

## 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.



# 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,

A handwritten signature in cursive script that reads "Terry M. Winter".

Terry M. Winter  
President and Chief Executive Officer

Agreed:

A handwritten signature in cursive script that reads "Ray Hart".

Ray Hart  
CA Department of Water Resources

# DRAFT

## 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.

# DRAFT

DEPARTMENT OF WATER RESOURCES

1416 NINTH STREET, P.O. BOX 942836  
SACRAMENTO, CA 94236-0001  
(916) 653-5791



May 10, 2001

Mr. Terry M. Winter  
President and Chief Executive Officer  
California Independent System Operator  
P.O. Box 639014  
Folsom, California 95763-99014

Dear Mr. Winter:

The Department of Water Resources has no objection to the wording of the notice to market participants in the attached document and DWR has no objection to the California Independent System Operator issuance of the market notice.

Sincerely,

A handwritten signature in cursive script, appearing to read "R. D. Hart".

Raymond D. Hart  
Deputy Director

Attachment

cc: Gary Heath  
Electricity Oversight Board  
770 L Street, Suite 1250  
Sacramento, California 95814

Erik Saltmarsh  
Electricity Oversight Board  
770 L Street, Suite 1250  
Sacramento, California 95814



# CALIFORNIA ISO

California Independent  
System Operator

Terry M. Winter  
President and Chief Executive Officer

May 10, 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 supplements the agreement between the ISO and DWR concerning credit support by DWR for ISO purchases. The additional 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:

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Ray Hart  
CA Department of Water Resources

cc: Gary Hearsh, EOB  
Erik Saltmarsh, EOB

Draft- Privileged & Confidential, Attorney Work-Product

Supplemental Market Notice re Credit Issues  
May 10, 2001

On April 13, 2001, the ISO sent out a Market Notice explaining how the ISO will comply with FERC's April 6, 2001 order, 95 FERC ¶ 61,024, on creditworthiness. In that Market Notice, the ISO was authorized to make the following statement on behalf of the California Department of Water Resources (CDWR):

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"), CDWR 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 CDWR 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 CDWR, 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 CDWR as specified in this notice. In addition to the foregoing, CDWR 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 CDWR 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.

Pending rehearing, unless the ISO can provide reasonable assurances that a party meeting the ISO's credit requirements will support a specific transaction, the ISO will not enter into the transaction with respect to any resource. This includes (1) awarding capacity bids in the forward Ancillary Service ("AS") markets and (2) dispatching Imbalance Energy bids in the real time market. Therefore, the ISO will not award AS capacity bids nor will it dispatch Imbalance Energy bids above the prices for which CDWR will agree to provide credit backing. Imbalance Energy bids above the prices for which CDWR has agreed to provide credit backing, though not accepted, shall remain in the "BEEP" stack. Accordingly, in accordance with ISO Tariff §§5.1.3 and 11.2.4, resources will not be subject to Out-Of-Market calls unless the ISO has secured a creditworthy buyer for these unawarded Supplemental Energy Bids. See, e.g., ISO Tariff §§ 5.6.2 and 5.1.3. A separate notice will be issued regarding Reliability Must Run.

California ISO  
Phone: 916-608-7055  
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