

California Energy Resources Scheduling

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

**Activities and Expenditures Report
Three Quarters Ended September 30, 2003**

(Provides Data as Required by AB1X 1)



Activities and Expenditures Report

For Three Quarters Ended September 30, 2003

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Activities and Expenditures Report

Preface

Pursuant to the reporting requirement in Assembly Bill 1X 1, the following information reflects energy acquisition activities and expenditures incurred by the California Energy Resources Scheduling Division (CERS) of the Department of Water Resources for the each of the first three quarters of calendar year 2003. Included are all costs related to administration and energy acquisition.

Effective January 1, 2003, CERS transferred certain power procurement responsibilities back to the Investor Owned Utilities (IOUs). CERS no longer purchases power, except power provided under the terms of its existing contracts. CERS also transferred the scheduling, dispatch and certain other administrative functions for the existing contracts to the IOUs. Although not buying power on a daily basis, CERS continues to have financial and legal responsibility for its long-term contract portfolio and will oversee repayment of the revenue bonds.

The successful transition of procurement responsibilities back to the IOU's allowed for a substantial reduction in the Operating Account and Operating Reserve Account balances, allowing for a reduction in the 2003 Revenue Requirements. The overall \$1.002 billion reduction in 2003 Revenue Requirements provided bill credits to IOU ratepayers' Power Charges. Bill credits totaled \$444 million for Pacific Gas & Electric customers, \$423 million for Southern California Edison customers and \$135 million for San Diego Gas & Electric customers.

As of September 30, 2003, approximately 60% of the long-term contracts, in terms of both cost and volume of power had been renegotiated. The estimated fixed and variable cost savings through 2013, when the final contract expires, is approximately \$6.3 billion.

The audited financial statements for the year ended June 30, 2003, and the un-audited financial statements for the quarters ended March 31, 2003 and September 30, 2003, prepared in accordance with generally accepted accounting principles, are an integral part of this Activities and Expenditures Report and can be referenced at the following link:

<http://www.cers.water.ca.gov/financial.html>.

This Activity and Expenditure Report, and prior quarterly reports, are available on the DWR website at www.cers.water.ca.gov.

Ending Cash Balances (in millions)

For Three Quarters Ended September 30, 2003

	March 31, 2003	June 30, 2003	September 30, 2003
Power Accounts			
Operating and Priority Contract Accounts	\$1,228	\$1,261	\$1,321
Operating Reserve Account	777	777	630
Bond Accounts			
Bond Charge Collection Account	\$99	\$156	\$244
Bond Charge Payment Account	308	229	388
Debt Service Reserve Account	927	927	927

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

Cash Receipts from Ratepayers of IOUs (in millions)

For Three Quarters Ended September 30, 2003

	Pacific Gas & Electric	San Diego Gas & Electric	Southern California Edison	Total
<u>Power Charges</u>				
Quarter March 31, 2003	\$ 484	\$ 121	\$ 362	\$ 967
Quarter Ended June 30, 2003	534	82	373	989
Quarter Ended September 30, 2003	752	125	463	1,340
Power Charges Year to Date	\$ 1,770	\$ 328	\$ 1,198	\$ 3,296
<u>Bond Charges</u>				
Quarter March 31, 2003	\$ 64	\$ 16	\$ 74	\$ 154
Quarter Ended June 30, 2003	72	17	77	166
Quarter Ended September 30, 2003	97	20	138	255
Bond Charges Year to Date	\$ 233	\$ 53	\$ 289	\$ 575

Cash Disbursements for Power Compared to Forecast By Month for Three Quarters Ended September 2003

2003	<u>FORECAST₁</u>		<u>ACTUAL₂</u>		<u>VARIANCE</u>	
	MWh (millions)	Cost (millions)	MWh (millions)	Cost (millions)	MWh (millions)	Cost (millions)
January	3.73	\$316	3.39	\$292	(0.34)	(\$24)
February	3.22	282	3.12	273	(0.10)	(9)
March	3.04	281	3.39	292	0.35	11
April	2.89	267	3.11	278	0.22	11
May	3.20	283	3.49	316	0.29	33
June	4.05	375	4.44	427	0.39	52
July	5.21	473	5.61	506	0.40	33
August	5.74	492	5.74	508	(0.00)	16
September	5.26	464	5.32	475	0.06	11

1. Forecasts for January through March are based on 2003 Revenue Requirement and forecasts for April through September are based on the 2003 Supplemental Revenue Requirement
2. Actuals are from Revenue Requirement financial model CFMG3V31i.xls

Power Purchases by Counterparty

For Three Quarters Ended September 30, 2003

	Q1 Total			Q2 Total			Q3 Total			YTD Total		
	MWh	\$\$	Avg. Price	MWh	\$\$	Avg. Price	MWh	\$\$	Avg. Price	MWh	\$\$	Avg. Price
Allegheny Energy Supply Company, L.L.C.	722,400	\$ 46,802,400	\$ 65	730,550	\$ 47,335,550	\$ 65	736,800	\$ 47,716,800	\$ 65	2,189,750	\$ 141,854,750	\$ 65
California Power Authority	-	\$ -	\$ -	-	\$ -	\$ -	3,384	\$ 270,720	\$ 80	3,384	\$ 270,720	\$ 80
Calpine Energy Services	4,395,226	\$ 245,871,458	\$ 56	4,119,853	\$ 230,407,853	\$ 56	5,011,480	\$ 274,867,921	\$ 55	13,526,559	\$ 751,147,232	\$ 56
Calpeak Power, L.L.C.	3,852	\$ 259,999	\$ 67	6,028	\$ 371,069	\$ 62	5,515	\$ 309,333	\$ 56	15,395	\$ 940,401	\$ 61
Alliance Colton	554	\$ -	\$ -	2,256	\$ 36,140	\$ 16	7,355	\$ 461,155	\$ 63	10,164	\$ 497,295	\$ 49
Constellation Power Source	243,200	\$ 37,452,800	\$ 154	832,000	\$ 70,153,600	\$ 84	883,200	\$ 48,576,000	\$ 55	1,958,400	\$ 156,182,400	\$ 80
Coral Power, L.L.C.	511,440	\$ 86,433,360	\$ 169	414,430	\$ 70,038,670	\$ 169	1,000,656	\$ 169,110,864	\$ 169	1,926,526	\$ 325,582,894	\$ 169
Dinuba	-	\$ -	\$ -	7,015	\$ 455,975	\$ 65	0	\$ -	\$ -	7,015	\$ 455,975	\$ 65
Dynegy Power Marketing Inc.	2,025,600	\$ 203,370,336	\$ 100	2,049,200	\$ 216,493,900	\$ 106	2,082,549	\$ 214,872,963	\$ 103	6,157,349	\$ 634,737,199	\$ 103
El Paso Merchant Energy, L.P.	121,600	\$ 14,713,600	\$ 121	123,200	\$ 14,907,200	\$ 121	123,200	\$ 14,907,200	\$ 121	368,000	\$ 44,528,000	\$ 121
GWF Energy, LLC	3,153	\$ -	\$ -	4,281	\$ 175,175	\$ 41	20,437	\$ 1,289,975	\$ 63	27,872	\$ 1,465,150	\$ 53
High Desert Power Project, LLC	-	\$ -	\$ -	272,659	\$ 13,632,950	\$ 50	1,326,351	\$ 66,317,550	\$ 50	1,599,010	\$ 79,950,500	\$ 50
Intercom	243,200	\$ 10,944,000	\$ 45	246,400	\$ 11,088,000	\$ 45	166,400	\$ 7,488,000	\$ 45	656,000	\$ 29,520,000	\$ 45
Imperial Valley Resource Recovery	34,560	\$ 3,110,400	\$ 90	34,928	\$ 3,143,520	\$ 90	35,328	\$ 3,179,520	\$ 90	104,816	\$ 9,433,440	\$ 90
Madera	37,386	\$ 2,003,814	\$ 54	48,348	\$ 3,729,587	\$ 77	0	\$ -	\$ -	85,734	\$ 5,733,401	\$ 67
Morgan Stanley Capital Group Inc.	108,000	\$ 10,314,000	\$ 96	109,150	\$ 10,423,825	\$ 96	102,716	\$ 8,859,407	\$ 86	319,866	\$ 29,597,232	\$ 93
PacifiCorp Power Marketing, Inc.	326,557	\$ 15,910,340	\$ 49	46,525	\$ 2,279,232	\$ 49	333,666	\$ 15,482,874	\$ 46	706,748	\$ 33,672,446	\$ 48
PG&E Energy Trading, Power - L.P.	27,186	\$ 1,549,601	\$ 57	48,940	\$ 2,789,590	\$ 57	25,072	\$ 1,429,104	\$ 57	101,198	\$ 5,768,295	\$ 57
Sempra Energy Resources	474,653	\$ 32,751,057	\$ 69	1,180,203	\$ 81,434,007	\$ 69	2,634,649	\$ 181,790,781	\$ 69	4,289,505	\$ 295,975,845	\$ 69
Soledad Energy	21,669	\$ 1,731,343	\$ 80	23,131	\$ 1,848,165	\$ 80	23,857	\$ 1,906,190	\$ 80	68,657	\$ 5,485,699	\$ 80
Sierra Power Corp	14,339	\$ 775,488	\$ 54	13,307	\$ 1,026,500	\$ 77	0	\$ -	\$ -	27,646	\$ 1,801,988	\$ 65
Sierra Pacific Industries	4,247	\$ 197,808	\$ 47	4,242	\$ 251,014	\$ 59	0	\$ -	\$ -	8,489	\$ 448,822	\$ 53
Sunrise Power Company	20,423	\$ 894,913	\$ 44	169,949	\$ 9,843,735	\$ 58	729,049	\$ 38,603,463	\$ 53	919,421	\$ 49,342,111	\$ 54
Wellhead	-	\$ -	\$ -	683	\$ 44,395	\$ 65	0	\$ -	\$ -	683	\$ 44,395	\$ 65
Wellhead Gates	-	\$ -	\$ -	-	\$ -	\$ -	3,576	\$ 214,560	\$ 60	3,576	\$ 214,560	\$ 60
Williams Energy Marketing & Trading	246,351	\$ 15,392,320	\$ 62	207,735	\$ 10,257,490	\$ 49	323,040	\$ 15,766,312	\$ 49	777,126	\$ 41,416,121	\$ 53
Williams Energy Services Company	299,200	\$ 23,913,600	\$ 80	302,920	\$ 24,214,700	\$ 80	1,057,600	\$ 80,144,800	\$ 76	1,659,720	\$ 128,273,100	\$ 77
Wheelabrator	6,011	\$ 261,050	\$ 43	5,587	\$ 244,723	\$ 44	6,624	\$ 273,330	\$ 41	18,222	\$ 779,103	\$ 43
Whitewater	51,438	\$ 2,718,123	\$ 53	78,321	\$ 4,135,456	\$ 53	43,092	\$ 2,269,996	\$ 53	172,850	\$ 9,123,575	\$ 53
	9,942,243	\$ 757,371,809	\$ 76	11,081,842	\$ 830,762,021	\$ 75	16,685,596	\$ 1,196,108,820	\$ 72	37,709,682	\$ 2,784,242,650	\$ 74

Notes: Power costs identified in this report reflect pure energy costs and do not include related costs such as capacity and transmission.

Reasons for \$1 Billion Bill Credit

While DWR was responsible for procurement of the “residual net short” (short term power), DWR was required under the terms of the Bond Indenture to maintain a minimum Operating Account balance of \$1 billion. Effective January 1, 2003, DWR’s responsibility for the purchase of the residual net short was transferred to the IOUs. With the end of the residual net short responsibility DWR was able to reduce the minimum Operating Account balance to the maximum amount projected by DWR by which operating expenditures may exceed Power Charges during any one calendar month, taking into account a range of possible future outcomes that DWR deems to be appropriate.

Also, because of the end of the residual net short responsibility, DWR was able to reduce its Operating Reserve Account balance to the greater of (i) seven months of projected negative operating cash flows, taking into account a range of possible future outcomes that DWR deems to be appropriate, or (ii) 12% of projected annual operating expenses of the Fund. While purchasing the residual net short, the second test was 18% of projected annual operating expenses of the Fund.

In the first half of calendar year 2003, DWR conducted an internal review of its 2003 Revenue Requirement, which was originally determined in August 2002. Upon completion of internal analyses, which included analyzing actual results through March 31, 2003, the 2003 Supplemental Revenue Requirement was developed and submitted to the CPUC for implementation on July 1, 2003. Based on 1) the ability to reduce reserves, 2) the expected receipt of cash for past due amounts being held in trust by PG&E, and 3) increases in actual and forecasted costs, the 2003 Supplement Revenue Requirement reduced DWR’s 2003 revenue requirement needs by \$1.002 billion.

Calculation of Bill Credit and Allocation to IOUs

A summary of the principal changes between the 2003 Supplemental Revenue Requirement and the original 2003 Revenue Requirement follows (in millions):

January 1, 2003 Operating Account balance higher than originally forecasted	\$ 44
Reduction in required balance for Operating Account	652
Reduction in required balance for Operating Reserve Account	147
PG&E remittance of past due amounts owed to DWR	539
Increased costs under terms of contracts	<u>(380)</u>
Net Reduction in 2003 Revenue Requirement	<u>\$ 1,002</u>

On September 4, 2003, the CPUC implemented the 2003 Supplemental Revenue Requirement which provided for credits for DWR Power Charges to IOU customers as follows (in millions):

Pacific Gas & Electric Company	\$ 444
Southern California Edison Company	423
San Diego Gas & Electric Company	<u>135</u>
	<u>\$ 1,002</u>

Appropriated Costs - Fiscal Year 2002-2003

	Annual Budget (thousands)	Actual Expenditures (thousands)
	<u> </u>	<u> </u>
Salaries, Benefits and Distributed Administrative Costs	\$10,677	\$7,636
Consulting Companies and Personal Service Consultants	40,057	38,104
Other Operating Expenses and Equipment	2,650	1,062
	<u> </u>	<u> </u>
TOTAL ADMINISTRATIVE COSTS	<u> \$53,384 </u>	<u> \$46,802 </u>

(1) Original budget amount was \$28,161,000. Deficiency notices, primarily for additional consulting company expenses, increasing the administrative budget to \$53,384,000 were appropriated by AB 1761 and approved by the Governor on August 2, 2003.

Appropriated Costs - Fiscal Year 2003-2004

	Annual Budget (thousands)	First Quarter Budget (thousands)	Actual First Quarter Expenditures (thousands)
	<u> </u>	<u> </u>	<u> </u>
Salaries, Benefits and Distributed Administrative Costs	\$9,597	\$2,400	\$1,651
Consulting Companies and Personal Service Consultants	14,100	3,525	2,700
Other Operating Expenses and Equipment	2,922	754	11
	<u> </u>	<u> </u>	<u> </u>
Subtotal	26,619	6,679	4,362
Allocation of State Wide Pro-Rata Costs	27,869	6,967	6,967
	<u> </u>	<u> </u>	<u> </u>
TOTAL ADMINISTRATIVE COSTS	<u>\$54,488</u>	<u>\$13,646</u>	<u>\$11,329</u>