

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

San Diego Gas & Electric Company,
Complainant,

v.

Sellers of Energy and Ancillary Services
Into Markets Operated by the California
Independent System Operator and the
California Power Exchange,

Respondents.

Docket Nos. EL00-95-000
EL00-95-002
EL00-95-003

Investigation of Practices of the California
Independent System Operator and the
California Power Exchange

Docket Nos. EL00-98-000
EL00-98-002
EL00-98-003

Public Meeting in San Diego, California

Docket No. EL00-107-000

Reliant Energy Power Generation, Inc.,
Dynergy Power Marketing, Inc.,
and Southern Energy California, L.L.C.,
Complainants,

v.

California Independent System Operator
Corporation,

Respondent.

Docket No. EL00-97-000

California Electricity Oversight Board,
Complainant,

v.

All Sellers of Energy and Ancillary Services
Into the Energy and Ancillary Services Markets
Operated by the California Independent System
Operator and the California Power Exchange,
Respondents.

Docket No. EL00-104-000

Docket No. EL00-95-000, et al.

California Municipal Utilities Association,
Complainant,

v.

All Jurisdictional Sellers of Energy and Ancillary
Services Into Markets Operated by the California
Independent System Operator and the
California Power Exchange,
Respondents.

Docket No. EL01-1-000

Californians for Renewable Energy, Inc. (CARE),
Complainant,

v.

Independent Energy Producers, Inc., and all
Sellers of Energy and Ancillary Services Into
Markets Operated by the California Independent
System Operator and the California Power
Exchange; All Scheduling Coordinators Acting
on Behalf of the Above Sellers; California
Independent System Operator Corporation; and
California Power Exchange Corporation,
Respondents.

Docket No. EL01-2-000

Puget Sound Energy, Inc.,

Complainant,

v.

All Jurisdictional Sellers of Energy and/or Capacity
at Wholesale Into Electric Energy and/or Capacity
Markets in the Pacific Northwest, Including
Parties to the Western Systems Power Pool
Agreement,
Respondents.

Docket No. EL01-10-000

AFFIDAVIT OF WILLIAM J. REGAN, JR.

I, William J. Regan, Jr., being duly sworn, hereby make the following affidavit:

1. I am the Chief Financial Officer for the California Independent System
Operator Corporation (the "ISO"). In that capacity, I am familiar with the major capital

transactions that the ISO plans in the coming months and with the arrangements governing the ISO's present outstanding debt.

2. During the January 27, 2001 through April 27, 2001 period, the ISO is likely to be required to enter into numerous material transactions, including substantial capital expenditures for which it needs up to \$80 million of third-party financing requiring Board approval.

3. ISO management plans to request that the ISO Governing Board (the "Board") approve issuance of up to \$110 million in additional debt. Thirty million dollars of the proceeds would be used to finance FY 2001 capital expenditures (primarily a new EMS system (\$10 million) and initial phases of the FERC-mandated Congestion Management Reform (\$20 million)). Thirty million dollars would be a prefunding of FY 2002 capital expenditures. Fifty million dollars would be targeted to finance the proposed new ISO facility. (While the Board has already approved the new facility, it has not approved the associated debt.)

4. It is unlikely that the terms of financing can be negotiated prior to the January 29, 2001 date specified for transfer of the Board's responsibilities to ISO management.

5. In the event the terms of a financing package can be negotiated after January 29, it is essential that there be a functioning Board to approve the package. Regardless of whether Board approval is technically required for these financing plans, I believe that the lenders nonetheless will require Board approval as a condition to funding, particularly in view of the uncertainties that may remain.

6. The ISO presently has outstanding approximately \$ 300 million in “variable rate demand obligations.” The variable rate is recalculated weekly by the remarketing agents (a group of investment banking firms), who attempt to keep the rate at a level that maintains these obligations at par value. The holders of the variable rate demand obligations also have a right to put these obligations to the ISO, in which case the ISO has back-up bank financing, but at a higher rate. In light of these arrangements, significant uncertainties in the financial community’s assessment of the ISO may adversely affect the weekly recalculation of the variable rate, and may make holders determine to put their obligations back to the ISO, thus affecting not only the ISO’s ability to obtain new financing, but also its cost of servicing its current debt. In the absence of a Board which is clearly empowered and authorized by state law, I believe that the financial community is likely to assign a higher risk factor to the ISO’s presently outstanding debt than it otherwise would.

7. In addition to the financing issues described above, I believe that the ISO is likely to need to enter into a number of significant contracts during the January 29, 2001 to April 27, 2001 period. These include, but are not limited to, Summer 2001 Demand Relief Program agreements, contracts for out-of-market or forward-purchased energy, Summer 2001 Peaking Generation contracts, and routine consulting and other business agreements. Again, I believe that the ISO will experience difficulties in consummating agreements with third-parties during this period, if the December 15 order is not stayed.

William J. Regan, Jr.

Subscribed and sworn to before me
This ____ day of January, 2001

Notary Public

My Commission Expires: _____