Department of Water Resources
Electric Power Fund
Financial Statements

March 31, 2009

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 conjunction with the financial statements as a whole, which follows *Management's Discussion and Analysis*. This discussion and analysis and the financial statements do not relate to DWR's other governmental and proprietary funds.

The basic financial statements include three required statements, which provide different views of the Fund. They are: the statement of net assets, the statement of revenues, expenses and changes in net assets, and the statement 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 statement of net assets includes all assets and liabilities as of a specified date. The statement of revenues, expenses and changes in net assets presents all revenues, expenses, and changes in net assets for a specific period. The statement of cash flows reports cash receipts, disbursements and the net change in cash resulting from three principal types of activities: operating, financing and investing. In order for the basic financial statements to be complete, they must be accompanied by a complete set of footnotes. The notes to the financial statements provide disclosures which are required to conform with generally accepted accounting principles. The Fund is required to follow accounting standards promulgated by the Governmental Accounting Standards Board.

This report should be read in conjunction with the Fund's June 30, 2008 audited financial statements.

BACKGROUND

The Fund was established in January 2001 through legislation to assist mitigation of the effects of a statewide energy supply emergency. DWR 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. However, DWR retains the legal and financial responsibility for the contracts until such time as there is complete assignment of the contracts to the IOUs and release of DWR. DWR is entitled to recover revenue requirements for authorized activities, including but not limited to debt service, the costs of power purchases, other expenses and reserves.

STATEMENTS OF NET ASSETS

The Fund's assets, liabilities and net assets as of March 31, 2009 and June 30, 2008 are summarized as follows (in millions):

	March 31, 2009	June 30, 2008
Long-term restricted cash, equivalents and investments	$ 1,493	$ 1,465
Recoverable costs, net of current portion	5,947	5,934
Restricted cash and investments:		
Operating and priority contract accounts	836	1,227
Bond charge collection and bond charge payment accounts	1,084	619
Recoverable costs, current portion	465	511
Interest receivable	23	27
Other assets	51	261
Total assets	$ 9,899	$ 10,044
Net assets	$ -	$ -
Long-term debt, including current portion	9,498	9,509
Other current liabilities	401	535
Total capital and liabilities	$ 9,899	$ 10,044

Long-Term Restricted Cash and Investments

The Operating Reserve Account balance decreased by $5 million to $543 million effective January 1, 2009. The amount is determined in accordance with the bond indenture and equal to the maximum one month priority contract cost amount under stress conditions for calendar year 2009 as forecast in DWR's 2009 revenue requirement determination.

With the implementation of the calendar year 2009 revenue requirement and changes occurring as a result of the conversion transactions described in the Long-Term Debt section, the Debt Service Reserve Account balance was increased by $29 million to $950 million. In accordance with the bond indenture, the current balance is equal to the maximum annual debt service on the outstanding bonds.

Recoverable Costs, Net of Current Portion

Long-term recoverable costs consist of costs that are recoverable through future billings. The $13 million net increase in long-term recoverable costs during the nine month period ended March 31, 2009 is a combination of 1) operating expenses exceeding operating revenues by $457 million, and 2) bond charge revenue exceeding interest expense by $444 million.

Restricted Cash and Investments

The Operating and Priority Contract Accounts decreased by $391 million during the nine month period ended March 31, 2009. The balance is $13 million lower than forecast in DWR's 2009 revenue requirement. DWR had planned to decrease balances by $279 million for the last half of 2008 to purposefully lower balances while staying within bond indenture requirements. With higher than expected costs in 2008, DWR started 2009 with balances $60 million lower than forecast. Balances have begun to increase against plan in recent months as power costs are lower than forecast in the 2009 revenue requirement from the sharp decline in natural gas costs.

The Bond Charge Collection and Bond Charge Payment Accounts increased by $465 million in the nine month period ended March 31, 2009 in anticipation of the upcoming $494 million principal payment and the next semi-annual interest payment on outstanding bonds on May 1, 2009.

From the dates of issuance of the revenue bonds through March 31, 2009, the balances in each of the restricted cash and investments accounts met or exceeded balances required by the Bond Indenture.

Recoverable Costs, Current Portion

The current portion of recoverable costs reflects billings to IOU customers that have not yet been collected and amounts due for surplus sales of energy and gas. The current portion of recoverable costs at March 31, 2009 is $46 million lower than at June 30, 2008. The difference is primarily attributable to the decrease of surplus natural gas and energy volumes sold and the lower prices received per unit of energy and natural gas on sales as a result of the sharp decline in energy and natural gas prices.

Other Assets

DWR purchases natural gas as fuel for the production of power under the terms of certain power purchase contracts and maintains a brokerage account with a national brokerage firm in order to hedge natural gas costs. DWR also hedges natural gas costs by transacting directly with counterparties. Assets in this account and certain bilateral hedge instruments are classified as other assets on the Statements of Net Assets.

Other assets decreased by $210 million in the nine months ended March 31, 2009 to $51 million as a result of volatile natural gas prices that decreased substantially from the levels existing at June 30, 2008. With the decline in natural gas prices through the nine month period ended March 31, 2009, $270 million was transferred to the brokerage account and used to fund realized losses, provide collateral for current positions, and enable future hedging activities. At March 31, 2009, other assets consisted of money market obligations, US Treasury bills, and government bonds valued at $29 million and financial options valued at $22 million.

Long-Term Debt

The $5 million decrease in long-term debt for the nine month period ended March 31, 2009 is attributable to the net amortization of bond premium and deferred loss on the advance bond refunding.

Letters of credit enhancing $575 million of variable rate bonds expired December 1, 2008. DWR successfully renewed a credit facility for $150 million of the bonds. On December 1, 2008 DWR successfully converted another $75 million variable rate bonds with expiring credit facilities to fixed rate bonds as part of a $173 million Series G conversion transaction. The bonds were sold with a premium of $4 million and DWR incurred costs of issuance of $2 million, both of which will be amortized over the life of the bonds.

DWR was unsuccessful in renewing the credit facilities or converting to fixed rate bonds for the remaining $350 million Series F bonds with expiring facilities. On December 1, 2008 those bonds became bank bonds and began incurring interest at prime plus 2% and were subject to an accelerated amortization schedule. In January 2009, DWR successfully converted the $350 million of bank bonds by remarketing $348 million Series F fixed rate bonds, decreasing the amount of total debt outstanding by $2 million. The bonds were sold with a premium of $4 million and DWR incurred costs of issuance of $2 million that will be amortized over the life of the bonds.

Other Current Liabilities

Accounts payable reflect one month's accrual for power and fuel purchases. Accounts payable at March 31, 2009 are $219 million less than at June 30, 2008 as the price of natural gas was sharply lower while volumes of contract energy are substantially the same. The market price for natural gas declined by approximately 65% from June 30, 2008 to March 31, 2009 significantly lowering current DWR monthly power and gas costs.

The $85 million increase in accrued interest payable in anticipation of the semiannual interest payment on outstanding fixed rate debt upcoming on May 1, 2009

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Fund's activities for the three and nine months ended March 31, 2009 and 2008 are summarized as follows (in millions):

	Three months ended March 31		Nine months ended March 31	
	2009	**2008**	**2009**	**2008**
Revenues:				
Power charges	$ 774	$ 925	$ 2,520	$ 3,181
Surplus sales	68	104	245	318
Bond charges	223	202	657	628
Interest income	4	39	53	127
Total revenues	1,069	1,270	3,475	4,254
Expenses:				
Power purchases	840	931	3,224	3,350
Energy settlements	(3)	(6)	(28)	(15)
Interest expense	75	92	266	301
Other expenses	10	9	26	23
Cost of Issuance	-	12	-	12
Recovery (deferral) of recoverable costs	147	232	(13)	583
Total expenses	1,069	1,270	3,475	4,254
Net income	-	-	-	-
Net assets, beginning of the period	-	-	-	-
Net assets, end of period	$ -	$ -	$ -	$ -

Power Charges

Power charges decreased by $661 million in the nine months ended March 31, 2009 compared to the same period in 2008. The difference reflects the lower volume of power sales to end use customers as a result of the renegotiation of a large fixed volume contract to dispatchable capacity, and the expiration of another fixed volume contract, both taking effect on January 1, 2008. This resulted in lower volumes sold for the last half of 2008 when compared to the last half of 2007 and an overall 18% lower volume sold in the nine month period this year when compared to last year. DWR was able to reduce remittances in 2008 to purposefully reduce cash while maintaining required minimum balances in the Operating, Priority Contract, and Operating Reserve Accounts in excess of bond indenture requirements.

Surplus Sales

Surplus sales of energy and natural gas in the nine month period ended March 31, 2009 are $73 million lower than in the same period in 2008. Volumes sold of surplus energy and natural gas were lower offsetting the higher average price received on those sales in the nine months ended March 31, 2009 when compared to the same period in 2008.

Surplus Sales of energy will decline further in the future as a result of a change in remittance collection methodology adopted by DWR and its IOU limited agents as part of implementing operational changes to adapt to the California Independent System Operator's (CAISO) Market Redesign Technology Upgrade (MRTU) launched on March 31, 2009. DWR has forecast this change in its 2009 revenue requirement and has implemented remittance rates that will maintain required minimum balances in excess of bond indenture requirements.

Bond Charges

Bond charges for the nine months ended March 31, 2009 are $29 million higher than the same period in 2008. The increase is attributable to higher average bond charge rates in 2009 when compared to 2008 and are adequate to meet all debt service requirements and maintain bond indenture required account balances in the Bond Charge Collection, Bond Charge Payment, and Debt Service Reserve Accounts.

Interest Income

Interest income for the nine months ended March 31, 2009 is $74 million lower than the interest income for the same period in 2008 and is attributable to lower rates received on investments in the State of California Investment Pooled Money Investment Account-Surplus Money Investment Fund (SMIF) combined with slightly lower balances earning interest. The average effective yield earned on SMIF balances was 2.41% and 4.80% for the nine month periods ended March 31, 2009 and 2008, respectively.

Power Purchases

Power costs are $126 million lower in the nine months ended March 31, 2009 than in the same period in 2008. The lower costs are due to lower volumes purchased after the renegotiation of a large fixed price contract to dispatchable capacity and the expiration of another fixed price contract, both taking effect January 1, 2008. The decrease in contract volumes was offset by the substantially higher price of natural gas in 2008 along with an increase in amounts needed to meet margin calls in the natural gas hedging accounts during the nine month period as prices began to decline.

Energy Settlements

Energy settlements for the nine months ended March 31, 2009 total $28 million. DWR received $12 million from a Kern River Gas Transmission company settlement as part of a FERC decision resetting its tariff rates for the past four years. DWR also received $4 million from the 2006 Enron Corp. settlement through bankruptcy court distributions. Other amounts owed from the Enron Corp. settlement are subject to future bankruptcy court distributions and will be recognized as an energy settlement if and when there is a distribution of monies. The fund received an additional $12 million in other settlements from various parties relating to the California refund proceedings described in Note 5 of the accompanying notes.

Interest Expense

Interest expense in the nine months ended March 31, 2009 is $35 million lower than the amounts paid in the same period in 2008. The decrease is attributable to lower variable rates from the remarketing of DWR variable rate bonds in the declining interest rate environment, partially offset by greater amounts of fixed rate debt outstanding in the portfolio as a result of the refunding transactions in 2008 and 2009. In

December 2007, DWR paid an $8 million arbitrage rebate interest payment to the Internal Revenue Service for excess interest earned on reserve balances above allowable amounts that also contributed to the difference.

Other Expenses

Other expenses are $3 million higher in the nine months ended March 31, 2009 than in the same nine month period in 2008. The increase is primarily a result of an increase in charges for services provided to the Power Supply Program by other State agencies, partially offset by lower costs for contract renegotiation, litigation and professional consulting services.

Recovery (Deferral) of Recoverable Costs

The individual components of the recovery (deferral) of recoverable costs are as follows for the three and nine months ended March 31, 2009 and 2008 (in millions):

	Three months ended March 31		Nine months ended March 31	
	2009	**2008**	**2009**	**2008**
Operations	$ (5)	$ 95	$ (457)	$ 141
Debt service and related costs	152	137	444	442
	$ 147	$ 232	$ (13)	$ 583

Operations
There was a deferral of $457 million for the nine months ended March 31, 2009 reflecting higher than expected energy costs during the last half of 2008 combined with DWR's planned decrease in 2008 power charges to purposefully lower cash balances while staying within bond indenture requirements.

Debt Service and Related Costs
The recovery of debt service and bond related costs are substantially similar for the nine months ended March 31, 2009 compared to the same period in 2008. The recovery is comprised solely of the difference between bond charges and interest income less interest expense. The smaller recovery is primarily due to lower interest income due to the decline in cash balances and interest rates earned on those balances.

Department of Water Resources Electric Power Fund
Statements of Net Assets
March 31, 2009 and June 30, 2008 (in millions)

	March 31, 2009	June 30, 2008
Assets		
Long-term assets:		
Restricted cash, equivalents and investments:		
Operating Reserve Account	$ 543	$ 548
Debt Service Reserve Account	950	917
Recoverable costs, net of current portion	5,947	5,934
Total long-term assets	7,440	7,399
Current assets:		
Restricted cash and equivalents:		
Operating and Priority Contract Accounts	836	1,227
Bond Charge Collection and Bond Charge Payment Accounts	1,084	619
Recoverable costs, current portion	465	511
Interest receivable	23	27
Other assets	51	261
Total current assets	2,459	2,645
Total assets	$ 9,899	$ 10,044
Capitalization and Liabilities		
Capitalization:		
Net assets	$ -	$ -
Long-term debt	8,991	8,999
Total capitalization	8,991	8,999
Current liabilities:		
Current portion of long-term debt	507	510
Accounts payable	256	475
Accrued interest payable	145	60
Total current liabilities	908	1,045
Commitments and Contingencies (Note 5)		
Total capitalization and liabilities	$ 9,899	$ 10,044

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 Assets
For the three and nine months ended March 31, 2009 and 2008 (in millions)

	Three months ended March 31		Nine months ended March 31	
	2009	**2008**	**2009**	**2008**
Operating revenues:				
Power charges	$ 774	$ 925	$ 2,520	$ 3,181
Surplus sales	68	104	245	318
Total operating revenues	825	1,029	2,765	3,499
Operating expenses:				
Power purchases	840	931	3,224	3,350
Energy settlements	(3)	(6)	(28)	(15)
Administrative expenses	10	9	26	23
(Deferral) recovery of recoverable operating costs	(5)	95	(457)	141
Total operating expenses	825	1,029	2,765	3,499
Income from operations		-	-	-
Bond charges	223	202	657	628
Interest income	4	39	53	127
Interest expense	(75)	(92)	(266)	(301)
Cost of issuance	-	(12)	-	(12)
Recovery of recoverable debt service and related costs	(152)	(137)	(444)	(442)
Net increase in net assets	-	-	-	-
Net assets, beginning of year	-	-	-	-
Net assets, 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, 2009 and 2008 (in millions)

	2009	2008
Cash flows from operating income:		
Receipts:		
Power charges	$ 2,483	$ 3,171
Surplus sales	315	323
Energy settlements	28	15
Payments for power purchases and other expenses	(3,259)	(3,512)
Net cash used in operating activities	(433)	(3)
Cash flows from non-capital financing activities:		
Receipt of bond charges	670	666
Interest payments	(194)	(266)
Proceeds from revenue bond transactions	8	1,050
Cost of issuance net of underwriters discount	(4)	(12)
Defeasance of revenue bonds	(2)	(1,050)
Net cash provided by non-capital financing activities	478	388
Cash flows from investing activities:		
Interest received	57	125
Termination of guaranteed investment contract	-	150
Net cash provided by investing activities	57	275
Net increase in cash and equivalents	102	660
Restricted cash and equivalents, beginning of period	2,861	2,658
Restricted cash and equivalents, end of period	$ 2,963	$ 3,318
Restricted cash and equivalents included in:		
Operating Reserve Account	$ 543	$ 548
Debt Service Reserve Account (a component of the total of $950 and $917 at March 31, 2009 and 2008 respectively)	500	467
Operating and Priority Contract Accounts	836	1,290
Bond Charge Collection and Bond Charge Payment Accounts	1,084	1,013
Restricted cash and equivalents, end of period	$ 2,963	$ 3,318
Reconciliation of operating income to net cash used in operating activities:		
Income from operations	$ -	$ -
Changes in net assets and liabilities to reconcile operating income to net cash used in operations:		
Recoverable costs	(214)	90
Accounts payable	(219)	(93)
Total adjustments	(433)	(3)
Net cash used in operating activities	$ (433)	$ (3)

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 (a component unit of the State of California) (the Fund), administered by DWR, was established in January 2001 through legislation adding Division 27 to the California Water Code.

In January 2001, DWR began selling electricity to approximately ten million investor owned utility (IOU) retail customers. DWR currently purchases power from wholesale suppliers under contracts entered into prior to January 1, 2003 and delivers the power to the customers through the transmission and distribution systems of the IOUs. Payments from the customers are collected for DWR by the IOUs pursuant to servicing arrangements approved and/or ordered by the California Public Utilities Commission.

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. As allowed by governmental accounting standards, the Fund has elected not to apply statements and related interpretations issued by the Financial Accounting Standards Board after November 30, 1989. The Fund is accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenses.

The financial statements of the Fund are intended to present the financial position, and the changes in financial position and cash flows, where applicable, 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, 2009 and 2008, and the changes in its financial position and its cash flows, where applicable, for the periods then ended in conformity with accounting principles generally accepted in the United States of America.

2. Restricted Cash and Investments

The State of California has a deposit policy for custodial credit risk. As of March 31, 2009, $28 million of the Fund's cash balances were uninsured and uncollateralized.

As of March 31, 2009, the Fund had the following investments (in millions):

Investment	Maturity	Amount
State of California Pooled Money Investment Account - Surplus Money Investment Fund (SMIF)	6.5 months average	$ 2,928
Cash		35
		2,963
Guaranteed investment contracts	May 1, 2022	350
Forward purchase agreement	May 1, 2009	100
		$ 3,413

The Fund's investments in the guaranteed investment contracts and forward purchase agreement are rated as follows, by Standard & Poor's (S&P) Moody's, respectively, at March 31, 2009 (in millions):

	Amount	S&P	Moody's
GIC Providers			
FSA	$ 100	AAA	Aa3
Royal Bank of Canada	100	AA-	Aaa
Sun America	150	A+	Aa3
	$ 350		
FPA Provider			
Merrill Lynch: FHLMC Discounted Notes	$ 100	AAA	Aaa

Subsequent Termination Event

In April 2009, as a result of a downgrade event occurring in March 2009 with regard to Sun America, DWR exercised its contractual right to terminate its $150 million GIC with that provider. The funds were reinvested in SMIF after the funds were returned by Sun America.

3. Long-Term Debt

The following activity occurred in the long-term debt accounts during the nine months ended March 31, 2009 (in millions):

	Revenue Bonds	Unamor-tized Premium	Deferred Loss on Defeasance	Total Revenue Bonds
Balance, June 30, 2008	$ 9,525	$ 166	(182)	$ 9,509
Bond Conversion	(2)	8	(4)	2
Amortization		(24)	11	(13)
Less current portion	(494)	(29)	16	(507)
Balance, March 31, 2009	$ 9,029	$ 121	$ (159)	$ 8,991

The tax exempt revenue bonds consist of the following at March 31, 2009 (in millions):

Series	Rates	Fiscal Year of Final maturity	Fiscal Year of First Call Date	Amount Outstanding
A	Fixed (3.1-6.0%)	2022	2012	$ 2,826
B	Variable	2020	Callable	1,000
C	Variable	2021	Callable	2,333
F	Variable	2022	Callable	409
F	Fixed (4.375-5.0%)	2022	Callable	348
G	Variable	2018	Callable	668
G	Fixed (4.35-5.0%)	2016/18	Callable	173
H	Fixed (3.75-5.0%)	2022	Non-callable	1,007
I	Variable	2022	Callable	150
J	Variable	2018	Callable	330
K	Fixed (4.9-5.0%)	2018	Non-callable	279
				$ 9,523
Plus unamortized bond premium				150
Less deferred loss on defeasance				(175)
Less current maturities				(507)
				$ 8,991

Series B, C, F, G, I and J are variable rate bonds and have either daily or weekly rate reset modes. The variable rate bonds have a final stated maturity of 2022, but are scheduled to be retired in sinking fund installments from 2009 to 2022. The interest rates for the variable debt for the nine months ended March 31, 2009, ranged from 0.05% to 10.00%. Variable rate markets were adversely affected by the global credit market turmoil that negatively affected banks and insurance companies during the period. DWR's outstanding variable rate bonds with associated credit enhancement and bond insurance incurred interest costs reflecting the heightened credit risk.

DWR bonds are remarketed by fourteen different broker-dealer remarketing agents, with credit enhancement provided by twenty one banks to spread its risk exposure among many firms. Due to credit market turmoil, remarketing agents can experience problems finding investors for certain bonds, including those with credit enhancement from banks and insurers that have perceived credit risk, as well as risk specific to their own company that carries negative perception with investors. Failed remarketings can result in the credit enhancing bank's required purchase of the bonds, and they become "bank bonds". If this occurs, DWR is required to pay a stated fixed interest rate quarterly until the bonds are successfully remarketed. If the agreements expire or are terminated, DWR is required to begin paying principal in quarterly installments nine months after termination. Early repayment requirements vary with each type of credit facility. Letters of Credit require DWR to repay the bonds in eleven equal installments, while liquidity facilities require repayment in nineteen or twenty seven equal installments depending on the provider.

At March 31, 2009, problems in the credit markets continued to impact remarketing of DWR bonds. As the end of the quarter $11 million of bonds were bank bonds as a result of failed remarketings and were incurring interest at the prime rate. Remarketing agents continue to remarket those bonds either daily or weekly depending on their mode, and the total bank bonds outstanding can fluctuate daily.

Letters of credit enhancing $575 million of variable rate bonds expired December 1, 2008. Prior to the December 1, 2008 expiration date, DWR renewed a letter of credit enhancing $150 million of those bonds. On December 1, 2008 DWR successfully converted another $75 million of those variable rate bonds to fixed rate as part of a $173 million Series G conversion transaction. DWR converted $98 million Series G-4 bonds and the $75 million G-11 bonds to fixed rate with coupons ranging from 4.35% to 5.00%, while the maturity dates remained 2016 and 2018, respectively. The bonds were sold with a premium of $4 million and DWR incurred costs of issuance of $2 million, both of which will be amortized over the life of the bonds.

DWR was unsuccessful in renewing the credit facilities or converting to fixed rate bonds for the remaining $350 million Series F bonds with expiring facilities. On December 1, 2008 those bonds became bank bonds and began incurring interest at prime plus 2% and were subject to an accelerated amortization schedule. In January 2009, DWR successfully converted the remaining $350 million bonds by remarketing $348 million Series F fixed rate bonds. The bonds were sold with a premium of $4 million and DWR incurred costs of issuance of $2 million that will be amortized over the life of the bonds. Total revenue bonds outstanding decreased by $2 million as a result of the transaction.

Future payment requirements on the revenue bonds are as follows at March 31, 2009 (in millions):

Fiscal Year	Principal	Interest [1]	Total
2009	$ 494	$ 65	$ 559
2010	518	238	756
2011	545	217	762
2012	573	200	773
2013	602	178	780
2014-2018	3,447	565	4,012
2018-2022	3,344	194	3,538
	$ 9,523	$ 1,657	$ 11,180

[1] Variable portion of interest cost calculated using the March 31, 2009 Securities Industry And Financial Markets Municipal Swap Index (SIFMA).

The most recent SIFMA rate of 0.54% as of March 31, 2009 was used to forecast future payment requirements in the schedule above.

4. Interest Rate Swaps

The terms, fair values, and credit ratings of counterparties for the various swap agreements at March 31, 2009 are summarized in the following table (in millions):

Outstanding Notional Amount	Fixed Rate Paid by Fund	Variable Rate [1] Received by Fund	Fair Value	Swap Termination Date	Counterparty Credit Rating S&P	Moody's	Fitch
$ 94	2.914%	67% of LIBOR	$ (5)	May 1, 2011	AAA	Aaa	AAA
234	3.024%	67% of LIBOR	(16)	May 1, 2012	AAA	Aaa	AAA
190	3.405%	SIFMA	(8)	May 1, 2013	A+	Aa3	AA-
95	3.405%	SIFMA	(4)	May 1, 2013	A	A2	A
28	3.405%	SIFMA	(1)	May 1, 2013	A	A2	A+
194	3.204%	67% of LIBOR	(19)	May 1, 2014	A	A2	A+
287	3.184%	66.5% of LIBOR	(23)	May 1, 2015	BBB	A3	A-
174	3.280%	67% of LIBOR	(19)	May 1, 2015	AAA	Aaa	AAA
202	3.342%	67% of LIBOR	(24)	May 1, 2016	AA	Aa1	AA
485	3.228%	66.5% of LIBOR	(53)	May 1, 2016	AA	Aa1	AA
202	3.389%	67% of LIBOR	(27)	May 1, 2017	A	A2	A
480	3.282%	66.5% of LIBOR	(53)	May 1, 2017	AA+	A1	AA
514	3.331%	66.5% of LIBOR	(58)	May 1, 2018	A+	Aa1	AA-
306	3.256%	64% of LIBOR	(33)	May 1, 2020	A+	Aa1	AA-
453	3.325%	64% of LIBOR	(49)	May 1, 2022	AA-	Aaa	AA
$ 3,939			$ (392)				

[1] One month U.S. Dollar London Interbank Offered Rate or Securities Industry and Financial Markets Association Index

The notional amounts of the swaps match the principal amounts of the associated debt. The swap agreements contain scheduled reductions in notional amounts that follow scheduled amortization of the associated debt.

As of March 31, 2009, the variable rates on DWR's hedged bonds ranged from 0.05% to 10.00%, while 64%, 66.5% and 67% of LIBOR received on a portion of the swaps was equal to 0.32%, 0.33%, and 0.33% respectively and SIFMA received on a portion of the swaps was 0.54%.

Basis Risk: The Fund is exposed to basis risk on the swaps that have payments calculated on the basis of a percentage of LIBOR (a taxable rate index). DWR has entered into the following basis swaps to mitigate this risk and optimize debt service by changing the variable rate received by the Fund to a 5 year Constant Maturity Swap Index (CMS).

The terms, fair values, and credit ratings of the counterparties for the basis swaps at March 31, 2009 are summarized in the following table (in millions):

Outstanding Notional Amount	Variable Rate [1] Paid by Fund	Variable Rate [2] Received by Fund	Fair Value	Swap Termination Date	Counterparty Credit Rating S&P	Moody's	Fitch
$ 234	67% of LIBOR	62.83% of CMS	$ 5	May 1, 2012	AA	Aa1	AA
194	67% of LIBOR	62.70% of CMS	5	May 1, 2014	A+	Aa1	AA-
174	67% of LIBOR	62.60% of CMS	5	May 1, 2015	A+	Aa3	AA-
202	67% of LIBOR	62.80% of CMS	6	May 1, 2016	AA	Aa1	AA
202	67% of LIBOR	62.66% of CMS	6	May 1, 2017	A+	Aa3	AA-
$ 1,006			$ 27				

[1] One month U.S. Dollar London Interbank Offered Rate
[2] Five year Constant Maturity Swap

As of March 31, 2009, 67% of LIBOR paid on the basis swaps was equal to 0.33% while the variable rates received based on the 5 year CMS Index varied from 2.09 to 4.30%.

Fair Value: The reported fair values in the tables above were determined based on quoted market prices for similar financial instruments.

Credit Risk: As of March 31, 2009, the Fund was not exposed to any credit risk as there was a net negative value in regards to all swaps with each entity. DWR has a total of twenty swap agreements with ten different counterparties. Approximately 23 percent of the swaps total notional value is with a single counterparty with a credit rating of AA/Aa1/AA. Of the remaining swaps, two are held with one counterparty, approximating 21 percent of the outstanding notional value. That counterparty has credit ratings of A+/Aa1/AA-. The remaining swaps are with separate counterparties, all having A/A2/A ratings or better, with the exception of one counterparty with BBB/A2/A- ratings after being downgraded to BBB by Standard and Poor's (S&P) during the period.

Termination Risk: DWR's swap agreements do not contain any out-of-the-ordinary termination provisions that would expose it to significant termination risk. In keeping with market standards, DWR or the counterparty may terminate a swap agreement if the other party fails to perform under the terms of the contract. In addition, the swap documents allow either party to terminate in the event of a significant loss of creditworthiness by the other party. DWR views the possibility of such events to be remote at this time. If a termination were to occur, at the time of the termination, DWR would be liable for payment equal to the swap's fair value, if it had a negative fair value at that time. The counterparty would be liable for any payment equal to the swap's fair value, if it had positive fair value at that time. In addition, a termination would mean that DWR's underlying floating rate bonds would no longer be hedged, and DWR would be exposed to floating rate risk, unless it entered into a new hedge following termination.

Rollover Risk: Since the swap agreements have termination dates and notional amounts that are tied to equivalent maturity dates and principal amounts of amortizing debt, there is no rollover risk associated with the swap agreements, other than in the event of a termination.

Swap Payments and Associated Debt: As rates vary, variable-rate bond interest payments and net swap interest payments will vary. As of March 31, 2009, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (in millions):

	Variable Rate Bonds		Interest Rate	
Fiscal Year	**Principal**	**Interest**	**Swaps, Net**	**Total**
2009	$ 127	$ 5	$ 101	$ 233
2010	80	21	97	198
2011	241	20	94	355
2012	258	19	88	365
2013	54	17	85	156
2014-2018	2,420	62	319	2,801
2019-2022	759	11	59	829
	$ 3,939	$ 155	$ 843	$ 4,937

5. Commitments and Contingencies

Litigation and Regulatory Proceedings

Certain pending legal and administrative proceedings involving DWR or affecting DWR's power supply program are summarized below:

California Refund Proceedings: During 2001 and 2002, DWR 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 DWR would not be entitled in that proceeding to approximately $3.5 billion in refunds associated with DWR's approximately $5 billion of short term purchases because DWR 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 DWR's bilateral purchases in other FERC proceedings. In contrast, FERC ruled that DWR is entitled to refunds on purchases made by the CAISO where DWR actually paid the bill.

Of DWR's $5 billion in short term bilateral purchases, $2.9 billion was imbalance energy which DWR sold to the CAISO at DWR's cost in order to meet the CAISO's emergency needs during 2001. DWR is treated in the FERC refund proceeding as a seller of that energy to CAISO, and in May 2004, FERC issued an order requiring DWR to pay refunds on the sales to the CAISO. However, because DWR would likely be the primary recipient of any refunds on energy it sold to the CAISO, DWR's potential net liability associated with its sales to the CAISO would be substantially reduced. Settlements executed to date with various sellers have reduced that potential liability even further.

Under FERC's orders, therefore, DWR both owes refunds (on the energy it sold to the CAISO) and is entitled to refunds (on the energy that the CAISO purchased but DWR paid for); the effect of offsetting the two is likely to be that DWR would receive refunds.

As to refunds owed, FERC has ruled that to the extent DWR could demonstrate that payment of refunds would result in DWR's costs exceeding its revenues remaining after payment of refunds, DWR could request FERC to reduce the refunds. DWR made a cost recovery filing that DWR believes demonstrates that its costs related to sales to the CAISO exceeded its revenues, a demonstration that, if approved by FERC, would eliminate any refund amount DWR might otherwise be required to pay. In January 2006, FERC deferred action on DWR's cost filing on the basis that DWR, as described above, likely will be a net refund recipient, and net refund recipients, according to FERC, cannot make cost filings. Certain California parties have sought rehearing of that order. In addition, in September 2005, the Ninth Circuit Court of Appeals ruled that FERC could not require governmental entities such as DWR to pay refunds.

Accordingly, DWR likely will be a net refund recipient in the FERC proceedings. Pending litigation could increase or decrease the level of the refunds DWR would be entitled to receive. DWR does not expect that FERC will order it to pay more in refunds than it receives on a market-wide basis.

Commitments

DWR has power purchase contracts that have remaining lives of up to seven years. Payments under these contracts approximated $2.3 billion and $2.4 billion for the nine month periods ended March 31, 2009 and 2008 respectively.

The remaining amounts of fixed obligations under all contracts as of March 31, 2009, are as follows (in millions):

For the Year Ending June 30,	Fixed Obligation (in millions)
2009	$ 380
2010	1,501
2011	1,070
2012	460
2013	75
Thereafter	33
	$ 3,519

In addition to the fixed costs there are variable costs under several of the contracts. Management projects as of March 31, 2009 that the amount of future fixed and variable obligations associated with long-term power purchase contracts would approximate $6 billion. The difference between the fixed costs and the expected total costs of the contracts are primarily due to the variable factors associated with dispatchable contracts and the cost of natural gas.

Six of the power purchase contracts do not qualify as normal purchases and normal sales under the provisions of Governmental Accounting Standards Board Technical Bulletin 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, primarily resulting from either pricing terms that contain variables which are not clearly and closely related to the base energy price or the seller is not a generator of electricity. As a result, certain information regarding these power purchase contracts is required to be disclosed. The fair value of these six contracts at March 31, 2009 approximated $(563) million, using forward market prices discounted at prevailing LIBOR rates.

DWR has entered into transactions to hedge the price of natural gas through bilateral arrangements. The fair value of the various transactions at March 31, 2009 approximated ($76) million, using forward market prices. These hedge transaction volumes vary in size from 2,500 to 25,000 mmBtu per day, and they expire at various times from May 2009 through December 2011.

Credit Risk: Since DWR is a net buyer under all power purchase contracts and the majority of DWR's power purchase contracts are valued in the counterparties favor, thus DWR does not incur substantial credit risk. At March 31, 2009, DWR had minimal credit exposure as power and natural gas prices continued to fall along with global commodity markets.

DWR has open natural gas hedge positions with eleven different counterparties at March 31, 2009. All counterparties have credit ratings of at least A-/A2. DWR has no credit risk exposure to any counterparties since all values are slightly in the counterparty favor.

Termination Risk: None of the power purchase contracts have termination provisions that would require DWR to make payment in the event of a counterparty default. DWR is only required to make a termination payment upon a DWR default and the contract values in favor of the counterparty.

With regards to gas hedge agreements, DWR or the counterparty may terminate an agreement if the other party fails to perform under the terms of the contract. In addition, the agreements allow either party to terminate in the event of a significant loss of creditworthiness by the other party. If a termination were to occur, DWR or the counterparty would owe the other a payment equal to the open positions fair value in their favor. A termination event occurred during the quarter and is described in Note 6 below.

6. Termination Event

On September 15, 2008, Lehman Brothers Holdings Inc. ("Lehman") filed for protection under Chapter 11 of the federal Bankruptcy Code in the United States Bankruptcy Court in the Southern District of New York. DWR was a counterparty with Lehman Brothers Commodity Services Inc. ("LBCS") and Eagle Energy Partners 1, LP ("Eagle Energy"), subsidiaries of Lehman, in wholesale energy marketing transactions. Lehman Brothers Inc. ("LBI"), another Lehman subsidiary, acted as a remarketing agent for $1.066 billion of outstanding DWR variable rate bonds at the filing date.

The obligations of LBCS were guaranteed by Lehman, and the Lehman bankruptcy filing gave DWR the right to terminate the transactions with LBCS. DWR exercised its right to terminate the transactions with LBCS on September 18, 2008. As of the effective termination date DWR had net credit losses of under $1 million, and issued a demand notice for amounts owed.

The obligations of Eagle Energy are not guaranteed by Lehman. As of March 31, 2009 DWR had no credit exposure to Eagle Energy, as DWR was a net buyer of gas for amounts delivered in April and has no future delivery contracts outstanding. Subsequent to the end of the quarter, Eagle was purchased by Électricité de France. DWR continues to transact with Eagle after the transaction.

After the bankruptcy filing, Barclays Bank Plc purchased the broker-dealer operations of LBI and continues to remarket the bonds.