

**State of California**

**Department of Water Resources**

**Proposed Determination of Revenue Requirement**

**For the Period**

**January 1, 2015 through December 31, 2015**

**Transmitted To**

**The California Public Utilities Commission**

**Pursuant To**

**Sections 80110 and 80134 of the California Water Code**



**June 26, 2014**

## Table of Contents

A.	THE DETERMINATION.....	1
	GENERAL .....	1
	DETERMINATION OF REVENUE REQUIREMENT .....	2
	FUTURE ADJUSTMENT OF REVENUE REQUIREMENT .....	5
B.	BACKGROUND .....	5
	THE PROPOSED 2015 DETERMINATION .....	6
C.	QUARTERLY SUMMARY OF PROPOSED REVISED REVENUE REQUIREMENT FOR THE PERIOD JANUARY 1, 2015 THROUGH DECEMBER 31, 2015 .....	6
D.	ASSUMPTIONS GOVERNING THE DEPARTMENT’S PROJECTION OF REVENUE REQUIREMENT FOR THE PROPOSED 2015 REVENUE REQUIREMENT PERIOD .....	8
	ESTIMATED ENERGY REQUIREMENTS .....	8
	DIRECT ACCESS .....	8
	COMMUNITY CHOICE AGGREGATION .....	9
	COST RESPONSIBILITY SURCHARGE .....	10
	POWER SUPPLY AND NATURAL GAS RELATED ASSUMPTIONS .....	10
	LONG-TERM CONTRACT COST ASSUMPTIONS .....	11
	REMITTANCE ASSUMPTIONS .....	12
	NATURAL GAS PRICE FORECAST .....	12
	ADMINISTRATIVE AND GENERAL COSTS .....	12
	FINANCING RELATED ASSUMPTIONS .....	13
	ACCOUNTS AND FLOW OF FUNDS UNDER THE BOND INDENTURE .....	13
	OPERATING ACCOUNT .....	13
	OPERATING RESERVE ACCOUNT .....	14
	DEBT SERVICE RESERVE ACCOUNT .....	14
E.	POWER CONTRACT SETTLEMENT SUMMARY .....	14
F.	KEY UNCERTAINTIES IN THE REVENUE REQUIREMENT DETERMINATION .....	15
G.	JUST AND REASONABLE DETERMINATION .....	16
	PRIOR DETERMINATIONS .....	16
	THE PROPOSED 2015 DETERMINATION .....	17
	PUBLIC PROCESS .....	17
	JUST AND REASONABLE DETERMINATION .....	18
H.	ANNOTATED REFERENCE INDEX OF MATERIALS UPON WHICH THE DEPARTMENT RELIED TO MAKE THE DETERMINATION .....	18

## List of Tables

TABLE A-1 SUMMARY OF THE DEPARTMENT’S 2015 POWER CHARGE REVENUE REQUIREMENT AND POWER CHARGE ACCOUNTS AND COMPARISON TO 2014 <sup>1</sup>	3
TABLE A-2 SUMMARY OF THE DEPARTMENT’S 2015 BOND CHARGE REVENUE REQUIREMENT AND BOND CHARGE ACCOUNTS AND COMPARISON TO 2014 <sup>1</sup>	4
TABLE C-1 POWER PURCHASE PROGRAM, REVENUE REQUIREMENT BASE CASE: RETAIL CUSTOMER POWER CHARGE CASH REQUIREMENT <sup>1</sup>	7
TABLE C-2 POWER PURCHASE PROGRAM, REVENUE REQUIREMENT BASE CASE: RETAIL CUSTOMER BOND CHARGE CASH REQUIREMENT <sup>1</sup>	7
TABLE D-1 ESTIMATED ANNUAL ENERGY REQUIREMENTS	8
TABLE D-2 CONTRACT SUMMARY	11
TABLE D-3 NATURAL GAS PRICE FORECAST	12

## A. THE DETERMINATION

### GENERAL

Pursuant to Section 80110 of the California Water Code, the Department hereby issues its Proposed Determination of Revenue Requirement for the period of January 1, 2015 through December 31, 2015 (“2015 Determination” or “Proposed 2015 Determination”) in accordance with the Rate Agreement between the State of California Department of Water Resources (“Department” or “DWR”) and the California Public Utilities Commission (“Commission” or “CPUC”), dated March 8, 2002 (“Rate Agreement”), and Division 23, Chapter 4, Sections 510–517 of the California Code of Regulations (“Regulations”). Capitalized terms used and not otherwise defined herein have the meanings given to such terms in the Rate Agreement or the Indenture under which the Department’s Power Supply Revenue Bonds were issued (the “Bond Indenture”).

The costs of the Department’s purchases to meet the net short requirements of retail end use customers in the three California investor-owned utilities’ (“Utilities” or “IOUs”) service territories, including the costs of administering the long-term contracts, are to be recovered from payments made by customers and collected by the IOUs on behalf of the Department. The terms and conditions for the recovery of the Department’s costs from customers are set forth in the California Water Code (“Act”), the Regulations, the Rate Agreement and orders of the Commission. Among other things, the Rate Agreement defines a “Bond Charge” designed to recover the Department’s costs associated with its bond financing activity (“Bond Related Costs”) and a “Power Charge” designed to recover “Department Costs”, or the Department’s “Retail Revenue Requirement” including power supply-related costs. Subject to the conditions described in the Rate Agreement and other Commission Decisions, Bond Charges and certain charges designed to recover Department Costs may also be imposed on the customers of Electric Service Providers (as that term is defined in the Rate Agreement).<sup>1</sup> Additional background material is contained in the Department’s prior Determinations of Revenue Requirement, copies of which have been incorporated into the administrative record supporting this Proposed Revised 2015 Determination.

Pursuant to Sections 80110 and 80134 of the California Water Code and the Rate Agreement, this Proposed 2015 Determination contains information on the amounts required to be recovered, on a cash basis, in the 2015 Revenue Requirement Period (calendar year 2015).

For the 2015 Revenue Requirement Period, this Proposed 2015 Determination contains information regarding the following: (a) the beginning balance of funds on deposit in the Electric Power Fund (“Fund”), including the amounts on deposit in each account and sub-account of the Fund; (b) the amounts projected to be necessary to pay the principal and interest on all bonds as well as all other Bond Related Costs as and when the same are projected to become due, and the projected amount of Bond Charges required to be collected for such purpose; and (c) the amount needed to pay the Department’s costs, including all Retail Revenue Requirements.

---

<sup>1</sup> Under the Rate Agreement, the “Retail Revenue Requirement” is the amount to be recovered from “Power Charges” on IOU customers. The assessment on customers of Electric Service Providers of charges to recover Department Costs (e.g., “Direct Access Power Charge Revenues”) reduces the amount of the “Retail Revenue Requirement,” but has no material impact on the Department’s costs.

## **DETERMINATION OF REVENUE REQUIREMENT**

Pursuant to the Act, the Rate Agreement, and the Regulations, the Department determines, on the basis of the materials presented and referred to by this Proposed 2015 Determination (including the materials referenced in Section H), that it has a \$2 million aggregate cash basis Power Charge Account revenue requirement for 2015<sup>2</sup>. The Department projects that it will have adequate reserves in its Power Charge Accounts at all times to pay all Department costs, return \$65 million of excess amounts to customers and maintain reserves at sufficient levels to satisfy indenture required minimum balances, through an aggregate reduction in Power Charge Account balances of \$100 million.

As required by the Act, the Rate Agreement, and the Regulations, the Department makes a separate revenue requirement determination for the Bond Charge Accounts. For 2015, the Department determines that its cash basis Bond Charge Account revenue requirement is \$887 million.

This Proposed 2015 Determination takes into account preliminary actual operating results through May 2014.

Any net surpluses or deficiencies during calendar year 2014, which may result from the receipt of funds related to various litigation settlements involving the Department, variances in actual natural gas prices from those forecast and other considerations, are reflected in the Department's projected beginning 2015 operating balances.

Table A-1 shows a summary of the Department's revenue requirement and the accounts associated with projected Department Costs ("Power Charge Accounts") for 2015. These figures are compared to those reflected in the Department's Revised 2014 Determination of Revenue Requirements. A summary and comparison of the Department's revenue requirement and the accounts associated with its Bond Related Costs ("Bond Charge Accounts") is presented in Table A-2. Definitions of key accounts and sub-accounts are presented within each table.

---

<sup>2</sup> Power charge revenues are for power sales made in 2014, but received during the 2015 Revenue Requirement period.

**TABLE A-1**  
**SUMMARY OF THE DEPARTMENT'S 2015 POWER CHARGE REVENUE**  
**REQUIREMENT AND POWER CHARGE ACCOUNTS**  
**AND COMPARISON TO 2014<sup>1</sup>**  
**(\$ Millions)**

Line	Description	2015 <sup>2</sup>	2014 <sup>3</sup>	Difference
1	<i>Beginning Balance in Power Charge Accounts</i>			
2	Operating Account	129	160	(30)
3	Priority Contract Account	-	-	-
4	Operating Reserve Account	10	18	(7)
5	<b>Total Beginning Balance in Power Charge Accounts</b>	<b>140</b>	<b>177</b>	<b>(38)</b>
6	<i>Power Charge Accounts Operating Revenues</i>			
7	Power Charge Revenues <sup>4</sup>	2	5	(4)
8	Return of Excess Amounts to Customers <sup>5</sup>	(65)	(59)	(5)
9	Interest Earnings on Fund Balances	0	0	(0)
10	<b>Total Power Charge Accounts Operating Revenues</b>	<b>(63)</b>	<b>(53)</b>	<b>(9)</b>
11	<i>Power Charge Accounts Operating Expenses</i>			
12	Administrative and General Expenses	15	15	-
13	Total Power Costs	22	30	(8)
14	<b>Total Power Charge Accounts Operating Expenses</b>	<b>37</b>	<b>45</b>	<b>(8)</b>
15	Net Operating Revenues	(100)	(99)	(1)
16	<b>Ending Aggregate Balance in Power Charge Accounts</b>	<b>40</b>	<b>79</b>	<b>(39)</b>
<b>Target Minimum Power Charge Account Balances</b>		<b>Target</b> <b>(Millions of Dollars)</b>		
<b>Operating Account</b>		20	47	(27)
<b>Operating Reserve Account</b>		4	10	(6)
<b>Total Operating Reserves:</b>		24	57	(32)

<sup>1</sup>Numbers may not add due to rounding.

<sup>2</sup>As included herein.

<sup>3</sup>As reflected in the 2014 Revised Determination.

<sup>4</sup>Includes Bundled Customer revenues and Cost Responsibility Surcharge revenues.

<sup>5</sup>Comprised of surplus reserves meeting the definition of Excess Amounts within the Power Supply Revenue Bond Indenture.

**TABLE A-2**  
**SUMMARY OF THE DEPARTMENT'S 2015 BOND CHARGE REVENUE**  
**REQUIREMENT AND BOND CHARGE ACCOUNTS**  
**AND COMPARISON TO 2014<sup>1</sup>**  
**(\$ Millions)**

Line	Description	2015 <sup>2</sup>	2014 <sup>3</sup>	Difference
1	<i>Beginning Balance in Bond Charge Accounts</i>			
2	Bond Charge Collection Account	143	171	(28)
3	Bond Charge Payment Account	692	696	(5)
4	Debt Service Reserve Account	919	919	-
5	<b>Total Beginning Balance in Bond Charge Accounts</b>	<b>1,754</b>	<b>1,787</b>	<b>(33)</b>
6	<i>Bond Charge Accounts Revenues</i>			
7	Bond Charge Revenues from Utilities <sup>4</sup>	887	869	17
8	Interest Earnings on Fund Balances	19	19	(0)
9	<b>Total Bond Charge Accounts Revenues</b>	<b>905</b>	<b>888</b>	<b>17</b>
10	<i>Bond Charge Accounts Expenses</i>			
11	Debt Service on Bonds	890	911	(20)
12	<b>Total Bond Charge Accounts Expenses</b>	<b>890</b>	<b>911</b>	<b>(20)</b>
13	Net Bond Charge Revenues	15	(23)	37
14	<b>Ending Aggregate Balance in Bond Charge Accounts</b>	<b>1,769</b>	<b>1,764</b>	<b>5</b>
<b>Target Minimum Bond Charge Account Balances</b>		<b>Target (Millions of Dollars)</b>		
<b>Bond Charge Collection Account:</b> An amount equal to one month's required deposit to the Bond Charge Payment Account for projected debt service		75 - 77	75 - 77	SAME
<b>Bond Charge Payment Account:</b> An amount equal to the debt service accrued and unpaid through the end of the third next succeeding calendar month		315 - 999	307 - 1,000	Different
<b>Debt Service Reserve Account</b> Established as the maximum annual debt service		919	919	-

<sup>1</sup>Numbers may not add due to rounding.

<sup>2</sup>As included herein.

<sup>3</sup>As reflected in the 2014 Revised Determination.

<sup>4</sup>Includes Bundled Customer and Cost Responsibility Surcharge revenues

## **FUTURE ADJUSTMENT OF REVENUE REQUIREMENT**

The Department may propose to revise its revenue requirement for the 2015 Revenue Requirement Period given the potential for significant or material changes in the California energy market, the Department's associated obligations and operations related to its long term power and natural gas contracts, novation of its contracts, receipt of settlements from any legal proceedings involving the Department<sup>3</sup> and many other events that may materially affect the realized or projected financial performance of the Power Charge Accounts or the Bond Charge Accounts. In such event, the Department will inform the Commission of such material changes and will revise its revenue requirement accordingly.

### **B. BACKGROUND**

Information on the Act and the Rate Agreement, which have not changed since 2002, is contained in the Department's prior Determinations of Revenue Requirement, copies of which have been incorporated into the administrative record supporting this Determination. Each Determination of Revenue Requirements builds upon the prior Determinations. A summary of the 2014 Revenue Requirements is provided below:

The Department sent requests for information to each IOU on May 2, 2013, which solicited an update of various modeling assumptions and operational considerations. The information obtained from the IOUs served as the basis for the Department's analytical and forecasting efforts related to the 2014 Proposed Determination.

The Department provided interested persons with quantitative results from its contract volume and cost analytical models and financial model, subject to applicable non-disclosure requirements. Interested parties were advised to submit comments no later than July 9, 2013. In response to comments received and on estimates provided by the Department of Finance regarding the allocation of certain statewide pro-rata charges, which are based on the California projected operating budget, the long-range projection of Administrative and General Costs for 2015 increased from \$12 million to \$15 million. The Department provided its 2014 Determination to the CPUC on August 1, 2013.

Thereafter, the Department has reviewed certain matters relating to its August 1, 2013 Determination, including, but not limited to, operating results of the Electric Power Fund (the "Fund") as of September 30, 2013 and an updated gas price forecast. The Department revised its August 1, 2013 Determination under Section 516 of the Regulations as follows:

- 1) Updated actual Electric Power Fund Operating and Bond Account operating results through September 30, 2013.
- 2) Updated natural gas price forecasts and related assumptions.
- 3) Updated projections for contract costs for the remainder of the Power Supply Program,

---

<sup>3</sup> The Department is a participant, along with other California Parties, in the Federal Energy Regulatory Commission Refund Proceedings associated with the energy crisis in California in 2000 and 2001. When the Department receives amounts associated with settlements it will notify the CPUC and support its allocation of any excess amounts that can be returned to ratepayers in the IOU service areas.

The Department issued its Proposed 2014 Determination, which included the updates noted above, on October 9, 2013 and requested comments from interested parties by October 16, 2013. No comments were received.

## **THE PROPOSED 2015 DETERMINATION**

The Department sent requests for information to each IOU on May 7, 2014, which solicited an update of various modeling assumptions, load information and operational considerations. The information obtained from the IOUs served as the basis for the Department's analytical and forecasting efforts related to this Proposed 2015 Determination. The Department also considered other important criteria, including, but not limited to, Commission Decisions, Bond Indenture requirements, information pertaining to electric loads departing IOU service, and historical dispatch levels of Department contract facilities. The resulting data was incorporated into spreadsheet-based analytical models that were used to estimate IOU load volumes subject to Power Charges and Bond Charges and Department contract volumes and costs, and became a part of the projections leading to the Proposed 2015 Determination.

Upon completion of the procedures set forth in the regulations promulgated pursuant to the California Administrative Procedures Act (the "Regulations"), the Department will determine its revenue requirements for the 2015 Revenue Requirement Period.

## **C. QUARTERLY SUMMARY OF PROPOSED REVISED REVENUE REQUIREMENT FOR THE PERIOD JANUARY 1, 2015 THROUGH DECEMBER 31, 2015**

For 2015, the Department's revenue requirement consists of Department Costs and Bond Related Costs, which are to be satisfied primarily by Power Charge Revenues and Bond Charge Revenues, respectively.

During 2015, the Department projects that it will incur the following power procurement-related Costs: (a) \$22 million for long-term power contract purchases from Kings River Conservation District ("KRCD") and costs related to the Kern River TSA; (b) \$15 million in administrative and general expenses; (c) the return of \$65 million of excess amounts to IOU customers; and (d) \$(100) million net changes to Power Charge Accounts (including operating reserves). These projections result in total Power Charge expenses of \$2 million. Funds to meet these costs are projected to be provided from: (a) less than \$1 million of interest earned on Power Charge Account balances; (b) \$2 million from Power Charge Revenues and Cost Responsibility Surcharge ("CRS") revenues from customers other than customers of the IOUs and DWR.

Excess amounts as defined within the bond indenture shall be used, at the direction of the Commission after consultation with the Department, to (i) adjust customer charges, or (ii) with the agreement of the Department, reduce debt outstanding under the indenture, in all instances upon consideration of the interests of the retail customers of the IOUs and DWR. The Department will return only the amounts which meet the "excess amount" definition within this revenue requirement period as projected within this Proposed 2015 Determination. As noted above, the Department projects that \$65 million of excess amounts will be returned in 2015. The



payments by the Department for the return of excess amounts will be separate from Power Charge receipts, which will continue to be based on delivery of power from the Department's long-term contract and collected from customers of the IOUs.

Table C-1 provides a quarterly projection of costs and revenues associated with the Power Charge Accounts for the 2015 Revenue Requirement Period.

**TABLE C-1**  
**POWER PURCHASE PROGRAM, REVENUE REQUIREMENT BASE CASE:**  
**RETAIL CUSTOMER POWER CHARGE CASH REQUIREMENT<sup>1</sup>**  
**(\$ Millions)**

Line	Description	Amounts for Revenue Requirement Period				
		2015 - Q1	2015 - Q2	2015 - Q3	2015 - Q4	Total
1	<i>Power Charge Accounts Expenses</i>					
2	Power Costs	7	6	5	4	22
3	Administrative and General Expenses	4	4	4	4	15
4	Return of Excess Amounts to Customers	16	16	16	16	65
5	Net Changes to Power Charge Account Balances	(25)	(25)	(25)	(24)	(100)
6	<b>Total Power Charge Accounts Expenses</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>
7	<i>Power Charge Accounts Revenues</i>					
8	Interest Earnings on Power Charge Account Balances	0	0	0	0	0
9	Total Power Charge Revenue Requirement	2	-	-	-	2
10	<b>Total Power Charge Accounts Revenues</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>

<sup>1</sup>Numbers may not add due to rounding.

During 2015, the Department projects that it will incur the following Bond Related Costs: (a) \$890 million for debt service on the Bonds, and (b) 15 million for changes to Bond Charge Account balances, resulting in total Bond Charge Account expenses of \$905 million. Funds to meet this requirement are provided from: (a) \$19 million in interest earned on Bond Charge Account balances; and (b) \$887 million from Bond Charge Revenues (including CRS revenues from customers other than customers of the IOUs and DWR). Table C-2 provides a quarterly projection of costs and revenues relating to the Bond Charge Accounts for the 2015 Revenue Requirement Period.

**TABLE C-2**  
**POWER PURCHASE PROGRAM, REVENUE REQUIREMENT BASE CASE:**  
**RETAIL CUSTOMER BOND CHARGE CASH REQUIREMENT<sup>1</sup>**  
**(\$ Millions)**

Line	Description	Amounts for Revenue Requirement Period				
		2015 - Q1	2015 - Q2	2015 - Q3	2015 - Q4	Total
1	<i>Bond Charge Accounts Expenses</i>					
2	Debt Service Payments	-	761	-	129	890
3	Net Changes to Bond Charge Account Balances	211	(547)	237	113	15
4	<b>Total Bond Charge Accounts Expenses</b>	<b>211</b>	<b>214</b>	<b>237</b>	<b>242</b>	<b>905</b>
5	<i>Bond Charge Accounts Revenues</i>					
6	Interest Earnings on Bond Charge Account Balances	1	9	1	8	19
7	Retail Customer Bond Charge Revenue Requirement	210	206	237	234	887
8	<b>Total Bond Charge Accounts Revenues</b>	<b>211</b>	<b>214</b>	<b>237</b>	<b>242</b>	<b>905</b>

<sup>1</sup>Numbers may not add due to rounding

## **D. ASSUMPTIONS GOVERNING THE DEPARTMENT’S PROJECTION OF REVENUE REQUIREMENT FOR THE PROPOSED 2015 REVENUE REQUIREMENT PERIOD**

The Department based this Proposed 2015 Determination on a number of assumptions regarding retail customer load, power supply, natural gas prices, and administrative and general expenses, as well as other considerations affecting the Department’s revenues and expenses.

### **ESTIMATED ENERGY REQUIREMENTS**

The Department obtained the utilities’ most recent retail energy forecasts in May 2014. The Department reviewed the utilities’ underlying forecast assumptions and the forecasts for Direct Access and Community Choice Aggregation (“CCA”) in California. These assumptions are discussed in greater detail below.

Table D-1 shows the projected aggregate 2015 load forecast (in gigawatt hours) for the PG&E, SCE and SDG&E service areas during 2015. The information represents forecasts at the customer meter.

**TABLE D-1  
ESTIMATED ANNUAL ENERGY REQUIREMENTS<sup>4</sup>**

<b>Service Area</b>	<b>Bundled Load</b>	<b>Direct Access and CCA</b>	<b>Total Load</b>
<b>Total</b>	165,794	26,362	192,156

### **DIRECT ACCESS**

The Department’s direct access estimates are based primarily on data provided by each IOU. Where applicable, the data provided by each IOU was adjusted to account for the expected effects of Senate Bill (SB) 695.

On October 11, 2009, SB 695 was signed into law as an urgency statute. SB 695 allows individual retail nonresidential end-use customers of the IOUs to acquire electric service from non-IOU energy suppliers, up to a customer aggregated, service-area specific kWh limit. Except for this express authorization for increased direct access transactions under SB 695, the previously enacted suspension of direct access remains in effect.

On March 15, 2010, the CPUC issued Decision 10-03-022 which authorizes increases in the maximum direct access load for each IOU service area, as specified in SB 695. The maximum load of allowable direct access is established with each IOU service territory as the maximum total kWh supplied by all non-IOU energy suppliers to distribution customers of that IOU during

---

<sup>4</sup> Certain load is exempt from DWR charges. Bond Charges are allocated to non-exempt load.

any sequential 12-month period between April 1, 1998 and the effective date of the section of the Public Utilities Code modified by SB 695 (October 11, 2009).

The direct access maximum load authorized by the CPUC in Decision 10-03-022, if reached in all three service areas, would increase the percentage of each IOU's retail load attributable to direct access customers to approximately 14.0%, based on current estimates of total retail load. Regardless of the level of direct access participation within the IOU service areas, direct access customers will still be assessed Bond Charges and DWR's revenue requirement will be recovered in the same manner as has been successfully implemented over the duration of the Power Supply Program. For the 2015 Revenue Requirement period, the total percentage of direct access load, compared to retail load in the three IOU service areas, is projected to be 12.96%.

## **COMMUNITY CHOICE AGGREGATION**

Community Choice Aggregation, authorized by legislation enacted in 2002 ("AB 117"), refers to the ability of a city or county to aggregate all the electrical demand of the residents, businesses and municipal users under its jurisdiction and to meet this demand from an electricity provider other than an IOU, such as an independent electrical service provider. In the decision implementing AB 117, the CPUC determined that future Community Choice Aggregation customers shall pay charges (including DWR charges) intended to keep the bundled customers of the IOUs indifferent to CCA loads departing bundled service.

Pursuant to AB 117, four entities have filed Community Choice Aggregation Implementation Plans with the CPUC. The San Joaquin Valley Power Authority ("SJVPA") filed an Implementation Plan with the CPUC on January 29, 2007, the Marin Energy Authority ("MEA") filed an Implementation Plan with the CPUC on December 4, 2009, the City and County of San Francisco ("CCSF") filed an Implementation Plan (as "CleanPowerSF") with the CPUC on March 3, 2010 and the Sonoma County Water Agency filed an Implementation Plan (as "Sonoma Clean Power") on August 22, 2013. The SJVPA Implementation Plan was certified by the CPUC in May 2007; however, CCA implementation was suspended by SJVPA on June 25, 2009. The initial MEA Implementation Plan was certified on February 2, 2010 and the CleanPowerSF Implementation Plan was certified by the CPUC on May 18, 2010. The Sonoma Clean Power Implementation Plan was certified by the CPUC on October 4, 2013 and was registered as a Community Choice Aggregator on January 21, 2014.

MEA administers the plan through Marin Clean Energy ("MCE") and serves approximately 125,000 customers in Marin County and the City of Richmond. MEA member (municipal) accounts and a subset of residential, commercial and/or industrial accounts, comprising approximately 20 percent of MEA's total customer load, began service on May 7, 2010. In December 2011, MEA filed a Revised Implementation Plan, which included information on additional members. The Revised Implementation Plan was certified by the CPUC on January 3, 2012. In July 2012, MEA filed a Revised Implementation Plan that reflected information pertaining to new members (the City of Richmond), and this Revised Plan was certified by the CPUC on September 26, 2012. Further, MEA filed an additional Revised Implementation Plan in August 2012, which conformed to CPUC privacy rules. This Implementation Plan was certified

by the CPUC in January 2013. On June 5, 2014, Napa County was approved as a new member in MCE, which could add 16,000 new customers.

Sonoma Clean Power began offering retail electric service to its first 20,000 customers in May 2014. The cities of Windsor, Cotati, Sebastopol, Santa Rosa, Sonoma and all of the County unincorporated areas elected to participate while Petaluma, Rohnert Park and Cloverdale have postponed participation. Sonoma Clean Power anticipates that most customers in the participating cities will become eligible for service in 2015 and 2016.

Communities that are considering forming a CCA include San Diego, Victorville, San Luis Obispo, the Monterey Bay Area, Berkeley (in cooperation with other cities located to the east of San Francisco Bay) and Alameda County. On May 13, 2014, the City of Lancaster approved its Implementation Plan to form a CCA and on June 3, 2014, Alameda County approved a \$1.3 million feasibility study to form a Joint Powers Authority, a first step in CCA.

Potentially tempering the growth of CCA, AB 2145 was introduced on February 20, 2014. AB 2145 would require that customers opt-in to community choice rather than opt out, which opponents of the bill claim would drastically reduce participation. While CCA could lead to substantial reductions in bundled sales volumes, the CPUC proceeding implementing AB 117 established that the Cost Responsibility Surcharge would be paid by CCA customers and that the method for calculating the Cost Responsibility Surcharge adopted for direct access and municipal departing load customers, as modified by CPUC Decision 06-07-030, would also apply to CCA customers.

## **COST RESPONSIBILITY SURCHARGE**

In a series of decisions, the CPUC ordered certain classes of direct access, municipal and customer generation departing load, and CCA customers to pay the Cost Responsibility Surcharge related to historical stranded power costs and ongoing above-market power costs. Included in the Cost Responsibility Surcharge is a DWR Bond Charge component, which is assessed to pay debt service associated with DWR's bond issuances and a DWR Power Charge component, which pays a pro-rata portion of the above-market costs of the DWR power portfolio. The Bond Charge and the Power Charge components are rates imposed on total electricity usage by direct access, departing load, and Community Choice Aggregation customers by the CPUC in concert with the establishment of Power Charges and Bond Charges on bundled customers.

Cost Responsibility Surcharge revenues reduce the amount of Bond Charges and Power Charges that must be imposed on bundled customers to recover Bond Related Costs and Department Costs. In the aggregate, the payments by direct access load, departing load, CCA load, and from bundled customer load for the DWR Bond Charge and the DWR Power Charge flow to DWR to recover the DWR Bond Related Costs and Department Costs.

## **POWER SUPPLY AND NATURAL GAS RELATED ASSUMPTIONS**

In this Proposed 2015 Determination, the Department's remaining power supply contract is the KRCD Contract. This Contract is allocated to PG&E. PG&E provided the Department with a

projection of contract dispatch and the Department compared this estimate to the historical monthly dispatch levels. After conducting this review, the Department used the projections of dispatch provided by PG&E. The projected market dispatch of 22 GWhs provided by PG&E will serve as the basis for customer remittances through Power Charges and any additional energy quantities dispatched in the CAISO Real-time and Hour Ahead markets will provide market revenues to the Department.

Table D-2 provides a summary of the KRCD Contract and the Kern River Firm Transportation Service Agreement. Detailed contract terms can be found on the CERS website, <http://www.cers.water.ca.gov/>

**TABLE D-2  
CONTRACT SUMMARY**

<b>Counter-Party</b>	<b>Type</b>	<b>Date Executed</b>	<b>Delivery Start Date</b>	<b>Delivery End Date</b>	<b>Capacity</b>	<b>Allocated</b>
<b>Kings River Conservation District</b>	Power supply	12/31/2002 Renegotiated on 8/18/04	9/19/2005	9/18/2015	96MW	PG&E
<b>Kern River</b>	Firm gas transportation capacity	8/12/2003	9/01/2003	4/30/2018	85,000 mmbtu/day	SDG&E

The Department continues its efforts to modify terms and conditions of the Department’s long-term power contracts consistent with the requirements of the Act and applicable federal law. If, through negotiation and disposition efforts, the Department does not incur these costs, the cash reserves held to pay these costs would be returned to ratepayers as “excess amounts” in a subsequent revenue requirement filing.

**LONG-TERM CONTRACT COST ASSUMPTIONS**

Each of the contracts identified in Table D-2 has been reviewed by the Department to determine the costs that will impact its revenue requirement during 2015. All applicable costs are reflected in the Department’s cost analysis. The types of costs included in the Department’s contract-specific projections include, but are not limited to, fixed energy, capacity, fixed operation and maintenance, variable operation and maintenance, scheduling coordinator fees, fuel management fees, and carbon allowance costs. Total long-term contract costs, including requisite natural gas purchases, are projected to be \$22 million for the 2015 Revenue Requirement Period.

To comply with regulations required under AB32, there are Greenhouse Gas (“GHG”) implementation fees and carbon allowance costs that will be incurred by the generating unit underlying the KRCD Contract. DWR has included an estimate of those additional costs in the forecast for total power costs.

The Kern River TSA was entered into in 2003 to supply fuel to the Sunrise Power LLC long term power supply contract. An agreement was in place to transfer the remainder of the TSA contract back to Sunrise upon expiration of the Sunrise contract in June 2012. This reassignment

has not taken place and the Department has included approximately \$15 million of cost the 2015 Revenue Requirement Period. The Department places the firm capacity associated with the TSA up for release each month and any revenues from the capacity release is reflected in the cash balances of the Department and is used to reduce future revenue requirements.

### REMITTANCE ASSUMPTIONS

In 2009, after consideration of the April 1, 2009 implementation of the MRTU, DWR and the IOUs jointly submitted a Memorandum of Understanding to the CPUC that clarified the process that the IOUs will use to remit Power Charges to DWR. This clarification became necessary due to changes in the manner in which energy is scheduled and settled in the MRTU market. Specifically, the IOUs and DWR proposed to eliminate the sharing of surplus sales. Revenues from pro-rata sharing of surplus sales are no longer used to offset DWR’s revenue requirement, but rather DWR will receive remittances on energy dispatched in the CAISO day-ahead market from the KRCD Contract. Customers will remit Power Charges in amounts that will enable the recovery of ongoing operating costs of the Department’s power supply program. Any energy dispatched in the CAISO hour-ahead or real-time markets will have associated market revenues provided to the Department.

### NATURAL GAS PRICE FORECAST

The natural gas price forecast supporting this Proposed 2015 Determination is based on the Department’s 2015 Base Case Forecast prepared by Montague DeRose and Associates (“MDA”), advisors to the Department. The forecasting model utilized recent NYMEX natural gas futures contract prices and PG&E’s natural gas price projections for the KRCD Contract as provided in their data response.

Table D-3 reports the projected Base Case gas prices used to support the 2015 Determination and compares the forecast to the Base Case forecast underlying the Revised 2014 Determination.

**TABLE D-3  
NATURAL GAS PRICE FORECAST  
(\$/MMBtu)**

Description	NYMEX Henry Hub CY 2015	PG&E Citygate CY 2015
2015 Gas Price Forecast	4.22	4.74
2014 Gas Price Forecast	4.11	4.24
<b>Difference</b>	<b>0.11</b>	<b>0.50</b>

### ADMINISTRATIVE AND GENERAL COSTS

The Department’s administrative and general costs of \$15 million consist of \$12 million for appropriated budget expenditures including funds for labor and benefits, pro-rata charges for services provided to the power supply program by other State agencies and \$3 million for

consulting services for development and monitoring of the revenue requirement, litigation and dispute resolution support, power contract management, and financial advisory services for managing the \$ 5.943 billion debt portfolio and related reserves. The Department plans to collect its administrative and general costs through Bond Charges, rather than Power Charges, beginning in January 2016.

### **FINANCING RELATED ASSUMPTIONS**

For purposes of calculating the interest earnings on account balances during 2014, the Department assumes a 1.85 percent earnings rate for the Debt Service Reserve Account and a 0.232 percent earnings rate for all other accounts during the 2014 Revenue Requirement Period.

The Department currently has \$5.943 billion of fixed rate bonds outstanding. The projected average interest rate for all fixed rate bonds for the 2015 Revenue Requirement Period is 4.83 percent.

The Department projects that the amount of Bond Charge Revenues required for the 2015 Revenue Requirement Period will be \$887 million.

### **ACCOUNTS AND FLOW OF FUNDS UNDER THE BOND INDENTURE**

General information on the Accounts and flow of funds under the Bond Indenture, which has not changed since the bonds were issued in 2002, is contained in the Department's prior Determinations of Revenue Requirement, copies of which have been incorporated into the administrative record supporting this Proposed 2015 Determination.

Information specific to certain Accounts for this Determination is as follows.

### **OPERATING ACCOUNT**

The Department has covenanted in the Bond Indenture to include in its revenue requirement amounts estimated to be sufficient to cause the amount on deposit in the Operating Account at all times during any calendar month to equal the Minimum Operating Expense Available Balance ("MOEAB"). The Bond Indenture leaves to the Department the determination as to how far into the future this minimum test of sufficiency should be met. Moreover, the covenant concerns the minimum amount required to be projected to be on deposit, and leaves to the Department the determination as to what total reserves are appropriate or required in the fulfillment of its duties under Section 80134 of the Act.

For the purposes of this Proposed 2015 Determination, the Department has determined the MOEAB to be \$20 million. The Department projects to exceed the MOEAB at all times during 2015. The Department has determined that the amount projected to be on deposit in the Operating Account, including the amount therein that acts as a reserve for Operating Expenses, is just and reasonable, based primarily on the remaining fixed cost obligations of the power and natural gas supply portfolio and related administrative costs, as well as the factors discussed in Section F—"Key Uncertainties in the Revenue Requirement Determination".

## **OPERATING RESERVE ACCOUNT**

The Operating Reserve Account Requirement (“ORAR”) is to be calculated, in respect of each Revenue Requirement Period, as the greater of (a) the largest aggregate amount projected by the Department by which Operating Expenses exceed Power Charge Revenues during any consecutive seven calendar months commencing in such Revenue Requirement Period and (b) 12 percent of the Department’s projected annual Operating Expenses, provided, however, that the projected amount will not be less than the applicable percentage of Operating Expenses for the most recent 12-month period for which reasonably full and complete Operating Expense information is available, adjusted in accordance with the Indenture to the extent the Department no longer is financially responsible for any particular Power Supply Contract. All projections are to be based on such assumptions as the Department deems to be appropriate after consultation with the Commission and taking into account a range of possible future outcomes (i.e., “Stress Case”).

The ORAR for the 2015 Revenue Requirement Period is determined by the Department to be \$4 million, reflecting 12 percent of the Department’s projected Operating Expenses through the end of the program.

## **DEBT SERVICE RESERVE ACCOUNT**

For purposes of calculating the amount of the Debt Service Reserve Requirement in accordance with the Bond Indenture, the Department determines the Maximum Annual Debt Service (“MADS”) for all outstanding Power Supply Revenue Bonds through final bond maturity. The MADS amount must be carried in the Debt Service Reserve Account at all times to satisfy Bond Indenture requirements.

For the 2015 Revenue Requirement Period, the Department has determined the Debt Service Reserve Requirement to be \$919 million, equal to MADS. The Department projects to maintain this amount at all times during the 2015 Revenue Requirement Period.

## **E. POWER CONTRACT SETTLEMENT SUMMARY**

The California Parties, which include the Governor’s Office, California Attorney General’s Office, CPUC, the Department, and the IOUs, have participated in Federal Energy Regulatory Commission (“FERC”) proceedings to recover excess electricity costs incurred by ratepayers since 2001. These FERC proceedings have led to several settlement agreements between the California Parties and the responsible energy suppliers. As one of the California Parties, the Department has received distributions from these energy suppliers that have been paid to settle claims against them. Any future settlement distributions will reduce Department costs and, as a result, decrease the Department’s revenue requirement. Copies of prior settlement agreements are incorporated into the administrative record supporting this Determination.



## **F. KEY UNCERTAINTIES IN THE REVENUE REQUIREMENT DETERMINATION**

The Department faces a number of uncertainties that may require material changes to its revenue requirement for the 2015 Revenue Requirement Period. Several risk factors are outlined below and additional information may be found in each of the bond financing Official Statements, which may be obtained from the Treasurer of the State of California.

- 1) Determination of Power Charges and Bond Charges; possible use of amounts in the Bond Charge Collection Account to pay Priority Contract Costs:
  - a. Potential administrative and legal challenges to DWR's revenue requirement;
  - b. Potential litigation regarding inclusion of DWR Priority Contract Costs in its Retail Revenue Requirement; and
  - c. Application and enforcement of the Rate Agreement's Bond Charge rate covenant.
- 2) Collection of Bond Charges and Power Charges:
  - a. Potential rejection of Servicing Arrangements or other disruption of servicing arrangements.
- 3) Certain risks associated with DWR's Power Supply Program:
  - a. Long-term power contracts:
    - i. Failure or inability of the suppliers to perform as promised;
    - ii. Potential litigation over disputed invoices; and
  - b. Gas price volatility
- 4) Potential increases in overall electric rates:
  - a. Changes in general economic conditions;
  - b. Energy market-driven increases in wholesale power costs;
  - c. Fuel costs;
  - d. Hydro conditions and availability;
  - e. Market manipulation; and
  - f. Actions affecting retail rates.
- 5) Potential decrease in DWR customer base:
  - a. Direct Access; and
  - b. Load departing IOU service.
- 6) Potential variance in dispatch of DWR contracts:
  - a. Actual vs. forecast load variance; and
  - b. Dispatch coordination between IOUs and DWR.
- 7) Uncertainties relating to electric industry and markets:
  - a. Electric transmission constraints; and
  - b. Gas transmission constraints.
- 8) Uncertainties relating to government action:

- a. California Emergency Services Act;
  - b. Possible State legislation or action; and
  - c. Possible Federal legislation or action.
- 9) Uncertainties relating to financial industry and markets:
- a. Effects of bond refunding or similar action;
  - b. Constraints in the flow and availability of credit facilities and capital.

## **G. JUST AND REASONABLE DETERMINATION**

### **PRIOR DETERMINATIONS**

Each new revenue requirement determination builds, to the extent necessary or appropriate, on the various preceding determinations. Successive determinations incorporate the information from each previous determination into the supporting administrative record. Determinations are available for review on the CERS website by interested persons, and the supporting materials are available at the CERS office in Sacramento, subject to applicable non-disclosure requirements.

<b>Determination</b>	<b>Date Issued</b>
2001-2003, including Reexamination and Redetermination for 2001-2002	August 16, 2002
Reconsideration of Just and Reasonableness of 2001 - 2003	August 19, 2004
2003 Supplemental	July 1, 2003
2004	September 18, 2003
2004 Supplemental	April 16, 2004
2005	November 4, 2004
Revised 2005	March 16, 2005
2006	August 3, 2005
Final 2006	October 27, 2005
2007	August 2, 2006
Revised 2007	October 30, 2006
2008	August 22, 2007
Revised 2008	October 31, 2007
Supplemental 2008	February 15, 2008
2009	August 6, 2008
Revised 2009	October 29, 2008
2010	August 6, 2009
Revised 2010	October 27, 2009
2011	August 5, 2010
Revised 2011	October 26, 2010
2012	August 4, 2011
Revised 2012	October 27, 2011
2013	August 2, 2012
Revised 2013	October 15, 2012
2014	August 1, 2013
Revised 2014	October 18, 2013

## **THE PROPOSED 2015 DETERMINATION**

### **PUBLIC PROCESS**

Under the terms of the Rate Agreement between the Department and the Commission, and the terms of the Bond Indenture, the Department has agreed to review, determine and revise its Retail Revenue Requirement at least annually.

The Department is issuing its Proposed Determination of Revenue Requirements for the period January 1, 2015 through December 31, 2015 for public review and comment under the Regulations promulgated pursuant to the California Administrative Procedures Act. The

Department is providing interested persons with quantitative results from its contract volume and cost analytical models and Financial Model, subject to applicable non-disclosure requirements. Interested parties are advised to submit comments no later than July 18, 2014.

## **JUST AND REASONABLE DETERMINATION**

The Department intends - after assessing the administrative record, the Act, the Regulations, Bond Indenture requirements and the Rate Agreement – to make a just and reasonable determination of this Proposed 2015 Revenue Requirement for the period of January 1, 2015 through December 31, 2015.

## **H. ANNOTATED REFERENCE INDEX OF MATERIALS UPON WHICH THE DEPARTMENT RELIED TO MAKE THE DETERMINATION**

<b>Volume</b>	<b>Record Number</b>	<b>Date</b>	<b>Record Title</b>
DWR15pRR	1	10/29/2013	DWR Electric Power Fund Audited Financial Statements, for Years ending 6/30/13
DWR15pRR	2	12/05/2013	CPUC D. 13-12-004 Allocating The Revised 2014 Revenue Requirement
DWR15pRR	3	02/18/2014	DWR Electric Power Fund Financial Statements, 12/31/13
DWR15pRR	5	05/07/2014	DWR “Pacheco” email transmittal of Data Request 1 to PG&E
DWR15pRR	6	05/07/2014	DWR “Pacheco” email transmittal of Data Request 1 to SCE
DWR15pRR	7	05/07/2014	DWR “Pacheco” email transmittal of Data Request 1 to SDG&E
DWR15pRR	8	05/15/2014	DWR Electric Power Fund Financial Statements, 3/31/14
DWR15pRR	9	05/23/2014	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: SDG&E Data Responses
DWR15pRR	10	05/28/2014	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: PGE - Data Responses
DWR15pRR	11	05/28/2014	CONFIDENTIAL R.13-02-019 CDWR- SCE Data Responses
DWR15pRR	12	06/26/2014	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: Financial Model (CFMG5V35n - 2015 RR 06-26-2014 filing.) Projection of Revenue Requirement
DWR15pRR	13	06/26/2014	Proposed Determination of Revenue Requirement for 2015, including the Determination, The Notice, and Regulations.

DWR15pRR	14	06/26/2014	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: Data files supporting the Proposed Determination of Revenue Requirement for 2015, specific to PG&E
DWR15pRR	15	06/26/2014	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: Data files supporting the Proposed Determination of Revenue Requirement for 2015, specific to SCE
DWR15pRR	16	06/26/2014	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: Data files supporting the Proposed Determination of Revenue Requirement for 2015, specific to SDG&E