Department of Water Resources
Electric Power Fund
Financial Statements

September 30, 2015

Department of Water Resources Electric Power Fund
Index

USING THIS REPORT

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

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

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

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

PURPOSE OF FUND

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

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

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

CONDENSED STATEMENTS OF NET POSITION

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

	September 30, 2015	June 30, 2015
Long-term restricted cash, equivalents and investments	$ 911	$ 911
Recoverable costs	3,633	3,770
Restricted cash and equivalents:		
Operating and priority contract accounts	144	221
Bond charge collection and bond charge payment accounts	793	531
Recoverable costs receivable	105	108
Interest receivable	8	4
Other assets	-	-
Total assets	5,594	5,545
Deferral of loss on defeasance	137	144
Deferral of derivative cash outflows	-	-
Total deferred outflows of resources	137	144
Total assets and deferred outflows of resources	$ 5,731	$ 5,689
Long-term debt, including current portion	$ 5,610	$ 5,631
Derivative instruments	-	-
Net pension liability	4	5
Other postretirement benefits and accrued vacation	7	7
Other current liabilities	109	45
Total assets	5,730	5,688
Deferred Inflows of resources related to pensions	1	1
Total liabilities and deferred inflows of resources	$ 5,731	$ 5,689

Long-Term Restricted Cash, Equivalents and Investments

The long-term restricted cash, equivalents and investments remained unchanged at $911 million at September 30, 2015 from June 30, 2015. The amount is determined in accordance with the Trust Indenture among the State of California, Department of Water Resources, Treasurer of the State of California, as Trustee and U.S. Bank, N.A, as Co-Trustee (Trust Indenture) and is equal to twelve percent of the Department's total projected annual Operating Expenses through the end of the program based on assumptions supporting the Fund's 2016 Revenue Requirement Determination. The Debt Service Reserve Account remained at $909 million as the maximum future annual debt service was unchanged.

Recoverable Costs

Recoverable costs consist of costs that are recoverable through future billings. The $137 million decrease during the three month period, ended September 30, 2015, is due to 1) recovery of operating costs of $83 million, 2) bond charges plus interest income exceeding interest and investment expense by $220 million. The surplus of Bond Charge Collections over interest costs is primarily a result of the Fund's rate design which includes funding for annual debt service, including principal payments.

Restricted Cash and Equivalents

The Operating and Priority Contract Accounts decreased by $77 million during the three month period ended September 30, 2015 as a result of no power charge revenues and energy settlements received during that period

The Bond Charge Collection and Bond Charge Payment Accounts increased by $262 million in the period ended September 30, 2015 in anticipation of the semi-annual interest payment on fixed rate bonds due November 1, 2015, with the next principal and interest payment due on May 1, 2016.

Recoverable Costs Receivable

Recoverable costs receivable reflects power and bond charges to customers in the IOU service areas that have not yet been collected and amounts receivable from litigation settlements. The $105 million of recoverable costs receivable at September 30, 2015 is $3 million lower than at June 30, 2015. The decrease is the result of no power charge revenues received during that period.

Deferral of Loss on Defeasance

Deferral of loss on defeasance increased by $7 million during the three month period, ended September 30, 2015, due to the amortization of deferred loss on defeasance.

Long-Term Debt

Long-term debt decreased to $5,610 million as of September 30, 2015 from $5,631 million as of June 30, 2015. The decrease is attributable to the net of amortization of premium.

Other Postemployment Benefits and Accrued Vacation

In addition to the pension benefits, the State of California provides postemployment health care benefits to all employees who retire on or after attaining certain age and length of service requirements. The State of California is funding postemployment benefits on a pay-as-you-go basis. The Fund's other postemployment benefits (OPEB) and accrued vacation time liability is unchanged from June 30, 2015.

Other Current Liabilities

Other current liabilities consist of accounts payable and accrued interest payable. Accounts payable reflect one month's accrual for power and fuel purchases, as payments are normally made in the latter half of the month following purchase.

Accounts payable remained unchanged at $2 million at September 30, 2015 from June 30, 2015.

Accrued interest payable increased to $107 million at September 30, 2015 from $43 million at June 30, 2015 in anticipation of the next interest payment date on November 1, 2015.

Deferred Inflows of Resources Related to Pensions

Deferred inflows of resources were unchanged at $1 million at September 30, 2015 from June 30, 2015.

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Fund's activities for the years ended September 30, 2015 and 2014 are summarized as follows (in millions):

	2015	2014
Revenues:		
Power charges, net of refunds	$ (80)	$ 27
Surplus sales	-	1
Bond charges	260	258
Interest income	5	5
Total revenues	185	291
Expenses:		
Power purchases	-	10
Energy settlements	-	(168)
Interest expense	45	57
Administrative expenses	3	3
Recovery of recoverable costs	137	389
Total expenses	185	291
Net increase in net position	-	-
Net position, beginning of year	-	-
Net position, end of year	$ -	$ -

Power Charges

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

Power Charges decreased by $107 million in the three months ended September 30, 2015. The decrease reflects a combination of a larger return of excess amounts and previously received remittances to ratepayers and the diminishing receipt of power charges from the sale of power to end use customers from the Fund's contracts after the termination of the last remaining contract in 2015. The return of excess amounts and previously received remittances are an allocation of excess reserves and prior year over-collections from ratepayers. The return is implemented through separate monthly payments returned to the ratepayers through the IOUs. The amounts the Fund returns are in excess of Trust Indenture required levels, as determined by the annual Revenue Requirement. The allocation of excess amounts and reserves was authorized by the CPUC in Decision 14-12-002 for calendar year 2015 and in Decision 13-12-004 for calendar year 2014. During the three months ended September 30, 2015, the Fund returned $74 million to ratepayers in monthly payments.

Surplus Sales

The Fund receives revenue from the sale of surplus power. There were no surplus sales revenues received during the three months period ended September 30, 2015.

Bond Charges

Bond Charges provide revenue for the payment of debt service on the revenue bonds and are determined by applying a CPUC adopted rate to the total non-exempted loads of IOU customers and certain ESP customers. Bond Charges for the three months ended September 30, 2015 were $2 million higher than the same period in 2014 and were adequate to meet all debt service requirements and maintain Trust Indenture required account balances in the Bond Charge Collection, Bond Charge Payment, and Debt

Service Reserve Accounts. The $2 million increase in 2015 was due to a combination of higher Bond Charge rates and higher sales to IOU customers.

Interest Income

Interest income in the three months ended September 30, 2015 was unchanged from the same period in 2014.

Power Purchases

There was no power purchase during the three months ended September 30, 2015 due to termination of the last power contract in April 2015.

Energy Settlements

There were no revenues received from energy settlements during the three months period ended September 30, 2015

Interest Expense

Interest expense in the three months ended September 30, 2015 was $12 million lower than in the same period in 2014. The decrease was due to lower total interest paid on outstanding debt along with higher amortization of loss on defeasance offset by higher amortization of bond premium.

Administrative Expenses

Administrative expenses in the three months ended September 30, 2015 were unchanged from the same period in 2014.

Recovery of Recoverable Costs

The individual components of the recovery of recoverable costs are as follows (in millions):

	2015	2014
Operations	$ (83)	$ 183
Debt service and related costs	220	206
	$ 137	$ 389

Operations

The negative $83 million operations recovery, in the three months ended September 30, 2015, primarily reflects the return of excess reserves to ratepayers in the IOU service areas and no power charge revenues received.

Debt Service and Related Costs

The $220 million recovery of debt service and bond related costs were $14 million higher for the three months ended September 30, 2015, compared to the same period in 2014, due to lower interest expense and higher bond charge revenues.

LIQUIDITY

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

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

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

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

	September 30, 2015	June 30, 2015
Assets		
Long-term assets:		
Restricted cash, equivalents and investments:		
Operating Reserve Account	$ 2	$ 2
Debt Service Reserve Account	909	909
Recoverable costs	3,633	3,770
Total long-term assets	4,544	4,681
Current assets:		
Restricted cash and equivalents:		
Operating and Priority Contract Accounts	144	221
Bond Charge Collection and Bond Charge Payment Accounts	793	531
Recoverable costs receivable	105	108
Interest receivable	8	4
Total current assets	1,050	864
Total assets	5,594	5,545
Deferred outflows of resources		
Deferral of loss on defeasance	137	144
Total assets and deferred outflows of resources	$ 5,731	$ 5,689
Liabilities		
Non-Current liabilities:		
Long-term debt	$ 4,863	$ 4,881
Net pension liability	4	5
Other postemployment benefits and accrued vacation	7	7
Total non-current liabilities	4,874	4,893
Current liabilities:		
Current portion of long-term debt	747	750
Accounts payable	2	2
Accrued interest payable	107	43
Total current liabilities	856	795
Total liabilities	5,730	5,688
Deferred inflows of resources		
Deferred inflows of resources related to pensions	1	1
Total liabilities and deferred inflows of resources	$ 5,731	$ 5,689

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

Department of Water Resources Electric Power Fund
Statements of Revenue, Expenses and Changes in Net Position
For the three months ended September 30, 2015 and 2014 (in millions)

	2015	2014
Operating revenues:		
Power charges, net of refunds	$ (80)	$ 27
Surplus sales	-	1
Total operating revenues	(80)	28
Operating expenses:		
Power purchases	-	10
Energy settlements	-	(168)
Administrative expenses	3	3
Recovery of recoverable operating costs	(83)	183
Total operating expenses	(80)	28
Income from operations	-	-
Nonoperating revenues and expenses:		
Bond charges	260	258
Interest income	5	5
Interest expense	(45)	(57)
Recovery of recoverable debt service and related costs	(220)	(206)
Net increase in net position	-	-
Net position, beginning of year	-	-
Net position, end of year	$ -	$ -

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

Department of Water Resources Electric Power Fund
Statements of Cash Flows
For the three months ended September 30, 2015 and 2014. (in millions)

	2015	2014
Cash flows from operating activities:		
Receipts:		
Power charges, net of refunds	$ (71)	$ 22
Surplus sales	-	(3)
Energy settlements	-	199
Payments to employees for services	(2)	(1)
Payments for power purchases and other expenses	(2)	(14)
Net cash used in operating activities	(75)	203
Cash flows from non-capital financing activities:		
Receipt of bond charges	254	256
Bond payments	-	-
Interest payments	5	(1)
Proceeds from issuance of revenue bonds	-	-
Payment to advance refund escrow agent	-	-
Net cash used in non-capital financing activities	259	255
Cash flows from investing activities:		
Interest received on investments	1	1
Loss from derivative investments	-	-
Net cash provided by investing activities	1	1
Change in cash and equivalents	185	459
Restricted cash and equivalents, beginning of period	1,363	1,280
Restricted cash and equivalents, end of period	$ 1,548	$ 1,739
Restricted cash and equivalents included in:		
Operating Reserve Account	$ 2	$ 10
Debt Service Reserve Account (a component of the total of $909 and $919 at September 30, 2015 and 2014, respectively)	609	619
Operating and Priority Contract Accounts	144	341
Bond Charge Collection and Bond Charge Payment Accounts	793	769
Restricted cash and equivalents, end of year	$ 1,548	$ 1,739

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, 2015 and 2014. (in millions)

	2015	2014
Reconciliation of operating income to net cash used in operating activities:		
Income from operations	$ -	$ -
Adjustments to reconcile operating income to net cash used in operating activities:		
Recovery of recoverable operating costs	(83)	183
	(83)	183
Changes in net assets and liabilities to reconcile operating income to net cash used in operations:		
Recoverable costs receivable	9	22
Net pension liability and related deferred inflows/outflows	(1)	-
Other postemployment benefits and accrued vacation	-	-
Accounts payable	-	(2)
Net change in operating assets & liabilities:	8	20
Net cash used in operating activities	$ (75)	$ 203
Noncash financing and investing activities:		
Amortization of revenue bond premiums		$ 80
Amortization of deferral of loss on defeasance		22
Bond proceeds paid directly to advance refund escrow agent		917
Accrued interest on refunded revenue bonds		20
Underwriters discount paid directly from bond proceeds		2

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

1. Reporting Entity

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

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

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

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation

The Fund is accounted for as an enterprise fund and is financed and operated in a manner similar to that of a private business enterprise. The Fund uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles, which considers the Fund a Regulated Operation under GASB codification Re10. The Fund is accounted for with a set of self-balancing accounts comprised of assets, liabilities, net position, revenues and expenses.

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

Current Year GASB Implementation

For the year ended June 30, 2015, the Fund implemented GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* (GASB 27) and GASB Statement No. 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (collectively, the Statements). The primary objective of the Statements is to improve accounting and financial reporting by state and local governments for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. It requires employers to report a net pension liability for the difference between the present value of projected pension benefits for past service and restricted resources held in trust for the payment of benefits. The Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Since the Statements require retroactive application, the net pension liability offset by the related deferred outflow of resources as of June 30, 2014 reduces the beginning long-term recoverable costs for the year ended June 30, 2015. As a result, for the year ended June 30, 2015, the long-term recoverable costs increased by $5 million as the cumulative effect of the change in accounting principles.

Restricted Cash, Equivalents and Investments

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

Power Charge Accounts:

- Operating Account: Power Charges (see Revenues and Recoverable Costs) and miscellaneous revenue are deposited into the operating account. While the Fund had power purchase contracts, funds were transferred monthly to the priority contract account as needed to make payments on the priority contracts. The Fund has no remaining priority contracts and no longer transfers funds for related payments. Remaining monies are available for payment of all operating costs of the Fund other than priority contracts, debt service, and debt-related costs.
- Priority Contract Account: Priority contracts were those power purchase contracts that required monthly payment prior to any debt service payments. Monies in the priority contract account were used to make scheduled payments on priority contracts. As of December 31, 2013, the last two priority power purchase contracts expired and the only priority natural gas contract was amended to remove the priority designation. In August 2015, the Fund transferred the remaining balance amount of priority contract account to operating account.
- Operating Reserve Account: The Operating Reserve Account was initially funded with proceeds of the Series 2002 Bonds. The Operating Reserve Account must maintain a balance equal to the greater of (i) the maximum seven-month difference between operating revenues and expenses as calculated under a high expense scenario, (ii) 12% of the Department's annual operating expenses and (iii) an amount equal to the maximum projected monthly power purchase contract cost. If the Operating Reserve Account needed to be replenished, the funds would be transferred from the Operating Account.

Bond Charge Accounts:

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

funded at all times with the amount of maximum aggregate annual debt service on all outstanding debt. If the Debt Service Reserve Account needed to be replenished, the funds would be transferred from either the Operating Account and/or the Bond Charge Collection Account.

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

SMIF has an equity interest in the State of California Pooled Money Investment Account (PMIA). Generally, the investments in the PMIA are available for withdrawal on demand. The PMIA cash and investments are recorded at amortized cost, which approximates fair value. The PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code, described in Note 3.

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

Net Position

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

Revenues and Recoverable Costs

The Fund is required, at least annually, to establish a determination of the revenue requirement to be transmitted to the CPUC, which then sets end use customer remittance rates. The Fund's financial statements are prepared in accordance with Section Re10 of the GASB Codification, "*Regulated Operations,*" which requires that the effects of the revenue requirement process be recorded in the financial statements. Accordingly, all expenses and credits, normally reflected in the change in net position as incurred, are recognized as recoverable costs in the Statements of Net Position and are recovered from IOU customers. Costs that are recoverable through future billings are recorded as long-term assets.

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

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

Pensions

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

3. Restricted Cash and Investments

As of September 30, 2015, the Fund had the following cash, equivalents and investments (in millions):

Investment	Maturity	September 30, 2015
State of California Pooled Money Investment Account - Surplus Money Investment Fund	6.9 months avg.	$ 1,543
Cash		5
Total cash and equivalents		1,548
Guaranteed investment contracts	May 1, 2022	200
Forward purchase agreement	November 1, 2015	100
		$ 1,848
Reconciliation to Statements of Net Position:		
Operating Reserve Account		$ 2
Debt Service Reserve Account		909
Operating and Priority Contract Accounts		144
Bond Charge Collection and Bond Charge Payment Accounts		793
		$ 1,848

Custodial Credit Risk: Under GASB Statement No. 40, custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The State of California has a deposit policy for custodial credit risk that requires deposits held by financial institutions to be insured by federal depository insurance or secured by collateral held in the State's name. At September 30, 2015 and 2014, one of the guaranteed investment contracts in the amount of $100 million was uninsured and uncollateralized.

Interest Rate Risk: Under GASB Statement No. 40, interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective maturity, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter maturities. The State Treasurers Investment Policy, Pooled Money Investment Account, provides for spreading investments over various maturities to minimize the risk of portfolio depreciation due to a rise in interest rates. The State Treasurers Investment Policy limits investments to the following maximum maturities: U.S. Treasury securities, 5 years; federal agency securities, 5 years; bankers acceptances – domestic and foreign, 180 days; certificates of deposits, 5 years; commercial paper, 180 days; corporate bonds and notes, 5 years; repurchase agreements and reverse repurchase agreements, 1 year.

Credit Risk: Under GASB Statement No. 40, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code, according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. These investments consist of U.S. government securities, securities of federally-sponsored agencies, U.S. corporate bonds, interest bearing time deposits in California banks, prime-rated commercial paper, bankers' acceptances, negotiable certificates of deposit, repurchase and reverse repurchase agreements. The PMIA policy limits the use of reverse repurchase agreements to limits of no more than 10% of the PMIA and commercial paper to limits not to exceed 30% of the PMIA. The PMIA does not invest in leveraged products or inverse floating rate securities. The PMIA is not rated.

Concentration of Credit Risk: The SMIF concentration of credit risk is limited by spreading the investment mix over different investment types and issuers to minimize the impact any one industry, investment class, or institution can have on the SMIF portfolio. At September 30, 2015, the Fund's investments in the FPA and two GICs individually exceed 5.0% of total investments

	Amount	S&P Credit Rating	Percent of Total Investment September 30, 2015
FPA Provider			
Merrill Lynch: FHLMC Discounted Notes	$ 100	Not Rated	5.41%
GIC Providers			
FSA	$ 100	Not Rated	5.41%
Royal Bank of Canada	100	Not Rated	5.41%
	$ 200		

Interest on deposits in the SMIF varies with the rate of return of the underlying portfolio and approximated 0.3% at September 30, 2015, respectively. For the three months ended September 30, 2015, interest earned on the deposit in the SMIF was $1 million.

Interest on the GICs is paid semi-annually at interest rates ranging from 5.3% to 5.5%. Interest earned on the GICs was $3 million for the three months ended September 30, 2015.

The FPA allows the Fund to continuously reinvest funds in U.S. government or U.S. government agency securities through May 2022 to earn a minimum rate of return of 4.7%, as specified in the Reserve Fund Forward Purchase and Sale Agreement, dated May 1, 2004. The reinvested securities are to mature every six months. Interest earned on the FPA was $1 million for the three months ended September 30, 2015.

Long-Term Debt

The following activity occurred in the long-term debt accounts during the three months ended September 30, 2015 (in millions)

	Revenue	Unamortized	Total
Balance, June 30, 2015	$ 5,278	$ 353	$ 5,631
Amortization	-	(21)	(21)
Balance, September 30, 2015	5,278	332	5,610
Less current portion	669	78	747
	$ 4,609	$ 254	$ 4,863

Long term debt consists of the following at September 30, 2015, respectively (in millions):

Series	Rates	Fiscal Year of Final maturity	Fiscal Year of First Call Date	Amount Outstanding 2015	Current Portion
F	Fixed (4.38-5.00%)	2022	2018	$ 348	$ -
G	Fixed (4.35-5.00%)	2018	Non-callable	173	98
H	Fixed (3.75-5.00%)	2022	2018	488	-
K	Fixed (4.00-5.00%)	2018	Non-callable	279	-
L	Fixed (2.50-5.00%)	2022	2020	1,841	177
M	Fixed (2.00-5.00%)	2020	Non-callable	617	394
N	Fixed (2.00-5.00%)	2021	Non-callable	766	-
O	Fixed (2.00-5.00%)	2022	Non-callable	766	-
				5,278	669
Plus unamortized bond premium				332	78
				$ 5,610	$ 747

Bond Debt Refunding Transaction

On April 1, 2015, the Fund issued $766 million of Series O refunding revenue bonds. Proceeds of $917 million from the refunding bonds, which included a $154 million premium less $3 million for issuance expenses, along with $29 million released from the Debt Service Reserve and Bond Charge Payment accounts totaling $946 million were used to purchase securities that were deposited in an irrevocable trust with an escrow agent that will provide amounts sufficient to pay the future debt service on the advance refunded $813 million of outstanding Series H and Series L revenue bonds. As a result, the refunded bonds are considered defeased and have been removed from the Statement of Net Position.

The reacquisition price (the $946 million placed in escrow) exceeded the net carrying amount of the refunded bonds ($860 million: $813 million par value plus $27 million unamortized premium plus $20 million accrued interest) by $86 million. This loss on the bond refunding is reported as a deferred outflow of resources on the Statement of Net Position and will be amortized over the life of the refunding bonds. This advance refunding was undertaken to reduce total debt service payments over the next 7 years by $52 million and resulted in an economic gain of $46 million.

Key terms

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

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

Maturities

Future payment requirements on the revenue bonds are as follows at September 30, 2015 (in millions):

Fiscal Year	Principal	Interest	Total
2016	$ 669	$ 256	$ 925
2017	686	225	911
2018	713	192	905
2019	749	157	906
2020	786	121	907
2021-22	1,675	126	1,801
	$ 5,278	$ 1,077	$ 6,355

4. Commitments and Contingencies

Litigation and Regulatory Proceedings

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

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

Of the Fund's $5,000 million in short-term bilateral purchases, $2,900 million was imbalance energy which the Fund sold to the CAISO at the Fund's cost in order to meet the CAISO's emergency needs during 2001. The Fund is treated in the FERC refund proceeding as a seller of that energy to CAISO, and in May 2004, FERC issued an order requiring the Fund to pay refunds on the sales to the CAISO. In September 2005, the Ninth Circuit Court of Appeals held that FERC does not have authority to order refunds from governmental entities such as the Fund. In November 2008, FERC found that although FERC cannot order a governmental entity, such as the Fund, to pay refunds, it can enforce the terms of the CAISO's tariff, which requires that all purchases and sales in a given hourly settlement period are netted. But for the more than 50 refund settlements the Fund has entered into to date, this order would have resulted in a substantial reduction to the refunds payable to the Fund. Settlements executed to date with various sellers, however, have reduced to a de minimus amount, the amount by which refunds payable to the Fund will be reduced on account of the Fund's sales to the CAISO. Refund payable to the Fund will be offset to the extent that the Fund must pay refunds on its sales to the CAISO.

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

Direct Access Proceeding: On February 28, 2008, the CPUC approved a decision concluding that the suspension of direct access cannot be lifted at the present time because the Fund is still supplying power under the Act.

Senate Bill 695: On October 11, 2009, Senate Bill (SB) 695 was signed into law as an urgency statute. SB 695 allows individual retail nonresidential end-use customers to acquire electric service from other providers in each IOU service area, up to a maximum allowable limit. Except for this express authorization for increased direct access transactions under SB 695, the previously enacted suspension of direct access remains in effect.

On March 15, 2010, the CPUC issued Decision 10-03-022 which authorizes increases in the maximum direct access load for each IOU service area, as specified in SB 695. The maximum load of allowable direct access volume is established for each IOU as the maximum total kWh supplied by all other providers to distribution customers of the IOU during any sequential 12-month period between April 1, 1998 and the effective date of the section of the Public Utilities code modified by SB 695, October 11, 2009.

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

Other Contingencies

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

Commitments

The last remaining power purchase contract and natural gas transmission capacity contract were terminated during fiscal year 2015. The Fund is no longer exposed to future obligations related to power or natural gas purchases under any of the contracts which had been scheduled to require payments through 2018.

5. Energy Settlements

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

There was no energy settlement received during the three month period ended September 30, 2015.