

I, James E. Olson, declare as follows:

1. I am the Financial Officer for the California Energy Resources Scheduling (CERS) division of the Department of Water Resources, a position I have held since January 2001, when the division was formed. In this position I have been responsible for the financial operations of CERS. Immediately prior to this position I was Deputy Comptroller for the Department of Water Resources, and managed a staff of 75 that performed all accounting activities of the Department. I originally joined the Department of Water Resources in 1993. While with the Department I have been actively involved in several revenue bond transactions for the California State Water Project, and was co-manager over the implementation of a department-wide integrated business software system.
2. Prior to joining the Department, I worked with Ernst & Young, a large international accounting firm, for 20 years. As an audit partner with the firm for 10 years, my responsibilities included the management of fiscal reporting and operations for the Sacramento office. I was responsible for cash flow forecasting, budget preparation and analysis of operating results. I was also a client service executive and audit partner in the governmental, utility, manufacturing, distribution, and insurance industries.
3. I received a BS degree in Business Administration from the University of California in 1965 and an MS in Accounting from San Jose State University in 1967.
4. I have been a certified public accountant since 1974.
5. CERS has separated its administrative and general costs into two separate categories: 1) general administrative costs that are appropriated through the State's budgetary process, and 2) pre-issuance costs incurred to bring the revenue bonds to market that are paid through continuous appropriations. All general and administrative costs are recoverable from ratepayers of the investor owned utilities. A summary of the costs for 2001, 2002, and 2003 by general categories is presented in the table below:

(Millions of dollars)

<u>Description</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Costs Appropriated through State Budget			
Personnel and Distributed Overhead	\$ 6	\$ 9	\$ 11
Consultants	17	20	13
Software Systems	6	19	
Miscellaneous Operating Expenses	6	4	4
Total Appropriated Costs	35	52	28
Costs for Long-Term Financing	24	15	
Total Administrative Costs	\$ 59	\$ 67	\$ 28

6. The State of California budgets for a July 1– June 30 fiscal year. Through the budgetary process, which provides a procedure to make program changes during the year, CERS had approved budgets of \$13 million for January through July 2001, and \$58 million for the 2001 – 2002 fiscal year. CERS' budget for 2002 – 2003 provides \$28 million for appropriated administrative costs. As of this date CERS budget for 2002 – 2003 has not been finalized as the State's overall budget, of which this is portion, has not been adopted. The amounts shown in the schedule above have been prorated between years from the fiscal year budget in order to be shown on a calendar year basis. CERS is not authorized to spend, and has not spent, appropriated funds beyond what has been budgeted.
7. The State's budgetary process provides a rigorous process for the Department to substantiate the just and reasonableness for its administrative expenditures. This includes obtaining approval from the Department of Finance, Governor's Office, and the State Legislature before being included in signed legislation.
8. Approximately 60 of the 120 positions at CERS are filled by Department personnel. These civil service personnel are paid based on salaries established through the State's collective bargaining and legislative process. These personnel are performing necessary day-to-day operations to manage the \$5 billion Power Program.

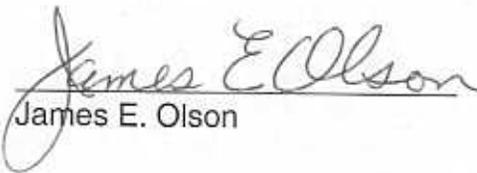
9. Department distributed overhead is based on an allocation of Department administrative costs that are not charged directly to Department programs such as CERS. These costs include the costs for the Division of Management Services and Division of Fiscal Services that provide day-to-day department-wide services. The costs allocated to a program are based on the ratio of the program's personnel costs to all programs' personnel costs. This process has been used by the Department for several years and has been accepted by the Department of Finance as an appropriate method of distributing overhead costs.
10. CERS has utilized consultants rather than civil service personnel in a variety of positions. A primary reason for this has been the uniqueness and size of CERS' operations and the need to have experienced personnel immediately address the issues associated with the power markets. While the Department, the only agency within State government with energy operational experience, does operate the State Water Project, there was not adequate staff currently in State service to also meet the operational needs of CERS. In making the determination to use consultants, the Department also considered the relative short-term nature of the CERS' mission, and that it would be extremely difficult to hire civil service personnel into limited-term positions.
11. CERS has utilized consultants, including those under personal service contracts, for energy trading, contract negotiations, risk management, bi-lateral and ISO settlements, development of revenue requirements, natural gas operations, and litigation and regulatory support. Each of these areas is critical to the operations of CERS.
12. Some of the consultants utilized by CERS already had Master Service Agreements with the State, through which the hourly rates for consulting work had previously been determined. Many of the contracts were negotiated by the Department to establish the scope of work, estimated hours, rates, and a maximum contract amount.
13. The Department has substantial experience in utilizing consultants on a variety of issues. In negotiating personal service contracts the Department considered industry pay scales for comparable work. In negotiating rates for consultants, the Department took into consideration what it was paying for consultants performing work in other areas of the Department, and in some instances is obtaining services at a discount from normal rates.
14. In order to properly manage any large-scale operation, it is necessary to utilize software systems. The Department utilizes some pre-established

systems to manage administrative tasks such as personnel and accounting. Therefore, it was not necessary for CERS to make any investment for software to be used for general management. However, the Department did determine that it was necessary to implement two software systems specific to CERS.

15. One software system allows CERS to enter, schedule and submit energy transactions to the California Independent System Operator. This system also provides a repository for settlement data, which is used for monthly settlements with counter-parties. The other system consists of energy trading and risk management (ETRM) software. This tool is used to assist in management and analysis of the long-term energy contracts, and includes market risk, credit risk and counter-party tracking modules. Both software systems are necessary for the ongoing management of long-term contracts.
16. Before the energy crisis, the scheduling software had been selected by the Department's State Water Project as the software of choice through a State mandated competitive process. Under the terms of the Executive Order, CERS capitalized on this selection process and, because of the need to keep the operations of the State Water Project and CERS totally separate, negotiated a separate contract for the software and its implementation.
17. CERS utilized the State mandated competitive process for the selection and implementation of the ETRM software. This included the development of a feasibility study, vendor demonstrations, software selection, contract negotiations, and necessary reporting to other State agencies.
18. Miscellaneous operating costs include the purchase of office and information technology equipment, rent, and other miscellaneous expenses. The Department utilized State purchasing procedures and allowable vendors for hardware purchases, and utilized the State process for leasing office space.
19. CERS' costs for implementing long-term financing are separate and apart from its normal administrative costs. The majority of the costs are associated with the structure and ultimate issuance of the long-term bonds. The Department's bond counsel and financial advisor, both of whom had contracts in place with the Department for State Water Project financing issues, are providing legal and financial advisory service for the implementation of the estimated \$11 billion bond financing, the largest ever in municipal finance. CERS is securing their services for the same rates as were charged for the State Water Project.

20. Other costs that CERS incurs for financing include personnel costs for Department of Finance, State Treasurer's Office, as well as the costs of financial advisors and counsel who have been instrumental in developing the revenue bond program. Because of the size of the bond issue, the complexity of the issues surrounding the bond issue, it is both just and reasonable to provide for the costs of these other State agencies that have provided direct support to CERS. Early in the life of CERS additional costs were incurred to provide for letters of credit and implementing the interim loan.
21. The Department anticipates that the costs for long-term financing will end in 2002 with the issuance of revenue bonds.

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

  
James E. Olson