Department of Water Resources
Electric Power Fund
Financial Statements

September 30, 2007

Index

Page

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, 2007 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 September 30, 2007 and June 30, 2007 are summarized as follows (in millions):

	September 30, 2007	June 30, 2007
Long-term restricted cash, equivalents and investments	$ 1,542	$ 1,542
Recoverable costs, net of current portion	6,360	6,503
Restricted cash and investments:		
Operating and priority contract accounts	1,119	1,167
Bond charge collection and bond charge payment accounts	746	549
Recoverable costs, current portion	629	610
Interest receivable	49	41
Other assets	88	91
Total assets	$ 10,533	$ 10,503
Net assets	$ -	$ -
Long-term debt, including current portion	9,990	9,995
Other current liabilities	543	508
Total capital and liabilities	$ 10,533	$ 10,503

Long-Term Restricted Cash and Investments

There is no change in the $612 million balance in the Operating Reserve Account at September 30, 2007 from June 30, 2007. The amount is determined in accordance with the bond indenture and is equal to twelve percent of projected annual operating expenses of the Fund for calendar year 2007 as forecast in the DWR 2007 revenue requirement determination. Also, the balance of the Debt Service Reserve Account remains at $930 million.

Recoverable Costs, Net of Current Portion

Long-term recoverable costs consist of costs that are recoverable through future billings. The $143 million net decrease in long-term recoverable costs during the three month period ended September 30, 2007 is a combination of 1) operating expenses exceeding operating revenues by $21 million, and 2) bond charge revenue exceeding interest expense by $164 million.

Restricted Cash and Investments

The Operating and Priority Contract Accounts decreased by $48 million during the three month period ending September 30, 2007. This decrease was lower than the $137 million planned decrease in balances for the three month period reflected in the 2007 revenue requirement due to lower than expected power costs. As a result of higher than forecast balances at June 30, 2007 and the lower gas prices during the period ended September 30, 2007, the balance in the Operating and Priority Contract Accounts at September 30, 2007 is $181 million higher than forecast in DWR's 2007 revenue requirement determination.

The Bond Charge Collection and Bond Charge Payment Accounts increased by $197 million in the period ended September 30, 2007 in anticipation of the semi-annual interest payment on fixed rate bonds due in November 1, 2007, and the next principal payment due May 1, 2008.

From the dates of issuance of the revenue bonds through September 30, 2007, 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 increased by $19 million in the three months ended September 30, 2007. This increase is primarily attributable to the seasonally higher sale of power in the summer months to end use customers.

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. Assets in this account are classified as other assets on the Statements of Net Assets.

Other assets decreased by $3 million in the three months ended September 30, 2007 to $88 million. With the decline in natural gas prices, $40 million was transferred from the Operating Account to the brokerage account and used to fund realized losses, provide collateral for current positions, and enable future hedging activities. At September 30, 2007, other assets consisted of money market obligations, US Treasury bills, and government bonds valued at $41 million and financial options valued at $47 million.

Long-Term Debt

The $5 million decrease in long-term debt for the three month period ended September 30, 2007 is attributable to the net amortization of bond premium and deferred loss on the advance bond refunding.

Other Current Liabilities

Accounts payable reflect one month's accrual for power and fuel purchases, as payments are normally made on the 20th of the month following purchase. At September 30, 2007 accounts payable are $14 million lower than at June 30, 2007 as lower prices of natural gas offset slightly higher seasonal contract volumes.

The $49 million increase in accrued interest payable is anticipated as the fixed rate bonds provide for semi-annual payments on May 1st and November 1st, while the variable rate bonds provide for more frequent payments.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Fund's activities for the three months ended September 30, 2007 and 2006 are summarized as follows (in millions):

	2007	2006
Revenues:		
Power charges	$ 1,173	$ 1,260
Surplus sales	107	117
Bond charges	221	233
Interest income	44	38
Total revenues	1,545	1,648
Expenses:		
Power purchases	1,305	1,330
Energy settlements	(9)	-
Interest expense	101	102
Other expenses	5	7
Recovery of recoverable costs	143	209
Total expenses	1,545	1,648
Net increase in net assets	-	-
Net assets, beginning of period	-	-
Net assets, end of period	$ -	$ -

Power Charges

Power charges decreased by $87 million in the three months ended September 30, 2007 compared to the same three month period in 2006. Although the volume of power sold was 3% higher in 2007, the average remittance rate for the three month period in 2007, which is based on DWR's 2007 revenue requirement, is 11% lower than in the same period in 2006. The 2007 remittance rate is lower as a result of 1) anticipated lower fuel costs, and 2) the ability of DWR to reduce remittance rates in 2007 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 three month period ended September 30, 2007 are $10 million lower than in the same period in 2006. Surplus energy, which represents approximately 60% of surplus sales, declined by 20% during the three month period ended September 30, 2007 compared to the same period last year. The dollar value and volumes of sales of excess natural gas in the three months ended September 30, 2007 was substantially the same as for the same period in the prior year.

Bond Charges

Bond charges for the three months ended September 30, 2007 are $12 million lower than the same period in 2006, 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 three months ended September 30, 2007 is $6 million higher than the interest income for the same period in 2006 and is attributable to increased rates received on investments in the State of California Investment Pooled Money Investment Account-Surplus Investment Fund.

Power Purchases

Power costs are $25 million lower in the three months ended September 30, 2007 than in the same period in 2006. The volume of power purchased in 2007 was 3% higher than in 2006, which partially offset a decrease in costs due to the declining price of natural gas, and a decrease in amounts needed to meet margin calls in the natural gas hedging accounts.

Interest Expense

Interest expense in the three months ended September 30, 2007 is comparable to the amounts paid in the same period in 2006. Lower outstanding debt and amortization of premium and deferred loss on the sale of bonds offset slightly higher rates paid on variable rate debt.

Other Expenses

Other expenses decreased $2 million in the three months ended September 30, 2007 compared to the same period in 2006 due to decreased consulting and legal costs incurred for contract renegotiation and litigation activities.

Recovery (Deferral) of Recoverable Costs

The individual components of the recovery (deferral) of recoverable costs are as follows for the three months ended September 30, 2007 and 2006 (in millions):

	2007	2006
Operations	$ (21)	$ 40
Debt service and related costs	164	169
	$ 143	$ 209

Operations
There was a deferral of recoverable costs of $21 million for the three months ended September 30, 2007 versus the recovery in the same period in 2006. The deferral in the three months ended September 30, 2007 reflects DWR's planned decrease in 2007 power charge remittance rates to purposefully lower cash balances while staying within bond indenture requirements, offsetting lower than forecast power costs.

Debt Service and Related Costs
The recovery of debt service and bond related costs are similar for the three months ended September 30, 2007 compared to the same period in 2006. The recovery is comprised solely of the difference between bond charges and interest income less interest expense.

Department of Water Resources Electric Power Fund
Statements of Net Assets
September 30, 2007 and June 30, 2007 (in millions)

	September 30, 2007	June 30, 2007
Assets		
Long-term assets:		
Restricted cash, equivalents and investments:		
Operating Reserve Account	$ 612	$ 612
Debt Service Reserve Account	930	930
Recoverable costs, net of current portion	6,360	6,503
Total long-term assets	7,902	8,045
Current assets:		
Restricted cash and investments:		
Operating and Priority Contract Accounts	1,119	1,167
Bond Charge Collection and Bond Charge Payment Accounts	746	549
Recoverable costs, current portion	629	610
Interest receivable	49	41
Other assets	88	91
Total current assets	2,631	2,458
Total assets	$ 10,533	$ 10,503
Capitalization and Liabilities		
Capitalization:		
Net assets	$ -	$ -
Long-term debt:		
Revenue bonds	9,505	9,508
Total capitalization	9,505	9,508
Current liabilities:		
Current portion of long-term debt	485	487
Accounts payable	439	453
Accrued interest payable	104	55
Total current liabilities	1,028	995
Commitments and contingencies (Note 5)		
Total capitalization and liabilities	$ 10,533	$ 10,503

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 months ended September 30, 2007 and 2006 (in millions)

	2007	2006
Operating revenues:		
Power charges	$ 1,173	$ 1,260
Surplus sales	107	117
Total operating revenues	1,280	1,377
Operating expenses:		
Power purchases	1,305	1,330
Energy settlements	(9)	-
Other expenses	5	7
Recovery (deferral) of recoverable operating costs	(21)	40
Total operating expenses	1,280	1,377
Income from operations	-	-
Bond charges	221	233
Interest income	44	38
Interest expense	(101)	(102)
Recovery of recoverable debt service and related costs	(164)	(169)
Net increase in net assets	-	-
Net assets, beginning of period	-	-
Net assets, end of period	$ -	$ -

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

Department of Water Resources Electric Power Fund
Statements of Cash Flows
For the three months ended September 30, 2007 and 2006 (in millions)

	2007	2006
Cash flows from operating income:		
Receipts:		
Power charges	$ 1,129	$ 1,157
Surplus sales	112	117
Energy settlements	9	
Payments for power purchases and other expenses	(1,321)	(1,379)
Net cash used in operating activities	(71)	(105)
Cash flows from non-capital financing activities:		
Receipt of bond charges	241	242
Interest payments	(58)	(54)
Net cash provided by non-capital financing activities	183	188
Cash flows from investing activities:		
Interest received	37	28
Net cash provided by investing activities	37	28
Net increase in cash and equivalents	149	111
Restricted cash and equivalents, beginning of period	2,658	2,365
Restricted cash and equivalents, end of period	$ 2,807	$ 2,476
Restricted cash and equivalents included in:		
Operating Reserve Account	$ 612	$ 591
Debt Service Reserve Account (a component of the total of $930 and $910 at September 30, 2007 and 2006, respectively)	330	310
Operating and Priority Contract Accounts	1,119	858
Bond Charge Collection and Bond Charge Payment Accounts	746	717
Restricted cash and equivalents, end of period	$ 2,807	$ 2,476
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 cash net used in operations:		
Recoverable costs	(57)	(86)
Accounts payable	(14)	(19)
Total adjustments	(71)	(105)
Net cash used in operating activities	$ (71)	$ (105)

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 September 30, 2007 and 2006, 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 September 30, 2007, $22 million of the Fund's cash balances were uninsured and uncollateralized.

As of September 30, 2007, the Fund had the following investments (in millions):

Investment	Maturity	Amount
State of California Pooled Money Investment Account - State Money Investment Fund	5.5 months average	$ 2,764
Cash		43
		2,807
Guaranteed investment contracts	May 1, 2022	500
Forward purchase agreement	November 1, 2007	100
		$ 3,407

The Fund's investments in the guaranteed investment contracts and forward purchase agreement are rated as follows, by Standard & Poor's (S&P) and Moody's, respectively, at September 30, 2007 (in millions):

	Amount	S&P	Moody's
GIC Providers			
FSA	$ 100	AAA	Aaa
XL Capital	150	AAA	Aaa
Royal Bank of Canada	100	AA-	Aaa
Sun America	150	AA+	Aa2
	$ 500		
FPA Provider			
Merrill Lynch: FHLMC Discounted Notes	$ 100	AAA	Aaa

3. Long-Term Debt

The following activity occurred in the long-term debt accounts during the three months ended September 30, 2007 (in millions):

	Revenue Bonds	Unamor-tized Premium	Deferred Loss on Defeasance	Total Revenue Bonds
Balance, June 30, 2007	$ 10,054	$ 137	(196)	$ 9,995
Amortization		(8)	3	(5)
Less current portion	(470)	(30)	15	(485)
Balance, September 30, 2007	$ 9,584	$ 99	$ (178)	$ 9,505

The tax exempt revenue bonds consist of the following at September 30, 2007 (in millions):

Series	Rates	Fiscal Year of Final maturity	Fiscal Year of First Call Date	Amount Outstanding
A	3.1-6.0%	2022	2012	$ 3,274
B	Variable	2020	Callable	1,000
C, D, F	Variable	2022	Callable	3,992
G	Variable	2018	Callable	1,788
				10,054
Plus unamortized bond premium				129
Less deferred loss on defeasance				(193)
Less current maturities				(485)
				$ 9,505

The interest rates for the variable debt for the three months ended September 30, 2007, ranged from 3.37% to 4.05%.

Future payment requirements on the revenue bonds are as follows at September 30, 2007 (in millions):

Fiscal Year	Principal	Interest [1]	Total
2008	$ 470	$ 319	$ 789
2009	493	402	896
2010	518	378	897
2011	545	354	899
2012	573	328	901
2013-2017	3,330	1,195	4,526
2018-2022	4,124	462	4,587
	$ 10,054	$ 3,440	$ 13,494

[1] Variable portion of interest cost calculated using the September 30, 2007 Bond Market Association Municipal Swap Index (BMA).

4. Interest Rate Swaps

The terms, fair values, and credit ratings of counterparties for the various swap agreements at September 30, 2007 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	Counterparty Credit Rating Moody's	Counterparty Credit Rating Fitch
$ 94	2.914%	67% of LIBOR	$ -	May 1, 2011	AAA	Aaa	AAA
234	3.024%	67% of LIBOR	-	May 1, 2012	AAA	Aaa	AAA
190	3.405%	BMA	(3)	May 1, 2013	AA-	Aa2	AA-
95	3.405%	BMA	(1)	May 1, 2013	AA-	Aa3	AA-
28	3.405%	BMA	-	May 1, 2013	A+	A1	A+
194	3.204%	67% of LIBOR	(1)	May 1, 2014	AA	Aa1	AA
308	3.184%	66.5% of LIBOR	1	May 1, 2015	A+	Aa3	AA-
174	3.280%	67% of LIBOR	(1)	May 1, 2015	AAA	Aaa	AAA
202	3.342%	67% of LIBOR	(1)	May 1, 2016	AA+	Aa1	AA
485	3.228%	66.5% of LIBOR	6	May 1, 2016	AA+	Aa1	AA
202	3.389%	67% of LIBOR	(1)	May 1, 2017	AA-	Aa3	AA-
480	3.282%	66.5% of LIBOR	6	May 1, 2017	AA-	Aa3	AA-
514	3.331%	66.5% of LIBOR	8	May 1, 2018	AA	Aa1	AA-
306	3.256%	64% of LIBOR	5	May 1, 2020	AA	Aa1	AA-
453	3.325%	64% of LIBOR	10	May 1, 2022	AA-	Aaa	AA
$ 3,960			$ 28				

[1] One month U.S. Dollar London Interbank Offered Rate or Bond Market Association Municipal Swap 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 September 30, 2007, the variable rates on DWR's hedged bonds ranged from 3.37% to 4.05%, while 64%, 66.5% and 67% of LIBOR received on a portion of the swaps was equal to 3.63%, 3.77%, and 3.80% respectively and BMA received on a portion of the swaps was 3.84%.

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). The terms, fair values, and credit ratings of the counterparties for the basis swaps at September 30, 2007 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	$ 1	May 1, 2012	AA+	Aa1	AA
194	67% of LIBOR	62.70% of CMS	1	May 1, 2014	AA	Aa1	AA-
174	67% of LIBOR	62.60% of CMS	1	May 1, 2015	AA-	Aa2	AA-
202	67% of LIBOR	62.80% of CMS	2	May 1, 2016	AA+	Aa1	AA
202	67% of LIBOR	62.66% of CMS	2	May 1, 2017	AA-	Aa2	AA-
$ 1,006			$ 7				

1 One month U.S. Dollar London Interbank Offered Rate

2 Five year Constant Maturity Swap

As of September 30, 2007, 67% of LIBOR paid on the basis swaps was equal to 3.80% while the variable rates received based on the 5 year CMS Index varied from 3.10 to 3.47%.

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

Credit Risk: All swap counterparties have investment grade credit ratings from the three major credit rating agencies shown in the tables.

Termination Risk: DWR's swap agreements do not contain any out-of-the-ordinary termination provisions that would expose it to significant termination risk.

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 September 30, 2007, 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):

Fiscal Year	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Interest Rate Swaps, Net	Total
2008	$ 21	$ 114	$ (9)	$ 126
2009	127	150	(12)	$ 265
2010	80	146	(12)	$ 214
2011	241	142	(11)	$ 372
2012	258	132	(10)	$ 381
2013-2017	1,959	523	(42)	$ 2,440
2018-2022	1,274	122	(11)	$ 1,385
	$ 3,960	$ 1,330	$ (107)	$ 5,183

5. Commitments and Contingencies

Litigation and Regulatory Proceedings

DWR is involved in lawsuits and regulatory proceedings that could impact power costs and future revenue requirements.

In July, 2001, the Federal Energy Regulatory Commission (FERC) initiated a proceeding to calculate refunds for inflated prices in the California Independent System Operator (CAISO) and California Power Exchange Corporation markets through June 20, 2001. Because on a marketwide basis DWR is expected to be a net refund recipient in the FERC proceeding, this order poses no potential financial liability to DWR but in effect could reduce the award of refunds to DWR. DWR, along with other state agencies and the IOU's, is engaged in litigation at FERC and in the 9th Circuit Court of Appeal with the goal of increasing the refund amount and reversing FERC's orders which reduce the refunds awarded. It is not expected that DWR will be ordered to pay more in refunds than it receives on a marketwide basis. In addition, the Ninth Circuit Court of Appeals has ruled that FERC cannot require governmental entities such as DWR to pay refunds. Accordingly, DWR has two possible methods of increasing refunds to the State and eliminating reductions to the refund award: (1) successfully challenge on appeal FERC's ruling that DWR is required to pay refunds on its "sales" to the ISO; and (2) assert immunity based on FERC's lack of legal authority to order DWR to pay refunds. In the unlikely event that the Fund would be required to pay any refunds as a result of this proceeding, the refunds would be recoverable from ratepayers through future revenue requirements.

In February 2001, the State commandeered block forward contracts between the California Power Exchange and six suppliers. DWR paid approximately $352 million for energy provided under the contracts, which expired in December 2001. Certain market participants claimed they were entitled to damages in excess of $1 billion, their estimation of the fair value of the block forward contracts at the time of commandeering. All plaintiffs, except one whose claim is not material, have dismissed their actions. Should the State be found liable for the remaining claim, and the Fund determined to be the source of moneys to pay damages, those damages would be recoverable from ratepayers through future DWR revenue requirements.

Management believes it is unlikely that DWR will ultimately have a net obligation in connection with the actions described above. As such, no liability has been recorded. Because of the early stage of the legal and regulatory proceedings, the ultimate outcome of these matters cannot be presently determined.

Commitments

DWR has power purchase contracts that have remaining lives of up to eleven years. Payments under these contracts approximated $1.3 billion each for the three month periods ended September 30, 2007 and 2006.

The remaining amounts of fixed obligations under the contracts as of September 30, 2007, are as follows (in millions):

Fiscal Year	**Fixed Obligation**
2008	$ 1,648
2009	2,238
2010	1,805
2011	1,070
2012	460
Thereafter	108
	$ 7,329

In addition to the fixed costs there are variable costs under several of the contracts. Management projects as of September 30, 2007 that the amount of future fixed and variable obligations associated with long-term power purchase contracts would approximate $14 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 September 30, 2007 approximated $(356) million, using forward market prices discounted at prevailing LIBOR rates.

DWR also has entered into transactions to hedge the price of natural gas through bilateral arrangements. The fair value of the various transactions at September 30, 2007 approximated $9 million, using forward market prices. These transaction volumes vary in size from 2,500 to 25,000 mmBtu per day, and they expire at various times from November 2007 through December 2011.