

I, Peter S. Garris, declare as follows:

1. I am the Deputy Director of the California Energy Resources Scheduling ("CERS") division of the California Department of Water Resources ("DWR"). I was appointed Acting Deputy Director of CERS on September 1, 2001, and served as Acting Deputy Director until I was appointed Deputy Director on January 8, 2002. Prior to that, I acted as Chief of the Energy Reliability and Trading Office at CERS ("Trading Office"). I have personal knowledge of the facts stated herein, and if called, would testify competently thereto.
2. I have worked in the energy field for over 36 years. While at DWR, I worked as an energy marketer and scheduler for the State Water Project, and as a power plant operator, dispatcher, shift supervisor and Chief Dispatcher. I have also worked for the Northern California Power Agency and for the California Independent System Operator Corporation ("CAISO") and the Consolidated Edison Company of New York.
3. I started working to implement DWR's power purchase program on January 17, 2001, the day the Governor signed the Emergency Proclamation. I was responsible for creating the Trading Office for what was to become CERS. The Trading Office (i) manages the scheduling of energy purchased under bilateral transactions, including long-term and short-term contracts, (ii) manages the procurement of the residual net short after the long-term contract energy is scheduled, (iii) re-balances the energy portfolio to match the loads and reserves with the actual net short, and (iv) establishes processes for ensuring that spot trades are competitive transactions.
4. As Chief of the Trading Office, I managed, among other things, the short-term energy trading and scheduling at CERS. These duties included the compilation of data received from the investor-owned utilities ("IOUs") to determine the daily net short requirement and the trading and scheduling functions necessary to fill the net short requirement.
5. During the first few months that DWR purchased power to meet the net short, DWR had to do so by relying heavily on purchasing power in the spot market, specifically in the Day-Ahead and Hour-Ahead markets, and, when requested by the CAISO, DWR procured Out-of-Market ("OOM") energy in real-time for grid reliability purposes. DWR initially struggled to meet the net short requirement of the IOUs, because of a California energy market that was dysfunctional to the point of daily staged emergencies and all too frequent blackouts. Initially there were not enough suppliers willing to sell to DWR due to credit concerns and other issues. The power purchase program was newly established under ABIX, and market participants were not familiar with DWR in its new role or confident in the credit supporting DWR's commitments to purchase energy. In addition, those sellers who sold energy

into the CAISO and California Power Exchange markets were owed billions of dollars. At the same time, the net short requirement had to be satisfied through Day-Ahead and Hour-Ahead purchases, and, to the extent requested by the CAISO, through OOM purchases. DWR was forced to make these purchases of last resort from a limited number of suppliers willing to enter into bilateral arrangements with DWR. Energy prices became shockingly high during latter part of 2000 and the first two quarters of 2001. DWR was at a distinct disadvantage because the net short had to be met with limited supplies.

6. After the Governor issued his Emergency Proclamation, DWR immediately placed experienced personnel in the role of procuring the energy necessary to supply net short energy for the IOUs. The personnel initially placed in this role came from several areas of the energy field. For example, dispatchers from the State Water Project and the Central Valley Project were loaned to CERS, and the IOUs loaned dispatchers/schedulers to CERS for the initial start up and short-term continuing operations. DWR also hired personnel under personal services contracts and utilized employees of consulting firms having the necessary expertise. These personnel were tasked to continually canvas the market to find sources of supply and lower prices for energy. Relying on the its own experience and the advice and expertise of its consultants, DWR set up its Trading Office to meet the goals of ABIX and ensure that reliable, least-cost power was being supplied to the retail customers. From the first day DWR was scheduling and trading in the Day-Ahead and Hour-Ahead markets, and to the extent requested by the CAISO to procure OOM energy, I instructed our traders to acquire the amount of energy needed to meet the net short at the best possible price they could negotiate, with the understanding that we had a responsibility to maintain reliability
7. When DWR started acquiring the energy necessary to supply the net short requirements of the IOUs' customers, the energy market in California was dysfunctional to the point that there were rolling blackouts and extraordinarily high energy prices. The price for energy on the spot market routinely hit \$500/MWh and in some instances exceeded \$1000/MWh. Under those circumstances, CERS was often required to agree to high spot market prices for energy in order to acquire sufficient supplies to maintain reliability.
8. On January 21, 2001, DWR and the CAISO entered into an agreement relating to a process for bilateral transactions and transactions in the CAISO's real-time market on behalf of the retail customers of Pacific Gas and Electric Company and Southern California Edison Company. Among other things, the agreement provided that the CAISO would determine and communicate to DWR the net short needs of each IOU, meaning the difference between retained generation and load for each IOU, on an hourly basis for a seven-day period. DWR would then procure such amounts as bilateral transactions to be scheduled on a day-ahead basis with the CAISO. The agreement further

provided that the generators are required to offer their generation at reasonable rates. DWR also agreed to purchase power for the CAISO's real-time balancing adjustments to meet the changing load requirements of PG&E and SCE service areas but DWR explicitly reserved the right to determine the acceptability of these offers. The agreement was terminable by DWR at any time bids are deemed unreasonable by DWR.

9. On April 13, 2001, in response to the April 6, 2001 order by the Federal Energy Regulatory Commission, DWR and the CAISO entered into an arrangement concerning credit support by DWR for CAISO purchases. Under that arrangement, DWR assumed financial responsibility for all purchases by the CAISO in its ancillary services and imbalance energy markets based on bid or other offers determined to be reasonable, but only to the extent that a purchase would not otherwise be paid by any party or payable by another party meeting the credit standards set forth in the CAISO tariff. It was agreed that such determination of reasonableness would be made by DWR on a case-by-case basis and communicated to the CAISO.
10. On May 10, 2001, DWR and CAISO agreed to supplement their April 13, 2001, arrangement concerning credit support by DWR for CAISO purchases. In this supplemental arrangement, the CAISO agreed not to award ancillary services capacity bids or dispatch imbalance energy bids above prices specified by DWR.

I declare under penalty of perjury that the forgoing is true and correct. Executed on August 9, 2002 at Sacramento, California.



Peter S. Garris