



**Pacific Gas and
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March 15, 2005

Mr. Curt Aikens, General Manager
Yuba County Water Agency
1402 D Street
Marysville, CA 95901

Dear Mr. Aikens:

This letter is to confirm that it is Pacific Gas and Electric Company's (the Company) intent to work with Yuba County Water Agency to develop a definitive agreement to modify operations of the Yuba River Development consistent with recent discussions between our staffs. While there are still details to be negotiated, the major points of the conceptual agreement reached to date are outlined in the attachment. We believe that a definitive agreement, based on these concepts, can be finalized within six months and presented to the Company's senior management and YCWA Board for approval.

Based on discussions to date, the Company believes that the modified operations will make YCWA's proposed "Accord," a proposed settlement of litigation regarding the State Water Resources Control Board's (SWRCB) Lower Yuba River proceeding, feasible and benefit our ratepayers at the same time. In comparison to the level of benefits that our ratepayers would receive if SWRCB Decision 1644 were fully implemented, implementation of the Accord, with the modified operations we have discussed, should result in improved benefits through reduced probability of spill and more aggressive operation of reservoir storage.

Kevin Goishi of my staff is available to work with your staff to complete the agreement. Please call me at (415) 973-6950 or Kevin at (530) 889-3304, if you have questions.

Sincerely,

KGoishi:dgs

Attachment

Summary of Contract Modifications for YCWA's Accord

This summary identifies modifications the parties intend to make to the May 13, 1966 Power Purchase Contract (1966 Contract) between Yuba County Water Agency and Pacific Gas and Electric Company to support YCWA's Accord Settlement proposed in lieu of the State Water Resources Control Board's D-1630. The parties intend to diligently pursue development of a formal agreement to implement the modifications described herein.

1. Target Storage – The parties intend to add a “Target Storage” table for New Bullards Bar Reservoir (Bullards Bar) to Appendix D of the 1966 Contract. Whenever the Forecasted Available Water described in Item 2 below is less than the amount listed in Item 2 below for the applicable month, the appropriate Target Storage amount will be used in place of the “critical storage” amount from Appendix D of the 1966 Contract in applying the provisions of Section C-2, A(b)(1).

	Target Storage	Critical Storage (1966 Contract)		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

2. Forecasted Available Water – The determination on whether to use the Critical Storage or the Target Storage to operate Bullards Bar shall be made monthly based on a calculation of Forecasted Available Water. The Forecasted Available Water shall be calculated at the beginning of the month for the months of February, March, April and May each year. The Forecasted Available Water shall be calculated using the appropriate formula from list below.

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

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If the Forecasted Available Water for the month is equal to or greater than the amounts listed below for the respective month, the Critical Storage line shall be used for the purposes of Section C-2, A(b)(1) of the 1966 Contract. If the Forecasted Available Water is less than the amounts listed below for the respective month, the Target Storage line shall be used for the purposes of Section C-2, A(b)(1) of the 1966 Contract.

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

If the Critical Storage line is utilized in May, the Critical Storage line will be used for the following months of June through January. If the Target Storage line is utilized in May, the Target Storage line will be used for the following months of June through January.

3. Term – The parties intend that an agreement (Agreement) to implement the concepts described herein will take effect on execution and terminate coterminous with the 1966 Contract.
4. California Public Utilities Commission (CPUC) Review – YCWA, at its own expense, will support PG&E as necessary in any CPUC review of the Accord-related contract modifications.
5. The parties do not intend to modify or amend any provisions of the 1966 Contract (as previously amended by the July 16, 2002 Agreement Concerning Power Purchase Contract of 1966 and Coordinated Operations of the Narrows 1 and Narrows 2 Powerhouses) except as explicitly described herein.