

 ORIGINAL

**Settlement Agreement
FERC Docket No. EL04-108
Seller's Choice Proceeding**

This Settlement Agreement is made and entered into as of this 8th day of April, 2005 (the "Effective Date") by and between the Department of Water Resources, an agency of the State of California with respect to the Department of Water Resources Electric Power Fund separate and apart from its powers and responsibilities with respect to the State Water Resources Development System ("CDWR"), and Coral Power, L.L.C., a Delaware limited liability company ("CORAL").

RECITALS

WHEREAS, CDWR and CORAL previously entered into the Master Power Purchase and Sale Agreement dated May 24, 2001 (the "Power Agreement"); and

WHEREAS, the Power Agreement is the subject of the 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"); and

WHEREAS, CAISO has filed the Physical Validation Rule with the FERC for approval; and

WHEREAS, CDWR and CORAL desire to settle the Seller's Choice Proceeding as it relates to the Power Agreement;

NOW, THEREFORE, in consideration of the foregoing, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, CDWR and CORAL hereby agree as follows:

SETTLEMENT AGREEMENT

1. Definitions. The following capitalized terms, when used in this Settlement Agreement shall have the meanings specified in this Section 1. All capitalized terms used, but not otherwise defined herein, shall have the meaning given to them in the Power Agreement.

1.1 "Inter-SC Nodal Trades" means deliveries of energy by Coral or its agents, contractors or scheduling coordinators to CDWR or its agents, contractors or scheduling coordinators by Inter-SC Trade for settlement at Nodes.

1.2 "Inter-SC Trades" means scheduling coordinator to scheduling coordinator trades of energy within the CAISO system.

1.3 "LMP" or "LMP System" means locational marginal pricing, a transmission congestion management system that assigns prices to power at Nodes on the transmission system based upon resources, loads and the transmission grid configuration.

1.4 "Nodes" means the LMP nodes assigned by CAISO to physical locations on the transmission grid controlled by CAISO within the geographic boundaries of the CAISO control area, as may be modified by CAISO from time to time.

1.5 "NP-15 EZ Gen Hub" means the trading hub that CAISO establishes as part of the implementation of LMP based on the north of path 15 zone of the CAISO control area.

1.6 "Physical Validation Rule" means the market rule that imposes a physical trade validation requirement on CAISO Settled Nodal Trades as identified, described and defined in the CAISO's March 15, 2005 filing with FERC made pursuant to Section 205 of the FPA in Docket No. ER02-1656-025, as may be modified from time to time.

2. Dismissal of Seller's Choice Proceeding.

Within five (5) days of the execution of this Settlement Agreement, the Parties shall jointly file with the FERC a motion to dismiss with prejudice the Power Agreement from the Seller's Choice Proceeding.

3. Amendment of the Power Agreement.

3.1 Agreement to Negotiate. The Parties agree to negotiate in good faith to reach agreement as to how the Power Agreement, including without limitation Section 3.7 of the Power Agreement, should be amended to designate mutually acceptable delivery points to replace the NP-15, SP-15 and ZP-26 Delivery Points (the "Alternative Delivery Points") to be effective upon the implementation of LMP. In the event such negotiations do not yield a mutually acceptable amendment to the Power Agreement at least one (1) year prior to the date CAISO has announced LMP will be implemented, CDWR and CORAL agree to resolve the dispute concerning the amendment to the Power Agreement ("Amendment Dispute") in accordance with the arbitration procedures set forth in Section 3.2 below.

3.2 Arbitration. In the event CDWR and CORAL are unable to negotiate a mutually acceptable amendment to the Power Agreement in accordance with the procedure set forth in Section 3.1 above, such Amendment Dispute shall be submitted to binding arbitration in accordance with this Section 3.2. The arbitration shall be conducted in accordance with the Federal Arbitration Act and the American Arbitration Association ("AAA") rules for commercial arbitration in effect when the arbitration is commenced. Submission to arbitration shall be made upon the request of either CDWR or CORAL by sending a written notice to the other party with a brief statement of the dispute. The letter must also name the arbitrator chosen by the claimant. Within ten (10) calendar days of the date of the notice of arbitration, the respondent shall notify the claimant in writing of its choice of an arbitrator. The two (2) arbitrators so appointed shall then select the third arbitrator within twenty (20) calendar days, who shall be the chairperson of the tribunal. The chairperson shall be a person who has at least six (6) years of experience in energy-related

transactions, and none of the arbitrators shall have been previously employed by either CDWR or CORAL or have any direct pecuniary interest in either CDWR or CORAL or the subject matter of the arbitration, unless such relationship or interest is expressly acknowledged and this prerequisite is waived in writing by CDWR and CORAL. If the arbitrators chosen by CDWR and CORAL cannot agree on the selection of a third arbitrator, the selection of the third arbitrator shall be referred by either CDWR or CORAL to the AAA. The chairperson shall be bound to schedule a hearing within six (6) months after his/her appointment and the panel must render its decision within thirty (30) calendar days after the hearing concludes. The conduct of the arbitration, the hearing, and any pre-hearing matters shall be governed by the AAA rules for commercial arbitration unless otherwise agreed to by CDWR and CORAL or altered by the panel. The arbitrator(s) shall have no authority to award consequential, treble, exemplary, or punitive damages of any type or kind regardless of whether such damages may be available under any law or right. CDWR and CORAL shall each bear the compensation, costs and expenses of its own arbitrator and CDWR and CORAL shall split equally the compensation, costs and expenses of the third arbitrator. Any arbitration proceedings, decision or award rendered hereunder and the validity, effect and interpretation of this arbitration provision shall be governed by the Federal Arbitration Act. The arbitration shall take place in Sacramento, California. The award shall be final and binding on CDWR and CORAL and judgment upon any award may be entered in any court of competent jurisdiction. CDWR and CORAL agree that all information exchanged in connection with any proceeding as described herein shall be deemed confidential.

3.3 Certain Terms of Amendment. CDWR and CORAL agree that, regardless whether reached by agreement of CDWR and CORAL or by arbitration pursuant to the arbitration procedure contemplated in Section 3.2 above, the amendment of the Power Agreement shall include the following provisions:

- (i) All deliveries of the Product from Coral to CDWR shall be by Inter-SC Trade;
- (ii) The timing of the estimate and scheduling provisions of the Power Agreement shall be modified such that the Final Estimate is provided no later than the earlier of (1) November 1 or (2) the later of (a) 30 days prior to the annual congestion revenue rights allocation deadline or (b) September 1 prior to the commencement of each calendar year; and
- (iii) In the event Coral delivers Product to Alternative Delivery Points other than as specified in the Final Estimate, CDWR may in its sole discretion either accept or reject such deliveries; provided, however that deliveries scheduled for settlement by Coral at the NP-15 EZ Gen Hub must be accepted by CDWR.

4. No Global Settlement. CDWR and CORAL acknowledge and agree that this Settlement Agreement is intended to address solely the Seller's Choice Proceeding as it relates to the Power Agreement and is not intended as a global settlement and shall not result in the resolution or dismissal of any other existing or future dispute between CDWR and CORAL. Nor is this Settlement Agreement intended to restrict either CDWR's or CORAL's ability to participate in the Seller's Choice Proceeding as it relates to contracts other than the Power Agreement. Except as necessary to implement the foregoing provisions, all provisions

in the Power Agreement shall otherwise remain unchanged and CDWR and CORAL reserve all rights, arguments and positions concerning the correct interpretation of those provisions. In particular, this Settlement Agreement does not change or amend the Federal Power Act standard of review applicable to the Power Agreement.

5. Representations and Warranties. CDWR and CORAL each hereby represent and warrant that (i) the execution, delivery and performance by such party of this Settlement Agreement has been duly authorized and all necessary action has been taken by such party in connection with such authorization; (ii) this Settlement Agreement does not and will not require any consent or approval of, notice to or action by, any person or entity in order to be effective and enforceable; and (iii) when executed and delivered by such party, this Settlement Agreement will constitute a legal, valid and binding obligation of such party that is enforceable against it in accordance with the terms hereof and thereof.

6. Miscellaneous.

6.1 Cooperation. CDWR and CORAL agree to cooperate in connection with making any other filings or taking any other actions required to allow CDWR and CORAL to proceed as contemplated herein.

6.2 Notices. All notices, demands and other communications hereunder shall be made in accordance with the notice provisions of the Power Agreement.

6.3 Severability. In the event that any of the terms, covenants or conditions of this Settlement Agreement, or the application of any such term, covenant or condition, shall be held invalid as to any person or circumstance by any court, regulatory agency, or other regulatory body having jurisdiction, all other terms, covenants or conditions of this Settlement Agreement and their application shall not be affected thereby, but shall remain in force and effect unless a court, regulatory agency, or other regulatory body holds that the provisions are not separable from all other provisions of this Settlement Agreement.

6.4 Governing Law. To the extent not governed by federal law, this Settlement Agreement shall be governed by and construed in accordance with the laws of the State of California, without regard to the conflict of laws principles thereof.

6.5 Entire Agreement. This Settlement Agreement constitutes the entire agreement between CDWR and CORAL with respect to the subject matter hereof and there are no agreements, understandings, representations or warranties between CDWR and CORAL other than those set forth or referred to herein. CDWR and CORAL each expressly disclaim any reliance upon any representations or warranties not stated herein.

6.6 Successors and Assigns. This Settlement Agreement shall be binding upon and inure to the benefit of CDWR and CORAL and their respective permitted successors and assigns.

6.7 No Third-Party Beneficiaries. This Settlement Agreement is not intended to confer upon any person or entity that is not a party any rights or remedies hereunder, and no one, other than a party is entitled to rely on any representation, warranty, covenant, release, waiver or agreement contained herein. Moreover, except for the purpose of enforcing the

terms and conditions of this Settlement Agreement as between CDWR and CORAL, nothing herein shall establish any precedents as between CDWR and CORAL and any third parties as to the resolution of any dispute that is not resolved in this Settlement Agreement.

6.8 No Waiver. Neither CDWR or CORAL waives any claim or right in the Seller's Choice Proceeding concerning issues other than the issues that are the subject of this Settlement Agreement by entering into this Settlement Agreement and the amendment to the Power Agreement that is contemplated herein.

6.9 Costs. CDWR and CORAL shall each pay its own costs and expenses, including attorneys' fees, incurred in connection with the disputes that are settled herein and the negotiation, preparation and implementation of this Settlement Agreement.

6.10 Counterparts. This Settlement Agreement may be executed in one or more counterparts, all of which will be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered, including by facsimile, to the other party.

6.11 Modifications. This Settlement Agreement may be modified only if in writing and signed by CDWR and CORAL. No waiver of any provision of this Settlement Agreement or departure from any term of this Settlement Agreement shall be effective unless in writing and signed by CDWR and CORAL.

6.12 Parties Represented by Counsel. CDWR and CORAL acknowledge that they have sought the advice of, and have been advised by, legal counsel of their choice in connection with the negotiation of this Settlement Agreement.

6.13 Drafting of Agreement. CDWR and CORAL acknowledge that (i) this Settlement Agreement is the result of negotiations among, and has been reviewed by, each party and its respective counsel, and (ii) each party contributed to the drafting of this Settlement Agreement. Accordingly, this Settlement Agreement shall be deemed to be the product of each party, and no ambiguity shall be construed in favor of or against either party.

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IN WITNESS WHEREOF, CDWR and CORAL have caused this Settlement Agreement to be executed by their duly authorized representatives as of the Effective Date.

DEPARTMENT OF WATER RESOURCES with respect to the Department of Water Resources Electric Power Fund separate and apart from its powers and responsibilities with respect to the State Water Resources Development System

By: _____

Name:

Title:

CORAL POWER, L.L.C.

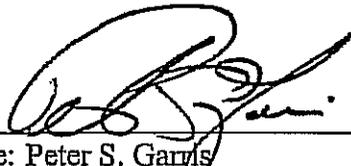
By: V M Hanafin

Name: V. Mark Hanafin

Title: Chief Executive Officer

IN WITNESS WHEREOF, CDWR and CORAL have caused this Settlement Agreement to be executed by their duly authorized representatives as of the Effective Date.

DEPARTMENT OF WATER RESOURCES with respect to the Department of Water Resources Electric Power Fund separate and apart from its powers and responsibilities with respect to the State Water Resources Development System

By: 
Name: Peter S. Garvis
Title: Deputy Director

CORAL POWER, L.L.C.

By: _____
Name:
Title: