

# CONFIDENTIAL

## MASTER POWER PURCHASE AND SALE AGREEMENT

### COVER SHEET

This *Master Power Purchase and Sale Agreement* (Version 2.1; modified 4/25/00) ("*Master Agreement*") is made as of the following date: February 16, 2001 ("Effective Date"). The *Master Agreement*, together with the exhibits, schedules and any written supplements hereto, the Party A Tariff, if any, the Party B Tariff, if any, any designated collateral, credit support or margin agreement or similar arrangement between the Parties and all Transactions (including any confirmations accepted in accordance with Section 2.3 hereto) shall be referred to as the "Agreement." The Parties to this *Master Agreement* are the following:

Name: **Williams Energy Marketing & Trading Company** ("Williams" or "Party A")

Name: **State of California Department of Water Resources** separate and apart from its powers and responsibilities with respect to the State Water Resources Development System ("California Department of Water Resources" or "Party B")

All Notices:

All Notices: California Department of Water Resources

Street: One Williams Center

Street: 1416 Ninth Street

City: Tulsa, OK Zip: 74172

City: Sacramento, California Zip: 95814

Attn: Contract Administration

Attn: Executive Manager Power Systems

Phone: 918-573-3059

Phone: (916) 653-5913

Facsimile: 918-573-1935

Facsimile: (916) 653-0267

Duns: 82-467-8478

Duns:

Federal Tax ID Number: 

Federal Tax ID Number: 

**Invoices:**

Attn: Power Accounting

**Invoices:**

Attn: Contracts Payable

Phone: 918-573-8337

Phone: (916) 653-6404

Facsimile: 918-561-6893

Facsimile: (916) 654-9882

**Scheduling:**

Attn: Cherry Smith

**Scheduling:**

Attn: Chief Water and Power Dispatcher

Phone: 918-573-4835

Phone: (916) 574-2693

Facsimile: 918-573-1534

Facsimile: (916) 574-2569

**Payments:**

Attn: Power Accounting

**Payments:**

Attn: Cash Receipts Section

Phone: 918-573-8337

Phone: (916) 653-6892

Facsimile: 918-561-6893

Facsimile: (916) 654-9882

**Wire Transfer:**



**Wire Transfer:**



**Credit and Collections:**

Attn: Tim Neuman

Phone: 918-573-4880

Facsimile: 918-561-6987

**Credit and Collections:**

Attn: Deputy Controller

Phone: (916) 653-6148

Facsimile: (916) 653-8230

With additional Notices of an Event of Default to:

Attn: Contract Administration

Phone: 918-573-3059

Facsimile: 918-573-1935

With additional Notices of an Event of Default or  
Potential Event of Default to:

Attn: Deputy Controller

Phone: (916) 653-6148

Facsimile: (916) 653-8230



A on a monthly basis.

(b) Credit Assurances:

- Not Applicable
- Applicable

(c) Collateral Threshold:

- Not Applicable
- Applicable

If applicable, complete the following:

Party B Collateral Threshold: [ \$ \_\_\_\_\_ ]; provided, however, that Party B's Collateral Threshold shall be zero if an Event of Default or Potential Event of Default with respect to Party B has occurred and is continuing.

Party B Independent Amount: [ \$ \_\_\_\_\_ ]

Party B Rounding Amount: [ \$ \_\_\_\_\_ ]

(d) Downgrade Event:

- Not Applicable
- Applicable

If applicable, complete the following:

- It shall be a Downgrade Event for Party B if Party B's Credit Rating falls below [ \_\_\_\_\_ ] from S&P or \_\_\_\_\_ Aa2 \_\_\_\_\_ from Moody's or if Party B is not rated by either S&P or Moody's

- Other:  
Specify: \_\_\_\_\_

(e) Guarantor for Party B: \_\_\_\_\_

Guarantee Amount: \_\_\_\_\_

8.2 Party B Credit Protection:

(a) Financial Information:

- Option A
- Option B Specify: \_\_\_\_\_
- Option C Specify: None

(b) Credit Assurances:

- Not Applicable
- Applicable

(c) Collateral Threshold:

- Not Applicable
- Applicable

If applicable, complete the following:

Party A Collateral Threshold: \$ \_\_\_\_\_; provided, however, that Party A's Collateral Threshold shall be zero if an Event of Default or Potential Event of Default with respect to Party A has occurred and is continuing.

Party A Independent Amount: \$ \_\_\_\_\_

Party A Rounding Amount: \$ \_\_\_\_\_

(d) Downgrade Event:

- Not Applicable
- Applicable

If applicable, complete the following:

It shall be a Downgrade Event for Party A if Party A's Credit Rating falls below \_\_\_\_\_ from S&P or \_\_\_\_\_ from Moody's or if Party A is not rated by either S&P or Moody's

Other:  
Specify: \_\_\_\_\_

(e) Guarantor for Party A: \_\_\_\_\_ n/a

Guarantee Amount: \_\_\_\_\_

**Article 10**

Confidentiality  Confidentiality Applicable If not checked, inapplicable.

**Schedule M**

- Party A is a Governmental Entity or Public Power System
- Party B is a Governmental Entity or Public Power System
- Add Section 3.6. If not checked, inapplicable
- Add Section 8.4. If not checked, inapplicable

**Other Changes**

Specify, if any: \_\_\_\_\_

**(a) Definitions.**

- (1) Section 1.51, "Replacement Price" is amended on the fifth line by deleting the phrase "at Buyer's option" and inserting the following phrase: "absent a purchase."
- (2) Section 1.53, "Sales Price" is amended on the fifth line of by deleting the phrase "at Seller's option" and inserting the following phrase: "absent a sale."
- (3) Section 1.46 "Potential Event of Default" is deleted.
- (4) Sections 1.6, 1.24, 1.28, 1.33, 1.34, 1.35, 1.36, 1.43, 1.44, 1.48 and 1.56 are amended by deleting the text in each of such sections and substituting therefor "[Intentionally omitted.]"
- (5) Section 1.59 is amended by changing "Section 5.3" to "Section 5.2."
- (4) Sections 1.62 through 1.71 are added to Article One as follows:

- 1.62 "AES Agreement" means that certain Capacity Sale and Tolling Agreement dated May 1, 1998, as amended May 15, 1998, by and among the AES Subsidiaries and Williams Energy Marketing & Trading Company (f/k/a Williams Energy Services Company) and their respective successors and assigns and any amendments or modifications thereto.
- 1.63 "AES Subsidiaries" means any one or more of AES Alamitos, L.L.C., a limited liability company organized and existing under the laws of the State of Delaware, AES Huntington Beach, L.L.C., a limited liability company organized and existing under the laws of the State of Delaware, and AES Redondo Beach, L.L.C., a limited liability company organized and existing under the laws of the State of Delaware.
- 1.64 "Fund" means the Department of Water Resources Electric Power Fund established by Section 80200 of the Water Code.
- 1.65 "Market Quotation Average Price" means the average of the good faith quotations solicited from not less than three (3) Reference Market-makers; provided, however, that the Party soliciting such quotations shall use commercially reasonable efforts to obtain good faith quotations from at least five (5) Reference Market-makers and, if at least five (5) such quotations are obtained, the Market Quotation Average Price shall be determined disregarding the highest and lowest quotations.
- 1.66 "Market Value" has the meaning set forth in Section 5.3.
- 1.67 "Per Unit Market Price" means the applicable price per MWh determined in accordance with Section 5.3.
- 1.67 "Reference Market-maker" means any marketer, trader or seller of or dealer in firm energy products whose long-term unsecured senior debt is rated BBB- or better by Standard & Poor's and Baa3 or better by Moody's Investor Services.
- 1.69 "Replacement Contract" means a contract having a term, quantity, delivery rate, delivery point and product substantially similar to the remaining Term, quantity, delivery rate, Delivery Point and Product to be provided under this Agreement.
- 1.70 "2001A Transaction" means the Transaction described in the attached Confirmation dated February 16, 2001.
- 1.71 "Trust Estate" means all revenues received by Party B under any obligation entered into, and rights to receive the same, and moneys on deposit in the Fund and income or revenue derived from the investment thereof.

**(b) Transactions.** The Transaction shall be in writing and this Agreement may not be amended or modified except in writing signed by the Parties' respective duly authorized representatives.

**(c) Governing Terms.** Section 2.2 is amended by adding the following sentence at the end of the current section:

"Notwithstanding the foregoing, the 2001A Transaction shall be treated as a stand-alone Transaction and accordingly, (a) provisions in the Master Agreement referring to offsetting or netting multiple Transactions shall not be applicable to the 2001A Transaction, and (b) an Event of Default or Potential Event of Default with respect to any Transaction other than the 2001A Transaction shall not affect the 2001A Transaction. Except for the attached Confirmation dated February 16, 2001, no provision of any Confirmation entered into pursuant to Section 2.4 shall affect the 2001A Transaction."

**(d) Confirmation.** Section 2.3, Confirmation, the term "Seller" (and cognates) is deleted and is replaced with "Party A" in each place where it occurs; and the term "Buyer" (and cognates) is deleted and is replaced with "Party B" in each place where it occurs. And insert the words "or other electronic transmission," after the word "facsimile."

**(e) Recording.** Section 2.5, Recording, the phrase "of all telephone conversations between the Parties to this Master Agreement" is deleted and replaced with the phrase "of all telephone conversations between the energy scheduling and/or trading personnel of the Parties to this Master Agreement related to scheduling of energy to be delivered pursuant to this Agreement."

**(f) Transmission and Scheduling.** Section 3.2 is amended by renaming it "Transmission, Scheduling and Imbalance Charges" and inserting the following sentences at the end thereof:

"In addition to the remedies provided under Article 4, Buyer shall assume all liability for and reimburse Seller within thirty (30) days of presentation of an invoice for any Penalties incurred as a result of Buyer's failure to (i) notify Seller of a failure to Schedule or a change in a Schedule or (ii) comply with the Transmission Provider's tariff and scheduling policies. Seller shall assume all liability for and reimburse Buyer within thirty (30) days of presentation of an invoice for any Penalties incurred as a result of Seller's failure to (i) notify Buyer of a failure to Schedule or a change in a Schedule or (ii) comply with the Transmission Provider's tariff and scheduling policies. The Parties shall notify each other as soon as possible of any imbalance that is occurring or has occurred and shall cooperate to eliminate imbalances and minimize Penalties. Penalties shall be defined as any fees, liabilities, assessments or similar charges assessed by a Transmission Provider."

**(g) Events of Default.** In Section 5.1, add a new subsection (i) as follows: "any action or inaction by any Governmental Entity shall (i) impair Party B's ability to fully perform its obligations under this Agreement or any Transaction for the full term thereof or (ii) have an adverse impact on or otherwise limit or alter adversely the economic benefits and burdens conferred on Party A, either of which shall be deemed an Event of Default with respect to Party B, provided that the exercise by Party B of its rights under this Agreement shall not be deemed an action referred to in clauses (i) or (ii)."

**(h) Declaration of an Early Termination Date and Calculation of Termination Payment.**

(1) The last sentence of Section 5.2 is replaced in its entirety by the following: "Upon termination of this Agreement as the result of an Event of Default, the Non-Defaulting Party shall be entitled to a payment (the "Termination Payment") which shall be the aggregate of the Market Value and Costs calculated as of the Early Termination Date in accordance with Section 5.3. As soon as practicable after the Early Termination Date, the Non-Defaulting Party shall give notice to the Defaulting Party of the amount of the Termination Payment, if any, due to the Non-Defaulting Party. The notice shall include a written statement explaining in reasonable detail the calculation of such amount. Termination Payment to be made no later than one hundred eighty (180) days after receipt of written notice of an Early Termination Date."

(2) The following shall be added to the end of Section 5.2 (as amended by clause (1) immediately above): "Notwithstanding the other provisions of this Agreement, if the Non-Defaulting Party has the right to liquidate or terminate all obligations arising under the Transaction under the provisions of this Article 5 because the Defaulting Party either (a) is the subject of a bankruptcy, insolvency, or similar proceeding, or (b) applies for, seeks, consents to, or acquiesces in the appointment of a receiver, custodian, trustee, liquidator, or similar official for all or a substantial portion of its assets, then this Agreement and the Transaction shall automatically terminate, without notice, as if the Early Termination Date was the day immediately preceding the events listed in Section 5.1."

(3) Section 5.3 is replaced in its entirety by the following:

"5.3. Termination Payment Calculations. The Non-Defaulting Party shall calculate the Termination Payment as follows:

(a) Market Value shall be (i) in the case Party B is the Non-Defaulting Party, the present value of the positive difference, if any, of (A) payments under a Replacement Contract based on the Per Unit Market Price, and (B) payments under this Agreement, or (ii) in the case Party A is the Non-Defaulting Party, the present value of the positive difference, if any, of (A) payments under this Agreement, and (B) payments under a Replacement Contract based on the Per Unit Market Price, in each case using the Present Value Rate as of the time of termination (to take account of the period between the time notice of termination was effective and when such amount would have otherwise been due pursuant to the relevant transaction). The "Present Value Rate" shall mean the sum of 0.50% plus the yield reported on page "USD" of the Bloomberg Financial Markets Services Screen (or, if not available, any other nationally recognized trading screen reporting on-line intraday trading in United States government securities) at 11:00 a.m. (New York City, New York time) for the United States government securities having a maturity that matches the average remaining term of this Agreement. It is expressly agreed

that the Non-Defaulting Party shall not be required to enter into a Replacement Contract in order to determine the Termination Payment.

- (b) To ascertain the Per Unit Market Price of a Replacement Contract with a term of less than one year, the Non-Defaulting Party may consider, among other valuations, quotations from leading dealers in energy contracts, the settlement prices on established, actively traded power exchanges, other bona fide third party offers and other commercially reasonable market information.
- (c) To ascertain the Per Unit Market Price of a Replacement Contract with a term of one year or more, the Non-Defaulting Party shall use the Market Quotation Average Price; provided, however, that if there is an actively traded market for such Replacement Contract or if the Non-Defaulting Party is unable to obtain reliable quotations from at least three (3) Reference Market-makers, the Non-Defaulting Party shall use the methodology set forth in paragraph (b).
- (d) In no event, however, shall a party's Market Value or Costs include any penalties, ratcheted demand charges or similar charges imposed by the Non-Defaulting Party.

If the Defaulting Party disagrees with the calculation of the Termination Payment and the parties cannot otherwise resolve their differences, the calculation issue shall be submitted to dispute resolution as provided in Section 10.12 of this Agreement. Pending resolution of the dispute, the Defaulting Party shall pay the full amount of the Termination Payment calculated by the Non-Defaulting Party no later than one hundred eighty (180) days after receipt of written notice of an Early Termination Date."

(4) Sections 5.4, 5.5, 5.6, 6.7 and 6.8 are amended by deleting the text in each of such sections and substituting therefor "[Intentionally omitted.]"

**(i) Suspension of Performance.** In Section 5.7, Suspension of Performance, the following are deleted: the phrase "or (b) a Potential Event of Default," and the caption "(a)."

**(j) Grant of Security Interest/Remedies.** In Section 8.3 the phrase "or deemed occurrence" is deleted from the beginning of the second sentence.

**(k) Governmental Charges.** Add the following to Section 9.2 after the second sentence in that section: "In addition to any other amounts payable by Party B under the foregoing provisions of this Section 9.2, if Party A can demonstrate that its cost of service for this Agreement has been increased by an aggregate amount of \$5 per MWh or more since the Effective Date as a result of any governmental action or inaction other than by a Governmental Entity, Party B shall pay (or promptly reimburse Party A for) all such increased costs of services in excess of \$5 per MWh in the aggregate for the remainder of the Delivery Term. In addition to any other amounts payable by Party B under the foregoing provisions of Section 9.2(a), if Party A can demonstrate that its cost of service for this Agreement has been increased since the Effective Date as a result of any action or inaction by a Governmental Entity, Party B shall pay (or promptly reimburse Party A for) all such increased costs of services for the remainder of the Delivery Term. For the purpose of the preceding two sentences, governmental action that increases the cost of service for this Agreement shall include (a) new taxes (including the imposition or increase in rate or amount thereof) or (b) the imposition of other unanticipated costs and charges caused by governmental action."

**(l) Term of Master Agreement.** Add the following sentence to Section 10.1: "The 2001A Transaction shall terminate on the day following the last day of the Delivery Period, unless terminated sooner pursuant to the express provisions of this Agreement or as a result of an Event of Default".

**(m) Representations and Warranties.**

- (1) Create subsection (a) to Section 10.2, which shall be the language currently contained in Section 10.2, and create a new subsection (b), which shall read as follows:

"On the Effective Date and the date of entering into each Transaction, Party B represents, warrants, and covenants to Party A that, except for sales or exchanges of blocks of surplus energy which exceed the amount necessary to supply Party B's retail customers, for the duration of this Agreement, the Product(s) purchased hereunder will either be sold directly to retail end use

customers or be resold only to an entity which shall directly deliver the Product(s) for consumption by retail end use customers."

- (2) the phrase "... and is qualified to conduct its business in each jurisdiction in which it will perform a Transaction" is added to the end of the new Section 10.2(a)(i);
- (3) the phrase ", except as would not have a material and adverse affect on the other Party" is added to the end of the new Section 10.2(a)(iii);
- (4) the phrase "or any of its Affiliates" is deleted from the new Section 10.2(a)(vi);
- (5) the phrase "or Potential Event of Default" is deleted from the new Section 10.2(a)(vii);
- (6) the phrase ", and are reasonable in all respects, including rates and allocation of risk" is added to the end of the new Section 10.2(a)(xii);
- (7) a new Section 10.2(a)(xiii) is added as follows: "the Delivery Period of each Transaction is a material term of such Transaction and as of the Effective Date any shortening of such Delivery Period would increase the price of the Product"; and
- (8) clauses (ix) and (xi) of the new subsection (a) of Section 10.2 are amended by deleting the text in each of such sections and substituting therefor "[Intentionally omitted.]"

**(n) Indemnity.** The phrase "To the extent permitted by law" is added at the beginning of the first two sentences of Section 10.4. Add the following to the end of Section 10.4: "To the extent Party A and Party B are named as defendants by a third party in any action arising with respect to delivery of Product and Party B receives any amount from a third party as indemnification or reimbursement with respect to such action, Party A and Party B agree to equitably divide such amount."

**(o) Assignment.** In Section 10.5, the existing paragraph shall be replaced in its entirety with the following:

"(a) Neither Party shall assign this Agreement or its rights hereunder without the prior written consent of the other Party, which consent may be withheld in the exercise of its sole discretion.

(b) Notwithstanding the foregoing, Party A may, without the consent of Party B, (i) transfer, sell, pledge, encumber or assign this Agreement or the accounts, revenues or proceeds hereof in connection with any financing or other financial arrangements, (ii) transfer or assign this Agreement to an affiliate of such Party which affiliate's creditworthiness is equal to or higher than that of such Party, or (iii) transfer or assign this Agreement to any person or entity succeeding to all or substantially all of the assets whose creditworthiness is equal to or higher than that of such Party; provided, however, that in each such case, such assignee shall agree in writing to be bound by the terms and conditions hereof and, in each such case, so long as the transferring Party delivers such tax and enforceability assurance as the non-transferring Party may reasonably request; provided, further, however, that in the event this Agreement is pledged or assigned to a bond trustee pursuant to clause (i) as collateral for bonds issued by Party A, such bond trustee shall not be required to agree in writing to be bound by the terms and conditions hereof.

(c) Notwithstanding the foregoing, Party B, without the consent of Party A, may (i) transfer, sell, pledge, encumber or assign this Agreement or the accounts, revenues or proceeds hereof in connection with any financing or other financial arrangements, or (ii) transfer and assign all of its right, title and interest to this Agreement and the Fund to another Governmental Entity created or designated by law solely to carry out the rights, powers, duties and obligations of the Department under the Act, provided, however, that in each such case, such assignee shall agree in writing to be bound by the terms and conditions hereof and, in each such case, so long as the transferring Party delivers such tax and enforceability assurance as the non-transferring Party may reasonably request; provided, further, however, that in the event this Agreement is pledged or assigned to a bond trustee pursuant to clause (i) as collateral for bonds issued by Party B, such bond trustee shall not be required to agree in writing to be bound by the terms and conditions hereof."

**(p) Governing Law.** In Section 10.6, "New York" shall be replaced with "California."

**(q) Confidentiality.** The following proviso is added to the end of the first sentence in Section 10.11: "provided, further, that either Party may publicly disclose the type and quantity of Product(s), the pricing of such Product(s) and the term of the Agreement or any Transaction provided such disclosure shall not be specific to this Agreement and shall only be made in connection with the disclosure of one or more other energy transactions in aggregate form."

**(k) General.**

(1) The phrase "Except to the extent herein provided for," shall be deleted from the fourth sentence of Section 10.8.

(2) In the ninth sentence of Section 10.8, insert "materially affected or" after the phrase "Any provision," and insert "and materially affected by or" after the phrase "or regulatory agency."

**(l) Additional Provisions.** New Sections 10.12 through 10.14 are added to Article 10 as follows:

10.12. No Retail Services; No Agency. (a) Nothing contained in this Agreement shall grant any rights to or obligate Party A to provide any services hereunder directly to or for retail customers of any person.

(b) In performing their respective obligations hereunder, neither Party is acting, or is authorized to act, as agent of the other Party.

10.13. Dispute Resolution. (a) If a dispute shall arise between the Parties relating to the interpretation of this Agreement or to performance by a Party hereunder or under any Transaction, the Party desiring resolution of the dispute shall notify the other Party in writing. The notice shall set forth the matter in dispute in reasonable detail and a proposed solution.

(b) The Parties shall attempt to resolve any dispute within 30 calendar days after delivery of the written notice referred to above. Any disputes not so resolved shall be referred by each Party to an officer (or the officer's designee) for resolution. If the Parties fail to reach an agreement within 30 days after such referral, each Party shall have the right to pursue any and all remedies provided in this Agreement and as afforded by applicable law.

(c) The existence of any dispute or controversy under this Agreement or the pendency of the dispute settlement or resolution procedures set forth herein shall not in and of itself relieve or excuse either Party from its ongoing duties and obligations under this Agreement.

10.14. Changes in Rates. The terms and conditions and the rates for service specified herein shall remain in effect for the term of each Transaction hereunder, and shall not be subject to change through application to the Federal Energy Regulatory Commission by either Party, including any Governmental Entity, pursuant to the provisions of Section 205 or 206 of the Federal Power Act. Each Party expressly agrees that it will not make any filings under either Section 205 or Section 206 of the Federal Power Act to revise this rate schedule.

**(m) Schedule M.** Schedule M shall be amended as follows:

(1) In Section A, "Act" will mean Sections 80000, 80002, 80002.5, 80003, 80010, 80012, 80014, 80016, 80100, 80102, 80104, 80106, 80108, 80110, 80112, 80114, 80116, 80120, 80122, 80130, 80132, 80134, 80200 of the Water Code.

(2) "Special Fund" will mean the Fund.

(3) In Section A, the defined term "Governmental Entity or Public Power System" shall be replaced with the term "Governmental Entity" using the following definition "'Governmental Entity' means a public power system, the State of California, any municipality, county, governmental board, public power

authority, public utility district, joint action agency, or other similar political subdivision or public entity of the State of California, the State of California Department of Water Resources, or any combination thereof"; and all references to (A) "Governmental Entity or Public Power System" (and cognates) and (B) "Public Power System" (and cognates) in Schedule M shall be replaced with the new defined term "Governmental Entity" (using the applicable cognate).

(4) In Section B, the sentence to be added to the end of the definition of "Force Majeure" in Article One shall be replaced with the following: "If the Claiming Party is a Governmental Entity, Force Majeure does not include any act or omission of a Governmental Entity (or any branch, subdivision, agency, officer or representative thereof) in its governmental capacity or any other act or omission of any Governmental Entity (including judicial action or inaction) and such act or omission shall be deemed to be an action of Party B.

(5) In Section D, delete Section 3.5 and replace it with the following:

Section 3.5 No Immunity Claim. California law authorizes suits based on contract against the State or its agencies, and Party B agrees that it will not assert any immunity it may have as a state agency against such lawsuits filed in state court.

(6) In Section G, specify that the laws of the State of California will apply.

(7) Add a new Section H, which shall read as follows:

Section 3.7 No Adverse Impact. Party B covenants and agrees that it will not take any action with respect to this Agreement that is intended to have or has an adverse impact on or otherwise limits or adversely alters the economic benefits and burdens conferred on Party A. The foregoing shall not be construed as depriving the State of California of its general powers including powers of taxation, legislation and regulation or the rights of Party B to enforce its rights hereunder.

(8) Add a new Section I, which shall read as follows:

Section 3.8. Payments Under Agreement an Operating Expense. Payments under this Agreement shall constitute an operating expense of the Fund payable prior to all bonds, notes or other indebtedness secured by a pledge or assignment of the Trust Estate or payments to the general fund.

(9) Add a new Section J, which shall read as follows:

Section 3.9. Rate Covenant: No Impairment. Party B covenants that it will, at least annually, and more frequently as required, establish and revise revenue requirements sufficient, together with any moneys on deposit in the Fund, to provide for the timely payment of all obligations which it has incurred, including any payments required to be made by Party B pursuant to this Agreement. While any obligations of Party B pursuant this Agreement remain outstanding and not fully performed or discharged, the rights, powers, duties and existence of Party B and the Public Utilities Commission shall not be diminished or impaired in any manner that will affect adversely the interests and rights of Party A under this Agreement.

(10) Add a new Section K, which shall read as follows:

Section 3.10. No More Favorable Terms. Party B shall not provide in any power purchase agreement payable from the Trust Estate for (i) collateral or other security or credit support with respect thereto, (ii) a pledge or assignment of the Trust Estate for the payment thereof, or (iii) payment priority with respect thereto superior to that of Party A, without in each case offering such arrangements to Party A.

(11) Add a new Section L, which shall read as follows:

Section 3.11. Sources of Payment: No Debt of State. Party B's obligation to make payments hereunder shall be limited solely to the Fund. Any liability of Party B arising in connection with this Agreement or any claim based thereon or with respect thereto, including, but not limited to, any Termination Payment arising as the result of any breach or Potential Event of Default or Event of Default

under this Agreement, and any other payment obligation or liability of or judgment against Party B hereunder, shall be satisfied solely from the Special Fund. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA ARE OR MAY BE PLEDGED FOR ANY PAYMENT UNDER THIS AGREEMENT. Revenues and assets of the State Water Resources Development System shall not be liable for or available to make any payments or satisfy any obligation arising under this Agreement.

(12) Add a new Section M, which shall read as follows:

"Section 3.12. Application of Government Code and the Public Contracts Code. Party A has stated that, because of the administrative burden and delays associated with such requirements, it would not enter into this Agreement if the provisions of the Government Code and the Public Contracts Code applicable to state contracts, including, but not limited to, advertising and competitive bidding requirements and prompt payment requirements would apply to or be required to be incorporated in this Agreement. Accordingly, pursuant to Section 80014(b) of the Water Code, Party B has determined that it would be detrimental to accomplishing the purposes of Division 27 (commencing with Section 80000) of the Water Code to make such provisions applicable to this Agreement and that such provisions and requirements are therefore not applicable to or incorporated in this Agreement."

(13) Add a new Section N, which shall read as follows:

Section 3.13. No Circumvention of Section 3.10. Section 3.10 shall apply to any power purchase agreement entered into by Party B except for any power purchase agreements entered into in connection with the State Water Resources Development System. Party B covenants that all revenues, rates, charges, moneys or other amounts derived by Party B with respect to the resale of power purchased under any power purchase agreement, other than power purchase agreements entered into in connection with the State Water Resources Development System, shall be included in the Trust Estate. Section 3.10 shall apply to any pledge of the full faith and credit or the taxing power of the State of California to any power purchase agreement, provided, however, that nothing herein shall constitute an acknowledgement or agreement that the State has the power or authority to make such a pledge. Party B shall not use the State Water Resources Development System to circumvent the provisions of Section 3.10.

(14) Add a new Section O, which shall read as follows:

Section 3.14. Audit. Party A shall have the right from time to time, at its sole expense, to obtain confidential audits to determine compliance with Section 3.10 and Section 3.13.

(15) Add a new Section P, which shall read as follows:

Section 3.15. Financing Documents. Party B shall provide to Party A copies of all financing documents (including bond documents); provided, however, Party B's failure to provide copies of such documents shall not constitute an Event of Default unless Party B fails to provide copies of such documents within ten (10) days after a written request from Party A.

(16) Add a new Section Q, which Shall read as follows:

Section 3.16. Party A's One Time Termination Right for Credit. Party A shall have the right, but not the obligation, to terminate the 2001A Transaction without recourse against Party B for any Termination Payment or other costs and without any further obligation or liability of either Party A or Party B, within the 30 day period following July 1, 2001 if prior to such date Party B has not issued bonds rated at least BBB- or Baa3 or better, by S&P or Moody's, respectively. If Party B determines for any reason not to rely on the ratings on its bonds, including, but not limited to, any determination not to issue bonds, the foregoing sentence shall not apply and instead Party A shall have the right, but not the obligation, to terminate the 2001A Transaction without recourse against Party B for any Termination Payment or other costs and without any further obligation or liability of either Party A or Party B, within the 30 day period following July 1, 2001 if prior to such date Party B has not obtained a rating of BBB- or Baa3 or better, by S&P or Moody's, respectively based on the ability of the Fund to pay its obligations under the Agreement. Party A and Party B will share the costs of obtaining any such rating on an equitable basis with all other parties who require such rating and agree to share the costs thereof in power sale agreements with Party B.

**CONFIDENTIAL**

(17) Add a new Section R, which Shall read as follows:

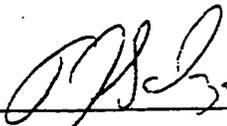
Section 3.17. Party A's One Time Termination Right for Legal Opinion. Party A shall have the right, but not the obligation, to terminate the 2001A Transaction without recourse against Party B for any Termination Payment or other costs and without any further obligation or liability of either Party A or Party B, within the 30 day period following July 1, 2001 if prior to such date Party B has not provided a legal opinion from the Attorney General of the State of California in form and substance equivalent to the legal opinion provided by Party B contemporaneously herewith.

(n) Schedule P. Schedule P shall be amended as follows:

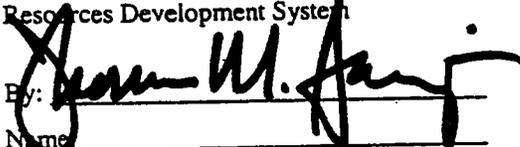
(1) The definition of "Unit Firm" shall be replaced with the following: "Unit Firm" means, with respect to a Transaction, that the Product subject to the Transaction is intended to be supplied from a generation asset or assets specified in the Transaction. Seller's failure to deliver under a "Unit Firm" Transaction shall be excused: (i) if the specified generation asset(s) are unavailable as a result of a Forced Outage (as defined in the NERC Generating Unit Availability Data System (GADS) Forced Outage reporting guidelines); or (ii) by an event or circumstance that affects the specified generation asset(s) so as to prevent Seller from performing its obligations, which event or circumstance was not anticipated as of the date the Transaction was agreed to, and which is not within the reasonable control of, or the result of the negligence of, Party A; or (iii) by the AES Subsidiaries' declaration of the unavailability of the specified generation asset(s) (in whole or in part) under the AES Agreement; (iv) by termination of the AES Agreement; (v) by operating limitations imposed by any governmental authority, including air permit limitations; (vi) by Force Majeure, or (vii) by Party B's failure to perform. In any of such events, Party A shall not be liable to Party B for any damages, including any amounts determined pursuant to Article Four."

IN WITNESS WHEREOF, the Parties have caused this Master Agreement to be duly executed as of the date first above written.

WILLIAMS ENERGY MARKETING &  
TRADING COMPANY

By:   
Name: Philip J. Scalzo  
Title: Vice President

CALIFORNIA DEPARTMENT OF WATER  
RESOURCES separate and apart from its powers  
and responsibilities with respect to the State Water  
Resources Development System

By:   
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**DISCLAIMER:** This Master Power Purchase and Sale Agreement was prepared by a committee of representatives of Edison Electric Institute ("EEI") and National Energy Marketers Association ("NEM") member companies to facilitate orderly trading in and development of wholesale power markets. Neither EEI nor NEM nor any member company nor any of their agents, representatives or attorneys shall be responsible for its use, or any damages resulting therefrom. By providing this Agreement EEI and NEM do not offer legal advice and all users are urged to consult their own legal counsel to ensure that their commercial objectives will be achieved and their legal interests are adequately protected.

**CONFIDENTIAL**

**MASTER POWER PURCHASE AND SALE AGREEMENT  
AMENDED AND RESTATED CONFIRMATION LETTER  
2001A TRANSACTION**

This confirmation letter shall confirm the Transaction agreed to on February 21, 2001 between WILLIAMS ENERGY MARKETING & TRADING COMPANY, a Delaware corporation ("Party A"), and CALIFORNIA DEPARTMENT OF WATER RESOURCES ("Party B"), regarding the sale/purchase of the Product under the terms and conditions as follows:

Seller: Party A

Buyer: Party B

Product:

Into \_\_\_\_\_, Seller's Daily Choice

Firm (LD)

Firm (No Force Majeure)

System Firm

(Specify System: \_\_\_\_\_)

Unit Firm

Specify Unit(s): (1) For Product A and Product B Tier 2: Initially Alamos Unit #1, plus Alamos Unit #2 beginning October 2001, and thereafter such Unit(s) as designated by Party A for each calendar year; provided, if Party A designates a Unit or Units other than Alamos Unit #1 and Alamos Unit #2, Party A shall only designate Unit(s) that are equipped with SCR.

(2) For Product B Tier 1: Initially Redondo Beach Unit #5, plus Redondo Beach Unit #6 beginning October 2001, and thereafter such Unit(s) as designated by Party A for each calendar year; provided, if Party A designates a Unit or Units other than Redondo Beach Unit #5 or Redondo Beach Unit #6, Party A shall only designate Unit(s) that are equipped with SCR.

(3) For Product C: Alamos Unit #1, Alamos Unit #2, and Redondo Beach Unit #6.

(4) For Product B Tier 3: As designated by Party A.

When the full capacity ("FC") of a designated unit is not allocated to satisfy Party A's delivery obligation for the relevant "Product" (or "Tier" thereof), Party A's designation shall so indicate the percentage of the capacity allocated ("PA"), and in the event such unit has a reduction in availability ("RA") for any of the reasons enumerated in the definition of "Unit Firm", then Party A's obligation to deliver energy shall be reduced to an amount equal to PA(FC - RA), and any failure to deliver by Party A energy in excess of such reduced amount shall be excused.

During 2001, the PAs shall be as follows: Product A: 20% of Alamos Unit #1 and beginning October 2001, 2.9% of Alamos Unit #2; Product B Tier 2: 80% of Alamos Unit #1 and beginning October 2001, 14.3% of Alamos Unit #2; Product B Tier 1: 100% of Redondo Beach Unit #5, and beginning October 2001, 14.3% of Redondo Beach

Amended and Restated Confirmation Letter  
2001A Transaction  
Page 2

CONFIDENTIAL

Unit #6: Product C: 100% of Alamitos Unit #1 and 35.7% of Alamitos Unit #2 and 35.7% of Redondo Beach Unit #6 The FC of each of the foregoing designated units is 175 MW.

Other \_\_\_\_\_

Transmission Contingency (If not marked, no transmission contingency)

FT-Contract Path Contingency       Seller       Buyer

FT-Delivery Point Contingency       Seller       Buyer

Transmission Contingent       Seller       Buyer

Other transmission contingency

(Specify: Buyer shall be responsible for transmission contingencies at and after the Delivery Point and Seller shall be responsible for all transmission contingencies prior to the Delivery Point.)

Contract Quantity: Fixed as follows for Product A (7x24) and Product B Tier 1 and Product B Tier 2 (both 6x16):

Product A:

7 x 24	June 1, 2001, through September 30, 2001 - 35 MWs
7 x 24	October 1, 2001 - December 31, 2002 - 40 MWs
7 x 24	January 1, 2003 - December 31, 2003 - 60 MWs
7 x 24	January 1, 2004 - December 31, 2004 - 80 MWs
7 x 24	January 1, 2005 - December 31, 2005 - 100 MWs
7 x 24	January 1, 2006 - December 31, 2010 - 600 MWs

Product B Tier 1:

6x16	April 1, 2001 - September 30, 2001 - 175 MWs
6x16	October 1, 2001 - December 31, 2002 - 200 MWs
6x16	January 1, 2003 - December 31, 2004 - 250 MWs
6x16	January 1, 2005 - December 31, 2010 - 300 MWs

Product B Tier 2:

6 x 16	June 1, 2001, through September 30, 2001 - 140 MWs
6 x 16	October 1, 2001 - December 31, 2002 - 160 MWs
6 x 16	January 1, 2003 - December 31, 2003 - 240 MWs
6 x 16	January 1, 2004 - December 31, 2004 - 320 MWs
6 x 16	January 1, 2005 - December 31, 2005 - 400 MWs

Amended and Restated Confirmation Letter  
 2001A Transaction  
 Page 3

**CONFIDENTIAL**

Plus, fixed monthly, hourly or daily quantities as follows:

Product B Tier 3: For any calendar year starting January 1, 2003, to the extent Seller adds new generation capacity in the California market or has additional capacity available, Seller will have the right to sell to Buyer, and Buyer shall purchase from Seller, up to an additional 500MWs of peaking energy (6x16) on a monthly basis as available and as designated by Seller with reasonable notice to Buyer.

Product C: Subject to planned SCR installation and maintenance of Alamitos Unit #1, Alamitos Unit #2, and Redondo Beach Unit #6, Seller may make up to an additional 300 MWs available to Buyer, as available and as designated by Seller, during the months of April and May, 2001; provided, if Party A has determined, in its discretion, that the cost of generation for Product C will be in excess of \$62.50/MWh, Party A shall quote such higher per MWh price of Product C to Party B and Party B shall have the right to decline delivery. If Party B does not decline delivery, the Energy Price for such delivery shall be as quoted by Party A.

Delivery Point: Into SP-15 at the high side of the step up transformer at the point of interconnection of the applicable facility or at any other point of delivery into SP-15 as designated by Williams. Buyer and Seller may agree on alternate delivery points other than points of delivery into SP-15, subject to payment for settlement of any basis differential.

Contract Price: N/A

Energy Price: (1) For Product A, Product B Tier 2, Product B Tier 3: \$62.50/MWh as adjusted for availability below 70% or above 82% as set forth below.

(2) For Product B Tier 1: \$87/MWh as adjusted for availability below 70% or above 82% as set forth below.

(3) For Product C: the greater of \$62.50/MWh and the cost of generation as quoted to Party B by Party A prior to dispatch (as described above).

If the Availability (as defined in Schedule 1 or Schedule 2, as applicable) for any calendar year or years shall be less than 70%, Party A shall, in the next succeeding calendar year or years, subtract from the Energy Price (\$62.50/MWh or \$87/MWh, as applicable) the incremental charges set forth on Schedule 1 or Schedule 2, as applicable. The aggregate amount of all such incremental reductions in all calendar years shall be the "Penalty Amount." Notwithstanding the foregoing, the Penalty Amount shall not exceed \$30,000,000 cumulative over the term of the Agreement under either Schedule 1 or Schedule 2, as applicable. If in any calendar year or years following a calendar year in which the Availability is less than 70% the Availability is above 82%, Party A shall add to the Energy Price the incremental charges set forth on Schedule 1 or Schedule 2, as applicable; provided that the aggregate amount of all such incremental increases shall not exceed the Penalty Amount under either Schedule 1 or Schedule 2, as applicable.

Other Charges: The actual and verifiable cost of emissions credits (not to exceed the costs for the applicable designated Unit when provided from alternate sources) and all amounts payable pursuant to Section 9.2 of the Agreement. Party B acknowledges and agrees that the AES Subsidiaries have represented that they are attempting to have SCRs installed on Alamitos Unit #1, Alamitos Unit #2, Redondo Beach Unit #5, and Redondo Beach Unit #6, but permitting and other issues (including the California ISO requirement that such Units be run and not shut down for the installation of SCRs) are preventing such installation.

**CONFIDENTIAL**

Amended and Restated Confirmation Letter  
2001A Transaction  
Page 4

Delivery Period: Product B Tier 1 (6x16): from April 1, 2001 through December 31, 2010;

Product A (7x24): from June 1, 2001 through December 31, 2010;

Product B Tier 2 (6x16): from June 1, 2001 through December 31, 2005;

Product B Tier 3 (6x16): from January 1, 2003 through December 31, 2010 (monthly quantities);

Product C: from April 1, 2001 through May 31, 2001 (hourly or daily quantities);

all as more fully described above under "Contract Quantity"

Special Conditions: Seller reserves the right to supply energy from any alternative source in its sole discretion regardless of the actual status of the designated unit(s).

Scheduling: Product A: fixed 7x24 (all hours all days). Product B (all "Tiers"): 6x16 (Monday through Saturday, hour ending 0700 through hour ending 2200). Hourly scheduling for Product C. Quantities to vary as indicated under "Contract Quantity", subject to planned outages, unplanned outages and reductions in availability. Seller will notify Buyer as soon as reasonably possible after receipt of notification from the AES Subsidiaries of any unplanned outage or reduction in availability.

Option Buyer: N/A

Option Seller: N/A

Type of Option: \_\_\_\_\_

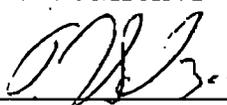
Strike Price: \_\_\_\_\_

Premium: \_\_\_\_\_

Exercise Period: \_\_\_\_\_

This Amended and Restated Confirmation Letter is being provided pursuant to and in accordance with the Master Power Purchase and Sale Agreement dated February 16, 2001 (the "Master Agreement") by and between Party A and Party B, constitutes part of and is subject to the terms and provisions of such Master Agreement, and supercedes the terms and conditions of that certain confirmation letter previously executed by Party A and Party B, which shall be of no further force or effect. Terms used but not defined herein shall have the meanings ascribed to them in the Master Agreement.

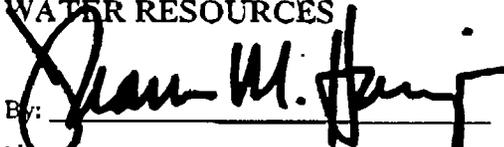
**WILLIAMS ENERGY MARKETING & TRADING COMPANY**

By: 

Name: Philip J. Scalzo

Title: Vice President

**CALIFORNIA DEPARTMENT OF WATER RESOURCES**

By: 

Name: \_\_\_\_\_

Title: \_\_\_\_\_



Amended and Restated Confirmation Letter  
2001A Transaction  
Page 6

**CONFIDENTIAL**

Schedule 1

For Product A, Product B Tier 2 and Product B Tier 3	If Annual Avail. $\leq$ 70%		If Annual Avail. $\geq$ 82%
Year	Reduction	Year	Increase
Calendar year After First Year Below 70% (unless and until Penalty Amount equals \$30,000,000)	\$1/MWH	Calendar year After First Year Above 82% (unless and until Penalty Amount equals \$0)	\$1.5/MWH
Calendar year After Second Consecutive Year Below 70% (unless and until Penalty Amount equals \$30,000,000)	\$2/MWH	Calendar year After Second Consecutive Year Above 82% (unless and until Penalty Amount equals \$0)	\$3/MWH
Calendar year After Third Consecutive Year Below 70% (unless and until Penalty Amount equals \$30,000,000)	\$2.5/MWH	Calendar year After Third Consecutive Year Above 82% (unless and until Penalty Amount equals \$0)	\$4/MWH
Calendar year After Fourth Consecutive Year Below 70% (unless and until Penalty Amount equals \$30,000,000)	\$2.5/MWH	Calendar year After Fourth Consecutive Year Above 82% (unless and until Penalty Amount equals \$0)	\$4/MWH
Calendar year After Fifth Consecutive Year Below 70% (unless and until Penalty Amount equals \$30,000,000)	\$2.5/MWH	Calendar year After Fifth Consecutive Year Above 82% (unless and until Penalty Amount equals \$0)	\$4/MWH
Calendar year After Sixth Consecutive Year Below 70% (unless and until Penalty Amount equals \$30,000,000)	\$2.5/MWH	Calendar year After Sixth Consecutive Year Above 82% (unless and until Penalty Amount equals \$0)	\$4/MWH
Calendar year After Seventh Consecutive Year Below 70% (unless and until Penalty Amount equals \$30,000,000)	\$2.5/MWH	Calendar year After Seventh Consecutive Year Above 82% (unless and until Penalty Amount equals \$0)	\$4/MWH
Calendar year After Eighth Consecutive Year Below 70% (unless and until Penalty Amount equals \$30,000,000)	\$2.5/MWH	Calendar year After Eighth Consecutive Year Above 82% (unless and until Penalty Amount equals \$0)	\$4/MWH
Calendar year After Ninth Consecutive Year Below 70% (unless and until Penalty Amount equals \$30,000,000)	\$2.5/MWH	Calendar year After Ninth Consecutive Year Above 82% (unless and until Penalty Amount equals \$0)	\$4/MWH

1. Maximum Penalty Amount = \$30 Million cumulative through the term of the Agreement
2. Minimum Penalty Amount = \$0
3. "Availability" means for any calendar year: TE/CQ

Where:

TE = MWh of Energy delivered and/or made available during such calendar year  
 CQ = Contract Quantity for such calendar year less Quantity unavailable for scheduled and planned maintenance occurring during November through April, not to exceed 14 days per Unit per calendar year

**CONFIDENTIAL**

Amended and Restated Confirmation Letter

2001A Transaction

Page 7

Schedule 2

For Product B Tier 1	If Annual Avail. $\leq$ 70%		If Annual Avail. $\geq$ 82%
Year	Reduction	Year	Increase
Calendar year After First Year Below 70% (unless and until Penalty Amount equals \$30,000,000)	\$2/MWH	Calendar year After First Year Above 82% (unless and until Penalty Amount equals \$0)	\$3/MWH
Calendar year After Second Consecutive Year Below 70% (unless and until Penalty Amount equals \$30,000,000)	\$4/MWH	Calendar year After Second Consecutive Year Above 82% (unless and until Penalty Amount equals \$0)	\$5/MWH
Calendar year After Third Consecutive Year Below 70% (unless and until Penalty Amount equals \$30,000,000)	\$5/MWH	Calendar year After Third Consecutive Year Above 82% (unless and until Penalty Amount equals \$0)	\$6/MWH
Calendar year After Fourth Consecutive Year Below 70% (unless and until Penalty Amount equals \$30,000,000)	\$5/MWH	Calendar year After Fourth Consecutive Year Above 82% (unless and until Penalty Amount equals \$0)	\$6/MWH
Calendar year After Fifth Consecutive Year Below 70% (unless and until Penalty Amount equals \$30,000,000)	\$5/MWH	Calendar year After Fifth Consecutive Year Above 82% (unless and until Penalty Amount equals \$0)	\$6/MWH
Calendar year After Sixth Consecutive Year Below 70% (unless and until Penalty Amount equals \$30,000,000)	\$5/MWH	Calendar year After Sixth Consecutive Year Above 82% (unless and until Penalty Amount equals \$0)	\$6/MWH
Calendar year After Seventh Consecutive Year Below 70% (unless and until Penalty Amount equals \$30,000,000)	\$5/MWH	Calendar year After Seventh Consecutive Year Above 82% (unless and until Penalty Amount equals \$0)	\$6/MWH
Calendar year After Eighth Consecutive Year Below 70% (unless and until Penalty Amount equals \$30,000,000)	\$5/MWH	Calendar year After Eighth Consecutive Year Above 82% (unless and until Penalty Amount equals \$0)	\$6/MWH
Calendar year After Ninth Consecutive Year Below 70% (unless and until Penalty Amount equals \$30,000,000)	\$5/MWH	Calendar year After Ninth Consecutive Year Above 82% (unless and until Penalty Amount equals \$0)	\$6/MWH

4. Maximum Penalty Amount = \$30 Million cumulative through the term of the Agreement
5. Minimum Penalty Amount = \$0
6. "Availability" means for any calendar year: TE/CQ

Where:

- TE = MWh of Energy delivered and/or made available during such calendar year
- CQ = Contract Quantity for such calendar year less Quantity unavailable for scheduled and planned maintenance occurring during November through April, not to exceed 14 days per Unit per calendar year