California Department of Water Resources

2013 Revenue Requirement Allocation Workshop

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AND ASSOCIATES, LLC

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I. Allocation Methodology

Roles of DWR and the CPUC

- Under California law and the Rate Agreement the respective roles of the CPUC and DWR are clearly defined.

- The role of the CPUC is to set bond charges and power charges to recover DWR's revenue requirements and to allocate such charges among IOU service areas and electric customers.

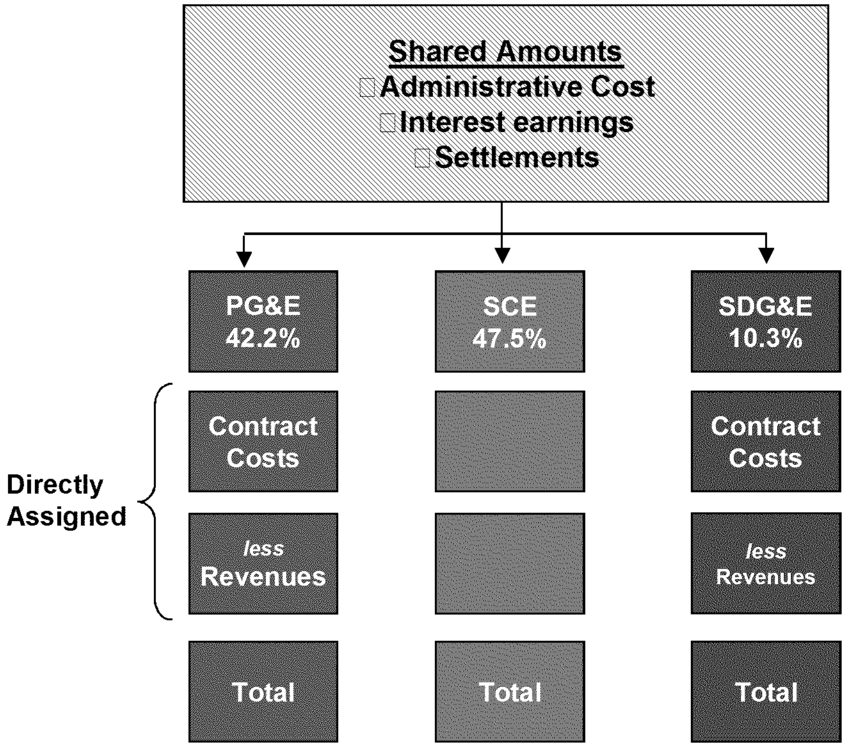
- DWR is responsible for notifying the CPUC of the amounts required to pay for bond related costs that are to be recovered from bond charges and is also responsible for notifying the CPUC of amounts required to pay for power related costs that are to be recovered from power charges, which are imposed by the CPUC from time to time.

- The Department assists and defers to the CPUC as to the allocation of both the Power and Bond costs and credits (refunds).

Summary of Current Cost Allocation

The current allocation methodology allocates:

- Contract costs are allocated on a "cost follows contracts" allocation whereby all of the costs and energy from a contract that is allocated to an IOU remains with that IOU.
- Other "non-avoidable" costs such as A&G, changes in projected operating balances and the benefits of interest earnings are also allocated based on the fixed percentages.
- A balancing accounts tracks allocated costs vs. actual costs (and revenues) and the balance of the account is used by the CPUC in allocating the subsequent revenue requirement .
- Revenues such as (1) CAISO revenues associated with real time dispatch and (2) TSA capacity releases remain with the IOU assigned the contract.



Settlement Allocation Methodology

- DWR includes any settlement distributions received as part of its ending operating balances. Such receipts lower future revenue requirements that are allocated by the CPUC; thus any funds received are used to lower power charges in the next year and not continuously carried by DWR.

- In D.05-06-050, permanent fixed allocation percentages were adopted that allocated DWR costs in the following amounts:

  SCE 47.5%
  PGE 42.2%
  SDGE 10.3%

- Since the adoption of D. 05-06-050, settlement funds have been allocated by the CPUC using the permanent fixed allocation percentages and used to lower power charges required in the following year.

- The allocation of settlements, and the revenue requirement as a whole, among the IOU customers is made by the CPUC under the Rate Agreement. The Department defers to the CPUC as to the allocation of both the Power and Bond costs and credits (refunds).

II. Summary of Sunrise Contract and Transportation Agreement

Sunrise – Kern River Summary

- In 2001, in response to the California Energy Crisis, CDWR and Sunrise Power Company LLC (equally owned by Edison Mission Energy and Chevron) entered into a power purchase agreement (PPA) for power from a yet-to-be completed combined cycle facility in Taft, California.

- Pursuant to the PPA, CDWR (through its limited agent SDG&E) was responsible for delivering gas to the Sunrise facility. Therefore, in 2003, CDWR and Sunrise agreed to have Sunrise assign its Firm Transportation Service Agreement (TSA) with Kern River to CDWR.

- The transaction was done as an assignment for the entire term of the TSA (through April 30, 2018) following Kern River's then-current protocol.

- In conjunction with this transaction and at Sunrise's request, in September 2003 Sunrise and CDWR entered into a reassignment agreement wherein CDWR agreed to re-assign the TSA to Sunrise (or a Sunrise affiliate) at the termination of the PPA (Reassignment Agreement).

Sunrise – Kern River Summary, cont'd.

- The PPA between CDWR and Sunrise terminated on June 30, 2012. The TSA extends through April 30, 2018.

- The parties began discussions of a permanent release of the TSA to Sunrise per the Reassignment Agreement prior to the expiration of the PPA.

- CDWR understands that Kern River did not allow the permanent release of the TSA to Sunrise when the PPA expired because Sunrise did not have a credit rating at that time.

- Sunrise has not posted the security required by Kern River. Neither of its owners, EME and Chevron (creditworthy parent company), has posted the security or assumed the TSA.

- The rate under the TSA is now well above the market. Capacity costs are approximately $1.2 million per month.

Cost Mitigation Efforts

- At the end of June 2012 it became clear to CDWR that Sunrise was not going to pick up the capacity on a permanent basis. Therefore, CDWR put the capacity on the open market for the month of July 2012, as a temporary one month release pursuant to the terms of the Kern Tariff. Sunrise did not pick up the capacity, and instead a third party (Shell Energy) picked up the capacity up at a rate far below the rate CDWR is obligated to pay under the TSA.

- Subsequently, Sunrise and CDWR discussed and Sunrise agreed to pick up the capacity on a temporary basis at the full rate and did so for the months of August and September. It is CDWR's understanding that Sunrise then attempted to remarket the capacity and was only able to obtain bids far below the rate in the TSA.

- After Sunrise stopped placing bids for the capacity beyond September, CDWR mitigated losses by auctioning TSA capacity to the highest bidders each month through the Kern River capacity release process. Since October 1st the market value has averaged $0.075 per MMBTU, leaving CDWR to pay the remaining full tariff obligation (average $0.396 per MMBTU).

Issues for Discussion

- CDWR currently has only three power contracts remaining, and no need for the TSA capacity.
- Ratepayers are currently losing approximately $1 million per month. Although CDWR has attempted to mitigate losses, to date California ratepayers have lost a total of over $7.1 million.
- The parties are involved in discussions to resolve this matter, so far without success.
- Full mitigation of the damages that CDWR and California ratepayers continue to accrue can only be achieved through a permanent release to Sunrise or any other party willing to take over the TSA at the full rate.
- Partial mitigation may occur if an IOU or any combinations of the three IOUs take over the TSA. The IOUs can take gas at SoCal Border as they are not strictly tied to the Sunrise Delivery Point.

Issues for Discussion, continued

- If the TSA is not permanently released to Sunrise or any other party, CDWR suggests that the CPUC consider a novation of the TSA to the utilities (with Kern River's consent).

  a. Would minimize cost burden to ratepayers.

  b. The parties would need to consider how and whether to assign any potential claims against Sunrise (or its parents/affiliates) and/or Kern River to the IOUs.

  c. Kern River would still need to approve the release of CDWR from liability. This would likely hinge on whether Kern River considers the IOUs to be "creditworthy" under the terms of its Tariff.

- CDWR has no position on how the TSA should be allocated. The TSA was allocated to SDG&E based on the cost follows contract basis as directed in CPUC Decision 08-11-056.

Allocation of Past TSA Costs

- The allocation of the $136 million in net costs associated with the TSA have been allocated consistent with the CPUC's allocation decisions.

- The settlement funds associated with the TSA have been allocated to the IOU's balancing accounts in amounts equal to the fixed allocation percentages.

Description	PG&E	SCE	SDG&E	Total	Notes
	($)	($)	($)	($)	
2003	1,765,997	1,702,106	357,714	3,825,817	CPUC decision percentages (46.16%, 44.49%, 9.35%)
2004-2012	-	-	146,259,092	146,259,092	Avoidable and CFC Allocation
Settlements	(5,579,328)	(6,280,049)	(1,361,779)	(13,221,156)	Settlements allocated per fixed percentages(42.2%, 47.5%, 10.3%)
Total	(3,813,331)	(4,577,943)	145,255,027	136,863,753	

III. Revenue Requirement Projections

Illustrative Revenue Requirement Reserves

- DWR could release reserves associated with the risk of the TSA contract earlier than projected if it were not responsible for such costs.
- The ratepayer will benefit from such a release of reserves in that it would receive the benefits sooner rather than later (time value of money).
- DWR's Operating Reserves earn interest and are invested primarily in the State Treasurer's Investment Pool.
- If the TSA contract is assigned to a party other than DWR, DWR's power charge revenue requirement would end in 2015.

Description	2013 RR	2014 RR	2015 RR	2016 RR	2017 RR	2018 RR
	($)	($)	($)	($)	($)	($)
With TSA	120,601,006	76,851,350	40,000,000	25,365,856	10,771,696	4,734,112
Without TSA	56,146,798	26,991,302	4,734,112	-	-	-
Difference	64,454,208	49,860,048	35,265,888	25,365,856	10,771,696	4,734,112

VI. Discussion and Contract Details

Summary of Power Contract

Contract Type:	**Dispatchable Combined Cycle**
Allocated to:	**SDG&E**
Term:	**Phase I - June 25, 2001 to Feb. 27, 2003 - Simple Cycle**
	Phase II – June 3, 2003 to June 30, 2012 - Combined Cycle
Scheduling Coordinator:	**SDG&E, June 3, 2009**
Quantity:	**581 MWs rated capacity tested annually in April**
Heat Rate:	**7,000 Btu/kWh heat rate tested biannually in April and October Heat rate payment or charge with +/- 3% bandwidth, with COD Heat Rate used as baseline**
Contract Price:	**Var. O&M $3.00/MWh Fixed**
Capacity Payment:	**Jan, Feb, Mar, Oct, Nov, Dec - $3,653.80/Mo. Apr, May, - $1,563.80/Mo. Jun, Jul, Aug, Sep - $37,093.80/Mo. Summer (95%) and Annual (91.8%), availability adjustments positive or negative determined by actual availability**
Start-Up Charges:	**Per Unit Start: <u>0-100</u> <u>101-135</u> <u>136-150</u> <u>>150</u> $0 $300 $5,000 $14,000**
Delivery Point:	**Pnode SUNRIS_2_PL1X3-APND – under MRTU**
Fuel:	**Gas Tolling**
Fuel Manager:	**SDG&E**

Summary of Gas Transportation Agreement

Contract Type:	**Firm natural gas pipeline transportation agreement**
Term:	**September 1, 2003 to April 30, 2018**
Scheduling Agent:	**SDG&E through June 30, 2012**
Quantity:	**85,000 mmbtu/day**
Contract Price:	**$0.47 per mmbtu plus fuel used and lost, and unaccounted for gas**
Delivery Point:	**Opal WFS 85,000 mmbtu/day**
Receipt Points:	**Wheeler Ridge 30,000 mmbtu/day**
	Kramer Junction 55,000 mmbtu/day