

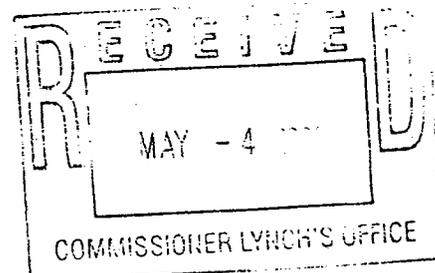
Memorandum

Date : May 2, 2001

To: The Honorable Loretta Lynch, President
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

From : Thomas M. Hannigan
Department of Water Resources

Subject : Revenue Requirements



This letter is submitted by the Department of Water Resources in accordance with Division 27 of the California Water Code.

Section 80110 of the Water Code provides in part, "The Department shall be entitled to recover, as a revenue requirement, amounts and at the times necessary to enable it to comply with Section 80134, and shall advise the Commission as the Department determines to be appropriate." Section 80110 also provides that any "just and reasonable" review of its revenue requirements shall be conducted and determined by the Department.

Section 80134 of the Water Code provides that:

"(a) The Department shall, and in any obligation entered into pursuant to this division may covenant to, at least annually, and more frequently as required, establish and revise revenue requirements sufficient, together with any moneys on deposit in the fund, to provide all of the following:

- (1) The amounts necessary to pay the principal of and premium, if any, and interest on all bonds as and when the same shall become due.
- (2) The amounts necessary to pay for power purchased by it and to deliver it to purchasers, including the cost of electric power and transmission, scheduling, and other related expenses incurred by the department, or to make payments under any other contracts, agreements, or obligation entered into by it pursuant hereto, in the amounts and at the times the same shall become due.
- (3) Reserves in such amount as may be determined by the Department from time to time to be necessary or desirable.
- (4) The pooled money investment rate on funds advanced for electric power purchases prior to the receipt of payment for those purchases by the purchasing entity.

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(5) Repayment to the General Fund of appropriations made to the fund pursuant hereto or hereafter for purposes of this division, appropriations made to the Department of Water Resources Electric Power Fund, and General Fund moneys expended by the department pursuant to the Governor's Emergency Proclamation dated January 17, 2001.

(6) The administrative costs of the Department incurred in administering this division.

(b) The Department shall notify the Commission of its revenue requirement pursuant to Section 80110."

In accordance with these and other provisions of the Water Code, the Department has determined and by this letter communicates to the Commission its revenue requirements, which are attached hereto as Exhibit A. The Department has determined that these revenue requirements are just and reasonable.

In developing the revenue requirements contained herein, the Department has made a variety of assumptions, including assumption relating to the following matters, among others: the amount of power to be purchased by the Department, the cost of such power, the amount of power which will be purchased pursuant to contracts, the amount of power which will be purchased on a "spot" basis, the impact of conservation efforts, the implementation of interim and long term financing, and interest rates applicable to such financing. Actual conditions may differ from those assumed by the Department, and any differences could have a material impact on the revenue requirements of the Department. Accordingly, the Department reserves its right to revise the revenue requirements as it determines necessary.

The Department requests that, in accordance with the provisions of Division 27 of the Water Code, the Commission establish specific rates payable to the Department for power sold by the Department to retail end use customers within the State. That is, the revenues resulting from such rates should be measured as a function of the amount of power sold by the Department and not in any respect as a function of the amount of power sold by the respective utility. Such rate or rates should be independent of rates payable by retail end use customers for power purchased by such customers from the utilities, and by law, must be sufficient in order for the Department to recover the revenue requirements attached hereto. It is critical that specific rates for Department power be established, so as to facilitate the identification and segregation of moneys collected from retail end use customers on behalf of the Department by the respective utilities, as required by Section 80112 of the Water Code.

If the Commission identifies a need for additional information to assist in the rate setting required by law, please notify the Department of such informational needs and the Department will endeavor to provide the necessary assistance. Please note however, that in order to allow the Department to continue to implement the power purchase program, it is necessary that certain information remain confidential.

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Thank you for your assistance and attention to this important matter. We anticipate submitting additional information and requests to the Commission relating to the Department's power purchase program and financing plans and appreciate your continuing cooperation.


for Thomas M. Hannigan
Director
(916) 653-7007

Attachment