

**ATTACHMENT D**

**DEPARTMENT OF WATER RESOURCES**

1416 NINTH STREET, P.O. BOX 942836  
SACRAMENTO, CA 94236-0001  
(916) 663-5791



January 20, 2001

Mr. Lynn Lednicky  
Sr. Vice President  
Dynege Marketing & Trade  
1000 Louisiana Street  
Ste. 5800  
Houston, TX 77002

Mr. John Stout  
Vice President  
Reliant Energy  
1111 Louisiana Street  
Houston, TX 77002

Mr. Bill Hall  
Vice President, General Manager  
Duke Energy North America  
1290 Embarcadero Road  
Morro Bay, CA 93442

Mr. Randy Harrison  
Southern Energy, Inc.  
1350 Treat Blvd., Suite 500  
Walnut Creek, CA 94596

Dear Sirs:

Under the authority granted in SB7X, the California Department of Water Resources ("CDWR") has been appropriated \$400 million to purchase power for the benefit of electric consumers in California. CDWR and the California Independent System Operator ("ISO") wish to apprise you 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:

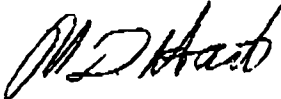
1. The ISO will determine the need based on the net requirement between Pacific Gas & Electric Company's ("PG&E's") generation and load, and Southern California Edison Company's ("SCE's") generation and load. This need on an hourly basis for a seven-day period will be communicated to DWR.
2. The generators 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.



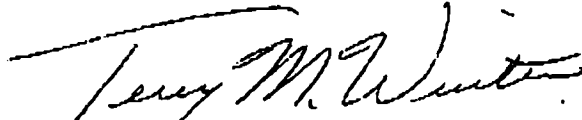
5. The ISO will be responsible for balancing adjustments made in the real-time market and the ISO expects all uncommitted generation to be bid into the ISO real-time market. CDWR will purchase power for the ISO's real-time balancing adjustments to meet the changing load requirements of the PG&E and SCE 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 you shortly of the structure for procurement of the forward energy component.

Sincerely,



Raymond D. Hart  
Deputy Director  
CA Department of  
Water Resources



Terry M. Winter  
President & Chief Executive Officer  
California ISO

From: Le Vine, Debi  
Sent: Sunday, January 21, 2001 3:09 AM  
To: ISO Market Participants  
Subject: CAISO Notification of Agreement

Attached is an agreement that has been reached between the California Department of Water Resources and the California ISO.

Debi Le Vine  
Director of Contracts & Compliance

## 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.