

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



January 1, 2004

Mr. Thomas L. Bolich
Director of Public Works
Santa Cruz County Department of Public Works
701 Ocean Street, Room 410
Santa Cruz, California 95060

Dear Mr. Bolich:

The California Department of Water Resources ("CDWR") references the Amended and Restated Non-Firm Energy Purchase Agreement by and between CDWR and the County of Santa Cruz, California ("Santa Cruz") dated December 23, 2002 (the "Agreement"). All capitalized terms used, but not otherwise defined herein, shall have the same meaning given to them in the Agreement.

Section 6.01(f) of the Agreement, "Events of Default," provides that the failure to achieve commercial operation on or before December 31, 2003, is an Event of Default:

The failure by the Seller, regardless whether or not such failure is caused by an Uncontrollable Force, to achieve the Commercial Operation Date on or before December 31, 2003.

Section 6.02(a) of the Agreement, "Remedies for Events of Default," provides as follows:

If an Event of Default occurs, the Non-Defaulting Party shall possess the right to terminate this Agreement upon written notice (by facsimile or other reasonable means) to the Defaulting Party, such notice of termination to be effective immediately upon receipt.

As the Commercial Operation Date was not achieved on or before December 31, 2003, CDWR hereby notifies Santa Cruz that pursuant to CDWR's rights under Section 6.02(a) of the Agreement, the Agreement is terminated effective January 1, 2004.

Mr. Thomas L. Bolich
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If you need additional information or would like to discuss this matter further,
please contact me at (916) 574-2733.

Sincerely,

Original signed by

Peter S. Garris
Deputy Director

cc: Mr. Marc J. Bommersbach
Mail Code N12F
Pacific Gas and Electric Company
Post Office Box 770000
San Francisco, California 94177-0001

Mr. Patrick Mathews
Solid Waste and Recycling Services Manager
Santa Cruz County Department of Public Works
701 Ocean Street, Room 410
Santa Cruz, California 95060