

ATTACHMENT 1

**AGREEMENT OF PACIFIC GAS AND ELECTRIC COMPANY,
MODESTO IRRIGATION DISTRICT, AND MERCED IRRIGATION DISTRICT
REGARDING PG&E'S RATE SCHEDULE E-NMDL AND
ASSOCIATED NONBYPASSABLE CHARGE OBLIGATIONS**

This Agreement (“Agreement”), dated as set forth in the signature block of this Agreement, is by and between Modesto Irrigation District (“Modesto ID”), Merced Irrigation District (“Merced ID”) (collectively, “the Districts”), and Pacific Gas and Electric Company (“PG&E”) (hereafter, “Party” may refer individually to Modesto ID, Merced ID, or PG&E).

I. RECITALS

A. **WHEREAS** the California Public Utilities Commission (“CPUC” or “Commission”) issued a series of decisions in Rulemaking (“R.”) 02-01-011 that require PG&E to bill and collect certain nonbypassable charges (“NBCs”) from certain of the Districts’ electric distribution customers located within PG&E’s service area that PG&E has not served;

B. **WHEREAS** the CPUC also issued decisions implementing PG&E Rate Schedule E-NMDL, entitled “New Municipal Departing Load,” pursuant to which PG&E is required to bill and collect certain NBCs from electric distribution customers that (a) have not been served by PG&E, (b) subsequent to December 20, 1995, located or do locate within PG&E’s service area as it existed on February 1, 2001, and (c) take electric distribution service from a publicly-owned utility (“POU”) (hereafter, “NMDL Customers”);

C. **WHEREAS** PG&E’s Rate Schedule E-NMDL (a) identifies the specific NBCs for which NMDL Customers shall be billed, as well as exemptions from and exceptions to such NBCs, and (b) sets forth the definitions and procedures establishing PG&E’s obligations for billing and collecting such NBCs from NMDL Customers;

D. **WHEREAS** Modesto ID, Merced ID, and other POU’s actively opposed the imposition, billing, and collection of NBCs from NMDL Customers, including challenging the Commission decisions issued in R.02-01-011 and related resolutions and orders;

E. **WHEREAS** PG&E began issuing bills to NMDL Customers pursuant to Rate

Schedule E-NMDL in or around June 2008, including those NMDL Customers who receive electric distribution service from Merced ID and/or Modesto ID;

F. **WHEREAS** issues have arisen concerning PG&E's billing and collection of these charges from NMDL Customers, including those who receive electric distribution service from the Districts;

G. **WHEREAS** in September 2008, at the recommendation of several members of the Legislature, PG&E, Modesto ID, and Merced ID entered into negotiations to resolve the issues surrounding billing and collection of NBCs from NMDL Customers, including by communicating with NMDL Customers, some of whom provided input into the negotiations;

H. **WHEREAS** PG&E, Modesto ID, and Merced ID agree that it is in their respective customers' interests, as well as in the greater public interest, to resolve all issues surrounding the billing and collection of NBCs from NMDL Customers through the Districts' remittance to PG&E of sums that PG&E may apply to the NMDL charges now due and that existing and future NMDL Customers will accrue;

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual terms, obligations, covenants, conditions, and promises contained in this Agreement, PG&E, Modesto ID, and Merced ID (collectively, the "Parties") agree as set forth herein:

II. AGREEMENT TERMS

A. **NMDL Charges Applicable to Existing NMDL Customers.** The Parties agree that current CPUC decisions and implementing Rate Schedule E-NMDL provide that PG&E shall bill and collect the following NBCs from NMDL Customers who (a) have not received electric distribution service from PG&E, (b) located in PG&E's service area as it existed on February 1, 2001, and (c) began taking electric service either from Modesto ID or Merced ID after December 25, 1995 and before February 8, 2008 (hereafter, "Existing NMDL Customers"):

1. Department of Water Resources ("DWR") Bond Charge (as defined in Rate Schedule E-NMDL, Rates 1)

2. Ongoing Competition Transition Charge (as defined in Rate Schedule E-NMDL, Rates 4)
3. Trust Transfer Amount Charge (as defined in Rate Schedule E-NMDL, Rates 5)
4. Nuclear Decommissioning Charge (as defined in Rate Schedule E-NMDL, Rates 6)

B. **NMDL Charges Applicable to New NMDL Customers.** The Parties agree that current CPUC decisions and implementing Rate Schedule E-NMDL require PG&E to bill and collect the following NBCs from NMDL Customers who (a) have not received electric distribution service from PG&E, (b) located or do locate in PG&E's service area as it existed on February 1, 2001, and (c) who take or will take electric service from Modesto ID or Merced ID after February 8, 2008 (hereafter, "New NMDL Customers"):

1. DWR Bond Charge (as defined in Rate Schedule E-NMDL, Rates 1)
2. Nuclear Decommissioning Charge (as defined in Rate Schedule E-NMDL, Rates 6)
3. Trust Transfer Amount Charge (as defined in Rate Schedule E-NMDL, Rates 5)

C. **"Stand-Alone" Service.** The Parties agree that upon CPUC approval of this Agreement, for purposes of compromise and this Agreement only, and with the express understanding that this provision shall not waive any rights of any Party nor set any precedent, that as of November 13, 2007, i.e., the date that the Westley-Tracy transmission line was energized, the NMDL Customers served either by Modesto ID and/or Merced ID shall qualify for the "stand-alone" exemption set forth in Rate Schedule E-NMDL, Special Condition 2.e.

D. **Termination of PG&E's Billing and Collection Obligations.** The Parties agree that upon CPUC approval of this Agreement, PG&E shall be relieved of any obligations to bill

and/or collect the NBCs identified in Paragraphs II.A and/or II.B above from the Existing NMDL Customers and/or the New NMDL Customers who receive electric service from either Modesto ID or Merced ID.

E. **The Districts' Payment Obligations.** The Parties agree that Modesto ID and Merced ID each shall pay PG&E mutually agreed amounts which PG&E ~~may~~ must apply to the NBCs identified in Paragraphs II.A and/or II.B above, that have accrued or will accrue to Existing NMDL Customers and/or New NMDL Customers pursuant to current CPUC decisions and implementing Rate Schedule E-NMDL, subject to the provisions set forth below.

1. **Existing NMDL Customers.** The Parties agree that, for the Existing NMDL Customers who receive electric service from Modesto ID and/or Merced ID, each District shall pay PG&E amounts which PG&E ~~may~~ must apply to the following categories of NBCs:

a. The “retroactive charges,” which consist of the charges accrued to such customers for the period July 10, 2003 through February 7, 2008 (as reduced consistent with Paragraph II.E.1.c hereto), which retroactive charges may be amortized over a 36-month period, and

b. The “ongoing charges,” which consist of the charges accrued to such customers for the period beginning February 8, 2008, until the expiration of the charges in question (as reduced consistent with Paragraph II.E.1.c hereto).

c. The total amounts that the Districts shall pay to PG&E pursuant to this section shall be the amounts that have accrued or will accrue to Existing NMDL Customers for retroactive charges and ongoing charges, as described in Paragraphs II.E.1.a and II.E.1.b above, but reduced by 45% to reflect PG&E’s current collection experiences, combined with the efficiencies associated with Modesto ID and Merced ID paying these amounts, as described in Paragraph II.F. The total amount owed by each District for these charges is set forth in Appendix A hereto.

2. **New NMDL Customers.** The Parties agree that for New NMDL Customers who receive electric distribution service from Modesto ID and/or Merced ID, each District shall pay PG&E amounts which PG&E ~~may~~ must apply only to the “ongoing charges,” which consist of the charges accrued to such customers for the period beginning February 8, 2008, or the date that such customers become New NMDL Customers, whichever is later, until the expiration of the charges in question. The total amounts that the Districts shall pay to PG&E pursuant to this section shall be the amounts that have accrued or will accrue to these New NMDL Customers for ongoing charges, as described in the preceding sentence, but reduced by 40% to reflect PG&E’s expected future collection experience, combined with the efficiencies associated with Modesto ID and Merced ID paying these amounts, as described in Paragraph II.F. The total amount owed by each District for these charges is set forth in Appendix A hereto.

F. **Avoided Costs.** The Parties further agree that, in consideration for the foregoing, PG&E will further reduce the amounts to be paid by Modesto ID and Merced ID pursuant to Paragraph II.E above in accordance with PG&E’s Schedule E-Credit. PG&E shall compensate Modesto ID and Merced ID based on the estimated number of NMDL Customers as of February 1, 2009, as set forth in Appendix A hereto. These amounts shall be credited on a timeframe that is consistent with the Districts’ decisions regarding payments pursuant to Paragraph II.G (i.e., either lump sum or monthly).

G. **Payment.** The Parties agree that the Districts shall pay the above-described amounts to PG&E, consistent with Appendix A, as follows:

1. For Existing NMDL Customers, the Districts shall pay the amounts described in Paragraph II.E.1.a as a lump sum or amortized over a three year period to fully satisfy the NBCs accruing to these NMDL Customers.

2. For Existing NMDL Customers, the Districts shall pay the amounts described in Paragraph II.E.1.b as a lump sum or on a monthly basis for the life of the charges to fully satisfy the NBCs accruing to these NMDL Customers.

3. For New NMDL Customers starting service with Modesto ID and/or Merced ID on or after February 8, 2008 through the date of execution of this Agreement, the Districts shall pay PG&E the amounts described in Paragraph II.E.2 either as a lump sum or amortized over a three year period to fully satisfy the NBCs accruing to these NMDL Customers.

4. For New NMDL Customers starting service with Modesto ID and/or Merced ID after the date of execution of this Agreement, the Districts shall pay PG&E a per customer amount consistent with Paragraph II.E.2 and Appendix B to fully satisfy the NBCs accruing to these NMDL Customers.

5. Further, if either of the Districts chooses to pay the amounts described in Paragraphs II.G.1, II.G.2 and/or II.G.3 above on an amortized basis, but subsequently elects to accelerate such payments and/or to accelerate payment of the per customer amounts described in Paragraph II.G.4 above to resolve all of its obligations under this Agreement, then it may do so pursuant to Appendix B.

H. **No Additional Generation- or Distribution-Related NBCs.** The Parties agree that if PG&E proposes, ~~or if PG&E and~~ is authorized or directed to bill and collect, any new nonbypassable charges related to (a) generation sources in any respect, including without limitation the costs of acquiring the sources or the output of the sources, the costs of refinancing the sources or contracts for the output of the sources, the costs of retiring or laying off the sources or terminating or laying off contracts for the output of the sources, or the costs of renegotiating or assigning contracts for the output of the resources, or (b) distribution facilities or assets, such charges shall not apply to the Districts' NMDL Customers, except as may be required by the Commission or the Legislature.

I. **Release of District Customers.**

1. **Merced ID Customers.** Upon payment by Merced ID of the amounts described herein, PG&E shall release the NMDL Customers who receive electric distribution service from Merced ID from any and all liability for the NBCs otherwise due or that may accrue

pursuant to current CPUC decisions and implementing Rate Schedule E-NMDL.

2. Modesto ID Customers. Upon payment by Modesto ID of the amounts described herein, PG&E shall release the NMDL Customers who receive electric distribution service from Modesto ID from any and all liability for the NBCs otherwise due or that may accrue pursuant to current CPUC decisions and implementing Rate Schedule E-NMDL.

J. Refund of Past NMDL Payments. The Parties agree that PG&E shall refund any payments that Existing and/or New NMDL Customers have already paid to PG&E, pursuant to invoices issued by PG&E under Rate Schedule E-NMDL, as of the effective date of the Commission's approval of this Agreement.

III. ADDITIONAL TERMS

A. Regulatory Approvals.

1. The Parties shall jointly request approval by the CPUC of this Agreement and shall actively support its prompt approval. Active support shall include written and oral testimony if testimony is required, briefing if briefing is required, comments and reply comments on the proposed decision, advocacy to Commissioners and their advisors as needed, and other appropriate means as needed to obtain the requested approval.

2. In the event that the CPUC rejects or modifies this Agreement, the Parties reserve their rights under CPUC Rule 12.4. Should the CPUC approve this Agreement subject to modifications or conditions, the Parties agree to meet and confer concerning whether such modifications or conditions are acceptable.

3. The Parties also shall jointly present this Agreement to the California Department of Water Resources for its approval as necessary.

B. Compromise of Litigation Positions. This Agreement represents a compromise of the Parties' respective litigation positions, not agreement to or endorsement of disputed facts and/or law presented by any party in any proceedings, including but not limited to, R.02-01-011 and its related advice letter proceedings. This Agreement does not constitute precedent

regarding any principle and/or issue in any future proceedings, including but not limited to R.02-01-011 and its related advice letter proceedings, or any other proceedings relating to the NBCs identified in implementing Rate Schedule E-NMDL which were authorized by the Commission.

C. **Dispute Resolution.** In the event of a disagreement between the Parties arising out of this Agreement (“Disagreement”), then:

1. **Notice.** The Party alleging a Disagreement (“Alleging Party”) shall provide written notice to the other Party (“Responding Party”) in which it sets forth the facts giving rise to the Disagreement (“Notice”). Within 15 days of receipt of such Notice, the Responding Party shall respond in writing to the allegations set forth in the Alleging Party’s notice (“Response”).

2. **Meet and Confer.** If the Parties have not resolved the Disagreement within 15 days of the Response, then business-persons from PG&E and the involved District(s) with sufficient authority to resolve the Disagreement shall meet and confer in person (the “Business-Person Meet and Confer”) to discuss and in good faith attempt to resolve the Disagreement. Any Party, or all Parties, may choose to have counsel attend the Business-Person Meet and Confer, but attendance of counsel shall not be mandatory.

3. **Voluntary Mediation.** If the Parties do not resolve the Disagreement during the Business-Person Meet and Confer, or within 10 days thereafter, PG&E and the involved District or Districts shall in good faith discuss whether to retain a mediator to help the Parties attempt to resolve the Disagreement; however, neither Party shall be obligated to enter into mediation. In the event that the Parties do in fact choose to mediate the Disagreement, then they shall bear equally the costs of such mediation.

D. **Termination.**

1. This Agreement shall terminate upon any of the following:

a. The Governor’s enactment of an Executive Order providing that all of the NBCs described in PG&E Rate Schedule E-NMDL do not apply to NMDL Customers,

provided however that the Parties agree that they shall neither lobby the Governor (including but not limited to his staff and advisers) nor cause others to lobby the Governor (including but not limited to his staff and advisers) to effectuate such change; or

b. The Legislature's enactment of any statute(s) providing that all of the NBCs described in PG&E Rate Schedule E-NMDL do not apply to NMDL Customers, provided however that the Parties agree that they shall neither lobby the Legislature (including but not limited to legislators, their staffs, and their advisers) nor cause others to lobby the Legislature (including but not limited to legislators, their staffs, and their advisers) to effectuate such change; or

c. The CPUC's issuance of a decision providing that all of the NBCs described in PG&E Rate Schedule E-NMDL do not apply to NMDL Customers, provided however that the Parties agree that they shall neither lobby the CPUC nor cause others to lobby the CPUC to effectuate such change;

d. The issuance of a decision by a court or other tribunal with proper jurisdiction (i.e., over the NBCs described in PG&E Rate Schedule E-NMDL) (hereafter, "Tribunal") providing that all of the NBCs described in PG&E Rate Schedule E-NMDL do not apply to NMDL Customers; or

e. The CPUC's rejection of this Agreement, or modification of this Agreement in a manner that is unacceptable to the Parties, consistent with Paragraph III.A.2, *supra*.

2. If a new law (including but not limited to an Executive Order, statute, CPUC decision, or Tribunal decision) issues that provides that fewer than all of the NBCs described in PG&E Rate Schedule E-NMDL do not apply to NMDL Customers, then this Agreement shall remain in effect to the extent that any such NBCs continue to accrue to NMDL Customers of the Districts.

E. **Confidentiality.** The Parties hereby acknowledge and agree that the information

and documents that the Parties and/or their representatives have exchanged in the course of negotiating, drafting, and/or executing this Agreement are subject to CPUC Rule 12.6, “Confidentiality and Inadmissibility,” and shall remain confidential hereafter.

F. **Limited Publicity and Disclosure.**

1. The Parties acknowledge that this Agreement and the terms thereof are, once executed, a public record. The Parties agree that they shall not voluntarily publicize this Agreement or the terms thereof. The Parties further agree that to the extent they are asked to comment on the Agreement or its terms by any media outlet (whether print, television, radio, or Internet-based source), they will state in substance only that the matter was resolved to the satisfaction of both Parties.

2. **Limited Use/Disclosure.** The Parties expressly agree that in the absence of CPUC approval of this Agreement, no Party may use and/or refer to another Party’s agreement herein in any manner whatsoever, including but not limited to litigation and/or regulatory review thereof.

G. **Mutual Releases; Scope of Releases.**

1. Upon CPUC approval of this Agreement, Modesto ID does for itself, its officers, directors, agents, employees, attorneys, consultants, representatives, affiliates, predecessors, successors and assigns hereby release and forever discharge PG&E and its shareholders, officers, directors, agents, employees, attorneys, consultants, representatives, parent corporation, subsidiaries, affiliates, predecessors, successors and assigns from any and all claims, demands, causes of action, obligations or liabilities of any nature whatsoever (including attorneys’ fees and costs of suit), whether known or unknown, which, as of the date of this Agreement, it ever had or now has against PG&E relating to the issues surrounding the billing and collection, pursuant to current Commission decisions and implementing Rate Schedule E-NMDL, of NBCs from NMDL Customers, including, without limiting the generality of the foregoing, all such claims, demands, causes of action, obligations or liabilities which in any way

relate to or arise out of any action, omission, representation, or proceeding with respect to the matters which were raised or which could have been raised by the Parties related to issues surrounding the billing and collection of NBCs from NMDL Customers .

2. Upon CPUC approval of this Agreement, PG&E does for itself, its shareholders, officers, directors, agents, employees, attorneys, consultants, representatives, parent corporation, subsidiaries, affiliates, predecessors, successors and assigns hereby release and forever discharge Modesto ID and its officers, directors, agents, employees, attorneys, consultants, representatives, affiliates, predecessors, successors and assigns from any and all claims, demands, causes of action, obligations or liabilities of any nature whatsoever (including attorneys' fees and costs of suit), whether known or unknown, which, as of the date of this Agreement, it ever had or now has against Modesto ID relating to the issues surrounding the billing and collection, pursuant to current Commission decisions and implementing Rate Schedule E-NMDL, of NBCs from NMDL Customers, including, without limiting the generality of the foregoing, all such claims, demands, causes of action, obligations or liabilities which in any way relate to or arise out of any action, omission, representation, or proceeding with respect to the matters which were raised or which could have been raised by the Parties related to issues surrounding the billing and collection of NBCs from NMDL Customers.

3. Upon CPUC approval of this Agreement, Merced ID does for itself, its officers, directors, agents, employees, attorneys, consultants, representatives, affiliates, predecessors, successors and assigns hereby release and forever discharge PG&E and its shareholders, officers, directors, agents, employees, attorneys, consultants, representatives, parent corporation, subsidiaries, affiliates, predecessors, successors and assigns from any and all claims, demands, causes of action, obligations or liabilities of any nature whatsoever (including attorneys' fees and costs of suit), whether known or unknown, which, as of the date of this Agreement, it ever had or now has against PG&E relating to the issues surrounding the billing and collection, pursuant to current Commission decisions and implementing Rate Schedule E-

NMDL, of NBCs from NMDL Customers, including, without limiting the generality of the foregoing, all such claims, demands, causes of action, obligations or liabilities which in any way relate to or arise out of any action, omission, representation, or proceeding with respect to the matters which were raised or which could have been raised by the Parties related to issues surrounding the billing and collection of NBCs from NMDL Customers.

4. Upon CPUC approval of this Agreement, PG&E does for itself, its shareholders, officers, directors, agents, employees, attorneys, consultants, representatives, parent corporation, subsidiaries, affiliates, predecessors, successors and assigns hereby release and forever discharge Merced ID and its officers, directors, agents, employees, attorneys, consultants, representatives, affiliates, predecessors, successors and assigns from any and all claims, demands, causes of action, obligations or liabilities of any nature whatsoever (including attorneys' fees and costs of suit), whether known or unknown, which, as of the date of this Agreement, it ever had or now has against Merced ID relating to the issues surrounding the billing and collection, pursuant to current Commission decisions and implementing Rate Schedule E-NMDL, of NBCs from NMDL Customers, including, without limiting the generality of the foregoing, all such claims, demands, causes of action, obligations or liabilities which in any way relate to or arise out of any action, omission, representation, or proceeding with respect to the matters which were raised or which could have been raised by the Parties related to issues surrounding the billing and collection of NBCs from NMDL Customers.

5. Each of the Parties expressly acknowledges that it may have claims against another Party, of which claim(s) it is currently unaware, and nevertheless agrees that this Agreement is intended to and does extend to any and all claims it may have against that other Party, whether known or unknown, that arise from the issues surrounding the billing and collection, pursuant to current Commission decisions and implementing Rate Schedule E-NMDL, of NBCs from NMDL Customers, and the matters alleged in connection therewith. As a further inducement and consideration, and subject to the foregoing exception, Merced ID,

Modesto ID, and PG&E each expressly and specifically waive any rights or benefits available to them under California Civil Code section 1542, which provides:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

6. None of the releases contained in this Agreement is intended to release any Party from any obligation or undertaking called for or to be performed pursuant to this Agreement, all of which obligations and undertakings shall survive the execution and delivery hereof.

H. **Notice; Consent.** Each Party represents and warrants that it has given any and all notices, and obtained any and all consents, powers and authorities, necessary to permit it and the persons executing this Agreement for it, to enter into this Agreement, settle, compromise, and release the claims settled, compromised, and released herein, to do, undertake, or forebear from any act called for herein, and to make this Agreement, and all the provisions hereof, fully binding on and enforceable against that Party, including, without limitation thereto, any necessary notice to or consent or approval from its shareholders, creditors, Board of Directors, partners, members, managers, officers, or any similar person, entity, group or body, except that the Parties expressly acknowledge that approval of this Agreement must be obtained from the Commission as set forth in greater detail above.

I. **Mutual Understanding of Effect of Agreement.** Each of the Districts and PG&E acknowledges that the valuable consideration that each is exchanging through the resolution of the issues surrounding the billing and collection of NBCs from NMDL Customers and by way of this Agreement is solely for the purpose of purchasing peace and preventing further involvement in protracted litigation between them. Based on this mutual understanding, the Parties agree as follows:

1. The Parties agree that at this time and under the circumstances, this Agreement is reasonable in light of the information shared by the Parties, consistent with law, and in the public interest.

2. Neither the payment of money nor the provision of any other consideration is or shall be construed to be an admission that any of the claims compromised or released by this Agreement is valid.

3. Neither the existence of this Agreement, nor any element hereof, including but not limited to the component duties, obligations, actions, settlements, and agreements provided for in the Agreement, shall constitute or be deemed to constitute a precedent or have any precedential effect in any contested matter and/or proceeding, including but not limited to judicial, regulatory, administrative, quasi-judicial and/or quasi-legislative proceedings, regardless of whether such proceeding is of federal, state, or local jurisdiction.

4. The Parties agree that neither shall use this Agreement nor any element hereof, including but not limited to the component duties, obligations, actions, settlements, and agreements provided for in the Agreement, as evidence respecting any fact, right, obligation, or alleged liability of either Party or the customers of either Party, except as may be required in an action to enforce the terms of this Agreement.

J. **Waiver.** A waiver of any provision of this Agreement shall not be effective unless such a waiver is made expressly in writing. An express waiver of any one breach shall not be deemed a waiver of any other breach of the same or any other provision of this Agreement.

K. **Representation by Counsel.** Each Party represents that it has been represented by counsel of its own choosing regarding the preparation and negotiation of this Agreement and all the matters and claims set forth herein, and that each of them has read this Agreement and is fully aware of its contents and its legal effect.

L. **Notice.** Delivery of formal notices may be accomplished by hand, via electronic

transmission (including but not limited to electronic mail and/or facsimile transmission), by overnight delivery service or courier service, and/or by depositing the item into the United States Mail with the correct address set forth on the envelope and proper postage appended thereto, as follows:

1. To Modesto Irrigation District:

MODESTO IRRIGATION DISTRICT
Office of the General Manager
1231 11th Street
Modesto, CA 95354
Email: allens@mid.org

2. To Merced Irrigation District:

MERCED IRRIGATION DISTRICT
Office of the General Manager
P.O. Box 2288
Merced, CA 95344-0288
Email: dpope@mercedid.org

3. To Pacific Gas and Electric Company:

PACIFIC GAS AND ELECTRIC COMPANY
Attn: David Rubin
P.O. Box 7442
San Francisco, CA 94120
Email: DER1@pge.com

and

PACIFIC GAS AND ELECTRIC COMPANY
Attn: Ann Kim
P.O. Box 7442
San Francisco, CA 94120
Email: AHK4@pge.com

M. Interpretation of Agreement. The language of all parts of this Agreement shall in all cases be construed as a whole, according to its fair meaning, and not strictly for or against any Party. No presumptions or rules of interpretation based upon the identity of the Party

preparing or drafting the Agreement, or any part thereof, shall be applicable or invoked. In addition, each provision of this Agreement shall be interpreted in such a manner as to be valid and enforceable under applicable law, but if any provision hereof shall be or become prohibited or invalid under any applicable law, that provision shall be ineffective only to the extent of such prohibition or invalidity, without thereby invalidating the remainder of that provision or of any other provision hereof.

N. **Choice of Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of California.

O. **Integrated Agreement.** This Agreement constitutes the entire agreement among the Parties and that this Agreement supersedes all prior understandings or agreements with respect to its subject matter.

P. **Amendment.** This Agreement may not be altered, amended, modified or otherwise changed, except in writing duly executed by authorized representatives of each of the Parties and approved by the CPUC.

Q. **Execution By Counterparts.** This Agreement may be executed in counterparts, which taken together, shall constitute an original. Facsimiles of original pages shall be binding on the Parties to the Agreement. The Parties shall exchange original signed counterparts as soon as possible.

R. **Benefit of Agreement.** This Agreement is made solely for the benefit of the Parties and it is not made for the benefit of any person, firm, association, corporation, or public entity that is not a Party hereto; and no person, firm, association, corporation or public entity other than the Parties shall have any right to enforce this Agreement.

S. **Authority to Sign and Implement Agreement.** Each Party represents and warrants that it has the necessary Board, corporate, and/or legal authority to enter into this Agreement and to perform each and every duty and obligation provided for herein, and that this Agreement, when executed by the duly authorized representatives of each Party, represents a

valid, binding, and enforceable legal obligation on each Party. Each individual affixing a signature to this Agreement represents and warrants that he or she is duly authorized to execute this Agreement on behalf of the Party represented, and that by signing this Agreement, a valid, binding and enforceable legal obligation of said Party has been created.

IV. EXECUTION

This document may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement shall become effective among the Parties on the date the last Party executes the Agreement, as indicated below. In witness whereof, intending to be legally bound, the Parties hereto have duly executed this Agreement on behalf of the Parties they represent.

The undersigned represent that they are authorized to sign on behalf of the Party represented.

Pacific Gas and Electric Company

By: _____

Title: _____

Date: _____

The undersigned represent that they are authorized to sign on behalf of the Party represented.

Modesto Irrigation District

By: _____

Title: _____

Date: _____

The undersigned represent that they are authorized to sign on behalf of the Party represented.

Merced Irrigation District

By: _____

Title: _____

Date: _____

APPENDIX A

MODESTO ID		RETROACTIVE CHARGES					ONGOING CHARGES FROM 4/1/08 (LUMP-SUMNPV)					
		DWR Bond	CTC	ND	TTA	Total	DWR Bond	CTC	ND	TTA	NEW WORLD	Total
Existing NMDL	Res	\$78,866	\$66,577	\$6,747	\$94,058	\$246,248	\$290,085	\$0	\$21,427	-\$14,027		\$297,485
	Non-Res	\$37,669	\$30,183	\$2,848	\$8,449	\$79,148	\$95,914	\$0	\$7,085	-\$1,186		\$101,813
New NMDL	Res						\$24,324	\$0	\$1,813	-\$902		\$25,235
	Non-Res						\$651	\$0	\$49	-\$24		\$676
Total		\$116,535	\$96,759	\$9,594	\$102,507	\$325,396	\$410,975	\$0	\$30,374	-\$16,139	\$0	\$425,210
											NBC Total	\$750,606
											E-Credits	\$259,955
											Total	\$490,651
MERCED ID		RETROACTIVE CHARGES					ONGOING CHARGES FROM 4/1/08 (LUMP-SUMNPV)					
		DWR Bond	CTC	ND	TTA	Total	DWR Bond	CTC	ND	TTA	NEW WORLD	Total
Existing NMDL	Res	\$117,636	\$103,660	\$10,853	\$147,216	\$379,365	\$582,067	\$0	\$42,995	-\$28,146		\$596,915
	Non-Res	\$99,590	\$84,370	\$7,952	\$20,142	\$212,054	\$304,985	\$0	\$22,528	-\$2,952		\$324,561
New NMDL	Res						\$93,384	\$0	\$6,976	-\$3,200		\$97,160
	Non-Res						\$2,982	\$0	\$222	-\$120		\$3,084
Total		\$217,226	\$188,031	\$18,805	\$167,358	\$591,419	\$983,418	\$0	\$72,720	-\$34,417	\$0	\$1,021,721
											NBC Total	\$1,613,140
											E-Credits	\$569,453
											Total	\$1,043,687
TOTAL		RETROACTIVE CHARGES					ONGOING CHARGES FROM 4/1/08 (LUMP-SUMNPV)					
		DWR Bond	CTC	ND	TTA	Total	DWR Bond	CTC	ND	TTA	NEW WORLD	Total
Existing NMDL	Res	\$196,502	\$170,237	\$17,600	\$241,274	\$625,613	\$872,152	\$0	\$64,422	-\$42,173		\$894,401
	Non-Res	\$137,259	\$114,553	\$10,799	\$28,591	\$291,203	\$400,899	\$0	\$29,613	-\$4,138		\$426,374
New NMDL	Res						\$117,708	\$0	\$8,789	-\$4,102		\$122,395
	Non-Res						\$3,634	\$0	\$271	-\$144		\$3,760
Total		\$333,761	\$284,790	\$28,399	\$269,865	\$916,816	\$1,394,393	\$0	\$103,094	-\$50,556	\$0	\$1,446,930
											NBC Total	\$2,363,746
											E-Credits	\$829,408
											Total	\$1,534,338

APPENDIX BPer Customer Amount

For New NMDL Customers starting service with Modesto ID and/or Merced ID after the date of execution of this Agreement, the Districts shall pay PG&E a per customer amount consistent with Paragraph II.E.2 to fully satisfy the NBCs accruing to these NMDL Customers. For example, the per-customer amounts for customers connecting in 2010 are reflected in the table below. These amounts are arrived at by calculating the net present value of the remaining applicable NBC obligations, which are then reduced by 40% to reflect PG&E's expected future collection experience, and further reduced by the efficiencies associated with the District paying these amounts by netting out the avoided costs in accordance with PG&E's Schedule E-Credit.

Table

Per Customer NPV Lump-Sum Amounts	DWR Bond	ND	TTA	Total	40% Discounted Total	E-Credit Discount	Discounted Total
Residential	\$205	\$16	-\$2	\$219	\$132	(\$88)	\$43
Small Commercial	\$558	\$44	-\$5	\$596	\$358	(\$131)	\$227
Medium Commercial	\$7,310	\$575	N/A	\$7,885	\$4,731	(\$332)	\$4,398
E-19S	\$32,811	\$2,579	N/A	\$35,390	\$21,234	(\$1,110)	\$20,124
E-20S	\$423,475	\$33,286	N/A	\$456,762	\$274,057	(\$2,938)	\$271,119

Lump Sum Amount

Each District will have the option to settle its NBC obligations for all future New NMDL Customers at once, on a forecast basis. In such case, PG&E and the District so choosing will work to develop a mutually agreed-upon forecast of New NMDL Customers (by class) expected to take service with the District over the

remaining period of the applicability of the charges owed. Using the agreed-upon forecasts, PG&E will calculate the net present value (NPV) of the lump-sum NBC obligations for each annual cohort of customers. For example, if a District were to make such a request beginning in 2014, the District's NBC obligations would be determined for customers starting service in 2014, 2015, 2016, etc, from their expected start date and until the expiration of each charge, which would then be present valued further, to 2014 in this case. The grand-total would then be reduced by 40% to reflect PG&E's expected future collection experience, combined with the efficiencies associated with the District paying these amounts by netting out the avoided costs in accordance with PG&E's Schedule E-Credit.