Department of Water Resources
Electric Power Fund
Financial Statements
September 30, 2019

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USING THIS REPORT

This discussion and analysis 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). Readers are encouraged to consider the information presented in the *Management's Discussion and Analysis* in conjunction with the financial statements that follow. This discussion and analysis 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: include 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: present all of the current year's revenues, expenses, and changes in net position.
- The Statement of Cash Flows: report cash receipts, disbursements 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.

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 Fund has the authority to secure and retain title to power for resale to end use customers in the State's investor owned utilities (IOU s) 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 IOU s 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.

The Fund is entitled to recover revenue requirements for authorized activities, including, but not limited to, debt service, the costs of power purchases, administrative expenses and reserves. Revenue requirements are determined at least annually and transmitted to the California Public Utilities Commission (CPUC) for implementation. Under the terms of the rate agreement between the CPUC and the Fund, the CPUC is required to allocate the Department's costs to customers in the IOU service areas and "departing load" (such as direct access, Community Choice Aggregation, and Electric Service Providers (ESPs)) such that the Fund will always have monies to meet its revenue requirement.

CONDENSED STATEMENT OF NET POSITION

The Fund's assets, liabilities and net position as of September 30 are summarized as follows (amounts in millions):

	September 30, 2019	June 30, 2019
Current and other assets:		
Long-term restricted cash, equivalents and investments	$ 884	$ 884
Recoverable costs	609	837
Restricted cash and equivalents:		
Administrative cost account	11	12
Operating account	30	32
Bond charge collection and bond charge payment accounts	878	644
Recoverable costs receivable	102	88
Interest receivable	14	10
Total assets	2,528	2,507
Deferred outflows of resources:		
Deferred outflows of resources related to pensions	1	1
Deferred outflows of resources related to OPEB	8	8
Deferral of loss on defeasance	55	61
Total deferred outflows of resources	64	70
Total assets and deferred outflows of resources	$ 2,592	$ 2,577
Long-term liabilities:		
Long-term debt, including current portion	$ 2,532	$ 2,543
Net pension liability	4	4
Net OPEB liability	5	5
Interfund loans payable	1	1
Other liabilities	45	19
Total liabilities	2,587	2,572
Deferred inflows of resources:		
Deferred inflows of resources related to pensions	2	2
Deferred inflows of resources related to OPEB	3	3
Total deferred inflows of resources	5	5
Total liabilities and deferred inflows of resources	$ 2,592	$ 2,577

Long-Term Restricted Cash, Equivalents and Investments

The Debt Service Reserve Account remained unchanged at $884 million at September 30, 2019. The amount was determined in accordance with the Trust Indenture among the State of California, Department of Water Resources, Treasurer of the State of California, as Trustee and U.S. Bank, N.A, as Co-Trustee (Trust Indenture) and is based on the maximum annual debt service over the remaining life of the Fund's bonds.

The Debt Service Reserve Account remained unchanged at $884 million at September 30, 2018.

Recoverable Costs

Recoverable costs consist of costs that are recoverable through future billings. The $228 million decrease during the three months period ended September 30, 2019 is due to the recovery of operating costs of $7 million; bond charges plus interest income exceeding interest and investment expense by $235 million. The surplus of Bond Charge Collections over interest costs is primarily a result of the Fund's rate design which includes funding for annual debt service, including principal payments.

The $256 million decrease in recoverable costs during the three months period ended September 30, 2018 was due to recovery of operating costs of $3 million and bond charges plus interest income exceeding interest and investment expense by $259 million.

Restricted Cash and Equivalents

The Administrative Cost Account decreased $1 million during the three months period ended September 2019 due to lower expenses as the Electric Power Fund operation and pro rata expense continues to decline.

The Operating Accounts decreased by $2 million during the three months period ended September 30, 2019 due to the return of excess amount to customers in the IOU service territory.

The Bond Charge Collection and Bond Charge Payment Accounts increased by $234 million in the period ended September 30, 2019 in anticipation of the semi-annual interest payment on fixed rate bonds due on November 1, 2019, with the next principal and interest payment due on May 1, 2020.

Recoverable Costs Receivable

Recoverable costs receivable reflects power and bond charges to customers in the IOU service areas that have not yet been collected and amounts receivable. The $102 million of recoverable costs receivable at September 30, 2019 is $14 million higher than at June 30, 2019. The increase was primarily the result of an increase in customer loads subject to the bond charges to the IOU customers.

The $111 million of recoverable costs receivable at September 30, 2018 was $2 million higher than at June 30, 2018. The increase was primarily the result of an increase in the customer loads subject to the bond charges in the IOU service areas.

Deferred Outflows of Resources

Deferred outflows of resources related to pensions remained unchanged at $1 million during the three months period ended September 30, 2019.

Deferred outflows of resources related to OPEB remained unchanged at $8 million at September 30, 2019.

Deferral of loss on defeasance decreased by $6 million, during the three months period ended September 30, 2019, due to the amortization of deferred loss on defeasance.

Long-Term Debt

Long-term debt decreased to $2,532 million, as of September 30, 2019, from $2,543 million, as of June 30, 2019.

Long-term debt decreased to $3,335 million, as of September 30, 2018, from $3,348 million as of June 30, 2018. The decrease was attributable to the net of amortization of premium.

Net Pension Liability

The net pension liability remained unchanged at $4 million during the three months ended September 30, 2019 and June 30, 2019.

The net pension liability as of September 30, 2018 remained unchanged at $5 million from June 30, 2018.

Net OPEB Liability

In addition to pension benefits, the State of California provides postemployment health care benefits to all employees who retire on or after attaining certain age and length of service requirements. The State of California is funding postemployment benefits on a pay-as-you-go basis. The Fund's net OPEB liability remained unchanged at $5 million as of September 30, 2019.

Interfund Loans Payable

Interfund loans payable remained unchanged at $1 million for three months period ended September 30, 2019 and June 30, 2019.

Other Liabilities

Other current liabilities consist of accounts payable and accrued interest payable. Accounts payable reflects one month's accrual for employee and consultants, as payments are normally made in the latter half of the month following purchase.

Accounts payable decreased $3 million during the three months period ended September 30, 2019.

Accrued interest payable increased to $43 million at September 30, 2019 from $17 million at June 30, 2019 which will provide adequate funds for the interest payment made on November 1, 2019.

Deferred Inflows of Resources

Deferred inflows of resources related to pension remained unchanged at $2 million during the three months period ended September 30, 2019.

Deferred inflows of resources related to OPEB remained unchanged at $3 million during the three months period ended September 30, 2019.

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Fund's activities for the three months ended September 30 are summarized as follows (amount in millions):

	2019	2018
Revenues:		
Power charges, net of refunds	$ (5)	$ -
Bond charges	244	277
Interest income	12	10
Total revenues	251	287
Expenses:		
Interest expense	21	28
Administrative expenses	2	3
Recovery of recoverable costs	228	256
Total expenses	251	287
Changes in net position	-	-
Net position, beginning of year	-	-
Net position, end of year	$ -	$ -

Power Charges

The cost of providing energy was recoverable primarily through Power Charges to IOU customers and certain customers of ESPs. Charges are determined by applying a CPUC adopted rate for each IOU service area to the megawatt hours of power delivered by the Fund to customers in each IOU service area.

Power Charges remained unchanged at negative $5 million during the three months period ended September 30, 2019 and fiscal year ended June 30, 2019.

Bond Charges

Bond Charges provide revenue for the payment of debt service on the revenue bonds and are determined by applying a CPUC adopted rate to the total megawatt hours of power delivered to all bundled customers and certain ESP customers in the IOU service areas. Bond Charges for the three months ended September 30, 2019 and 2018 were $244 million, $277 million, respectively, and were adequate to meet all debt service requirements and maintain Trust Indenture required account balances in the Bond Charge Collection, Bond Charge Payment, and Debt Service Reserve Accounts.

The bond charge revenue increased $2 million at September 30, 2018 from September 30, 2017 due to higher sales to customers.

Interest Income

Interest income in the three months ended September 30, 2019 increased $2 million from the same period in 2018 due to higher interest rates earned on investments in the State of California Surplus Money Investment Fund (SMIF) and Forward Purchase Agreement (FPA) and the unrealized gain from the FPA. The average yield earned on SMIF, for the three months ended September 30, 2019, was 2.04% compared to 1.73% for the three months ended September 30, 2018.

Interest income in the three months ended September 30, 2018 increased $2 million from the same period in 2017.

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 has begun to be 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 did not receive any energy settlements during the fiscal year ended June 30, 2019.

During fiscal year 2018, The Fund received energy settlements of $15.8 million from Shell Energy North America (US), L.P. (successor-in-interest to Coral Power, LLC). On June 1, 2018 the Fund submitted a claim for $9.8 million to the Deutsch Bank LIBOR AG Settlement. While expected to be received after June 30, 2018, this amount was considered an accrual for fiscal year 2018. Total energy and bond settlements were $25.6 million for fiscal year 2018.

The Fund did not receive any energy settlements during the three months period ended September 30, 2019.

Interest Expense

Interest expense in the three months ended September 30, 2019 was $7 million lower than in the same time period in 2018. The decrease was due to lower total interest paid on outstanding debt along with higher amortization of loss on defeasance offset by higher amortization of bond premium.

Interest expense in the three months ended September 30, 2018 was $8 million lower than in the same period in 2017.

Administrative Expenses

Administrative expenses in the three months ended September 30, 2019 was $1 million lower than in the same period in 2018. The decrease was due to lower employee expenses as the Electric Power Fund operation and Pro Rata charges continue to decline.

Administrative expenses in the three months ended September 30, 2018 was $1 million lower than in the same period in 2017.

Recovery of Recoverable Costs

The individual components of the recovery of recoverable costs are as follows (amounts in millions):

	2019		2018	
Operations	$	(7)	$	(3)
Debt service and related costs		235		259
	$	228	$	256

<u>Operations</u>

The negative $7 million operations recovery, in the three months period ended September 30, 2019, is primarily due to pro-rate charges and payments to employees and consultants.

The negative $3 million operations recovery, in the three months period ended September 30, 2018, is primarily due to pro-rata charges and payments to employees and consultants.

<u>Debt Service and Related Costs</u>

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 expense and retire debt. The recoveries in 2019 was lower than 2018 due to lower interest expense, higher interest income, and variances in the timing of collection of bond charges from IOU customers.

LIQUIDITY

Various provisions of the Trust Indenture provide resources for the Fund to meet its cash requirements. In addition to its determination of revenue requirements, prepared annually or more frequently if necessary, to meet both operating and bond related expenditures, the Fund has a Debt Service Reserve Fund in order to meet expenditures if bond charge revenue is impaired. The minimum balance in the Debt Service Reserve Fund is based on the Maximum Annual Debt Service.

With the termination of the last remaining power contract, reserves for operating the Fund's power purchase program are no longer necessary. As of January 2016, the remaining Operating Reserve Account funds were transferred to the Operating Account for return to customers in the IOU service areas.

Under the Section 80130 of the California Water Code, the Fund has a total debt issuance limit of $13.4 billion, which does not include refunding debt issued: (i) to obtain a lower interest rate, (ii) to convert variable rate debt to fixed rate debt or (iii) to replace debt for which the credit rating of the insurer or credit facility provider has been or will be downgraded or withdrawn.

On August 30, 2016, Moody's Investor Service raised the underlying rating on Power Supply Revenue Bonds from "Aa2" to "Aa1" with a stable rating outlook. On February 26, 2020, Standard & Poor's Ratings Services raised the underlying rating on the Power Supply Revenue Bonds from "AA" to "AA+" with a stable rating outlook. Also, on March 24, 2015, Fitch Ratings raised the underlying rating on the Power Supply Revenue Bonds from "AA" to "AA+" with a stable rating outlook. More information can be obtained from each credit rating agency's website: www.moodys.com, www.fitchratings.com, and www.standardandpoors.com.

Requests for Information

This financial report is designed to provide a general overview of the Fund's finances for all 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 Chief, Enterprise Accounting Branch, 1416 Ninth Street Room 816, Sacramento, CA 95814.

Department of Water Resources Electric Power Fund
Statement of Net Position
September 30, 2019 and June 30, 2019
(amounts in millions)

	September 30, 2019	June 30, 2019
Assets		
Long-term assets:		
Restricted cash, equivalents and investments:		
Debt service reserve account	$ 884	$ 884
Recoverable costs	609	837
Total long-term assets	1,493	1,721
Current assets:		
Restricted cash and equivalents:		
Administrative cost account	11	12
Operating account	30	32
Bond charge collection and		
Bond charge payment accounts	878	644
Recoverable costs receivable	102	88
Interest receivable	14	10
Total current assets	1,035	786
Total assets	2,528	2,507
Deferred outflows of resources		
Deferred outflows of resources related to pensions	1	1
Deferred outflows of resources related to OPEB	8	8
Deferral of loss on defeasance	55	61
Total assets and deferred outflows of resources	$ 2,592	$ 2,577
Liabilities		
Non-Current liabilities:		
Long-term debt	$ 1,703	$ 1,711
Net pension liability	4	4
Net OPEB liability	5	5
Interfund loans payable	1	1
Total non-current liabilities	1,713	1,721
Current liabilities:		
Current portion of long-term debt	829	832
Accounts payable	2	2
Accrued interest payable	43	17
Total current liabilities	874	851
Total liabilities	2,587	2,572
Deferred inflows of resources		
Deferred inflows of resources related to pensions	2	2
Deferred inflows of resources related to OPEB	3	3
Total liabilities and deferred inflows of resources	$ 2,592	$ 2,577

See Notes to Financial Statements

Department of Water Resources Electric Power Fund
Statement of Revenues, Expenses and Changes in Net Position
For the three months ended September 30, 2019 and 2018
(amounts in millions)

	2019	2018
Operating revenues:		
Power charges, net of refunds	$ (5)	$ -
Operating expenses:		
Energy and financial settlements	-	-
Administrative expenses	2	3
Recovery of recoverable operating costs	(7)	(3)
Total operating expenses	(5)	-
Income from operations	-	-
Nonoperating revenues and expenses:		
Bond charges	244	277
Interest income	12	10
Interest expense	(21)	(28)
Recovery of recoverable debt service and related costs	(235)	(259)
Total nonoperating revenues and expenses	-	-
Changes in net position	-	-
Net position, beginning of year	-	-
Net position, end of year	$ -	$ -

See Notes to Financial Statements

Department of Water Resources Electric Power Fund
Statement of Cash Flows
For the three months ended September 30, 2019 and 2018
(amounts in millions)

	2019	2018
Cash flows from operating activities:		
Receipts:		
Power charges, net of refunds	$ (5)	$ -
Payments to employees for services	(1)	(1)
Payments for power purchases and other expenses	(1)	(2)
Net cash flows provided by (used for) operating activities	(7)	(3)
Cash flows from non-capital financing activities:		
Receipt of bond charges	230	275
Bond payments	-	-
Interest payments	-	1
Net cash flows provided by (used in) non-capital financing activities	230	276
Cash flows from investing activities:		
Interest received on investments	8	6
Net cash flows provided by (used for) investing activities		
Changes in restricted cash and equivalents	231	279
Restricted cash and equivalents, beginning of period	1,270	1,240
Restricted cash and equivalents, end of period	$ 1,501	$ 1,519
Restricted cash and equivalents included in:		
Debt service reserve account (a component of the total of $884 and $844 at September 30, 2019 and 2018, respectively)	582	582
Administrative cost account	11	9
Operating account	30	38
Bond charge collection and bond charge payment accounts	878	890
Restricted cash and equivalents, end of year	$ 1,501	$ 1,519

See Notes to Financial Statements

Department of Water Resources Electric Power Fund
Statement of Cash Flows (Continued)
For the three months ended September 30, 2019 and 2018
(amounts in millions)

	2019	2018
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	(7)	(3)
	(7)	(3)
Changes in net assets and liabilities to reconcile income from operations to net cash used in operations:		
Recoverable costs receivable	-	-
Net OPEB liability and related deferred inflows/outflows	-	-
Net pension liability and related deferred inflows/outflows	-	-
Interfund loans payable	-	-
Net change in assets & liabilities:	-	-
Net cash provided by (used for) operating activities	$ (7)	$ (3)
Noncash financing and investing activities:		
Amortization of revenue bond premiums	$ 11	$ 13
Amortization of deferral of loss on defeasance	6	7

See Notes to Financial Statements

1. Reporting Entity

In January 2001, the Governor of California issued an emergency proclamation directing the Department of Water Resources (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 Department of Water Resources Electric Power Fund (the Fund), administered by DWR, was established in January 2001 through legislation adding Division 27 to the California Water Code (the Code).

The Fund purchases 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 investor owned utilities (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 is delivered to customers through the transmission and distribution systems of the IOU s and payments from customers are collected for the Fund by the IOU s pursuant to servicing arrangements approved and/or ordered by the California Public Utilities Commission (CPUC).

Under the Code, the Fund has the authority to establish a revenue requirement to recover all Fund costs, including debt service. At least annually, Fund management establishes a determination of the revenue requirement, which then is submitted to the CPUC. Under the terms of a rate agreement between the Fund and the CPUC, the CPUC implements the Fund's determination of its revenue requirements by establishing end use customer rates that meet the Fund's revenue needs to assure the payment of debt service, power purchases, administrative expenses and maintenance of operating and debt service reserves.

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 has been presented for certain sections of the accompanying financial statement in order to provide an understanding of changes in the Fund's financial position and operations.

Current Year GASB Implementation – GASB Statement No. 88

For the year ended June 30, 2019, GASB 88 - Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements is relevant to the Electric Power Fund, but the Fund does not have any conditions that would require disclosure. The Fund has determined that the requirements of this Statement had no material impact to the financial statements.

Restricted Cash, Equivalents and Investments

Under the terms of the Trust Indenture among the State of California, Department of Water Resources, Treasurer of the State of California, 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, consultant fees and other administrative expenses were previously funded by Power Charges transferred from 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 and return of excess amounts to ratepayers.

Bond Charge Accounts:

- Bond Charge Collection Account: Bond Charges (see Revenues and Recoverable Costs) are deposited into the Bond Charge Collection Account. Monthly, funds needed for debt service payments and administrative costs are transferred to the Bond Charge Payment Account.
- Bond Charge Payment Account: Monies in the Bond Charge Payment Account are used to pay debt service and related fees for the revenue bonds and administrative costs. After receipt of the monthly transfer from the Bond Charge Collection Account, the balance in the Bond Charge Payment Account must at least equal debt service and fees estimated to accrue or be payable for the next succeeding three months.
- Debt Service Reserve Account: The Debt Service Reserve Account was initially funded with proceeds of the Series 2002 Bonds. The Debt Service Reserve Account is to be funded at all times with the amount of maximum aggregate annual debt service on all outstanding debt. If the Debt Service Reserve Account needed to be replenished, the funds would be transferred from the Bond Charge Collection 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). The Debt Service Reserve Account (net of investments) is classified as long-term restricted cash due to requirements under the Trust Indenture to hold amounts in excess of anticipated current payments for bond related expenses. Amounts required to be held in reserve are determined annually by the Fund's revenue requirement.

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 on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code, described in Note 3.

Long-term investments are held solely in the Debt Service Reserve Account by the bond co-trustee and consist of guaranteed investment contracts (GIC s) and a U.S. government backed agency security in accordance with a forward purchase agreement (FPA). The GIC s are carried at cost and the U.S. government backed agency security (FPA) is carried at fair value.

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.

Revenues and Recoverable Costs

The Fund is required, at least annually, to establish a determination of the revenue requirement to be transmitted to the CPUC, which then sets 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 employee 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, and certain bargaining units and judicial employees (valuation groups) have agreed to refund 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 postemployment benefits plan administered by CalPERS.

3. Restricted Cash and Investments

As of September 30, 2019, the Fund had the following cash, equivalents and investments (amounts in millions):

Investment	Maturity		September 30, 2019
State of California Pooled Money			
Investment account - surplus money			
Investment fund	6.1 months avg.	$	1,498
Cash			3
Total cash and equivalents			1,501
Guaranteed investment contracts	May 1, 2022		200
Forward purchase agreement	November 1, 2019		102
		$	1,803
Reconciliation to statement of net position:			
Debt service reserve account		$	884
Administrative cost account			11
Operating account			30
Bond charge collection and			
bond charge payment accounts			878
		$	1,803

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. At September 30, 2019 and 2018, one of the guaranteed investment contracts in the amount of $100 million was uninsured and uncollateralized.

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, Pooled Money Investment Account, provides for spreading investments over various maturities to minimize the risk of portfolio depreciation due to a rise in interest rates. The State Treasurers Investment Policy limits investments to the following maximum maturities: U.S. Treasury securities, 5 years; federal agency securities, 5 years; bankers 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, bankers' 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.

Concentration of Credit Risk: The SMIF concentration of credit risk is limited by spreading the investment mix over different investment types and issuers to minimize the impact any one industry, investment class, or institution can have on the SMIF portfolio. At September 30, 2019 and 2018, the Fund's investments in the FPA and two GIC s individually exceed 5.5% of total investments. The ratings of the investments and their relative percentages of total investments is shown in the following table (amounts in millions):

	Amount	S&P Credit Rating	Percent of Total Investments 2019
FPA Provider			
Bank of America Merrill Lynch Discounted Notes	$ 102	Not Rated	5.67%
GIC Providers			
MassMutual	$ 100	Not Rated	5.54%
Royal Bank of Canada	100	Not Rated	5.54%
	$ 200		

Interest on deposits in the SMIF varies with the rate of return of the underlying portfolio and approximated 2% and 1.7% at September 30, 2019 and 2018, respectively. For the three months ended September 30, 2019 and 2018, interest earned on the deposit in the SMIF was $8 million and $6 million, respectively.

Interest on the GIC s is paid semi-annually at interest rates ranging from 5.3% to 5.5%. Interest earned on the GIC s was $3 million for the three months ended September 30, 2019 and 2018.

The FPA allows the Fund to continuously reinvest funds in U.S. government or U.S. government agency securities through May 2022 to earn a minimum rate of return of 4.7%, as specified in the Reserve Fund FPA, dated May 1, 2004. The reinvested securities are to mature every six months. Interest earned on the FPA was $1 million for the three months ended September 30, 2019 and 2018.

Fair Market Value measurement: The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs. Guaranteed Investment Contracts are reported as cost.

The Fund has the following recurring fair value measurements as of September 30, 2019:

- The FPA of $102 million is valued using market approach (Level 2)

4. Long-Term Debt

The following activity occurred in the long-term debt accounts during the three months ended September 30, 2019 (amounts in millions):

	Revenue Bonds	Unamortized Premium	Total
Balance, June 30, 2019	$ 2,459	$ 84	$ 2,543
Payments	-	-	-
Amortization	-	11	11
Balance, Sep 30, 2019	2,459	73	2,532
Less current portion	790	39	829
	$ 1,669	$ 34	$ 1,703

Long-term debt consists of the following at September 30, 2019, respectively (amounts in millions):

Series	Rates	Fiscal Year of Final maturity	Fiscal Year of First Call Date	Amount Outstanding 2019	Current Portion
L	Fixed (3.5-5.00%)	2022	2020	$ 501	$ 321
M	Fixed (3.00-5.00%)	2020	Non-callable	4	4
N	Fixed (3.00-5.00%)	2021	Non-callable	635	414
O	Fixed (2.00-5.00%)	2022	Non-callable	766	-
P	Fixed (1.71-2.00%)	2022	Non-callable	553	51
				2,459	790
Plus unamortized bond premium				73	39
				$ 2,532	$ 829

Bond Debt Refunding Transaction

On September 28, 2016, the Fund issued $567 million of Series P refunding revenue bonds. Proceeds of $566 million from the refunding bonds, less $2 million for issuance expenses and $38 million released from the Debt Service Reserve and Bond Charge Payment accounts totaling $603 million, were used to purchase securities that were deposited in an irrevocable trust with an escrow agent that will provide resources sufficient to pay the future debt service on the advance refunded $555 million of outstanding Series F and Series H revenue bonds. As a result, the refunded bonds are considered defeased and have been removed from the Statement of Net Position. This loss on the bond refunding is reported as deferred outflows of resources on the Statement of Net Position and will be amortized over the life of the refunding bonds. As of September 30, 2019, the outstanding balance of refunded bonds is $294 million.

Key Terms

Principal and interest payments are payable from bond charges. The Fund is subject to certain bond covenants, including establishing funding and expenditure requirements for several restricted cash and investment accounts. The bonds are limited special obligations of the Fund. Neither the principal nor any interest thereon constitutes a debt of the State of California.

The Series L is callable at a redemption rate of 100 percent in 2020. The Series M, N, O and P are non-callable.

Maturities

Future payment requirements on the revenue bonds are as follows at September 30, 2019 (amounts in millions):

Fiscal Year	Principal	Interest	Total
2020	790	104	894
2021	804	67	871
2022	865	34	899
	$ 2,459	$ 205	$ 2,664

5. 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 IOU s. In July 2001, the Federal Energy Regulatory Commission (FERC) initiated an administrative proceeding to calculate refunds for inflated prices in the CAISO and California Power Exchange (PX) 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 one of its short-term refund claims, and has been able to reduce to a de minimus amount, the amount by which its refunds have been reduced on account of the Fund's sales to the CAISO. Proceedings before FERC to wind-up the short-term refund case for purchases made in the electricity markets operated by the CAISO and PX are underway. Additional amounts, including interest, may be payable to the Fund when this wind-up is completed. The Fund's lone remaining short-term refund claim, a bilateral claim, remains subject to litigation.

Direct Access Proceeding: On February 28, 2008, the CPUC approved a decision concluding that the suspension of direct access cannot be lifted at the present time because the Fund is still supplying power under the Act. However, the decision continued the proceeding to consider possible approaches to expediting the Fund's exit from its role of supplying power under the Act. On November 21, 2008, the CPUC adopted a plan with the goal of the early exit of the Fund from its role as supplier of power to retail electric customers. Under this plan, the Fund's power purchase contracts would be replaced by agreement between the IOU s and the Fund's power supplier counterparties that are not detrimental to ratepayers, through novation and/or negotiation.

Senate Bill 695: On October 11, 2009, Senate Bill (SB) 695 was signed into law as an urgency statute. SB 695 allows individual retail nonresidential end-use customers to acquire electric service from other providers in each IOU service area, up to a maximum allowable limit. Except for this express authorization for increased direct access transactions under SB 695, the previously enacted suspension of direct access remains in effect. On March 15, 2010, the CPUC issued Decision 10-03-022 which authorizes increases in the maximum direct access load for each IOU service area, as specified in SB 695. The maximum load of allowable direct access volume is established for each IOU as the maximum total kilowatt hour (kWh) supplied by all other providers to distribution customers of the IOU during any sequential 12-month period between April 1, 1998 and the effective date of the section of the Public Utilities code modified by SB 695, October 11, 2009.

Decision 10-03-033 phases in the additional load allowance over a four-year period beginning on April 11, 2010. The annual phase in of the limits combined with the concurrent expiration of several long-term contracts has not resulted in impacts to the Power Charges. Regardless of the level of direct access participation within the IOU service area, direct access customers will still be assessed Bond Charges and the Fund's revenue requirement will be recovered in the same manner as has been successfully implemented over the duration of the Power Supply Program.

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 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 ISDAfix Instruments and (2) London Interbank Offered Rate instruments. The Department has submitted claims within the framework described in the class actions and It is expected to be deemed valid by the courts. The Department has received $9.8 million from the Deutsch Bank LIBOR AG class action and continues to have outstanding claims for other class actions related to its swap portfolio.

PG&E Bankruptcy: On January 29, 2019 Pacific Gas & Electric (PG&E) filed for protection under Chapter 11 of the U.S. Bankruptcy Code. PG&E provides, under servicing arrangements, billing and collection services on behalf of DWR bond charges. In regard to the Department, PG&E filed a first-day motion seeking the bankruptcy court's approval to continue passing through DWR and CCA revenues in the ordinary course of business. PG&E, after a short three-day delay awaiting the bankruptcy court's approval, restarted "the normal and uninterrupted remittance" of customer payments to CCAs and other public-purpose programs. While the court's approval was an interim approval, it seems that PG&E will continue to provide all billing and revenue remittance services for DWR and CCAs in a business-as-usual fashion.

Other Contingencies

The Fund is self-insured for most risks, including general liability and workers' compensation. 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.

6. 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 manipulation of natural gas and electricity commodity, transportation markets during the 2000 - 2001 California energy crisis, in addition the Fund has received settlements from other FERC actions.

Additionally, the Fund has begun to be 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.

On September 13, 2018, the Fund received a financial settlement from Deutsch Bank LIBOR AG in the amount of $9.8 million. This settlement was already recognized as revenue at June 30, 2018.

There was no revenue received from energy settlements during the three months period ending September 30, 2019.