

DEPARTMENT OF WATER RESOURCES

CALIFORNIA ENERGY RESOURCES SCHEDULING

P.O. BOX 219001

3310 EL CAMINO AVENUE, SUITE 120

SACRAMENTO, CA 95821-9001

(916) 574-1291



October 25, 2007

Mr. Steven Ballard
Bear Energy LP
700 Louisiana, Suite 1000
Houston, TX 77002

Mr. John C. Gammie, Senior Counsel
The Williams Companies, Inc.
One Williams Center, Suite 4700
Tulsa, Oklahoma 74172

Dear Mr. Gammie and Mr. Ballard:

The California Department of Water Resources ("CDWR") references the Amended and Restated Master Power Purchase and Sale Agreement (the "Master Agreement"), the Amended and Restated Cover Sheet, Products A, B, and C (the "Products A, B, C Cover Sheet"), the Amended and Restated Confirmation Letter, Products A, B, C Transaction (the "Products A, B, C Confirmation"), the Amended and Restated Cover Sheet, Product D (the "Product D Cover Sheet"), and the Confirmation Letter, Product D Transaction (the "Product D Confirmation") by and between CDWR and Williams Energy Marketing & Trading Company ("Williams") dated November 11, 2002. Collectively, the Master Agreement, the Products A, B, C Cover Sheet, the Products A, B, C Confirmation, the Product D Cover Sheet, and the Product D Confirmation shall be referred to hereinafter as the "PPA." All capitalized terms used, but not otherwise defined herein, shall have the same meaning given to them in the PPA.

Attached please find the current version of the Product D Operating and Settlement Procedures agreed upon by the parties to reflect current operating practices. Please sign the acknowledgement below and remit an original of this letter to CDWR.

If you have additional information or would like to discuss this further, please contact me at (916) 574-0292.

Sincerely,

Original signed by:

Jim Spence
Contract Manager

John C. Gammie
Steven Ballard
October 25, 2007
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Acknowledged by:

Rodney J. Sailor

Name: Original signed by:

Date: October 25, 2007

Of: Williams Power Company, Inc.

cc: Mr. Jesse Bryson
Southern California Edison
2244 Walnut Grove Avenue
QUAD 1C G01
Rosemead, California 91770

Ms. Kristle Schaffitzel
West Power Asset Management
Williams Energy Marketing & Trading
One Williams Center, WRC 2-4
Tulsa, Oklahoma 74172



Williams and CDWR Contract
Product D

Operating and Settlement Procedures

Date	Revision
September 20, 2007	0

PRODUCT D OPERATING AND SETTLEMENT PROCEDURES

These Operating and Settlement Procedures ("Operating Procedures") document the operating practices of the parties under the Amended and Restated Master Power Purchase and Sale Agreement (the "Master Agreement"), the Amended and Restated Cover Sheet, Product D (the "Product D Cover Sheet") and the Confirmation Letter, Product D Transaction (the "Product D Confirmation") by and between the California Department of Water Resources ("CDWR") and Williams Power Company, Inc. (formerly known as Williams Energy Marketing & Trading Company) ("Seller") dated November 11, 2002. Collectively, the Master Agreement, the Product D Cover Sheet, and the Product D Confirmation shall be referred to hereinafter as the "Product D Agreement." All capitalized terms used, but not otherwise defined herein, shall have the same meaning given to them in the Product D Agreement.

Should any conflict arise between these Operating Procedures and any terms of the Product D Agreement, the terms of the Product D Agreement shall control. These Operating Procedures are subject to change and may be modified as evolving operating experience, market conditions or CAISO rules may require, subject to the mutual agreement of Seller and CDWR. Both parties specifically acknowledge that the CAISO's Market Redesign and Technology Upgrade ("MRTU") process will require modification of these procedures and both parties agree to promptly modify these procedures as reasonably required by MRTU when implemented.

The parties hereby acknowledge that with respect to these Operating Procedures Southern California Edison, Company ("SCE") is acting as CDWR's limited agent pursuant to the California Public Utilities Commission ("CPUC") Decision 02-12-069 issued on December 19, 2002, as modified by the CPUC Decision 03-12-003 issued on December 4, 2003, and as it may further be modified by the CPUC from time to time.

Section 1. Contacts and Authorized Representatives

Attachment I identifies telephone/fax numbers and e-mail information for each Party's authorized contact personnel. References in these Operating and Settlement Procedures to notices by telephone, fax, or e-mail shall be deemed to refer to the applicable number or website address set forth in Attachment I.

Section 2. Seller Agreement to Maintain a Separate Scheduling and Dispatch Desk

Seller will maintain a scheduling and dispatch desk that is physically separated from the rest of Seller's trading desk. The scheduling and dispatch desk will be staffed with personnel with limited interaction with the traders and who cannot be a conduit for information to the traders. All data related to CDWR/SCE dispatch instructions shall be kept confidential and shall not be disclosed to the Seller trading personnel.

Section 3. Procedures for Scheduling and Dispatch prior to MRTU implementation

A. Day-Ahead Energy and Ancillary Service Scheduling:

1. Availability Notice: Seller will, by 5:00 a.m. Pacific Prevailing Time ("PPT") one day prior to the trading day in accordance with the Western Electricity Coordinating Council ("WECC") pre-schedule calendar, provide to CDWR/SCE electronically the Availability Notice as provided from the AES Subsidiaries that sets forth the hourly capacity for energy and ancillary services estimated to be available from the Designated Unit for the delivery day. Subsequent to this initial Availability Notice, Seller will provide real time updates by phone any time the expected or known Availability of the Designated Unit changes significantly, as communicated by the AES Subsidiaries to Seller.

Any Availability Notice will:

- a. Be in hour-ending format and based on PPT.
 - b. Indicate the hourly capacity for energy and ancillary services that is expected to be available from the Designated Unit. Such estimate shall reflect the availability notice as received by Seller from the AES Subsidiaries and shall indicate any scheduled outages, forced outages, or deratings and their expected duration. Specifically, for ancillary services, the Availability Notice will:
 1. Include the minimum and maximum megawatt values at which the Designated Unit is expected to operate subject to the CAISO certification.
 2. Specify a ramp rate in MW per minute.
 - c. Have a delivery (flow) date, be time stamped, and shall be provided by email.
 - d. Be of the form in Attachment II.
2. Dispatch Notice: CDWR/SCE will electronically provide to Seller a final day ahead Designated Unit Energy and Ancillary Services schedule by 8:30 PPT.

Any Dispatch Notice will:

- a. Be in hour-ending format and based on PPT.
- b. Include desired energy in whole MWs from the Designated Unit for each hour of the delivery day.
- c. Consistent with the energy dispatch , CDWR/SCE may specify:

1. The volume and type of ancillary services in whole MWs for each hour of the delivery. The Dispatch Notice will:
 - Include a capacity reservation price for each ancillary service type Seller is instructed to bid.
 - Indicate whether the schedule is for bid or for self-provision. CDWR/SCE and Seller agree to submit SC-to-SC transfers for all schedules that are submitted as self-provision. Seller will provide a corresponding credit to CDWR for all ancillary service awards that result from schedules that are bid into the CAISO market.
2. If CDWR/SCE desires Seller to bid supplemental energy, such bids shall be consistent with any Ancillary Service bidding instructions. CDWR/SCE will submit electronically the price for supplemental energy it instructs Seller to bid for the following day at the same time they submit their energy dispatch. Seller will credit CDWR for all revenue received from the CAISO for supplemental energy that results from schedules that are bid into the CAISO market.
 - d. Have a delivery (flow) date and be time stamped.
 - e. Be of the form in Attachment III.
3. Day-Ahead Final Notification: Seller will, by 1800 PPT, provide CDWR/SCE with the final day-ahead schedules for both energy and ancillary services. In addition, Seller will provide CDWR/SCE with the supplemental bid template submitted to the CAISO for the next operating day.
4. Intra-day Energy and Ancillary Services Schedule:
 - a. As permitted by CAISO scheduling deadlines, CDWR/SCE may notify Seller by phone of its desire to change the dispatch of energy and/or ancillary services, as well as associated changes in gas delivery, as soon as practicable. Such phone notification shall be made no less than 15 minutes before the CAISO energy scheduling deadline and applicable gas cycle timeline.
 - b. Upon receipt of CDWR/SCE's intra-day schedule, Seller will review and either confirms the change or, in the event that Seller is unable to fulfill CDWR/SCE's intra-day scheduling request, Seller will notify CDWR/SCE by phone as soon as practicable after receiving CDWR/SCE's requested schedule change.

5. Intra-Day Event Notifications:

- a. Seller shall make all reasonable efforts to notify CDWR/SCE's real time operations as soon as practicable via phone upon any condition which will cause a subsequent change to power and gas schedules. Subsequent to oral notice, Seller shall provide electronically, a revised Availability Notice consistent with 3.A.1 above and the requirements of the Product D Agreement, as soon as practicable after receipt from the AES Subsidiaries. This notification shall include the expected duration of the outage or derate as may be communicated to the Seller by the AES Subsidiaries.

Section 4. Operation and Maintenance of the Designated Units

- A. In addition to the provisions of Paragraph 5(c) of the Product D Confirmation, Seller will provide electronically to CDWR/SCE a copy of anticipated planned maintenance outage schedules as developed with the AES Subsidiaries prior to providing them to the CAISO such that, where practicable, CDWR/SCE has at least two Business Days to review and request modifications or changes to the proposed schedules. Seller will provide to CDWR/SCE the planned maintenance outage schedules Seller ultimately provides to the CAISO. All Planned Maintenance Outage schedules shall be in accordance with the Product D Agreement.
- B. Within two Business Days from the receipt of CDWR/SCE's request for modifications or changes to the Seller proposed maintenance schedule, Seller shall notify CDWR/SCE if it can accommodate such requests. Seller may revise and reschedule a Planned Maintenance Outage from time to time without CDWR/SCE approval, provided that Seller may not revise and reschedule a Planned Maintenance Outage to a period in which CDWR/SCE requested delivery of energy under a Dispatch Notice as described herein.
- C. Regulatory compliance and operational considerations may require, or otherwise make prudent or advisable, Designated Unit testing from time to time. Should Seller determine in its sole discretion that it wishes to run such tests, CDWR/SCE will make a reasonable effort to conduct these tests pursuant to a CDWR/SCE day-ahead Schedule, without cost to Seller. Should CDWR/SCE be unable to accommodate such testing, Seller may schedule and run such tests, provided Seller shall keep CDWR/SCE whole to the extent the cost of such tests are not covered by revenues received by CDWR/SCE associated with such tests.
- D. Each year on the anniversary date of the contract year (June), the units start count will be reset to zero. The Operating Committee shall keep the record of the number of Starts and reconcile these prior to the end of each Contract Year.

Section 5. Additional Communications Protocols

- A. Seller will make reasonable efforts to promptly contact CDWR/SCE if Seller is notified by So Cal Gas of any restrictions regarding delivery of gas.

- B. Both Parties will have personnel available 24 hours a day, seven days a week, to communicate regarding the implementation of these Operating Procedures.
- C. If Seller receives any oral notification from the CAISO that requires the Designated Unit to be dispatched or that requires unanticipated operational protocols to be implemented, Seller will promptly notify CDWR/SCE thereof by telephone.

Section 6. Invoice Procedures; Supporting Data

- A. By the 20th day after the end of the activity month, Seller shall submit an invoice to CDWR for the prior month.
- B. The monthly invoice shall contain all appropriate CAISO data necessary for CDWR to review and verify the invoice.
- C. Seller shall provide to CDWR/SCE the access to view all CAISO SLIC Data associated with the Designated Units for the purpose of validation of outage periods for either Designated Unit or transmission outages. Any other use of such data shall be prohibited.
- D. Seller shall provide to CDWR/SCE the CAISO "Expected Energy Data File" each Business Day for the previous day(s). CDWR shall be responsible for incremental costs, if any, associated with providing such data in any agreeable format.
- E. CDWR invoice verification for Product D Energy invoice uses precise locations from Seller invoice file worksheets. Changes will not be made to Seller invoice file worksheets without CDWR's review and mutual agreement.
- F. Seller shall provide to CDWR on a weekly basis a rescinded waiver report showing all MWhs scheduled by the ISO for MOWD, SCE DA, and RT schedule changes for all units in the form of Attachment IV.
- G. By the 15th or as soon as practicable provide the following for Product D Energy Invoice: Non Available Discount report, Available Bonus report, Gas Price Index, Unit Starts report, 10MinMktRpt & CERSInvRpt for preliminary invoice assessment. See Attachment V.
- H. Seller shall maintain a spreadsheet for No Pays showing each interval, volume, \$ amount, responsible party and explanation. See Attachment VI.
- I. Seller on a daily basis shall send the following operating documents; Final Dispatch schedule, Supplemental Energy bid sent to the ISO, Outage request, and Availability Notice. See Attachment VII.
- J. Before the final monthly Product D Energy Invoice is sent the following reports shall be forwarded to CDWR/SCE; 10 Min data, ADS files, DAF, Detailed Est, Expected Energy files, HAF, Meter Data, Rescinded Waiver files, Realtime Dispatch Log, Hourly Files, Detailed Monthly Availability for each unit, and Summary Est. See Attachment VIII.

- K. Product D Gas Transportation Invoice: Seller shall send the CRS file daily showing following; Allocated gas supply, SoCal Meter reading for each Designated Unit, V-Cone meter reading for HB-1 & HB-2, Daily gas imbalances, and Total daily Unit burns. At the end of the month the invoice shall include the SoCal Gas Composition Detail Meter file for the Designated Units. See Attachment IX.
- L. Seller shall send CDWR/SCE the CAISO Preliminary and Final Market invoice as they are received. See Attachment X.

Section 7. CAISO Dispute and Settlement Services

- A. Seller shall provide the Market Settlement Review and Dispute Service as described in paragraph C below.
- B. CDWR will pay Seller a fee of Twelve Thousand Dollars (\$12,000.00) per month for the Market Settlement Review and Dispute Service. The monthly fee will be included on the Product D invoice and will be payable to Seller under the same terms as that invoice.
- C. Seller shall submit to the CAISO, with a copy to CDWR/SCE, any CAISO disputes it deems reasonable, or which CDWR requests to be submitted, and will follow up with those disputes through the CAISO Good Faith Negotiations process. In support of this service, Seller shall:
- Download daily preliminary and final CAISO settlement files and imbalance energy files.
 - Analyze material variances (greater than Fifty Dollars (\$50.00) per unit per ten (10) minute interval), using Seller system resources, to determine validity.
 - File material disputes with the CAISO by the deadline outlined in the CAISO settlement/payment calendar
 - E-mail copies of spreadsheets for disputed trade dates to CDWR for review.
 - Monitor CAISO dispute responses and provide quarterly status updates to CDWR/SCE, and in the event of more frequent need for updates by CDWR/SCE for dispute resolution or other CDWR/SCE reporting requirements, as requested by CDWR/SCE.
 - Reconcile CAISO Preliminary and Final Market invoices with disputes and settlement file detail.
 - Receive/Pay from/to the CAISO the payment for the Market invoice, and wire/collect those amounts to/from CDWR.
 - Monitor accounts receivable balances related to the CAISO Market invoices.

- D. Seller's liability related to its provision of the Market Settlement Review and Dispute Service shall be limited to the actual direct damages of CDWR due to unexcused breach by Seller of its obligations hereunder. Seller's liability level; provided, for any Contract Year, in no event shall Seller's liability (under any theory) exceed in aggregate Two Hundred and Fifty Thousand Dollars (\$250,000).
- E. This agreement for Market Settlement Review and Dispute Service as set forth in this Section 7 shall be deemed to be a separate Transaction under the Master Agreement.
- F. Either CDWR or Seller may terminate the Market Settlement Review and Dispute Service on sixty (60) days prior notice without liability to the other party (other than with respect to such liability as may have already accrued, including without limitation payment owing for services rendered).

Section 8. Miscellaneous

A. Vendor:

If Seller delegates or assigns its operating and/or scheduling responsibilities to a designated provider of those services in accordance with Section 10.5 of the Product D Agreement, some references to Seller herein may also apply to Seller's designated supplier, as that supplier may change over time.

B. Conflicts:

A claimed breach of these Operating Procedures is not a breach of the Product D Agreement unless such act or omission independently constitutes a breach of the Product D Agreement. Should any conflict arise between these Operating Procedures and any terms of the Product D Agreement, the terms of the Product D Agreement shall control.

C. General:

These Operating Procedures may be revised from time to time as deemed needed, subject to approval by both Parties, to reflect new processes, new information, refinements, and/or other changes deemed appropriate. Any revision of these Operating Procedures shall be made in writing. These Operating Procedures shall be considered for all purposes as prepared through the joint efforts of the Parties and shall not be considered against one Party or the other as a result of preparation, submission or drafting.

ATTACHMENT I

Contacts and Authorized Representatives for Seller

Outlined below is the contact and communication information for the relevant Seller representatives. This list may be amended by either Party with timely Notice to the other.

Seller Primary Communications Contacts

Contract Manager: Name

Email: e-mail address

Phone: phone number

Mobile: phone number

Fax: phone number

Desk	Contact	Primary Phone	Secondary Phone	E-mail	Fax
Scheduling Desk (Scheduling and Unit Status)	Desk	Phone number	Phone number	e-mail address	Phone number
Generation Dispatcher (Availability Notice)	Generation Dispatch	Phone number	Phone number	e-mail address	Phone number
Gas Trading	Name	Phone number	Phone number	e-mail address	Phone number
Gas Scheduling Hot Line	Name	Phone number	Phone number	e-mail address	Phone number

Emergency Gas Scheduling Phone #: Phone number

Contacts and Authorized Representatives for CDWR/SCE

Outlined below is the contact and communication information for the relevant contact groups. This list may be amended by CDWR/SCE with timely Notice to Seller.

SCE Primary Communications Contact

For Pre-scheduling:

Phone: (626) 307-4425
 Fax: (626) 307-4413
 E-mail: presched@SCE.com

For Real Time:

Phone: (626) 307-4410
 Fax: (626) 307-4416
 E-mail: realtime@SCE.com

Contact	Primary Phone	Secondary Phone	Fax	Email
Contract Manager	626-302-3389	626-302-3297	626-307-4430	Eric.Lopez@sce.com Jesse.Bryson@sce.com
Day Ahead Trading	626-307-4487		626-307-4430	electrade@SCE.com
Day Ahead Scheduling	626-307-4425	626-307-4420	626-307-4413	presched@SCE.com
Gas Trading	626-307-4480		626-307-4431	gastrade@SCE.com
Gas Scheduling	626-307-4479		626-307-4431	gassched@SCE.com
Real Time	626-307-4410	626-307-4405	626-307-4416	realtime@SCE.com
Settlements – Power	626-302-3277		626-302-3276	PPFDPowerSettle@sce.com
Settlements - Gas	626-302-3277		626-302-3276	PPFDGasSettle@sce.com
Outage Scheduling	626-302-3400			ESMSTPOutage@SCE.com

CDWR Primary Communications Contact

DWR Contacts

Desc	Contact	Direct Phone	Secondary Phone	E-mail	Fax
Contract Manager	Jim Spence	916-574-0292	916-947-4722	jspence@water.ca.gov	916-574-2214
Contract Analyst	Tom McGivney	916-574-2218	916-337-2030	mcgivney@water.ca.gov	916-574-2214
Gas	George Baldini	916-574-0298		baldini@water.ca.gov	916-574-2214
Settlements	Dave Cleveland	916-574-0289		dclevela@water.ca.gov	916-574-2214