

DEPARTMENT OF WATER RESOURCES

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



February 4, 2005

Mr. Gerry Froese
Asset Optimization Manager
PPM Energy, Inc.
830 NE Holladay, Suite 250
Portland, Oregon 97232

Dear Mr. Froese:

The California Department of Water Resources ("CDWR") and PPM Energy, Inc., f/k/a PacifiCorp Power Marketing, Inc. ("PPM") (collectively the "Parties") have agreed to enter Amendment #2 to the Ten-Year Power Purchase Agreement between PPM and CDWR dated July 6, 2001 (the "Agreement"), a copy of which is attached hereto, in order to resolve the seller's choice issues raised in the Federal Energy Regulatory Commission ("FERC") proceeding in *Public Utilities Providing Service in California under Sellers' Choice Contracts*, Docket No EL04-108-000, et al., (the "Seller's Choice Proceeding") as such issues relate to the Agreement. In light of Amendment #2, the Parties further have agreed to jointly file a motion to dismiss the Agreement from the Seller's Choice Proceeding.

The Parties hereby acknowledge and agree that Amendment #2 is intended solely to address the seller's choice issues arising from PPM's right under the Agreement to deliver energy to NP-15, and that neither Amendment #2 nor this letter is intended as a global settlement and shall not result in the resolution or dismissal of any other dispute with respect to the Agreement, including but not limited to, any dispute between the Parties as to PPM's deliveries of energy to "COB" as defined in the Agreement, and the parties reserve all rights, arguments and positions concerning any such disputes.

Sincerely,

Original signed by

Peter S. Gathis
Deputy Director
California Energy Resources Scheduling

Acknowledged and Agreed:
PPM Energy, Inc., f/k/a PacifiCorp. Power Marketing, Inc.

By: _____

Its: _____

**AMENDMENT #2
TO
TEN-YEAR POWER PURCHASE AGREEMENT
BETWEEN
PPM ENERGY, INC., F/K/A
PACIFICORP POWER MARKETING, INC.
AND
CALIFORNIA DEPARTMENT OF WATER RESOURCES**

THIS AMENDMENT #2 to the Ten-Year Power Purchase Agreement (this "Amendment"), dated as of February 3, 2005, and made effective as of the Effective Date, is by and between PPM Energy, Inc., f/k/a PacificCorp Power Marketing, Inc., an Oregon corporation ("PPM"), and the California Department of Water Resources, an agency of the State of California, acting with respect to the Electric Power Fund, separate and apart from its powers and responsibilities with respect to the State Water Resources Development System ("CDWR"), and constitutes an amendment to that certain Ten-Year Power Purchase Agreement dated July 6, 2001 (the "Original Contract") as amended by letter agreement dated November 10, 2003.

RECITALS

WHEREAS, the Original Contract contains provisions relating to delivery points and other matters which are affected by the ongoing litigation in Federal Energy Regulatory Commission Docket No. EL04-108 (the "Sellers' Choice Proceeding");

WHEREAS, PPM and CDWR wish to amend the Original Contract to address certain issues raised by the Sellers' Choice Proceeding;

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is hereby agreed as follows:

1. *Definitions.* To the extent used and not otherwise defined herein, capitalized terms shall have the meanings set forth in the Original Contract.

2. In accordance with Article 16.2 of the Original Contract, the following terms and conditions thereof are modified as follows:

- (a) Article 1 of the Original Contract is hereby modified to add the following definition, immediately preceding the definition of "Non-Defaulting Party" in such Article 1, and immediately following the definition of "MWh(s)" in such Article 1:

NP-15: Until the occurrence of the events set forth below, this term shall mean the "north of path 15" zone of the California ISO control area as defined in the California ISO tariff in effect on February 3, 2005 (the "Existing NP-15 Zone"). In the event that the definition of NP-15 in the California ISO tariff changes in any material respect or the Existing NP-15 Zone ceases to exist ("NP-15 Termination"), this term shall be defined as follows:

(A) In the event that the California ISO implements Locational Marginal Pricing ("LMP") and establishes a trading hub for the geographical area that encompasses the Existing NP-15 Zone, which trading hub and LMP implementation are materially consistent with the Existing Zone Generation NP-15 Trading Hub and LMP proposal contemplated by the CAISO in its market design white paper entitled 'CAISO Status Update on the Development of Trading Hubs Under LMP' dated October 26, 2004 (the "NP-15 Trading Hub"), then effective upon such implementation, "NP-15" shall refer to and mean the NP-15 Trading Hub; or

(B) If the conditions described in (A) are not in effect at the time of the NP-15 Termination, then Seller and Power Purchaser shall negotiate in good faith to designate a mutually acceptable alternate delivery point that most nearly resembles (in terms of liquidity, homogeneity and relative economic impact on each Party) the definition of NP-15 as of February 3, 2005. If the Seller and Power Purchaser cannot agree on such an alternate delivery point by a date that is ninety days prior to the effective date of the NP-15 Termination, either Party may submit the issue to binding arbitration.

- (b) The text of Article 3.4 of the Original Contract is hereby deleted and replaced in its entirety by the following text:

3.4 Alternate Delivery Rights: Consistent with the scheduling procedures set forth in Article 6, Seller may alternatively and at its sole discretion deliver Power via scheduling coordinator to scheduling coordinator transfer in accordance with the applicable California ISO protocols (or any successor protocols) at NP-15, as defined herein; up to (a) 50 MW of Power on a monthly schedule basis pursuant to notice delivered by Seller one (1) Business Day prior to the date notice is required to be delivered by Power Purchaser pursuant to Section 6.2.1.2, and (b) 50 MW of Power on a daily prescheduled basis; provided, however, that the changes set forth in Exhibit G shall not apply to any such deliveries; provided, further, however, that Seller may not change the point of delivery if such change would result in a Force Majeure event. copy
NO

3. *Authorization and Enforceability.* Each party hereto represents and warrants to the other that it is duly authorized to enter into this Amendment and that this Amendment, once executed by each of the parties hereto, creates a legal, valid and binding obligation enforceable against it in accordance with the terms contained herein.

4. *Governing Law.* THIS AMENDMENT AND THE RIGHTS AND DUTIES OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY AND CONSTRUED, ENFORCED AND PERFORMED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW. EACH PARTY WAIVES ITS RESPECTIVE RIGHT TO ANY JURY TRIAL WITH RESPECT TO ANY LITIGATION ARISING UNDER OR IN CONNECTION WITH THIS AMENDMENT. THE PARTIES HEREBY SUBMIT TO THE JURISDICTION OF ANY OF THE CALIFORNIA STATE COURTS HAVING SUBJECT MATTER JURISDICTION LOCATED IN THE CITY OF SACRAMENTO, CALIFORNIA FOR THE PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. EACH PARTY IRREVOCABLY

WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH PROCEEDINGS BROUGHT IN SUCH COURTS AND ANY CLAIM THAT ANY SUCH PROCEEDINGS HAVE BEEN BROUGHT IN AN INCONVENIENT FORUM.

5. *Counterparts.* This Amendment may be executed in several counterparts by PPM and CDWR. If this Amendment is executed in counterparts, then each counterpart shall be deemed to be an Amendment, but all counterparts together shall constitute one and the same Amendment. Facsimile signatures shall be effective as an original.

6. *Effect of Amendment.* Except as expressly amended herein, the terms of the Original Contract remain in full force and effect in accordance with their terms.

7. *Conflicts.* If there is any conflict between the terms of this Amendment and the terms of the Original Contract, then the terms of this Amendment shall control.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK/

SIGNATURE PAGES FOLLOW]

[SIGNATURE PAGE OF PPM ENERGY, INC.
FOR AMENDMENT #2 TO TEN-YEAR POWER PURCHASE AGREEMENT
BETWEEN PPM ENERGY, INC., F/K/A PACIFICORP POWER MARKETING, INC. AND
CALIFORNIA DEPARTMENT OF WATER RESOURCES]

PPM ENERGY, INC.

Original signed by

Witness

By: _____

Name: Peter C. van Alderwerelt

Title: Senior Vice President

Date: _____, 2005

[SIGNATURE PAGE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES
FOR AMENDMENT #2 TO TEN-YEAR POWER PURCHASE AGREEMENT BETWEEN
PPM ENERGY, INC., F/K/A PACIFICORP POWER MARKETING, INC. AND
CALIFORNIA DEPARTMENT OF WATER RESOURCES]

CALIFORNIA DEPARTMENT OF WATER
RESOURCES, liable solely through its Electric
Power Fund, separate and apart from its powers and
responsibilities with respect to the State Water
Resources Development System

Original signed by

Witness

U

By: _____

Name: Peter S. Garbis

Title: Deputy Director

Date: 2/18/05, 2005