

**NEW BULLARDS BAR RESERVOIR
OPERATIONS AMENDMENT TO
THE YUBA COUNTY WATER AGENCY
POWER PURCHASE CONTRACT**

PACIFIC GAS AND ELECTRIC COMPANY ("Company") and YUBA COUNTY WATER AGENCY ("YCWA") referred to collectively as "Parties" and individually as "Party", agree as follows:

RECITALS

- A.** The Company and YCWA are parties to the Yuba County Water Agency Power Purchase Contract dated May 13, 1966 (the "YCWA Agreement") and to the Agreement Concerning Power Purchase Contract of 1966 and Coordinated Operations of the Narrows 1 and Narrows 2 Powerhouses, July 16, 2002 (the "Coordinated Operations Agreement") (collectively referred to herein as the "Power Purchase Agreement" or "PPA"). Under the PPA, the Company purchases the full electrical output of the Yuba Project and is entitled to direct YCWA's operations of the Yuba Project to the extent specified in the terms and conditions in the PPA.
- B.** YCWA has proposed a settlement of a proceeding before the State Water Resources Control Board ("SWRCB") and associated litigation with the SWRCB and others regarding water flows in the lower Yuba River. The settlement, known as the Lower Yuba River Accord ("Accord"), provides for a flow regime in the lower Yuba River as an alternative to the flows specified in Revised Decision 1644 as revised on July 16, 2003, the SWRCB's decision in the aforementioned proceeding. The parties to the Accord, including state and federal resource agencies (National Marine Fisheries Service, United States Fish & Wildlife Service, California Department of Fish & Game), non-governmental organizations (Friends of the River, South Yuba River Citizens League, Trout Unlimited, The Bay Institute), and entities that purchase wholesale water from YCWA, believe the Accord better meets their interests than Revised Decision 1644. The Company is not a party to the Accord or to the proceedings settled by the Accord.
- C.** The Accord generally provides higher flows in the lower Yuba River than the SWRCB's Revised Decision 1644. YCWA's modeling has indicated that the higher Accord flows will result in overall beneficial effects on power generation and reduced potential for reservoir spills over the term of the Accord, as compared to the flows that would otherwise occur under Revised Decision 1644.

The Company has reviewed the results of YCWA's modeling and recognizes the potential benefits to power generation from implementation of the Accord.

- D. To effect the higher Accord flows, YCWA believes that the operations of the Yuba Project including New Bullards Bar Reservoir (Bullards Bar Reservoir) filling rates and end-of-season carryover levels must be modified from the current operations as prescribed in the existing PPA. In particular, YCWA believes that operating Bullards Bar Reservoir to achieve a carryover target storage of 650 TAF at the end of September is necessary to effect certain aspects of the Accord.
- E. The Company and YCWA have agreed to enter into this New Bullards Bar Reservoir Operations Amendment to the Yuba County Water Agency Power Purchase Contract ("Amendment") in order to modify the terms and conditions of the PPA to include these operational changes.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained in this Amendment, the Parties agree as follows:

AGREEMENT

1. Decision Process

YCWA and the Company currently consult as necessary in an effort to reach consensus on reservoir operations and share pertinent information such as weather forecasts, forecasted water demands, and model runs to assist in the current consensus decision making process.

YCWA and the Company agree to continue to meet regularly in an effort to reach consensus on reservoir operations and share pertinent information. For example, in very wet years YCWA and the Company may elect to utilize the Critical Storage amounts for the months of June through January. Face-to-face meetings or conference calls will be scheduled as necessary, which in major storms or during snowmelt runoff conditions may be as frequently as daily. Every effort will be made to reach consensus through these meetings and only in the absence of timely mutual agreement, will operations of the Bullards Bar Reservoir be operated pursuant to Section C-2, paragraph A(b)(1) entitled "Water for Power and Irrigation" of the YCWA Agreement ("Section C-2, paragraph A(b)(1)") as modified by this Amendment.

2. Target Storage

Appendix D of the YCWA Agreement is amended to replace the table of monthly Critical Storage amounts with the following Table 2.1 "Critical Storage and Target Storage" for Bullards Bar Reservoir.

**Table 2.1
Monthly Critical Storage and
Target Storage in Bullards Bar Reservoir**

Month	Target Storage	Critical Storage (1966 Contract)	Month	Target Storage	Critical Storage (1966 Contract)
Oct	650,000	660,000	Apr	850,000	825,000
Nov	650,000	645,000	May	960,000	930,000
Dec	650,000	645,000	Jun	890,000	890,000
Jan	600,000	600,000	Jul	820,000	830,000
Feb	650,000	600,000	Aug	705,000	755,000
Mar	750,000	685,000	Sep	650,000	705,000

3. Calculation of Forecasted Available Water

The determination on whether to use the Critical Storage or the Target Storage for the purposes of Section C-2, paragraph A(b)(1) shall be made monthly by the Company based on its calculation (subject to verification by YCWA) of Forecasted Available Water. The Forecasted Available Water shall be calculated at the beginning of the month after the snow survey results are available for the months of February, March, April and May each year. The Forecasted Available Water shall be calculated using the appropriate formula listed in Table 3.1 below.

**Table 3.1
Calculation of Forecasted Available Water**

Month	Forecasted Available Water Formula
February	$= 25,000 \times \text{SSM} + 100,000 + \text{NBB Active Storage}$
March	$= 950 \times (18.6 \times \text{RCC} + 2.2 \times \text{SSM}) + \text{NBB Active Storage}$
April	$= 5,800 \times (2.7 \times \text{RCC}) - 160,000 + \text{NBB Active Storage}$
May	$= 9,400 \times \text{RCC} + 44,000 + \text{NBB Active Storage}$

Where: SSM = Sunnyside Meadows Snow Water Content (inches)
RCC = Robinson Cow Camp Snow Water Content (inches)
NBB = New Bullards Bar Reservoir
Active Storage = Actual Storage minus minimum pool of 234,000 AF (AF)

4. Forecasted Available Water

During the months of February through May, if the calculated Forecasted Available Water for the month is equal to or greater than the amount listed in Table 4.1 below for that month, then the Critical Storage value from Table 2.1 shall be used for that month for the purposes of Section C-2, paragraph A(b)(1). During the months of February through May, if the calculated Forecasted Available Water is less than the amount listed in Table 4.1 below for that month, then the Target Storage amount from Table 2.1 shall

be used in lieu of the Critical Storage amount for that month for the purposes of Section C-2, paragraph A(b)(1).

Table 4.1
Forecasted Available Water

Month	Forecasted Available Water
February	1,690 TAF
March	1,830 TAF
April	1,320 TAF
May	1,020 TAF

Subject to Section 1 of this Amendment, for the months of June through January, the Target Storage amounts for each month from Table 2.1 shall be used in lieu of the Critical Storage amount for that month for the purposes of Section C-2, paragraph A(b)(1).

5. Accord

The Company is not a party to the Accord and YCWA agrees that the Company shall not in any way be responsible or liable for YCWA's compliance with the Accord. Further, the Company has agreed to modifications of the terms and conditions of the PPA as proposed by YCWA and has not done any independent analysis of whether those modifications will be sufficient for YCWA to comply with the Accord. YCWA agrees that the Company shall not be responsible in any way or liable if operations consistent with this Amendment are not sufficient for YCWA to meet its obligations under the Accord. YCWA shall indemnify and hold harmless the Company for all costs, expenses, attorneys fees, liabilities, judgments and settlements incurred by the Company based upon or related to claims asserted or made by third parties for (a) YCWA's alleged failure to comply with the Accord, or (b) the Company's operations consistent with this Amendment which are not sufficient for YCWA to comply with the Accord.

6. Incentive Payments

YCWA has implemented or is considering proposing two operational or physical changes to the Yuba River Development Project that have or could result in increased power benefits. YCWA has indicated that it plans to submit these items for the Company's consideration under its 1992 Irrigation District Incentive Policy. The items are as follows:

- (a) YCWA has rescheduled a planned 2007 Colgate Powerhouse outage to install a new penstock control valve to coincide with a planned 2008 outage of the Company's transmission lines to reduce overall outage time of the powerhouse by approximately by 12 weeks.

- (b) YCWA has proposed replacement of the governors at Colgate Powerhouse to improve minimum load capabilities which will improve ancillary service capabilities and/or allow a shifting of some energy production from off-peak periods to on-peak periods.

YCWA is willing to waive any and all claims to payments from the Company for these items either under the Company's Irrigation District Incentive Policy or as an enhancement to the PPA.

7. Water Transfers

YCWA acknowledges that all surplus water transfers to buyers for use outside YCWA's service area are in addition to its water requirements as contemplated in the PPA. Accordingly, all such surplus water transfers require the Company's approval as an accommodation under the PPA.

The Company understands that YCWA's proposed Accord includes commitments to a long term surplus water transfer and the Company agrees to accommodate that surplus water transfer under the PPA. To accommodate this transfer, the Company acknowledges the surplus water transfer included in the Accord and the Company agrees that it will not be compensated by YCWA regarding the surplus water transfer included in the Accord, except for the parts of this surplus water transfer that are Surface Water Supplemental Transfers, as defined and provided below.

"Surface Water Supplemental Transfer" means a transfer of surface water from storage in Bullards Bar Reservoir for use outside of Yuba County, where: (a) the transferred water is not part of a Lower Yuba River flow that is reasonably needed to meeting the requirements of the Accord instream flow schedules (or operational buffers reasonably needed to implement these schedules); (b) the release of transferred water from storage in Bullards Bar Reservoir is in addition to releases reasonably needed to reach a September 30 storage target of 650,000 acre-feet, and instead causes the water storage in Bullards Bar Reservoir on September 30 to be less than 650,000 acre-feet; and (c) the transfer is not part of a groundwater substitution program.

The Company and YCWA agree that, if the combined total of all Surface Water Supplemental Transfers proposed by YCWA in a single year does not incrementally increase the releases from Englebright Reservoir by more than an average of 50 cfs or raise the total release to more than 1,700 cfs, including releases for the Accord and YCWA's in-service area demand, then the Surplus Water Supplemental Transfer(s) will be considered to have de minimis impact. The Company will not require written approval for such Surface Water Supplemental Transfers and does not expect to be compensated by YCWA for such Surface Water Supplemental Transfers.

YCWA agrees that it must obtain the Company's written approval for any Surface Water Supplemental Transfer(s) if the combined total of all Surface Water Supplemental

Transfers proposed by YCWA in a single year would cause the releases from Englebright Reservoir to incrementally increase by more than an average of 50 cfs or raise the total release to more than 1,700 cfs including releases for the Accord and YCWA's in-service area demand. Further, YCWA acknowledges that the Company may, if it determines in its sole judgment that such a Surface Water Supplemental Transfer proposed by YCWA would result in adverse impacts to the benefits that the Company is entitled to receive under the PPA or that it would put such benefits at risk, either not approve the water transfer or condition its approval on receiving compensation from YCWA for lost benefits or risk associated with the Surface Water Supplemental Transfer.

8. Term

This Amendment will go into effect when the SWRCB issues an order acceptable to YCWA that approves YCWA's pending petitions to change its water-right permits to implement the Accord. YCWA will notify the Company in writing when the SWRCB issues such order. This Amendment will terminate when the PPA terminates as described in paragraph 17 of the YCWA Agreement provided that, until December 1, 2008, YCWA may elect to terminate this Amendment immediately, if the California Department of Water Resources does not fulfill its payment obligations to YCWA under the terms of the Accord. Such immediate termination of this Amendment by YCWA shall not apply to the PPA and shall not affect the rights and obligations of the Parties under the PPA. YCWA will timely notify the Company in writing of any such election.

9. No Other Amendment

The Parties do not intend to modify or amend any provisions of the PPA except as explicitly described herein.

10. Notices

All written notices shall be directed as to the addresses below.

Mr. Randal S. Livingston
Vice-President, Power Generation
Pacific Gas and Electric Company
P. O. Box 770000, MC N11E
San Francisco, CA 94177-0001

Mr. Curt Aikens
General Manager
Yuba County Water Agency
1220 F Street
Marysville, CA 95901-4740

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Any Party may from time to time change its address for the purpose of notices to that Party by a similar notice specifying a new address, but no such change is effective until it is actually received by the Party sought to be charged with its contents. All notices and other communications required or permitted under this Amendment which are addressed as provided in this Section are effective upon delivery if delivered personally or by overnight mail, and are effective five (5) days following deposit in the United States mail, postage prepaid if delivered by mail.

11. No New Rights

Nothing contained in this Amendment creates or is intended to create an association, fiduciary, partnership or joint venture relationship between, or impose any fiduciary or partnership duty, obligation or liability upon, any Party.

12. Regulatory Requirements

The Parties agree that their respective operations of the Narrows Project and the Yuba Project will comply with the valid requirements of all regulatory agencies with jurisdiction over the projects. Nothing in this Section shall preclude any Party from challenging any assertion of jurisdiction over either project by any such agency.

13. Expenses

Except as otherwise provided herein, each Party is responsible for its own costs and expenses (including attorneys' and consultants' fees, costs and expenses) incurred in connection with this Amendment and the consummation of the transactions contemplated by this Amendment; provided, however, this provision will not alter or impact the rights and responsibilities of the Company and YCWA under the PPA, except as expressly provided in this Amendment.

14. Entire Document

This Amendment contains the entire agreement between the Parties with respect to the reservoir operations contemplated hereby and supersedes all written and oral negotiations, representations, warranties, commitments, offers, contracts and writings made prior to the execution date of this Amendment. No waiver and no modification or amendment of any provision of this Amendment will be effective unless it is made in writing and duly signed by the Parties and refers specifically to this Amendment, and then only to the specific purpose, extent and interest so provided.

15. Counterparts

This Amendment may be executed in one or more counterparts, each of which is an original, but all of which together constitute one and the same instrument.

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16. Governing Law

The validity, interpretation and effect of this Amendment are governed by and will be construed in accordance with the laws of the State of California applicable to contracts made and performed in such State and without regard to conflicts of law doctrines except to the extent that certain matters are preempted by Federal law.

17. No Third Party Beneficiaries

Except for the Parties and their respective permitted successors and assigns, nothing in this Amendment, whether express or implied, is intended to confer any rights or remedies under or by reason of this Amendment on any person including the other parties to the Accord. Nothing in this Amendment is intended to relieve or discharge any obligation or liability of any third person to any Party, nor give any third person any right of subrogation or action against any Party.

18. Construction of Agreement

Ambiguities or uncertainties in the wording of this Amendment will not be construed for or against any Party, but will be construed the manner that most accurately reflects the Parties' intent as of the date they executed this Amendment. Capitalized terms used in this Amendment and not defined herein shall have the same meaning assigned to them in the YCWA Agreement.

19. Authority of Signatories

Each person signing this Amendment represents that he or she has the authority to sign this Amendment on behalf of the Party whose name appears immediately above his or her signature.

IN WITNESS WHEREOF, the Parties hereto have caused this Amendment to be executed by their duly-authorized representatives and it is effective as of the last date set forth below.

**PACIFIC GAS AND ELECTRIC COMPANY
AGENCY**

YUBA COUNTY WATER

By: *[Signature]*
Title: Gerre H. Young
Date: January 30, 2008

By: *[Signature]*
Title: GENERAL MANAGER
Date: 1/30/08