

THIS 2015 ADDENDUM TO SUMMARY OF MATERIAL TERMS OF FINANCING DOCUMENTS, dated as of February __, 2015 (the “2015 Addendum”), is a supplement to the Summary of Material Terms of Financing Documents (“Summary of Material Terms”) which was attached to a memorandum dated February 21, 2002 from the California Department of Water Resources (“DWR”) to the California Public Utilities Commission (“CPUC”) as Attachment A, as the same was supplemented and amended by an Amended and Restated Addendum to Summary of Material Terms dated as of August 8, 2002 (the “2002 Addendum”), an Addendum to Summary of Material Terms of Financing Documents dated as of September 20, 2005 (the “2005 Addendum”), a February 2008 Addendum to Summary of Material Terms of Financing Documents dated as of February 27, 2008 (the “February 2008 Addendum”), a March 2008 Addendum to Summary of Material Terms of Financing Documents dated as of March 12, 2008 (the “March 2008 Addendum”), and a December 2008 Addendum to Summary of Material Terms of Financing Documents dated as of December 17, 2008 (the “December 2008 Addendum”), an April 2010 Addendum to Summary of Material Terms of Financing Documents dated as of April 6, 2010 (the “April 2010 Addendum”), a September 2010 Addendum to Summary of Material Terms of Financing Documents dated as of September 20, 2010 (the “September 2010 Addendum”), a July 2011 Addendum to Summary of Material Terms of Financing Documents dated as of July 22, 2011 (the “July 2011 Addendum”), and collectively with the 2002 Addendum, the 2005 Addendum, the February 2008 Addendum, the March 2008 Addendum, the December 2008 Addendum, the April 2010 Addendum, the September 2010 Addendum and the July 2011 Addendum, the “Previous Addenda”). All

undefined terms in this 2015 Addendum shall be defined by reference to the Rate Agreement dated as of March 8, 2002 (the “2002 Rate Agreement”) between DWR and CPUC and the Trust Indenture dated as of October 1, 2002 among DWR, the Treasurer of the State of California, as Trustee, and U.S. Bank National Association, as Co-Trustee, as amended (the “Indenture”).

DWR has determined that (1) current market conditions make it likely that debt service savings can be achieved by the issuance of refunding Bonds for the purpose of refunding a portion of its outstanding Bonds, (2) it will be necessary or appropriate to enter into related Financing Documents in connection with the issuance of the refunding bonds, and (3) it may be necessary or appropriate to enter into related Enhancement Facilities in the connection with the issuance of the refunding Bonds.

The Summary of Material Terms and the Previous Addenda specified certain matters which were reflected in the terms of the Financing Documents and addressed matters relating to the issuance or proposed issuance of Bonds in 2002, 2005, 2008, 2010 and 2011. This 2015 Addendum addresses matters relating to the proposed issuance by DWR of the above-described refunding Bonds (the “2015 Addendum Refunding Bonds”), including specifying that the 2015 Addendum Refunding Bonds are not subject to the maximum aggregate principal amount and proceeds limitations reflected in the Summary of Material Terms and the Previous Addenda and are instead subject to the limitations reflected herein and in the 2002 Rate Agreement. Except as provided herein, the Summary of Material Terms, as modified by the 2002 Addendum, shall apply, treating the 2015 Addendum Refunding Bonds as “Bonds” thereunder.

1. Maximum Amount of 2015 Addendum Refunding Bonds Authorized.

DWR will issue no more 2015 Addendum Refunding Bonds than it determines are necessary to provide for the defeasance and/or redemption of the Bonds being refunded and

to pay costs incurred in connection with the issuance of the 2015 Addendum Refunding Bonds, the execution and delivery of the related Financing Documents and Enhancement Facilities, if any, and the defeasance and/or redemption of the Bonds being refunded. The principal amount of 2015 Addendum Refunding Bonds will also be limited as described in paragraph 3 below. All 2015 Addendum Refunding Bonds will be fixed rate and will be issued prior to December 1, 2015.

2. Use of Proceeds.

DWR will apply the proceeds of 2015 Addendum Refunding Bonds solely to fund an escrow providing for the defeasance and/or redemption of the Bonds being refunded and to the payment of costs incurred in connection with the issuance of the 2015 Addendum Refunding Bonds, the execution and delivery of the related Financing Documents and Enhancement Facilities, if any, and the defeasance and/or redemption of the Bonds being refunded. The Bonds to be refunded pursuant to this 2015 Addendum will be determined by DWR, subject to the limitations of this 2015 Addendum.

3. DWR Determination as to Refundings.

Prior to the issuance of 2015 Addendum Refunding Bonds, DWR will furnish to the Commission DWR's determination that there are present value savings projected to result from the issuance of the 2015 Addendum Refunding Bonds for such purpose and the projected amount of such savings, which savings in the aggregate will not be less than 3% of the amount of the Bonds being refunded.

Such determination will include a summary of the principal assumptions used in making such determination. The Department will, in the course of preparing to issue the 2015

Addendum Refunding Bonds and make such determination, provide to the Commission such information as the Commission may request concerning matters relating to such determination and the assumptions therein.

4. Rate Agreement Applicable to 2015 Addendum Refunding Bonds.

The 2015 Addendum Refunding Bonds shall be entitled to the benefits of the Rate Agreement in accordance with the terms thereof.

Memorandum

Date: January 30, 2015

To: Office of General Counsel
Karen V. Clopton, Interim General Counsel
505 Van Ness Avenue
San Francisco, California 94102

From: Department of Water Resources

Subject: Refunding of Selected Department of Water Resources Power Supply Fixed Rate Bonds for Savings

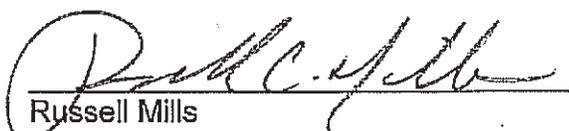
This is to modify the Department of Water Resources' (DWR) request of December 15, 2014 (copy attached) that the California Public Utilities Commission (CPUC) approve the attached proposed "Addendum to Summary of Material Terms of Financing Documents" (the "New Refunding Addendum") relating to potential refundings of certain DWR Power Supply Revenue Bonds. Such refundings would permit debt service savings to be achieved and be passed along to ratepayers. The request has been modified in response to discussions with your staff.

DWR is withdrawing its request that "the CPUC and DWR establish a general framework (to be reflected in the New Refunding Addendum) that would permit DWR to refund any portion of its bond portfolio when market conditions provide the opportunity for significant ratepayer savings, thereby giving DWR the ability to act quickly when market conditions create an attractive refunding opportunity that can lower the burden on ratepayers" (last paragraph on page two of December 15, 2014 memo). Instead this will be a one-time request for approval of a specific New Refunding Addendum, similar to past requests. The new modified New Refunding Addendum is being submitted with this memo. All other provisions of the December 15, 2014 memo remain the same.

We request that the CPUC approve the New Refunding Addendum in the CPUC's February 26 or March 12 Business Meeting and authorize appropriate CPUC staff to take such actions as may be required to implement the contemplated transaction in order to meet the bond sale target of the week of March 30, 2015.

Office of General Counsel
Karen V. Clopton, Interim General Counsel
January 30, 2015
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DWR appreciates the CPUC's assistance and will make its staff and advisors available to the CPUC as needed to assist with the consideration of this refunding opportunity. If you have any questions or need additional information, please contact Russell Mills at (916) 651-6736, or John Pacheco at (916) 574-0311.



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Attachments

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cc: Honorable Michael Picker, President
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The Honorable Michel Peter Florio
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Memorandum

Date: December 15, 2014

To: Office of General Counsel
Karen V. Clopton, Acting General Counsel
505 Van Ness Avenue
San Francisco, California 94102

From: Department of Water Resources

Subject: Refunding of Selected Department of Water Resources Power Supply Fixed Rate Bonds for Savings

The Department of Water Resources (DWR) requests that the California Public Utilities Commission (CPUC) approve the attached proposed "Addendum to Summary of Material Terms of Financing Documents" (the "New Refunding Addendum") relating to potential refundings of certain DWR Power Supply Revenue Bonds which would permit debt service savings to be achieved and be passed along to ratepayers.

DWR's Power Supply Revenue Bond portfolio consists of \$5.943 billion of fixed rate bonds. The average interest rate for these bonds for 2015 is 4.83 percent. Annual debt service on the bond portfolio ranges from \$890 million in 2015 to \$919 million in 2022. The CPUC allocates bond charges to ratepayers in each Investor Owned Utility service area to pay the annual debt service and related expenses.

Current interest rates remain low from a historical perspective. Strong investor demand for California bonds make it likely that debt service savings can be achieved by issuing bonds to refund a portion of DWR's outstanding bonds. DWR requests that the CPUC coordinate with DWR, so that DWR has the flexibility to enter the bond market and refund portions of its bond portfolio when it can capture favorable tax-exempt fixed interest rates to secure the maximum available savings for ratepayers. The CPUC's coordination would include its approval of an Addendum to the Summary of Material Terms of Financing Documents relating to the described herein.

DWR currently has an opportunity to refund a portion of its Series 2008H Power Supply Revenue Bonds. Approximately \$520 million of these Series 2008H Bonds may, under current tax law, be advance refunded using tax-exempt debt. Presently, DWR is considering advance refunding \$469,425,000 of the Series 2008H Bonds that bear interest at a fixed rate of 5.00 percent. Refunding these 5.00 percent coupon bonds provides a significant amount of savings for ratepayers.

Using current tax-exempt rates, the proposed refunding of the Series 2008H bonds would generate approximately \$21 million in present value savings, or about 4.48 percent of the par amount of refunded bonds. DWR will issue no more refunding bonds for this purpose than it determines is necessary to provide for the defeasance and/or redemption of the bonds being refunded and to pay costs incurred in connection with the issuance of the refunding bonds.

Over the remaining term of the Power Supply Revenue Bonds we anticipate that additional bonds may be refunded to achieve savings. DWR would like to take advantage of savings opportunities as they may arise during the remaining eight years of the Power Supply Program. For example, an additional \$207,155,000 in Series 2008 H Bonds may be refunded using tax-exempt bonds beginning in February 2018. (Such bonds are not advance-refundable because of certain Internal Revenue Code constraints.)

Discussion of the trade-offs associated with a fixed rate refunding

As noted, under current market conditions, DWR expects that it would realize approximately \$21 million in present value savings by advance refunding some of the Series 2008H Bonds. This would have the effect of reducing annual debt service, thereby reducing the bond charge to ratepayers. Since interest rates can move up and down, DWR is requesting the flexibility to refund bonds in its portfolio when and if it can achieve significant savings.

Historically, DWR has worked with the Treasurer's Office and the CPUC to establish a present value savings target that considered market conditions at the time and other factors such as reducing the counterparty and other risks associated with DWR's variable rate debt portfolio. In examining the potential savings currently available and savings opportunities associated with the remaining Power Supply Revenue Bond portfolio, DWR will consider the relative shortness of the remaining maturities (which affects the amount of time during which savings can potentially be achieved), market conditions, and ratepayer savings.

Current interest rates are near historical lows and even relatively small increases in rates can eliminate or significantly reduce savings opportunities. Experience indicates that it is very difficult if not impossible to predict or anticipate when markets may permit refundings for savings to be successfully implemented. Therefore, DWR recommends and requests that the CPUC and DWR establish a general framework (to be reflected in the New Refunding Addendum) that would permit DWR to refund any portion of its bond portfolio when market conditions provide the opportunity for significant ratepayer savings, thereby giving DWR the ability to act quickly when market conditions create an attractive refunding opportunity that can lower the burden on ratepayers. Additionally, approval of the New Refunding Addendum would lessen the regulatory workload for the CPUC by eliminating the need to consider each refunding separately. If the New Refunding Addendum is accepted by the CPUC, DWR intends to utilize the present value savings target (typically three percent) used by the State Treasurer's Office and other DWR revenue bond programs as its primary guideline for evaluating refunding opportunities.

Discussion of the CPUC Action Necessary with a Bond Refunding

The Rate Agreement provides that Bonds may be issued in an aggregate principal amount up to \$13,423,000,000 and further provides that Bonds issued to refund prior Bonds "are not counted against such dollar limitation." Section 80130 of the Water Code also specifies an aggregate limit of bonds that may be issued (\$13,423,000,000) by DWR in connection with the Power Supply Program. All refunding bonds heretofore issued are exempted from such statutory limitation. Further, on a going forward basis, refunding bonds issued to obtain a lower interest rate are exempted from such statutory limitation. (See § 80130(d) of the Water Code.). Since DWR has issued an aggregate principal amount of \$11,263,500,000 in Bonds (excluding refunding's), the proposed refunding Bonds will be within the limit set forth in the Rate Agreement, as well as the limit set by Section 80130 of the Water Code.

The refunding's contemplated will not result in any material changes (as defined in Section 7.10 of the Rate Agreement) to the Summary of Material Terms of Financing Documents (the "Summary of Material Terms") delivered in connection with the Rate Agreement. However, since the Summary of Material Terms did not provide expressly for the details of refunding bonds and the proceeds thereof, as with prior refunding's, we are furnishing to the CPUC an Addendum to the Summary of Material Terms of Financing Documents relating to the refunding's described herein, i.e. the New Refunding Addendum, which specifies that proposed refunding bonds are not subject to the maximum aggregate principal amount and proceeds limitations reflected in the Summary of Material Terms and previous Addenda, and are instead subject to the limitations reflected in the New Refunding Addendum and the Rate Agreement.

In addition to approving the New Refunding Addendum, the CPUC will need to provide various certifications and legal opinions for any bond sale. The certificates and opinions that were provided in DWR's most recent refunding are listed below:

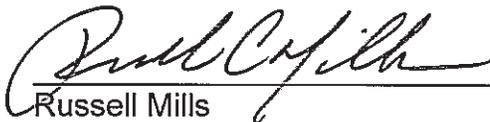
- Certificate of the CPUC regarding Rate Agreement
- Certificate of the CPUC pursuant to Section 202.2(f) of Trust Indenture
- Certificate of the CPUC pursuant to Section 10(g)(xxiv) of purchase contract
- Opinion of the CPUC General Counsel

In addition, the CPUC's outside legal counsel provided a separate opinion on bankruptcy issues.

Office of General Counsel
Karen V. Clopton, Acting General Counsel
December 15, 2014
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We request that the CPUC approve the New Refunding Addendum and authorize appropriate CPUC staff to take such actions as may be required to implement the contemplated.

DWR appreciates the CPUC's assistance and will make its staff and advisors available to the CPUC as needed to assist with the consideration of this refunding opportunity. If you have any questions or need additional information, please contact Russell Mills at (916) 651-6736, or John Pacheco at (916) 574-0311.



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Attachments

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December 15, 2014
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