

Department of Water Resources Electric Power Fund Financial Statements

For the year ended June 30, 2023
(with comparative amounts for 2022)



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Department of Water Resources Electric Power Fund Management's Discussion and Analysis June 30, 2023 (amounts in millions unless otherwise stated)

This Management Discussion and Analysis (MD&A) is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in financial position of the Department of Water Resources Electric Power Fund (the Fund), which is administered by the California Department of Water Resources (DWR or Department). Readers are encouraged to consider the information presented in the MD&A in conjunction with the financial statements that follow. This MD&A and the financial statements do not relate to DWR's other governmental and proprietary funds.

The financial statements include three required statements, which provide different views of the Fund. The three required statements are:

- The Statement of Net Position: includes all assets, liabilities and deferred outflows and inflows of resources as of the period ending date.
- The Statement of Revenues, Expenses and Changes in Net Position: presents all current year's revenues, expenses, and changes in net position.
- The Statement of Cash Flows: reports cash receipts, payments and the net change in cash resulting from four principal types of activities: operating, capital financing, non-capital financing and investing.

These statements provide current and long-term information about the Fund and its activities. These financial statements report information using accounting methods similar (although not identical) to those used by private sector companies. In order for the financial statements to be complete, they must be accompanied by a complete set of Notes. The Notes to Financial Statements provide disclosures which are required to conform to generally accepted accounting principles. The Fund is required to follow accounting standards promulgated by the Governmental Accounting Standards Board (GASB).

PURPOSE OF FUND

The Fund was established in January 2001 through legislation to assist in mitigation of the effects of a statewide energy supply emergency.

The legislation granted the Fund the authority to secure and retain title to power for resale to end use customers in the State's investor-owned utilities (IOUs) service areas under power supply contracts entered into prior to January 1, 2003. The scheduling, dispatch, and certain other administrative functions for the long-term contracts were performed by the IOUs as agents for the Fund. However, the Fund retained the legal and financial responsibility for each contract for the life of the contract or until such time as there was a complete assignment of the contract to an IOU and release of the Fund. The last remaining contract terminated during the 2015 fiscal year, releasing the Fund from substantially all future power supply obligations. The Fund does not have any significant legal or financial responsibility for any power supply contracts entered into pursuant to the legislation establishing its authority.

All debt associated with the Fund was defeased in fiscal year 2022. Prior to the defeasance of the bonds, the Fund was entitled to recover a revenue requirement for authorized activities, including but not limited to, debt service, the cost of power purchases, administrative expenses and reserves. Upon the defeasance of the bonds and all other bond related costs, the rate agreement with the California Public Utilities Commission (CPUC) terminated on its own terms. The Department does not expect to file any more revenue requirements for the collection of customer remittances. The Fund has very limited annual administrative expenses which will remain until all outstanding litigation is complete. As detailed in CPUC Decision 21-12-001, once the Department deems it necessary all remaining funds held by the Department will be returned to ratepayers, and the Fund will be closed.

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CONDENSED STATEMENT OF NET POSITION

The Fund's assets, deferred outflows / inflows of resources, liabilities, and net position as of June 30 are summarized as follows:

	June 30, 2023	June 30, 2022
Assets:		
Restricted cash and equivalents:		
Administrative cost account	\$ 11	\$ 12
Operating account	16	16
Total assets	<u>27</u>	<u>28</u>
Deferred Outflows of Resources:		
Deferred outflows of resources related to pensions	1	-
Deferred outflows of resources related to OPEB	2	3
Total deferred outflows of resources	<u>3</u>	<u>3</u>
 Total assets and deferred outflows of resources	<u><u>\$ 30</u></u>	<u><u>\$ 31</u></u>
Liabilities:		
Net pension liability	\$ 1	\$ 1
Net OPEB liability	1	3
Total liabilities	<u>2</u>	<u>4</u>
Deferred Inflows of Resources:		
Deferred inflows of recoverable cost	23	22
Deferred inflows of resources related to pensions	1	1
Deferred inflows of resources related to OPEB	4	4
Total deferred inflows of resources	<u>28</u>	<u>27</u>
 Total liabilities and deferred inflow of resources	<u><u>\$ 30</u></u>	<u><u>\$ 31</u></u>

Restricted Cash and Equivalents

The Administrative Cost Account was \$11 million as of June 30, 2023. It was \$12 million in fiscal year 2022. The decrease of \$1 million is due to limited ongoing expenses as the Fund operation continues to decline.

The Operating Account remained unchanged at \$16 million as of June 30, 2023 and June 30, 2022.

Deferred Outflows of Resources

Deferred outflows of resources related to pensions was \$1 million in fiscal year 2023 and \$0 million in fiscal year 2022.

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Deferred outflows of resources related to Other Post-Employment Benefit health care benefits (OPEB) was 2 million in 2023 and \$3 million in fiscal year 2022.

Net Pension Liability

The net pension liability remained unchanged at \$1 million during fiscal year ended June 30, 2023 and June 30, 2022.

Net OPEB Liability

The net OPEB liability was \$1 million during fiscal year ended June 30, 2023.

The net OPEB liability was \$3 million during fiscal year ended June 30, 2022.

Deferred Inflows of Resources

The deferred inflows of recoverable cost was at \$23 million as of June 30, 2023 and \$22 million as of June 30, 2022.

Deferred inflows of resources related to pensions stayed the same at \$1 million for fiscal year ended June 30, 2023 and June 30, 2022.

Deferred inflows of resources related to OPEB remained unchanged at \$4 million as of June 30, 2023 and June 30, 2022.

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Fund's activities for the year ended June 30 are summarized as follows:

	June 30, 2023	June 30, 2022
Revenues:		
Power charges, net of refunds	\$ -	\$ (140)
Interest income	1	-
Total revenues	<u>1</u>	<u>(140)</u>
Expenses:		
Energy and financial settlements	-	(141)
Bond charges refund	-	171
Interest expense	-	23
Administrative expenses	1	2
Recovery (defferal) of recoverable costs	-	(195)
Total expenses	<u>1</u>	<u>(140)</u>
Changes in net position	-	-
Net position, beginning of year	-	-
Net position, end of year	<u>\$ -</u>	<u>\$ -</u>

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Power Charges

The cost of providing energy was recoverable primarily through Power Charges to IOU customers, non-exempt customers of ESPs, and CCAs. Charges were determined by applying a CPUC adopted rate to the megawatt-hours of power delivered by the Fund to customers in each IOU service area.

There was no return of excess power charges as of June 30, 2023. Net refunds increased by \$133 million during fiscal year ending June 30, 2022. The increase was primarily due to the Fund returning excess amounts of previously received remittances to ratepayers in the IOU service areas during fiscal year 2022.

Interest Income

Interest income was \$1 million as of June 30, 2023. Interest income for fiscal year 2022 was \$0 due to the termination of the investments under the Forward Purchase Agreement (FPA) and Guaranteed Investment Contracts (GICs). The Fund also received interest income from the California Surplus Money Investment Fund (SMIF). However, due to the rounding in the financial statements, this small amount was shown as \$0.

Energy and Financial Settlements

Energy settlements, including those related to complex regulatory proceedings before the Federal Energy Regulatory Commission (FERC), arising from events in California energy markets in 2001, are recorded as a decrease in operating expenses.

Additionally, the Fund is involved in 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 previously held by the Fund.

The Fund received \$82,797.88 in settlement money from the California Power Exchange Corporation during fiscal year 2023. The Fund received \$141 million for the California Energy Crisis settlements from the California Power Exchange Corporation, the California Parties, and Commission Federal de Electricidad during fiscal year ended June 30, 2022.

Interest Expense

Interest expense was \$0 million as of June 30, 2023, and \$23 million at the end of fiscal year 2022. The decrease was due to the pay-off of the outstanding bonds.

Administrative Expenses

Administrative expenses were \$1 million in fiscal year 2023 and \$2 million in fiscal year 2022. The decrease was due to fewer activities occurring after the Fund paid off the outstanding debt.

Recovery of Recoverable Costs

The individual components of the recovery of recoverable costs are as follows:

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	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Operations	\$ (1)	\$ (1)
Debt service and related costs	<u>1</u>	<u>(194)</u>
	<u>\$ -</u>	<u>\$ (195)</u>

Operations

The negative \$1 million operations recovery, in the year ended June 30, 2023 and June 30, 2022, is primarily due to lower administrative expenses as The Fund operation continue to decline.

Debt Service and Related Costs

The recovery of debt service and related costs in two years are a result of bond charges and interest income providing funds to pay interest expenses and retire debt. The recovery in fiscal year 2023 was \$1 million. The recovery of debt service and related costs in fiscal year 2022 was negative \$194 million due to return of bond charges revenue to IOU customers, interest expenses and related costs.

Long-term Obligations

Long-term debt includes the lease liability and IT subscription liability. The lease liability at June 30, 2023 is \$57.5 thousand, a decrease of \$142.5 thousand due to regular principal payments and discontinued payments on one lease contract. The IT subscription liability at June 30, 2023 is \$5 thousand. This is the first year the subscription liability is recorded due to the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, effective July 1, 2022, Additional information regarding leases and SBITA’s can be found in Note 3 and 4 the Basis Financial Statements. The lease liability and IT subscription liability do not appear on the statement of net position due to the rounding in the million dollars.

Requests for Information

This financial report is designed to provide a general overview of the Fund’s finances for those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Branch Manager, State Water Project Enterprise Cost Analysis and Billing Branch, 715 P Street, 6th Floor, Sacramento, California 95814.

Department of Water Resources Electric Power Fund
Statement of Net Position
June 30, 2023
(amounts in millions unless otherwise stated)

	June 30, 2023
Assets:	
Current assets:	
Restricted cash and equivalents:	
Administrative cost account	\$ 11
Operating account	16
Total current assets	<u>27</u>
Total assets	<u>27</u>
Deferred Outflows of Resources:	
Deferred outflows of resources related to pensions	1
Deferred outflows of resources related to OPEB	2
Total deferred outflows of resources	<u>3</u>
Total assets and deferred outflows of resources	<u>\$ 30</u>
Liabilities:	
Non-Current liabilities:	
Net pension liability	\$ 1
Net OPEB liability	1
Total non-current liabilities	<u>2</u>
Total liabilities	<u>2</u>
Deferred Inflows of Resources:	
Deferred inflows of recoverable cost	23
Deferred inflows of resources related to pensions	1
Deferred inflows of resources related to OPEB	4
Total deferred inflows of resources	<u>28</u>
Total liabilities and deferred inflow of resources	<u>\$ 30</u>

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Statement of Revenues, Expenses, and Changes in Net Position
For the year ended June 30, 2023
(amounts in millions unless otherwise stated)

	<u>June 30,</u> <u>2023</u>
Operating revenues:	
Power charges, net of refunds	\$ -
Total operating revenues	<u>-</u>
Operating expenses:	
Energy and financial settlements	-
Administrative expenses	1
Recovery of recoverable operating costs	<u>(1)</u>
Total operating expenses	<u>-</u>
Income from operations	<u>-</u>
Nonoperating revenues and expenses:	
Bond charges, refunds	-
Interest income	1
Interest expense	-
Recovery of recoverable debt service and related costs	<u>(1)</u>
Total nonoperating revenues and expenses	<u>\$ -</u>

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Statement of Cash Flows
For the year ended June 30, 2023
(amounts in millions unless otherwise stated)

	<u>June 30,</u> <u>2023</u>
Cash flows from operating activities:	
Receipts:	
Power charges, net of refunds	\$ -
Energy settlement	-
Payments to employees for services	(2)
Payments for power purchases and other expenses	-
Net cash flows (used for) operating activities	<u>(2)</u>
Cash flows from non-capital financing activities:	
Receipt of bond charges, net of refunds	-
Net cash flows (used for) non-capital financing activities	<u>-</u>
Cash flows from investing activities:	
Purchase of investment securities	-
Interest received on investments	1
Net cash flows (used for) investing activities	<u>1</u>
Changes in restricted cash and equivalents,	(1)
Restricted cash and equivalents, beginning of period	<u>28</u>
Restricted cash and equivalents, end of period	<u>\$ 27</u>
Restricted cash and equivalents included in:	
Administrative cost account	\$ 11
Operating account	<u>16</u>
Restricted cash and equivalents, end of year	<u>\$ 27</u>
	 June 30, 2023
Reconciliation of income from operations to net cash used in operating activities:	
Income from operations	\$ -
Adjustments to reconcile income from operations to net cash used in operating activities:	
Recovery of recoverable operating costs	(1)
	<u>(1)</u>
Changes in net assets and liabilities to reconcile income from operations to net cash used in operations:	
Net OPEB liability and related deferred inflows/outflows	-
Net pension liability and related deferred inflows/outflows	(1)
Interfund loans payable	-
Net change in assets & liabilities:	<u>(1)</u>
Net cash (used for) operating activities	<u>\$ (2)</u>

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Notes to Financial Statements
June 30, 2023
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1. Reporting Entity

In January 2001, the Governor of California issued an emergency proclamation directing the DWR to enter into contracts and arrangements for the purchase and sale of electric power to assist in mitigating the effect of a statewide energy supply emergency.

The Fund, administered by DWR, was established in January 2001 through legislation adding Division 27 to the California Water Code (the Code).

The Fund purchased power from wholesale suppliers under contracts entered into prior to January 1, 2003 for resale to customers in the service areas of the State's IOU's: Pacific Gas & Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas and Electric Company (SDG&E). The Code prohibits the Fund from entering into new power purchase agreements after December 31, 2002 but allowed the Fund to enter into gas purchase contracts to provide fuel for power generation.

The Fund's power was delivered to customers through the transmission and distribution systems of the IOUs and payments from customers were collected for the Fund by the IOUs pursuant to servicing arrangements approved and/or ordered by the CPUC.

All debt associated with the fund was defeased in fiscal year 2022. Upon the defeasance of the bonds and all other bond related costs, the rate agreement with the California Public Utilities Commission (CPUC) terminated on its own terms. The Department does not expect to file any more revenue requirements for the collection of customer remittances. As detailed in CPUC Decision 21-12-001, once the Department deems it necessary all remaining funds held by the Department will be returned to ratepayers, and the Fund will be closed.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Fund is accounted for as an enterprise fund and is financed and operated in a manner similar to that of a private business enterprise. The Fund uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles, which considers the Fund a Regulated Operation under GASB Statement No. 62. The Fund is accounted for with a set of self-balancing accounts that comprise of assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses.

The financial statements of the Fund are intended to present the financial position, and the changes in financial position and cash flow, of only that portion of the business-type activities and major funds of the State of California that is attributable to the transactions of the Fund. They do not purport to, and do not, present the financial position of the State of California and the changes in its financial position and its cash flows, in conformity with accounting principles generally accepted in the United States of America.

Comparative data for prior years have been presented for certain sections of the accompanying financial statements in order to provide an understanding of changes in the Fund's financial position and operations.

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Lease Liabilities

Lease liabilities represent DWR's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present value of lease payments are discounted based on a borrowing rate determined by the State of California.

Right to Use Leased Assets

The Right to use leased assets are recognized at the lease commencement date and represents DWR's right to use an underlying asset for the lease term. Right to use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the lease asset into service. Right to use leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method.

Subscription Liabilities

Subscription Liabilities represent the Fund's obligation to make subscription payments arising from the subscription contract. Subscription liabilities are recognized at the subscription commencement date based on the present value of future subscription payments expected to be made during the subscription term. The present value of subscription payments are discounted based on a borrowing rate determined by the Fund.

Right to Use Subscription IT Assets

The right to use subscription IT assets are recognized at the subscription commencement date and represents the Fund's right to use the underlying IT assets for the subscription term. Right to use subscription IT assets are measured at the initial value of the subscription liability plus any payments made to the vendor at the commencement of the subscription term, less any subscription incentives received from the vendor at or before the commencement of the subscription term, plus any capitalization initial implementation costs necessary to place the subscription asset into service. Right to use subscription IT assets are amortized over the shorter of the subscription term or useful life of the underlying asset using the straight-line method.

Current Year GASB Implementations

GASB Statement No. 87 - Leases. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financing of the right to use an underlying asset. The standard requires recognition of certain rights to use leased assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The additional disclosure required by this standard is included in Note 3.

GASB Statement No. 89 – Accounting for Interest Cost Incurred before the End of a Construction Period. This statement establishes accounting requirements for interest costs incurred before the end of a construction period. This Statement requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The Fund has determined that there is no material impact on the financial statements.

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GASB Statement No. 91 – In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement is to provide a single method of reporting conduit debt obligations by issues and eliminate diversity in practice. The Statement is effective for reporting periods beginning after December 15, 2021. The Fund has determined that there was no material impact on the financial statements.

GASB Statement No. 92 – *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during the implementation and application of certain GASB Statements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. The Fund has determined that there is no material impact on the financial statements.

GASB Statement No. 93 – *Replacement of Interbank Offered Rates (IBOR)*. The objective of this Statement is to address the accounting and financial reporting implications that result from the replacement of an IBOR. The Fund has determined that there is no material impact on the financial statements.

GASB Statement No. 94 – In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs)*. The objective of this Statement is to establish standards of accounting and financial reporting for PPPs and APAs. The Statement requires recognition of certain assets, receivables, deferred inflows of revenues (transferor) and liabilities, and deferred outflows of resources (operators) for PPP arrangements. This Statement is effective for reporting periods beginning after June 15, 2022. The Fund has determined that there was no material impact on the financial statements.

GASB Statement No. 96 - As of July 1, 2022, the Fund adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. The implementation of this standard establishes that a SBITA results in a right to use a subscription IT asset - an intangible asset - and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. The Statement requires recognition of certain SBITA assets and liabilities for SBITAs that previously were recognized as outflows of resources based on the payment provisions of the contract. The effect of the implementation of this standard on beginning net position is disclosed in Note 4 and the additional disclosures required by this standard is included in Note 11.

GASB Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statement No. 14 and No. 84 and A Supersession of GASB Statement No. 32*. The objective of this Statement is (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The Fund has determined that there is no material impact on the financial statements.

GASB Statement No. 99 – In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in account and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been

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identified during the implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements of this Statement related to the extension of the use of LIBOR, accounting for the Supplemental Nutrition Assistance Program (SNAP) distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022. The Fund has determined that there was no material impact on the financial statements.

Restricted Cash, Equivalents, and Investments

Under the terms of the Trust Indenture among the State of California, DWR, State Treasurer's Office (STO), as Trustee and U.S. Bank, N.A, as Co-Trustee (Trust Indenture) separate restricted cash and investment accounts were established. The accounts and their purpose follow:

Administrative Account:

- Administrative Cost Account: Salaries and other administrative expenses were previously funded by Power Charges transferred from the Operating Account. Since there are no longer power charge remittances, funds are now transferred from the Bond Charge Payment Account as of January 1, 2016.

Power Charge Account:

- Operating Account: Power Charges (see Revenues and Recoverable Costs) and miscellaneous revenue are deposited into the Operating Account. Monies are available for payment of residual contract obligations, consultant fees, and return of excess amounts to ratepayers.

Bond Charge Accounts:

- Bond Charge Collection Account: Bond Charges (see Revenues and Recoverable Costs) and miscellaneous bond-related revenues are deposited into the Bond Charge Collection Account. Monies are available for administrative costs transferred to the Administrative Cost Account.

Restricted cash and equivalents, for purposes of the Statement of Cash Flows, include cash on hand and deposits in the Surplus Money Investment Fund (SMIF).

SMIF has an equity interest in the State of California Pooled Money Investment Account (PMIA). Generally, the investments in the PMIA are available for withdrawal on demand. The PMIA cash and investments are recorded at amortized cost, which approximates fair value. The PMIA funds are deposited with the State's Centralized Treasury System and are managed in compliance with the California Government Code, described in Note 4.

Net Position

The Fund does not record the difference between assets and liabilities as net position. The difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the Statement of Net Position is presented as recoverable costs such that there is no net position. The Fund anticipates that amounts in the recoverable costs will be recovered in subsequent years prior to program expiration.

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Revenues and Recoverable Costs

The Fund was required, while the bonds were outstanding, at least annually, to establish a determination of the revenue requirement to be transmitted to the CPUC, which then set end-use customer remittance rates. The Fund's financial statements are prepared in accordance with GASB Statement No. 62, which requires that the effects of the revenue requirement process be recorded in the financial statements. Accordingly, all expenses and credits, normally reflected in the change in net position as incurred, are recognized as recoverable costs in the Statement of Net Position and are recovered from IOU customers. Costs that are recoverable through future billings are recorded as long-term assets.

Customer charges are separated into two primary components, power charges and bond charges. Power charge revenues recover the cost of power purchases, other expenses, and operating reserves and are recognized when energy provided by the Fund is delivered to IOU customers. Bond charge revenues recover debt service, debt service reserves, and other bond-related costs and are recognized when energy provided by the IOU, or an ESP, is delivered to customers in the IOU service areas. Costs are recovered over the life of the bonds as determined by the Fund's revenue requirement process.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Fund's portion of the California Public Employees' Retirement System (CalPERS) Miscellaneous Plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

OPEB

The State of California provides medical and prescription drug benefits to retired state employees and dependents through CalPERS under the Public Employee's Medical and Hospital Care Act, and dental benefits under the State Employees' Dental Care Act. The State, certain bargaining units, and judicial employees (valuation groups) have agreed to refund retiree healthcare benefits. Assets are held in separate accounts by the valuation group within the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer defined benefit OPEB plan administered by CalPERS.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Fund's portion of the CalPERS OPEB plan and additions to or deductions from the plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

3. Leases

DWR entered into fifteen lease agreements for the lease of office space. The Fund had one lease agreement which ended on October 31, 2022. The remaining fourteen leases are allocated to the Fund by DWR based on the percentage of overhead allocation. The last lease terminates in June 2035. Under the terms of the leases, the Fund pays a monthly base fee ranging from \$4 to \$1,899 dollars, increasing up to 3.0% annually according to the terms of the agreements.

On June 30, 2023, the Fund recognized a right to use leased assets of \$56 thousand and a lease liability of \$57.5 thousand related to these agreements. During the fiscal year 2023, the Fund recorded

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\$20 thousand in amortization expenses and \$1 thousand in interest expenses for the right to use the office spaces. The Fund used discount rates between 0.20% and 3.22% which were based on the State of California incremental borrowing rate at the inception of the lease agreements. There was an addition of leases in the amount of \$17 thousand and deletions in the amount of \$178 thousand for the fiscal year 2023.

The right to use a leased asset and lease liability does not appear on the statement of net position due to the rounding in the million dollars.

The obligations associated with these leases are as follows (amounts in thousands):

Fiscal Year Ended June 30	Principal	Interest
2024	\$ 9.4	\$ 0.9
2025	9.5	0.8
2026	9.9	0.7
2027	7.5	0.5
2028	3.8	0.4
2028-2033	13.3	1.2
2033-2038	4.1	-
Total	<u>\$ 57.5</u>	<u>\$ 4.5</u>

4. Subscription Based Information Technology Arrangements

The Fund has entered into seven Subscription-Based Information Technology Arrangements (SBITA's) for the use of different software solutions. The Fund is required to make principal and interest payments through June 2025. On June 30, 2023, the Fund recognized a SBITA asset of \$9 thousand and a SBITA liability of \$5 thousand related to these agreements. During the fiscal year, the Fund recorded \$3 thousand in amortization expense and \$155 dollars of interest expense. The SBITA contracts have an interest rate at 2.4% and this rate was based on the State of California incremental borrowing rate at the inception of the subscriptions.

The right to use subscription IT asset and lease liability do not appear on the statement of net position due to the rounding in the million dollars.

The obligations associated with these subscriptions are as follows (amounts in thousands):

Fiscal Year Ended June 30	Principal	Interest
2024	\$ 3.6	\$ -
2025	1.4	-
Total	<u>\$ 5.0</u>	<u>\$ -</u>

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5. Right-to-use Assets

Right-to-use asset activities for the year ended June 30, 2023 are as follows (amounts in thousands):

	July 1, 2022			
	As Restated	Additions	Deletions	June 30, 2023
Right to Use Leased Office Space	\$ 237	17	\$ 178	\$ 76
Less Accumulated Amortization	39	20	39	20
Net Right to Use Leased Assets	198	(3)	139	56
Right to Use Subscription IT Asset	9	-	-	9
Less Accumulated Amortization	-	3	-	3
Net Right to Use IT Subscription IT Assets	9	(3)	-	6
Total leased and subscription IT assets, net	\$ 207	\$ (6)	\$ 139	\$ 62

6. Restricted Cash and Investments

As of June 30, 2023 and 2022, the Fund had the following cash, equivalents and investments:

<u>Investment</u>	<u>Maturity</u>		<u>2023</u>	<u>2022</u>
	<u>June 30, 2023</u>	<u>June 30, 2022</u>		
State of California Pooled Money Investment account - Surplus Money Investment fund	8.5 months avg.	10.2 months avg.	\$ 27	\$ 28
Total cash, equivalents and investments			\$ 27	\$ 28
Reconciliation to Statement of Net Position:				
Administrative cost account			\$ 11	\$ 12
Operating account			16	16
			\$ 27	\$ 28

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The State of California has a deposit policy for custodial credit risk that requires deposits held by financial institutions to be insured by federal depository insurance or secured by collateral held in the State's name.

Interest Rate Risk: Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective maturity, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter maturities. The State Treasurers Investment Policy, PMIA, provides for spreading investments over various maturities to minimize the risk of portfolio depreciation

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due to a rise in interest rates. The STO's Investment Policy limits investments to the following maximum maturities: U.S. Treasury securities, 5 years; federal agency securities, 5 years; banker's acceptances – domestic and foreign, 180 days; certificates of deposits, 5 years; commercial paper, 180 days; corporate bonds and notes, 5 years; repurchase agreements and reverse repurchase agreements, 1 year.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code, according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. These investments consist of U.S. government securities, securities of federally sponsored agencies, U.S. corporate bonds, interest bearing time deposits in California banks, prime-rated commercial paper, banker's acceptances, negotiable certificates of deposit, repurchase and reverse repurchase agreements. The PMIA policy limits the use of reverse repurchase agreements to limits of no more than 10% of the PMIA and commercial paper to limits not to exceed 30% of the PMIA.

The PMIA does not invest in leveraged products or inverse floating rate securities. The PMIA is not rated. Interest on deposits in the SMIF varies with the rate of return of the underlying portfolio and approximated 3.17% and 0.65% at June 30, 2023 and 2022. For the years ended June 30, 2023 and 2022, interest earned on the deposit in the SMIF was \$1 million and \$0.3 million, respectively.

7. Commitments and Contingencies

Litigation and Regulatory Proceedings

Certain pending legal and administrative proceedings involving the Fund or affecting the Fund's power supply program are summarized below.

California Refund Proceedings: During 2001 and 2002, the Fund purchased power in bilateral transactions (both short-term and long-term), sold power to the California Independent System Operator (CAISO), paid for power purchased by the CAISO and purchased power from the CAISO for sale to customers of the IOUs. In July 2001, the FERC initiated an administrative proceeding to calculate refunds for inflated prices in the CAISO and California Power Exchange (CalPX) markets during 2000 and 2001. FERC ruled that the Fund would not be entitled in that proceeding to approximately \$3,500 million in refunds associated with the Fund's approximately \$5,000 million of short-term purchases because the Fund made those purchases bilaterally, not in the PX or CAISO markets. The Ninth Circuit Court of Appeals affirmed FERC but left open the possibility of refunds on the Fund's bilateral purchases in other FERC proceedings. In contrast, FERC ruled that the Fund is entitled to refunds on purchases made by the CAISO where the Fund actually paid the bill. Of the Fund's \$5,000 million in short-term bilateral purchases, \$2,900 million was imbalance energy which the Fund sold to the CAISO at the Fund's cost in order to meet the CAISO's emergency needs during 2001. The Fund is treated in the FERC refund proceeding as a seller of that energy to CAISO, and in May 2004, FERC issued an order requiring the Fund to pay refunds on the sales to the CAISO. In September 2005, the Ninth Circuit Court of Appeals held that FERC does not have authority to order refunds from governmental entities such as the Fund. In November 2008, FERC found that although FERC cannot order a governmental entity, such as the Fund, to pay refunds, it can enforce the terms of the CAISO's tariff, which requires that all purchases and sales in a given hourly settlement period are netted. But for the more than 60 refund settlements the Fund has entered into to date, this order would have resulted in a substantial reduction to the refunds payable to the Fund. Through the Fund's settlements, however, the Fund has been able to resolve all but a few of its short-term refund claims and has been able to reduce to a de minimis amount, the amount by which its refunds have been reduced on

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account of the Fund's sales to the CAISO. On April 22, 2020, the California Parties filed a petition at FERC seeking approval of 1) Settlement Overlay Calculations; 2) Final payment of amounts owed and owing, 3) termination of the activities of the CalPX and related relief. On May 20, 2021, FERC approved the Settlement Overlay Filing and the 15-step market clearing process and wind-down of CalPX proposed by the parties. There were no timely appeals filed and the parties proceeded with the market clearing. On November 1, 2021, the Fund received \$140 million in settlement monies as part of the wind-up. In December 2022, the Fund received an additional \$76,678.62 and in June 2023, an additional \$6,119.26 from the final wind-up of the CalPX account. There is a possibility that DWR will receive additional monies as escrow accounts are closed. The Fund's remaining short-term refund claims, which are bilateral claims, remain subject to litigation.

Financial Class Action Lawsuits: The Department entered into several long-term swap transactions for Power Supply Revenue Bond debt management purposes during the period of March 2003 through July 2006. The swaps were terminated before the original termination date. All of the Department's swap agreements were terminated by October 2010. Several class action lawsuits have been brought by public sector entities on behalf of themselves and any other entities who transacted in certain derivative instruments based on (1) fixed interest rate swaps commonly referred to as International Swaps and Derivatives Association (ISDA) Instruments and (2) London Interbank Offered Rate Instruments. The Department has submitted claims within the framework described in the class actions. In January 2022 the Department received a settlement in response to a claim filed by the Department related to the London Interbank Offered Rate Instruments.

Other Contingencies

The Fund is self-insured for most risks, including general liability and workers' compensation. The Fund's Management believes the Fund's exposure to loss is immaterial and that any costs associated with such potential losses are recoverable from customers as part of the Fund's revenue requirement.

8. Energy and Financial Settlements

The Fund and other parties have entered into settlement agreements with various energy suppliers which resolve potential and alleged causes of action against suppliers for their part in alleged the manipulation of natural gas and electricity commodities, transportation markets during the 2000 - 2001 California energy crisis, and also received settlements from other FERC actions. Additionally, the Fund is involved in litigation with various financial institutions to resolve alleged manipulation of financial market benchmark interest rates, their impact on the Fund's bond offerings and interest rate swap agreements.

The Fund received settlement money from the California Power Exchange Corporation during fiscal year 2023; however, this amount was shown as \$0 million due to the rounding in the financial statements. The Fund did receive energy settlement money during the fiscal year ended June 30, 2022. The Fund received \$141 million for California Energy Crisis settlements from California Power Exchange Corporation, the California Parties, and Commission Federal de Electricidad during the fiscal year ended June 30, 2022.

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9. Pension Plan

The Department of Water Resources adopted GASB No. 68, Accounting and Financial Reporting for Pensions. GASB 68 requires that the report is connected with the liability and asset information within certain defined timeframes. For this FY21-22 report, the following timeframes are applied:

Valuation Date (VD)	June 30, 2021
Measurement Date (MD)	June 30, 2022
Measurement Period (MP)	July 1, 2021 to June 30, 2022

Plan Description

As of the measurement date, all employees of the Fund participate in the CalPERS Miscellaneous Defined Benefit Pension Plan (Plan), which is included in the State of California's State Comprehensive Annual Financial Report (CAFR) as a fiduciary component unit. CalPERS administers the Plan within the Public Employees' Retirement Fund (PERF). PERF is an Agent Multiple-Employer Defined Benefit Pension Plan. Departments and agencies within the State, including the Fund, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State agencies. Since all State agencies and certain related organizations, including the Fund, are considered collectively to be a single employer for plan purposes, the actuarial present value of vested and non-vested accumulated plan benefits attributable to the Fund employees cannot be determined. The significant actuarial assumptions used to compute the actuarially determined State contribution requirements are the same as those used to compute the State pension benefit obligation as defined by CalPERS. CalPERS issues a publicly available financial report that includes financial statements and other required supplementary information for this plan. This report is available online at www.calpers.ca.gov. The California Legislature passed, and the Governor signed the "Public Employees' Pension Reform Act of 2013" (PEPRA) on September 12, 2012. PEPRA contained several provisions intended to reduce future pension obligations. PEPRA primarily affects new pension plan members who are enrolled for the first time after December 2012. Benefit provisions and other requirements are established by State statute.

Benefits Provided

The benefits for the Plan are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries.

Members become fully vested in their retirement benefits earned to date after five or ten years of credited service.

The Plan's provisions and benefits in effect at June 30, 2022 and 2021, are summarized as follows:

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First Tier:

	<u>Prior to January 15, 2011</u>	<u>January 15, 2011 to December 31, 2012</u>	<u>On or after January 1, 2013</u>
Hire date			
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 to 67	50 to 67	52 to 67
Monthly benefits, as a % of eligible compensation	1.1 to 2.5%	1.092 to 2.418%	1.0 to 2.5%

Second Tier:

	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Hire date		
Benefit formula	1.25% @ 65	1.25% @ 67
Benefit vesting schedule	10 years service	10 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 to 67	52 to 67
Monthly benefits, as a % of eligible compensation	0.5 to 1.25%	0.65 to 1.25%

Contributions

Section 20814(c) of the California Public Employees Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2022 and 2021 (the measurement date) the employer's contribution rates are approximately 29.2% and 29.4% respectively, of annual payroll. Employer contribution rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer-Paid Member Contributions or situations where members are paying a portion of the employer contribution. Contributions to the plan for the fiscal year ended June 30, 2023 was \$0 million.

Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources related to Pensions

As of June 30, 2023, the Fund reported a net pension liability for the proportionate share of the net pension liability of \$1 million. The Fund's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2022, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 and rolled forward to June 30, 2022 using standard update procedures. The Fund's proportion of the net pension liability was based on the State Controller's Office (SCO) projection for the fund. The SCO identified a total of 29 entities that are reported in the State's Annual Comprehensive Financial Report (ACFR) which are proprietary funds (enterprise and internal service) and fiduciary funds (pension and other employee benefit trust funds), component units (discretely presented and fiduciary), and related organizations, that have State employees with pensionable compensation (covered payroll). The SCO calculated and provided these

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funds/organizations with their allocated pensionable compensation percentages by plan. The Fund's proportionate share of the net pension liability for the Plan measured as of June 30, 2022 was 0.0038%, and measured as of June 30, 2021 was 0.0055%.

For the year ended June 30, 2023, the Fund recognized a pension expense of \$0.4 million. On June 30, 2023, the Fund reported deferred outflows of resources and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions subsequent to the measurement date	\$ 0.20	\$ -
Changes in proportion	-	0.84
Changes in assumption	0.10	-
Differences between expected and actual experience	0.02	0.03
Net differences between projected and actual earnings on pension plan investments	0.20	-
Total	<u>\$ 0.52</u>	<u>\$ 0.87</u>

The \$0.2 million reported as deferred outflows of resources related to contributions subsequent to the measurement date at June 30, 2022 will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expenses as follows (amounts in millions):

<u>Year Ended June 30</u>	<u>Amount</u>
2024	(0.38)
2025	(0.22)
2026	(0.08)
2027	0.13
Total	<u>\$ (0.55)</u>

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Actuarial Methods and Assumptions

The June 30, 2021 valuation was rolled forward to determine the June 30, 2022 (measurement date). Total pension liabilities, based on the following actuarial method and assumptions:

Valuation Date:	June 30, 2021
Actuarial Cost Method:	Entry Age Actuarial Cost Method
Discount Rate:	6.90%
Inflation:	2.30%
Salary Increases:	Varies by Entry Age and Service
Investment Rate of Return:	7.0% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Mortality Rate Table:	The probabilities of mortality are based on the 2021 CalPERS Experience Study for the period from 2001 to 2019. Pre-retirement and Post-retirement mortality rates include generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries.
Retirement Age	The probabilities of Retirement are based on the 2021 CalPERS Experience Study for the period from 2001 to 2019.
Payroll Growth	2.75%

Discount Rate

To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the test revealed the assets would not run out. Therefore, the current 6.90% discount rate is appropriate, and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 6.90% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB 67 & 68 Crossover Testing Report" that can be obtained at CalPERS' website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS considered both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

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The following table reflects long-term expected real rate of return by asset class:

Assets class ¹	Assumed asset allocation	Real return ^{1 2}
Global Equity - Cap-weighted	30.00%	4.54%
Global Equity - Non-Cap-weighted	12.00%	3.84%
Private Equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed Securities	5.00%	0.50%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.48%
Private Debt	5.00%	3.57%
Real Assets	15.00%	3.21%
Leverage	-5.00%	-0.59%
Total	100.00%	

(1) An expected inflation rate of 2.3% used for this period.

(2) Figures are based on the 2021 Asset Liability Management study.

Sensitivity of the Fund's Proportionate Share Net Pension Liability to Changes in the Discount Rate

The following table presents the Fund's proportionate share of the Plan's net pension liability as of the measurement date, calculated using the discount rate of 6.90%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.90%) or 1 percentage-point higher (7.90%) than the current rate:

	Discount Rate -1% 5.90%	Current Discount Rate 6.90%	Discount Rate +1% 7.90%
The Fund's Proportionate Share of Plan's Net Pension Liability	\$ 2	\$ 1	\$ 0.90

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10. Other Post Employment Health Care Benefit (OPEB)

Plan Description – The State of California provides medical and prescription drug benefits to retired state employees and dependents through CalPERS an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California under the Public Employees’ Medical and Hospital Care Act. Dental benefits are provided under the State Employees’ Dental Care Act. Departments and agencies within the State, including the Fund, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State agencies. Since all State agencies and certain related organizations, including the Fund, are considered collectively to be a single employer for plan purposes, the actuarial present value of vested and non-vested accumulated plan benefits attributable to the Fund employees cannot be determined.

Benefits Provided - A member is eligible to enroll in a CalPERS health plan if he or she retires within 120 days of separation from employment, was eligible for health benefits upon separation and receives a monthly retirement allowance. CalPERS provides healthcare benefits for retirees and their dependents through payment of insurance premiums up to the maximum State Contribution amount.

The State of California provides medical, prescription drug, and dental benefits (healthcare benefits) to retired statewide employees through a single employer defined benefit plan. The State participates in the CERBT, an agent multiple-employer plan consisting of an aggregation of single-employer plans.

The State also offers life insurance, long-term care, and vision benefits to retirees; however, because these benefits are completely paid for by retirees, there is no GASB Statements No. 74 or 75 liability to the State on behalf of such benefits.

Contribution – The State and certain bargaining units and judicial employees (valuation groups) have agreed to pre-fund retiree healthcare benefits. Assets are held in separate accounts by valuation group within the California Employers’ Retiree Benefit Trust (CERBT), an agent multiple-employer defined benefit other post-employment benefits plan administered by CalPERS. Assets within each valuation retirees and dependents associated with that valuation group. Contributions are based on a percentage with the ultimate goal of contributions totaling 100% of the actuarially determined normal cost shared equally between the State and employees. Pre-funding contributions and investment income are not available to pay plan benefits until the earlier of 2046 or the year that actuarial liabilities are fully funded. The State also makes pay-as-you-go contributions for benefits paid to current retirees and the portion of benefits paid to future retirees that are not prefunded. For the fiscal year June 30, 2022, the Fund’s total contributions were \$0.1 million.

OPEB Liabilities, OPEB Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

On June 30, 2023, the Fund reported a liability of \$1 million for its proportionate share of the Net OPEB liability. The Net OPEB liability was measured as of June 30, 2022, and the total OPEB liability, used to calculate the net OPEB liability, was determined by an actuarial valuation as of the same date. The Fund’s proportion of the net OPEB liability was based on the SCO’s projection for the Fund. The proportion is based on the Fund’s pensionable compensation relative to the pensionable compensation of all valuation groups which includes the Fund’s employees. The pensionable compensation amounts are used to calculate each state entity’s proportionate share of OPEB amounts for each valuation group. On June 30, 2023, the Fund’s total proportionate share of the net OPEB liability for all applicable valuation groups was 0.02%. On June 30, 2022, the Fund’s total proportionate share of the net OPEB liability for all applicable valuation groups was 0.03%.

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For the year ended June 30, 2023, the Fund recognized an OPEB expense of \$0.5 million. On June 30, 2023, the Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions subsequent to the measurement date	\$ 0.1	\$ -
Difference between actual and expected contributions	1.7	-
Change in Experience	-	0.1
Change in Assumptions	-	0.3
Proportion share and allocation basis change	-	3.5
Total	<u>\$ 1.8</u>	<u>\$ 3.9</u>

\$0.1 million reported as deferred outflows of resources related to OPEB resulting from amounts paid by the Fund subsequent to the measurement date will be recognized as a reduction of the Net OPEB liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2024	\$ 0.1
2025	(0.5)
2026	(0.7)
2027	(0.5)
2028	(0.3)
Thereafter	(0.2)
	<u>\$ (2.1)</u>

Actuarial Assumptions and Method

An actuarial valuation measures the program's funded status and annual funding or accounting costs based on the actuarial assumptions and methods selected. The funded status compares assets to actuarial accrued liabilities, and the annual cost represents the normal cost plus an amortization of the unfunded actuarial accrued liability. In the actuarial valuation process, certain economic and demographic assumptions are made relating to the projection of benefits and the timing and duration of benefits. The stream of expected projected benefits is discounted to a present value as of the actuarial valuation date. The present value is then spread over past service (actuarial accrued liability), and service for the current year (normal cost) based on the chosen actuarial cost method. The Actuarial Valuation of the State's OPEB is similar to the Actuarial Valuations performed for the State's pension plans. The demographic assumptions (rates of retirement, termination, disability, and mortality, etc.) used in this OPEB Actuarial Valuation were identical to those used in the most recent CalPERS Actuarial Valuations. The demographic assumptions – Age of Spouse: It is assumed that females are three years younger than male spouses. In addition, the actuarial cost method (entry-age normal) is identical to the one used in the most recent CalPERS Actuarial Valuation for the State Plan of the California Public Employees' Retirement System. The discount rate selected was 6.00% for the actuarial valuation of the fully funded policy. A discount rate of 6.00% can be supported for the actuarial valuation as of June 30, 2021, provided the sponsor makes pre-funding contributions as defined by

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statute and pre-funding contributions are invested in CalPERS CERBT Strategy 1. The 6.00% investment return assumption reflects the CERBT Strategy 1 target asset allocation and 20-year projected returns presented and approved at the CalPERS Investment Committee Meeting on March 14, 2022.

Discount Rate

The discount rate assumption depends on the purposes of the measurement.

The sponsor's pre-funding policy provides for a 50% cost sharing of the normal cost between active members and the plan sponsor, graded over several years since the adoption of the pre-funding policy. Pre-funding normal cost contributions are deposited into the CERBT and are expected to earn 6.00% per year. Pre-funding normal costs and investment income are not available to pay benefits until the earlier of 2046 or the year that the total actuarial liability is fully funded. The sponsor finances benefits on a pay-as-you-go basis prior to the year that pre-funding assets are available to pay benefits. For the purposes of developing the full-funding normal cost, actuarial liability, and actuarially determined contribution, a discount rate of 6.00% was used. Total OPEB Liability and Service Cost was based on a blended rate for each respective actuarial valuation group comprised of 3.69% if pre-funding assets are not available to pay benefits and 6.00% if pre-funding assets are available to pay benefits.

Blended Discount Rate

For the purposes of GASB No. 75 financial reporting, liabilities are discounted using a blended discount rate. The blended discount rate is based on a (1) 20-year general obligation bond index if benefits are financed on a pay-as-you-go basis and (2) the expected return on trust assets if pre-funding assets are available to pay benefits. The following table shows the blended discount rates at June 30, 2021, and June 30, 2022, for each respective actuarial valuation group.

BLENDED DISCOUNT RATES		
Actuarial Valuation Group	June 30, 2021	June 30, 2022
Attorneys and Hearing Officers (BU2)	2.863%	4.174%
Highway Patrol (BU5)	2.952%	4.216%
Corrections (BU6)	2.848%	4.121%
Protective Services and Public Safety (BU7)	2.762%	4.148%
Firefighters (BU8)	2.907%	4.242%
Professional Engineers (BU9)	2.731%	4.105%
Professional Scientific (BU10)	2.886%	4.194%
Craft and Maintenance (BU12)	2.766%	4.127%
Stationary Engineers (BU13)	2.595%	4.063%
Physicians, Dentists, and Podiatrists (BU16)	2.951%	4.227%
Psychiatric Technicians (BU18)	2.748%	4.134%
Health and Social Services/Professional (BU19)	2.885%	4.221%
California State University	1.920%	3.690%
Judicial Branch	2.906%	4.200%
Exempt/Excluded/Executive	2.687%	4.075%
Other	1.920%	3.690%
Service Employees International Union (SEIU)	2.710%	4.121%

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Other assumptions and methods unique to OPEB valuations are consistent with CalPERS OPEB assumption parameters, with the exception of the dental trend rates, as follows:

- Healthcare trend – Select and ultimate healthcare trend rates were developed separately for the PPO, HMO, and dental plans. Trend rates are based on a review of supporting documentation provided by CalPERS and a review of various publicly available trend studies.

For the Pre-Medicare medical and drug plans, select and ultimate trend rates were set at actual increases for 2023, 7.00% in 2024 grading down to 4.50% in 2029, 4.50% from 2029 to 2037, and 4.25% on after 2038. The same trend rates were applied to per capita costs and premium rates.

Separate trend rates were assumed for Medicare per capita costs and Medicare premiums. Trend rates for per capita costs reflect an additional ultimate margin of about 3.00% to 4.00% to reflect that Medicare costs net of Employer Group Waiver Plan (EGWP) subsidies include a higher proportion of prescription benefits. The margin also considers potential volatility with EGWP subsidies.

Medicare premium trend rates were set at actual increases for 2023, 7% in 2024 grading down to 4.50% in 2029, 4.50% from 2029 to 2037, and 4.25% after 2038.

Medicare per capita costs trend rates for PERS Gold and PERS Platinum were set at 7.21% for 2023, 8.06% in 2024 grading down to 4.65% in 2030, 4.50% from 2031 to 2037, and 4.25% after 2038. Medicare per capita costs trend rates for HMO were set at -2.17% for 2023, 7.93% in 2024 grading down to 4.63% in 2030, 4.50% from 2031 to 2037, and 4.25% after 2038.

For the dental plans, select and ultimate trend rates were set at 0.03% for 2023, 2.00% for 2024, 3.00% for 2025, 4.00% for 2026, and 4.25% for 2027 and beyond.

- Per capita claim costs – Costs were developed for pre-Medicare and post-Medicare coverage at each respective age and gender, using overall average costs adjusted for morbidity.
- Other healthcare assumptions – The proportion of members selecting a particular plan and coverage at retirement was based on the most current census and enrollment data.

Percent of Disabilities Treated as Post-Medicare: Four percent of Public Safety disabilities and 33.00% of all other disabilities are assumed to be eligible for Medicare.

Coverage and Continuance Assumptions: It is assumed that 40.00% of participating members will elect one-party coverage, while 60% will elect two-party coverage. Of the members electing two-party coverage, we assumed that 100% of surviving spouses would continue coverage after the death of the retiree.

Price Inflation: Price inflation is assumed to be 2.30%.

Wage inflation: Wage inflation is assumed to be 2.80%.

Aging Factors: In any given year, the cost of medical and prescription drug benefits vary by age. As the ages of employees and retirees in the covered population increase so does the cost of benefits. Morbidity tables are employed to develop Per Capita Costs at every relevant age. The following table represents the percent by which the cost of benefits for non-disabled lives at one age is higher than the cost for the previous age. For example, according to the following table, the cost of benefits for a male in the PPO plan age 55 is 2.58% higher than for one age 54. These percentages below are separate

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from the annual Medical Trend, which operates to increase costs independent of and in addition to the Aging Factors shown below. These factors, with the exception of the Pre-Medicare HMO rates, were developed using actual experiences.

Aging factors for the PPO and prescription drug plans were based on gross claim and enrollment experience data broken out by five-year age bands, for calendar years 2014 through 2018. Average gross costs were developed by gender at each age interval for each respective calendar year. These costs were weighted, smoothed, and the average increase at each age was estimated using interpolation formulas. Aging factors for the HMO were calculated by adjusting the PPO medical factors to account for relative differences between HMO and PPO plans.

Post-retirement Mortality: Rates vary by age and gender for healthy benefit recipients, for non-industrially disabled (disability not job-related) retirees, and for retirees who are industrially disabled (disability is job-related). See sample rates in the table below.

Age	Healthy Recipients		Non-Industrially Disabled (Not Job-Related)		Industrially Disabled (Job-Related)	
	Male	Female	Male	Female	Male	Female
50	0.00267	0.00199	0.01701	0.01439	0.00430	0.00311
55	0.00390	0.00325	0.02210	0.01734	0.00621	0.00550
60	0.00578	0.00455	0.02708	0.01962	0.00944	0.00868
65	0.00857	0.00612	0.03334	0.02276	0.01394	0.01190
70	0.01333	0.00996	0.04001	0.02910	0.02163	0.01858
75	0.02391	0.01783	0.05376	0.04160	0.03446	0.03134
80	0.04371	0.03403	0.07936	0.06112	0.05853	0.05183
85	0.08274	0.06166	0.11561	0.09385	0.10137	0.08045
90	0.14539	0.11086	0.16608	0.14396	0.16584	0.12434
95	0.24665	0.20364	0.24665	0.20364	0.24665	0.20364
100	0.36198	0.31582	0.36198	0.31582	0.36198	0.31582
105	0.52229	0.44679	0.52229	0.44679	0.52229	0.44679
110	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000

The postretirement mortality assumption includes generational mortality improvements and the rates above are projected using 80% scale MP-2020 published by the Society of Actuaries. The mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board in November 2021. These tables only contain a sample of the base table rates for illustrative purposes. Future mortality improvements are reflected by projecting the base mortality tables from 2017 using 80% of the Society of Actuaries (SOA) MP-2020 projection scale.

Sensitivity of the Fund's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following table presents the Fund's proportionate share of the Net OPEB liability as of the measurement date, calculated using the blended discount rate, as well as what the Fund's proportionate share of the Net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current discount rate (amounts in millions):

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	<u>1% Decrease</u>	<u>Discount Rate Blended Rate</u>	<u>1% Increase</u>
Net OPEB Liability	\$ 2	\$ 1	\$ 1

Sensitivity of the Fund's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following table presents the Fund's proportionate share of the Net OPEB liability as of the measurement date, calculated using the select and ultimate healthcare cost trend rates presented in the Actuarial Methods and Assumptions Section, as well as what the Fund's proportionate share of the Net OPEB liability would be if it were calculated using healthcare cost trend rate that is 1 percentage-point lower or 1 percentage-point higher than the current healthcare cost trend rates presented in Actuarial Methods and Assumptions Section (amounts in millions):

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Net OPEB Liability	\$ 1	\$ 1	\$ 2

11. Restatement of Net Position (amounts in thousands)

As of July 1, 2022, the Fund adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITA's). The implementation of this standard establishes that a SBITA results in a right to use a subscription IT asset – an intangible asset – and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. The Statement requires recognition of certain SBITA assets and liabilities for SBITA's that previously were recognized as outflows of resources based on the payment provisions of the contract. The beginning net position was restated to retroactively adopt the provisions of GASB Statement No. 96. The Fund also restated the net position to correct the beginning balances of account receivables.

Net Position, July 1, 2022, as previously reported	\$ -
Restatement:	
Add right-to-use assets	9
Add SBITA liability	(9)
Net Position, July 1, 2022, as restated	<u>\$ -</u>

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12. Subsequent Event

The Fiscal Year 2022 Annual Comprehensive Financial Report (ACFR) was the last year the Fund published an audited GAAP Financial Statement. All debt associated with the Fund was defeased in fiscal year 2022. Upon the defeasance of the bonds and all other bond-related costs, the rate agreement with the California Public Utilities Commission (CPUC) terminated on its own terms. The Department does not expect to file any more revenue requirements for the collection of customer remittances. As detailed in CPUC Decision 21-12-001, once the Department deems it necessary all remaining funds held by the Department will be returned to ratepayers and the Fund will close.

REQUIRED SUPPLEMENTARY INFORMATION

**DEPARTMENT OF WATER RESOURCES ELECTRIC POWER FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE FUND'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
Last 10 Years*
(amounts in millions)**

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Measurement Period	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
The Fund's proportion of the net pension liability	0.00385%	0.00554%	0.00777%	0.01001%	0.0117%	0.01475%	0.01741%	0.01921%	0.01777%
The Fund's proportionate share of the net pension liability	\$ 1	\$ 1	\$ 3	\$ 3	\$ 4	\$ 5	\$ 6	\$ 5	\$ 5
The Fund's covered payroll	\$ 0.7	\$ 1.1	\$ 1.3	\$ 1.5	\$ 1.8	\$ 1.9	\$ 1.9	\$ 2.0	\$ 2.0
The Fund's proportionate share of the net pension liability as a percentage of their covered payroll	142.86%	90.90%	230.77%	200%	222.22%	263.16%	315.79%	250.00%	250.00%
Plan fiduciary net position as a percentage of the total pension liability	71.63%	82.39%	71.51%	71.34%	71.83%	66.42%	66.81%	70.68%	73.05%

Notes to Schedule:

Change of benefit terms: For all years presented, there were no changes to the benefit terms.

Change in assumptions: GASB 68 states that the long-term expected rate of return should be determined net of pension plan investment expenses, but without reduction for pension plan administrative expenses. The discount rate changed from 7.65% (net of administrative expenses in 2016) to 7.15% as of the June 30, 2017 measurement date to correct the adjustment, which previously reduced the discount rate for administrative expenses.

*Fiscal year 2015 was the 1st year of implementation, therefore only nine years are shown.

**DEPARTMENT OF WATER RESOURCES ELECTRIC POWER FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE FUND'S CONTRIBUTIONS FOR PENSIONS
Last 10 Years*
(amounts in millions)**

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 0.2	\$ 0.2	\$ 0.3	\$ 0.4	\$ 0.5	\$ 1.0	\$ 0.5	\$ 0.5	\$ 0.5
Contribution in relation to the contractually required contribution	(0.2)	(0.2)	(0.3)	(0.4)	(0.5)	(1.0)	(0.5)	(0.5)	(0.5)
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-
Fund's covered payroll	\$ 0.6	\$ 0.7	\$ 1.1	\$ 1.3	\$ 1.5	\$ 1.8	\$ 1.9	\$ 1.9	\$ 2.0
Contributions as a percentage of covered payroll	32.60%	33.62%	26.60%	30.77%	33.33%	55.56%	26.32%	26.32%	25.00%

*Fiscal year 2015 was the 1st year of implementation, therefore only nine years are shown.

**DEPARTMENT OF WATER RESOURCES ELECTRIC POWER FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE FUND'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Last 10 Years*
(amounts in millions)**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
The fund's proportion of the net OPEB liability	0.02%	0.03%	0.04%	0.010%	0.013%	0.011%
The fund's proportionate share of the net OPEB liability	\$ 1.0	\$ 3.0	\$ 4.0	\$ 5.0	\$ 5.4	\$ 8.0
The fund's covered employee payroll	\$ 0.3	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 2.0
The fund's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	427.294%	584.193%	585.651%	644.082%	622.554%	456.062%
Plan fiduciary net position as a percentage of the total OPEB liability	6.226%	4.210%	2.825%	1.722%	0.597%	0.003%
Measurement date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017

*Fiscal year 2018 is the first year of implementation, therefore only six years are shown.

**DEPARTMENT OF WATER RESOURCES ELECTRIC POWER FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE FUND'S CONTRIBUTION FOR OPEB
Last 10 Years*
(amounts in millions)**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.2	\$ 0.2	\$ 5.0
Contribution in relation to the contractually required contribution	<u>(0.1)</u>	<u>(0.1)</u>	<u>(0.1)</u>	<u>(0.2)</u>	<u>(0.2)</u>	<u>(5.0)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund's covered employee payroll	\$ 0.3	\$ 0.3	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.7
Contributions as a percentage of covered employee payroll	37.6%	32.0%	25.6%	21.8%	19.3%	292.4%

*Fiscal year 2018 is the first year of implementation, therefore only six years are shown.