

California Energy Resources Scheduling

**A Division of
California Department of Water Resources**

**Activities and Expenditures Report
Quarter Ended December 31, 2011**

(Provides Data as Required by Section 80250 of the California Water Code)



Activities and Expenditures Report For The Year Ended December 31, 2011

	<u>Topic</u>	<u>Page</u>
Preface		3
Background and 2011 Activities		
	CERS History	4
	Refunds	6
	Long-Term Contracts Summary	7
	Revenue Requirement	11
	Bond Refunding Activities	13
	Bonds Outstanding after Refunding	14
Financial Results for Calendar Year Ended December 31, 2011		
	Cash Balances at the End of Year	15
	Revenues from Ratepayers of IOUs	16
	Contract Energy Expenditures	17
Appropriated Costs for Fiscal Year 2012		18

Activities and Expenditures Report

Preface

Pursuant to the reporting requirement in Section 80250 of the California Water Code, the following information reflects energy acquisition activities and expenditures incurred by the California Energy Resources Scheduling Division (CERS) of the Department of Water Resources (DWR) for calendar year 2011. Included are all costs related to energy acquisition and administration.

CERS purchases power under the terms of its existing contracts, all of which were entered into prior to January 1, 2003. The scheduling, dispatch and certain other administrative functions for the existing contracts are managed by the investor owned utilities. CERS continues to have financial and legal responsibility for its contract portfolio and will oversee repayment of the revenue bonds.

The audited financial statements for the fiscal years ended June 30, 2011 and 2010, and the un-audited financial statements for the quarter ended December 31, 2011, prepared in accordance with generally accepted accounting principles, can be referenced at the following link: http://www.cers.water.ca.gov/financial_bonds.cfm

This report is available on the DWR website at www.cers.water.ca.gov.

CERS History

Winter 2000-2001

Spot market prices skyrocket to \$2,000 per megawatt hour (MWh) while averaging about \$400 per MWh – nearly 10 times the cost of power at the same time in the previous year.

Debt grows for California's investor-owned utilities (IOUs) as purchased power costs exceed what they are able to recoup from ratepayers. Suppliers refuse to sell to IOUs over credit concerns.

A number of generators go off-line resulting in statewide rotating blackouts.

Governor Issues Emergency Proclamation

On January 17, 2001, the Governor issues an Emergency Proclamation directing the DWR to purchase power on behalf of the State's IOU customers.

DWR creates a new division within DWR, CERS division, that immediately begins purchasing power. During the summer of 2001 alone, CERS purchases 17,000 megawatts (MW) of electricity, enough power to supply about 17 million homes and businesses. By the end of 2001, CERS spends nearly \$11 billion to keep the power flowing in California.

Long-Term Power Contracts

To reduce its daily exposure to the volatile spot energy market, CERS enters into various long-term contracts to lock in more stable, predictable prices.

The contracts also result in an injection in new power supplies by providing a guaranteed revenue source needed to finance more than 5,000 MW of newly built power plants. In total, DWR enters into 58 long-term agreements in 2001 and 2002 at a cost of \$42 billion.

CERS History – Cont.

Power Markets Stabilize - Reliability Restored

The average spot market price of electricity falls from \$355 per MWh in January 2001 to \$72 per MWh just five months later. There are no power interruptions in the summers of 2001 or 2002.

CERS concludes its daily power purchases operation on December 31, 2002, successfully returning that responsibility to the utilities who were able to improve their credit standing during DWR's nearly two years as California's principal power buyer.

CERS Today

The utilities currently act as CERS' agent in managing and dispatching the energy associated with the long-term contracts. Absent full assignment of the contracts to the utilities, CERS fulfills its financial and legal responsibilities for the contracts by auditing the utilities' performance to ensure accurate billing and supplier compliance with contract terms, as well as reviewing and approving utility gas supply plans and financial hedging for those contracts with gas tolling arrangements.

CERS also services \$7.7 billion in bonds. Initial bond proceeds of \$11.3 billion in 2002 were used to repay \$6.5 billion to the General Fund, retire a \$3.4 billion short-term loan, and to maintain adequate reserve levels.

CERS produces an annual Revenue Requirement – provided to the California Public Utilities Commission (CPUC) – that specifies the contract and bond-related expenses that must be recovered from the utility customers, and actively monitors and reports on its revenue flows and operating balances in compliance with its financial duties related to the bonds.

Refunds

The state is still seeking refunds on short-term electricity purchases DWR made during the energy crisis on behalf of the IOUs. There are two categories of claims, one from FERC jurisdictional entities (power marketers, investor-owned utilities) and the other from non-FERC jurisdictional entities (municipal utilities, and other governmental entities). The three IOUs – Pacific Gas & Electric (PG&E), Southern California Edison (SCE), and San Diego Gas & Electric (SDG&E) are also seeking refunds on their short-term electricity purchases during the summer 2000 period up to January 2001 when DWR began purchasing electricity on their behalf.

Refund Claims (against Municipal and Non-Jurisdictional Entities) at 100% of Face Value

DWR	\$645,952,553
All CA Parties (including DWR)	\$1,245,387,533

Refund Claims (against FERC Jurisdictional Entities) at 100% of Face Value

DWR	\$1,900,481,846
All CA Parties (including DWR)	\$3,058,149,318

As of December 31, 2011 DWR has received \$1.2 billion in cash refunds on short-term, electricity purchases during the energy crisis. The refunds are used to offset the cost of the electricity DWR is currently purchasing under the long-term energy contracts that it entered into on behalf of the three IOUs.

Sempra Settlement

In April 2010, DWR and other CA parties reached a global settlement with Sempra to resolve disputes with DWR and the PUC regarding Sempra's long-term contract with DWR, and to resolve claims by the CA parties regarding short term purchases during the energy crisis for a total payment of \$410 million by Sempra. In early 2011, DWR received \$235 million of the total cash settlement (\$410 million) and is returning it to ratepayers through lower power charge rates in 2012.

Long-Term Contracts Summary

- **Number of Original agreements: 58**
- **Original portfolio projected cost: \$42.5 billion**
- **Agreements Renegotiated: 35**
- **Number of original counter-parties: 30** – Allegheny, Alliance Colton, BPA, CalPeak, Calpine, Capitol, Clearwood, Constellation, High Desert, Coral, Dynegy, El Paso, GWF, Intercom, Kings River, PG&E Energy Trading, PacifiCorp, Pinnacle West, Mirant, Morgan Stanley, Primary Power (Imperial Valley), PX Block Forward, San Francisco, Santa Cruz, Sempra, Soledad, Sunrise, Whitewater Energy, Williams, Wellhead.
- **Number of counter-parties with renegotiated contracts: 19** – Calpine, High Desert, Constellation, Whitewater Energy, Capitol Power, CalPeak, GWF, Colton Power, Mountain View Power Partners (formerly PG&E Trading contract), Williams, Clearwood, Wellhead, County of Santa Cruz, Sunrise Power, Goldman Sachs (formerly Allegheny contract), Soledad, El Paso, Morgan Stanley, Mirant.
- **Cost reductions through renegotiations: Approximately \$7.5 billion**
- **Agreements expired or novated: 49**
- **Agreements terminated: 4**
- **Number of agreements remaining (from original 58): 5**
- **Current projected portfolio cost (2012-2015): \$240 million**
- **Portion of portfolio cost that is the cost of natural gas: \$99 million**

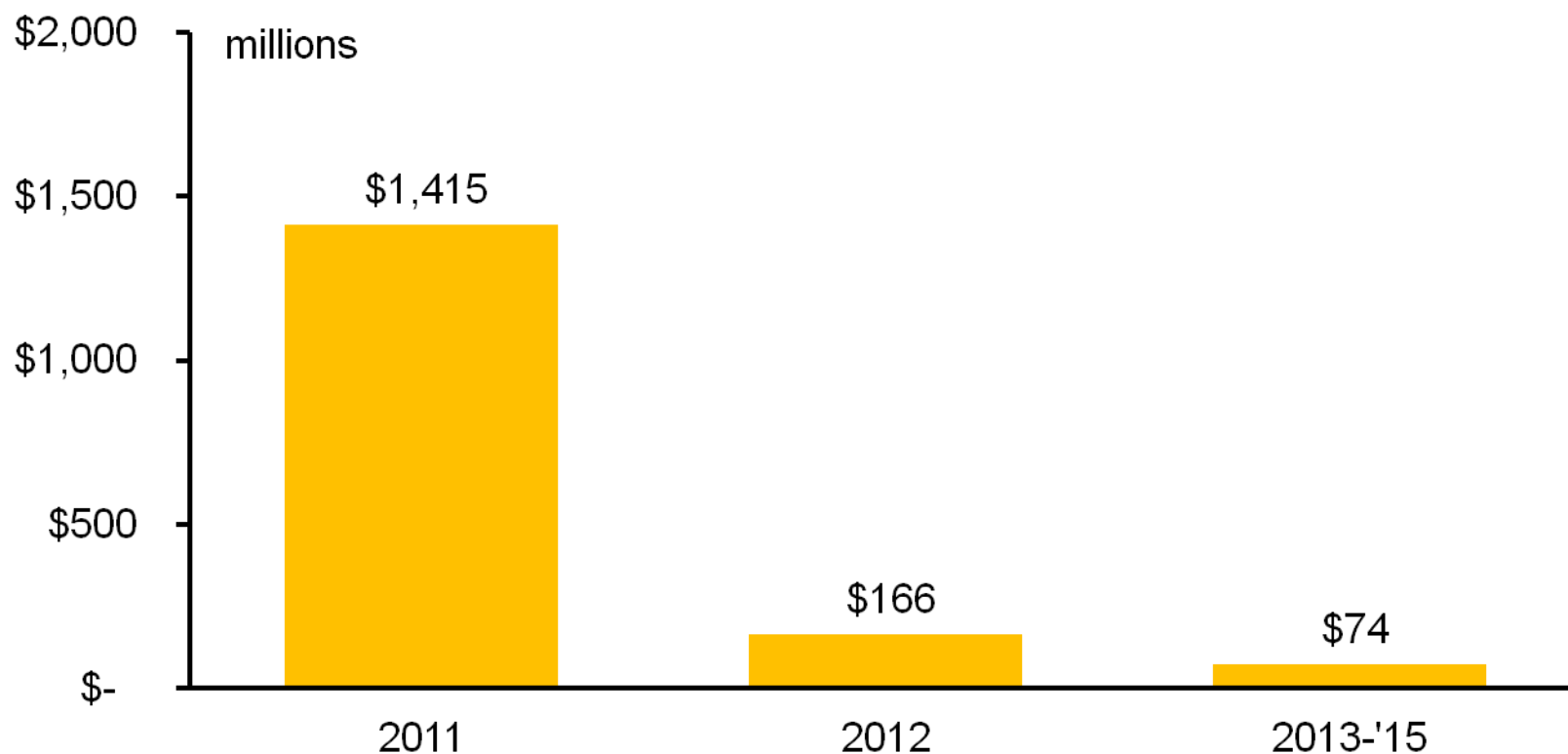
DWR's long-term contracts are available at www.cers.water.ca.gov.

Summary of Current DWR-CERS Contracts Portfolio

Contract Types	Contracts by IOU Allocation (Contracts remaining on January 1, 2012)		
	PG&E	SCE	SDG&E
Market Resources (Fixed Price & Quantity)			
Portfolio of Resources (May also be provided from market)	Coral		
Unit Specific Resources (Dispatchable, except 3 wind contracts)	KRCD		Sunrise Shell Wind Energy (formally Whitewater Cabazon) Shell Wind Energy (formally Whitewater Hill)

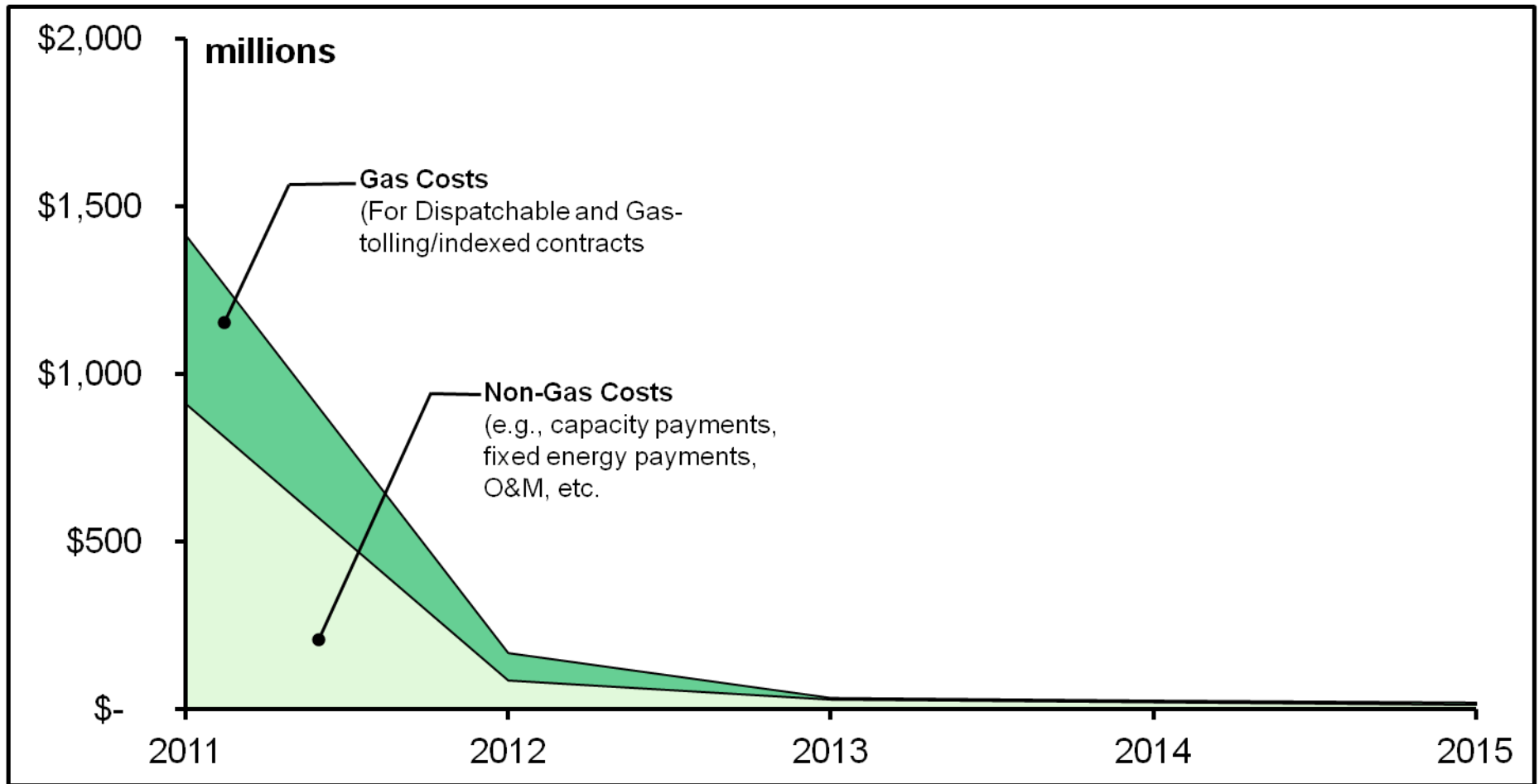
Summary of DWR-CERS Contract Costs – 2012 thru 2015

The remaining cost for the portfolio of contracts, from 2012 through 2015, is approximately \$240 million dollars.



Note: Annual projections may vary due to updates to gas price forecasts, contract utilization, and other assumptions.

Summary of DWR-CERS Contract Costs – 2012 thru 2015



Note: Data from DWR-CERS revenue requirement model filed with the CPUC.
Annual projections may vary due to updates to gas price forecasts, contract utilization, and other assumptions.

DWR Revenue Requirement

Pursuant to Sections 80110 and 80134 of the California Water Code and the March 8, 2002 Rate Agreement between DWR and CPUC, DWR notifies CPUC of its projected costs for the upcoming calendar year by submitting a Revenue Requirement.

The Revenue Requirement includes projected costs for the energy and administration of the long-term contracts and bond program for an upcoming calendar year. These projections take into account the amount of energy from the contracts expected to be dispatched to customers, the costs of natural gas, and settlement payments.

In addition, the Revenue Requirement includes projections of Bond Related Costs to be incurred in the calendar year. These projections take into account all amounts needed to pay principal and interest on the bonds and other bond related costs.

The costs outlined in the Revenue Requirement are ultimately recovered by DWR from payments made by customers and collected by IOUs on behalf of DWR.

The Revenue Requirement determination is produced at least once per year, typically between the months of June and September. Following a public comment period, DWR formally files the final determination with CPUC. CPUC, through a public comment process, then establishes power charges and bond charges sufficient to meet DWR's revenue requirement pursuant to the rate agreement.

Power and Related Costs:

- Costs associated with power supply to be delivered under the CERS' priority long-term contracts
- Administrative and general expenses
- Extraordinary costs
- Operating reserves

Power Charge Revenues:

- Revenues from other power sales
- Interest earnings
- Power Charge revenues (including both Power Charge revenues and Direct Access Power Charge revenues, as defined in the Bond Indenture)

Bond Related Costs:

- Debt service on the bonds
- Changes to Bond Charge Account balances

Bond Charge Revenues:

- Interest earned on Bond Charge Account balances
- Bond Charge Revenues

Revenue Requirement – continued

2012 Revenue Requirement

- DWR's 2012 Revenue Requirement was released for public review and comment on August 4, 2011. DWR finalized its 2011 Revenue Requirement and submitted it to the CPUC on October 27, 2011.
- DWR total Revenue Requirement for 2012 is \$923 million consisting of \$71 million for power charges and \$852 million for bond charges.
- Power charges required for 2012 are \$438 million lower than 2011, as a result of declining power costs from the expiration of long term contracts and lower forecasted gas prices. These reduced power costs will allow DWR to return excess reserves of \$883 million to ratepayers through lower rates in 2012.
- Power charge rates are forecasted to be \$58 per MWh in 2012, up from \$23 per MWh in 2011. However, overall power charges are lower because the 2012 rate does not include the impact of the return to the IOUs of \$693 million in excess reserves.
- Bond charge rates are forecasted to be \$5/MWh, similar to prior years as the Power Fund has a level debt service and amortization schedule as part of its financing structure.
- The CPUC approved the 2012 Revenue Requirement during its December 1, 2011 meeting and implemented new rates on January 1, 2012.

DWR's Revenue Requirement filings are available at www.cers.water.ca.gov.

Bond Refunding Activities

- In 2005, DWR refunded \$2.594 billion of the original 2002 Revenue Bonds and issued variable rate 2005 Series F and G bonds to lower interest costs.
- Due to credit rating downgrades to bond insurers whose credit ratings had been lowered to below AAA as a result of the subprime loan crisis, DWR began a refunding process in March 2008 to reduce risk exposure and lower interest costs. In March and April 2008, DWR refunded \$1.825 billion bonds Series C, D, and G bonds, issuing Series H, I, J and K bonds, thereby eliminating exposure to bond insurer's experiencing difficulty.
- In November 2008, DWR refunded \$173 million Series G variable rate bonds with fixed rate bonds. The bonds had expiring credit facilities related to the bonds and DWR could not renew or replace the facilities due to the credit market turmoil negatively impacting many banks that provide credit facilities.
- In January 2009, subsequent to December 31, 2008, DWR refunded an additional \$350 million of Series F variable rate bonds with fixed rate bonds due to expiring credit facilities that could not be renewed. The amount of bonds outstanding remained at \$9.525 billion after the transaction.
- In 2010, the associated credit facilities for \$3.766 billion of DWR's variable rate bonds were set to expire and needed to be renewed or refunded. To reduce risk and achieve ratepayer savings, DWR chose to refund a majority of those variable rate bonds with fixed rate bonds in two transactions, \$2.992 billion 2010 Series L Bonds in May and \$1.763 billion 2010 Series M Bonds in October. DWR also refinanced a portion of the outstanding 2002 Series A fixed rate bonds with bonds that have lower interest costs to provide additional savings.
- In 2011, with favorable credit market conditions, DWR issued \$960 million in fixed rate bonds to refinance all \$948 million of its remaining variable rate bonds debt and \$159 million of the fixed rate Series 2002A bonds to lower overall interest payments.

Power Revenue Bonds

December 31, 2011

(in millions)

<u>Series</u>	<u>Initial Principal Amount</u>	<u>December 31, 2011 Outstanding Principal Amount</u>	<u>Interest Rate Mode</u>
Initial Issues			
Series 2002A	\$6,314	\$314	Fixed
Series 2002B	1,000		
Series 2002C	2,750		
Series 2002D	500		
Series 2002E (Taxable)	700		
Total	<u>\$11,264</u>		
Refunding Issues			
Series 2005F	\$759	\$348	Fixed
Series 2005G	1,835	173	Fixed
Series 2008H	1,007	1,006	Fixed
Series 2008I	150		
Series 2008J	130		
Series 2008K	279	279	Fixed
Series 2010L	2,919	2,919	Fixed
Series 2010M	1,684	1,684	Fixed
Series 2011N	960	960	Fixed
Total	<u>\$9,723</u>		
Total Bonds Outstanding		<u>\$7,683</u>	

Cash Balances

December 31, 2011

(in millions)

Power Accounts

Operating and Priority Contract Accounts	\$	729
Operating Reserve Account		288
Total Power Account Balances	\$	<u>1,017</u>

Bond Accounts

Bond Charge Collection Account	\$	241
Bond Charge Payment Account		663
Debt Service Reserve Account		919
Total Bond Account Balances	\$	<u>1,823</u>

Note: All cash balances met the requirements of the Bond Indenture at quarter end and for each day during the quarter.

Revenues from IOU Ratepayers

Year Ended December 31, 2011

(in millions)

<u>Power Charges for the Quarter Ended</u>	Pacific Gas & Electric	San Diego Gas & Electric	Southern California Edison	Total
March 31, 2011	\$86	\$45	\$186	\$317
June 30, 2011	38	17	188	243
September 30, 2011	77	23	205	305
December 31, 2011	66	28	139	233
Total	<u>\$267</u>	<u>\$113</u>	<u>\$718</u>	<u>\$1,098</u>
<u>Bond Charges for the Quarter Ended</u>				
March 31, 2011	\$86	\$21	\$92	\$199
June 30, 2011	88	21	90	199
September 30, 2011	103	22	103	228
December 31, 2011	102	22	99	223
Total	<u>\$379</u>	<u>\$86</u>	<u>\$384</u>	<u>\$849</u>

DWR Contract Expenditures for the Benefit of Ratepayers

Year Ended December 31, 2011 (in millions)

Utility	Quarter Ended	Power Total Paid (\$)	Total MWh (in millions)	Natural Gas Total Paid (\$)	Total MMBtu (in millions)
Pacific Gas & Electric					
	March 31, 2011	(\$33)	0.81	\$0	(3.16)
	June 30, 2011	43	0.44	1	0.21
	September 30, 2011	58	0.88	1	1.68
	December 31, 2011	42	0.70	2	(0.34)
Southern California Edison					
	March 31, 2011	\$57	5.68	\$118	24.96
	June 30, 2011	195	5.31	81	20.44
	September 30, 2011	194	5.57	92	19.14
	December 31, 2011	130	3.28	27	10.58
San Diego Gas & Electric					
	March 31, 2011	\$0	0.54	\$16	2.95
	June 30, 2011	11	0.37	16	3.38
	September 30, 2011	79	0.57	19	4.28
	December 31, 2011	36	0.50	16	4.12
Total		<u>\$812</u>	<u>24.65</u>	<u>\$389</u>	<u>88.24</u>

FY2012 Appropriated Costs Through December 31, 2011

(in millions)

	Annual Budget for Fiscal Year Ending June 30, 2012	Pro rated Budget for six months Ended December 31, 2011	Actual Expenditures through December 31, 2011
Salaries, Benefits and Distributed Administrative Costs	\$6.2	\$3.1	\$3.0
Consulting Companies and Personal Service Consultants	8.8	4.4	2.9
Other Operating Expenses and Equipment	3.5	1.8	0.4
Subtotal	18.5	9.3	6.3
Allocation of State Wide Pro-Rata Costs	9.9	5.0	5.0
TOTAL ADMINISTRATIVE COSTS	\$28.4	\$14.2	\$11.3