Department of Water Resources
Electric Power Fund
Financial Statements

For the six-month period ended December 31, 2002

Table of Contents

	Page
Management's Discussion and Analysis	1
Statements of Net Assets	6
Statements of Activities	7
Statements of Cash Flows	8
Notes to Financial Statements	9

USING THIS REPORT

This financial report consists of three financial statements with accompanying notes for the Department of Water Resources Electric Power Fund (Fund), which is administered by the California Department of Water Resources (DWR). The Statements of Net Assets, prepared on the accrual basis of accounting, includes all assets and liabilities of the Fund. The Statements of Activities, also prepared on the accrual basis, take into account all revenues and expenses for the Fund regardless of when cash is received or paid. The Statements of Cash Flow reflect the actual cash receipts and disbursements for a specified period of time. This report should be read in conjunction with the Fund's June 30, 2002, audited financial statements. As this is the first financial report since the issuance of the DWR Power Supply Revenue Bonds, the Statements of Activities and Cash Flows cover the six-month periods ended December 31, 2002 and 2001, respectively. Future reports will be issued quarterly.

HISTORY AND INITIAL FINANCING

The Fund was established in January 2001, in connection with the Governor of California's emergency proclamation and subsequent legislation to assist in mitigating the effects of a statewide energy supply emergency. The enabling legislation included the following powers and requirements:

- Authorization to secure and requirement to retain title to power for resale to end use customers of the State's investor owned utilities (IOUs).
- Authorization to enter into servicing arrangements with the IOUs for transmission, distribution, billing and collection services.
- Entitlement to recover revenue requirements for authorized activities, including but not limited to debt service, the costs of power purchases, administrative costs and reserves.
- Authorization to enter into agreements with California Public Utility Commission (CPUC) to ensure collection of DWR's revenue requirements.
- Restriction from entering into new power supply contracts after December 31, 2002.
- Authorization to administer existing power supply contracts after December 31, 2002.
- Authorization to issue revenue bonds not to exceed $13.4 billion.

Through June 26, 2001, funding for these activities came from advances from the State's General Fund as permitted by the enabling legislation. As of June 30, 2002, advances aggregating $6.1 billion were outstanding with the proceeds of the advances having been used to make payments for purchased power.

On June 26, 2001, additional funding was provided from the net proceeds of a $4.3 billion term loan from a financial consortium led by JPMorgan Chase Bank. As of June 30, 2002, the outstanding balance on the term loan was $3.8 billion.

SALE OF REVENUE BONDS

In November 2002, DWR completed the issuance of $11.3 billion in revenue bonds. All bonds other than Series E are tax-exempt bonds.

A table summarizing the bond issue by series follows:

Series	Rates	Fiscal Year of Final Maturity	Par Value (in millions)
A	3 - 6%	2022	$ 6,314
B	Variable	2020	1,000
C	Variable	2022	2,750
D	Variable	2022	500
E	3.6-4.3%	2006	700
			$ 11,264

The initial interest rate for the variable rate bonds was set at 1.8% and is in place until mid-January 2003. At that time the Series B and C bonds will convert to daily and weekly rate resets, respectively, and Series D will convert to 35-day auction periods.

DWR also entered into $1.4 billion notional amount of forward interest rate swaps, reducing its unhedged variable rate exposure to approximately 25% of the initial par value of the bonds outstanding. The interest rate swaps become effective in February 2003.

The proceeds of the bonds, along with the $2.1 billion Fund cash balance at the time of the bond issuance, were used to repay the term loan, repay advances from the State's General Fund, and establish separate accounts in the Fund as required by the Bond Indenture. The revenue bonds are payable from Bond Charges and, if necessary, other revenues, collected over a 20 year period. The primary cash and investment accounts established by the Bond Indenture, their purpose and their source of revenue are identified below:

Bond Charge Accounts:

- Bond Charge Collection Account: Bond Charges are specific charges to IOU customers on all power (including DWR and IOU power) delivered to such customers and are used for repayment of debt service and other debt related costs. Bond Charges are deposited into the Bond Charge Collection Account. Monthly, funds needed to make debt service payments or set-asides are transferred to the Bond Charge Payment Account.

- Bond Charge Payment Account: Monies in the Bond Charge Payment Account are used to pay debt service, swap payments and related fees for the revenue bonds. After receipt of the monthly transfer from the Bond Charge Collection Account, the Bond Charge Payment Account must have a balance at least equal to the debt service, swap payments and fees estimated to accrue or be payable for the next succeeding three months.

- Debt Service Reserve Account: The account must maintain a balance equal to the amount of maximum aggregate annual debt service on all outstanding debt.

Power Charge Accounts:

- Operating Account: Power Charges are charges to IOU customers for all DWR power purchased by the Fund for the benefit of the customers. Power Charges and miscellaneous revenue are deposited into this account. Monthly, funds are transferred to the Priority Contract Account as needed to make payments on Priority Contracts. Remaining monies are available for payment of costs of the Fund other than Priority Contracts, debt service and debt related costs.

- Priority Contract Account: Priority Contracts are those long-term contracts that are required to be paid prior to any debt service. Monies in the Priority Contract Account are used to make scheduled payments on Priority Contracts. After the monthly transfer from the Operating Account on the fifth of the month, the Priority Contract Account has monies to make scheduled payments on Priority Contracts through the fifth of the following month.

- Operating Reserve Account: The account is to be funded at all times with an amount equal to that derived by formula based on the greater of (i) seven months of projected negative operating cash flows under a stress scenario, or (ii) a specified percentage of projected expenses of the Fund.

STATEMENT OF NET ASSETS

From the date of the revenue bond sale through December 31, 2002, the balances in each of the cash and investment accounts met or exceeded the balance required by the Bond Indenture. The balances at December 31, 2002, also met or exceeded the projected balance in the cash flow analyses utilized in developing the revenue bond structure.

From the date of the bond issuance through December 31, 2002, the cash balance of the Operating Account increased by $103 million as amounts received from Power Charges exceeded transfers to the Priority Contract Account and payments for spot market purchases and other operating costs.

The current portion of recoverable costs reflects billings to IOU customers that have not yet been collected. The balance due at June 30, 2002, included $425 million due for imbalance energy supplied from January 2001 to March 2002. Effective April 2002, the CPUC required the IOUs to remit for imbalance energy in the same manner that the IOUs remit for all other energy. The CPUC also required the IOUs to remit monies for the January 2001 to March 2002 period to DWR in installments through September 1, 2002. All the IOUs made their required payments by September 1, 2002.

Other current assets consist primarily of interest receivable on restricted cash and investments.

Long-term recoverable costs consist of costs that are recoverable through future billings. The balance has increased from June 30, 2002 to December 31, 2002, by $425 million. Approximately $286 million of the increase is attributable to costs of issuance for the revenue bonds, including bond insurance premiums and underwriters' discounts. The remaining increase is attributable to power, administrative, and interest costs in excess of amounts billed to ratepayers.

The scheduled $385 million quarterly payment on the term loan was made July 31, 2002. The remaining balance of the term loan and advances from the State General Fund were repaid from the proceeds of the revenue bond sale. The amount of revenue bonds outstanding at December 31, 2002, reflects the par value of the bonds plus unamortized premium of $389 million. The first scheduled principal payment for the revenue bonds is May 2004.

Accounts payable at June 30, 2002 and December 31, 2002, both reflect one month's activity for the bi-lateral market and two months (the normal billing cycle) for the ISO markets.

Accrued interest of $73 million at December 31, 2002, represents two months interest on the revenue bonds. As of June 30, 2002, there was two days accrued interest on the term loan; interest due, amounting to $402 million, on the advances from the State General Fund was included in long-term debt.

REVENUES

The cost of providing energy is recoverable primarily through Power Charges to the customers of the IOUs. These charges are collected by the IOUs as agent for DWR and forwarded to DWR daily. Charges are determined by applying a CPUC adopted rate for each IOU to the megawatt hours of power delivered by DWR to each IOU's customers. The revenue from Power Charges in the six-month period ended December 31, 2002, was comparable to that earned in the same period in 2001.

A separate Bond Charge was established in November 2002, to pay for debt service on the revenue bonds. Bond Charges are determined by applying a CPUC adopted rate to the total megawatt hours of power delivered to the customers in each IOU's service area. Bond Charges earned through December 31, 2002, were $52 million.

EXPENDITURES

DWR power purchases were $510 million less in the six-month period ended December 31, 2002, than in the same period in 2001. The decrease is due primarily to decreased prices. In the six-month periods ended December 31, 2002 and 2001, the average cost of contract power, which includes all power purchased under contracts of at least one-month duration, was $76/MWh and $110/MWh, respectively. The average price in the six-month period ended December 31, 2001, includes the use of short-term contracts, three months or less in duration, that were negotiated prior to the drop in market prices in June 2001, for delivery of power in the high energy consumption months of July through September.

The costs incurred for issuance of revenue bonds for the six-month period ended December 31, 2002 and 2001, were $256 million and $9 million, respectively. The expense for the six-month period ended December 31, 2002 includes a one time payment of $236 million from bond proceeds for credit enhancement fees, including bond insurance premiums, and underwriters' fees, in addition to consultant fees for the development of the revenue bond program.

Interest expense was $43 million less for the six-month period ended December 31, 2002. This is attributable to the lower interest rates for the revenue bonds, than was paid under the terms of the term loan and the advances from the State General Fund.

FUTURE OF THE FUND

DWR will administer the Fund until such time as the revenue bonds are completely redeemed. Revenue requirements for the repayment of the bonds will be determined at least annually and submitted to the CPUC. Under the terms of the Rate Agreement between the CPUC and DWR, the CPUC is required to set rates for the customers of the IOUs such that the Fund will always have monies to retire the bonds when due.

DWR has the authority to manage all power supply contracts entered into before December 31, 2002, for the life of the contracts. Revenue requirements for the payment of energy purchased under the long-term contracts will be determined at least annually and submitted to the CPUC. Under the terms of the Rate Agreement between the CPUC and DWR, the CPUC is required to implement Power Charges such that the Fund will receive necessary monies to pay for energy purchased.

DWR has been renegotiating a number of the power supply contracts in order to improve reliability, procure more dispatchable power, modify the conditions of assignment of the contracts to the IOUs, and reduce cost. Through December 31, 2002, DWR has renegotiated approximately half, in terms of both cost and volume of power, of the long-term contracts that have not otherwise expired. The estimated fixed and variable cost savings through 2015, when the final contract expires, is approximately $5 billion.

DWR is proceeding with a process to shift certain power procurement responsibilities to the IOUs. As of January 1, 2003, DWR is no longer purchasing power, except that which is provided under the terms of its long-term contracts, nor is it purchasing other services for the IOUs in the ISO market. In addition, DWR has transferred the scheduling and settlement functions for the long-term contracts to the IOUs. Ultimately the financial responsibility for the long-term contracts may be transferred to the IOUs as part of a complete assignment of the contracts and release of DWR. However, there are a number of issues to be addressed, including IOU creditworthiness and counterparty approval, before the contracts can be assigned.

Department of Water Resources Electric Power Fund
Statements of Net Assets
June 30, 2002 and December 31, 2002 (in millions)

	Unaudited December 31, 2002	June 30, 2002
Assets		
Current assets:		
Restricted cash and investments:		
Operating Account	$ 1,269	$ 2,119
Priority Contract Account	21	-
Bond Charge Collection Account	79	-
Bond Charge Payment Account	216	-
Other investments	10	10
Recoverable costs, current portion	1,072	1,318
Interest receivable	16	32
Due from other funds	-	1
Total current assets	2,684	3,480
Long-term assets:		
Restricted cash and investments:		
Operating Reserve Account	777	-
Debt Service Reserve Account	927	-
Recoverable costs, net of current portion	7,688	7,263
Total long-term assets	9,392	7,263
Total assets	$ 12,076	$ 10,743
Capitalization and Liabilities		
Capitalization:		
Long-term debt:		
Revenue bonds	$ 11,653	$ -
Advances from State General Fund including accrued interest of $402	-	6,496
Term loan	-	3,849
Total capitalization	11,653	10,345
Current liabilities:		
Accounts payable	350	397
Accrued interest	73	1
Total current liabilities	423	398
Commitments and Contingencies (Note 5)		
Total capitalization and liabilities	$ 12,076	$ 10,743

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

Department of Water Resources Electric Power Fund
Statements of Activities
For the six-month periods ended December 31, 2002 and 2001 (in millions)

	Unaudited	
	2002	**2001**
Revenues:		
Power charges	$ 2,482	$ 2,542
Bond charges	52	-
Sales of surplus power	58	32
Interest income	30	21
Total revenues	2,622	2,595
Expenses:		
Power purchases	2,528	3,038
Administrative expenses	19	22
Costs incurred for issuance of revenue bonds	256	9
Interest expense	244	287
Deferral of recoverable costs	(425)	(761)
Total expenses	2,622	2,595
Net income	-	-
Net assets, beginning of period	-	-
Net assets, end of period	$ -	$ -

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

Department of Water Resources Electric Power Fund
Statements of Cash Flows
For the six-month periods ended December 31, 2002 and 2001 (in millions)

	Unaudited	
	2002	**2001**
Cash flows from operating activities:		
Receipts from customers:		
Power charges	$ 2,766	$ 2,457
Bond charges	32	-
Interest received on investments	46	10
Payments for power purchases (net of sale of surplus power) and other costs	(2,573)	(4,028)
Payment of interest on term loan	(69)	(69)
Net cash provided by (used in) operating activities	202	(1,630)
Cash flows from non-capital financing activities:		
Proceeds from revenue bonds, net of underwriters' fees and bond insurance premiums	11,437	-
Payments on term loan	(3,849)	-
Payments to State of California General Fund	(6,620)	(116)
Net cash provided by (used in) non-capital financing activities	968	(116)
Net increase (decrease) in restricted cash and investments	1,170	(1,746)
Restricted cash and investments, beginning of period	2,119	4,427
Restricted cash and investments, end of period	$ 3,289	$ 2,681
Reconciliation of net income to net cash provided by (used in) operating activities:		
Net income	$ -	$ -
Changes in net assets and liabilities to reconcile net income to net cash provided by (used in) operations:		
Recoverable costs	(179)	(941)
Interest receivable	16	(57)
Due from other funds	1	7
Advances from State General Fund	124	173
Amortization of revenue bond premium	(8)	-
Costs of issuance paid from revenue bond proceeds	236	-
Accounts payable	(47)	(857)
Accrued interest	59	45
Total adjustments	202	(1,630)
Net cash provided by (used in) operating activities	$ 202	$ (1,630)

1. Reporting Entity

Background

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) (Fund) was established on January 19, 2001, by Senate Bill 7 from the First Extraordinary Session of 2001 (SB7X). Assembly Bill 1 from the First Extraordinary Session of 2001 (AB1X), enacted on February 1, 2001, added Division 27 to the California Water Code to clarify and expand the powers of DWR to incur debt for the purposes of the Fund and to use amounts in the Fund for the purchase of power. The Fund is administered by DWR. Division 27 of the California Water Code (as subsequently amended by Senate Bill 31 from the First Extraordinary Session of 2001) includes the following powers and requirements:

- Authorizes DWR to act on behalf of the State of California to secure necessary power supplies for resale to customers of Pacific Gas & Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas & Electric Company (SDG&E) (collectively referred to as the investor owned utilities or IOUs).
- Requires DWR to retain title to all power sold, but authorizes DWR to enter into service agreements with the IOUs for transmission, distribution, billing and collection services.
- Authorizes DWR and the California Public Utilities Commission (CPUC) to enter into an agreement with respect to charges to provide for recovery by DWR of its revenue requirements.
- Authorizes DWR to issue bonds in an amount not to exceed $13.4 billion and payable solely from the Fund, and to deposit the proceeds of the bonds in the Fund for use for any of the purposes of the Fund.
- Entitles DWR to recover its revenue requirements incurred in connection with its authorized activities, including but not limited to debt service, the costs of power purchases, administrative costs and reserves.
- Restricts DWR from entering into new power purchase agreements after December 31, 2002, but allows DWR to continue to administer existing contracts and enforce revenue requirements beyond that date.

DWR began selling electricity to approximately ten million retail customers in California in January 2001. DWR purchases power from wholesale suppliers under long-term contracts and, through December 31, 2002, in short-term and spot market transactions. 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 CPUC.

DWR has financed its power purchases with advances from the General Fund of the State of California, loans from financial institutions, and revenues from power sales to customers. In November 2002, DWR finalized the issuance of $11.3 billion in revenue bonds. The primary use of the revenue bond proceeds was to repay the term loan, repay the advances from the General Fund, and establish specific cash and investment accounts as required by the Bond Indenture.

In complying with the restriction to not enter into new power purchase agreements after December 31, 2002, effective January 1, 2003, DWR is no longer purchasing short-term and spot market power. In addition, DWR has transferred the scheduling and settlement functions for the long-term contracts to the IOUs. Ultimately the financial responsibility for the long-term contracts may be transferred to the IOUs as part of a complete assignment of the contracts and release of DWR. However, there are a number of issues to be addressed, including IOU creditworthiness and counterparty approval before the contracts can be assigned.

Separate Accounts established by the Bond Indenture

Under the terms of the Bond Indenture separate restricted cash and investment accounts were established. The accounts and their purpose follow:

Bond Charge Accounts:

- Bond Charge Collection Account: Bond Charges are deposited into the Bond Charge Collection Account. Monthly, funds needed to make debt service payments or set-asides are transferred to the Bond Charge Payment Account.

- Bond Charge Payment Account: Monies in the Bond Charge Payment Account are used to pay debt service, swap payments and related fees for the revenue bonds. After receipt of the monthly transfer from the Bond Charge Collection Account, the Bond Charge Payment Account must have a balance at least equal to the debt service, swap payments and fees estimated to accrue or be payable for the next succeeding three months.

- Debt Service Reserve Account: The account is to be funded at all times with the amount of maximum aggregate annual debt service on all outstanding debt.

Power Charge Accounts:

- Operating Account: Power Charges and miscellaneous revenue are deposited into this account. Monthly, funds are transferred to the Priority Contract Account as needed to make payments on Priority Contracts. Remaining monies are available for payment of all operating costs of the Fund other than Priority Contracts and debt service.

- Priority Contract Account: Monies in the Priority Contract Account are used to make scheduled payments on Priority Contracts. After the monthly transfer from the Operating Account on the fifth of the month, the Priority Contract Account has monies to make scheduled payments on Priority Contracts through the fifth of the following month.

- Operating Reserve Account: The account is to be funded at all times with an amount equal to that derived by formula based on the greater of (i) seven months of projected negative operating cash flows under a stress scenario, or (ii) a specified percentage of projected expenses of the Fund.

Revenues and Recoverable Costs
The cost of providing energy is recovered through charges to the customers of IOUs as authorized by AB1X and established by the CPUC. Prior to the issuance of the revenue bonds, costs were recovered through Power Charges. Revenues are now segregated into two categories, Bond Charges and Power Charges. Bond Charges cover all debt service, interest rate swaps and related fees, and Power Charges cover all other costs. Revenues are recognized when energy is delivered to the customers. Costs are recovered over a period of time, as determined by the rate making process between DWR and the CPUC, through the IOUs' billings to the customers.

For the six-month periods ended December 31, 2002 and 2001, respectively, the Power Charges were reduced by $117 million and $221 million, respectively, for rebates given to the customers of the IOUs under the Governor's "20-20 Energy Rebate Program," which, during the summer peak demand months, generally granted the customers a 20% reduction in their monthly power bills if they reduced their energy use by 20% from the same period in 2000. These reductions extend the period of time over which the Fund will recover its costs.

Amounts that have been earned but not collected are recorded as the current portion of recoverable costs. Costs that are recoverable through future billings are recorded as long-term.

2. Restricted Cash and Investments

Restricted cash and investments, for purposes of the statements of cash flows, includes cash on hand and amounts in short-term investments. Amounts in short-term investments consist of deposits in the State of California Pooled Money Investment Account-Surplus Money Investment Fund (SMIF).

Cash not required for current use is invested in SMIF. SMIF has an equity interest in the State of California Pooled Money Investment Account (PMIA). The investments in PMIA are carried at fair value, which approximates amortized cost. Generally, the investments in PMIA are available for withdrawal on demand. Interest on deposits in PMIA varies with the rate of return of the underlying portfolio and approximated 2.09% and 3.42% at December 31, 2002 and June 30, 2002, respectively.

3. Long-Term Debt

The following activity occurred in the long-term debt accounts during the six-month period ending December 31, 2002 (dollars in millions):

	General Fund Advances	Term Loan	Revenue Bonds	Unamor-tized Premium	Total Revenue Bonds	Total Long-term Debt
Balance, June 30, 2002	$ 6,496	$3,849	$ -	$ -	$ -	$ 10,345
Accrued Interest	124	-	-	-	-	124
Scheduled payments	-	(385)	-	-	-	(385)
Sale of revenue bonds	(6,620)	(3,464)	11,264	397	11,661	1,577
Amortization of premium	-	-	-	(8)	(8)	(8)
Balance, December 31, 2002	$ -	$ -	$ 11,264	$ 389	$ 11,653	$ 11,653

On October 30, 2002, DWR issued $4.3 billion of tax-exempt variable rate revenue bonds. On November 14, 2002, DWR issued $6.3 billion in tax-exempt fixed rate revenue bonds and $.7 billion in taxable fixed rate revenue bonds. The proceeds of the bonds, along with the cash balance in the Fund at the date of issuance, were used to repay previously incurred debt and establish separate accounts in the Fund as required by the Bond Indenture.

The average interest rate for the term loan was 5.7% from June 30, 2002 until the loan was repaid on October 30, 2002. Interest expense on the term loan was $60 million and $114 million for the six-month periods ended December 31, 2002 and 2001, respectively. The average interest rate on the advances from the General Fund approximated 5.31% from June 30, 2002 until the advances were repaid on November 14, 2002. Interest expense on the advances from the General Fund was $124 million and $173 million for the six-month periods ended December 31, 2002 and 2001, respectively.

The revenue bonds consist of the following at December 31, 2002:

Series	Rates	Fiscal Year of Final Maturity	Fiscal Year of First Call Date	Amounts Outstanding (in millions)
A	3 - 6%	2022	2012	$ 6,314
B	Variable	2020	Callable	1,000
C	Variable	2022	Callable	2,750
D	Variable	2022	Callable	500
E	3.6-4.3%	2006		700
				11,264
Plus: Unamortized bond premiums				389
				$ 11,653

The variable rate bonds have a set interest rate of 1.8% through early January 2003, at which time Series B and C will convert to daily and weekly rate resets, respectively, and Series D will convert to 35-day auction periods. The variable rate bonds have a final stated maturity of 2022, but will be retired in sinking fund installments from 2005 to 2022. Total interest cost through December 31, 2002, for all revenue bonds approximated $60 million.

Future principal payment requirements on the revenue bonds are as follows at December 31, 2002 (dollars in millions):

Fiscal Year	Principal	Interest	Total
2003	$ -	$ 259	$ 259
2004	180	526	706
2005	388	515	903
2006	409	498	907
2007	427	479	906
2008	449	459	908
2009-2013	2,612	1,931	4,543
2014-2018	3,397	1,174	4,571
2019-2022	3,402	296	3,698
	$ 11,264	$ 6,137	$ 17,401

4. Interest Rate Swaps

DWR, on behalf of the Fund, entered into forward interest rate swap agreements with various counterparties wherein DWR has agreed to pay fixed rates of interest and receive floating rate payments approximating the amounts due on a portion of DWR's variable rate debt. The swaps become effective in February 2003. The swap agreements are expected to reduce interest rate risk associated with variable rate bonds issued by DWR. The Fund is potentially exposed to loss in the event the counterparties are unable to perform in accordance with the terms of the agreements. However, DWR does not anticipate nonperformance by the counterparties. The association of the variable rate bonds and terms of the related interest rate swap agreements as of December 31, 2002, are as follows (dollars in millions):

Outstanding Notional Amount	Fixed Rate Paid by Fund	Floating Rate Received by Fund	Termination Date
$ 94	2.914%	80% of LIBOR through January 1, 2004; 67% LIBOR thereafter	May 1, 2011
234	3.024%	80% of LIBOR through January 1, 2004; 67% LIBOR thereafter	May 1, 2012
330	3.405%	BMA Municipal Swap Index	May 1, 2013
194	3.204%	80% of LIBOR through January 1, 2004; 67% LIBOR thereafter	May 1, 2014
174	3.280%	80% of LIBOR through January 1, 2004; 67% LIBOR thereafter	May 1, 2015
202	3.342%	80% of LIBOR through January 1, 2004; 67% LIBOR thereafter	May 1, 2016
202	3.389%	80% of LIBOR through January 1, 2004; 67% LIBOR thereafter	May 1, 2017
$ 1,430			

The table below shows the credit ratings, outstanding notional/applicable amount swapped and the number of swaps held by the firms acting as swap counterparties as of December 31, 2002 (dollars in millions):

Swap Counterparty	Moody's	Credit Ratings S&P	Fitch	Outstanding Notional Amount	Number of Swaps
Bank of America	Aa1	AA-	AA	$ 194	1
Bayerische Landesbank Girozentrale	Aaa	AAA	AAA	502	3
BNP Paribas	Aa2	AA-	AA	202	1
JPMorgan Chase Bank	Aa3	AA-	AA-	200	1
Merrill Lynch Capital Services	Aa3	A+	AA-	30	1
Morgan Stanley Capital Group	Aa3	A+	AA-	302	2
				$ 1,430	

5. Commitments and Contingencies

Litigation and Uncertainties

DWR is involved in several lawsuits and regulatory proceedings. In one action, PG&E contested the determination that DWR's revenue requirement submissions to the CPUC for calendar years 2001 and 2002 are just and reasonable. The Court found that DWR had failed to follow the California Administrative Procedures Act (APA) and ordered DWR to do so. The Court also ruled that its decision did not affect any action taken by the CPUC, including the decision establishing DWR Power Charges to recover DWR's 2001 and 2002 revenue requirements. DWR has determined its 2003 and re-determined its 2001-2002 revenue requirements and filed them with the CPUC, after following the procedures set forth in regulations adopted by DWR for the development of its revenue requirements. On October 21, 2002, PG&E filed a lawsuit on the 2003 revenue requirements claiming that DWR had not adequately followed APA requirements.

In another matter, two energy suppliers have petitioned the Federal Energy Regulatory Commission, contending that amounts totaling $58 million are owed by DWR for power purchased in the last half of January 2001 by DWR on behalf of PG&E and SCE in the California Independent System Operator (ISO) market. DWR maintains that the Fund has remitted the appropriate payments to the ISO for distribution to the energy suppliers. ISO distributed DWR's January payment on a pro-rata basis to all market participants for the entire month although DWR purchased power on behalf of the two IOUs beginning in late January. As a result, energy suppliers did not receive full payment for the amounts owed them for power purchased in January by DWR on behalf of the two IOUs. FERC has not announced when it will rule on this matter or whether it will require DWR to make additional payments to ISO.

Additionally, various actions are underway contesting certain long-term power contracts entered into by DWR.

There are a number of other lawsuits and regulatory proceedings in which DWR is not a party but may be affected by the result because of potential impacts on the price or supply of energy in California. In one case, California Power Exchange Corporation (CalPX), certain IOUs and others have brought suit against the State of California claiming that the State's commandeering of CalPX's block forward contracts after CalPX filed bankruptcy in early 2001 was unconstitutional. The plaintiffs argue that they are entitled to damages of $1.1 billion, which is their estimation of the fair value of the block forward contracts at the time of commandeering. Under the block forward contracts, which expired in December 2001, the Fund paid approximately $350 million for energy provided by the contracts.

These lawsuits and regulatory proceedings could affect the revenue requirements and rates needed to pay DWR costs, including debt service, and the terms and conditions of the power purchase contracts.

Management believes that the existing lawsuits and regulatory proceedings will be resolved in calendar year 2003. Because of the early stage of the legal and regulatory proceedings, the ultimate outcome of these matters cannot be presently determined.

Self Insurance
The Fund is self-insured for most risks, including general liability and workers' compensation. Management believes that any costs associated with such losses are recoverable from the customers of the IOUs.

Commitments
DWR has entered into long-term power purchase contracts ranging from one to eleven years. Payments made under these contracts approximated $1.7 billion and $1.3 billion for the six-month periods ended December 31, 2002 and 2001, respectively.

The amounts of fixed obligations under the long-term contracts as of December 31, 2002, are as follows:

For the Year Ending June 30,	Fixed Obligation (in millions)
2003	$ 1,513
2004	3,448
2005	3,234
2006	2,869
2007	2,569
Thereafter	8,315
	$ 21,948

In addition to the fixed costs there are variable costs with several of the contracts. Management expects that the amount of fixed and variable obligations associated with long-term power purchase contracts to approximate $30 billion as of December 31, 2002. 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.

DWR has been renegotiating a number of the power supply contracts in order to improve reliability, procure more dispatchable power, modify the conditions of assignment of the contracts to the IOUs, and reduce cost. Through December 31, 2002, DWR has renegotiated approximately half, in terms of both cost and volume of power, of the long-term contracts that have not otherwise expired. The estimated fixed and variable cost savings through 2015, when the final contract expires, is approximately $5 billion.

6. Related Party Transactions

During the six-month periods ended December 31, 2002 and 2001, the Fund purchased power approximating $3 million and $8 million, respectively, from the State Water Resources Development System, another enterprise fund administered by DWR. The Fund also sold power approximating $5 million and less than $1 million, respectively, to the State Water Resources Development System for the six-month periods ended December 31, 2002 and 2001.