

State of California

Department of Water Resources

Proposed Determination of Revenue Requirement

For the Period

January 1, 2020 through December 31, 2020

Transmitted To

The California Public Utilities Commission

Pursuant To

Sections 80110 and 80134 of the California Water Code



July 26, 2019

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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, 2020 through December 31, 2020 (“2020 Determination” or “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” or “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).¹ 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 Determination.

Pursuant to Sections 80110 and 80134 of the California Water Code and the Rate Agreement, this Proposed Determination contains information on the amounts required to be recovered, on a cash basis, in the 2020 Revenue Requirement Period (calendar year 2020).

For the 2020 Revenue Requirement Period, this Determination contains information regarding: (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.

¹ Under the Rate Agreement, the “Retail Revenue Requirement” is the amount to be recovered from “Power Charges” on customers in the IOU service areas. 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, based on the materials presented and referred to by this 2020 Determination (including the materials referenced in Section H), that it has adequate amounts in its Power Charge Accounts at all times to pay all Department costs, including all Retail Revenue Requirements

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 2020, the Department has examined, among others, the annual amount of Bond Charge collections by the Department with respect to Bond Charge imposed on ratepayers in prior annual revenue requirement periods, interest earnings on amounts on deposit in the Bond Accounts and the seasonality of its Bond Charge revenue collections and determines that its cash basis Bond Charge Account revenue requirement is \$902 million.

The Department projects that the bond charge rate associated with the \$902 million revenue requirement will produce sufficient amounts in its Bond Charge Accounts to pay all future Bond Related Costs. At that time, no further deposits will be required to be made into the Bond Charge Accounts (and the Department anticipates that Bond Charges will not be imposed on ratepayers at or about such time). The Department will notify the CPUC, if and when it determines that it has amounts sufficient to satisfy its future obligations so that the CPUC can direct the IOUs to shut off Bond Charges.

This 2020 Determination considers preliminary actual operating results through May 31, 2019. It also considers the response from the IOUs to the Department's request for information pertaining to modeling assumptions and electric loads. During the 2020 Revenue Requirement period, the Department projects that virtually all of the revenues it receives will be Bond Charge Revenues that will flow through the Bond Charge Accounts, except for amounts, if any, yet to be received by DWR from legal claims related to power purchases by DWR under the Power Supply Program. For this Determination, the Department has determined that approximately \$11 million in the Operating Account are Excess Amounts. The Department will consult with the CPUC to return such funds to benefit the ratepayers in the IOU service areas. The Department is not projecting to receive any Power Charge revenue[, nor any cost associated with the power purchase contracts and projects to maintain approximately \$14 million in the Power Charge Accounts to account for any contingent liabilities associated with the power purchase contracts and to pay certain expenses through the end of the Power Supply Program. Table A-1 shows a summary of the Department's revenue requirement and the accounts associated with projected Department Costs ("Power Charge Accounts") for 2020. These figures are compared to those reflected in the Department's 2019 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 this revenue requirement.

TABLE A-1
SUMMARY OF THE DEPARTMENT'S 2020 POWER CHARGE REVENUE
REQUIREMENT AND POWER CHARGE ACCOUNTS
AND COMPARISON TO 2019¹
(\$ Millions)

Line	Description	2020 ²	2019 ³	Difference
1	<i>Beginning Balance in Power Charge Accounts</i>			
2	Operating Accounts	25.9	36.7	(10.8)
3	Operating Reserve Account	-	-	-
4	Total Beginning Balance in Power Charge Accounts	25.9	36.7	(10.8)
5	<i>Power Charge Accounts Operating Revenues</i>			
6	Power Charge Revenues ⁴	-	-	-
7	Return of Excess Amounts to Customers ⁵	(11.1)	(10.5)	(0.6)
8	Interest Earnings on Fund Balances	0.6	0.5	0.1
9	Total Power Charge Accounts Operating Revenues	(10.5)	(10.0)	(0.5)
10	<i>Power Charge Accounts Operating Expenses</i>			
11	Operating Expenses	1.5	3.0	(1.5)
12	Total Power Costs	-	-	-
13	Total Power Charge Accounts Operating Expenses	1.5	3.0	(1.5)
14	Net Operating Revenues	(12.0)	(13.0)	1.0
15	Ending Aggregate Balance in Power Charge Accounts	13.9	23.7	(9.8)

¹Numbers may not add due to rounding.

²As included herein.

³As reflected in the 2019 Determination.

⁴Includes Bundled Customer revenues and Cost Responsibility Surcharge revenues.

⁵Comprised of surplus reserves meeting the definition of Excess Amounts within the Bond Indenture.

TABLE A-2
SUMMARY OF THE DEPARTMENT'S 2020 BOND CHARGE REVENUE
REQUIREMENT AND BOND CHARGE ACCOUNTS
AND COMPARISON TO 2019¹
(\$ Millions)

Line	Description	2020 ²	2019 ³	Difference
1	<i>Beginning Balance in Bond Charge Accounts</i>			
2	Bond Charge Collection Account	269	268	0
3	Bond Charge Payment Account	768	749	18
4	Debt Service Reserve Account	882	882	-
5	Total Beginning Balance in Bond Charge Accounts	1,918	1,900	19
6	<i>Bond Charge Accounts Revenues</i>			
7	Bond Charge Revenues from Utilities ⁴	902	812	90
8	Interest Earnings on Fund Balances	58	37	20
9	Total Bond Charge Accounts Revenues	960	849	110
10	<i>Bond Charge Accounts Expenses</i>			
11	Debt Service on Bonds	2,565	876	1,689
12	Administrative and General Expenses	3	12	(9)
13	Total Bond Charge Accounts Expenses	2,568	888	1,680
14	Net Bond Charge Revenues	(1,609)	(38)	(1,570)
15	Ending Aggregate Balance in Bond Charge Accounts	310	1,861	(1,551)

¹Numbers may not add due to rounding.

²As included herein.

³As reflected in the 2019 Determination.

⁴Includes Bundled Customer and Cost Responsibility Surcharge revenues.

FUTURE ADJUSTMENTS OF REVENUE REQUIREMENT

The Department may continue to revise its revenue requirement for the 2020 Revenue Requirement Period given the probable defeasance of the Department's Power Bonds, receipt of settlements from any legal proceedings involving the Department² and any 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 CPUC of these material changes and will revise its revenue requirement accordingly.

Additionally, the Department has created a framework to guide, in consultation with the CPUC, the future decisions pertaining to the end of the Department of Water Resources' Power Supply Program. The principles guiding the future decisions are outlined in the Bond Indenture which governs how any excess Bond Charges and Power Charges are to be used. Certain guidelines apply to the Power Charge excess amounts and certain guidelines apply to any excess amounts in the Bond Charge Accounts. A summary of these principles is below, followed by additional discussion and specific sections from the Indenture for reference.

Beginning in 2015, amounts in the Power Charge Accounts have been sufficient to pay for the future Power Charge Obligations of the Department, and since that time no further Power Charge deposits have been required to be made into the Power Charge Accounts. Excess amounts in the Power Charge Accounts have from time to time been returned to ratepayers through a negative Power Charge (negative revenue requirement). Through the CPUC allocation of the revenue requirement, these amounts have been applied to satisfy the obligation of the same class of customers as received DWR power. This preserves the underlying premise of the statute and financing structure, that DWR revenues are both derived from the public and applied for the benefit of the public customers, as opposed to the IOUs. In a sense, crediting can be viewed as analogous to a rebate to the customers who initially paid the Power Charges.

For the Power Charge Accounts, Section 508.5 states that *"The Department shall separately notify the Commission in writing each time the Operating Reserve Account Requirement is reduced pursuant to the Indenture. Whenever such reduction in the Operating Reserve Account Requirement occurs, any excess amounts in the Operating Reserve Account ("Excess Amounts") will be used at such time to satisfy any deficiencies existing at such time in the transfers, applications and withdrawals required by paragraphs (a) through (h) of subsection 1 of Section 503.... Unless otherwise agreed by both the Department and the Commission, each acting in its own discretion, any Excess Amounts remaining after application to the uses described in the preceding sentence shall be used, at the direction of the Commission after consultation with the Department, to (i) adjust Department 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 Electrical Corporations and of the Department, and, if applicable, Electric Service Provider retail customers."*

Similarly for the Operating Account, section 503.6 states, *"If and when the Department no longer is responsible for the payment of costs under any Power Supply Contract, all amounts in the Operating Account shall be utilized in the same manner as Excess Amounts are required to be*

² 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.

utilized pursuant to subsection 5 of Section 508; provided, however, that amounts required to satisfy a particular contingency shall be retained in the Operating Account only until the contingency has been satisfied or discharged; and provided further, however, that there may be retained in the Operating Account the amount, if any, determined by the Department to be required to pay Bond Related Costs that otherwise would have to be paid from the Bond Charge Payment Account pursuant to paragraph (d) of subsection 1 of Section 506; and provided further, however, that any amounts not required for the purposes described in the preceding provisos shall be utilized in the same manner as Excess Amounts are required to be utilized pursuant to subsection 5 of Section 508.”

Consistent with the use of such Excess Amounts, the Department has, in consultation with the CPUC, returned these amounts through a negative revenue requirement which is allocated to ratepayers as a credit on their monthly utility bill. Also, consistent with the Indenture, the Department is retaining a contingency amount to pay certain administrative and legal costs associated with the Power Program and the Department’s participation with the California Parties³, which are participating in Federal Energy Regulatory Commission (“FERC”) proceedings to recover excess electricity costs incurred by ratepayers since 2001. These FERC proceedings have led to numerous settlement agreements⁴ between the California Parties and the responsible energy suppliers.

Similarly, when Bond Charge Accounts are sufficient to pay for the future Bond Charge Obligations of the Department, no further deposits shall be required to be made into the Bond Charge Accounts. Section 507.5 of the Indenture describes *“Whenever the amount in the Debt Service Reserve Account... together with the amount in the Bond Charge Payment Account with respect to Debt Service on Bonds, is sufficient to pay in full all Outstanding Bonds in accordance with their terms (including the maximum amount of principal or applicable sinking fund Redemption Price and interest which could become payable thereon), the funds on deposit in the Debt Service Reserve Account shall be transferred to the Bond Charge Payment Account, and thereupon no further deposits shall be required to be made into the Debt Service Reserve Account. Prior to said transfer, all investments held in the Debt Service Reserve Account shall be liquidated to the extent necessary to provide for the timely payment of principal and interest (or Redemption Price) on Bonds.”*

Using the assumptions and projections supporting this 2020 Determination of Revenue Requirements, the Department projects that it will have sufficient amounts in its Bond Charge Accounts to pay all future Bond Related Costs. At that time, no further deposits will be required to be made into the Bond Charge Accounts (and the Department anticipates that Bond Charges will not be imposed on ratepayers at or about such time). The Department will notify the CPUC, if and when it determines that it has amounts sufficient to satisfy its future obligations so that the CPUC can direct the IOUs to shut off Bond Charges.

³ Includes the Governor’s Office, California Attorney General’s Office, CPUC and the IOUs

⁴ <https://oag.ca.gov/cfs/energy/money>

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 Proposed Determination. Each Determination of Revenue Requirements builds upon the prior Determinations.

This Determination of Revenue Requirements is based on requests for information made to each IOU on May 30, 2019, which solicited an update of various modeling assumptions, load information and operational considerations. The information obtained from the IOUs serves as the basis for the Department's analytical and forecasting efforts related to this Determination. The Department also considered other important criteria, including, but not limited to, Commission Decisions, Bond Indenture requirements, and information pertaining to electric loads departing IOU service. The resulting data was incorporated into spreadsheet-based analytical models to estimate IOU load volumes subject to Bond Charges and became part of the projections leading to this Proposed Determination.

As required under the Regulations promulgated pursuant to the California Administrative Procedures Act, the Department will make the Proposed 2020 Determination available to interested parties for review and comment. The Department is providing interested persons with the quantitative results from Financial Model, subject to applicable non-disclosure requirements. Interested parties are advised to submit comments no later than August 16, 2019.

C. QUARTERLY SUMMARY OF REVENUE REQUIREMENT FOR THE PERIOD JANUARY 1, 2020 THROUGH DECEMBER 31, 2020

For 2020, the Department's revenue requirement primarily consists of Bond Related Costs, which are to be satisfied primarily by Bond Charge Revenues.

The Department is not projecting revenues, nor any cost associated with the terminated power purchase contracts. The Department projects to maintain approximately \$14 million in the Power Charge Accounts to provide for any contingent liabilities associated with the power purchase contracts and to pay certain revenue requirement costs. The Department, in each revenue requirement determination, determines if any balances in the Operating Account are Excess Amounts. For the 2020 Revenue Requirement period approximately \$11 million is determined to be Excess Amounts and the Department will consult with the CPUC to return such funds to benefit the ratepayers in the IOU service areas. Excess Amounts as defined within the bond indenture and 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 Bond Indenture, in all instances upon consideration of the interests of the retail customers of the IOUs and DWR.

**TABLE C-1
POWER PURCHASE PROGRAM, REVENUE REQUIREMENT
POWER SOURCES AND USES¹
(\$ Millions)**

Line	Description	Amounts for Revenue Requirement Period (millions)				
		Q1	Q2	Q3	Q4	Total
<i>Sources</i>						
1		Balances in Accounts				25.9
2	Power Charge Revenues	-	-	-	-	-
3	Interest Earnings on Power Charge Account Balances	0.2	0.1	0.1	0.1	0.6
4		Total Sources				26.5
<i>Uses</i>						
5	Return of Excess Cash to Customers	2.8	2.8	2.8	2.8	11.1
6	Operating Expenses	0.4	0.4	0.4	0.4	1.5
7	Power Costs	-	-	-	-	-
8		Ending Balance				13.9
9		Total Uses				26.5

¹Numbers may not add due to rounding.

During 2020, the Department projects that it will incur the following Bond Related Costs: (a) \$2.565 billion for debt service on the Bonds and (b) \$3 million for administrative and general expenses. Funds to meet this requirement are provided from: (a) \$58 million in interest earned on Bond Charge Account balances and (b) \$902 million from Bond Charge Revenues (including CRS revenues from customers other than customers of the IOUs). Table C-2 provides a quarterly projection of sources and uses relating to the Bond Charge Accounts for the 2020 Revenue Requirement Period.

**TABLE C-2
BOND CHARGE REVENUE REQUIREMENT
SOURCES AND USES¹
(\$ Millions)**

Line	Description	Amounts for Revenue Requirement Period (millions)				
		Q1	Q2	Q3	Q4	Total
<i>Sources</i>						
1		Balances in Accounts				1,918
2	Bond Charge Revenues	202	210	249	240	902
3	Interest Earnings on Bond Charge Account Balances	9	18	25	5	58
4		Total Sources				2,878
<i>Uses</i>						
5	Debt Service Payments	-	1,022	-	1,543	2,565
6	Administrative and General Expenses	-	-	-	3	3
7		Ending Balance				310
8		Total Uses				2,878

¹Numbers may not add due to rounding.

D. ASSUMPTIONS GOVERNING THE DEPARTMENT'S PROJECTION OF REVENUE REQUIREMENT FOR THE 2020 REVENUE REQUIREMENT PERIOD

The Department based this Determination on a number of assumptions regarding retail customer load and administrative and general expenses, as well as other considerations affecting the Department's revenues and expenses.

ESTIMATED RETAIL LOAD

The Department obtained the Utilities' most recent retail energy forecasts in June 2019. 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 2020 load forecast (in gigawatt hours) for the PG&E, SCE and SDG&E service areas combined. The information represents forecasts at the customer meter.

**TABLE D-1
ESTIMATED ANNUAL ENERGY REQUIREMENTS⁵**

	Bundled Load	Direct Access and CCA	Total Load
Total	103,179	76,467	179,645

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 authorized 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 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 increased the percentage of each IOU’s retail load attributable to direct access customers to approximately 14 percent, 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 2020 Revenue Requirement period, the total percentage of direct access load, compared to retail load in the three IOU service areas, is projected to be approximately 15 percent.

Currently, the direct access program authorized under SB 695 is at capacity, as demand for direct access service exceeded the load permitted under the adopted utility service area caps. In 2018, Senate Bill 237 (“SB237”) was signed into law and provided for a 4,000 gigawatt-hour increase in the authorized direct access cap. This increase move that will increase the share of statewide load in the direct access market from about 15 percent today to over 15 percent. The CPUC voted in an Order Instituting Rulemaking (“OIR”) to implement SB 237 to address the expansion of direct access, as required by SB237.

COMMUNITY CHOICE AGGREGATION

Community Choice Aggregation, authorized by AB 117 in 2002, refers to the ability of a city or county to aggregate and meet the electrical demands of the residents, businesses and municipal

⁵ Certain load is exempt from DWR charges. Bond Charges are allocated to non-exempt load.

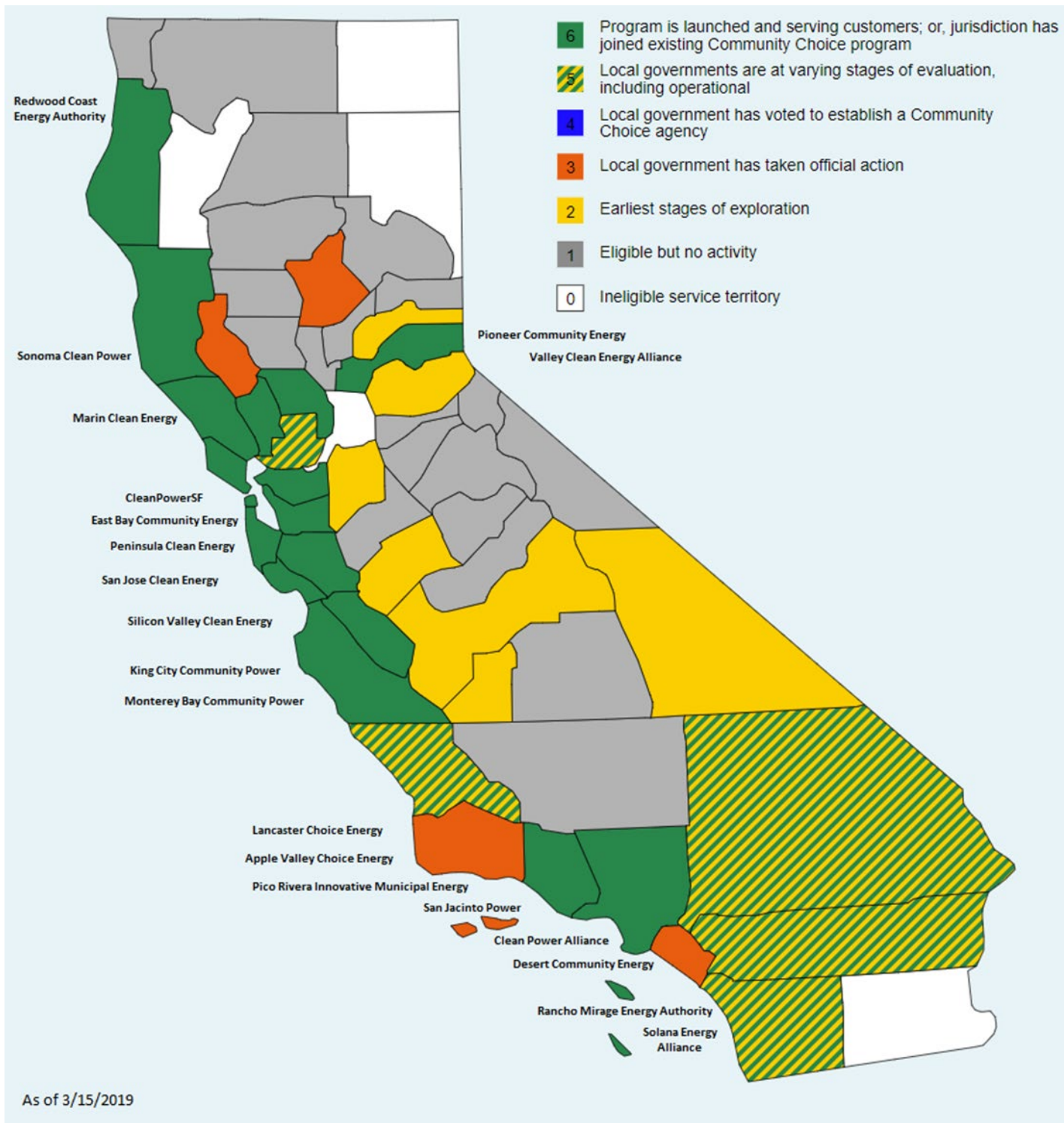
users under its jurisdiction from an electricity provider other than an IOU, such as an independent electrical service provider. In AB 117, the CPUC determined that future CCA customers shall pay charges (including DWR charges) intended to keep the bundled customers of the IOUs indifferent to the costs of CCA departing loads bundled service.

CCAs are growing at a more rapid pace than anticipated. When a CCA launches, IOU electricity customers in the designated service areas are automatically enrolled in CCA service and must opt out to continue to be served by the IOU. Once established, a CCA purchases power for its customers. The CCAs have authority to design its own rate structure, low-income programs, procurement protocols (including renewables) and reliability strategies. While the CCA is responsible for procurement, the IOU still provides other services such as transmission, distribution, metering, billing, collection, and customer service.

MCE was the first CCA established in 2010 and now serves over 400,000 customers. Under the California CCA structure, electricity is procured by the CCA primarily from commercial suppliers and delivered through an IOU's existing infrastructure. A CCA can be a group of municipalities forming a joint powers agency or can consist of a single municipality, such as the Lancaster CCA or San Jose CCA. The CCA is governed by representatives of the participating municipalities; has independent rate setting which is not regulated by the state regulatory board; can establish a local integrated resource plan; and can borrow and issue tax-exempt debt. A CCA board can approve budgets.

Pursuant to AB 117, approximately twenty entities are operational and several more entities have filed CCA Implementation Plans with the CPUC. The CPUC has estimated that up to 85% of retail load of IOU's by the mid-2020 will be served by CCAs, up from about 20% in 2018.

A summary of Community Choice Aggregation is provided below:



Note: Table is sourced from- <https://cleanpowerexchange.org/california-community-choice/>

While CCA could lead to substantial reductions in bundled sales volumes, the CPUC proceeding implementing AB 117 established that the Cost Responsibility Surcharge (“CRS”) would be paid by CCA customers and that the method for calculating the CRS adopted for direct access and

municipal departing load customers, as modified by CPUC Decision 06-07-030, would also apply to CCA customers. The Department's Bond Charge is treated as a non-avoidable charge, along with other IOU charges, that is included on CCA customer bills. The collection of Bond Charges from departing loads is submitted to the Department when customers pay their IOU bill.

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 CRS related to historical stranded power costs and ongoing above-market power costs. Included in the CRS is a DWR Bond Charge component, which is assessed to pay debt service associated with DWR's bond issuances. The DWR Power Charge is a component of the Power Charge Indifference Adjustment (PCIA). The PCIA is intended to "equalize cost sharing" between customers who leave their IOUs for new electric service called "departing load," and those that stay with their IOUs, called "bundled load. The Bond Charge and the Power Charge components are rates imposed on total non-exempt electricity usage by direct access, departing load, and CCA customers by the CPUC in concert with the establishment of Power Charges and Bond Charges on bundled customers.

CRS 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.

ADMINISTRATIVE AND GENERAL COSTS

The Department's administrative and general costs of \$4.5 million consist of \$3 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 \$1.5 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 outstanding debt portfolio and related reserves.

FINANCING RELATED ASSUMPTIONS

For purposes of calculating the interest earnings on account balances during 2020, the Department assumes a 3.33 percent earnings rate for the Debt Service Reserve Account and a 2.395 percent earnings rate for all other accounts during the 2020 Revenue Requirement Period.

The Department currently has \$2.459 billion of fixed rate bonds outstanding. The projected average interest rate for all fixed rate bonds for the 2020 Revenue Requirement Period is 4.120 percent.

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 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 Determination, the Department has determined that it does not have an MOEAB amount for the 2020 Revenue Requirement Period. 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 maintaining sufficient amounts for any remaining cost obligations of the expired power and natural gas supply portfolio and related 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 Department does not have an ORAR for the 2020 Revenue Requirement Period.

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 2020 Revenue Requirement Period, the Department has determined the Debt Service Reserve Requirement to be \$882 million. The Department projects to maintain this amount at all times during the 2020 Revenue Requirement Period prior to defeasing its Power Bond Portfolio.

E. COUNTERPARTY 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. Any future settlement distributions will reduce Department costs and, as a result, decrease the Department’s revenue requirement. Since the 2019 Revenue Requirement was submitted, the Department has not received any amounts resulting from power contract related legal settlements.

The Department is involved in class action litigation with various financial institutions to resolve alleged manipulation of financial market benchmark interest rates and their impact on the Fund’s bond offerings and interest rate swap agreements. Since the 2019 Revenue Requirement was submitted, the Department received \$10 million (September 2018) in legal settlements related to alleged financial institutions manipulation.

Further information on legal settlements is available by contacting the CERS office in Sacramento.

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 2020 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 Bond Charges;
 - a. Potential administrative and legal challenges to DWR’s revenue requirement;
 - b. Potential challenges to the implementation of legislation; and
 - c. Application and enforcement of the Rate Agreement’s Bond Charge rate covenant.
- 2) Collection of Bond Charges:
 - a. Potential rejection of Servicing Arrangements or other disruption of servicing arrangements.
- 3) Potential increases in overall electric rates:
 - a. Changes in general economic conditions;
 - b. Market manipulation; and
 - c. Actions affecting retail rates.
- 4) Potential decrease in DWR customer base:
 - a. Direct Access; and
 - b. Load departing IOU service.

- 5) Uncertainties relating to government action:
 - a. California Emergency Services Act;
 - b. Possible State legislation or action; and
 - c. Possible Federal legislation or action.

- 6) Uncertainties relating to financial industry and markets:
 - a. Effects of bond refunding, defeasance 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.

Determination	Date Issued
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
2015	August 21, 2014
Revised 2015	October 23, 2014
2016	August 6, 2015
2017	August 4, 2016
Revised 2017	October 21, 2016
2018	August 8, 2017
2019	August 2, 2018

THE 2020 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 issued its Proposed Determination of Revenue Requirements for the period January 1, 2020 through December 31, 2020 for public review and comment under the Regulations promulgated pursuant to the California Administrative Procedures Act. 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 are advised to submit comments no later than August 16, 2019.

JUST AND REASONABLE DETERMINATION

The Department, intends - after completing its assessment of the administrative record, the Act, the Regulations, Bond Indenture requirements and the Rate Agreement – to find this Determination, for the period of January 1, 2020 through December 31, 2020, to be a just and reasonable determination of its 2020 Revenue Requirement.

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

Volume	Record Number	Date	Record Title
DWR20pRR	1	3/26/2019	DWR Electric Power Fund Audited Financial Statements, for fiscal year ending 6/30/18
DWR20pRR	2	11/29/2018	CPUC D. 18-11-040 Allocating the Final 2019 Revenue Requirement
DWR20pRR	3	5/30/2019	DWR "Bhatia" email transmittal of Data Request 1 to PG&E
DWR20pRR	4	5/30/2019	DWR "Bhatia" email transmittal of Data Request 1 to SCE
DWR20pRR	5	5/30/2019	DWR "Bhatia" email transmittal of Data Request 1 to SDG&E
DWR20pRR	6	6/21/2019	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: SDG&E Data Responses
DWR20pRR	7	6/28/2019	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: PGE - Data Responses
DWR20pRR	8	6/28/2019	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: SCE - Data Responses
DWR20pRR	9	7/25/2019	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: Financial Model (CFMG6V4m-2020 RR 7-25-2019 filing.xlsm) Projection of Revenue Requirement
DWR20pRR	10	7/25/2019	Proposed Determination of Revenue Requirement for 2020, including the Determination, The Notice, and Regulations.
DWR20pRR	11	7/25/2019	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: Data files supporting the Proposed Determination of Revenue Requirement for 2020, specific to PG&E
DWR20pRR	12	7/25/2019	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: Data files supporting the Proposed Determination of Revenue Requirement for 2020, specific to SCE

DWR20pRR	13	7/25/2019	CONFIDENTIAL: NOT FOR PUBLIC RELEASE: Data files supporting the Proposed Determination of Revenue Requirement for 2020, specific to SDG&E