**AMENDMENT 1 TO THE
INTERIM AGREEMENT BETWEEN PG&E, SMUD and ISO
TO RECOGNIZE NEW PARTICIPATING GENERATORS**

This Amendment 1 is made this ___ day of _____, 1999 and is entered into, by and between:

(1)   **PACIFIC GAS AND ELECTRIC COMPANY**, having a registered or principal executive office at 77 Beale Street, San Francisco, CA 94177 ("PG&E");

(2)   **SACRAMENTO MUNICIPAL UTILITY DISTRICT**, having a registered or principal executive office at 6201 S Street, Sacramento, California 95817-1899 ("SMUD"); and

(3)   **CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**, a California nonprofit public benefit corporation having a principal executive office located at such place in the State of California as the ISO Governing Board may from time to time designate, initially 151 Blue Ravine Road, Folsom, California 95630 ("ISO").

        PG&E, SMUD and ISO are hereinafter referred to individually as "Party" and collectively as "Parties."

WHEREAS:

A.   The Parties have entered into an Interim Agreement Between PG&E, SMUD and ISO dated April 21, 1998 ("Interim Agreement"), to establish, among other things, the means by which information concerning the generation and load internal to SMUD's system will be communicated to and accounted for by the ISO.

B.   UC Davis Medical Center has made arrangements with the ISO to enable its Generating Unit, which is internal to SMUD's Service Area, to participate in the ISO's Ancillary Services and Imbalance Energy markets as a Participating Generator. To effectuate these arrangements, the Parties recognize that changes to the Interim Agreement are necessary so that the amount of the output of the UC Davis Medical Center Generating Unit participating in the ISO's markets, as metered at SMUD's Mid-City Substation, can be accounted for separately.

C.   In all other respects, the Parties intend that the Interim Agreement remain in full force and effect in accordance with its terms.

NOW THEREFORE, in consideration of the mutual covenants set forth herein, the Parties agree as follows:

1.   AMENDMENT

The Interim Agreement is hereby amended as follows:

1.1   Revise recital E to read as follows:

E. SMUD has internal generation and demand. In addition, UC Davis Medical Center has made arrangements with the ISO to enable its Generating Unit, which is a Generating Unit internal to SMUD's Service Area, to participate in the ISO's Ancillary Services and Imbalance Energy markets as a Participating Generator. To properly maintain the reliability of the ISO Control Area, the ISO must know, for each Settlement Period, the amounts of the UC Davis Medical Center's Generating Unit's generation, as metered at SMUD's Mid-City Substation, and the balance of SMUD's internal generation and demand, in combination with any imports to or exports from the ISO Control Area, Western – SMUD schedules, and any Inter-Scheduling Coordinator Trades.

1.2 Add the following provision to Section 1.2:

"Generating Unit" shall have the same meaning as it does in the ISO Tariff.

1.3 Add the following provision to Section 4:

4.5 Any Imbalance Energy charges that result from transactions related to the UC Davis Medical Center Generating Unit, as metered at SMUD's Mid-City Substation, participating in the ISO's markets will be charged to the Scheduling Coordinator for the UC Davis Medical Center. The ISO will not assess any additional fees or additional charges to PG&E as a result of participation by the UC Davis Medical Center Generating Unit in ISO markets.

1.4 Replace Sections 5.1.4 and 5.1.6 with the following:

5.1.4 SMUD will operate its native generation, excluding the amount of the UC Davis Medical Center Generating Unit generation delivered to the ISO, as metered at SMUD's Mid-City Substation, to supply its native demand and meet its utility obligations in accordance with Section 4 of the SMUD IA with PG&E.

5.1.6 Energy deliveries to and from SMUD from and to the ISO Controlled Grid not using Existing Contracts shall be scheduled by the Lake SC. Schedules to the ISO scheduled by the Lake SC shall be deemed delivered. The metered quantity of Energy produced by the UC Davis Medical Center Generating Unit, as metered at SMUD's Mid-City Substation, shall be added to the calculation of the Rancho Seco Logical Meter as shown in Appendix B. A portion of SMUD's Demand may be scheduled by and settled through the Lake SC, in accordance with the ISO Tariff. Such Lake SC schedules will be subject to all applicable ISO charges. Schedules of energy by the Lake SC shall be netted against the Adjusted Rancho Seco Logical Meter Read for Imbalance Energy settlement, as shown in Appendix B. The Lake SC will be directly responsible to the ISO for all Ancillary Services associated with the load SMUD allocates to Lake SC deliveries. The UC Davis Medical Center Generating Unit SC shall be directly responsible to the ISO for the amount of generation

provided by the UC Davis Medical Center Generating Unit, as metered at SMUD's Mid-City Substation. Lake SC deliveries shall be deemed to be firm purchases for purposes of determining SMUD's reserve requirement per the IA. Because Lake SC schedules will be deemed delivered, they will not incur Imbalance Energy charges. Schedules to the ISO from the UC Davis Medical Center Generating Unit, as metered at SMUD's Mid-City Substation, will incur Imbalance Energy charges in accordance with the ISO Tariff and are the responsibility of the Scheduling Coordinator for the UC Davis Medical Center Generating Unit. The remaining SMUD system imbalances will be settled between PG&E and SMUD pursuant to the IA, and between the ISO and PG&E pursuant to the RPTO Agreement.

1.5 Add the following provision to Section 6:

6.6 SMUD, on behalf of the UC Davis Medical Center, will provide or cause to be provided to the ISO energy control center via a dedicated communication link, the instantaneous metered quantities of generation MW and MVAR, as metered at SMUD's Mid-City Substation, in a form suitable for the ISO's Energy Management System.

1.6 Revise Appendix B to revise the Rancho Seco Logical Meter Read calculation by revising the provisions regarding the actual meter reads to read as follows:

$$M_{RS} = RS + LK + EL + HU + UCMC$$

RS = Rancho Seco actual meter reads for Settlement Period i

LK = Lake actual meter reads for Settlement Period i

EL = Elverta actual meter reads for Settlement Period i

HU = Hurley actual meter reads for Settlement Period i

UCMC = The metered quantity of generation from the UC Davis Medical Center Generating Unit as metered at SMUD's Mid-City Substation at 115 kV.

The actual meter read sign convention for direction of flow is as follows: Imports into the SMUD Service Region and the UC Davis Medical Center Generating Unit generation, as metered at SMUD's Mid-City Substation, are negative (-) and Exports from the SMUD Service Region are positive (+).

2. This Amendment 1 constitutes the complete and final agreement of the Parties with respect to the subject matter hereto and supersedes all prior understandings, whether written or oral, with respect to such subject matter.

3. Except as expressly modified in this Amendment 1, the Interim Agreement shall remain in full force and effect in accordance with its terms, and the unmodified provisions of the

Interim Agreement shall apply to any new rights and/or obligations established by this Amendment 1.

4. This Amendment 1 may be executed in one or more counterparts at different times, each of which shall be regarded as an original and all of which, taken together, shall constitute one and the same agreement.

IN WITNESS WHEREOF, the Parties hereto have caused this Amendment 1 to be duly executed on behalf of each by and through their authorized representatives as of the date first above written.

California Independent System Operator:

By: _____   _____
    Name   Date

_____
Title

Pacific Gas and Electric Company:

By: _____   _____
    Name   Date

_____
Title

Sacramento Municipal Utility District:

By: _____   _____
    Name   Date

_____
Title