Department of Water Resources
Electric Power Fund
Financial Statements

September 30, 2010

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USING THIS REPORT

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

The basic financial statements include three required statements, which provide different views of the Fund. They are: the statement of net assets, the statement of revenues, expenses and changes in net assets, and the statement of cash flows. These statements provide current and long-term information about the Fund and its activities. These financial statements report information using accounting methods similar (although not identical) to those used by private sector companies. The statement of net assets includes all assets and liabilities as of the year-end date. The statement of revenues, expenses and changes in net assets presents all of the current year's revenues, expenses, and changes in net assets. 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.

PURPOSE OF FUND

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

The Fund has the authority to secure and retain title to power for resale to end use customers of the State's investor owned utilities (IOUs) under power supply contracts entered into prior to January 1, 2003. The scheduling, dispatch, and certain other administrative functions for the long-term contracts are performed by the IOUs as agents for the Fund. However, the Fund retains the legal and financial responsibility for each contract for the life of the contract or until such time as there is complete assignment of the contract to an IOU and release of the Fund. Most of the volume of power under contract expires by December 31, 2011 and the last of the contracts expires in 2015.

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

This report should be read in conjunction with the Fund's June 30, 2010 audited financial statements.

STATEMENTS OF NET ASSETS

The Fund's assets, liabilities and net assets as of September 30, 2010 and June 30, 2010 are summarized as follows (in millions):

	September 30, 2010	June 30, 2010
Long-term restricted cash, equivalents and investments	$ 1,490	$ 1,490
Recoverable costs	4,852	4,881
Derivative instruments	14	25
Deferral of derivative cash outflows	222	195
Restricted cash and equivalents:		
Operating and priority contract accounts	1,091	1,257
Bond charge collection and bond charge payment accounts	858	630
Recoverable costs, current portion	392	339
Interest receivable	10	7
Other assets	99	92
Total assets	$ 9,028	$ 8,916
Net assets	$ -	$ -
Long-term debt, including current portion	8,410	8,417
Derivative instruments	231	203
Deferral of derivative cash inflows	7	8
Other current liabilities	380	288
Total capital and liabilities	$ 9,028	$ 8,916

ASSETS

Long-Term Restricted Cash and Investments

There is no change in the $549 million balance in the Operating Reserve Account at September 30, 2010 from June 30, 2010. The amount is determined in accordance with the bond indenture and is equal to the maximum one month priority contract cost amount under stress conditions for calendar year 2010 as forecast in the DWR 2010 revenue requirement determination. The balance of the Debt Service Reserve Account remains at $941 million, and was also determined in accordance with bond indenture requirements.

Recoverable Costs, Net of Current Portion

Long-term recoverable costs consist of costs that are recoverable through future billings. The $29 million net decrease in long-term recoverable costs during the three month period ended September 30, 2008 is the net of 1) operating revenues exceeding operating expenses by $137 million, as power costs were lower than expected due to the decline in the price for natural gas and 2) bond charge revenue exceeding interest expense by $166 million.

Restricted Cash and Investments

The Operating and Priority Contract Accounts decreased by $166 million during the three month period ended September 30, 2010. DWR purposefully reduced cash balances while staying within indenture requirements as part of a planned return of cash reserves to ratepayers through lower power charge rates.

The Bond Charge Collection and Bond Charge Payment Accounts increased by $228 million in the period ended September 30, 2010 in anticipation of the semi-annual interest payment on fixed rate bonds due in November 1, 2010, and the next principal payment due May 1, 2011.

From the dates of issuance of the revenue bonds through September 30, 2010, 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 is $392 million at September 30, 2010, increasing from $339 million at June 30, 2010. The higher amounts are as a result of higher volumes of power sold in the summer months to end use customers, and increased surplus sales from higher dispatch of contract power plant facilities.

Other Assets

DWR purchases natural gas as fuel for the production of power under the terms of certain power purchase contracts and maintains a brokerage account with a national brokerage firm in order to hedge natural gas costs. DWR invests funds to be used to meet realized losses as they occur, provide collateral for current positions, and enable future hedging activities that require margin or immediate payment. Assets in this account are classified as other assets on the Statements of Net Assets. At September 30, 2010, other assets consisted of money market obligations, US Treasury bills, and government bonds valued at $99 million.

Derivative Instruments-Assets

The Fund is party to interest rate swap agreements and natural gas hedging positions that are considered to be derivatives under the provisions of GASB 53 and included on the statement of net assets for periods ended September 30, 2010 and June 30, 2010.

Derivative financial instrument assets decreased $9 million, and totaled $14 million and $25 million at September 30, 2010 and June 30, 2010, respectively. The lower fair value of derivative financial instruments is primarily due to total notional amounts of natural gas hedges declining in the period.

Deferred outflows increased by $27 million to $222 million at September 30, 2010 from $195 million at June 30, 2010, as derivative financial instrument liabilities increased in value.

LIABILITIES

Long-Term Debt

Long-term debt decreased to $7,871 million as of September 30, 2010 from $7,878 million at June 30, 2010. The decrease is partly attributable to the early redemption of $3 million of outstanding principal resulting from DWR restructuring the 2005 Series F & G defeasance escrow. The restructuring allowed for a release of funds due to accumulating negative arbitrage amounts, which DWR utilized to redeem

Series G and Series J refunding bonds. Net amortization of bond premium and deferred loss on defeasance was $4 million in quarter ended September 30, 2010.

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, 2010 accounts payable are $5 million higher than at June 30, 2010 as a decline in natural gas prices offset higher seasonal contract volumes.

The $87 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.

Derivative Instruments- Liabilities

The Fund is party to interest rate swap agreements and natural gas hedging positions that are considered to be derivatives under the provisions of GASB 53 and included on the statement of net assets for periods ended September 30, 2010 and June 30, 2010.

Derivative financial instrument liabilities increased $28 million, and were valued at $231 million and $203 million at September 30, 2010 and June 30, 2010, respectively. Natural gas market prices declined, increasing the fair value in natural gas derivative instrument liabilities, along with higher values for interest rate swap derivative liabilities from a further decline in interest rate markets.

Deferred inflows decreased to $7 million at September 30, 2010 from $8 million at June 30, 2010, as derivative financial instrument assets decreased in value with the fall in natural gas markets.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Fund's activities for the three months ended September 30, 2010 and 2009 are summarized as follows (in millions):

	2010	2009
Revenues:		
Power charges	$ 560	$ 950
Surplus sales	44	23
Bond charges	239	229
Interest income	8	10
Total revenues	851	1,212
Expenses:		
Power purchases	726	911
Energy settlements	-	(1)
Interest expense	81	90
Investment Expense	10	-
Administrative expenses	5	7
Recovery of recoverable costs	29	205
Total expenses	851	1,212
Net increase in net assets	-	-
Net assets, beginning of year	-	-
Net assets, end of year	$ -	$ -

REVENUES

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 DWR to each IOU's customers.

Power charges decreased by $390 million in the three months ended September 30, 2010 compared to the same three month period in 2009. The difference reflects a combination of lower volume of power sales to end use customers from the expiration of long term power purchase contracts and a per unit remittance rates implemented in January 2010 with the 2010 revenue requirement that is substantially lower than rates that were in effect for 2009, as DWR purposefully lowered power charge rates to begin returning cash reserves to customers..

Surplus Sales

Surplus sales of energy and natural gas in the three month period ended September 30, 2010 were $21 million higher than in the same period in 2009. The primary factor was an increase in volumes of surplus power sales from power plant dispatches by the California Independent System Operator's (CAISO). Higher gas sales volumes were partially offset by lower prices received per unit of power and gas sold and also contributed to the higher amounts during the 2010 period.

Bond Charges

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

Bond charges for the three months ended September 30, 2010 are $10 million higher than the same period in 2009, as higher rates offset slightly lower delivered volumes. The amount collected is 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 of $8 million for the three months ended September 30, 2010 is $2 million lower than the interest income for the same period in 2009. The decrease is as a result of a decline in interest earned on investments in the State of California Investment Pooled Money Investment Account-Surplus Investment Fund (SMIF) from the lower rate environment combined with slightly lower cash balances outstanding.

EXPENSES

Power Purchases

Power costs are $185 million lower in the three months ended September 30, 2010 than in the same period in 2009. The decrease in costs is primarily due to the expiration of large power purchase contracts at the end of 2009 and lower prices of natural gas in 2010 when compared to 2009 as commodities market prices continued to decline.

Energy Settlements

Energy settlements in the three month period ended September 30, 2010 were less than $1 million as there were no large settlement actions. Future revenues under a number of settlements with larger suppliers including Mirant Corporation, Reliant Energy and Duke Energy Corporation, are subject to contingencies outlined in the underlying settlement and allocation agreements and will not be recognized until if and when the contingencies are resolved.

Interest Expense

Interest expense in the three months ended September 30, 2010 is $9 million lower than the amounts paid in the same period in 2009. The decrease was attributed to lower variable bond interest rate costs incurred resulting from the decline in interest rates as credit markets continued to normalize and interest rates remain lower than experienced during the credit turmoil in 2008 and 2009.

Investment Expense

As a result of implementing GASB 53, the Fund realized investment income (expense) for the change in fair value of outstanding ineffective gas hedges, and any income (expense) related to expiration of ineffective gas hedges. Due to changes in fair value of gas related hedges, the Fund realized investment expense of $13 million, while realizing $3 million of investment income from expiring ineffective gas hedges, resulting in net investment expense of $10 million for the period ended September 30, 2010.

Other Expenses

Other expenses in the three months ended September 30, 2010 were $2 million lower than the same period in 2009, as a result of decreased legal expenditures for contract renegotiations and ongoing litigation services regarding the 2000-2001 California energy crisis.

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, 2010 and 2009 (in millions):

	2010	**2009**
Operations	$ (137)	$ 56
Debt service and related costs	166	149
	$ 29	$ 205

Operations
There was a deferral of recoverable costs of $137 million for the three months ended September 30, 2010, compared to the $56 million recovery in the same period in 2009. The deferral in the three months ended September 30, 2010 reflects lower power charges received than needed to pay power costs as DWR purposefully reduces cash balances through lower rates to ratepayers.

Debt Service and Related Costs
The recovery of debt service and bond related costs are $17 million higher for the three months ended September 30, 2010 compared to the same period in 2009. The recovery is comprised solely of the difference between bond charges and interest income less interest expense. The larger recovery is primarily due to lower interest expense due to the decline in interest rate markets.

LIQUIDITY

With the Series L refunding transaction in May 2010, the Fund reduced the amount of outstanding variable rate bonds to $2,005 million, and lowered the amount of expiring credit enhancement capacity that needed to be renewed by June 30, 2011 to $1,562 million. Subsequent to September 30, 2010, the Fund executed a Series 2010M refunding transaction that included refunding variable rate bonds, lowering the amount of variable rate bonds outstanding to $948 million and the amount of credit enhancement capacity expiring by June 30, 2011 to $605 million. The amounts for renewal in fiscal 2011 include facilities backing $25 million Series B bonds and $580 million Series C bonds.

If the agreements expire or are terminated and bond market access made it impossible to refund bonds, it would result in the credit enhancing bank's required purchase of the bonds, and they become "bank bonds". The Fund is required to begin paying principal on bank bonds in quarterly installments that begin at least six months after termination. If cash on hand was insufficient to make the early principal payments, the Fund would immediately initiate a bond charge rate increase, notifying the CPUC of the increased revenue requirement for higher debt service.

The Fund started a Request for Proposal (RFP) process, asking for pricing and terms from financial institutions for credit enhancement facilities to renew or replace the existing agreements that are expiring by June 30, 2011. If pricing proposals are at levels that make it uneconomic to renew all or part of the remaining $605 million expiring, the Fund may consider alternatives including additional fixed refunding transactions or refunding the bonds with a variable rate product not requiring credit enhancement.

Department of Water Resources Electric Power Fund
Statements of Net Assets
September 30, 2010 and June 30, 2010 (in millions)

	September 30, 2010	June 30, 2010
Assets		
Long-term assets:		
Restricted cash, equivalents and investments:		
Operating Reserve Account	$ 549	$ 549
Debt Service Reserve Account	941	941
Derivative instruments	3	6
Deferral of derivative cash outflows	126	112
Recoverable costs	4,852	4,881
Total long-term assets	6,471	6,489
Current assets:		
Restricted cash and equivalents:		
Operating and Priority Contract Accounts	1,091	1,257
Bond Charge Collection and Bond Charge Payment Accounts	858	630
Recoverable costs, current portion	392	339
Interest receivable	10	7
Derivative instruments, current portion	11	19
Deferral of derivative cash outflows, current portion	96	83
Other assets	99	92
Total current assets	2,557	2,427
Total assets	$ 9,028	$ 8,916
Capitalization and Liabilities		
Capitalization:		
Net assets	$ -	$ -
Long-term debt	7,871	7,878
Non-Current liabilities:		
Derivative instruments	129	114
Deferral of derivative cash inflows	1	2
Total capitalization and non-current liabilities	8,001	7,994
Current liabilities:		
Current portion of long-term debt	539	539
Derivative instruments, current portion	102	89
Deferral of derivative cash inflows, current portion	6	6
Accounts payable	232	227
Accrued interest payable	148	61
Total current liabilities	1,027	922
Commitments and Contingencies (Note 7)		
Total capitalization and liabilities	$ 9,028	$ 8,916

Department of Water Resources Electric Power Fund
Statements of Revenues, Expenses and Changes in Net Assets
For the three months ended September 30, 2010 and 2009 (in millions)

	2010	2009
Operating revenues:		
Power charges	$ 560	$ 950
Surplus sales	44	23
Total operating revenues	604	973
Operating expenses:		
Power purchases	726	911
Energy settlements	-	(1)
Administrative expenses	5	7
Recovery (deferral) of recoverable operating costs	(137)	56
Total operating expenses	594	973
Income from operations	10	-
Bond charges	239	229
Interest income	8	10
Interest expense	(81)	(90)
Investment income (expense) from gas related derivatives	(10)	-
Recovery of recoverable debt service and related costs	(166)	(149)
Net increase in net assets	-	-
Net assets, beginning of year	-	-
Net assets, end of year	$ -	$ -

Department of Water Resources Electric Power Fund
Statements of Cash Flows
For the three months ended September 30, 2010 and 2009 (in millions)

	2010	2009
Cash flows from operating activities:		
Receipts:		
Power charges	$ 512	$ 948
Surplus sales	45	26
Energy settlements	6	1
Payments for power purchases and other expenses	(733)	(849)
Net cash (used in) provided by operating activities	(170)	126
Cash flows from non-capital financing activities:		
Receipt of bond charges	227	234
Bond Payments	(3)	
Interest payments	2	(5)
Net cash provided by non-capital financing activities	226	229
Cash flows from investing activities:		
Interest received on investments	5	10
Income received from derivative investments	1	-
Net cash provided by investing activities	6	10
Net increase (decrease) in cash and equivalents	62	364
Restricted cash and equivalents, beginning of period	3,077	2,786
Restricted cash and equivalents, end of period	$ 3,139	$ 3,150
Restricted cash and equivalents included in:		
Operating Reserve Account	$ 549	$ 543
Debt Service Reserve Account (a component of the total of $941 and $950 at September 30, 2010 and 2009, respectively)	641	650
Operating and Priority Contract Accounts	1,091	1,095
Bond Charge Collection and Bond Charge Payment Accounts	858	862
Restricted cash and equivalents, end of year	$ 3,139	$ 3,150
Reconciliation of operating income to net cash (used in) provided by operating activities:		
Income from operations	$ 10	$ -
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
(Deferral) recovery of recoverable operating costs	(137)	56
Changes in net assets and liabilities to reconcile operating income to net cash (used in) provided by operations:		
Recoverable costs	(55)	1
Other assets	7	42
Accounts payable	5	27
Net change in operating assets & liabilities:	(43)	70
Net cash (used in) provided by operating activities	$ (170)	$ 126

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 (the Code).

DWR purchases power from wholesale suppliers under contracts entered into prior to January 1, 2003 for resale to ten million customers of Pacific Gas & Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company (collectively referred to as the investor owned utilities or IOUs). The Code prohibits DWR from entering into new power purchase agreements, but allows DWR to enter into gas purchase contracts to provide fuel for power generation.

DWR power is delivered to the customers through the transmission and distribution systems of the IOUs and 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 (the CPUC).

Under the terms of a rate agreement between DWR and the CPUC, the CPUC implements DWR's determination of its revenue requirements by establishing customer rates that meet DWR's revenue needs to assure the payment of debt service, power purchases, administrative expenses and changes in 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. 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, 2009 and 2008, and the changes in its financial position and its cash flows, where applicable, for the periods then ended in conformity with accounting principles generally accepted in the United States of America.

Revenues and Recoverable Costs

DWR is required to at least annually establish a revenue requirement determination to recover all Fund costs, including debt service. The revenue requirement determination is submitted to the California Public Utilities Commission which then sets customer remittance rates. The Fund's financial statements are prepared in accordance with SFAS No. 71, "*Accounting for the Effects of Certain Types of Regulation*", 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 assets as incurred, are recognized when recovered from IOU customers. Costs that are recoverable through future billings are recorded as long-term assets.

Amounts that have been earned but not collected by DWR are recorded as the current portion of recoverable costs.

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 DWR is delivered to the IOU customers. Certain customers of “direct access” Electric Service Providers (ESPs) are assessed a “cost responsibility surcharge” that is used by DWR for the same purposes as power charge revenues. Bond charge revenues recover debt service, debt service reserves and other bond related costs and are recognized when energy provided by either DWR or the IOU, or an ESP, is delivered to IOU or ESP customers. Costs are recovered over the life of the bonds (2022) as determined by DWR’s revenue requirement process.

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, net assets, 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, 2010, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

3. Restricted Cash and Investments

The State of California has a deposit policy for custodial credit risk. As of September 30, 2010, $14 million of the Fund's cash balances were uninsured and uncollateralized.

As of September 30, 2010, the Fund had the following investments (in millions):

Investment	Maturity	September 30, 2010
State of California Pooled Money Investment Account - State Money Investment Fund	6.7 months avg.	$ 3,122
Cash		17
Total cash and equivalents		3,139
Guaranteed investment contracts	May 1, 2022	200
Forward purchase agreement	November 1, 2010	100
		$ 3,439
Reconciliation to Statement of Net Assets:		
Operating Reserve Account		$ 549
Debt Service Reserve Account		941
Operating and Priority Contract Accounts		1,091
Bond Charge Collection and Bond Charge Payment Accounts		858
		$ 3,439

Interest Rate Risk: In accordance with its investment policy, the State of California manages its exposure to declines in fair values by limiting investments to the maximum maturities, as follows: 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: 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.

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, 2010 (in millions):

	Amount	S&P	Moody's
GIC Providers			
FSA	$ 100	AAA	Aa3
Royal Bank of Canada	100	AA-	Aaa
	$ 200		
FPA Provider			
Merrill Lynch: FHLMC Discounted Notes	$ 100	AAA	Aa3

Concentration of Credit Risk: The PMIA's 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 PMIA portfolio.

Interest on deposits in the PMIA varies with the rate of return of the underlying portfolio and approximated 0.50% at September 30, 2010. Interest on the GICs is paid semi-annually at interest rates ranging from 5.3% to 5.5%. The FPA allows DWR 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.

4. Long-Term Debt

The following activity occurred in the long-term debt accounts during the three months ended September 30, 2010 (in millions):

	Revenue Bonds	Unamortized Premium	Deferred Loss on Defeasance	Total Revenue Bonds
Balance, June 30, 2010	$ 8,395	$ 398	(376)	$ 8,417
Amortization	(3)	(17)	13	(7)
Less current portion	(525)	(66)	52	(539)
Balance, September 30, 2010	$ 7,867	$ 315	$ (311)	$ 7,871

The tax exempt revenue bonds consist of the following at September 30, 2010 (in millions):

Series	Rates	Fiscal Year of Final maturity	Fiscal Year of First Call Date	Amount Outstanding 2010	
A	Fixed (3.7-6.0%)	2018	2012	$	1,590
B	Variable	2020	Callable		30
C	Variable	2021	Callable		1,346
F	Fixed (4.38-5.0%)	2022	Callable		348
G	Variable	2016	Callable		409
G	Fixed (4.35-5.0%)	2018	Callable		173
H	Fixed (3.75-5.0%)	2022	2018		1,007
J	Variable	2015	Callable		217
K	Fixed (4.0-5.0%)	2018	Non-callable		279
L	Fixed (1.0-5.0%)	2022	2020		2,993
				$	8,392
Plus unamortized bond premium					381
Less deferred loss on defeasance					(363)
Less current maturities					(539)
				$	7,871

Bond redemption

During the period DWR completed an early redemption of $3 million of outstanding principal resulting from DWR restructuring the 2005 Series F & G defeasance escrow. The restructuring allowed for a release of funds due to accumulating negative arbitrage amounts, which DWR utilized to redeem $1.5 million Series G and Series J refunding bonds.

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 A bonds are callable May 1, 2012 through October 31, 2012 at a redemption rate of 101%, from November 1, 2012 through April 30, 2013 at a redemption rate of 100.5% and thereafter, at 100%. The Series H bonds are callable in 2018 at a redemption rate of 100%. The Series L bonds are callable in 2020 at a redemption rate of 100%. All other callable bonds are redeemable at 100%.

The Fund's variable rate bonds have either daily or weekly rate reset modes. The variable rate bonds have a final stated maturity of 2022, but are scheduled to be retired in sinking fund installments from 2011 to 2022. The interest rates for the variable debt for the quarter ended September 30, 2010 ranged from 0.08% to 0.33%.

The payment of principal and interest for all $30 million Series B bonds, $1,004 million of Series C bonds, $23 million of Series G and all $219 million Series J bonds are paid from draws made under letters of credit. Draws made under the letters of credit are to be reimbursed on the same day by the Fund. Bonds purchased under the letters of credit are required to be redeemed in equal quarterly installments over a three year period beginning six months after the termination date of the letter of credit. There are no outstanding amounts on the letters of credit at September 30, 2010. The Fund pays fees of 0.35% per annum on the stated amount of the letters of credit for the Series B and C bonds, and 0.28% per annum on the stated amount for the Series G bonds, and 0.53% per annum on the stated amount for the Series J bonds. All Series B, C, G, and J letters of credit expire in fiscal year 2011.

Remarketing, credit support and related uncertainties

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

In the past, negative credit market impacts increased borrowing costs on variable rate bonds that experienced interest rate resets at higher rates and on occasion caused the remarketing failure of bonds resulting in those bonds becoming bank bonds. The level of bank bonds can fluctuate daily as the bonds are successfully remarketed. At September 30, 2010, there were no outstanding bank bonds.

At September 30, 2010, $343 million of Series C bonds and $387 million of Series G bonds are credit enhanced by bond insurance for the timely payment of principal and interest. All insured bonds are enhanced by FSA bond insurance which was rated AAA/Aa3 by S&P and Moody's at September 30, 2010. Liquidity support for these variable rate bonds is provided by bank liquidity facilities. Any funds paid under the bond insurance facilities are immediately due and payable by the Fund. Bonds purchased under the initial liquidity facilities are required to be redeemed in equal quarterly installments over a five or seven year period beginning six months after the termination date of the liquidity facilities. There are no outstanding amounts due under liquidity facilities at September 30, 2010. The liquidity facilities backing the $343 million of Series C bonds expire in fiscal year 2013. Liquidity facilities backing $287 million of Series G bonds expire in fiscal year 2011 and the remaining liquidity facility underlying $100 million expires in fiscal year 2013. The Fund pays fees of 0.37% per annum under all liquidity facilities.

Maturities

As of September 30, 2010, there were letters of credit and liquidity facilities enhancing $1,559 million of variable rate bonds that expire before June 30, 2011. The Fund has begun the renewal process for those agreements and expects to execute renewal agreements prior to the expiration of the existing letters of credit.

If the letters of credit are not renewed, the bonds would become bank bonds which would command higher interest rates and would be subject to an accelerated amortization schedule. If this were to occur, the Fund's current portion of debt service would increase by $132 million for 2011, and would increase by $524 million annually for 2012 and 2013, and $292 million, $60 million and $30 million for 2014, 2015 and 2016, respectively until fully repaid. Interest costs on the bank bonds may also be higher than rates attainable from variable reset rates. If cash on hand was insufficient to make the early principal payments, the Fund would immediately initiate a bond charge rate increase, notifying the CPUC of the increased revenue requirement for higher debt service. While subject to administrative process, the CPUC has an obligation to implement bond charge rates at levels high enough to allow for the Fund's full debt service cost recovery.

Subsequent to September 30, 2010, the Fund executed a Series 2010M refunding transaction that included refunding variable rate bonds, lowering the amount of letters of credit facilities expiring to $605 million in fiscal 2011. The remaining amounts for renewal in fiscal 2011 include facilities backing $25 million Series B bonds and $580 million Series C bonds. The Fund began a Request for Proposal (RFP) process asking for pricing and terms from financial institutions for credit enhancement facilities to renew or replace the existing agreements that are expiring by June 30, 2011. If pricing proposals are at levels that make it uneconomic to renew all or part of the remaining $605 million expiring, the Fund may consider alternatives including additional fixed refunding transactions or refunding the bonds with a variable rate product not requiring credit enhancement.

Future payment requirements on the revenue bonds are as follows at September 30, 2010 (in millions):

Fiscal Year	Principal	Interest [1]	Total
2011	$ 525	$ 236	$ 761
2012	550	299	849
2013	602	273	875
2014	612	242	854
2015	639	214	854
2016-2020	3,712	737	4,448
2021-2022	1,751	107	1,858
	$ 8,392	$ 2,108	$ 10,500

[1] Variable portion of interest cost calculated using the September 30, 2010 Securities Industry and Financial Markets Association Swap Index (SIFMA).

5. Derivative Financial Instruments

GASB 53 requires governments to record derivative instruments on the statement of net assets as either assets or liabilities depending on the underlying fair value of the derivative. The Fund is party to interest rate swap agreements and natural gas hedging positions that are considered to be derivatives under the provisions of GASB 53 and included on the statements of net assets as of September 30 and June 30, 2010.

The Fund entered into interest rate swap agreements with various counterparties to reduce variable interest rate risk. The swaps create a synthetic fixed rate for the Fund. The Fund has agreed to make fixed rate payments and receive floating rate payments on notional amounts equal to a portion of the principal amount of the Fund's variable rate debt.

The fair values, classification and notional amounts outstanding for the Fund's natural gas hedge derivatives and interest rate swaps accounted for as derivative financial instruments at net assets as of September 30 and June 30, 2010 are summarized in the following tables:

As of September 30, 2010

	Business-type activities		**Value**	**Notional**
Effective hedges				
Assets				
Current	Gas Swaps	$	6.2	22,662,500 MMBtu
Long Term	Gas Swaps		1.2	4,027,500 MMBtu
		$	7.4	
Liabilities				
Current	Gas Swaps	$	(96.2)	53,300,000 MMBtu
Long Term	Gas Swaps		(12.1)	6,632,500 MMBtu
Long Term	Interest Rate Swaps		(113.5)	$1,052,900,000
		$	(221.8)	
Investment hedges				
Assets				
Current	Gas Swaps	$	1.3	5,917,500 MMBtu
Current	Gas Options		3.1	96,695,000 MMBtu
Long Term	Gas Swaps		0.3	1,522,500 MMBtu
Long Term	Gas Options		1.0	5,870,000 MMBtu
		$	5.7	
Liabilities				
Current	Gas Swaps	$	(2.0)	3,177,500 MMBtu
Current	Gas Options		(4.0)	15,735,000 MMBtu
Long Term	Gas Swaps		(3.1)	2,822,500 MMBtu
		$	(9.1)	

As of June 30, 2010

		Business-type activities		Value	Notional
Effective hedges					
Assets					
	Current	Gas Swaps	$	6.1	9,075,000 MMBtu
	Long Term	Gas Swaps		1.8	5,450,000 MMBtu
			$	7.9	
Liabilities					
	Current	Gas Swaps	$	(83.3)	64,220,000 MMBtu
	Long Term	Gas Swaps		(19.6)	12,900,000 MMBtu
	Long Term	Interest Rate Swaps		(92.2)	$1,052,900,000
			$	(195.1)	
Investement hedges					
Assets					
	Current	Gas Swaps	$	0.9	4,990,000 MMBtu
	Current	Gas Options		12.4	128,704,999 MMBtu
	Long Term	Gas Swaps		0.3	1,225,000 MMBtu
	Long Term	Gas Options		3.9	10,930,000 MMBtu
			$	17.5	
Liabilities					
	Current	Gas Swaps	$	(2.1)	5,712,500 MMBtu
	Current	Gas Options		(3.4)	48,944,999 MMBtu
	Long Term	Gas Swaps		(2.4)	3,162,500 MMBtu
			$	(7.9)	

All effective and ineffective hedges in asset and liability positions are included within the tables above and have been recorded in the statements of net assets as derivative instruments. Changes in fair value for effective hedges are recorded in the statement of net assets as deferred cash inflows or outflows.

Changes in fair value for ineffective gas hedges are recorded as investment expense from gas related contracts on the statement of revenues, expenses and changes in net assets. Between June 30 and September 30, 2010 there was a $13 million decrease in the fair value of ineffective gas hedges.

Commodity contracts

The Fund enters into forward gas futures and options contracts to hedge the cost of natural gas. Most of the Fund's forward gas futures are being treated as Normal Purchase Normal Sale (NPNS) contracts and are therefore not required to be recorded prior to settlement. Forward gas futures not qualifying as NPNS are recorded on the statements of net assets at fair value. Additionally, under GASB 53, all natural gas options are classified as derivatives. Prior to the adoption of GASB 53, these option contracts were recorded at fair value, but were previously reported as other assets. All natural gas options are treated as derivatives and are classified as investment derivatives since they do not meet GASB 53 hedging criteria.
For the Fund’s gas hedging contracts that are effective hedges, unrealized gains and losses are deferred on the statement of net assets as current assets or liabilities for contracts with less than 12 months remaining until expiration, or as long-term assets or liabilities for contracts with more than 12 months remaining until expiration. The deferred amount recorded on the statements of net assets reflects the deferred inflow or outflow associated with the derivative financial instruments. Such

amounts, adjusted for subsequent changes in fair value, will be recognized in the statements of revenues, expenses and changes in net assets.

Changes in fair value of derivatives that are classified as investment derivatives are included as investment income (expense) on the statement of revenues, expenses and changes in net assets.

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

Credit Risk: The Fund's open natural gas hedge positions at September 30, 2010 are with ten different counterparties, all of which have credit ratings of at least A-/Baa1. At September 30, 2010, the Fund has credit risk exposure to three counterparties totaling $3 million, representing transactions with market values that are in the Fund's favor. There is no substantial credit exposure to the remaining seven counterparties, as the sharp decrease of natural gas prices has resulted in valuations in the counterparties' favor. The remaining gas hedge positions have been entered into through the Fund's brokerage accounts and the associated clearing accounts have collateral requirements that limit the Fund's counterparty credit risk.

Termination Risk: With regards to gas hedge agreements, the Fund or the counterparty may terminate an agreement if the other party fails to perform under the terms of the contract. In addition, the agreements allow either party to terminate in the event of a significant loss of creditworthiness by the other party. If a termination were to occur, the Fund or the counterparty would owe the other a payment equal to the fair value of the open positions.

Interest Rate Swaps

The Fund enters into interest rate swap agreements with various counterparties to reduce variable interest rate risk. The pay-fixed swaps create a synthetic fixed rate for the Fund. The Fund has agreed to make fixed rate payments and receive floating rate payments on notional amounts equal to a portion of the principal amount of the Fund's variable rate debt.

As of September 30, 2010, all of the Fund's interest rate swaps are considered effective hedging derivatives under GASB 53, have been recorded at fair value on the statements of net assets as long-term assets or liabilities.

The terms, fair values, and credit ratings of counterparties for the various pay fixed swap agreements at September 30, 2010 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	S&P	Counterparty Credit Rating Moody's	Fitch
$ 92	3.405%	SIFMA	$ (4)	May 1, 2013	A+	Aa3	AA-
46	3.405%	SIFMA	(2)	May 1, 2013	A	A2	A
14	3.405%	SIFMA	(1)	May 1, 2013	A	A2	A+
242	3.184%	66.5% of LIBOR	(23)	May 1, 2015	BBB	A3	A-
174	3.280%	67% of LIBOR	(21)	May 1, 2015	NR	A1	A+
485	3.228%	66.5% of LIBOR	(63)	May 1, 2016	AA	Aa2	AA-
$ 1,053			$ (114)				

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

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.

For the quarter ended September 30, 2010, the variable rates on the Fund's hedged bonds ranged from 0.08% to 0.33%. The variable rates received on the LIBOR-based swaps were 0.17% and the variable rate received on the SIFMA-based swaps was 0.27%, as of September 30, 2010.

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

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 basis risk results from the fact that the Fund's floating interest payments payable on the underlying debt are determined in the tax-exempt market, while the Fund's floating receipts on the swaps are based on LIBOR, which is determined in the taxable market. When the relationship between LIBOR and the tax-exempt market change and move to convergence, or the Fund's bonds trade at levels higher in rate in relation to the tax-exempt market, the Fund's all-in costs would increase.

Credit Risk: The Fund has a total of six swap agreements with six different counterparties at September 30, 2010. As depicted in the table above, credit ratings of the counterparties range from BBB to AA-, except for one counterparty that is not rated.

Termination Risk: The Fund's swap agreements do not contain any out-of-the-ordinary termination provisions that would expose it to significant termination risk. In keeping with market standards, the Fund or the counterparty may terminate a swap agreement if the other party fails to perform under the terms of the contract. In addition, the swap documents allow either party to terminate in the event of a significant loss of creditworthiness by the other party. If a termination were to occur, at the time of the termination, the Fund would be liable for payment equal to the swap's fair value, if it had a negative fair value at that time. The counterparty would be liable for any payment equal to the swap's fair value, if it had positive fair value at that time.

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 limited 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, 2010, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term were as follows (in millions):

	Variable Rate Bonds		Interest Rate	
Fiscal Year	**Principal**	**Interest**	**Swaps, Net**	**Total**
2011	$ 148	$ 2	$ 24	$ 174
2012	25	3	28	55
2013	54	3	27	83
2014	53	3	25	80
2015	289	2	22	314
2016-2020	485	1	12	499
	$ 1,053	$ 14	$ 137	$ 1,204

6. 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 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 $3.5 billion in refunds associated with the Fund's approximately $5 billion 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 billion in short term bilateral purchases, $2.9 billion 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. However, because the Fund would likely be the primary recipient of any refunds on energy it sold to the CAISO, the Fund's potential net liability associated with its sales to the CAISO would be substantially reduced. Settlements executed to date with various sellers have reduced that potential liability even further.

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

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

In addition, in September 2005, the Ninth Circuit Court of Appeals ruled that FERC could not require governmental entities such as the Fund to pay refunds.

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

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

Provisions in a majority of the remaining the Fund power purchase contracts would, if certain conditions are satisfied (including a minimum credit rating requirement for the IOU in some contracts), allow for the Fund to novate the contract to a qualifying IOU. The Fund's interest in and obligations under such a contract would be terminated upon such a novation. Four contracts currently lack such a provision, thus requiring negotiations with those counterparties before the Fund's interest in and obligations under those contracts could be terminated prior to their scheduled termination. No assurance can be given that agreement could be reached with any of the counterparties to those four contracts or as to the timing of any such agreement. As of September 30, 2010, none of the Fund's power purchase contracts had been replaced.

While the CPUC has expressed a goal of novating contracts, numerous conditions need to be satisfied in order to complete the process. As such, timing and extent of future novation is uncertain. In the event of contract novation, management will reassess the impact on existing and future revenue requirements and consider modifying power charges accordingly. Management does not believe there will be a significant impact to the Fund's financial position in the event of novations of contracts.

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 volumes is established for each IOU as the maximum total kWh supplied by all other providers to distribution customers of that 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 10-03-022 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 should result in limited impacts to the Power Charges attributable to the increased limits. Regardless of the level of direct access participation within the IOU service areas, 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
DWR has power purchase contracts that have remaining lives of up to seven years. Payments under these and gas purchase contracts approximated $0.7 billion and $0.9 billion for the three month period ended September 30, 2010 and 2009, respectively.

The remaining amounts of fixed obligations under the contracts as of September 30, 2010, are as follows (in millions):

Fiscal Year	**Fixed Obligation**
2011	$ 1,010
2012	636
2013	62
2014	15
2015	4
Thereafter	1
	$ 1,729

In addition to the fixed costs there are variable costs under several of the contracts. Management projected as of September 30, 2010 that the amount of future fixed and variable obligations associated with long-term power purchase contracts would approximate $3 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.

7. 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.

In quarter ended September 30, 2010, the Fund received less than $1 million in energy settlements.

On April 28, 2010, the CPUC issued a press release to the effect that an agreement in principle had been reached to settle various claims involving Sempra and relating to the California energy crisis of 2000 and 2001. Under the terms of the proposed settlement in exchange for a cash payment by Sempra of approximately $410 million and certain other consideration, Sempra and certain of its affiliates will exchange mutual releases with the Fund, the CPUC, the State Attorney General, Southern California Edison and PG&E (the “Settling Parties”) except for a limited number of enumerated exceptions, the mutual releases will cover all claims related to the long term power purchase agreement between the Fund and Sempra, and all claims related to the short-term energy or ancillary services transactions in the western energy markets during 2000 and 2001.

Under the terms of the proposed settlement the Fund and Sempra will continue to perform their respective obligations under the power purchase agreement and the agreement costs will continue to be included in the Fund’s revenue requirement. The $410 million cash settlement amount will be allocated as determined by the Settling Parties. As of September 30, 2010 final settlement terms and allocations were still being negotiated, and as such realization of this settlement has not occurred and it is not reflected in these financial statements. In October 2010, the settlement was finalized and sent to FERC for approval. To date, the settlement is still awaiting FERC approval and no monies have been distributed.

Future revenues under the Mirant Corporation, Reliant Energy, and Duke Energy Corporation settlements are subject to contingencies outlined in the underlying settlement and allocation agreements and will not be recognized until if and when the contingencies are resolved.

8. Related Party Transactions

The California State Teachers’ Retirement System (STRS) and PERS, which are part of the California state government, participate in the Fund's letters of credit with three financial institutions. The total commitment for two letters of credit underlying the STRS’ participation approximates $63 million and expires on November 30, 2010. The total commitment for the two letters of credit underlying the PERS’ participation approximates $54 million and expires on April 15, 2011. There are no outstanding amounts on the letters of credit at September 30, 2010.