EXHIBIT C

SETTLEMENT PRINCIPLES FOR REMITTANCES AND SURPLUS REVENUES

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This Exhibit C outlines the principles by which Utility will calculate revenues associated with surplus energy sales and DWR energy delivered to retail customers. This Exhibit C also addresses the information that Utility will provide to DWR to support DWR payment of Contract invoices, and invoices from natural gas supplier(s) for fuel provided to service DWR Contracts where tolling options have been implemented.

This Exhibit C works in conjunction with the applicable Servicing Arrangement with Utility for purposes of determining the remittance amounts by Utility, which will serve as DWR's billing and collection agent.

In accordance with the Contract Allocation Order[1], this Exhibit C provides that:

- Revenues will be allocated for both surplus sales and retail customer deliveries
- Revenues will be allocated pro rata, based on dispatched quantities of energy
- The principle of balancing least cost economic dispatch while maintaining reliability is reinforced through these revenue allocation protocols.
- Surplus sales quantities will be calculated as the difference between Utility's Energy Delivery Obligations (EDO) and the combination of energy from URG and energy dispatched from Allocated Contracts.

Utility's Energy Delivery Obligations is defined as: (1) Utility's retail load[2], (2) all pump-back loads existing as of the date of this order, (3) energy return obligations under exchange transactions between Utility and counter parties and energy sales obligations existing as of the date of this order, and (4) transmission losses.

The principles herein, together with the applicable methods and calculations contained in the Servicing Arrangement, form a substantive component of the accounting protocols required to implement the Contract Allocation Order. This Exhibit should also be read in conjunction with Exhibit F ("Data Requirements").

[1] Contract Allocation Order is CPUC Decision (D.) 02-09-053.

[2] PG&E retail load obligations per CPUC May 2002 Service Order (D.02-05-048) includes Western Area Power Administration (WAPA) load, although this is not retail load.

Utility Remittance to DWR

Utility shall remit to DWR an Energy Payment for the delivery of Contract energy to Utility retail customers and a separate payment for DWR's share of Surplus Energy Sales Revenues. The principles for the remittances to DWR of Surplus Energy Sales Revenue and Energy Payment are contained in Sections A and B of this Exhibit C, respectively. The details for determination of the remittances to DWR by Utility are contained in the Servicing Arrangement between the Utility and DWR.

A. Utility Remittance to DWR of Revenue from Surplus Energy Sales

Surplus Energy and Revenues

Surplus energy exists when dispatched supply from Utility portfolio and DWR Contracts exceeds Utility's Energy Delivery Obligations. When such a condition exists, the revenues from the sale of surplus energy shall be shared between Utility and DWR. Surplus sale revenues can occur either through a forward market sale or a delivery of the excess energy into the ISO real time market. In addition to the sharing of surplus energy revenues, the quantity of any surplus energy shall likewise be shared between Utility and DWR, and used in the determination of the Hourly Percentage Factor described in Section I.(B).

Surplus Energy Quantity

The Surplus Energy quantity shall be determined by subtracting Utility's Energy Delivery Obligations from the sum of dispatched Utility Supply and dispatched DWR Supply. Utility Supply shall include dispatched energy from URG, new Utility contracts and Utility market purchases net of adjustments described below. DWR Supply shall include dispatched energy from DWR must take and dispatchable contracts net of adjustments described below.

DWR Surplus Energy quantity shall be the product of Surplus Energy quantity multiplied by the DWR Surplus Energy Percentage. Utility Surplus Energy quantity shall be the remaining portion of Surplus Energy. Both Utility and DWR Surplus Energy quantities shall be applied to the respective Party's energy supply quantities for determination of the Hourly Percentage Factor described in Section (B).

Surplus Energy Sales Revenues

Surplus Energy Sales Revenues shall be shared between Utility and DWR in the same manner as Surplus Energy. All shared revenues shall be net of any costs associated with the sale, such as transmission costs and broker fees. ISO Charges incurred after the effective date will be allocated to the Utility, consistent with Exhibit D.

Forward Market Sale

DWR share of revenues from a forward market sale of surplus energy shall be the product of the net revenue multiplied by the DWR Surplus Energy Percentage. Utility share of these revenues shall be net revenue less DWR share of net revenues. Revenues from a forward market sale shall not be distributed to DWR until after Utility receives the revenues from the sales and pays sale-related charges.

ISO Real Time Market Sales

Revenues from delivery of surplus energy to the ISO real time market shall be determined from the product of the positive load or supply deviation multiplied by the ISO real time market price. These revenues will be netted against any ISO charges related to the load or supply deviation, including a negative ISO price. Load deviation is determined by subtracting Final Hour Ahead Load Schedule from Utility metered load, however only positive quantities, where schedule exceeds meter, reflect surplus conditions for revenue sharing. Supply deviation is determined by subtracting final hour ahead supply schedule from metered generation for all resources; however, only positive quantities, where meter exceeds schedule, reflect surplus conditions for revenue sharing.

DWR share of revenues from delivery of surplus energy to ISO real time market shall be the product of the net revenues multiplied by the DWR Surplus Energy Percentage. Utility share of these net revenues shall be the net revenue less DWR share of net revenues. DWR's share of net revenues from delivery of surplus energy to the ISO real-time market shall not be distributed to DWR until after the final monthly invoice from the ISO is due for the month in which the surplus energy was delivered.

Over-generation Periods

During periods of over-generation, surplus sales may be made at very low, zero or even negative prices. In such conditions, the surplus sale revenue calculations as described above still hold. However it is recognized that the sales may result in little or no revenue. Sales could even be done at a cost to the seller. That seller could be Utility or the ISO selling in an "out-of-market" condition. During these conditions, ISO-related charges assigned to Utility for such sales (e.g. – ISO selling out-of-market) are included in the surplus sales revenue as a cost. During over-generation conditions there may be no market in which to sell surplus energy. In that event, or in expectation of that event, Utility shall declare that no valid market exists for surplus energy and shall begin curtailing must-take resources in accordance with Utility's procedures for mitigating over-generation conditions. Such mitigation measures shall be consistent with good utility practice, specifically hydroelectric facilities at spill or near-spill conditions and nuclear facilities scheduled by Utility are the last resources to be reduced in power output.

DWR Surplus Energy Percentage shall be equal to the ratio of DWR Supply to the sum of Utility Supply and DWR Supply, expressed as follows:

DWR Surplus Energy Percentage = DWR Supply / (Utility Supply + DWR Supply)

Where:

DWR Supply is total energy dispatched from DWR Allocated Contracts with adjustments for transmission losses. Ancillary Services and ISO Instructed Energy transactions described below.

Utility Supply is total energy dispatched from URG, new Utility contracts and Utility market purchases with adjustments for Ancillary Services and ISO Instructed Energy, exchange transactions, negative load deviations and supply deviations as described below, and with deductions for existing energy sales transactions and utility pump-back load as of the date of this Operating Order, PG&Es WAPA load, and transmission losses.

Definitions and Adjustments

Certain energy and capacity transactions, which may be conducted by Utility in its normal course of business, may affect the Utility and DWR Supply quantities used in pro rata calculations.

> Exchanges are transactions where energy is delivered to a third party in one period and a similar, but not necessarily equal, amount of energy is returned by third party in a different period. For the purposes of remittance determination, exchanges existing as of the date of the Operating Order are excluded from the calculation of surplus sales. New exchanges use energy from the Utility's URG.
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> Forward Sales are transactions where energy is sold in a forward market to balance supply with demand. In general, for the purposes of remittance determination, forward sales are made using energy from the joint Utility/DWR portfolio.

Ancillary Services are transactions where capacity from certain qualifying resources is sold to ISO for ancillary services rather than being used as energy to serve retail load. Resources from both Utility portfolio and DWR Contracts may qualify for use as ancillary services. Since the capacity used for ancillary services does not serve retail energy load, ancillary service capacity is not considered as a joint Utility/DWR portfolio transaction for the purpose of remittance determination. If Utility or DWR Contract resource capacity is used for ancillary services, the capacity quantity will not be included in the supply quantity of the owning party for the purpose of pro rata share calculations, and owning party will retain all the revenues from the ancillary services as well as all associated transaction costs and ISO charges. Energy from dispatched ancillary services is treated in the following manner, which is intended to mirror the ISO's treatment of such Energy: (a) Energy from dispatched Spin, Non-Spin, or Replacement Reserves is treated as ISO instructed Energy (see below); (b) Energy from dispatched Regulation UP or Regulation Down is treated as Uninstructed Supply Deviations (see below).

Positive ISO Instructed Energy is a transaction where certain qualifying resources are able to sell energy from unused capacity to the ISO in the real time market. The energy delivered from these resources is directed by the ISO in real time to balance supply and load imbalances on the grid. Either Utility portfolio or DWR Contracts may contain resources that have ability to provide instructed energy to ISO. Since instructed energy is resource specific and does not directly serve the retail load of any utility, instructed energy is not considered as a joint Utility/DWR portfolio transaction for the purpose of remittance determination. If Utility or DWR Contract resources are dispatched as instructed energy, the energy quantity will not be included in the supply quantity of the owning party for the purpose of pro rata share calculations, and owning party will retain all the revenues from the instructed energy as well as all associated transaction costs and ISO charges.

Negative ISO Instructed Energy is the purchase of energy from the ISO to replace energy that a Utility or DWR resource was scheduled to generate, but did not generate due to the ISO's award of a bid to reduce generator output, Negative ISO Instructed Energy is considered to be Utility Supply for Utility URG replacement purchases and DWR Supply for DWR Contract replacement purchases.

ISO Uninstructed Energy is a transaction where energy is delivered or received from the ISO grid in the real time based on the actual consumption of retail load and actual deliveries of supply resources. ISO Uninstructed Energy shall be treated as described below for Uninstructed Load and Uninstructed Supply Deviations.

Uninstructed Load Deviations

Uninstructed Load Deviations are the difference between scheduled load and metered load. If load deviations are positive (schedule exceeds meter), it is considered that excess supply was dispatched from the joint Utility/DWR portfolio in excess of quantity needed to serve retail load, and that the ISO credit for the excess supply should be shared pro rata as described above. If load deviations are negative (meter exceed schedule), it is considered that Utility had to procure additional supply from ISO real time market. The negative load deviation quantity procured from ISO real time market is considered a Utility market purchase and the quantity will be included in Utility Supply for pro rata share calculation purposes.

Uninstructed Supply Deviations

Uninstructed Supply Dviations are the difference between scheduled supply and metered supply plus an ISO allocation for transmission losses. If supply deviations are positive (meter exceeds schedule), it is considered that excess supply was dispatched from the joint Utility/DWR portfolio in excess of the quantity needed to serve retail load, and that the ISO credit for the excess supply should be shared pro rata as described above. If supply deviations are negative (schedule exceeds meter), it is considered that Utility had to procure additional supply from the ISO real time market. The negative supply deviation quantity procured from the ISO real time market is considered a Utility market purchase and the quantity will be included in Utility Supply for pro rata share calculation purposes.

B. Utility Remittance to DWR for Sales of DWR Energy to Utility Retail Customers –Energy Payment

Utility shall remit to DWR its Energy Payments according to the terms of each Utility's respective Servicing Arrangement.

The DWR Energy Payment is billed by each utility to customers in accordance with the terms of each applicable Utility Servicing Arrangement. The DWR Energy Payment is billed kWhs served by Net DWR Supply at the applicable CPUC approved DWR rate, less uncollectibles as established by the respective Servicing Arrangement. Net DWR Supply is total DWR Supply less DWR share of surplus energy. The DWR Energy Payment is allocated based on the percentage of

energy supplied by DWR to Utility, which is the "Hourly or Daily Percentage Factor" multiplied by the retail load billed to customer. The Hourly or Daily Percentage Factor is determined by calculating the percentage of net energy supplied by DWR to Utility to serve retail load, as expressed below over the relevant time period, as further described in the Utility Servicing Agreement:

Hourly Percentage Factor = Net DWR Supply / (Net Utility Supply + Net DWR Supply)

Net DWR Supply + True-Up for Prior Period (For SCE) Daily Percentage Factor = Estimate of Bundled Customer Usage

Where:

Net DWR Supply is DWR Supply quantity used for the determination of DWR Surplus Energy Percentage less DWR share of surplus energy quantity, which is determined by the product of surplus energy multiplied by DWR Surplus Energy Percentage.

Net Utility Supply is Utility Supply quantity used for the determination of DWR Surplus Energy Percentage less Utility share of surplus energy quantity, which is total surplus energy less the DWR share of surplus energy quantity.

True-Up for Prior Period and Estimate of Bundled Customer Usage are defined in Utility's Servicing Arrangement.

In the Event of any conflict between the formulas and procedures in this Exhibit C and the formulas and procedures in Utility's Servicing Arrangement, those contained in Utility's Servicing Arrangement shall govern.

II. Bilateral Settlement

Under the Contract Allocation Order DWR remains financially obligated for the Contracts. DWR will continue to pay suppliers and this requires DWR to apply appropriate procedures and controls to ensure that payments are made accurately and in a timely manner. Information supporting Contract settlements will be provided by Utility, and additional information may also be required to address contract performance issues (such as availability and other items as discussed in Exhibit E) and to allow DWR to settle disputes in an appropriate manner.

DWR requires sufficient information to support payment requests so that it can meet the accountability requirements of the State Controller's Office and the State Auditor, and simultaneously comply with the applicable statutes concerning disbursement of public monies. The Utility shall calculate and transmit the

bilateral settlements with Contract counterparties to DWR. DWR shall make the associated payments to suppliers, and Utility will provide the data as required in Exhibit F to allow it to perform these duties in a timely manner as set forth herein.

DWR shall continue to pay Contract costs directly to the suppliers upon validation of invoices.

III. Fuel Cost Verification and Settlement

Exhibit B provides a detailed discussion concerning Utility's responsibility for fuel management. DWR will continue to pay fuel suppliers and others involved in providing fuel management services for the delivery of fuel for those DWR Contracts where the Fuel Option has been elected. Utility will comply with the requirements contained in Exhibit F to provide DWR with the necessary information to apply appropriate procedures and controls to ensure that fuel payments and payments for fuel management services are made accurately and in a timely manner and to allow DWR to settle disputes in an appropriate manner.