

CDWR and ISO Agreement

The following agreement has been struck by the California Department of Water Resources ("CDWR") and the California Independent System Operator ("ISO").

Under the authority granted in SB7X, CDWR has been appropriated \$400 million to purchase power for the benefit of electric consumers in California. CDWR and the ISO wish to apprise the Market Participants of an agreement reached under which CDWR will purchase power for the ISO's real-time market.

The process for bilateral transactions and the ISO's real-time market will be as follows:

1. The ISO will determine the need based on the net requirement between Pacific Gas & Electric Company's ("PG&E's") generation and load, and Southern California Edison Company's ("SCE's") generation and load. This need on an hourly basis for a seven-day period will be communicated to DWR.
2. The generators are required to offer their generation at reasonable rates.
3. CDWR will procure such amounts as bi-lateral transactions to be scheduled on a day-ahead basis with the ISO.
4. Any subsequent resource requirements identified by ISO operations that can be determined up to three hours in advance of the operating hour will be communicated to CDWR trader to execute bilateral trades with any remaining offers in the same priority of the next day order to the extent the limited infrastructure of CDWR can execute these trades to meet the scheduling timelines of the Hour-Ahead market.
5. The ISO will be responsible for balancing adjustments made in the real-time market and the ISO expects all uncommitted generation to be bid into the ISO real-time market. CDWR will purchase power for the ISO's real-time balancing adjustments to meet the changing load requirements of the PG&E and SCE service areas. CDWR will determine the acceptability of these offers.
6. The ISO will provide a daily report to DWR stating the amount procured in real-time under this agreement, including dollars and amount of energy.

This agreement is effective 12:01 a.m. January 21, 2001. CDWR or the ISO may terminate this agreement at any time if the bids are deemed unreasonable by CDWR or the amount of the appropriation has been extinguished. DWR will apprise Market Participants shortly of the structure for procurement of the forward energy component.