

This AGREEMENT CONCERNING POWER PURCHASE CONTRACT OF 1966 AND COORDINATED OPERATIONS OF THE NARROWS 1 AND NARROWS 2 POWERHOUSES ("Agreement") is entered into as of July 16, 2002 by and between Pacific Gas and Electric Company, a California corporation ("Company") and the Yuba County Water Agency ("YCWA"). The Company and YCWA may be referred to in this Agreement individually as a "Party" or collectively as "Parties."

RECITALS

A. The Company and YCWA are parties to a number of contracts, a list of which is attached to this Agreement as Exhibit A ("YCWA Contracts"). The YCWA Contracts include a May 13, 1966 Power Purchase Contract ("PPC") for the purchase of power generated by the hydroelectric facilities of YCWA's Yuba River Development Project, FERC No. 2246 ("Yuba Project"), which includes the Narrows 2 powerhouse and associated facilities ("Narrows 2").

B. The Company is the licensee of the Narrows Project, FERC No. 1403 ("Narrows Project"), which includes the Narrows 1 Powerhouse and associated facilities ("Narrows 1").

C. On April 6, 2001, the Company filed a petition under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Northern District of California, designated as Case No. 01 30923 DM (the "Bankruptcy Court"). On September 20, 2001, the Company filed a plan of reorganization with the Bankruptcy Court. The Company subsequently has amended that plan of reorganization to resolve certain objections and comply with orders of the Bankruptcy Court. As used in this Agreement, the term "POR" refers to the Plan of Reorganization Under Chapter 11 of the Bankruptcy Code for Pacific Gas and Electric Company, including any amendments, corrections or supplements to such plan proposed or adopted by the Company.

D. Pursuant to the POR, the Company will disaggregate its current businesses and divide its operations and assets among separate operating companies. The Company will transfer certain assets to each of the new entities. The majority of the assets associated with the Company's electric transmission business, including the Narrows-Smartville 60kv line, will be transferred to Electric Transmission LLC ("ETrans"). The majority of the assets associated with the Company's electric generation business will be transferred to Electric Generation LLC ("Gen") and its subsidiaries, including Narrows Project LLC. The Company intends to assign the YCWA Contracts to Gen and to transfer its FERC license for the Narrows Project to Narrows Project LLC. Upon the effective date of the POR, the Company will continue to conduct local electric and gas distribution operations and associated customer services. For purposes of this Agreement, the Company will be identified as "Reorganized PG&E" whenever referring to the Company in its reorganized capacity after the effective date of the POR.

E. On November 30, 2001, the Company filed applications with the Federal Energy Regulatory Commission ("FERC") for authorization to implement certain transactions contemplated by the POR. YCWA has filed motions to intervene and/or protests and objections to the applications listed in Exhibit B to this Agreement ("FERC Proceedings").

F. The Company and YCWA intend this Agreement to resolve YCWA's protests and objections to the FERC Proceedings and the POR.

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

AGREEMENT

1. The Company, and its successors, including Gen, will honor and perform all its obligations under the YCWA Contracts, including any clarifications to the terms and conditions of those contracts specifically set forth in this Agreement.
2. YCWA hereby consents to the assignment of the YCWA Contracts and this Agreement to Gen upon the effective date of the POR.
3. The Company will fund engineering, permitting, procurement and installation of a penstock control valve at YCWA's Colgate Powerhouse as ordered by FERC in an order dated May 24, 1993, and consistent with the terms of the PPC. The Company will accommodate the necessary Yuba Project generation outage time for installation of the penstock control valve at no cost to YCWA. The Parties agree that, upon completion, the penstock control valve will be integral to and part of the Yuba Project. Accordingly, the Parties further agree that reasonable expenses incurred by YCWA for the operation and maintenance of the penstock control valve will be considered proper operation and maintenance expenses for the Yuba Project in accordance with the PPC.
4. For the remaining term of the PPC, the Company will continue to coordinate the operations of Narrows 1 Powerhouse, consistent with the Narrows Project FERC license, with the Yuba Project. The coordinated operations of the Parties will be conducted in accordance with paragraphs 5 and 6 below. The Company agrees that during the remaining term of the PPC, any sale or transfer of the Narrows Project, other than a sale or transfer that results in the decommissioning of the Narrows Project or the surrendering of the Narrows Project FERC license, will be conditioned upon the new owner either (a) assuming the Company's rights and obligations under the PPC and this Agreement, or (b) being contractually obligated to continue coordinated operations of Narrows 1 with the Yuba Project. Similarly, the Company agrees that during the remaining term of the PPC, any assignment or transfer of its rights and obligations under the PPC will be conditioned upon either (a) transferring the Narrows Project FERC license to the assignee of the PPC,

or (b) the assignee being contractually obligated to continue coordinated operations of Narrows 1 with the Yuba Project.

5. In order to facilitate coordinated operations of the Narrows Project and the Yuba Project, the Company and YCWA agree to form a Water Management Committee ("Committee"). The Committee will consist of at least one representative designated by each Party, and will meet at least annually or more frequently if requested by either Party. The Parties acknowledge that pursuant to the POR, Gen and Reorganized PG&E intend to enter into a Master Power Purchase and Sale Agreement (the "Power Sales Agreement") pursuant to which Reorganized PG&E will have the right to dispatch the Narrows 1 and Yuba Project, but that Reorganized PG&E will consult with YCWA before dispatching the Narrows 1 and Narrows 2 powerhouses, to ensure compliance with all federal and state water and environmental laws and regulations. Accordingly, upon the effective date of the POR and for the term of the Power Sales Agreement, both Gen and Reorganized PG&E will designate representatives to the Committee.
6. The Company and YCWA agree that the amounts of generation listed for the months of January through May in the table in Paragraph C-2A(b)(2) of Appendix C of the PPC do not reflect the Parties' custom and practice. Accordingly, the Company and YCWA agree that when drafts of storage will result in the storage at hand at the end of any month during the period January through May being equal to or less than the critical amount for such month listed in Appendix D of the PPC then, unless otherwise agreed to by the Parties, YCWA shall release during that month only a sufficient amount of water, in accordance with schedules furnished from time to time by the Company, necessary to meet the Company's legally required minimum instream flow release requirements at Narrows 1 or YCWA's legally required minimum instream flows release requirements at Narrows 2 below Englebright Dam and/or Daguerre Point Dam/Marysville Gage, whichever is more.
7. The Company will continue to operate and maintain the Narrows 2 - Smartville 60kv transmission line, FERC Project No. 2678, in full accordance with the terms of the PPC and applicable FERC rules and tariffs. The Company at its sole cost will conduct a line reliability study and a field inspection on the line in consultation with YCWA to address YCWA's reliability concerns related to outages caused by birds, lightning strikes, power surges and similar problems that may trigger the tripping-off of the Narrows 2 Powerhouse. To the extent any reliability problems of the type described are identified in the final Company reliability study and field inspection report, the Company at its sole cost will make repairs or improvements consistent with the terms of the PPC and applicable FERC rules and tariffs. The Parties acknowledge that pursuant to the POR, the Company intends to transfer the FERC license for the Narrows 2 - Smartville 60kv transmission line to ETrans LLC. After the effective date of the POR, the Parties agree to work cooperatively to pursue any new or uncompleted line reliability studies, repairs or improvements of the Narrows 2 - Smartville 60kv transmission line.

8. This Agreement is contingent on the approval by the Bankruptcy Court of the POR and the receipt of all regulatory approvals necessary to effectuate the POR.
9. Upon execution of this Agreement, YCWA will withdraw any objections to and file a letter in support of the FERC Proceedings listed in Exhibit B. This Agreement resolves any objections that YCWA has to the POR.
10. The Company and YCWA will enter into good faith, non-exclusive negotiations for a new power purchase contract that would take effect upon expiration of the PPC. The Parties' negotiations will also include continued coordinated operations of the Narrows Project and the Yuba Project, and the Company's support of YCWA's relicensing of the Yuba Project by FERC.
11. The Company and YCWA agree to consider future proposals for generation enhancements to the Yuba Project, e.g., Colgate tailwater depression system and cloud seeding, consistent with the Company's past contractual practices, e.g., January 22, 1990 Yuba River Development Enhancement Agreement.
12. Other than expressly provided for herein, this Agreement does not supersede, modify, alter or amend any other terms or conditions of the YCWA Contracts.
13. With the exception of matters within the exclusive jurisdiction of the Bankruptcy Court, the Parties will resolve any dispute related to the Agreement using the following dispute resolution procedures:
 - A. The Parties will attempt in good faith to resolve any dispute or claim arising out of or relating to this Agreement promptly by negotiations between a vice president (or more senior officer) of the Company or his or her designated representative and an executive of similar authority of YCWA. Any Party may give the other Party written notice of any dispute or claim. Within 20 days after delivery of the notice, the executives will meet at a mutually acceptable time and place, and thereafter as often as they reasonably deem necessary to exchange information and to attempt to resolve the dispute or claim. If the matter has not been resolved within 60 days of the first meeting, any Party, by written notice to the other Party, may initiate an arbitration of the controversy pursuant to section 13.C. below.
 - B. If the Parties to this Agreement cannot in good faith mutually resolve a dispute or claim arising out of or relating to this Agreement as provided in section 13.A., then any Party may initiate the dispute resolution procedure set forth in the following section. The Parties intend that the dispute resolution procedure set forth below be the sole remedy available to them for the resolution of such

disputes and claims. Notwithstanding the foregoing, any Party to this Agreement may seek a preliminary injunction or other provisional judicial remedy if such action is necessary to prevent irreparable harm or preserve the *status quo*, in which case all Parties nonetheless will continue to pursue resolution of the dispute by means of the dispute resolution procedure set forth below.

- C. Any dispute or claim submitted to arbitration by the Parties will be resolved by binding arbitration in Sacramento, California. Within 20 days after any such dispute or claim has been submitted to arbitration, each Party to this Agreement will notify the other Party of its selection of an arbitrator. If in the time provided only one Party gives notice of appointment of an arbitrator, the arbitrator selected by such Party will be the sole arbitrator of the dispute or claim and the Parties to this Agreement will equally share the cost of such arbitrator. If the Parties appoint separate arbitrators, then each Party will bear the cost of its own arbitrator. Within 10 days after their selection, the party-selected arbitrators will select one additional arbitrator, who also will chair the arbitral panel. If the party-selected arbitrators fail to select the third arbitrator within this time period, either Party may request the appointment of a third arbitrator by the then-Presiding Judge of the Superior Court of Sacramento County, California. The Parties will equally share the cost of the third arbitrator. Once the arbitral panel is formed, the Parties will choose a hearing date that is no later than 60 days from the date that the hearing panel is formed, unless the Parties agree to an extension of time. At the hearing, each Party may present evidence relevant to the dispute and a written brief explaining its position. The conduct of the hearing will be in accordance with the procedures prescribed by the hearing panel. The arbitrator(s) will not have the authority to make any award that would exceed the authority of a Superior Court Judge of the State of California if the subject matter of the arbitrated controversy were submitted to such judge for resolution under California law. The arbitrator(s) will have no power to add to, subtract from, or change any of the terms or conditions of this Agreement. Judgment on the arbitration award may be entered in any court having jurisdiction over the subject matter of the controversy. All arbitration awards made by the arbitrator(s) will be in writing, and the arbitrator or arbitrators will state the factual findings and legal basis for their award. Except as otherwise provided in this Agreement, each Party to this Agreement will bear its own fees and expenses, including attorneys' fees, incurred in connection with any arbitration under this Agreement.

14. This Agreement constitutes the sole, final, complete, exclusive and integrated expression and statement of the terms of this Agreement among the Parties concerning the subject matter addressed herein, and supersedes all prior negotiations, representations or agreements, either oral or written, that may be related to the subject matter of this Agreement, except those other documents that are expressly referenced in this Agreement.

15. The Parties agree and acknowledge that this Agreement has been arrived at through negotiation, and that each Party has had a full and fair opportunity to revise the terms of this Agreement. Consequently, the normal rule of construction that any ambiguities are to be resolved against the drafting party shall not apply in construing or interpreting this Agreement.
16. The waiver at any time by any Party of its rights with respect to a default or other matter arising in connection with this Agreement shall not be deemed a waiver with respect to any subsequent default or matter.
17. The invalidity, illegality or unenforceability of any provision of this Agreement will not render the other provisions unenforceable, invalid or illegal.
18. Subject to Section 2, this Agreement will bind and inure to the benefit of the respective successors, assigns, heirs, devisees and personal representatives of the Parties.
19. Nothing in this Agreement will be construed to create an association, joint venture, trust or partnership, or to impose a trust or partnership covenant, obligation, or liability on or with regard to any one or more of the Parties.
20. This Agreement will not be construed to create any third-party beneficiaries. This Agreement is for the sole benefit of the Parties, their respective successors and permitted transferees and assignees, and no other person or entity will be entitled to rely upon or receive any benefit from this Agreement or any of its terms.
21. This Agreement may be modified or amended only by a subsequent written agreement approved and executed by both Parties.
22. Any notice, demand, invoice or other communication required or permitted to be given under this Agreement will be in writing and either served personally or sent by prepaid, first class U.S. mail and addressed as follows:

If to YCWA:

General Manager
 Yuba County Water Agency
 1402 D Street
 Marysville, CA 95901-4226

If to Company:

Lead Director, Power Generation
 Pacific Gas and Electric Company
 P. O. Box 770000
 San Francisco, CA 94177

23. This Agreement may be executed in any number of counterparts, each of which will be deemed to be an original and all of which together will be deemed to be a single document.

In Witness Whereof, the Parties have caused this Agreement to be executed as set forth below.

PACIFIC GAS AND ELECTRIC COMPANY

YUBA COUNTY WATER AGENCY

By: Randy Livingston for

By: Bill Simmons

Name: KEVIN H. GOISST

Name: BILL SIMMONS

Title: PARTNERSHIP COORD.

Title: CHAIRMAN YCWA

**Yuba County Water Agency
Contract List**

Exhibit A

Name	Description	Effective Date
YUBA COUNTY WATER AGENCY	CONTRACT: POWER PURCHASE CONTRACT BETWEEN YUBA COUNTY WATER AGENCY AND PG&E, DATED MAY 13, 1966	05/13/1966
YUBA COUNTY WATER AGENCY	NOVATION AGREEMENT BETWEEN YUBA COUNTY WATER AGENCY (YCWA), BROWNS VALLEY IRRIGATION DISTRICT (BVID) AND PG&E SUBSTITUTING YCWA FOR PG&E IN OCTOBER 17, 1940 AND AUGUST 18, 1960 AGREEMENTS, DATED DECEMBER 3, 1985	12/03/1985
YUBA COUNTY WATER AGENCY	LETTER AGREEMENT BETWEEN PG&E AND YUBA COUNTY WATER AGENCY RE: FULL OPERATION DATA FOR YUBA RIVER DEVELOPMENT, OCTOBER 20, 1970	08/14/1969
YUBA COUNTY WATER AGENCY	AGREEMENT BETWEEN YUBA COUNTY WATER AGENCY AND PG&E RE: WATER RELEASES IN ENGLEBRIGHT RESERVOIR, AUGUST 14, 1969	03/05/1970
YUBA COUNTY WATER AGENCY	MEMORANDUM OF UNDERSTANDING AND AGREEMENT RELATING TO COMPLETION OF THE YUBA RIVER DEVELOPMENT AND FINAL PAYMENT TO PERINI-YUBA ASSOCIATES AND INTERNATIONAL ENGINEERING COMPANY, INC., JANUARY 26, 1971	05/29/1970
YUBA COUNTY WATER AGENCY	LETTER AGREEMENT BETWEEN YUBA COUNTY WATER AGENCY AND PG&E RE: CLARIFICATION FOR LETTER AGREEMENT OF JULY 18, 1968, DATED AUGUST 6, 1968	04/22/1970
YUBA COUNTY WATER AGENCY	ENHANCEMENT AGREEMENT BETWEEN PG&E AND YUBA COUNTY WATER AGENCY CONCERNING DIVERSIONS TO BROWNS VALLEY IRRIGATION DISTRICT	01/22/1990
YUBA COUNTY WATER AGENCY	LETTER AGREEMENT BETWEEN PG&E AND YUBA COUNTY WATER AGENCY RE: CONDITIONAL APPROVAL OF JUNE 30, 1970 AGREEMENT PROVIDING FOR COMPLETION OF UNCOMPLETED PORTIONS OF THE YUBA RIVER DEVELOPMENT, DATED JULY 7, 1970	05/24/1977
YUBA COUNTY WATER AGENCY	LETTER AGREEMENT BETWEEN PG&E AND YUBA COUNTY WATER AGENCY RE: FULL OPERATION DATE, DATED OCTOBER 20, 1970	04/15/1966
YUBA COUNTY WATER AGENCY	LEASE BETWEEN YUBA COUNTY WATER AGENCY AND PG&E FOR CONTROL ROOM IN COLGATE POWER HOUSE, COMMENCED ON NOVEMBER 1, 1968, TERMINATES APRIL 30, 2016	01/08/1992
YUBA COUNTY WATER AGENCY	LETTER AGREEMENT BETWEEN PG&E AND YUBA COUNTY WATER AGENCY RE: CONSOLIDATION OF PARAGRAPH 9(B) WITH PARAGRAPH C-6 OF APPENDIX C OF THE SUBJECT CONTRACT	03/18/1991
YUBA COUNTY WATER AGENCY	LETTER AGREEMENT BETWEEN PG&E AND YUBA COUNTY WATER AGENCY TO COMPLY WITH THE REQUIREMENTS SET FORTH IN THE FOUR-PAGE APPENDIX ATTACHED TO THE AGREEMENT.	05/12/1966

Exhibit B

Yuba County Water Agency FERC Proceedings

1. Applications to FERC for Approval of Transfer of License and Conveyance of Interests in Project Properties for Project Nos. 77-116, 96-031, 137-031, 175-018, 178-015, 233-082, 606-020, 619-095, 803-055, 1061-056, 1121-058, 1333-037, 1354-029, 1403-042, 1962-039, 1988-030, 2105-087, 2106-039, 2107-012, 2130-030, 2155-022, 2310-120, 2467-016, 2661-016, 2687-022, 2735-071;
2. Application to FERC for Approval of Transfer of Licenses, Project Nos. 2118-006, 2281-005, 2479-003, 2678-001, 2781-004, 2784-001, 4851-004, 5536-001, 5828-003, 7009-004, 10821-002;
3. Application to FERC Seeking Approval Under Section 203 of the Federal Power Act and Related Declaratory Orders Under Section 201 and 305 of the Federal Power Act and Section 12 of the Natural Gas Act, FERC Docket Nos. EC02-31-000, EL02-36-000 and CP02-38-000;
4. Application to FERC for Order Accepting Power Sales Agreement and Interim Code of Conduct, and Waiving Regulations, FERC Docket No. ER02-456-000;
5. Application to FERC for Approval of Agreements Among ETrans, PG&E, and Gen, FERC Docket No. ER02-455-000.

Joshua M. Horowitz

From: Goishi, Kevin [KHG1@pge.com]
S: Monday, July 15, 2002 7:05 PM
T: YCWA/Curt Aikens (E-mail); Joshua M. Horowitz
Cc: Loduca, Janet (Law); Livingston, Randy; Crespo, Diana
Subject: YCWA Agreements

ALL:

I spoke with Randy Livingston this evening in regard to execution of the YCWA FERC Support and Bypass agreements. Randy spoke to me by cell phone literally from the beach at Santa Cruz where he is vacationing this week.

In lieu of making arrangements to get the execution documents to him somewhere in Santa Cruz, Randy gave me authorization to execute the agreements for him so we can get this done tomorrow in Marysville.

KEVIN H. GOISHI

7/26/02 Note: This document is not part of the attached agreement. It is attached for purposes of documenting authorization for K. Goishi's execution of agreement on P&E's behalf. *JK*