Department of Water Resources
Electric Power Fund
Financial Statements

December 31, 2004

DEPARTMENT OF WATER RESOURCES
STATE OF CALIFORNIA

California
Energy
Resources
Scheduling
Department of
Water Resources

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USING THIS REPORT

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

The basic financial statements include three required statements, which provide different views of the Fund. They are: the statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows. These statements provide current and long-term information about the Fund and its activities. These financial statements report information using accounting methods similar (although not identical) to those used by private sector companies. The statement of net assets includes all assets and liabilities as of a specified date. The statement of revenues, expenses and changes in net assets presents all of the revenues and expenses for a specified time period. The final required statement is the statement of cash flows. This statement reports cash receipts, disbursements and the net change in cash resulting from three principal types of activities; operating activities, financing activities and investing activities. In order for the basic financial statements to be complete, they must be accompanied by a complete set of footnotes. The notes to the financial statements provide disclosures which are required to conform with generally accepted accounting principles. The Fund is required to follow accounting standards promulgated by the Governmental Accounting Standards Board.

This report should be read in conjunction with the Fund's June 30, 2004 audited financial statements.

BACKGROUND

The Fund was established in January 2001 through legislation to assist mitigation of the effects of a statewide energy supply emergency. DWR has the authority to secure and retain title to power for resale to end use customers of the State's investor owned utilities (IOUs) under power supply contracts entered into prior to January 1, 2003. On that date, DWR transitioned complete responsibility for contracting for any and all additional power to the IOUs. DWR also transferred the scheduling, dispatch, and certain other administrative functions for DWR power contracts to the IOUs. However, DWR retains the legal and financial responsibility for its contracts until such time as there is complete assignment of the contracts and release of DWR. DWR is entitled to recover its revenue requirements for authorized activities, including but not limited to debt service, the costs of power purchases, administrative costs and reserves. DWR determines its revenue requirements and then the California Public Utilities Commission (CPUC) sets rates for the customers of the IOUs such than the Fund will receive monies to meets its revenue requirements.

STATEMENT OF NET ASSETS

The Fund's assets and liabilities as of December 31, 2004 and June 30, 2004 are summarized as follows (in millions):

	December	June
Restricted cash and investments:		
Operating and priority contract accounts	$ 1,212	$ 1,320
Bond charge collection and bond charge payment accounts	778	539
Other investments	66	33
Recoverable costs, current portion	666	656
Interest receivable	20	15
Long-term restricted cash and investments	1,522	1,522
Note receivable, net of current portion	100	104
Recoverable costs, net of current portion	7,536	7,745
Total assets	$ 11,900	$ 11,934
Long-term debt, including current portion	$ 11,392	$ 11,414
Other current liabilities	508	520
Total capital and liabilities	$ 11,900	$ 11,934

Restricted Cash and Investments

Although the Operating and Priority Contract Accounts had a net decrease of $108 million in the six months ended December 31, 2004, the December 31, 2004 balance exceeds the balance forecast in the calendar year 2004 Supplemental Revenue Requirement by over $450 million, due in large part to the collection of approximately $250 million in energy settlements throughout the calendar year that were not forecast in revenue requirement determinations. The remaining $200 million difference is attributable to a carryover of higher than forecasted balance at December 31, 2003 and the request by two IOUs to not lower power charges as permitted in the CPUC's decision allocating the 2004 Supplemental Revenue Requirement. The IOUs requested not to lower their remittance rates in anticipation of a CPUC decision establishing a permanent DWR cost allocation methodology.

The Bond Charge Collection and Bond Charge Payment Accounts increased by $239 million during the six months ended December 31, 2004. The increase in the balances was expected in anticipation of the $338 million principal payment due in May 2005.

From the dates of issuance of the revenue bonds through December 31, 2004, the balances in each of the restricted cash and investments accounts met or exceeded balances required by the Bond Indenture.

Other Investments

Other investments at December 31, 2004, which consists of a brokerage account used to hedge natural gas costs for fuel used in the production of power, increased by $33 million since June 30, 2004. There was an additional investment of $50 million in the account. However, this was offset by a $17 million decrease in value of the open positions. At December 31, 2004, the account consists of money market obligations and government bonds valued at $31 million and financial futures and options valued at $35 million. At December 31, 2004, DWR has open positions with an unrealized marked-to-market value increase of $4 million reflected in the account balance.

Long-Term Restricted Cash and Investments

The $595 million balance in the Operating Reserve Account at both December 31, 2004 and June 30, 2004 was determined in accordance with the bond indenture and represented twelve percent of projected annual operating expenses of the Fund for calendar year 2004. There was no change in the $927 million balance of the Debt Service Reserve Account during the six month period.

Recoverable Costs

The current portion of recoverable costs at December 31, 2004 and June 30, 2004 are comparable and principally reflect billings to IOU customers that have not yet been collected and the current portion of amounts due from the El Paso Corporation energy settlement.

Long-term recoverable costs consist of costs that are recoverable through future billings. The net $209 million recovery of costs during the six month period ended December 31, 2004 is primarily associated with the recognition of bond charge revenue at a level that meets scheduled debt retirement in addition to interest expense.

Note Receivable, Net of Current Portion

The comparable balance for note receivable at December 31, 2004 and June 30, 2004 reflects the present value of long-term amounts due semiannually through 2024 from the El Paso Corporation settlement.

Long-Term Debt

Long-term debt decreased by $22 million in the six month period ended December 31, 2004 due to amortization of the bond premium.

Other Current Liabilities

Accounts payable at December 31, 2004 and June 30, 2004 are comparable and reflect one month's accrual for power purchases.

Accrued interest payable is substantially the same at December 31, 2004 and June 30, 2004 as interest on the fixed rate bonds is payable semiannually.

STATEMENT OF ACTIVITIES

The Fund's activities for the three months and six months ended December 31 are summarized as follows (in millions):

	Three months ended December 31		Six months ended December 31	
	2004	**2003**	**2004**	**2003**
Revenues:				
Power charges and surplus sales	$ 1,330	$ 1,221	$ 2,660	$ 1,716
Bond charges	209	189	452	466
Interest income	29	14	54	28
Total revenues	1,568	1,424	3,166	2,210
Expenses:				
Power purchases	1,376	1,216	2,802	2,743
Energy settlements	(96)	-	(96)	-
Interest expense	114	105	224	210
Other expenses	10	7	27	26
Recovery (deferral) of recoverable costs	164	96	209	(769)
Total expenses	1,568	1,424	3,166	2,210
Net income	-	-	-	-
Net assets, beginning of the period	-	-	-	-
Net assets, end of period	$ -	$ -	$ -	$ -

Power Charges and Surplus Sales

Revenues from Power Charges and surplus sales increased by $944 million in the six months ended December 31, 2004 compared to the same period in 2003. The revenues in the six month period ended December 31, 2003 reflect recognition of a $1 billion bill credit to the ratepayers based on the net effect of 1) the reduction in required power charge account balances resulting from the transition of power purchase responsibility to the IOUs, 2) collection of past due amounts due from PG&E, 3) increase in costs, and 4) greater than anticipated cash balances. The remaining $56 million difference is attributable to a decrease in energy revenues from power sold to IOU customers by DWR in the six months ended December 31, 2004. The volume of power sold in the six month period ended December 31, 2004 increased by 10% of that sold in the same period in 2003. However, 2004 remittance rates, which are based on DWR's 2004 revenue requirements, are lower than in 2003. This reduction in rates is attributable to the lower average cost per megawatt hour of power in the DWR contract portfolio in calendar 2004, the impact of energy settlements, and the ability of DWR to reduce cash balances and still remain in compliance with the power charge account requirements.

Bond Charges

Bond charges earned through December 31, 2004, were $14 million less than the same period in 2003 even though total power delivered in these two periods was substantially the same. The reduction in revenue was the result of a lower bond charge rate in 2004, based on DWR's 2004 revenue requirements, compared to the rates in place for the same period in 2003.

Interest Income

The $26 million increase in interest income in the six months ended December 31, 2004 as compared to the same period in 2003, is primarily attributable to the investment of a portion of the Debt Service Reserve Account in higher yielding investments. There is now $600 million invested in guaranteed investment contracts and a forward purchase agreement, rather than the State of California Pooled Money Investment Account.

Power Purchases

DWR power costs are $59 million higher in the six months ended December 31, 2004 than in the same period in 2003. Overall costs increased by approximately 2%, even though DWR purchased 11% more power in the six months ended December 31, 2004 than in the same period in 2003. The decrease in average cost per MWh of energy purchased in 2004 is attributable to the net effect of increased gas prices in 2004, changes in the contract portfolio, impact of previous contract renegotiations that are now effective, and reduced cost for energy under the terms of the El Paso Corporation energy settlement.

Energy Settlements

Energy settlements received are recorded as a decrease in operating expenses. The amount recorded as energy settlements in the six month period ended December 31, 2004 is attributable to a settlement with Dynegy Inc, which became effective October 25, 2004. Future revenues under the Dynegy settlement could approximate $25 million but have not been recorded as revenue as they are subject to conditions outlined in the settlement agreement.

Interest Expense

Interest expense incurred during the six month period ended December 31, 2004 is $14 million higher than in the same period in 2003. The increase reflects higher interest rates for variable rate debt and the receipt of 67% LIBOR in 2004 compared to the 80% of LIBOR received in 2003 for the synthetic interest rate swaps.

Recovery (Deferral) of Recoverable Costs

The individual components of the recovery (deferral) of recoverable costs for the three and six months ended December 31 are summarized as follows (in millions):

	Three months ended December 31		Six months ended December 31	
	2004	**2003**	**2004**	**2003**
Operations	$ 40	$ (2)	$ (73)	$ (1,053)
Debt Service and related costs	124	98	282	284
	$ 164	$ 96	$ 209	$ (769)

Operations
The deferral of recoverable costs in the six months ended December 31, 2003 is primarily attributable to a $1 billion bill credit. The $73 million deferral in the six months ended December 31, 2004 recognizes that DWR has been able to reduce power charges and cash balances through the revenue requirement process and still remain in compliance with power charge account requirements.

Debt Service and Related Costs
The recovery of debt service and related costs is comparable between the six month periods ended December 31, 2004 and 2003, and is primarily attributable to the use of bond charges to both retire debt and pay interest expense.

FUTURE OPERATIONS

DWR will administer the Fund at least until such time as the revenue bonds are completely retired. Revenue requirements for the repayment of the bonds will be determined at least annually and submitted to the CPUC for implementation. 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 and ESPs such that the Fund will always have monies to pay debt service on the bonds when due.

DWR has the authority to administer all power supply contracts entered into before December 31, 2002, for the life of the contracts. The last of the contracts expires in 2015. Revenue requirements for the payment of energy purchased under the 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 meet its revenue requirements.

The financial responsibility for the 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
December 31, 2004 and June 30, 2004 (in millions)

	December 31, 2004	June 30, 2004
Assets		
Current assets:		
Restricted cash and investments:		
Operating and Priority Contract Accounts	$ 1,212	$ 1,320
Bond Charge Collection and		
Bond Charge Payment Accounts	778	539
Other investments	66	33
Recoverable costs, current portion	666	656
Interest receivable	20	15
Total current assets	2,742	2,563
Long-term assets:		
Restricted cash and investments:		
Operating Reserve Account	595	595
Debt Service Reserve Account	927	927
Note receivable, net of current portion	100	104
Recoverable costs, net of current portion	7,536	7,745
Total long-term assets	9,158	9,371
Total assets	$ 11,900	$ 11,934
Capitalization and Liabilities		
Capitalization:		
Long-term debt:		
Revenue bonds	$ 10,960	$ 10,982
Total capitalization	10,960	10,982
Current liabilities:		
Current portion of long-term debt	432	432
Accounts payable	438	452
Accrued interest payable	70	68
Total current liabilities	940	952
Commitments and Contingencies (Note 5)		
Total capitalization and liabilities	$ 11,900	$ 11,934

The accompanying notes are an integral part of these financial statements

Department of Water Resources Electric Power Fund
Statements of Revenues, Expenses and Changes in Net Assets
For the three and six months ended December 31, 2004 and 2003 (in millions)

	For 3 months ended December 31		For 6 months ended December 31	
	2004	**2003**	**2004**	**2003**
Operating revenues:				
Power charges	$ 1,235	$ 1,136	$ 2,500	$ 1,581
Surplus sales	95	85	160	135
Total operating revenues	1,330	1,221	2,660	1,716
Operating expenses:				
Power purchases	1,376	1,216	2,802	2,743
Energy settlements	(96)	-	(96)	-
Administrative expenses	10	7	27	26
Recovery (deferral) of recoverable operating costs	40	(2)	(73)	(1,053)
Total operating expenses	1,330	1,221	2,660	1,716
Income from operations	-	-	-	-
Bond charges	209	189	452	466
Interest income	29	14	54	28
Interest expense	(114)	(105)	(224)	(210)
Recovery of recoverable debt service and related costs	(124)	(98)	(282)	(284)
Net income	-	-	-	-
Net assets, beginning of the period	-	-	-	-
Net assets, end of the 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 months ended December 31, 2004 and 2003 (in millions)

	2004	2003
Cash flows from operating income:		
Receipts:		
Power charges	$ 2,440	$ 2,293
Surplus sales	201	135
Energy settlements	110	-
Payments for power purchases and other costs	(2,826)	(2,794)
Net cash used in operating activities	(75)	(366)
Cash flows from non-capital financing activities:		
Receipts from customers for bond charges	452	390
Interest payments	(245)	(232)
Net cash provided by non-capital financing activities	207	158
Cash flows from investing activities:		
Investments purchased	(50)	(20)
Interest received on investments	49	28
Net cash (used in) provided by investing activities	(1)	8
Net increase (decrease) in restricted cash and investments	131	(200)
Restricted cash and investments, beginning of the period	3,381	3,350
Restricted cash and investments, end of the period	$ 3,512	$ 3,150
Reconciliation of operating income to net cash used in operating activities:		
Income from operations	$ -	$ -
Changes in net assets and liabilities to reconcile operating income to net cash used in operations:		
Recoverable costs	(61)	(358)
Due from other funds	-	21
Accounts payable	(14)	(29)
Total adjustments	(75)	(366)
Net cash used in operating activities	$ (75)	$ (366)

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

For the six months ended December 31, 2004 and 2003 (in millions)

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), administered by the Department of Water Resources (DWR), was established in January 2001 through legislation adding Division 27 to the California Water Code.

DWR began selling electricity to approximately ten million IOU retail customers in California in January 2001. DWR purchases power from wholesale suppliers under contracts entered into before January 1, 2003. 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.

Basis of Presentation

The Fund is accounted for as an enterprise fund and is financed and operated in a manner similar to that of a private business enterprise. The Fund uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. As allowed by governmental accounting standards, the Fund has elected not to apply statements and related interpretations issued by the Financial Accounting Standards Board after November 30, 1989. The Fund is accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenses.

The financial statements of the Fund are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the business-type activities and major funds of the State of California that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of California in conformity with accounting principles generally accepted in the United States of America.

2. Restricted Cash and Investments

As of December 31, 2004, $37 million of the Fund's cash deposits of $59 million was exposed to custodial credit risk as follows:

Institution	Amount
Prime Value Obligation Fund	
Institutional Shares	30
U.S. Bank	7
Total	$ 37

For the six months ended December 31, 2004 and 2003 (in millions)

As of December 31, 2004, the Fund had the following investments:

Investment	Maturity	Fair Value	
State of California Pooled Money Investment Account-State Money Investment Fund	6.5 months average	$	2,883
Guaranteed investment contracts	May 1, 2022		500
Forward purchase agreements	May 1, 2005		100
Natural gas futures and options	3 months average		35
Other	5 year average		1
		$	3,519

The Fund's investments in the guaranteed investment contracts (GIC) and forward purchase agreement (FPA) are rated as follows, Standard & Poors (S&P), Moody's Investor Service (Moody's), and Fitch Ratings (Fitch) respectively, at December 31, 2004:

Investment	Amount		S&P	Moody's	Fitch
GIC Providers					
FSA	$	100	AAA	Aaa	AAA
XL Capital		150	AAA	Aaa	AAA
Royal Bank of Canada		100	AA-	Aa2	AA
Sun America		150	AAA	Aaa	AAA
	$	500			
FPA Provider					
Merrill Lynch: FHLMC Discounted Notes	$	100	AAA	Aaa	AAA

3. Long-Term Debt

The following activity occurred in the long-term debt accounts during the six months ended December 31, 2004:

	Revenue Bonds	Unamortized Premium	Total Revenue Bonds
Balance, June 30, 2004	$ 11,084	$ 330	$ 11,414
Amortization of premium		(22)	(22)
Less current portion	(388)	(44)	(432)
Balance, December 31, 2004	$ 10,696	$ 264	$ 10,960

For the six months ended December 31, 2004 and 2003 (in millions)

Total interest cost, including amortization of premium, for the six months ended December 31, 2004 and December 31, 2003 for all revenue bonds was $224 million and $209 million, respectively. The interest rates for the variable debt for the three months ended December 31, 2004 ranged from 1.05% to 2.25%.

Future payment requirements on the revenue bonds are as follows at December 31, 2004:

Fiscal Year	Principal	Interest [1]	Total
2005	388	219	607
2006	409	421	830
2007	427	404	831
2008	449	384	833
2009	471	362	833
2010-2014	2,750	1,480	4,230
2015-2019	3,580	787	4,367
2020-2022	2,610	153	2,763
	$ 11,084	$ 4,210	$ 15,294

[1] Variable portion of interest cost calculated using the December 31, 2004 Bond Market Association Municipal Swap Index (BMA).

4. Interest Rate Swaps

The terms, fair values, and credit ratings of counterparties for the various swap agreements at December 31, 2004 are summarized in the following table:

Outstanding Notional Amount	Fixed Rate Paid Fund	Variable Rate [1] Received by Fund	Fair Values	Swap Termination Date	Counterparty Credit Ratings S&P	Moody's	Fitch
$ 94	2.914%	67% of LIBOR	$ (3)	May 1, 2011	AAA	Aaa	AAA
234	3.024%	67% of LIBOR	(5)	May 1, 2012	AAA	Aaa	AAA
200	3.405%	BMA	(3)	May 1, 2013	A+	Aa3	A+
100	3.405%	BMA	(2)	May 1, 2013	A+	Aa3	AA-
30	3.405%	BMA	-	May 1, 2013	A+	Aa3	AA-
194	3.204%	67% of LIBOR	(3)	May 1, 2014	AA-	Aa1	AA-
174	3.280%	67% of LIBOR	(5)	May 1, 2015	AAA	Aaa	AAA
202	3.342%	67% of LIBOR	(4)	May 1, 2016	AA	Aa2	AA
202	3.389%	67% of LIBOR	(4)	May 1, 2017	A+	Aa3	AA-
$ 1,430			$ (29)				

[1] One month U.S. Dollar London Interbank Offered Rate or Bond Market Association Municipal Swap Index

For the six months ended December 31, 2004 and 2003 (in millions)

The notional amounts of the swaps match the principal amounts of the associated debt. The swap agreements contain scheduled reductions in notional amounts that follow scheduled amortization of the associated debt.

Fair Value: The reported fair values from the table above were provided by the counterparties, using the par value, or marked-to-market, method.

Credit Risk: As of December 31, 2004, the Fund was not exposed to credit risk because the swaps had negative fair values.

Basis Risk: The Fund is exposed to basis risk on the swaps that have payments calculated on the basis of a percentage of LIBOR (a taxable rate index). As of December 31, 2004, the variable rate on DWR's hedged bonds ranged from 1.05% to 2.25%, while 67% of LIBOR received on the swaps was 1.61%.

Termination Risk: DWR's swap agreements do not contain any out-of-the-ordinary termination events that would expose it to significant termination risk.

Rollover Risk: Since the swap agreements have termination dates and notional amounts that are tied to equivalent maturity dates and principal amounts of amortizing debt, there is no rollover risk associated with the swap agreements, other than in the event of a termination.

Swap Payments and Associated Debt: As rates vary, variable-rate bond interest payments and net swap interest payments will vary. As of December 31, 2004, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows:

Fiscal Year Ending	Variable Rate Bonds		Interest Rate	
June 30	Principal	Interest	Swaps, Net	Total
2005	$ -	$ 14	$ 11	$ 25
2006	-	28	22	50
2007	-	28	22	50
2008	-	28	22	50
2009	-	28	22	50
2010-2014	852	121	96	1,069
2015-2017	578	24	21	623
	$ 1,430	$ 271	$ 216	$ 1,917

5. Commitments and Contingencies

Litigation

DWR is involved in lawsuits and regulatory proceedings that could impact power costs and future revenue requirements.

In 2002, two energy suppliers petitioned the Federal Energy Regulatory Commission (FERC), contending that they are owed $58 million by DWR for power DWR purchased in the last half of January 2001 in the California Independent System Operator (ISO) market. DWR paid all amounts billed by the ISO, but the ISO distributed DWR's January payment on a pro rata basis to all market participants for the entire month, leaving energy suppliers with less than full payment for power purchased by DWR during the last half of the month. In November 2002, FERC issued an order finding that the ISO had misapplied the payment it received from DWR and directed the ISO to reallocate and disburse DWR's January payment to those that supplied power during the last half of the month. In May 2004, FERC deferred final resolution of this matter until such time as the amount, if any, of FERC mandated refunds by the two energy suppliers to California parties, including DWR, has been determined.

In May 2004, FERC issued an order requiring DWR to pay approximately $270 million, the amount by which its sales to the ISO exceeded allowed mitigated market clearing prices, even though DWR sold the energy to the ISO at the same price DWR paid for the energy. DWR expects that any amount due under this order will be offset by FERC mandated refunds to DWR.

There are a number of lawsuits and regulatory proceedings in which DWR is not a party but may be affected by the result. In one case, California Power Exchange Corporation (CalPX), certain parties 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.

Commitments

DWR has power purchase contracts that have remaining lives of up to ten years. Payments made under these contracts approximated $2.8 billion and $2.7 million for the six months ended December 31, 2004 and December 31, 2003, respectively.

For the six months ended December 31, 2004 and 2003 (in millions)

The remaining amounts of fixed obligations under the contracts as of December 31, 2004, are as follows:

For the Year Ending June 30,	Fixed Obligation
2005	$ 1,351
2006	2,783
2007	2,525
2008	2,379
2009	2,238
Thereafter	3,443
	$ 14,719

In addition to the fixed costs there are variable costs under several of the contracts. Management projected as of December 31, 2004 that the amount of future fixed and variable obligations associated with long-term power purchase contracts would approximate $24 billion. The difference between the fixed costs and the expected total costs of the contracts are primarily due to the variable factors associated with dispatchable contracts and the cost of natural gas.

6. Energy Settlements

DWR and other parties have entered into settlement agreements with various energy suppliers which resolve potential and alleged causes of action against suppliers for their part in alleged manipulation of natural gas and electricity commodity and transportation markets during the 2000 - 2001 California energy crisis.

A settlement with Dynegy Inc. became effective October 25, 2004. Under the terms of the settlement's allocation agreement, DWR received funds in November 2004. Future revenues under the Dynegy settlement could approximate $25 million, but are subject to conditions outlined in the settlement agreement.