

July 13, 2005

**NOTICE OF ADDITIONAL MATERIAL
IN PROPOSED DETERMINATION OF A REVENUE REQUIREMENT
(California Code of Regulations Title 23 Section 510 *et seq.*)**

On June 8, 2005, the California Department of Water Resources (DWR or the Department) issued a notice of proposed determination of revenue requirements for 2006. The Department's notice established July 6, 2005 as the deadline for interested persons to submit any comments on the proposed determination of revenue requirements. On July 5, 2005, the Department extended the time up to and including July 20, 2005, for interested persons to submit comments on the proposed determination of revenue requirements for 2006.

Based on further analysis, the Department is adjusting its proposed determination of revenue requirements for 2006. Specifically, the Department has corrected an error that occurred in the post processing methodology used to transfer output from the Department's simulation model (PROSYM) into summary information supporting the Department's revenue requirements and financial model. As a result, the Department is providing additional material upon which it intends to rely in its determination of revenue requirements. This additional material consists of corrected stress case summaries and PROSYM output tables. The result of the corrected stress cases is summarized below.

| | stress case 2 (doubled fuel prices) | | stress case 3 (3rd fuel prices) | |
|-------------------|-------------------------------------|-----------------|---------------------------------|-----------------|
| | \$ millions | | \$ millions | |
| | corrected | 6-8-05 proposal | corrected | 6-8-05 proposal |
| MOEAB | 377 | 354 | 346 | 322 |
| Operating Reserve | 975 | 823 | 789 | 636 |
| Rev. Req. | 4,418 | 4,374 | 4,316 | 4,145 |
| Hedging Cost | - | | - | |

In addition, the Department is considering the use of fuel hedges to mitigate some of the projected volatility resulting from Stress Case 2. Documents addressing this strategy and its impact on the Department's operating reserves are also included as additional material. The result of the Stress Case 2 including partial fuel price hedging is summarized below.

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|---|
| stress case 2 (doubled fuel prices) w/ hedging |
|---|

| | \$ millions | |
|--------------|-------------|-----------------|
| | current | 6-8-05 proposal |
| MOEAB | 279 | 354 |
| OR min level | 552 | 823 |
| Rev. Req. | 4,143 | 4,374 |
| Hedging Cost | 29 | - |

The Department is revising its proposed determination of revenue requirements for 2006 to reflect the proposed Stress Case 2 with partial fuel price hedging. As a result, the Department's proposed determination of revenue requirements for 2006 is \$232 million lower than the proposed determination issued on June 8, 2005. Under the proposed Stress Case 2 with partial fuel price hedging, the Department's Minimum Operating Expense Available Balance ("MOEAB") would be \$279 million. The Department would project to exceed the MOEAB at all times during 2006.

This notice of additional material is being provided via electronic mail to those persons who have received prior notices relating to the Department's 2006 proposed revenue requirement by electronic mail and by U.S. Mail to every person who has filed a request for notice. This notice is also posted on the Department's web site (www.water.ca.gov). The additional material is available for review at the California Energy Resources Scheduling Division (CERS) of DWR, which is located at 3310 El Camino Avenue in Sacramento, California. Requests for copies of the information should be sent to the Department at the mailing addresses set forth below. Some material upon which DWR intends to rely in determining this revenue requirement must be kept confidential by DWR and its consultants pursuant to contract or law. If contract and law permit, DWR will make such information available to interested persons, upon receipt and countersignature by DWR of a valid and binding nondisclosure agreement, for the sole purpose of preparing comments on a proposed determination. Please contact Thomas Cooke at (916) 574-2009 for nondisclosure agreements.

Pursuant to California Code of Regulations Title 23, Section 510 *et seq.*, the Department has determined that the existing comment period which ends on July 20, 2005 provides a reasonable time for interested persons to submit comments on the additional material referenced by this notice. To be considered comments must be received at either of the following addresses by 5:00 P.M. on July 20, 2005:

Mailing address: Department of Water Resources
 California Energy Resources Scheduling Division
 3310 El Camino Avenue, Suite 120
 Sacramento, CA 95821-9001
 Attention: Thomas Cooke, Esq.

E-mail address: tcooke@water.ca.gov

Comments must also satisfy the following requirements, as specified in section 515 of title 23 of the California Code of Regulations:

A comment must be in typewritten form and must be clear and permanently legible.

A comment must identify the determination that is the subject of the comment by referencing the deadline for submitting comments. The deadline for submitting comments in response to this notice is July 20, 2005.

A comment must be signed. Comments submitted on behalf of a business or organization must be signed by a person authorized to comment on behalf of the business or organization, must include the name and title of the signatory, the date of signing, the signatory's business address, and the signatory's business telephone number. Comments submitted through electronic mail will be considered by DWR only if an original, signed copy of the comment is received by DWR within three working days after the receipt of the electronic-mail comment.

A signature on submitted testimony certifies that the signer has read the document and knows its contents; that to the signer's best knowledge, information, and belief, formed after diligent inquiry, the facts are true as stated; that any legal contentions are warranted by existing law or a good faith argument for the extension, modification, or reversal of existing law; that the testimony is not tendered for any improper purpose; and that the signer has full power and authority to sign the document.

No documents or records submitted as testimony which purport to be statements of fact shall be considered by DWR unless the documents or records have been certified under penalty of perjury by the person preparing or in charge of preparing them as being true and correct.

New Material Relied Upon/Revised Proposed Determination. If DWR identifies significant material it intends to rely on in making its determination, which was not identified in the proposed determination or if DWR revises the proposed determination DWR will provide notice of such additional material or notice of proposed revised determination to the public and provide an opportunity for comment on the additional material.

Issuance of Determination/Requests for Reconsideration. After considering comments timely received and otherwise in conformance with the requirements of Section 515 of Title 23 of the California Code of Regulations DWR will issue a determination on the record by posting the determination on its website and mailing or electronically mailing a notice of posting as required by Section 516(a) of Title 23 of the California Code of Regulations. DWR will consider any request for reconsideration which is submitted within 10 days of the posting of the determination on the DWR website only if the request satisfies the requirements of Section 515 of Title 23 of the California Code of Regulations, which are summarized above.

Final Determination. A determination is final if DWR does not revise the determination either as a result of reconsideration, or in response to comment after reconsideration and revision.