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GOVERNOR DAVIS ANNOUNCES ANOTHER RESTRUCTURED LONG-TERM ENERGY CONTRACT 7/11/2003

*Morgan Stanley Capital Group Inc. Agrees to Amend Power Contract;
 Over \$40 Million Saved, New Gas Supply Secured*

SACRAMENTO

Governor Gray Davis today announced that Morgan Stanley Capital Group (MSCG) has agreed to restructure its contract with the Department of Water Resources (DWR), cutting DWR's costs by nearly \$41 million on the \$209 million contract. MSCG has also agreed to sell natural gas to DWR on terms that are favorable to California.

"This renegotiated contract provides a better product at lower cost," Gov. Davis said. "This is further evidence that we are getting our energy future under control."

The reformation of the contract provides a combination of both pricing and volume reduction over the last two and one-half years of the five-year deal. The price for power has been reduced from \$95 per megawatt hour to \$81 for the term of the contract. Volumes of power also have been reduced from 50 megawatts to 40 megawatts during 2003 and 35 megawatts from 2004 through 2005. The result is a saving of approximately 20 percent of the \$209 million agreement.

MSCG has also agreed to sell DWR up to 30,000 MMBtu per day of natural gas. Although the terms have yet to be decided, the contract states the terms are to be favorable to California. This gas supply is sufficient to generate 260 megawatts from a combined cycle power plant for 16 hours a day for three years.

As part of the restructuring, the California Public Utilities Commission and the Electric Oversight Board have agreed to withdraw their complaints against MSCG before the Federal Energy Regulatory Commission.

On June 25, 2003, the FERC ruled that California has no right to restructure the energy contracts that the State entered at the height of the energy crisis. Despite this ruling, the State continues to press for renegotiated energy deals that will improve terms and save money for the ratepayers. Presently, the state's efforts will save more than \$6.3 billion by the renegotiations of long-



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term energy contracts. The MSCG agreement is the first to be negotiated after the FERC ruling.

DWR began purchasing power on behalf of customers of California's three investor-owned utilities on January 17, 2001. The Department was successful at stabilizing the energy market for the utilities to resume their day-to-day power buying responsibilities on January 1, 2003. Although not actively purchasing power on the market, the Department continues to manage its portfolio of long-term contracts.

"We appreciate Morgan Stanley's willingness to negotiate better terms for the State of California, and we look forward to continuing our constructive relationship with MSCG," says DWR's Pete Garris.

The department's long-term power contracts -- including the MSCG contract -- are available on the DWR's California Energy Resources Scheduling Division Web site at www.cers.water.ca.gov.

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