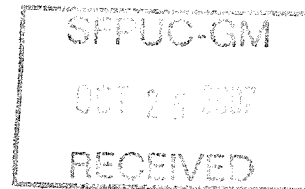


DEPARTMENT OF WATER RESOURCES
CALIFORNIA ENERGY RESOURCES SCHEDULING
P.O. BOX 219001
3310 EL CAMINO AVENUE, SUITE 120
SACRAMENTO, CA 95821-9001
(916) 574-1291



October 23, 2007

Ms. Susan Leal
General Manager
San Francisco Public Utilities Commission
1155 Market Street, 4th Floor
San Francisco, California 94103

Dear Ms. Leal:

The California Department of Water Resources (DWR) references the Power Purchase Agreement (PPA) by and between DWR and the City and County of San Francisco (CCSF) dated December 30, 2002 for power supply from the San Francisco Peaking Project (Project). All capitalized terms used, but not otherwise defined herein, shall have the same meaning given to them in the PPA.

This letter provides notice of DWR's termination of the above-referenced PPA at 5:00 p.m. on Tuesday, November 13, 2007, (Termination Date), twenty-one (21) days following the date of this letter. Section 4.02(1)(c) of the PPA provides in part that:

"Section 4.02. Termination Without Recourse. (1) Optional Termination. In addition to any other termination rights herein, a Party shall have the right, but not the obligation, to terminate the Agreement without the approval of the other Party and without recourse against the other Party for any damages or other costs and without any further obligation or liability of either Party, as follows: ... (c) The Department may terminate this Agreement at any time upon twenty (20) days written notice if ... (iii) Seller fails to enter into EPC contract by the earlier of (1) the date AFC [Application for Certification] submitted by Seller for the Facility is deemed data adequate by the CEC plus three hundred (300) Days, and (2) the date of the CEC final staff assessment plus thirty (30) days."

On February 21, 2006, the CEC issued its final staff assessment concerning the Facility CCSF proposes to construct under the PPA. On October 3, 2006, the CEC granted CCSF a license to build the Facility. As of the date of this letter, CCSF has not entered into an EPC contract, thereby giving DWR the right to terminate the PPA.

It is unfortunate that, despite the combined efforts of the City and State, the construction of the Project has taken considerably longer than was contemplated at the time of execution of the PPA. Earlier this year, DWR indicated that it would forbear from exercising its right to terminate the PPA in order to provide a final opportunity for CCSF Public Utilities Commission and Board of Supervisors to authorize construction of the Project. Unfortunately, the policy makers and community remain undecided. The State respects the deliberative public process that is underway but has decided to cease further participation in efforts to build the Project.

Ms. Susan Leal
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I wish you and the other members of the City and County of San Francisco community that we have come to know during this process the best. Please contact me at (916) 574-2733 in the event you wish to discuss this matter.

Sincerely,



Timothy J. Haines
Deputy Director

cc: Mr. Lester A. Snow
Director
Department of Water Resources
1416 9th Street
Sacramento, CA 95814

Mr. Jesse Blout
Economic Development Director
Mayor's Office of Economic and Workforce Development
City Hall, Room 448
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

Mr. Tony Irons
Deputy General Manager
San Francisco Public Utilities Commission
1155 Market Street, 4th Floor
San Francisco, California 94103