

**ATTACHMENT E**

**DEPARTMENT OF WATER RESOURCES**

1416 NINTH STREET, P.O. BOX 942898  
SACRAMENTO, CA 94236-0001  
18181 883-5791



February 7, 2001

Via Facsimile: (713) 207-0159

Jack Farley  
Reliant Energy  
Post Office Box 61867  
Houston, Texas 77208

Dear Mr. Farley:

This is to follow-up our conversation yesterday and in reply to Mr. Mike Jine's faxed letter of February 5, 2001 to the California Department of Water Resources ("CDWR") and the California Independent System Operator ("CAISO") requesting clarification concerning the Department of Water Resources' role, in light of the passage of AB 1X, regarding purchasing power supplied to the CAISO on a real time basis. This is to confirm that CDWR is in fact, making such purchases as described by our joint letter of January 20, 2001 to Dynegy et.al. The following paragraph sets forth the criteria that CDWR uses in determining "acceptability of these offers" for supplemental energy.

In addition, pursuant to our agreement yesterday, to help generation companies understand what they have been paid by the CDWR for supplemental energy, CAISO will be supplying CDWR daily with a listing by Scheduling Coordinator of each Scheduling Coordinator's aggregate dollars and aggregate megawatt-hours of each prior day's transactions. These summaries will be provided to generation companies approximately 24 hours from the time of the last transaction for a 24-hour period. This will be an interim procedure until more automated processes can be developed by the CDWR and CAISO.

Regarding the valuation of Supplemental Energy bids, CDWR uses the following items to evaluate the acceptability of the offers. On a daily basis CDWR assesses the value of energy based on estimated fuel costs (daily gas), heat rates for various plants, NOx costs, capital and operations & maintenance costs. Beyond these criteria, no additional information on the price at which CDWR is willing to make real-time purchases will be released. This price is within CDWR's sole discretion to determine and bids above this price may not be backed by CDWR.

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With regard to your other inquiry, CDWR will continue to monitor its purchases to ensure that they remain within budgetary appropriations. As you know, AB1X appropriated substantial funds to CDWR that will enable CDWR to not only enter into long-term contracts, but also establish a cash flow to handle both reasonably priced real-time and forward market purchases. To that end, CDWR expects to arrange for interim financing in the next few weeks and long-term financing by this summer. Finally, CDWR wishes to clearly point out that it is currently able to pay for any and all of its commitments for energy delivered now and in the future to the extent that the bids are acceptable to CDWR based on the criteria addressed above.

This additional reporting of information to CDWR by CAISO will begin February 7, 2001. If you have any questions, please contact me at (916) 653-8043.

Sincerely,



Raymond D. Hart  
Deputy Director  
CA Department of  
Water Resources

Cc: Mr. Mike Jines  
Law Department  
Reliant Energy

James O'Brien  
Senior Staff Counsel  
CDWR