State of California

Department of Water Resources

Proposed
Determination of Revenue Requirements

For the Period

January 1, 2010 through December 31, 2010

To Be Transmitted To
The California Public Utilities Commission
Pursuant To
Sections 80110 and 80134 of the California Water Code

June 18, 2009

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A. THE PROPOSED DETERMINATION

GENERAL

Pursuant to Section 80110 of the California Water Code, the Rate Agreement between the State of California Department of Water Resources ("Department" or "DWR") and the California Public Utilities Commission ("Commission" or "CPUC"), dated March 8, 2002 ("Rate Agreement"), and Division 23, Chapter 4, Sections 510–517 of the California Code of Regulations ("Regulations"), the Department hereby issues its Proposed Determination of Revenue Requirements for the period January 1, 2010 through December 31, 2010 ("Proposed 2010 Determination"). Capitalized terms used and not otherwise defined herein have the meanings given to such terms in the Rate Agreement or the Indenture under which the Department's Power Supply Revenue Bonds were issued (the "Bond Indenture").

The costs of the Department's purchases to meet the net short requirements of retail end use customers in the three California investor-owned utilities' ("Utilities" or "IOUs") service territories, including the costs of administering the long-term contracts, are to be recovered from payments made by customers and collected by the IOUs on behalf of the Department. The terms and conditions for the recovery of the Department's costs from customers are set forth in the Act, the Regulations, the Rate Agreement and orders of the Commission. Among other things, the Rate Agreement contemplates a "Bond Charge" (as that term is defined in the Rate Agreement) that is designed to recover the Department's costs associated with its bond financing activity ("Bond Related Costs") and a "Power Charge" (as that term is defined in the Rate Agreement) that is designed to recover "Department Costs", or the Department's "Retail Revenue Requirements" (as those terms are defined in the Rate Agreement), including power supply-related costs. Subject to the conditions described in the Rate Agreement and other Commission Decisions, Bond Charges and certain charges designed to recover Department Costs may also be imposed on the customers of Electric Service Providers (as that term is defined in the Rate Agreement).[1] Additional background material is contained in the Department's prior Determinations of Revenue Requirements, copies of which have been incorporated into the administrative record supporting this Determination.

Pursuant to Sections 80110 and 80134 of the California Water Code and the Rate Agreement, this Proposed 2010 Determination contains information on the amounts required to be recovered, on a cash basis, in the 2010 Revenue Requirement Period (calendar year 2010).

For the 2010 Revenue Requirement Period, this Proposed 2010 Determination contains information regarding the following[2]: (a) the beginning balance of funds on deposit in the Electric Power Fund ("Fund"), including the amounts on deposit in each account and sub-account of the Fund; (b) the amounts projected to be necessary to pay the principal and interest on all bonds as well as all other Bond Related Costs as and when the same are projected to become due, and the projected amount of Bond Charges required to be collected for such

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[1] Under the Rate Agreement, the "Retail Revenue Requirement" is the amount to be recovered from "Power Charges" on IOU customers. The assessment on customers of Electric Service Providers of charges to recover Department Costs (e.g., "Direct Access Power Charge Revenues") reduces the amount of the "Retail Revenue Requirement," but has no material impact on the Department's costs.

[2] Where appropriate, the Department has provided information in this 2010 Proposed Determination on a quarterly basis. In other instances, particularly where information might be considered market-sensitive, the Department has provided information on an annual basis. Within this Proposed Determination, quantitative statistics presented in tabular form may not add due to rounding.

purpose; and (c) the amount needed to pay the Department's costs, including all Retail Revenue Requirements.

DETERMINATION OF REVENUE REQUIREMENTS

Pursuant to the Act, the Rate Agreement and the Regulations, the Department determines, on the basis of the materials presented and referred to by this Proposed 2010 Determination (including the materials referenced in Section I), that its cash basis revenue requirement for 2010 is $3.185 billion, consisting of $2.248 billion in Power Charges and $0.937 billion in Bond Charges.

This Proposed 2010 Determination takes into account preliminary actual operating results through May 2009.

Any net surpluses or deficiencies during the 2009 Revenue Requirement Period, which may result from the receipt of funds related to various litigation settlements involving the Department, variances in actual natural gas prices than those forecast and other considerations, are reflected in the Department's projected beginning 2010 operating balances.

Table A-1 shows a summary of the Department's revenue requirements and the accounts associated with projected Department Costs ("Power Charge Accounts") for 2010. These figures are compared to those reflected in the Department's final 2009 revenue requirement determination, as reflected in the Department's Revised 2009 Determination of Revenue Requirements for the period of January 1, 2009 through and including December 31, 2009 (as so reflected, the "Revised 2009 Determination"). A summary and comparison of the Department's revenue requirements and the accounts associated with its Bond Related Costs ("Bond Charge Accounts") is presented in Table A-2. Definitions of key accounts and sub-accounts are presented within each table.

TABLE A-1
SUMMARY OF THE DEPARTMENT'S PROPOSED 2010 POWER CHARGE REVENUE REQUIREMENTS AND POWER CHARGE ACCOUNTS AND COMPARISON TO 2009[1]
($ Millions)

Line	Description	2010[2]	2009[3]	Difference
1	*Beginning Balance in Power Charge Accounts*			
2	Operating Account	1,134	870	264
3	Priority Contract Account	-	-	-
4	Operating Reserve Account	543	548	(5)
5	**Total Beginning Balance in Power Charge Accounts**	**1,677**	**1,418**	**259**
6	*Power Charge Accounts Operating Revenues*			
7	Power Charge Revenues[4]	2,248	3,551	(1,303)
8	Other Revenue[5]	-	55	(55)
9	Interest Earnings on Fund Balances	20	36	(16)
10	**Total Power Charge Accounts Operating Revenues**	**2,268**	**3,642**	**(1,375)**
11	*Power Charge Accounts Operating Expenses*			
12	Administrative and General Expenses	26	28	(1)
13	Total Power Costs[6]	2,850	3,691	(841)
14	**Total Power Charge Accounts Operating Expenses**	**2,876**	**3,718**	**(843)**
15	Net Operating Revenues	(608)	(76)	(532)
16	**Ending Aggregate Balance in Power Charge Accounts**	**1,069**	**1,341**	**(273)**

Target Minimum Power Charge Account Balances	**Target (Millions of Dollars)**		
Operating Account: This minimum balance is targeted to cover intra-month volatility as measured by the maximum difference in revenues and expenses in a calendar month.	195	331	(135)
Operating Reserve Account: Covers deficiencies in the Operating Account. It is sized as the greater of (i) the maximum seven-month difference between operating revenues and expenses as calculated under a stress scenario, (ii) 12% of the Department's annual operating expenses and (iii) an amount equal to the maximum projected monthly contract cost payment.	529	543	(14)
Total Operating Reserves:	724	874	(149)

[1]Numbers may not add due to rounding.
[2]As included herein.
[3]As reflected in the 2009 Revised Determination.
[4]Includes Bundled customer revenues and Cost Responsibility Surcharge revenues, whether from Direct Access or other sources, such as Community Choice Aggregation.
[5]See Surplus Sales discussion herein
[6]Includes gas hedging and collateral amounts.

TABLE A-2
SUMMARY OF THE DEPARTMENT'S PROPOSED 2010 BOND CHARGE REVENUE REQUIREMENTS AND BOND CHARGE ACCOUNTS AND COMPARISON TO 2009[1]
($ Millions)

Line	Description	2010[2]	2009[3]	Difference
1	*Beginning Balance in Bond Charge Accounts*			
2	Bond Charge Collection Account	171	241	(70)
3	Bond Charge Payment Account	656	630	26
4	Debt Service Reserve Account	950	917	33
5	**Total Beginning Balance in Bond Charge Accounts**	**1,778**	**1,788**	**(11)**
6	*Bond Charge Accounts Revenues*			
7	Bond Charge Revenues from Utiltities[4]	937	858	78
8	Interest Earnings on Fund Balances	33	55	(22)
9	**Total Bond Charge Accounts Revenues**	**969**	**913**	**56**
10	*Bond Charge Accounts Expenses*			
11	Debt Service on Bonds[5]	975	945	30
12	**Total Bond Charge Accounts Expenses**	**975**	**945**	**30**
13	Net Bond Charge Revenues	(6)	(32)	26
14	**Ending Aggregate Balance in Bond Charge Accounts**	**1,772**	**1,757**	**15**

Target Minimum Bond Charge Account Balances	Target (Millions of Dollars)		
Bond Charge Collection Account: An amount equal to one month's required deposit to the Bond Charge Payment Account for projected debt service	81 - 83	78 - 80	Different
Bond Charge Payment Account: An amount equal to the debt service accrued and unpaid through the end of the third next succeeding calendar month	338 - 913	328 - 873	Different
Debt Service Reserve Account: Established as the maximum annual debt service	980	950	30

[1]Numbers may not add due to rounding.
[2]As included herein.
[3]As reflected in the 2009 Revised Determination.
[4]Cost Responsibility Surcharge revenues are included in this amount, whether from Direct Access or other sources, such as Community Choice Aggregation.
[5]Debt service on bonds includes net qualified swap payments.

FUTURE ADJUSTMENT OF REVENUE REQUIREMENTS

The Department may propose to revise its revenue requirements for the 2010 Revenue Requirement Period given the potential for significant or material changes in the California energy market including changes in forecasted fuel costs, the Department's associated obligations and operations, the direct access rulemaking, and many other events that may materially affect the realized or projected financial performance of the Power Charge Accounts or the Bond Charge Accounts. In D. 08-02-033, for example, the Commission found merit in expediting DWR's withdrawal from its obligations to supply power and directed DWR, its counterparties, and the investor-owned utilities (IOUs) to negotiate novation and replacement agreements that may affect DWR's revenue requirements.

The Department will inform the Commission of any material changes and will revise its revenue requirements accordingly. Several relevant factors are discussed in more detail within Section D.

B. BACKGROUND

THE ACT AND THE RATE AGREEMENT

Information on the Act and the Rate Agreement, which have not changed since 2002, is contained in the Department's prior Determinations of Revenue Requirements, copies of which have been incorporated into the administrative record supporting this Determination.

PROCEEDINGS RELATING TO 2009

On July 8, 2008, the Department issued its Proposed Determination of Revenue Requirements for 2009, consistent with the requirements of Sections 80110 and 80134 of the California Water Code, and provided information consistent with the Regulations. The Department provided interested persons with quantitative results from its PROMOD market simulation and Financial Model, subject to applicable non-disclosure requirements. Interested persons were advised to submit comments no later than July 29, 2008.

On August 6, 2008, the Department published its Determination of Revenue Requirements for the period of January 1, 2009 through and including December 31, 2009 and submitted it to the Commission. Based on an assessment of all comments, the administrative record, the Act, the Regulations, Bond Indenture requirements and the Rate Agreement, the Department found the August 6, 2008 Determination just and reasonable.

The Department reviewed certain matters relating to its August 6, 2008 Determination, including, but not limited to, operating results of the Electric Power Fund (the "Fund") as of September 30, 2008 (the August 6, 2008 Determination incorporated preliminary actual operating results through June 2008); and an updated gas price forecast.

On October 17, 2008, the Department issued its Proposed Revised Determination of Revenue Requirements for 2009 (the "Proposed Revised Determination"), consistent with the requirements of Sections 80110 and 80134 of the California Water Code, and provided information consistent with the Regulations. The Department provided interested persons with quantitative results from its PROMOD market simulation and Financial Model, subject to applicable non-disclosure requirements. Interested persons were advised to submit comments no later than October 24, 2008.

On October 29, 2008 the Department published its revised Determination under Section 516 of the Regulations addressing the following matters:

1. Updated the preliminary actual Electric Power Fund operating results through September 30, 2008.
2. Updated natural gas price forecasts and related assumptions.
3. Updated modeling assumptions and operational considerations provided by the IOUs pertaining underlying assumptions incorporated into the PROMOD IV market simulation model.
4. Updates to the projections of operating balances for 2010 and 2011, relative to those calculated in the October 17, 2009 Proposed Revised Determination.
5. Updates, relative to the October 17, 2009 Proposed Revised Determination, to the projection of Power Charges for 2009 considering the Department's determination of the minimum Operating Account balance projection in 2010.
6. Updated actual variable rate interest results through September 30, 2008

These revisions resulted in a total decrease in the Revised 2009 Determination of $480 million relative to the August 6, 2008 Determination. This decrease was comprised of two components: a $509 million decrease in the Department's Power Charge Revenue Requirement; and a $29 million increase in the Department's Bond Charge Revenue Requirement.

The $509 million Power Charge Revenue Requirement decrease primarily resulted from (1) the net effects of a decrease in contract costs due to a decrease in the gas price forecast for 2009 and (2) the changes to the Operating Account and Operating Reserve Balances for 2010 and 2011. The $29 million Bond Charge Revenue Requirement increase primarily resulted from the net effects of an increase in the projections of interest rates for the unhedged variable rate portion of the Department's bond portfolio.

THE PROPOSED 2010 DETERMINATION

On April 9, 2009, the Department requested that each IOU update various modeling assumptions and operational considerations. During April and May, the IOUs responded to the Department's requests for information.

The information the Department obtained from the IOUs is the basis for its analytical and forecasting efforts related to this Proposed 2010 Determination. The Department also considered other important criteria, including but not limited to Commission Decisions, Bond Indenture requirements, the April 1, 2009 California Independent System Operator's Market Redesign and Technology Upgrade ("MRTU") implementation, and changes relating to Commission rulings addressing the allocation of contract costs and the sharing of revenues from wholesale sales of contract generation volumes. The resulting data was incorporated into the PROMOD IV market simulation model, and became a part of the projections leading to this Proposed Determination.

Upon completion of the procedures set forth in the regulations promulgated pursuant to the California Administrative Procedures Act (the "Regulations"), the Department will determine its revenue requirements for the 2010 Revenue Requirement Period.

C. THE DEPARTMENT'S PROPOSED DETERMINATION OF REVENUE REQUIREMENTS FOR THE PERIOD JANUARY 1, 2010 THROUGH DECEMBER 31, 2010

PROPOSED REVENUE REQUIREMENT DETERMINATION

For 2010, the Department's revenue requirements consist of Department Costs and Bond Related Costs, which are to be satisfied primarily by Power Charge Revenues and Bond Charge Revenues, respectively.

During 2010, the Department projects that it will incur the following power procurement-related Costs: (a) $2.850 billion for long-term power contract purchases to cover the net short requirement of customers; (b) $26 million in administrative and general expenses; and (c) $(608) million in other net changes to Power Charge Accounts (including operating reserves). This projection results in a revenue requirement of $2.268 billion.

Funds to meet these costs (in addition to surplus operating reserves) are projected to be provided from (a) $20 million of interest earned on Power Charge Account balances; and (b) $2.225 billion from Power Charge Revenues and Cost Responsibility Surcharge ("CRS") revenues from customers other than customers of the IOUs and DWR.

Table C-1 provides a quarterly projection of costs and revenues associated with the Power Charge Accounts for the 2010 Revenue Requirement Period.

TABLE C-1
POWER PURCHASE PROGRAM, REVENUE REQUIREMENT BASE CASE:
RETAIL CUSTOMER POWER CHARGE CASH REQUIREMENT
($ Millions)

Line	Description	Amounts for Revenue Requirement Period				
		Q1	Q2	Q3	Q4	Total
0	*Power Charge Accounts Expenses*					
1	Power Costs	725	631	779	715	2,850
2	Administrative and General Expenses	7	7	7	7	26
3	Net Changes to Power Charge Account Balances	(41)	(140)	(242)	(186)	(608)
4	**Total Power Charge Accounts Expenses**	**691**	**498**	**543**	**536**	**2,268**
5	*Power Charge Accounts Revenues*					
6	Interest Earnings on Power Charge Account Balances	5	5	5	4	20
7	Operating Account Balance Adjustment	-	-	-	-	-
8	Total Power Charge Revenue Requirement	686	492	538	531	2,248
9	**Total Power Charge Accounts Revenues**	**691**	**498**	**543**	**536**	**2,268**

During 2010, the Department projects that it will incur the following Bond Related Costs: (a) $975 million for debt service on the Bonds and related Qualified Swap payments, payments of credit enhancement and liquidity facilities charges, and costs relating to other financial instruments and servicing arrangements in connection with the Bonds, and (b) $(6) million for changes to Bond Charge Account balances, resulting in total Bond Charge Account expenses of $969 million.

Funds to meet these requirements are provided from (a) $33 million in interest earned on Bond Charge Account balances, and (b) $937 million from Bond Charge Revenues (including CRS revenues from customers other than customers of the IOUs and DWR). There are no projected net transfers from Power Charge Accounts.

Table C-2 provides a quarterly projection of costs and revenues relating to the Bond Charge Accounts for the 2010 Revenue Requirement Period.

TABLE C-2
POWER PURCHASE PROGRAM, REVENUE REQUIREMENT BASE CASE:
RETAIL CUSTOMER BOND CHARGE CASH REQUIREMENT
($ Millions)

Line	Description	Amounts for Revenue Requirement Period				
		Q1	Q2	Q3	Q4	Total
0	*Bond Charge Accounts Expenses*					
1	Debt Service Payments	56	697	57	165	975
2	Net Changes to Bond Charge Account Balances	161	(464)	205	93	(6)
3	**Total Bond Charge Accounts Expenses**	**216**	**233**	**262**	**258**	**969**
4	*Bond Charge Accounts Revenues*					
5	Interest Earnings on Bond Charge Account Balances	4	13	4	12	33
6	Retail Customer Bond Charge Revenue Requirement	212	220	258	246	937
7	**Total Bond Charge Accounts Revenues**	**216**	**233**	**262**	**258**	**969**

In aggregate, the Department's total cash basis expenses are projected to be $3.851 billion. Revenues from interest earned are projected to be $53 million, and net changes in fund balances are projected to be $(614) million, resulting in combined customer revenue requirements of $3.185 billion.

D. ASSUMPTIONS GOVERNING THE DEPARTMENT'S PROJECTION OF PROPOSED REVENUE REQUIREMENTS FOR THE 2010 REVENUE REQUIREMENT PERIOD

The Department based this Proposed 2010 Determination on a number of assumptions regarding retail customer load, demand side management and conservation, power supply, natural gas prices, administrative and general expenses as well as other considerations affecting the Department's revenues and expenses.

ESTIMATED ENERGY REQUIREMENTS

The Department obtained the utilities' most recent retail energy forecasts in April 2009. The Department reviewed the utilities' underlying forecast assumptions, including population growth, changes in employment and labor within the utility's service area, weather effects, growth in distributed generation, and annexation of the utility's service area by publicly owned utilities. In developing its bundled requirements forecast, the Department also reviewed forecasts of direct access and Community Choice Aggregation (CCA) in California. These assumptions are discussed in greater detail below.

Table D-1 shows the projected 2010 energy requirements forecast (quantified in gigawatt hours) for the PG&E, SCE and SDG&E service areas during 2010.

TABLE D-1
ESTIMATED ANNUAL ENERGY REQUIREMENTS

Service Area	Total Retail Requirements	Direct Access and CCA Requirements	Bundled Requirements
Pacific Gas & Electric	93,359	6,442	86,917
Southern California Edison	93,572	9,036	84,536
San Diego Gas & Electric	23,315	3,656	19,659
Total	210,246	19,134	191,112

DIRECT ACCESS

The Department's direct access estimates are based on data provided by each IOU in April 2009 and a review of the Commission staff's monthly direct access reports. The Department notes a slow but steady decline in direct access loads since the Commission suspended the right of bundled customers to elect direct access service, effective September 20, 2001. The Department regularly reviews each utility's monthly report to the Commission on current direct access load and service request changes to identify any substantive developments that would require Departmental action.

While the option to elect direct access service is suspended until the Department no longer supplies power under Division 27 of the Water Code (see California Water Code § 80110), the Commission recently initiated a Rulemaking (R. 07-05-025) to evaluate lifting the suspension of direct access prior to 2015 when the last long-term contract is presently scheduled to expire[3]. The Commission states that it expects the proceeding to last longer than eighteen months. Given the manifold issues and the timing of the proceeding, the Department does not project that the suspension of direct access will be lifted during the 2010 Revenue Requirement period.

Table D-2 shows each IOU's direct access forecast, as a percentage of total retail loads, for 2010.

TABLE D-2
2010 DIRECT ACCESS FORECAST[4]

Service Area	Percent of Retail Load
Pacific Gas & Electric	6.43%
Southern California Edison	9.55%
San Diego Gas & Electric	15.68%
Total	**8.85%**

COMMUNITY CHOICE AGGREGATION

CCA refers to the ability of communities or public entities to aggregate load and procure all or a portion of their power requirements independent of the IOUs. Assembly Bill 117, adopted in 2002, modified the Public Utilities Code to allow local governments "…to elect to combine the loads of its residents, businesses, and municipal facilities in a community-wide electric buyers' program."[5] Significant volumes of CCA could lead to changes in Department rates to accommodate reduced IOU retail deliveries of Department power.

At present no load has left bundled utility service to form or become part of a Community Choice Aggregator pursuant to AB 117. However, the San Joaquin Valley Power Authority (SJVPA) filed an Implementation Plan with the CPUC in January 2007 to become a Community Choice Aggregator. That plan was certified by the CPUC in May 2007. Based on SJVPA's CCA Implementation Plan Modification #3, dated February 2009. SJVPA is expected to eventually serve over 2,500 GWh of load to eleven cities and one county. SJVPA's plans to phase in its Community Choice Aggregation program have been delayed. As a result of these delays, SJVPA is currently expected to phase in approximately 494 GWh of load in 2010, with additional load served in 2011. The SJVPA Community Choice Aggregation load, if implemented, will reduce bundled load in both PG&E's service territory and SCE's service territory.

Other communities have indicated an interest in pursuing CCA, including the City and County of San Francisco, several East Bay cities, the City of Chula Vista, Marin County, and the City of Fresno. Because the Department estimates that the process for aggregators to initiate feasibility studies and ultimately procure power on behalf of load to be eighteen to twenty-four months, we do not expect any load from these communities to migrate under the CCA program during the 2010 Revenue Requirement Period.

[3] Peevey Proposed Decision April 24, 2007, Order Granting Petition for Rulemaking and Instituting Rulemaking as to Whether, When, or How Direct Access Should be Restored.
[4] Figures in Table D-2 represent direct access as a percentage of total retail loads for 2010. These percentages correspond to direct access loads forecast by the IOUs in 2009.
[5] Public Utilities Code, Section 331.1(a).

POWER SUPPLY RELATED ASSUMPTIONS

In this 2010 Proposed Determination, the Department considered three types of power supplies needed to meet the requirements of each IOU: (a) IOU supplied resources; (b) supply from the Department's long-term power contracts; and (c) the residual net short of each IOU.[6]

Table D-3 below shows, for the 2010 Revenue Requirement Period, the estimated energy requirements for the customers of the IOUs, estimated supplies from generation by the three IOUs,[7] the resulting net short, the expected supply from the Department's long-term power contracts, off-system energy sales and the residual net short.

TABLE D-3
ESTIMATED NET SHORT ENERGY, SUPPLY FROM THE DEPARTMENT'S LONG-TERM POWER CONTRACTS AND THE DEPARTMENT'S ESTIMATE OF THE RESIDUAL NET SHORT

	Amount for the Revenue Requirement Period (GWH)
All Investor-Owned Utilities	
Energy Requirements After Adjustments	185,879
Supply from Utility Resources	132,158
Net Short	53,721
Supply from the Department's Priority Long-Term Power Contracts	34,853
Off-System Sales	(6,367)
Residual Net Short (Surplus)	25,235

Table D-4 shows, on a quarterly basis for the 2010 Revenue Requirement Period, estimated net short volumes in gigawatt-hours, supply from the Department's long-term power contracts and the residual net short.

6 While the Department has calculated and presented the residual net short requirements of the IOUs, pursuant to the Act, the Department has not made any provision for the cost of the residual net short requirements in its Determination for the 2010 Revenue Requirement Period. For purposes of this Proposed 2010 Determination, the residual net short for each IOU equals the projected amount of wholesale energy remaining to be procured by such IOU on behalf of ratepayers in its service area.

7 For purposes of this Proposed 2010 Determination, generation retained by the three IOUs is defined as the sum of generation owned by the IOUs, interruptible load, supply from contracts between the IOUs and qualifying facilities ("QFs") and other bilateral contracts.

TABLE D-4
NET SHORT, SUPPLY FROM THE DEPARTMENT'S LONG-TERM POWER CONTRACTS AND RESIDUAL NET SHORT IN 2010

	Net Short (GWH)	Supply from Power Contracts (GWH)	Off-System Sales Volumes (GWH)	(Residual Net Short) Spot Volume (GWH)
Q1-2010	12,271	8,642	(1,396)	5,475
Q2-2010	10,089	8,418	(3,121)	4,792
Q3-2010	14,686	9,259	(1,311)	6,737
Q4-2010	16,226	8,534	(539)	8,231
Total	53,721	34,853	(6,367)	25,235

UTILITY RESOURCES

The Department reviewed each utility's 2010 forecast of utility owned generation, qualifying facility ("QF") contract generation, and bilateral contract generation for consistency with the Department's own energy dispatch forecast. Where necessary, the Department updated its assumptions concerning QF contract terms and expiration dates, outage schedules, and net dependable resource capacity, among others, to reflect current details related to each IOU's resource portfolio.

HYDRO CONDITION ASSUMPTIONS

Normal hydrologic conditions are assumed for both California and the Pacific Northwest during 2010 and 2011. Neither the CEC nor the National Weather Service Northwest River Forecast Center has provided meaningful forecasts past the 2009 water year. Therefore, DWR has projected normal hydroelectric dispatch for the 2010 Revenue Requirement Period.

CONTRACT ASSUMPTIONS

During the 2010 Revenue Requirement Period, approximately 34,853 GWhs of energy is projected to be supplied on behalf of the IOUs' retail electric customers through the Department's long-term power contracts. The terms and conditions of each contract have been reflected in the Department's market simulation, resulting in a projection of contract-specific, hourly energy dispatches to meet the projected energy requirements of each IOU's retail customers. The terms and conditions incorporated in the Department's market simulation include, among other details, must-take energy volumes and dispatchable contract capacities, contract heat rates and unit outage rates as well as scheduling limitations. During market simulation, all energy dispatches from the Department's dispatchable long-term power contracts occur based on dispatch of available power supply resources in merit order of the cost of dispatch and delivery of those resources, subject to transmission delivery constraints, and the effective cost of those constraints. In general, each incremental generating unit is dispatched only if the incremental cost of generating an additional MWh from that unit is less than the cost of alternative sources that can provide to the same location.

Table D-5 provides a listing of all of the long-term power contracts that are expected to be operational during the 2010 Revenue Requirement Period and beyond, describing the term and capacity associated with each contract and the IOU to which the contract has been allocated. One contract is scheduled to expire during 2009. A 1,000 MW fixed price contract, delivered at all hours of the year (seven days per week, 24 hours per day), with Calpine Energy Services, L.P. (referred to in previous Determinations as "Calpine 1") is scheduled to expire on December 31, 2009.

Detailed contract terms can be found on the CERS website, http://cers.water.ca.gov

TABLE D-5
LONG-TERM POWER CONTRACT LISTING

Counter-Party	Date Executed	Delivery Start Date	Delivery End Date	Capacity MW	Allocated
Alliance Colton, LLC	4/23/2001 Renegotiated on 9/19/02	8/1/2001	12/31/2010	80	SCE
Bear Energy (Previously Williams Energy)	2/16/2001 Renegotiated on 11/11/02	1/1/2008	12/31/2010	275	SDG&E
"	"	7/1/2003	12/31/2010	50	SDG&E
"	"	1/1/2008	12/31/2010	1045	SCE
CalPeak Power—Panoche, LLC	8/14/2001 Renegotiated on 5/2/02	12/27/2001	12/27/2011	52.6	PG&E
CalPeak Power--Vaca Dixon, LLC	8/14/2001 Renegotiated on 5/2/02	6/21/2002	12/31/2011	51.9	PG&E
CalPeak Power--El Cajon, LLC	8/14/2001 Renegotiated on 5/2/02	5/29/2002	12/31/2011	50.9	SDG&E
CalPeak Power—Border, LLC	8/14/2001 Renegotiated on 5/2/02	12/12/2001	12/12/2011	51.6	SDG&E
CalPeak Power—Enterprise, LLC	8/14/2001 Renegotiated on 5/2/02	12/8/2001	12/8/2011	52.5	SDG&E

Counter-Party	Date Executed	Delivery Start Date	Delivery End Date	Capacity MW	Allocated
Calpine Energy Services, L.P. (Calpine 2)	2/26/2001 Renegotiated on 4/22/02; Renegotiated on 12/7/2007	1/1/2008	12/31/2009, buyer option to extend to 12/31/2012	180	PG&E
Calpine Energy Services, L.P. (Peaking Capacity)	2/27/2001 Renegotiated on 4/22/02	8/1/2002	7/31/2011	495	PG&E
Coral Power, LLC	5/24/2001	1/1/2006	6/30/2010	400	PG&E
"	"	7/1/2010	6/30/2012	100	PG&E
"	"	7/1/2002	6/30/2012	100	PG&E
"	"	7/1/2003	6/30/2012	175	PG&E
"	"	7/1/2004	6/30/2012	175	PG&E
Power Receivables Finance (formerly Allegheny Energy Supply Company, LLC)	3/23/2001 Renegotiated on 6/10/03	1/1/2006	12/31/2011	800	SCE
GWF Energy, LLC	5/11/2001 Renegotiated on 8/22/02	9/6/2001	12/31/2011	95.8	PG&E
"	"	7/1/2002	12/31/2011	95.8	PG&E
"	"	6/01/2003	10/31/2012	170.5	PG&E
High Desert Power Project	3/9/2001 Renegotiated on 4/22/02	4/22/2003	3/31/2011	Up to 840	SCE
Kings River Conservation District	12/31/2002 Renegotiated on 8/18/04	9/19/2005	9/18/2015	96	PG&E
Mountain View Power Partners, LLC	5/31/2001 Renegotiated on 10/1/02	10/1/2001	9/30/2011	66.6	SCE

Counter-Party	Date Executed	Delivery Start Date	Delivery End Date	Capacity MW	Allocated
Iberdrola Renewables (formerly PPM Energy)	7/6/2001	7/1/2004	6/30/2011	300	PG&E
City/County of San Francisco	12/30/2002	unknown	unknown	Est. 192	PG&E
Sempra Energy Resources	5/4/2001	1/1/2004	9/30/2011	1200	SCE
"	"	1/1/2008	9/30/2011	400	SCE
Sunrise Power Company, LLC	6/25/2001 Renegotiated on 12/31/02	6/01/2003	6/30/2012	572	SDG&E
(Wellhead) Fresno Cogeneration Partners	8/3/2001 Renegotiated on 12/17/02	8/20/2001	10/31/2011	21.5	PG&E
Wellhead Power Gates, LLC	8/14/2001 Renegotiated on 12/17/02	12/27/2001	10/31/2011	46.4	PG&E
Wellhead Power Panoche, LLC	8/14/2001 Renegotiated on 12/17/02	12/14/2001	10/31/2011	49.9	PG&E
Shell Wind (Cabazon Project)	7/12/2001 Renegotiated on 4/24/02	8/31/2002	12/31/2013	43	SDG&E
Shell Wind (Whitewater Hill Project)	7/12/2001 Renegotiated on 4/24/02	8/31/02 (partial)	12/31/2013	65	SDG&E

The Department, in cooperation with representatives of the Attorney General's office and representatives of the Governor's staff, has continued its efforts to modify terms and conditions of the Department’s long-term power contracts consistent with the requirements of the Act and applicable federal law. Three of the remaining original contracts have yet to be renegotiated from their original terms.

CONTRACT MANAGEMENT AND DISPOSITION ALTERNATIVES

The Power Charge component of the revenue requirement is directly related to the costs of power supplied under the Department's long-term power contracts. In considering changes to the contracts to modify its revenue requirements, the Department can (1) continue to use its contracts in their present form, (2) seek to modify the contracts through bilateral renegotiation with its counterparties, or (3) terminate the contracts.

Theoretically, the Department could unilaterally terminate one or more of its contracts. The terms of each of the Department's contracts provide that if the contract is terminated for reasons other than breach or default by the power-supplying counterparty to the contract, the Department is obligated to pay the entire remaining estimated value of the contract. Any such termination other than for an uncured default or breach by the seller would likely increase the Department's revenue requirements due to timing implications of the payments to the counterparty. In addition, energy no longer supplied by DWR would need to be replaced by the investor-owned utilities in either the short-term market or through new long-term power contracts with other suppliers, to the extent any portion of the energy supplied under a DWR contract is not surplus to the energy needs of the retail customers of the utilities. For this reason, under present market conditions and terms of the contracts, the Department does not believe that unilateral termination of any of the contracts would result in a reduction in its revenue requirements or overall ratepayer costs.

It is possible that additional power contract modifications, including termination of one or more contracts, could be agreed to between the Department and one or more of its long-term power supply counterparties prior to the end of the 2010 Revenue Requirement Period. As of the date of this Proposed 2010 Revenue Requirement Determination, the Department has not entered into any such final power contract modifications other than as already noted herein.

Currently, in conjunction with the Direct Access rulemaking the CPUC, IOUs and the Department are considering ways to relieve DWR of its obligations to supply power on an expedited basis by facilitating negotiations with DWR contract counterparties to enter into replacement agreements with the IOUs.

If any of the current power contacts are modified, successfully novated or terminated, the Department will determine if a revision of its revenue requirement is warranted. It would prepare a revision based on the remaining power contract portfolio and the operating reserves will, as always, be based on provisions in the Bond Indenture

Finally, with the implementation of MRTU on April 1, 2009 – which significantly changes the way energy is scheduled and settled – several proposals to amend most of the Department's existing contracts with electric generators and power marketers are being considered. The Department's power contacts were executed prior to MRTU, and have terms and conditions that were not drafted in anticipation of the implementation of MRTU.]

COST RESPONSIBILITY SURCHARGE

In a series of decisions, the CPUC ordered certain classes of direct access, municipal and customer generation departing load, and Community Choice Aggregation customers to pay the Cost Responsibility Surcharge related to historical stranded costs and ongoing costs. Included in the Cost Responsibility Surcharge is a DWR Bond Charge component, which is assessed to pay debt service associated with DWR's bond issuances and a DWR Power Charge component, which pays a portion of the above-market costs of the DWR power portfolio. The Bond Charge and the Power Charge components are rates imposed on total electricity usage by direct access, departing load and Community Choice Aggregation customers by the CPUC in concert with the establishment of Power Charges and Bond Charges on bundled customers.

Cost Responsibility Surcharge revenues reduce the amount of Bond Charges and Power Charges that must be imposed on bundled customers to recover Bond Related Costs and Department Costs. In the aggregate, the payments by direct access load, departing load, and Community Choice Aggregation load and from bundled customer load for the DWR Bond Charge and the DWR Power Charge flow to DWR to recover the DWR Bond Related Costs and Department Costs.

SALES OF EXCESS ENERGY ASSUMPTIONS

After the California Independent System Operator's Market Redesign and Technology Upgrade went into effect on April 1, 2009, the IOUs and the Department jointly submitted a motion to the CPUC that clarified the process that the IOUs will use to remit power charges to DWR. This clarification became necessary due to changes in which energy is scheduled and settled in the MRTU market.

With respect to surplus sales, the IOUs and DWR focused on simplifying the remittance processes where possible. Specifically, the IOUs and DWR proposed to eliminate the sharing of surplus sales. Revenues from pro rata sharing of surplus sales will no longer be used to offset DWR's revenue requirements, but rather DWR will receive remittances based all energy dispatched from DWR contracts in each IOU service area. Customers will remit power charges in amounts that will enable the recovery of ongoing operating costs of the Department's power supply program.

The CPUC granted the Joint Motion on March 13, 2009 as part of Rulemaking 06-07-010. Currently the IOUs and DWR are abiding by the remittance processes described in its joint motion. Specific contract remittance details and procedures are described in a Memorandum of Understanding ("MOU") that was attached to the Joint Motion.

To IOUs and the Department are collaborating on formalizing the MOU by filing a request to the CPUC to modify the applicable Servicing Orders, Operating Order, and Operating Agreements in the near future.

LONG-TERM POWER CONTRACT COST ASSUMPTIONS

Each long-term power contract identified in Table D-5 has been reviewed by the Department to determine the costs that will impact its revenue requirements during 2010. All applicable costs are reflected in the Department's electric market simulation along with previously noted operational considerations. The types of costs included in the Department's contract-specific projections include, but are not limited to, fixed energy, capacity, fixed operation and maintenance, variable operation and maintenance, scheduling coordinator fees, and fuel management fees. Total accrued long-term power contract costs, including requisite natural gas purchases, are projected to be $2.809 billion for the 2010 Revenue Requirement Period. Natural gas costs represent a significant component of the Department's total energy costs and are discussed below in greater detail.

For informational purposes, Table D-7 shows, for the 2010 Revenue Requirement Period, the expected average cost (in $/MWh) on a quarterly basis for the Department's long-term power contracts.

TABLE D-7
ESTIMATED POWER SUPPLY COSTS
(Dollars per Megawatt-Hour)

	Long-Term Priority Contracts
Quarter 1 – 2010	76
Quarter 2 – 2010	77
Quarter 3 – 2010	82
Quarter 4 – 2010	80

NATURAL GAS PRICE FORECAST AND FUELS ASSUMPTIONS

The natural gas price forecast supporting this Proposed 2010 Determination is based on the NCI Spring 2009 Natural Gas Price Forecast ("NCI Spring 2009 Forecast") Base Case prepared by Navigant Consulting, Inc. ("NCI"), consultants to the Department. Assumptions underlying the NCI Spring 2009 Forecast include all significant supply and demand factors affecting the North American natural gas market such as the timing of major gas pipeline capacity changes, resource base additions and subtractions, gas demand, the price of crude oil, the timing and magnitude of certain liquefied natural gas ("LNG") capacities, imports and exports.

The NCI Spring 2009 Forecast was prepared based upon the GPCM natural gas forecast model and yields long term monthly gas prices. In order to account for short term fluctuations in the natural gas market, NYMEX prices are used in the initial eighteen months of the forecast. For the gas price forecast underlying this Proposed 2010 Determination, the near term monthly prices at Henry Hub were revised on April 23, 2009 by averaging the then ten most recent daily settlement prices. The differences between the initial monthly price forecasts at Henry Hub and the recalculated monthly prices were used to proportionately adjust the forecasted prices at other market hubs, including PG&E Citygate and the Southern California Border.

Compared to the Base Case forecast underlying the Revised 2009 Determination published October 29, 2008, prices in the NCI/DWR Spring 2009 Forecast Base Case supporting this Proposed 2010 Determination are shown in Table D-8.

TABLE D-8
NATURAL GAS PRICE FORECAST COMPARISON AT HENRY HUB
(Nominal $/MMBtu)

	2010	**2011**
Gas Price Forecast – Proposed 2010 Determination	5.95	6.37
Gas Price Forecast – Revised 2009 Determination	9.18	9.41
Difference	(3.23)	(3.04)

Table D-9 below lists the updated natural gas prices by quarter for 2010 and 2011 at two key California market hubs: PG&E Citygate and the Southern California Border.

TABLE D-9
NATURAL GAS AVERAGE PRICE FORECASTS
(Nominal $/MMBtu)

	Southern California Border		**PG&E Citygate**	
	2010	**2011**	**2010**	**2011**
Q1	5.67	6.83	5.88	7.03
Q2	5.45	6.22	5.76	6.30
Q3	5.76	6.05	6.06	6.07
Q4	6.29	5.74	6.68	5.88
Annual Average	**5.79**	**6.21**	**6.10**	**6.32**

As part of a 2002 settlement agreement with Williams Energy Marketing and Trading ("Williams") the Department entered into a Natural Gas Purchase Contract for natural gas deliveries beginning on January 1, 2004 and ending on December 31, 2010. On October 2, 2003, the CPUC issued Decision 03-10-016, which allocated fuel volumes related to the Williams Natural Gas Purchase Contract between SCE (64% in 2010) and SDG&E (36% in 2010).

During the 2010 Revenue Requirement Period, it is projected that the Natural Gas Purchase Contract will result in power cost savings of approximately $23 million, based on the difference between the contract fuel price of $4.39 and the Department's projected average fuel price of $5.79 at the Southern California Border pricing hub. For the purpose of determining power cost savings related hereto, the weighted average fuel price considered in this analysis accounts for related, seasonal variations in both the base case fuel price forecast and fuel volumes delivered under the Williams Natural Gas Purchase Contract in 2010.

GAS HEDGING EXPENSE

For the 2010 Revenue Requirement Period, the Department has reflected the impact of natural gas price hedges on a portion of the projected gas purchases that will be made to support the Department's power contracts. The hedging expenses and projected hedged volume are based on responses to information requests provided by the IOUs in April and May 2009 and monthly activity in the Department's Gas Hedging Account and the Department's own internal analysis.

The Department estimates that as of May 31, 2009, the IOUs had collectively secured, or developed reasonably firm plans to secure, hedges on behalf of DWR that establish the effective price for over 116 million MMBtu during calendar year 2010. The hedged volume represents approximately 56 percent of total projected IOU base case gas requirements (for fuel related to allocated DWR power contracts) for the 2010 Revenue Requirement Period. The Department has effectively hedged 18 million MMBtu of natural gas via firm price deliveries from the Williams contract during both the 2010 Revenue Requirement Period, and this annual volume is included in the aforementioned 116 million MMBtu for 2010.

CALIFORNIA INDEPENDENT SYSTEM OPERATOR MARKET REDESIGN AND TECHNOLOGY UPGRADE ASSUMPTIONS

The Department's Proposed 2010 Revenue Requirements were developed using the same fundamental economic dispatch principles used in past revenue requirements. The CAISO implemented its Market Redesign and Technology Upgrade in April 2009. MRTU changes the way in which energy is scheduled and settled, and is based on a nodal, as opposed to zonal, delivery point and pricing structure.

MRTU created some uncertainty with respect to the operation of the power contracts and the IOUs' and the Department's remittance procedures. To address this uncertainty, the IOUs and the Department jointly submitted a motion to the CPUC that clarified the process that the IOUs will use to remit power charges to DWR. Attached to the Joint Motion was a Memorandum of Understanding ("MOU") that described, as specifically as was possible at that time, the agreed-upon operation and remittance procedures - that will require amendments to the operating and servicing order/agreements- under which the IOUs and DWR have been operating since April 1, 2009.

With respect to surplus sales, the IOUs and DWR focused on simplifying the remittance processes where possible. Specifically, the IOUs and DWR proposed to eliminate the sharing of surplus sales. Revenues from pro rata sharing of surplus sales will no longer be used to offset DWR's revenue requirements, but rather DWR will receive remittances based on all energy dispatched from DWR contracts in each IOU service area. Customers will remit power charges in amounts that will enable the recovery of ongoing operating costs of the Department's power supply program.

With regards to the bidding and operations of the Power Contracts, the MOU contains contract tables which outline the expected bidding and operations methodologies and remittance basis for contracts allocated to each of the three IOUs. The new methodologies take into account the creation of a day-ahead market under MRTU as well as a settlement mechanism created to avoid potential double payments to the generators.

The implementation of MRTU did not substantially change the 2009 DWR power charge revenue requirements. Likewise, MRTU is not expected to materially change the 2010 Proposed Revenue Requirements. The Joint Motion – which was approved by the CPUC on March 13, 2009 - is intended solely to ensure that the customers in each IOU service area continue to remit power charges in reasonable amounts that cover the ongoing operating costs of the Department's power supply program after implementation of MRTU.

The MOU is an interim step. The IOUs and the Department intend, once they have sufficient certainty with respect to the MRTU-based structure of the DWR contracts, to use the MOU to develop specific changes to the operating and servicing order/agreements. Those changes will be presented to the Commission for approval.

The implementation of MRTU does not impact the Bond Charge.

ADMINISTRATIVE AND GENERAL COSTS

The Department's administrative and general costs of $26.3 million consist of $22.3 million for appropriated budget expenditures including funds for labor and benefits, pro rata charges for services provided to the power supply program by other State agencies and $4 million for consulting services for development and monitoring of the revenue requirements, litigation and dispute resolution support, power contract management, and financial advisory services for managing the $10 billion debt portfolio and related reserves.

FINANCING RELATED ASSUMPTIONS

For purposes of calculating the interest earnings on account balances during 2010, the Department assumes a 2.44 percent earnings rate for the Debt Service Reserve Account and a 1.25 percent earnings rate for all other accounts during the 2010 Revenue Requirement Period.

The Department currently has $4.632 billion of fixed rate bonds outstanding, $3.939 billion of hedged variable rate bonds outstanding that have corresponding interest rate hedges in place to convert debt service to fixed rate and $0.952 billion of unhedged variable rate debt. The projected average interest rate for all fixed rate bonds for the 2010 Revenue Requirement Period is 5.187 percent. The projected average interest rate for all hedged variable rate bonds (taking into account the hedges) is 3.954 percent.

For purposes of calculating the interest accruing on unhedged variable rate bonds during 2010, as well as any future revenue requirement periods, in accordance with the Bond Indenture, interest is assumed to accrue at a rate equal to the greater of (a) 130 percent of the highest average interest rate on such variable rate bonds in any calendar month during the twelve (12) calendar months ending with the month preceding the date of calculation, or such shorter period that such variable rate bonds shall have been Outstanding, or (b) 4.0 percent. For the 2010 Revenue

Requirement Period, on the basis of these assumptions, the interest rate on all unhedged variable rate bonds is projected to be 5.979 percent.

The Department projects that the amount of Bond Charge Revenues required for the 2010 Revenue Requirement Period will be $937 million.

ACCOUNTS AND FLOW OF FUNDS UNDER THE BOND INDENTURE

General information on the Accounts and flow of funds under the Bond Indenture, which has not changed since the bonds were issued in 2002, is contained in the Department's prior Determinations of Revenue Requirements, copies of which have been incorporated into the administrative record supporting this Determination.

Information specific to certain Accounts for this Proposed 2010 Revenue Requirement Determination follows.

OPERATING ACCOUNT

The Department has covenanted in the Bond Indenture to include in its revenue requirements amounts estimated to be sufficient to cause the amount on deposit in the Operating Account at all times during any calendar month to equal the Minimum Operating Expense Available Balance ("MOEAB"). The Bond Indenture leaves to the Department the determination as to how far into the future this minimum test of sufficiency should be met. Moreover, the covenant concerns the minimum amount required to be projected to be on deposit, and leaves to the Department the determination as to what total reserves are appropriate or required in the fulfillment of its duties under Section 80134 of the Act.

The Department determines the MOEAB at the time of each revenue requirement determination and is to be an amount equal to the largest projected difference between the Department's projected operating expenses and the Department's projected Power Charge revenues during any one month period during the revenue requirement period, taking into account a range of possible future outcomes (i.e., "stress cases").

For the purposes of this Proposed 2010 Determination, the Department has determined the MOEAB to be $195 million. The Department projects to exceed the MOEAB at all times during 2010. The Department has determined that the amount projected to be on deposit in the Operating Account, including the amount therein that acts as a reserve for Operating Expenses, is just and reasonable, based in part on the following: (1) potential gas price volatility, (2) potential gas price escalation, (3) year-over-year revenue requirement volatility, and (4) credit rating agency and credit and liquidity facility considerations, as well as the factors discussed below under "Sensitivity Analysis" and in Section E—"Key Uncertainties in the Revenue Requirement Determination".

OPERATING RESERVE ACCOUNT

The Operating Reserve Account Requirement ("ORAR") is to be calculated, in respect of each Revenue Requirement Period, as the greater of (a) the largest aggregate amount projected by the Department by which Operating Expenses exceed Power Charge Revenues during any consecutive seven calendar months commencing in such Revenue Requirement Period and (b) 12 percent of the Department's projected annual Operating Expenses, provided, however, that the projected amount will not be less than the applicable percentage of Operating Expenses for the most recent 12-month period for which reasonably full and complete Operating Expense information is available, adjusted in accordance with the Indenture to the extent the Department no longer is financially responsible for any particular Power Supply Contract. All projections are to be based on such assumptions as the Department deems to be appropriate after consultation with the Commission and taking into account a range of possible future outcomes (i.e., "Stress Cases").

Based on the Stress Cases described below under "Sensitivity Analysis", the ORAR for the 2010 Revenue Requirement Period is determined by the Department to be $529 million.

DEBT SERVICE RESERVE ACCOUNT

For purposes of calculating the amount of the Debt Service Reserve Requirement from time to time, interest accruing on Variable Rate Bonds during any future period will be assumed to accrue at a rate equal to the greater of (a) 130 percent of the highest average interest rate on such Variable Rate Bonds in any calendar month during the twelve (12) calendar months ending with the month preceding the date of calculation, or such shorter period that such Variable Rate Bonds shall have been outstanding, or (b) 4.0 percent. For the 2010 Revenue Requirement Period, the Department will calculate projected interest on unhedged Variable Rate Bonds at 5.979 percent.

For the 2010 Revenue Requirement Period, the Department has determined the Debt Service Reserve Requirement to be $980 million. The Department projects to maintain this amount at all times during the Revenue Requirement Period.

SENSITIVITY ANALYSIS

The Rate Agreement requires the Department to evaluate its costs and cash flows on a monthly basis and to notify the Commission of its Retail Revenue Requirements no less than once each year, thereby ensuring that Bond Charges and Power Charges are adequate to meet financial obligations associated with the Bonds and the power supply program. From the date the Department first initiates any necessary revised Retail Revenue Requirement proceeding, it expects no more than seven months will elapse before it receives modified levels of revenues associated with the filing. As explained in prior Department revenue requirement determinations, during this seven month period the Department would endeavor to identify any material changes in its revenue requirement, proceed through its own administrative determination of its modified revenue requirement, notify the Commission of the new revenue requirement for purposes of allocating the costs among customers, and finally begin receiving the modified level of revenue. In order to ensure its ability to meet its financial obligations during this seven month period, the Department must maintain reserves that are adequate to meet normal anticipated expenses, unexpected variations in these expenses, and/or reductions in revenue receipts resulting from factors beyond the Department's control. The determination of reserve levels is made by the Department, considering such factors as the potential variations in revenue receipts and power supply program expenses, changes in key variables affecting customer energy requirements, IOU controlled or "retained" generation ("Utility Retained

Generation" or "URG") production levels, changing natural gas prices, and Department contract operations, among other factors.

To assess the adequacy of reserve levels, the Department and its consultants have prepared an additional assessment of Stress Cases based on changes in certain key expense and operating assumptions. The Stress Cases considered in this assessment reflect a sampling of groups of changes in key assumptions that could affect Department expenses and revenues. The Stress Cases are not intended to reflect all possible scenarios, nor are they intended to reflect only those most likely to occur. For the Stress Cases, a market simulation was performed to generate revised net short requirements and associated power supply costs. These revised forecasts were used to generate revised cash flow projections for the Department. These revised results were compared against the base estimate of cash flow projections (the "Base Case").

CASE 1

This Stress Case focuses on decreased Bond Charge and Power Charge revenues resulting from lower sales to Department customers, and increased costs of providing energy under existing contracts.

Higher costs are driven primarily by increased fuel costs. This Stress Case utilizes a higher natural gas price forecast than is presented in Table D-9. This Stress Case gas price forecast, shown in Table D-10, was developed using basic statistical methods to define a high-end range of gas prices at the Henry Hub, Southern California Border and PG&E Citygate delivery points. These are the relevant primary delivery points for natural gas that would be procured to support DWR's long-term contracts.

TABLE D-10
STRESS CASE – NATURAL GAS PRICE FORECASTS
(Nominal $/MMBtu)

	Henry Hub	Southern California Border	PG&E Citygate
	2010	**2010**	**2010**
Q1	9.67	9.31	10.02
Q2	9.37	8.87	9.78
Q3	9.91	9.51	10.35
Q4	10.91	10.56	11.61
Annual Average	9.97	9.56	10.44

The Stress Case gas price forecast for each delivery point was developed using a set of historical monthly prices from the first of the month starting in April 2000 through April 2009 for Henry Hub gas prices with historical basis differentials used to estimate prices for each delivery point. The Department identified the distribution function that best fits the data through the use of specialized statistical software. Using the identified distribution functions, a Monte Carlo simulation was performed on each monthly Base Case gas price forecast to identify a gas price with a 99 percent probability of all gas prices within that specific distribution falling below it – presuming the Base Case gas price forecast is the mean point of the distribution. This gas price was then used as the Stress Case gas price forecast for that specific delivery point and month.

While this methodology appears to provide the best method of statistically identifying a reasonable high-end range for gas prices, no statistical method will perfectly capture the variability in gas prices.

Gas hedges can be used to reduce the impact of changes in the spot market for gas. Based on information provided by the IOUs, the Department has included the impact of actual and planned gas hedges in place as of May 31, 2009. These hedges, in many instances, limit the price of natural gas purchases under the Stress Cases to levels below the Stress Case gas price forecast for those volumes and time periods for which the hedges are in place.

Lower customer sales by the Department are driven primarily by a decrease in the net short energy requirements, which can occur as a result of increased URG and/or decreased customer load. In this case, URG is increased by assuming California and Pacific Northwest hydroelectric production at 125 percent of normal for 2010 and 2011.

Lower loads are estimated in this case by assuming cooler-than-normal summers during 2010 and 2011, and by assuming increased non-programmatic conservation. The level of decreased customer load due to temperature variation is simulated by decreasing the Base Case total monthly load forecast for 2010 and 2011 by 3.3 percent, 3.6 percent, 5.1 percent and 4.4 percent for June, July, August, and September, respectively. In addition, an increase in the assumed level of non-programmatic conservation (above the Base Case) results in decreases in total annual load of four percent in 2010 and two percent in 2011. Lower electric loads result in a Stress Case for Department revenue because the fixed component of Department energy contracts must be allocated over fewer MWh of retail electric sales, thereby increasing the Department's required recovery cost per MWh.

CASE 2

This Stress Case focuses on increased costs of providing energy under existing contracts, and considers increased contract dispatch due to higher customer load and reduced URG.

Higher costs are driven primarily by increased fuel costs. As in Case 1, this Stress Case utilizes the higher natural gas price forecast that is presented in Table D-10.

Higher customer sales by the Department are driven primarily by an increase in the net short, which can occur as a result of decreased URG and/or increased customer load. In this case, URG is decreased by assuming California and Pacific Northwest hydroelectric production at 75 percent of normal in 2010 and 2011. URG is further decreased by assuming an unplanned outage at one northern California nuclear power plant unit from January 2010 through March 2010 and at one southern California nuclear power plant unit from April 2010 through March 2011. The expected impact of this type of an assumption is to increase the amount of energy dispatched from the Long-Term Priority Contracts.

Higher loads are estimated in this case by assuming load growth rates that are 2.0 percentage points higher than those assumed in the Base Case in 2010 and 1.4 percent higher in 2011. It is assumed that this growth occurs as a result of the combination of accelerated economic growth in California and decreases in the expected amount of achieved non-programmatic conservation. In addition, load is increased by assuming the existence of warmer-than-normal summers in 2010 and 2011. The level of increased customer load due to temperature variation is simulated by increasing the Base Case total monthly load forecast (inclusive of the accelerated growth rates described above) in 2010 and 2011 by 4.4 percent, 4.8 percent, 6.8 percent, and 5.9 percent for June, July, August, and September, respectively.

E. POWER CONTRACT SETTLEMENT SUMMARY

The California Parties, which include the Governor's Office, California Attorney General's Office, CPUC, the Department and the IOUs have participated in FERC proceedings to recover excess electricity costs incurred by ratepayers since 2001. These FERC proceedings have led to several settlement agreements between the California Parties and the responsible energy suppliers. As one of the California Parties, the Department has received distributions from these energy suppliers that have been paid to settle claims against them. Any future settlement distributions will reduce Department costs and, as a result, decrease the Department's revenue requirement. Copies of prior settlement agreements are incorporated into the administrative record supporting this Determination.

F. KEY UNCERTAINTIES IN THE REVENUE REQUIREMENT DETERMINATION

The Department faces a number of uncertainties that may require material changes to its revenue requirements for the 2010 Revenue Requirement Period after this Proposed 2010 Determination. Several risk factors are outlined below and additional information may be found in each of the bond financing Official Statements, which may be obtained from the Treasurer of the State of California

1. Determination of Power Charges and Bond Charges; possible use of amounts in the Bond Charge Collection Account to pay Priority Contract Costs:
   a. Potential administrative and legal challenges to DWR's revenue requirements;
   b. Potential litigation regarding inclusion of DWR Priority Contract Costs in its Retail Revenue Requirement; and
   c. Application and enforcement of the Rate Agreement's Bond Charge rate covenant.

2. Collection of Bond Charges and Power Charges:
   a. Potential rejection of Servicing Arrangements or other disruption of servicing arrangements.

3. Certain risks associated with DWR's Power Supply Program:
   a. Long-term power contracts:
      i. Impact of renegotiated contracts;
      ii. Failure or inability of the suppliers to perform as promised including but not limited to any failure to add new capacity to the grid or a possible rejection of a contract in bankruptcy; and
   b. Gas price volatility.

4. Potential increases in overall electric rates:
   a. Changes in general economic conditions;
   b. Energy market-driven increases in wholesale power costs;
   c. Fuel costs;
   d. Hydro conditions and availability;
   e. Market manipulation; and
   f. Actions affecting retail rates.

5. Potential decrease in DWR customer base:
   a. Direct Access; and
   b. Load departing IOU service.

6. Potential variance in dispatch of DWR contracts:
   a. Actual vs. forecast load variance;
   b. Dispatch coordination between IOUs and DWR; and

7. Uncertainties relating to electric industry and markets:
   a. Electric transmission constraints;

b. Gas transmission constraints; and

8. Uncertainties relating to government action:
   a. California Emergency Services Act;
   b. Possible State legislation or action; and
   c. Possible Federal legislation or action.

9. Uncertainties relating to financial industry and markets:
   a. Effects of bond refunding or similar action;
   b. Variance in interest rates; and
   c. Constraints in the flow and availability of credit facilities and capital.

G. JUST AND REASONABLE DETERMINATION

PRIOR DETERMINATIONS

Each new revenue requirement determination builds, to the extent necessary or appropriate, on the various preceding determinations. Successive determinations incorporate the information from each previous determination into the supporting administrative record. Determinations are available for review on the DWR-CERS website by interested persons, and the supporting materials are available at the CERS office in Sacramento, subject to applicable non-disclosure requirements.

Determination	Date Issued
2001-2003, including Reexamination and Redetermination for 2001-2002	August 16, 2002
Reconsideration of Just and Reasonableness of 2001 - 2003	August 19, 2004
2003 Supplemental	July 1, 2003
2004	September 18, 2003
2004 Supplemental	April 16, 2004
2005	November 4, 2004
Revised 2005	March 16, 2005
2006	August 3, 2005
Final 2006	October 27, 2005
2007	August 2, 2006
Revised 2007	October 30, 2006
2008	August 22, 2007
Revised 2008	October 31, 2007
Supplemental 2008	February 15, 2008
2009	August 6, 2008
Revised 2009	October 29, 2008

THE PROPOSED 2010 DETERMINATION

THE DEPARTMENT WILL MAKE A JUST AND REASONABLE DETERMINATION AFTER COMPLETION OF ITS ADMINISTRAATIVE PROCESS

Under the terms of the Rate Agreement between the Department and the Commission, and the terms of the Bond Indenture, the Department has agreed to review, determine and revise its Retail Revenue Requirement at least annually.

The Department issues this Proposed Determination of Revenue Requirements for the period January 1, 2010, through December 31, 2010 for public review and comment under the Regulations promulgated pursuant to the California Administrative Procedures Act. Under the Regulations, any determination that this Proposed 2010 Determination is just and reasonable will be made by the Department after review of comments from interested parties. The administrative process may result in the issuance of a supplemental determination of revenue requirements for 2010 that differs from this Proposed 2010 Determination.

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H. MARKET SIMULATION

Wholesale power costs in the western United States are driven by a multitude of factors. These include weather and related electricity demand, precipitation and related hydropower production, supply and price of natural gas and coal, power transfer capability of major interties, operating costs, outages and retirement of generating plants, and the cost, fuel efficiency, and timing of new generating resource additions. The Department analyzed the fundamental drivers underlying the electricity market by generating computer simulations of market activity throughout the Western Electricity Coordinating Council ("WECC") region.

As part of its market report and simulation in developing the 2010 Revenue Requirement, the Department considered all items in the above paragraph and the following:

- California ISO Market Redesign and Technology Upgrade implemented in April, 2009;
- Potential impacts of market redesign on the Department's long-term contracts and revenue requirements;
- Use of PROMOD IV as a market simulation tool;
- Analysis of retirement and additions of WECC generation resources; and
- California ISO Locational Marginal Price and Congestion Revenue Rights proposals.

More detailed information about the market simulation utilized by the Department, including descriptions of the inputs and assumptions is referenced in Section J of the 2008 Revenue Requirement[8].

I. ANNOTATED REFERENCE INDEX OF MATERIALS UPON WHICH THE DEPARTMENT RELIED TO MAKE THE DETERMINATION

Volume	Record Number	Date	Record Title
DWR10pRR	001	10/29/08	Revised Revenue Requirement Determination for 2009, including the Revised Determination, The Notice, and the Transmittal letter from CERS to the Commission
DWR10pRR	002	11/21/08	Decision 08-11-056: "Decision Authorizing Measures To Facilitate Removal Of Department Of Water Resources From The Role Of Supplying Electric Power"

[8] Volume DWR08pRR, Record Number 022, dated 4/10/2007.

DWR10pRR	003	12/04/08	Decision 08-12-006: "Decision Allocating The revised 2009 Revenue Requirement Determination Of The California Department Of Water Resources"
DWR10pRR	004	12/05/08	ALJ ruling regarding the date of issuance of Decision 08-12-006 and shortening of time for responses to any application for rehearing. The effective date of the Decision is December 4, 2008.
DWR10pRR	005	12/12/08	SDG&E Advice Letter 2047-E: Revisions To The DWR Power Charge And DWR Bond Charge Pursuant To D.08.12.006
DWR10pRR	006	12/15/08	PG&E Advice Letter 3379-E: 2009 Department of Water Resources Revenue Requirement Determination in compliance with D.08-12-006
DWR10pRR	007	12/15/08	SCE Advice Letter 2296-E: Implementation of the 2009 California Department of Water Resources Power and Bond Charges in Accordance With Decision 08-12-006
DWR10pRR	008	12/24/08	SCE Supplemental Advice Letter 2296-E-A:
DWR10pRR	009	12/26/08	SCE Substitute Sheets for Advice Letter 2296-E-A
DWR10pRR	010	01/23/09	PG&E Advice 3407-E: Electric Rate Changes for DWR, and other revisions
DWR10pRR	011	01/29/09	PG&E Advice 3407-E Substitute Sheet: Electric Rate Changes for DWR, and other revisions
DWR10pRR	012	02/13/09	Joint Motion Of PG&E, SDG&E and SCE Regarding Servicing And Operating Agreements
DWR10pRR	013	02/19/09	CDWR memo to the Commission in support of the joint motion of the IOUs regarding Servicing and Operating Orders and Agreements
DWR10pRR	014	03/13/09	Assigned Commissioner's Ruling On The February 13, 2009 Joint Motion
DWR10pRR	015	03/31/09	DWR "Russell Mills" email to PG&E advising of near term kickoff of 2010 Revenue Requirement Process and acknowledging the PG&E change of Case Manager
DWR10pRR	016	04/01/09	DWR "Russell Mills" email to SCE advising of near term kickoff of 2010 Revenue Requirement Process
DWR10pRR	017	04/01/09	DWR "Russell Mills" email to SDG&E advising of near term kickoff of 2010 Revenue Requirement Process
DWR10pRR	018	04/09/09	DWR "Russell Mills" email transmittal of Data Request 1 to PG&E, SCE and SDG&E
DWR10pRR	019	04/13/09	DWR Response to SCE Question Re. Uncollectible Percentage
DWR10pRR	020	04/22/09	DWR Response to SCE Question Re. Contracts
DWR10pRR	021	04/22/09	DWR Additional Response to SCE Question Re. Contracts
DWR10pRR	022	04/22/09	DWR Additional Response to SCE Questions Re. Contracts

DWR10pRR	023	04/24/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: SCE response to DWR Data Request 1
DWR10pRR	024	04/24/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: PG&E response to DWR Data Request 1
DWR10pRR	025	04/24/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: SCE response to DWR Data Request 1, Q2
DWR10pRR	026	04/29/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: SDG&E response to DWR Data Request 1
DWR10pRR	027	05/01/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: PG&E Supplemental response to DWR Data Request 1Q1.b
DWR10pRR	028	05/04/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: PG&E Supplemental response to DWR Data Request 1Q8
DWR10pRR	029	05/05/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: SDG&E response to DWR Data Request 1Contract Question
DWR10pRR	030	05/07/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: PG&E response to DWR Data Request Question
DWR10pRR	031	05/07/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: SCE response to DWR Data Request Question
DWR10pRR	032	05/07/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: SDG&E response to DWR Data Request Question
DWR10pRR	033	05/11/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: Additional DWR Data Request Questions to SDG&E
DWR10pRR	034	05/20/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: PG&E response to DWR Data Request Questions
DWR10pRR	035	05/26/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: DWR Preliminary Dispatch and contract Estimates - SCE
DWR10pRR	036	05/26/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: DWR Preliminary Dispatch and contract Estimates – SDG&E
DWR10pRR	037	05/26/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: DWR Preliminary Dispatch and contract Estimates – PG&E
DWR10pRR	038	05/27/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: DWR – PG&E email series re. Preliminary Dispatch, Contract Estimates and Fuel costs
DWR10pRR	039	05/27/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: SCE supplemental response to DWR Data Request
DWR10pRR	040	05/29/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: DWR – PG&E email series re. Preliminary Dispatch, Contract
DWR10pRR	041	05/29/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: DWR – SDG&E emails regarding the SDG&E response to the
DWR10pRR	042	06/10/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: DWR – SCE emails regarding Contract Data
DWR10pRR	043	06/11/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: DWR Spring 2009 Base Case Gas Price Forecast
DWR10pRR	044	06/11/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: DWR Spring Stress Case Gas Price Forecast
DWR10pRR	045	06/11/09	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: DWR workpaper describing IOU transfer payment methodology