

# Memorandum

Date: August 29, 2013

To: Honorable Michael Florio  
Assigned Commissioner  
California Public Utilities Commission  
San Francisco, California 94102

Honorable Seaneen M. Wilson  
Administrative Law Judge  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, California 94102

From: Department of Water Resources

Subject: Rulemaking No. 13-02-019

The California Energy Resources Scheduling, Division of the Department of Water Resources ("DWR") submits this memorandum to assist the California Public Utilities Commission ("CPUC" or "Commission") in its calculation and allocation of the Department's 2014 Retail Revenue Requirement ("Determination") provided to the CPUC on August 1, 2013.

On August 15, 2013, Southern California Edison Company ("SCE") and Pacific Gas and Electric ("PG&E") served the Department with Data Request No.1 in this Rulemaking. The Department provides these responses with the following understandings. First, the Department is voluntarily providing these written responses and associated materials. It is not a party to this proceeding and therefore is under no legal obligation to respond to data requests or other discovery in this proceeding. Second, by responding to these data requests, the Department is not agreeing to be bound by discovery obligations that might be applicable to parties in this proceeding. Third, the Department is not waiving any applicable privilege that might protect any documents produced against future disclosure and, to the extent releasing these materials now may later be deemed a waiver, the scope of the waiver is limited to these documents only. Subject to the foregoing, to the extent that the Department agrees to provide this information at all, the Department will provide this information in accordance with applicable nondisclosure requirements.

## Question 1:

What is the legal authority by which DWR is authorized to charge Administrative & General ("A&G") Expenses to PG&E, SCE, and SDG&E? Does this authority extend after the DWR contracts expire? If so, why?

**Response to Question 1:**

AB1X (Water Code section 80000 et seq.) and the Trust Indenture for the power bonds provide the legal and statutory authority with regard to DWR's power and bond related costs, including administrative costs, that are allocated to customers in the IOU service areas<sup>1</sup>.

Section 80134 of the Water Code Division 27 (AB1X) reads in part: "... (a) The Department shall, and in any obligation entered into pursuant to this division may covenant to, at least annually, and more frequently as required, establish and revise revenue requirements sufficient, together with any moneys on deposit in the fund, to provide all of the following: .....6) The administrative costs of the department incurred in administering this division..."

Additionally, the Trust Indenture which authorized and secured the Power Supply Revenue Bonds dated October 1, 2002 and the Rate Agreement define Operating Expenses to include Administrative and General Expenses while DWR is procuring power. After the DWR contracts expire, Administrative and General costs are collected through bond charges. Section 506(d) of the Trust Indenture provides the authorization to collect Administrative and General Cost through bond charges to the extent money is not available in the Operating Account.

**Question 2:**

Please provide a line item detail explanation of DWR's monthly actual and forecast Administrative & General Expenses for the period 2012 through 2015. For reference, below are listed the annual and monthly amounts from CDWR's Determination of Revenue Requirement For the Period January 1, 2014 through December 31, 2014 dated August 1, 2013.

**Response to Question 2:**

The Department's responsibilities related to its power supply program are decreasing. Since the 2009 Revenue Requirement, which included \$28 million for Administrative and General costs, the projected costs for administrative expenses have decreased.

The administrative expenses projected in the 2014 Revenue Requirement include a pro-rata allocation of certain statewide charges. The pro-rata allocation of costs is based on the California projected operating budget as determined by the Department of Finance. The Department of Finance estimates the allocation of costs to the DWR power purchase program for 2014 to be approximately \$8 million. Additionally, the

Department of Finance projects the pro-rata allocation of statewide costs to continue at approximately \$8 million for 2015.

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<sup>1</sup> Likewise, as DWR's contracts expire, the return of any excess amounts (reserves) is allocated to customers in each service territory in proportion to IOU power delivered in that service territory and not to the IOUs.

As noted in the table below, the Department's actual A&G costs have been less than the amount budgeted. When the actual costs of the Department's revenue requirements are less than projected, amounts collected in excess of its actual costs are returned to ratepayers in subsequent revenue requirements.

A&G Summary					
	CERS A&G	Pro-Rata	Total	Actual A&G	Difference
	(\$)	(\$)	(\$)	(\$)	(\$)
2012	15,000,000	6,000,000	21,000,000	16,613,537	(4,386,463)
2013	11,000,000	8,000,000	19,000,000		
2014	7,000,000	8,000,000	15,000,000		
2015	7,000,000	8,000,000	15,000,000		

Forecasted A&G costs in DWR's financial model are annual estimates assigned monthly. The forecast is a combination of level monthly payments for non-pro-rata share of the power purchase program's A&G and quarterly payments of the pro-rata share of the A&G. The financial model supporting the 2014 Revenue Requirement, while showing the correct annual total for A&G, should have distributed the \$15 million in A&G costs as \$8 million to the pro-rata share rather than \$5 million. This does not affect the overall revenue requirement, just the monthly forecast of A&G costs.

Each month DWR completes an update-to-actual process which results in the monthly CPUC and USBA reports that are distributed to each IOU and to the CPUC. In that process, DWR identifies disbursements from the administrative account (a sub account of the Operating Account). DWR then replaces the forecast of monthly A&G cost using this actual disbursement. In the table provided with your data request the most current month of actual data is April 2013.

If you have any questions or need additional information, please contact me at (916) 574-2733.



John Pacheco  
 Acting Deputy Director  
 California Energy Resources Scheduling

Attachment

(cc: See attached list.)

cc: Honorable Michael R. Peevey, President  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, California 94102

Honorable Catherine J. K. Sandoval, Commissioner  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, California 94102

Honorable Mark J. Ferron, Commissioner  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, California 94102

Honorable Carla J. Peterman, Commissioner  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, California 94102

Mr. Paul Clanon, Executive Director  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, California 94102

Service List Rulemaking 13-02-019 (via electronic mail)