET POSITION

The Fund's assets, liabilities and net position as of March 31, 2015 and June 30, 2014 are summarized as follows (in millions):

	March 31, 2015	June 30, 2014
Long-term restricted cash, equivalents and investments	$ 921	$ 929
Recoverable costs	3,877	4,490
Restricted cash and equivalents:		
Operating and priority contract accounts	268	137
Bond charge collection and bond charge payment accounts	1,070	514
Recoverable costs receivable	108	156
Interest receivable	8	3
Total assets	6,252	6,229
Deferral of loss on defeasance	65	80
Total deferred outflows of resources	65	80
Total assets and deferred outflows of resources	$ 6,317	$ 6,309
Long-term debt, including current portion	$ 6,190	$ 6,249
Other postretirement benefits and accrued vacation	6	6
Other current liabilities	121	54
Total liabilities	$ 6,317	6,309

Long-Term Restricted Cash and Investments

The balance in the Operating Reserve Account decreased $8 million from $10 million at June 30, 2014 to $2 million at March 31, 2015. The amount is determined in accordance with the Trust Indenture among the State of California, Department of Water Resources, Treasurer of the State of California, as Trustee and U.S. Bank, N.A, as Co-Trustee (Trust Indenture) and is equal to twelve percent of the Department's total projected annual Operating Expenses through the end of the program based on assumptions supporting the Fund's 2015 Revenue Requirement Determination. The Debt Service Reserve Account remained at $919 million as the maximum future annual debt service was uncharged.

Recoverable Costs

Long-term recoverable costs consist of costs that are recoverable through future billings. The $613 million decrease during the nine month period, ended March 31, 2015, is due to 1) recovery of operating costs of $91 million as a result of energy settlements that were received during this period and larger return of excess amounts and previously received remittances to ratepayers and 2) bond charge revenue plus interest income exceeding interest and investment expense by $522 million. The surplus of Bond Charge Collections over interest costs was primarily a result of the Fund's rate design which includes funding for annual debt service, including principal payments.

Restricted Cash and Equivalents

The Operating and Priority Contract Accounts increased by $131 million during the nine month period, ended March 31, 2015, as a result of energy settlements received during this period.

The Bond Charge Collection and Bond Charge Payment Accounts increased by $556 million, in the period ended March 31, 2015, in anticipation of the annual principal and semi-annual interest on bonds due on May 1, 2015.

From the dates of issuance of the revenue bonds through March 31, 2015, the balances in each of the restricted cash and investments accounts met or exceeded balances required by the Indenture.

Recoverable Costs Receivable

The current portion of recoverable costs receivable reflects power and bond charges to IOU customers that have not yet been collected and amounts receivable from surplus sales of energy and gas and litigation settlements. The $108 million of recoverable costs receivable at March 31, 2015 is $48 million lower than at June 30, 2014. The decrease is due to an expected decline in power and bond remittance from lower consumption by bundled IOU customers.

Deferred Outflows of Resources

Deferral outflows of resources decreased by $15 million during the nine month period, ended March 31, 2015, due to the lower amortization of deferred loss on defeasance.

Long-Term Debt

Long-term debt decreased to $6,190 million as of March 31, 2015 from $6,249 million at June 30, 2014. The decrease is attributable to the net of amortization of premium.

Other Current Liabilities

Other current liabilities consist of accounts payable and accrued interest payable. Accounts payable reflect one month's accrual for power and fuel purchases, as payments are normally made in the latter half of the month following purchase. At March 31, 2015, accounts payable are $4 million lower than at June 30, 2014 due to lower volumes of power delivered.

Accrued interest payable at March 31, 2015 increased to $119 million from $48 million at June 30, 2014 due to the approaching bond interest payment date of May 1, 2015.

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Fund's activities for the three months ended March 31, 2015 and 2014 are summarized as follows (in millions):

	Three months ended March 31		Nine months ended March 31	
	2015	2014	2015	2014
Revenues:				
Power charges, net of refunds	$ (72)	$ (15)	$ (63)	$ (37)
Surplus sales	0	1	4	3
Bond charges	204	194	679	641
Interest income	5	5	15	15
Total revenues	137	185	635	622
Expenses:				
Power purchases	1	7	14	30
Energy settlements	-	-	(173)	-
Interest expense	58	61	172	183
Investment loss	-	-	-	2
Administrative expenses	3	4	9	11
Recovery of recoverable costs	75	113	613	396
Total expenses	137	185	635	622
Net increase in net position	-	-	-	-
Net position, beginning of year	-	-	-	-
Net position, end of year	$ -	$ -	$ -	$ -

Power Charges

The cost of providing energy is recoverable primarily through power charges to IOU customers and certain customers of ESPs. Charges are determined by applying a CPUC adopted rate for each IOU service area to the megawatt hours of power delivered by the Fund to customers of each IOU.

Power charges decreased by $26 million in the nine months ended March 31, 2015 compared to the same nine month period in 2014. The difference primarily reflects a larger return of excess amounts and previously received remittances to ratepayers. The return of excess amounts and previously received remittances are an allocation of prior year over-collections from ratepayers and excess reserves. The return is implemented through an adjustment to the power charge and is administered through separate monthly payments to ratepayers for reserves the Fund holds in excess of Trust Indenture required levels. The allocation of excess amounts and reserves was authorized by the CPUC in Decision 13-12-004 for calendar year 2014 and in Decision 14-12-002 for calendar year 2015. During the nine months ended March 31, 2015, the Fund returned $109 million in monthly payments.

Surplus Sales

The Fund receives revenue from the sale of excess natural gas and energy. Surplus sales for the nine months ended March 31, 2015 are $1 million higher than the same period in 2014.

Bond Charges

Bond charges provide revenue for the payment of debt service on the revenue bonds and are determined by applying a CPUC adopted rate to the total megawatt hours of power delivered to all IOU customers and certain ESP customers.

Bond charges for the nine months ended March 31, 2015 are $38 million higher than the same period in 2014 due higher sales to ratepayers. The amount collected is adequate to meet all debt service requirements and maintain Indenture required account balances in the Bond Charge Collection, Bond Charge Payment, and Debt Service Reserve Accounts.

Interest Income

Interest income in the nine months ended March 31, 2015 was unchanged from the same period in 2014.

Power Purchases

Power costs decreased by $16 million during the nine months ended March 31, 2015 compared to the nine months ended March 31, 2014 due primarily to lower volumes of power purchased as there is only one remaining purchase power contract.

Energy 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.

Energy settlements received during the nine months, ended March 31, 2015, were $173 million. The Fund received $140 million from Powerex Corporation, $26 million from Dynegy, $5 million from State Water Project, $2 million from Williams. These settlements were a result of FERC approved settlement agreements to resolve certain claims arising from events and transactions in Western Energy Markets during the period January 1, 2000 through June 20, 2001.

Interest Expense

Interest expense, in the nine months ended March 31, 2015, decreased $11 million from the same period in 2014 due to lower amounts of outstanding debt.

Administrative Expenses

Administrative expenses, in the nine months ended March 31, 2015, were $2 million lower than the same period as a result of continued reductions in staffing levels and consultants due to lower workload in administering power purchase contracts as those contracts expired.

Recovery of Recoverable Costs

The individual components of the recovery (deferral) of recoverable costs are as follows for the nine months ended March 31, 2015 and 2014 (in millions):

	Three months ended March 31		Nine months ended March 31	
	2015	2014	2015	2014
Operations	$ (76)	$ (25)	$ 91	$ (77)
Debt service and related costs	151	138	522	473
	$ 75	$ 113	$ 613	$ 396

The $91 million in operations recovery, in the nine months ended March 31, 2015, resulted from higher return of excess reserve amounts to the IOUs customers and from the receipt of energy settlements during the period.

Debt Service and Related Costs

The $522 million recovery of debt service and bond related costs is $49 million higher for the nine months ended March 31, 2015 compared to the same period in 2014 due to lower interest expense and higher bond charge revenues.

LIQUIDITY

Various provisions of the Trust Indenture provide resources for the Fund to meet its cash requirements. In addition to its determination of revenue requirements, prepared annually or more frequently if necessary, to meet both operating and bond related expenditures. The Fund has an Operating Reserve and a Debt Service Reserve Fund in order to meet expenditures if revenue is impaired. The minimum balance in the Operating Reserve Account is set to be the greater of (i) the maximum seven-month difference between operating revenues and expenses as calculated under a high expense scenario, (ii) 12% of the Department's annual operating expenses and (iii) an amount equal to the maximum projected monthly power purchase contract cost. The minimum balance in the Debt Service Reserve Fund is set to be the maximum annual debt service over the remaining life of the Fund's bonds.

Under the Section 80130 of the California Water Code, the Fund has a total debt issuance limit of $13.4 billion, which does not include refunding debt issued: (i) to obtain a lower interest rate, (ii) to convert variable rate debt to fixed rate debt or (iii) to replace debt for which the credit rating of the insurer or credit facility provider has been or will be downgraded or withdrawn.

The Fund's Power Supply Revenue Bonds are rated Aa2 by Moody's Investors Service. On March 24, 2015, Standard & Poor's Ratings Services raised the underlying rating on the Power Supply Revenue Bonds from "AA-" to "AA" with a stable rating outlook. Also, on March 24, 2015, Fitch Ratings raised the underlying rating on the Power Supply Revenue Bonds from "AA" to "AA+" with a stable rating outlook.

Department of Water Resources Electric Power Fund
Statements of Net Position
March 31, 2015 and June 30, 2014 (in millions)

	March 31, 2015	June 30, 2014
Assets		
Long-term assets:		
Restricted cash, equivalents and investments:		
Operating Reserve Account	$ 2	$ 10
Debt Service Reserve Account	919	919
Recoverable costs	3,877	4,490
Total long-term assets	4,798	5,419
Current assets:		
Restricted cash and equivalents:		
Operating and Priority Contract Accounts	268	137
Bond Charge Collection and Bond Charge Payment Accounts	1,070	514
Recoverable costs receivable	108	156
Interest receivable	8	3
Total current assets	1,454	810
Total assets	6,252	6,229
Deferred outflows of resources		
Deferral of loss on defeasance	65	80
Total deferred outflows of resources	65	80
Total assets and deferred outflows of resources	$ 6,317	$ 6,309
Liabilities		
Non-Current liabilities:		
Long-term debt	$ 5,506	$ 5,555
Other postemployment benefits and accrued vacation	6	6
Total non-current liabilities	5,512	5,561
Current liabilities:		
Current portion of long-term debt	684	694
Accounts payable	2	6
Accrued interest payable	119	48
Total current liabilities	805	748
Total liabilities	$ 6,317	$ 6,309

Commitments and Contingencies (Note 6)

The accompanying notes are an integral part of these financial statements.

Department of Water Resources Electric Power Fund
Statements of Revenues, Expenses and Changes in Net Position
For the nine months ended March 31, 2015 and 2014 (in millions)

	Three months ended March 31		Nine months ended March 31	
	2015	2014	2015	2014
Operating revenues:				
Power charges, net of refunds	$ (72)	$ (15)	$ (63)	$ (37)
Surplus sales	-	1	4	3
Total operating revenues	(72)	(14)	(59)	(34)
Operating expenses:				
Power purchases	1	7	14	30
Energy settlements		-	(173)	-
Administrative expenses	3	4	9	11
Recovery of recoverable operating costs	(76)	(25)	91	(77)
Total operating expenses	(72)	(14)	(59)	(36)
Income from operations	-	-	-	2
Nonoperating revenues and expenses:				
Bond charges	204	194	679	641
Interest income	5	5	15	15
Interest expense	(58)	(61)	(172)	(183)
Investment loss from gas related derivatives	-	-	-	(2)
Recovery of recoverable debt service and related cost:	(151)	(138)	(522)	(473)
Net increase in net position	-	-	-	-
Net position, beginning of year	-	-	-	-
Net position, end of year	$ -	$ -	$ -	$ -

The accompanying notes are an integral part of these financial statements.

Department of Water Resources Electric Power Fund
Statements of Cash Flows
For the nine months ended March 31, 2015 and 2014 (in millions)

	2015	2014
Cash flows from operating activities:		
Receipts:		
Power charges, net of refunds	$ (56)	$ (27)
Surplus sales	3	3
Energy settlements	203	-
Payments to employees for services	(3)	(3)
Payments for power purchases and other expenses	(24)	(29)
Net cash used in operating activities	123	(56)
Cash flows from non-capital financing activities:		
Receipt of bond charges	691	657
Bond payments	-	-
Interest payments	(145)	(157)
Net cash used in non-capital financing activities	546	500
Cash flows from investing activities:		
Interest received on investments	10	12
Loss from derivative investments	-	(2)
Net cash provided by investing activities	10	10
Net decrease in cash and equivalents	679	454
Restricted cash and equivalents, beginning of period	1,280	1,401
Restricted cash and equivalents, end of period	$ 1,959	$ 1,855
Restricted cash and equivalents included in:		
Operating Reserve Account	$ 2	$ 10
Debt Service Reserve Account (a component of the total of $919 and $919 at March 31, 2015 and 2014, respectively)	619	619
Operating and Priority Contract Accounts	268	160
Bond Charge Collection and Bond Charge Payment Accounts	1,070	1,066
Restricted cash and equivalents, end of year	$ 1,959	$ 1,855
Reconciliation of operating income to net cash used in operating activities:		
Income from operations	$ -	$ 2
Adjustments to reconcile operating income to net cash used in operating activities:		
Recovery of recoverable operating costs	91	(77)
	91	(75)
Changes in net assets and liabilities to reconcile operating income to net cash used in operations:		
Recoverable costs receivable	36	9
Other assets	-	15
Other postemployment benefits and accrued vacation	-	-
Accounts payable	(4)	(5)
Net change in operating assets & liabilities:	32	19
Net cash used in operating activities	$ 123	$ (56)

The accompanying notes are an integral part of these financial statements.

1. Reporting Entity

In January 2001, the Governor of California issued an emergency proclamation directing the Department of Water Resources (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 Department of Water Resources Electric Power Fund (the Fund), administered by DWR, was established in January 2001 through legislation adding Division 27 to the California Water Code (the Code).

The Fund purchases power from wholesale suppliers under contracts entered into prior to January 1, 2003 for resale to customers of the State's investor owned utilities (IOUs): 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, but allows the Fund to enter into gas purchase contracts to provide fuel for power generation.

The Fund's power is delivered to the customers through the transmission and distribution systems of the IOUs and payments from the customers are collected for the Fund by the IOUs pursuant to servicing arrangements approved and/or ordered by the California Public Utilities Commission (CPUC).

Under the Code, the Fund has the authority to establish a revenue requirement to recover all Fund costs, including debt service. At least annually, Fund management establishes a determination of the revenue requirement, which then is submitted to the CPUC. Under the terms of a rate agreement between the Fund and the CPUC, the CPUC implements the Fund's determination of its revenue requirements by establishing end use customer rates that meet the Fund's revenue needs to assure the payment of debt service, power purchases, administrative expenses and maintenance of operating and debt service reserves.

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 codification Re10. The Fund is accounted for with a set of self-balancing accounts that comprise its assets, liabilities, 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 fairly the financial position of the State of California as of March 31, 2015 and 2014, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Future Change in Accounting Principles

In June 2012, the GASB issued Statement No. 68 Accounting and Financial Reporting for Pensions-amendment of GASB Statement No. 27. The objective of this Statement is to improve accounting and financial reporting by state and local government for pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. The Fund will be required to recognize a liability equal to its share of the net pension liability related to the California Public Employees' Retirement System (CalPERS) determined under the provision of the standard in its financial statements prepared using the economic resources measurement focus and accrual basis of accounting. The Fund has not determined what impact this pronouncement will have on the financial statements. The provisions of this Statement are effective for the Fund's year ended June 30, 2015.

Restricted Cash, Equivalents and Investments

Under the terms of the Trust Indenture among the State of California, Department of Water Resources, Treasurer of the State of California, 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:

Power Charge Accounts:

- Operating Account: Power Charges (see Revenues and Recoverable Costs) and miscellaneous revenue are deposited into the operating account. Monthly, funds are transferred to the priority contract account as needed to make payments on priority contracts. Remaining monies are available for payment of all operating costs of the Fund other than priority contracts, debt service, and debt-related costs.

- Priority Contract Account: Priority contracts are those power purchase contracts that require monthly payment prior to any debt service payments. Monies in the priority contract account are used to make scheduled payments on priority contracts. As of December 2013, the last two priority power purchase contracts expired and the only priority natural gas contract was amended to remove the priority designation.

- Operating Reserve Account: The Operating Reserve Account was initially funded with proceeds of the Series 2002 Bonds. The Operating Reserve Account must maintain a balance equal to the greater of (i) the maximum seven-month difference between operating revenues and expenses as calculated under a high expense scenario, (ii) 12% of the Department's annual operating expenses and (iii) an amount equal to the maximum projected monthly power purchase contract cost. If the Operating Reserve Account needed to be replenished, the funds would be transferred from the Operating Account.

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 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. 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 either the Bond Charge Collection Account.

Restricted cash and equivalents, for purposes of the Statements of Cash Flows, include cash on hand and deposits in the Surplus Money Investment Fund (SMIF). The Operating Reserve Account and Debt Service Reserve Account (net of investments) are classified as long-term restricted cash due to requirements under the Trust Indenture to hold amounts in excess of anticipated current payments for operating and bond related expenses. Amounts required to be held in reserve are determined annually with 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 3.

Long-term investments are held solely in the Debt Service Reserve Account by the bond co-trustee and consist of guaranteed investment contracts (GICs) and a U.S. government backed agency security in accordance with a forward purchase agreement (FPA). The GICs are carried at cost and the U.S. government backed agency security is carried at amortized cost and not at fair value because the investments are non-negotiable and non-transferable.

Net Position

The Fund does not record the difference between assets and liabilities as changes in net position. The difference between assets and deferred outflows of resources and liabilities on the Statements of Net Position is presented as recoverable costs such that there is no net position outstanding. 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 is required, at least annually, to establish a determination of the revenue requirement to be submitted to the CPUC, which then sets end use customer remittance rates. The Fund's financial statements are prepared in accordance with Section Re10 of the GASB Codification, "*Regulated Operations*", 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 Statements 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 Fund, the IOU, or an ESP, is delivered to IOU or ESP customers. Costs are recovered over the life of the bonds as determined by the Fund's revenue requirement process.

Surplus sales represent the Fund's sale of gas not needed for the generation of power and energy dispatched by the California Independent System Operator (CAISO) from the Fund's power purchase agreements for grid reliability.

3. Restricted Cash and Investments

As of March 31, 2015, the Fund had the following investments (in millions):

Investment	Maturity	March 31, 2015	
State of California Pooled Money Investment Account - Surplus Money Investment Fund	6.3 months avg.	$	1,957
Cash			2
Total cash and equivalents			1,959
Guaranteed investment contracts	May 1, 2022		200
Forward purchase agreement	May 1, 2015		100
		$	2,259
Reconciliation to Statements of Net Position:			
Operating Reserve Account		$	2
Debt Service Reserve Account			919
Operating and Priority Contract Accounts			268
Bond Charge Collection and Bond Charge Payment Accounts			1,070
		$	2,259

Custodial Credit Risk: Under GASB Statement No. 40, 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. At March 31, 2015 and 2014, one of the guaranteed investment contracts in the amount of $100 million was uninsured and uncollateralized.

Interest Rate Risk: Under GASB Statement No. 40, 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, Pooled Money Investment Account, provides for spreading investments over various maturities to minimize the risk of portfolio depreciation due to a rise in interest rates. The State Treasurers Investment Policy limits investments to the following maximum maturities: U.S. Treasury securities, 5 years; federal agency securities, 5 years; bankers 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: Under GASB Statement No. 40, 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, bankers' 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: Concentration of credit risk in SMIF 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. At March 31, 2015, the Fund's investments in the forward purchase agreement (FPA) and two guaranteed investment contracts (GICs) individually less than 5.0% of total investments.

Interest on deposits in SMIF varies with the annual rate of return of the underlying portfolio and approximated 0.3% at March 31, 2015. For the nine months ended March 31, 2015, interest earned on the deposit in the SMIF was $3 million.

Interest on the GICs is paid semi-annually at interest rates ranging from 5.3% to 5.5%. Interest earned on the GICs was $8 million for the nine months ended March 31, 2015.

The FPA allows the Fund to continuously reinvest funds in U.S. government or U.S. government agency securities through May 2022 to earn a minimum rate of return of 4.7%, as specified in the Reserve Fund Forward Purchase and Sale Agreement, dated May 1, 2004. The reinvested securities are to mature every six months. Interest earned on the FPA was $4 million for the nine months ended March 31, 2015.

4. Long-Term Debt

The following activity occurred in the long-term debt accounts during the nine months ended March 31, 2015 (in millions):

	Revenue Bonds	Unamortized Premium	Total
Balance, June 30, 2014	$ 5,943	$ 306	$ 6,249
Amortization	-	(59)	(59)
Balance, March 31, 2015	5,943	247	6,190
Less current portion	618	66	684
	$ 5,325	$ 181	$ 5,506

The tax exempt revenue bonds consist of the following at March 31, 2015 (in millions):

Series	Rates	Fiscal Year of Final maturity	Fiscal Year of First Call Date	Amount Outstanding 2014	Current Portion
F	Fixed (4.38-5.00%)	2022	2018	$ 348	$ -
G	Fixed (4.35-5.00%)	2018	Non-callable	173	-
H	Fixed (3.75-5.00%)	2022	2018	1,007	-
K	Fixed (4.00-5.00%)	2018	Non-callable	279	-
L	Fixed (2.50-5.00%)	2022	2020	2,447	312
M	Fixed (2.00-5.00%)	2020	Non-callable	884	267
N	Fixed (2.00-5.00%)	2021	Non-callable	805	39
				5,943	618
Plus unamortized bond premium				247	66
				$ 6,190	$ 684

Key terms

Principal and interest payments are payable from bond charges. The Fund is subject to certain bond covenants, including establishing funding and expenditure requirements for several restricted cash and investment accounts. The bonds are limited special obligations of the Fund. Neither the principal nor any interest thereon constitutes a debt of the State of California.

The Series F, H, and L are callable at a redemption rate of 100 percent. The Series F and Series H are callable in 2018. The Series L bonds are callable in 2020. The Series G, K, M, and N are non-callable.

The Fund has an opportunity to refund a portion of its Series 2008H and 2010L with an expected closing date of the end of April 2015.

Maturities

Future payment requirements on the revenue bonds are as follows at March 31, 2015 (in millions):

Fiscal Year	Principal	Interest	Total
2015	$ 618	$ 143	$ 761
2016	669	258	927
2017	686	227	913
2018	714	194	908
2019	749	160	909
2020-22	2,507	253	2,760
	$ 5,943	$ 1,235	$ 7,178

5. 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 Federal Energy Regulatory Commission (FERC) initiated an administrative proceeding to calculate refunds for inflated prices in the CAISO and California Power Exchange (PX) 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 50 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. Settlements executed to date with various sellers, however, have reduced to a de minimus amount, the amount by which refunds payable to the Fund will be reduced on account of the Fund's sales to the CAISO. Refund payable to the Fund will be offset to the extent that the Fund must pay refunds on its sales to the CAISO.

Proceedings before FERC, including related appeals, are ongoing and could, together with the terms of any future settlements entered into by the Fund to resolve its remaining claims in the California Refund Proceedings, increase or decrease refunds the Fund ultimately receives.

Direct Access Proceeding: On February 28, 2008, the CPUC approved a decision concluding that the suspension of direct access cannot be lifted at the present time because the Fund is still supplying power under the Act. However, the decision continued the proceeding to consider possible approaches to expediting the Fund's exit from its role of supplying power under the Act. On November 21, 2008, the CPUC adopted a plan with the goal of the early exit of the Fund from its role as supplier of power to retail electric customers. Under this plan, the Fund's power purchase contracts would be replaced by agreement between the IOUs and the Fund's power supplier counterparties that are not detrimental to ratepayers, through novation and/or negotiation.

Senate Bill 695: On October 11, 2009, Senate Bill (SB) 695 was signed into law as an urgency statute. SB 695 allows individual retail nonresidential end-use customers to acquire electric service from other providers in each IOU service area, up to a maximum allowable limit. Except for this express authorization for increased direct access transactions under SB 695, the previously enacted suspension of direct access remains in effect. On March 15, 2010, the CPUC issued Decision 10-03-022 which authorizes increases in the maximum direct access load for each IOU service area, as specified in SB 695. The maximum load of allowable direct access volume is established for each IOU as the maximum total kWh supplied by all other providers to distribution customers of the IOU during any sequential 12-month period between April 1, 1998 and the effective date of the section of the Public Utilities code modified by SB 695, October 11, 2009.

Decision 10-03-033 phases in the additional load allowance over a four-year period beginning on April 11, 2010. The annual phase in of the limits combined with the concurrent expiration of several long-term contracts has not resulted in impacts to the Power Charges. Regardless of the level of direct access participation within the IOU service area, direct access customers will still be assessed Bond Charges and the Fund's revenue requirement will be recovered in the same manner as has been successfully implemented over the duration of the Power Supply Program.

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.

Commitments

The Fund has one power purchase contract that expires next fiscal year. Payments under the power purchase and natural gas supply contracts approximated $14 million and $30 million for the nine month periods ended March 31, 2015 and 2014, respectively.

The remaining amounts of fixed obligations under the remaining power contract as of March 31, 2015 are as follows (in millions):

For the Year Ending June 30,	Fixed Obligation (in millions)
2015	1
2016	1
	$ 2

In addition to the fixed costs there are variable costs under the remaining contract. Management projects, as of March 31, 2015, that the amount of future fixed and variable obligations associated with long-term power purchase contract would approximate $2 million.

6. Energy 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 and transportation markets during the 2000 - 2001 California energy crisis, and also received settlements from other FERC actions.

Energy settlements in the nine months ended March 31 2015 totaled $173 million. The Fund received $140 million from Powerex Corporation, $26 million from Dynegy, $5 million from State Water Project, $2 million from William. These settlements are a result of FERC approved settlement agreements to resolve certain claims arising from events and transactions in Western Energy Markets during the period January 1, 2000 through June 20, 2001.

7. Subsequent Event

Subsequent to the end of the quarter, the Kings River Conservation District terminated its power supply contract with the Department. With this termination, the Department has no remaining power supply contracts.