

ATTACHMENT F



CALIFORNIA ISO

California Independent
System Operator

Terry M. Winter
President and Chief Executive Officer

April 13, 2001

Mr. Ray Hart
Deputy Director
CA Department of Water Resources
3310 El Camino Ave., Ste. 120
Sacramento, CA 95821-9001

Dear Ray:

This letter confirms the agreement between the ISO and DWR concerning credit support by DWR for ISO purchases. The terms of the agreement are set forth in the attached draft notice to market participants. If the attached notice accurately reflects our agreement, please signify your consent by signing this letter as indicated below and return the original to me. Your signature will also constitute your authorization that the notice may be issued.

Thank you for your continued cooperation in these times of challenge.

Very truly yours,

Terry M. Winter
President and Chief Executive Officer

Agreed:

Ray Hart
CA Department of Water Resources

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Market Notice re Credit Issues

In response to the FERC order of April 6, 2001 re the issue of creditworthiness, the California Department of Water Resources (DWR) has authorized the ISO to make the following statement. To the extent (and only to the extent) that a purchase is not otherwise paid by any party or payable by another party meeting the credit standards set forth in the ISO Tariff (another "Qualified Party"), DWR will assume financial responsibility for all purchases by the ISO in its ancillary services and imbalance energy markets based on bids or other offers determined to be reasonable. Such determination of reasonableness will be made by DWR on a case by case basis and communicated to the ISO. All bids into the ancillary services and imbalance energy markets will be deemed to be contingent on the acceptance of financial responsibility by DWR, to the extent not paid or payable by another Qualified Party. Unless a supplier is otherwise notified, any bid accepted by the ISO will be deemed to have the financial support of another Qualified Party or DWR as specified in this notice. In addition to the foregoing, DWR will assume financial responsibility for all purchases resulting from the issuance by the ISO of emergency dispatch instructions, to the extent not paid or payable by another Qualified Party. Payment for such purchases shall be made according to the rate specified in the ISO Tariff for emergency dispatch instructions. The ISO and/or DWR reserve the right to rescind or modify the foregoing arrangements at any time and for any reason, including a successful rehearing or appeal from the April 6 order.

As the FERC determined in its February 14 order that DWR is a creditworthy counterparty, the ISO believes that the foregoing arrangements meet the requirements of FERC's April 6 Order. Accordingly, the ISO expects that suppliers will honor their obligations under the ISO Tariff and related agreements to respond to ISO dispatch instructions.

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