

State of California

Department of Water Resources

Proposed Determination of Revenue Requirement

For the Period

January 1, 2014 through December 31, 2014

Transmitted To

The California Public Utilities Commission

Pursuant To

Sections 80110 and 80134 of the California Water Code



June 17, 2013

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A. THE DETERMINATION

GENERAL

Pursuant to Section 80110 of the California Water Code, the Department hereby issues its Proposed Determination of Revenue Requirement for the period of January 1, 2014 through December 31, 2014 (“2014 Determination”) in accordance with the Rate Agreement between the State of California Department of Water Resources (“Department” or “DWR”) and the California Public Utilities Commission (“Commission” or “CPUC”), dated March 8, 2002 (“Rate Agreement”), and Division 23, Chapter 4, Sections 510–517 of the California Code of Regulations (“Regulations”). Capitalized terms used and not otherwise defined herein have the meanings given to such terms in the Rate Agreement or the Indenture under which the Department’s Power Supply Revenue Bonds were issued (the “Bond Indenture”).

The costs of the Department’s purchases to meet the net short requirements of retail end use customers in the three California investor-owned utilities’ (“Utilities” or “IOUs”) service territories, including the costs of administering the long-term contracts, are to be recovered from payments made by customers and collected by the IOUs on behalf of the Department. The terms and conditions for the recovery of the Department’s costs from customers are set forth in the California Water Code (“Act”), the Regulations, the Rate Agreement and orders of the Commission. Among other things, the Rate Agreement defines a “Bond Charge” designed to recover the Department’s costs associated with its bond financing activity (“Bond Related Costs”) and a “Power Charge” designed to recover “Department Costs”, or the Department’s “Retail Revenue Requirement” including power supply-related costs. Subject to the conditions described in the Rate Agreement and other Commission Decisions, Bond Charges and certain charges designed to recover Department Costs may also be imposed on the customers of Electric Service Providers (as that term is defined in the Rate Agreement).¹ Additional background material is contained in the Department’s prior Determinations of Revenue Requirement, copies of which have been incorporated into the administrative record supporting this Proposed 2014 Determination.

Pursuant to Sections 80110 and 80134 of the California Water Code and the Rate Agreement, this 2014 Determination contains information on the amounts required to be recovered, on a cash basis, in the 2014 Revenue Requirement Period (calendar year 2014).

For the 2014 Revenue Requirement Period, this 2014 Proposed Determination contains information regarding the following: (a) the beginning balance of funds on deposit in the Electric Power Fund (“Fund”), including the amounts on deposit in each account and sub-account of the Fund; (b) the amounts projected to be necessary to pay the principal and interest on all bonds as well as all other Bond Related Costs as and when the same are projected to become due, and the projected amount of Bond Charges required to be collected for such purpose; and (c) the amount needed to pay the Department’s costs, including all Retail Revenue Requirements.

¹ Under the Rate Agreement, the “Retail Revenue Requirement” is the amount to be recovered from “Power Charges” on IOU customers. The assessment on customers of Electric Service Providers of charges to recover Department Costs (e.g., “Direct Access Power Charge Revenues”) reduces the amount of the “Retail Revenue Requirement,” but has no material impact on the Department’s costs.

DETERMINATION OF REVENUE REQUIREMENT

Pursuant to the Act, the Rate Agreement, and the Regulations, the Department determines, on the basis of the materials presented and referred to by this Proposed 2014 Determination (including the materials referenced in Section H), that it has a \$5 million aggregate cash basis Power Charge Account revenue requirement for 2014². The Department projects that it will have adequate reserves in its Power Charge Accounts at all times to pay all Department costs, return \$53 million of excess amounts to customers and maintain reserves at sufficient levels to satisfy indenture required minimum balances, through an aggregate reduction in Power Charge Account balances of \$93 million.

As required by the Act, the Rate Agreement, and the Regulations, the Department makes a separate revenue requirement determination for the Bond Charge Accounts. For 2014, the Department determines that its cash basis Bond Charge Account revenue requirement is \$868 million.

This Proposed 2014 Determination takes into account preliminary actual operating results through April 2013.

Any net surpluses or deficiencies during the 2013 Revenue Requirement Period, which may result from the receipt of funds related to various litigation settlements involving the Department, variances in actual natural gas prices from those forecast and other considerations, are reflected in the Department's projected beginning 2014 operating balances.

Table A-1 shows a summary of the Department's revenue requirement and the accounts associated with projected Department Costs ("Power Charge Accounts") for 2014. These figures are compared to those reflected in the Department's Revised 2013 Determination of Revenue Requirements. A summary and comparison of the Department's revenue requirement and the accounts associated with its Bond Related Costs ("Bond Charge Accounts") is presented in Table A-2. Definitions of key accounts and sub-accounts are presented within each table.

² Power charge revenues are for power sales made in 2013, but received during the 2013 Revenue Requirement period.

TABLE A-1
SUMMARY OF THE DEPARTMENT'S 2014 POWER CHARGE REVENUE
REQUIREMENT AND POWER CHARGE ACCOUNTS
AND COMPARISON TO 2013¹
(\$ Millions)

Line	Description	2014 ²	2013 ³	Difference
1	<i>Beginning Balance in Power Charge Accounts</i>			
2	Operating Account	152	173	(22)
3	Priority Contract Account	-	4	(4)
4	Operating Reserve Account	18	68	(51)
5	Total Beginning Balance in Power Charge Accounts	169	245	(76)
6	<i>Power Charge Accounts Operating Revenues</i>			
7	Power Charge Revenues ⁴	5	1	4
8	Return of Excess Amounts to Customers ⁵	(53)	(62)	8
9	Interest Earnings on Fund Balances	0	1	(0)
10	Total Power Charge Accounts Operating Revenues	(48)	(60)	12
11	<i>Power Charge Accounts Operating Expenses</i>			
12	Administrative and General Expenses	15	19	(4)
13	Total Power Costs	31	46	(16)
14	Total Power Charge Accounts Operating Expenses	46	65	(20)
15	Net Operating Revenues	(93)	(125)	31
16	Ending Aggregate Balance in Power Charge Accounts	76	121	(45)
Target Minimum Power Charge Account Balances		Target (Millions of Dollars)		
	Operating Account	44	68	(24)
	Operating Reserve Account	10	18	(8)
	Total Operating Reserves:	53	85	(32)

¹Numbers may not add due to rounding.

²As included herein.

³As reflected in the 2013 Revised Determination.

⁴Includes Bundled Customer revenues and Cost Responsibility Surcharge revenues.

⁵Comprised of surplus reserves meeting the definition of Excess Amounts within the Power Supply Revenue Bond Indenture.

TABLE A-2
SUMMARY OF THE DEPARTMENT'S 2014 BOND CHARGE REVENUE
REQUIREMENT AND BOND CHARGE ACCOUNTS
AND COMPARISON TO 2013¹
(\$ Millions)

Line	Description	2014 ²	2013 ³	Difference
1	<i>Beginning Balance in Bond Charge Accounts</i>			
2	Bond Charge Collection Account	168	207	(39)
3	Bond Charge Payment Account	696	673	23
4	Debt Service Reserve Account	919	919	-
5	Total Beginning Balance in Bond Charge Accounts	1,783	1,799	(16)
6	<i>Bond Charge Accounts Revenues</i>			
7	Bond Charge Revenues from Utilities ⁴	868	860	8
8	Interest Earnings on Fund Balances	19	20	(1)
9	Total Bond Charge Accounts Revenues	887	880	7
10	<i>Bond Charge Accounts Expenses</i>			
11	Debt Service on Bonds	911	901	10
12	Total Bond Charge Accounts Expenses	911	901	10
13	Net Bond Charge Revenues	(23)	(21)	(3)
14	Ending Aggregate Balance in Bond Charge Accounts	1,760	1,778	(19)
Target Minimum Bond Charge Account Balances		Target (Millions of Dollars)		
Bond Charge Collection Account: An amount equal to one month's required deposit to the Bond Charge Payment Account for projected debt service		75 - 77	76 - 77	Different
Bond Charge Payment Account: An amount equal to the debt service accrued and unpaid through the end of the third next succeeding calendar month		307 - 1,000	314 - 981	Different
Debt Service Reserve Account: Established as the maximum annual debt service		919	919	-

Numbers may not add due to rounding.

²As included herein.

³As reflected in the 2013 Revised Determination.

⁴Includes Bundled Customer and Cost Responsibility Surcharge revenues

FUTURE ADJUSTMENT OF REVENUE REQUIREMENT

The Department may propose to revise its revenue requirement for the 2014 Revenue Requirement Period given the potential for significant or material changes in the California energy market, the Department's associated obligations and operations related to its long term power and natural gas contracts, novation of its contracts, and many other events that may materially affect the realized or projected financial performance of the Power Charge Accounts or the Bond Charge Accounts. In such event, the Department will inform the Commission of such material changes and will revise its revenue requirement accordingly.

B. BACKGROUND

Information on the Act and the Rate Agreement, which have not changed since 2002, is contained in the Department's prior Determinations of Revenue Requirement, copies of which have been incorporated into the administrative record supporting this Determination. Each Determination of Revenue Requirements builds upon the prior Determinations. A summary of the 2013 Revenue Requirements is provided below:

The Department sent requests for information to each IOU on April 13, 2012, which solicited an update of various modeling assumptions and operational considerations. During April and May, the Department received responses from the IOUs. The information obtained from the IOUs served as the basis for the Department's analytical and forecasting efforts related to the Proposed 2013 Determination published on June 15, 2012.

The Department provided interested persons with quantitative results from its contract volume and cost analytical models and financial model, subject to applicable non-disclosure requirements. Interested parties were advised to submit comments no later than July 6, 2012. No comments were received and the 2013 Determination remained unchanged from the Proposed 2013 Determination when filed on August 2, 2012.

The Department reviewed certain matters relating to its August 2, 2012 Determination, including, but not limited to, operating results of the Electric Power Fund (the "Fund") as of September 30, 2012 (the August 2, 2012 Determination incorporated preliminary actual operating results through April 2012); and an updated gas price forecast. The Department revised its August 2, 2012 Determination under Section 516 of the Regulations to address the following matters:

- 1) Updated actual Electric Power Fund Operating and Bond Account operating results through September 30, 2012.
- 2) Updated natural gas price forecasts and related assumptions.
- 3) Updated projections for contract costs for the remainder of the Power Supply Program, including the projected costs related to a natural gas Transportation Services Agreement ("TSA"), expiring in 2018, that was associated with the long term contract with Sunrise Power Company, LLC.

The Department issued its Proposed Revised 2013 Determination on October 4, 2012, requesting comments from interested parties by October, 12, 2012. No comments were received from interested parties.

THE PROPOSED 2014 DETERMINATION

The Department sent requests for information to each IOU on May 2, 2013, which solicited an update of various modeling assumptions and operational considerations. The information obtained from the IOUs served as the basis for the Department's analytical and forecasting efforts related to this Proposed 2014 Determination. The Department also considered other important criteria, including, but not limited to, Commission Decisions, Bond Indenture requirements, information pertaining to electric loads departing IOU service, and historical dispatch levels of Department contract facilities. The resulting data was incorporated into spreadsheet-based analytical models that were used to estimate IOU load volumes subject to Power Charges and Bond Charges and Department contract volumes and costs, and became a part of the projections leading to the Proposed 2014 Determination.

Upon completion of the procedures set forth in the regulations promulgated pursuant to the California Administrative Procedures Act (the "Regulations"), the Department will determine its revenue requirements for the 2014 Revenue Requirement Period.

C. QUARTERLY SUMMARY OF REVENUE REQUIREMENT FOR THE PERIOD JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

For 2014, the Department's revenue requirement consists of Department Costs and Bond Related Costs, which are to be satisfied primarily by Power Charge Revenues and Bond Charge Revenues, respectively.

During 2014, the Department projects that it will incur the following power procurement-related Costs: (a) \$31 million for long-term power contract purchases from the Kern River Conservation District ("KRCD") contract and costs related to the Kern River TSA; (b) \$15 million in administrative and general expenses; (c) the return of \$53 million of excess amounts to IOU customers; and (d) \$(93) million net changes to Power Charge Accounts (including operating reserves). These projections result in total Power Charge expenses of \$6 million. Funds to meet these costs are projected to be provided from: (a) less than \$1 million of interest earned on Power Charge Account balances; (b) \$5 million from Power Charge Revenues and Cost Responsibility Surcharge ("CRS") revenues from customers other than customers of the IOUs and DWR.

Excess amounts as defined within the bond indenture shall be used, at the direction of the Commission after consultation with the Department, to (i) adjust customer charges, or (ii) with the agreement of the Department, reduce debt outstanding under the indenture, in all instances upon consideration of the interests of the retail customers of the IOUs and DWR. The Department will return only the amounts which meet the "excess amount" definition within this revenue requirement period as projected within this Proposed 2014 Determination. As noted above, the Department projects that \$53 million of excess amounts will be returned in 2014. The payments by the Department for the return of excess amounts will be separate from Power

Charge receipts, which will continue to be based on delivery of power from the Department's long-term contract and collected from customers of the IOUs.

Table C-1 provides a quarterly projection of costs and revenues associated with the Power Charge Accounts for the 2014 Revenue Requirement Period.

TABLE C-1
POWER PURCHASE PROGRAM, REVENUE REQUIREMENT BASE CASE:
RETAIL CUSTOMER POWER CHARGE CASH REQUIREMENT¹
(\$ Millions)

Line	Description	Amounts for Revenue Requirement Period				
		2014 - Q1	2014 - Q2	2014 - Q3	2014 - Q4	Total
1	<i>Power Charge Accounts Expenses</i>					
2	Power Costs	8	7	8	7	31
3	Administrative and General Expenses	4	4	4	4	15
4	Return of Excess Amounts to Customers	13	13	13	13	53
5	Net Changes to Power Charge Account Balances	(20)	(24)	(25)	(24)	(93)
6	Total Power Charge Accounts Expenses	6	0	0	0	6
7	<i>Power Charge Accounts Revenues</i>					
8	Interest Earnings on Power Charge Account Balances	0	0	0	0	0
9	Total Power Charge Revenue Requirement	5	-	-	-	5
10	Total Power Charge Accounts Revenues	6	0	0	0	6

¹Numbers may not add due to rounding.

During 2014, the Department projects that it will incur the following Bond Related Costs: (a) \$911 million for debt service on the Bonds, and (b) \$(23) million for changes to Bond Charge Account balances, resulting in total Bond Charge Account expenses of \$887 million. Funds to meet this requirement are provided from: (a) \$19 million in interest earned on Bond Charge Account balances; and (b) \$868 million from Bond Charge Revenues (including CRS revenues from customers other than customers of the IOUs and DWR). There are no projected net transfers from Power Charge Accounts.

Table C-2 provides a quarterly projection of costs and revenues relating to the Bond Charge Accounts for the 2014 Revenue Requirement Period.

TABLE C-2
POWER PURCHASE PROGRAM, REVENUE REQUIREMENT BASE CASE:
RETAIL CUSTOMER BOND CHARGE CASH REQUIREMENT¹
(\$ Millions)

Line	Description	Amounts for Revenue Requirement Period				
		2014 - Q1	2014 - Q2	2014 - Q3	2014 - Q4	Total
1	<i>Bond Charge Accounts Expenses</i>					
2	Debt Service Payments	-	768	-	143	911
3	Net Changes to Bond Charge Account Balances	205	(557)	233	96	(23)
4	Total Bond Charge Accounts Expenses	205	211	233	239	887
5	<i>Bond Charge Accounts Revenues</i>					
6	Interest Earnings on Bond Charge Account Balances	1	9	1	8	19
7	Retail Customer Bond Charge Revenue Requirement	204	202	232	231	868
8	Total Bond Charge Accounts Revenues	205	211	233	239	887

¹Numbers may not add due to rounding

In aggregate, the Department’s total cash basis expenses are projected to be \$953 million. In addition \$53 million of Excess Amounts will be returned to customers. This results in a total cash requirement of \$1.01 billion.

This cash requirement is projected to be met through \$19 million in revenues from interest earned; a combined customer retail revenue requirement of \$874 million; and net changes in fund balances of \$(117) million.

D. ASSUMPTIONS GOVERNING THE DEPARTMENT’S PROJECTION OF REVENUE REQUIREMENT FOR THE 2014 REVENUE REQUIREMENT PERIOD

The Department based this Proposed 2014 Determination on a number of assumptions regarding retail customer load, power supply, natural gas prices, and administrative and general expenses, as well as other considerations affecting the Department’s revenues and expenses.

ESTIMATED ENERGY REQUIREMENTS

The Department obtained the utilities’ most recent retail energy forecasts in May 2013. The Department reviewed the utilities’ underlying forecast assumptions and the forecasts for Direct Access and Community Choice Aggregation (“CCA”) in California. These assumptions are discussed in greater detail below.

Table D-1 shows the projected 2014 energy requirements forecast (in gigawatt hours) for the PG&E, SCE and SDG&E service areas during 2014 and represent forecasts at the customer meter.

**TABLE D-1
ESTIMATED ANNUAL ENERGY REQUIREMENTS**

Service Area	Bundled Load	Direct Access and CCA	Total Load
Pacific Gas & Electric	75,867	10,702	86,570
Southern California Edison	73,249	11,450	84,698
San Diego Gas & Electric	17,204	3,562	20,766
Total	166,320	25,714	192,034

DIRECT ACCESS

The Department’s direct access estimates are based primarily on data provided by each IOU. Where applicable, the data provided by each IOU was adjusted to account for the expected effects of Senate Bill (SB) 695.

On October 11, 2009, SB 695 was signed into law as an urgency statute. SB 695 allows individual retail nonresidential end-use customers of the IOUs to acquire electric service from non-IOU energy suppliers, up to a customer aggregated, service-area specific kWh 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 is established with each IOU service territory as the maximum total kWh supplied by all non-IOU energy suppliers 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).

The direct access maximum load authorized by the CPUC in Decision 10-03-022, if reached in all three service areas, would increase the percentage of each IOU’s retail load attributable to direct access customers to approximately 14.0%, based on current estimates of total retail load. Regardless of the level of direct access participation within the IOU service areas, direct access customers will still be assessed Bond Charges and DWR’s revenue requirement will be recovered in the same manner as has been successfully implemented over the duration of the Power Supply Program.

Table D-2 shows the 2014 direct access forecast for each IOU, as a percentage of total retail loads.

**TABLE D-2
2014 DIRECT ACCESS FORECAST**

Service Area	Percent of Retail Load
Pacific Gas & Electric	10.77%
Southern California Edison	13.52%
San Diego Gas & Electric	17.15%
Total	12.96%

COMMUNITY CHOICE AGGREGATION

Community Choice Aggregation, authorized by legislation enacted in 2002 (“AB 117”), refers to the ability of a city or county to aggregate all the electrical demand of the residents, businesses and municipal users under its jurisdiction and to meet this demand from an electricity provider other than an IOU, such as an independent electrical service provider. In the decision implementing AB 117, the CPUC determined that future Community Choice Aggregation customers shall pay charges (including DWR charges) intended to keep the bundled customers of the IOUs indifferent to CCA loads departing bundled service.

Pursuant to AB 117, three entities have filed Community Choice Aggregation Implementation Plans with the CPUC. The San Joaquin Valley Power Authority (“SJVPA”) filed an Implementation Plan with the CPUC in January 2007, the Marin Energy Authority (“MEA”) filed an Implementation Plan with the CPUC in January 2010 and the City and County of San Francisco (“CCSF”) filed an Implementation Plan (as “CleanPowerSF”) with the CPUC in March 2010. The SJVPA Implementation Plan was certified by the CPUC in May 2007;

however, CCA implementation was suspended by SJVPA in June 2009. The CleanPowerSF Implementation Plan was certified by the CPUC on May 18, 2010.

The initial MEA Implementation Plan was certified by the CPUC in February 2010. MEA administers the plan through Marin Clean Energy (“MCE”) and serves over 90,000 customers in Marin County and the City of Richmond. The City of Richmond will be fully enrolled in July 2013 after which MEA is expected to serve approximately 125,000 customers. MEA member (municipal) accounts and a subset of residential, commercial and/or industrial accounts, comprising approximately 20 percent of MEA’s total customer load, began service on May 7, 2010. In December 2011, MEA filed a Revised Implementation Plan, which included information on additional members. The Revised Implementation Plan was certified by the CPUC on January 3, 2012. In July 2012, MEA filed a Revised Implementation Plan that reflected information pertaining to new members (the City of Richmond), and this Revised Plan was certified by the CPUC on September 26, 2012. Further, MEA filed an additional Revised Implementation Plan in August 2012, which conformed to CPUC privacy rules. This Implementation Plan was certified by the CPUC in January 2013. MEA is expected to serve approximately 1,210 GWh in 2013. This MEA load will reduce the bundled load in PG&E’s service area.

Other communities have indicated a willingness to pursue CCA including the City of Victorville and the City of Berkeley in cooperation with other cities located to the east of San Francisco Bay. The City of Berkeley is working with the East Bay Municipal Utility District to conduct a pre-feasibility analysis but has not yet filed an Implementation Plan with the CPUC. It is possible that CCA could lead to substantial reductions in bundled sales volumes. In the CPUC proceeding implementing AB 117 concerning CCA, the CPUC established that the Cost Responsibility Surcharge would be paid by CCA customers and that the method for calculating the Cost Responsibility Surcharge adopted for direct access and municipal departing load customers, as modified by CPUC Decision 06-07-030, would also apply to CCA customers.

COST RESPONSIBILITY SURCHARGE

In a series of decisions, the CPUC ordered certain classes of direct access, municipal and customer generation departing load, and CCA customers to pay the Cost Responsibility Surcharge related to historical stranded power costs and ongoing above-market power costs. Included in the Cost Responsibility Surcharge is a DWR Bond Charge component, which is assessed to pay debt service associated with DWR’s bond issuances and a DWR Power Charge component, which pays a pro-rata portion of the above-market costs of the DWR power portfolio. The Bond Charge and the Power Charge components are rates imposed on total electricity usage by direct access, departing load, and Community Choice Aggregation customers by the CPUC in concert with the establishment of Power Charges and Bond Charges on bundled customers.

Cost Responsibility Surcharge revenues reduce the amount of Bond Charges and Power Charges that must be imposed on bundled customers to recover Bond Related Costs and Department Costs. In the aggregate, the payments by direct access load, departing load, CCA load, and from bundled customer load for the DWR Bond Charge and the DWR Power Charge flow to DWR to recover the DWR Bond Related Costs and Department Costs.

POWER SUPPLY AND NATURAL GAS RELATED ASSUMPTIONS

In this Proposed 2014 Determination, the Department’s remaining power supply contract is the KRCD contract. This contract is allocated to PG&E. PG&E provided the Department with a projection of contract dispatch and the Department compared this estimate to the historical monthly dispatch levels. After conducting this review, the Department used the projections of dispatch provided by PG&E. The projected market dispatch of 63 GWhs provided by PG&E will serve as the basis for customer remittances through Power Charges and any additional energy quantities dispatched in the CAISO Real-time and Hour Ahead markets will provide market revenues to the Department.

Table D-4 provides a summary of the KRCD contract and the Kern River TSA. Detailed contract terms can be found on the CERS website, <http://www.cers.water.ca.gov>

**TABLE D-4
CONTRACT SUMMARY**

Counter-Party	Type	Date Executed	Delivery Start Date	Delivery End Date	Capacity	Allocated
Kings River Conservation District	Power supply	12/31/2002 Renegotiated on 8/18/04	9/19/2005	9/18/2015	96MW	PG&E
Kern River	Firm gas transportation capacity	8/12/2003	9/01/2003	4/30/2018	85,000 mmbtu/day	SDG&E

The Department continues its efforts to modify terms and conditions of the Department’s long-term power contracts consistent with the requirements of the Act and applicable federal law. If, through negotiation and disposition efforts, the Department does not incur these costs, the cash reserves held to pay these costs would be returned to ratepayers as “excess amounts” in a subsequent revenue requirement filing.

LONG-TERM CONTRACT COST ASSUMPTIONS

Each of the contracts identified in Table D-4 has been reviewed by the Department to determine the costs that will impact its revenue requirement during 2014. All applicable costs are reflected in the Department’s cost analysis. The types of costs included in the Department’s contract-specific projections include, but are not limited to, fixed energy, capacity, fixed operation and maintenance, variable operation and maintenance, scheduling coordinator fees, fuel management fees, and carbon allowance costs. Total accrued long-term contract costs, including requisite natural gas purchases, are projected to be \$30 million for the 2014 Revenue Requirement Period.

To comply with regulations required under AB32, there are Greenhouse Gas (“GHG”) implementation fees and carbon allowance costs that will be incurred by the generating unit underlying the KRCD contract. DWR has included an estimate of those additional costs in the forecast for total power costs for the 2014 Revenue Requirement Period.

The Kern River TSA was entered into in 2003 to supply fuel to the Sunrise Power LLC long term power supply contract. An agreement was in place to transfer the remainder of the TSA contract back to Sunrise upon expiration of the Sunrise contract in June 2012. This reassignment has not taken place and the Department has included approximately \$15 million of costs the 2014 Revenue Requirement Period. The Department places the firm capacity associated with the TSA up for release each month and any revenues from the capacity release is reflected in the cash balances of the Department and is used to reduce future revenue requirements.

REMITTANCE ASSUMPTIONS

In 2009, after consideration of the April 1, 2009 implementation of the MRTU, DWR and the IOUs jointly submitted a Memorandum of Understanding to the CPUC that clarified the process that the IOUs will use to remit Power Charges to DWR. This clarification became necessary due to changes in the manner in which energy is scheduled and settled in the MRTU market. Specifically, the IOUs and DWR proposed to eliminate the sharing of surplus sales. Revenues from pro-rata sharing of surplus sales are no longer used to offset DWR's revenue requirement, but rather DWR will receive remittances on energy dispatched in the CAISO day-ahead market from the KRCD contract. Customers will remit Power Charges in amounts that will enable the recovery of ongoing operating costs of the Department's power supply program. Any energy dispatched in the CAISO hour-ahead or real-time markets will have associated market revenues provided to the Department.

NATURAL GAS PRICE FORECAST

The natural gas price forecast supporting this Proposed 2014 Determination is based on the Department's 2014 Base Case Forecast prepared by Montague DeRose and Associates ("MDA"), advisors to the Department. The forecast is based on three sources of data, (1) NYMEX natural gas futures contract prices, (2) the Energy Information Administration ("EIA") Short-term and Annual Natural Gas Price Forecasts and PG&E's natural gas price projections for the KRCD contract. The Department does not project any hedging expenses for the 2014 Revenue Requirement Period.

Table D-6 reports the projected Base Case gas prices supporting this Proposed 2014 Determination and compares this forecast to the Base Case forecast underlying the Revised 2013 Determination.

**TABLE D-6
NATURAL GAS PRICE FORECAST
(\$/MMBtu)**

Description	Henry Hub		PG&E Citygate	
	2014	2015	2014	2015
2014 Gas Price Forecast	4.30	4.37	4.44	4.50
2013 Gas Price Forecast	4.02	4.45	4.31	4.74
Difference	0.28	-0.08	0.13	-0.24

ADMINISTRATIVE AND GENERAL COSTS

The Department’s administrative and general costs of \$15 million consist of \$12 million for appropriated budget expenditures including funds for labor and benefits, pro-rata charges for services provided to the power supply program by other State agencies and \$3 million for consulting services for development and monitoring of the revenue requirement, litigation and dispute resolution support, power contract management, and financial advisory services for managing the \$7.1 billion debt portfolio and related reserves. The Department plans to collect its administrative and general costs through Bond Charges, rather than Power Charges, beginning in January 2016.

FINANCING RELATED ASSUMPTIONS

For purposes of calculating the interest earnings on account balances during 2014, the Department assumes a 1.85 percent earnings rate for the Debt Service Reserve Account and a 0.245 percent earnings rate for all other accounts during the 2014 Revenue Requirement Period.

The Department currently has \$7.127 billion of fixed rate bonds outstanding. The projected average interest rate for all fixed rate bonds for the 2014 Revenue Requirement Period is 4.80 percent.

The Department projects that the amount of Bond Charge Revenues required for the 2014 Revenue Requirement Period will be \$868 million.

ACCOUNTS AND FLOW OF FUNDS UNDER THE BOND INDENTURE

General information on the Accounts and flow of funds under the Bond Indenture, which has not changed since the bonds were issued in 2002, is contained in the Department’s prior Determinations of Revenue Requirement, copies of which have been incorporated into the administrative record supporting this 2014 Proposed Determination.

Information specific to certain Accounts for this Determination is as follows.

OPERATING ACCOUNT

The Department has covenanted in the Bond Indenture to include in its revenue requirement amounts estimated to be sufficient to cause the amount on deposit in the Operating Account at all times during any calendar month to equal the Minimum Operating Expense Available Balance

(“MOEAB”). The Bond Indenture leaves to the Department the determination as to how far into the future this minimum test of sufficiency should be met. Moreover, the covenant concerns the minimum amount required to be projected to be on deposit, and leaves to the Department the determination as to what total reserves are appropriate or required in the fulfillment of its duties under Section 80134 of the Act.

For the purposes of this Proposed 2014 Determination, the Department has determined the MOEAB to be \$44 million. The Department projects to exceed the MOEAB at all times during 2014. The Department has determined that the amount projected to be on deposit in the Operating Account, including the amount therein that acts as a reserve for Operating Expenses, is just and reasonable, based primarily on the remaining fixed cost obligations of the power and natural gas supply portfolio and related administrative costs, as well as the factors discussed in Section F—“Key Uncertainties in the Revenue Requirement Determination”.

OPERATING RESERVE ACCOUNT

The Operating Reserve Account Requirement (“ORAR”) is to be calculated, in respect of each Revenue Requirement Period, as the greater of (a) the largest aggregate amount projected by the Department by which Operating Expenses exceed Power Charge Revenues during any consecutive seven calendar months commencing in such Revenue Requirement Period and (b) 12 percent of the Department’s projected annual Operating Expenses, provided, however, that the projected amount will not be less than the applicable percentage of Operating Expenses for the most recent 12-month period for which reasonably full and complete Operating Expense information is available, adjusted in accordance with the Indenture to the extent the Department no longer is financially responsible for any particular Power Supply Contract. All projections are to be based on such assumptions as the Department deems to be appropriate after consultation with the Commission and taking into account a range of possible future outcomes (i.e., “Stress Case”).

The ORAR for the 2014 Revenue Requirement Period is determined by the Department to be \$10 million, reflecting 12 percent of the Department’s projected Operating Expenses through the end of the program.

DEBT SERVICE RESERVE ACCOUNT

For purposes of calculating the amount of the Debt Service Reserve Requirement in accordance with the Bond Indenture, the Department determines the Maximum Annual Debt Service (“MADS”) for all outstanding Power Supply Revenue Bonds through final bond maturity. The MADS amount must be carried in the Debt Service Reserve Account at all times to satisfy Bond Indenture requirements.

For the 2014 Revenue Requirement Period, the Department has determined the Debt Service Reserve Requirement to be \$919 million, equal to MADS. The Department projects to maintain this amount at all times during the 2014 Revenue Requirement Period.

E. POWER CONTRACT SETTLEMENT SUMMARY

The California Parties, which include the Governor’s Office, California Attorney General’s Office, CPUC, the Department, and the IOUs, have participated in Federal Energy Regulatory Commission (“FERC”) proceedings to recover excess electricity costs incurred by ratepayers since 2001. These FERC proceedings have led to several settlement agreements between the California Parties and the responsible energy suppliers. As one of the California Parties, the Department has received distributions from these energy suppliers that have been paid to settle claims against them. Any future settlement distributions will reduce Department costs and, as a result, decrease the Department’s revenue requirement. Copies of prior settlement agreements are incorporated into the administrative record supporting this Proposed Determination.

F. KEY UNCERTAINTIES IN THE REVENUE REQUIREMENT DETERMINATION

The Department faces a number of uncertainties that may require material changes to its revenue requirement for the 2014 Revenue Requirement Period after this Proposed 2014 Determination. Several risk factors are outlined below and additional information may be found in each of the bond financing Official Statements, which may be obtained from the Treasurer of the State of California.

- 1) Determination of Power Charges and Bond Charges; possible use of amounts in the Bond Charge Collection Account to pay Priority Contract Costs:
 - a. Potential administrative and legal challenges to DWR’s revenue requirement;
 - b. Potential litigation regarding inclusion of DWR Priority Contract Costs in its Retail Revenue Requirement; and
Application and enforcement of the Rate Agreement’s Bond Charge rate covenant.
- 2) Collection of Bond Charges and Power Charges:
 - a. Potential rejection of Servicing Arrangements or other disruption of servicing arrangements.
- 3) Certain risks associated with DWR’s Power Supply Program:
 - a. Long-term power contracts:
 - i. Failure or inability of the suppliers to perform as promised;
 - ii. Potential litigation over disputed invoices; and
 - b. Gas price volatility
- 4) Potential increases in overall electric rates:
 - a. Changes in general economic conditions;
 - b. Energy market-driven increases in wholesale power costs;
 - c. Fuel costs;
 - d. Hydro conditions and availability;
 - e. Market manipulation; and
 - f. Actions affecting retail rates.

- 5) Potential decrease in DWR customer base:
 - a. Direct Access; and
 - b. Load departing IOU service.

- 6) Potential variance in dispatch of DWR contracts:
 - a. Actual vs. forecast load variance; and
 - b. Dispatch coordination between IOUs and DWR.

- 7) Uncertainties relating to electric industry and markets:
 - a. Electric transmission constraints; and
 - b. Gas transmission constraints.

- 8) Uncertainties relating to government action:
 - a. California Emergency Services Act;
 - b. Possible State legislation or action; and
 - c. Possible Federal legislation or action.

- 9) Uncertainties relating to financial industry and markets:
 - a. Effects of bond refunding or similar action;
 - b. Constraints in the flow and availability of credit facilities and capital.

G. JUST AND REASONABLE DETERMINATION

PRIOR DETERMINATIONS

Each new revenue requirement determination builds, to the extent necessary or appropriate, on the various preceding determinations. Successive determinations incorporate the information from each previous determination into the supporting administrative record. Determinations are available for review on the CERS website by interested persons, and the supporting materials are available at the CERS office in Sacramento, subject to applicable non-disclosure requirements.

Determination	Date Issued
2001-2003, including Reexamination and Redetermination for 2001-2002	August 16, 2002
Reconsideration of Just and Reasonableness of 2001 - 2003	August 19, 2004
2003 Supplemental	July 1, 2003
2004	September 18, 2003
2004 Supplemental	April 16, 2004
2005	November 4, 2004
Revised 2005	March 16, 2005
2006	August 3, 2005
Final 2006	October 27, 2005
2007	August 2, 2006
Revised 2007	October 30, 2006
2008	August 22, 2007
Revised 2008	October 31, 2007
Supplemental 2008	February 15, 2008
2009	August 6, 2008
Revised 2009	October 29, 2008
2010	August 6, 2009
Revised 2010	October 27, 2009
2011	August 5, 2010
Revised 2011	October 26, 2010
2012	August 4, 2011
Revised 2012	October 27, 2011
2013	August 2, 2012
Revised 2013	October 15, 2012

THE PROPOSED 2014 DETERMINATION

PUBLIC PROCESS

Under the terms of the Rate Agreement between the Department and the Commission, and the terms of the Bond Indenture, the Department has agreed to review, determine and revise its Retail Revenue Requirement at least annually.

The Department is issuing this Proposed Determination of Revenue Requirements for the period January 1, 2014, through December 31, 2014 for public review and comment under the Regulations promulgated pursuant to the California Administrative Procedures Act. The Department is providing interested persons with quantitative results from its contract volume and cost analytical models and Financial Model, subject to applicable non-disclosure requirements. Interested parties are advised to submit comments no later than July 9, 2013.

JUST AND REASONABLE DETERMINATION

The Department intends to make a just and reasonable determination on the Proposed 2014 Revenue Requirement after completion of the assessment of the administrative record, the Act, the Regulations, Bond Indenture requirements and the Rate Agreement.

H. ANNOTATED REFERENCE INDEX OF MATERIALS UPON WHICH THE DEPARTMENT RELIED TO MAKE THE DETERMINATION

Volume	Record Number	Date	Record Title
DWR14pRR	1	11/02/2012	DWR Electric Power Fund Audited Financial Statements, for Years ending 6/30/12
DWR14pRR	2	12/05/2012	CPUC D. 12-11-040 Allocating The Revised 2013 Revenue Requirement
DWR14pRR	3	12/12/2012	Comments and Testimony on Rulemaking 11-03-006 Regarding the Allocation of the Costs Associated with the Kern Transportation Agreement
DWR14pRR	4	02/15/2013	DWR Electric Power Fund Financial Statements, 12/31/12
DWR14pRR	6	04/29/2013	DWR Presentation to CPUC R. 13-02-019 Workshop on Transportation Services Agreement
DWR14pRR	7	05/02/2013	DWR "Pacheco" email transmittal of Data Request 1 to PG&E
DWR14pRR	8	05/02/2013	DWR "Pacheco" email transmittal of Data Request 1 to SCE
DWR14pRR	9	05/02/2013	DWR "Pacheco" email transmittal of Data Request 1 to SDG&E
DWR14pRR	10	05/15/2013	DWR Electric Power Fund Financial Statements, 3/31/13
DWR14pRR	11	05/24/2013	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: SDG&E Data Responses
DWR14pRR	12	05/24/2013	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: PGE - Data Responses
DWR14pRR	13	05/29/2013	CONFIDENTIAL R.11-03-006 CDWR- SCE DWR2014 – Data Responses
DWR14pRR	14	05/29/2013	CONFIDENTIAL R.11-03-006 CDWR-PG&E Revised Response – uncollectable factors
DWR13pRR	27	06/17/2013	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: Financial Model (CFMG5V32n - 2014 RR 06-17-2013 filing.) Projection of Revenue Requirement

DWR13pRR	28	06/17/2013	Proposed Determination of Revenue Requirement for 2014, including the Determination, The Notice, and Regulations.
DWR13pRR	29	06/17/2013	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: Data files supporting the Proposed Determination of Revenue Requirement for 2014, specific to PG&E
DWR13pRR	30	06/17/2013	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: Data files supporting the Proposed Determination of Revenue Requirement for 2014, specific to SCE
DWR13pRR	31	06/17/2013	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: Data files supporting the Proposed Determination of Revenue Requirement for 2014, specific to SDG&E