

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001

COMMISSION FILE NO.	REGISTRANT AND STATE OF INCORPORATION ADDRESS AND TELEPHONE NUMBER	IRS EMPLOYER IDENTIFICATION NO.
333-47647	American States Water Company (A California Corporation) 630 East Foothill Boulevard San Dimas, California 91773-9016 909-394-3600	95-4676679
000-01121	Southern California Water Company (A California Corporation) 630 East Foothill Boulevard San Dimas, California 91773-9016 909-394-3600	95-1243678

Indicate by check mark whether Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

American States Water Company	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
Southern California Water Company	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of August 14, 2001, the number of Common Shares outstanding, No Par Value with Stated Value of \$2.50, of American States Water Company was 10,079,629 all of which are listed on the New York Stock Exchange.

As of August 14, 2001, all of the 110 outstanding Common Shares of Southern California Water Company are owned by American States Water Company.

AMERICAN STATES WATER COMPANY  
AND  
SOUTHERN CALIFORNIA WATER COMPANY  
FORM 10-Q  
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## PART I

## ITEM 1. FINANCIAL STATEMENTS

## General

The basic financial statements included herein have been prepared by Registrant, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission.

Certain information and footnote disclosures normally included in financial statements, prepared in accordance with generally accepted accounting principles, have been condensed or omitted pursuant to such rules and regulations, although Registrant believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments necessary for a fair statement of results for the interim period have been made.

It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto in the latest Annual Report on Form 10-K of American States Water Company.

## Filing Format

This quarterly report on Form 10-Q is a combined report being filed by two separate Registrants: American States Water Company (hereinafter "AWR") and Southern California Water Company (hereinafter "SCW"). For more information, please see Note 1 to the Notes to Financial Statements and the heading entitled General in Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operation. References in this report to "Registrant" are to AWR and SCW, collectively unless otherwise specified. SCW makes no representations as to the information contained in this report relating to AWR and its subsidiaries, other than SCW.

AMERICAN STATES WATER COMPANY  
CONSOLIDATED BALANCE SHEETS  
ASSETS  
(UNAUDITED)

	JUNE 30, 2001	DECEMBER 31, 2000
	-----	-----
UTILITY PLANT, at cost	(in thousands)	
Water .....	\$ 618,858	\$ 608,032
Electric .....	37,857	37,630
	-----	-----
	656,715	645,662
Less - Accumulated depreciation .....	(182,314)	(173,367)
	-----	-----
	474,401	472,295
Construction work in progress .....	48,291	36,801
	-----	-----
	522,692	509,096
	-----	-----
OTHER PROPERTY AND INVESTMENTS .....	24,792	25,222
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents .....	7,101	5,808
Accounts receivable -		
Customers, less reserves of \$681 in 2001 and \$510 in 2000 ...	11,508	10,481
Other .....	4,989	5,233
Unbilled revenue .....	13,130	11,363
Materials and supplies, at average cost .....	1,240	1,116
Supply cost balancing accounts .....	19,705	11,145
Prepayments and other .....	3,472	4,085
Accumulated deferred income taxes - net .....	-	3,249
	-----	-----
	61,145	52,480
	-----	-----
DEFERRED CHARGES		
Regulatory tax-related assets .....	16,788	17,705
Other deferred charges .....	13,563	12,143
	-----	-----
	30,351	29,848
	-----	-----
TOTAL ASSETS .....	\$ 638,980	\$ 616,646
	=====	=====

The accompanying notes are an integral part of these financial statements.

AMERICAN STATES WATER COMPANY  
CONSOLIDATED BALANCE SHEETS  
CAPITALIZATION AND LIABILITIES  
(UNAUDITED)

	JUNE 30, 2001	DECEMBER 31, 2000
	-----	-----
	(in thousands)	
<b>CAPITALIZATION</b>		
Common shareholders' equity .....	\$ 194,301	\$ 192,723
Preferred shares .....	1,600	1,600
Preferred shares subject to mandatory redemption requirements .....	320	320
Long-term debt .....	196,164	176,452
	-----	-----
	392,385	371,095
	-----	-----
<b>CURRENT LIABILITIES</b>		
Notes payable to banks .....	42,000	45,000
Long-term debt and preferred shares due within one year .....	735	735
Accounts payable .....	14,750	11,857
Taxes payable .....	3,834	5,585
Accrued interest .....	1,744	1,783
Other accrued liabilities .....	15,805	15,257
	-----	-----
	78,868	80,217
	-----	-----
<b>OTHER CREDITS</b>		
Advances for construction .....	68,121	69,230
Contributions in aid of construction .....	40,695	39,670
Accumulated deferred income taxes - net .....	52,120	51,131
Unamortized investment tax credits .....	3,105	3,156
Regulatory tax-related liability .....	1,795	1,817
Other .....	1,891	330
	-----	-----
	167,727	165,334
	-----	-----
<b>TOTAL CAPITALIZATION AND LIABILITIES ...</b>	<b>\$ 638,980</b>	<b>\$ 616,646</b>
	=====	=====

The accompanying notes are an integral part of these financial statements.

AMERICAN STATES WATER COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE THREE MONTHS  
ENDED JUNE 30, 2001 AND 2000  
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,	
	2001	2000
	(in thousands, except per share amounts)	
<b>OPERATING REVENUES</b>		
Water .....	\$ 46,495	\$ 42,089
Electric .....	3,176	3,156
Other .....	199	183
	49,870	45,428
<b>OPERATING EXPENSES</b>		
Water purchased .....	10,658	11,323
Power purchased for pumping .....	1,896	1,589
Power purchased for resale .....	2,615	1,604
Groundwater production assessment .....	1,954	2,020
Supply cost balancing accounts .....	(2,293)	(366)
Other operating expenses .....	4,508	4,344
Administrative and general expenses .....	8,938	5,999
Depreciation .....	4,493	3,807
Maintenance .....	2,086	2,589
Taxes on income .....	4,125	3,301
Other taxes .....	1,877	1,693
	40,857	37,903
Operating income .....	9,013	7,525
OTHER INCOME/(LOSS) .....	16	(54)
Income before interest charges .....	9,029	7,471
INTEREST CHARGES .....	3,976	3,552
NET INCOME .....	5,053	3,919
DIVIDENDS ON PREFERRED SHARES .....	(21)	(22)
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 5,032	\$ 3,897
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING ....	10,080	8,958
Basic Earnings Per Common Share .....	\$ 0.50	\$ 0.44
WEIGHTED AVERAGE NUMBER OF DILUTED SHARES .....	10,171	8,986
Fully Diluted Earnings Per Share .....	\$ 0.49	\$ 0.43
Dividends Declared Per Common Share .....	\$ 0.325	\$ 0.32

The accompanying notes are an integral part of these financial statements.

AMERICAN STATES WATER COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE SIX MONTHS  
ENDED JUNE 30, 2001 AND 2000  
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
	(in thousands, except per share amounts)	
<b>OPERATING REVENUES</b>		
Water .....	\$ 82,640	\$ 76,676
Electric .....	7,133	7,167
Other .....	388	334
	90,161	84,177
<b>OPERATING EXPENSES</b>		
Water purchased .....	17,150	18,878
Power purchased for pumping .....	3,426	3,050
Power purchased for resale .....	10,348	3,579
Groundwater production assessment .....	3,427	4,273
Supply cost balancing accounts .....	(8,560)	(1,433)
Other operating expenses .....	8,636	8,231
Administrative and general expenses .....	15,518	11,912
Depreciation .....	8,977	7,609
Maintenance .....	4,299	5,146
Taxes on income .....	6,838	5,713
Other taxes .....	3,866	3,492
	73,925	70,450
Operating income .....	16,236	13,727
OTHER INCOME/(LOSS) .....	(170)	(41)
Income before interest charges .....	16,066	13,686
INTEREST CHARGES .....	7,896	6,872
NET INCOME .....	8,170	6,814
DIVIDENDS ON PREFERRED SHARES .....	(42)	(43)
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 8,128	\$ 6,771
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING ....	10,080	8,958
Basic Earnings Per Common Share .....	\$ 0.81	\$ 0.76
WEIGHTED AVERAGE NUMBER OF DILUTED SHARES .....	10,171	8,972
Fully Diluted Earnings Per Share .....	\$ 0.80	\$ 0.75
Dividends Declared Per Common Share .....	\$ 0.65	\$ 0.64

The accompanying notes are an integral part of these financial statements.

AMERICAN STATES WATER COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE TWELVE MONTHS  
ENDED JUNE 30, 2001 AND 2000  
(UNAUDITED)

	TWELVE MONTHS ENDED JUNE 30,	
	2001	2000
	----- (in thousands, except per share amounts)	
OPERATING REVENUES		
Water .....	\$ 174,760	\$ 164,945
Electric .....	14,331	13,814
Other .....	853	591
	----- 189,944	----- 179,350
OPERATING EXPENSES		
Water purchased .....	39,863	40,704
Power purchased for pumping .....	7,885	7,431
Power purchased for resale .....	17,433	7,177
Groundwater production assessment .....	6,644	7,754
Supply cost balancing accounts .....	(13,498)	(1,785)
Other operating expenses .....	17,151	16,437
Administrative and general expenses .....	29,743	26,761
Depreciation .....	16,708	14,369
Maintenance .....	9,433	11,135
Taxes on income .....	16,251	13,368
Other taxes .....	7,515	6,864
	----- 155,128	----- 150,215
Operating income .....	34,816	29,135
OTHER INCOME/(LOSS) .....	(228)	232
Income before interest charges .....	34,588	29,367
INTEREST CHARGES .....	15,146	13,835
NET INCOME .....	19,442	15,532
DIVIDENDS ON PREFERRED SHARES .....	(85)	(87)
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 19,357	\$ 15,445
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING ....	9,938	8,958
Basic Earnings Per Common Share .....	\$ 1.95	\$ 1.72
WEIGHTED AVERAGE NUMBER OF DILUTED SHARES .....	10,006	8,965
Fully Diluted Earnings Per Share .....	\$ 1.93	\$ 1.72
Dividends Declared Per Common Share .....	\$ 1.295	\$ 1.280

The accompanying notes are an integral part of these financial statements.

AMERICAN STATES WATER COMPANY  
 CONSOLIDATED CASH FLOW STATEMENTS  
 FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND 2000  
 (UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
	(in thousands)	
<b>CASH FLOWS FROM Operating Activities:</b>		
Net income .....	\$ 8,171	\$ 6,814
Adjustments for non-cash items:		
Depreciation and amortization .....	8,977	7,609
Deferred income taxes and investment tax credits .....	5,082	556
Other - net .....	(1,198)	(3,097)
Changes in assets and liabilities:		
Accounts receivable .....	(783)	1,026
Prepayments .....	613	296
Supply cost balancing accounts .....	(8,560)	(1,433)
Accounts payable .....	2,893	(1,874)
Taxes payable .....	(1,751)	2,049
Unbilled revenue .....	(1,579)	(1,042)
Other .....	1,940	(1,356)
Net Cash Provided .....	13,805	9,548
<b>Investing Activities:</b>		
Construction expenditures .....	(22,407)	(21,430)
Net Cash Used .....	(22,407)	(21,430)
<b>Financing Activities:</b>		
Issuance of securities .....	20,000	7
Receipt of advances and contributions .....	2,014	3,558
Repayments of long-term debt, net of redemption of preferred shares .....	(287)	(252)
Refunds on advances for construction .....	(2,238)	(2,239)
Changes in notes payable to banks .....	(3,000)	16,000
Common and preferred dividends paid .....	(6,594)	(5,776)
Net Cash Provided .....	9,895	11,298
Net Increase (Decrease) in Cash and Cash Equivalents .....	1,293	(584)
Cash and Cash Equivalents, Beginning of period .....	5,808	2,189
Cash and Cash Equivalents, End of period .....	\$ 7,101	\$ 1,605

The accompanying notes are an integral part of these financial statements.

SOUTHERN CALIFORNIA WATER COMPANY  
CONSOLIDATED BALANCE SHEETS  
ASSETS  
(UNAUDITED)

	JUNE 30, 2001	DECEMBER 31, 2000
	-----	-----
	(in thousands)	
UTILITY PLANT, at cost		
Water .....	\$ 581,661	\$ 570,836
Electric .....	37,857	37,630
	-----	-----
	619,518	608,466
Less - Accumulated depreciation .....	(173,488)	(165,002)
	-----	-----
	446,030	443,464
Construction work in progress .....	47,878	36,605
	-----	-----
	493,908	480,069
	-----	-----
OTHER PROPERTY AND INVESTMENTS .....	9,579	9,711
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents .....	3,065	1,545
Accounts receivable -		
Customers, less reserves of \$653 in 2001, and \$498 in 2000 ....	10,785	10,071
Other .....	4,883	5,097
Intercompany receivable .....	246	376
Unbilled revenue .....	12,833	11,363
Materials and supplies, at average cost .....	1,155	1,039
Supply cost balancing accounts .....	19,705	11,145
Prepayments and other .....	3,293	3,756
Accumulated deferred income taxes - net .....	-	3,256
	-----	-----
	55,965	47,648
	-----	-----
DEFERRED CHARGES		
Regulatory tax-related assets .....	16,788	17,705
Other deferred charges .....	12,760	11,396
	-----	-----
	29,548	29,101
	-----	-----
TOTAL ASSETS .....	\$ 589,000	\$ 566,529
	=====	=====

The accompanying notes are an integral part of these financial statements.

SOUTHERN CALIFORNIA WATER COMPANY  
CONSOLIDATED BALANCE SHEETS  
CAPITALIZATION AND LIABILITIES  
(UNAUDITED)

	JUNE 30, 2001	DECEMBER 31, 2000
	-----	-----
	(in thousands)	
<b>CAPITALIZATION</b>		
Common shareholders' equity .....	\$ 190,950	\$ 164,808
Long-term debt .....	186,897	167,062
	-----	-----
	377,847	331,870
	-----	-----
<b>CURRENT LIABILITIES</b>		
Notes payable to banks .....	22,000	45,000
Long-term debt and preferred shares due within one year ....	275	275
Accounts payable .....	14,473	11,203
Intercompany payable .....	-	4,746
Taxes payable .....	3,986	5,675
Accrued interest .....	1,697	1,722
Other accrued liabilities .....	15,596	13,512
	-----	-----
	58,027	82,133
	-----	-----
<b>OTHER CREDITS</b>		
Advances for construction .....	56,925	58,195
Contributions in aid of construction .....	40,483	39,642
Accumulated deferred income taxes - net .....	50,574	49,569
Unamortized investment tax credits .....	2,928	2,973
Regulatory tax-related liability .....	1,795	1,817
Other .....	421	330
	-----	-----
	153,126	152,526
	-----	-----
<b>TOTAL CAPITALIZATION AND LIABILITIES .....</b>	<b>\$ 589,000</b>	<b>\$ 566,529</b>
	=====	=====

The accompanying notes are an integral part of these financial statements.

SOUTHERN CALIFORNIA WATER COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE THREE MONTHS  
ENDED JUNE 30, 2001 AND 2000  
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,	
	2001	2000
	(\$ in thousands, except per share amounts)	
<b>OPERATING REVENUES</b>		
Water .....	\$ 44,834	\$ 42,089
Electric .....	3,176	3,156
	-----	-----
	48,010	45,245
	-----	-----
<b>OPERATING EXPENSES</b>		
Water purchased .....	10,648	11,323
Power purchased for pumping .....	1,814	1,589
Power purchased for resale .....	2,615	1,604
Groundwater production assessment .....	1,954	2,020
Supply cost balancing accounts .....	(2,293)	(366)
Other operating expenses .....	4,223	4,260
Administrative and general expenses .....	8,649	5,810
Depreciation .....	4,183	3,807
Maintenance .....	2,033	2,579
Taxes on income .....	3,987	3,342
Other taxes .....	1,792	1,691
	-----	-----
	39,605	37,659
	-----	-----
Operating income .....	8,405	7,586
OTHER INCOME/(LOSS) .....	(13)	(54)
	-----	-----
Income before interest charges .....	8,392	7,532
INTEREST CHARGES .....	3,579	3,552
	-----	-----
NET INCOME .....	4,813	3,980
DIVIDENDS ON PREFERRED SHARES .....	-	-
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 4,813	\$ 3,980
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING ....	110	100
Basic Earnings Per Common Share .....	\$ 43,755	\$ 39,800
Dividends Declared Per Common Share .....	\$ 30,000	\$ 31,000

The accompanying notes are an integral part of these financial statements.

SOUTHERN CALIFORNIA WATER COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE SIX MONTHS  
ENDED JUNE 30, 2001 AND 2000  
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
	----- (\$ in thousands, except per share amounts) -----	
OPERATING REVENUES		
Water .....	\$ 79,639	\$ 76,676
Electric .....	7,133	7,167
	-----	-----
	86,772	83,843
	-----	-----
OPERATING EXPENSES		
Water purchased .....	16,996	18,878
Power purchased for pumping .....	3,287	3,050
Power purchased for resale .....	10,348	3,579
Groundwater production assessment .....	3,427	4,273
Supply cost balancing accounts .....	(8,560)	(1,433)
Other operating expenses .....	8,121	8,090
Administrative and general expenses .....	14,963	11,591
Depreciation .....	8,356	7,609
Maintenance .....	4,180	5,132
Taxes on income .....	6,579	5,772
Other taxes .....	3,689	3,489
	-----	-----
	71,386	70,030
	-----	-----
Operating income .....	15,386	13,813
OTHER INCOME/(LOSS) .....	(222)	(41)
	-----	-----
Income before interest charges .....	15,164	13,772
INTEREST CHARGES .....	7,423	6,872
	-----	-----
NET INCOME .....	7,741	6,900
DIVIDENDS ON PREFERRED SHARES .....	-	-
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 7,741	\$ 6,900
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING ....	105	100
Basic Earnings Per Common Share .....	\$ 73,724	\$ 69,000
Dividends Declared Per Common Share .....	\$ 62,857	\$ 63,000

The accompanying notes are an integral part of these financial statements.

SOUTHERN CALIFORNIA WATER COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE TWELVE MONTHS  
ENDED JUNE 30, 2001 AND 2000  
(UNAUDITED)

	TWELVE MONTHS ENDED JUNE 30,	
	2001	2000
	----- (\$ in thousands, except per share amounts) -----	
<b>OPERATING REVENUES</b>		
Water .....	\$ 170,493	\$ 164,945
Electric .....	14,331	13,814
	-----	-----
	184,824	178,759
	-----	-----
<b>OPERATING EXPENSES</b>		
Water purchased .....	39,567	40,704
Power purchased for pumping .....	7,679	7,431
Power purchased for resale .....	17,433	7,177
Groundwater production assessment .....	6,644	7,754
Supply cost balancing accounts .....	(13,498)	(1,785)
Other operating expenses .....	16,335	16,201
Administrative and general expenses .....	28,919	26,072
Depreciation .....	15,834	14,369
Maintenance .....	9,239	11,119
Taxes on income .....	15,687	13,502
Other taxes .....	7,237	6,859
	-----	-----
	151,076	149,403
	-----	-----
Operating income .....	33,748	29,356
OTHER INCOME .....	(321)	232
	-----	-----
Income before interest charges .....	33,427	29,588
INTEREST CHARGES .....	14,901	13,835
	-----	-----
NET INCOME .....	18,526	15,753
DIVIDENDS ON PREFERRED SHARES .....	-	-
	-----	-----
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS .....	\$ 18,526	\$ 15,753
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING ....	103	100
Basic Earnings Per Common Share .....	\$ 179,864	\$ 157,530
Dividends Declared Per Common Share .....	\$ 128,155	\$ 122,000

The accompanying notes are an integral part of these financial statements.

SOUTHERN CALIFORNIA WATER COMPANY  
CONSOLIDATED CASH FLOW STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND 2000  
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
	(in thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income .....	\$ 7,741	\$ 6,900
Adjustments for non-cash items:		
Depreciation and amortization .....	8,356	7,609
Deferred income taxes and investment tax credits .....	5,111	551
Other - net .....	(1,346)	(1,872)
Changes in assets and liabilities:		
Accounts receivable .....	(500)	(1,042)
Prepayments .....	463	296
Supply cost balancing accounts .....	(8,560)	(1,433)
Accounts payable .....	3,270	(1,763)
Intercompany Payable .....	(4,746)	-
Taxes payable .....	(1,689)	2,068
Unbilled revenue .....	(1,470)	(1,042)
Other .....	2,073	(392)
Net Cash Provided .....	8,703	9,880
<b>Investing Activities:</b>		
Construction expenditures .....	(22,195)	(21,429)
Net Cash Used .....	(22,195)	(21,429)
<b>Financing Activities:</b>		
Issuance of securities .....	45,000	-
Receipt of advances and contributions .....	2,014	3,558
Repayments of long-term debt, net of redemption of preferred shares .....	(164)	(251)
Refunds on advances for construction .....	(2,238)	(2,239)
Changes in notes payable to banks .....	(23,000)	16,000
Common and preferred dividends paid .....	(6,600)	(6,300)
Net Cash Provided (Used) .....	15,012	10,768
Net Increase (Decrease) in Cash and Cash Equivalents ....	1,520	(781)
Cash and Cash Equivalents, Beginning of period .....	1,545	2,020
Cash and Cash Equivalents, End of period .....	\$ 3,065	\$ 1,239
	=====	=====

The accompanying notes are an integral part of these financial statements.

AMERICAN STATES WATER COMPANY  
AND  
SOUTHERN CALIFORNIA WATER COMPANY

NOTES TO FINANCIAL STATEMENTS  
(UNAUDITED)

American States Water Company (AWR), incorporated in 1998, is the parent company of Southern California Water Company (SCW), American States Utility Services, Inc. (ASUS) and Chaparral City Water Company (CCWC). More than 90% of AWR's assets consist of the common stock of Southern California Water Company. SCW is a public utility company engaged principally in the purchase, production, distribution and sale of water, and the distribution and sale of electric energy in several mountain communities. Unless otherwise stated in this report, the term Registrant applies to both AWR and SCW, collectively.

1. For a summary of significant accounting policies and other information relating to these interim financial statements, reference is made to pages 37 through 46 of the Form 10-K, incorporated in the 2000 Annual Report to Shareholders of AWR, under the caption "Notes to Financial Statements."
2. Basic earnings per common share are calculated pursuant to SFAS No. 128 - Earnings per Share and are based on the weighted average number of common shares outstanding during each period and net income after deducting preferred dividend requirements. Under the American States Water Company 2000 Stock Incentive Plan, stock options representing 45,657 common shares were granted to certain eligible employees on May 1, 2000, and stock options representing additional 45,657 common shares were granted on January 2, 2001. A fully diluted earnings per share is shown as a result.
3. On April 22, 1999, the California Public Utilities Commission (CPUC) issued an order denying SCW's application seeking approval of its recovery through rates of costs associated with its participation in the Coastal Aqueduct Extension of the State Water Project (SWP). SCW's participation in the SWP commits it to a 40-year entitlement with a value of approximately \$9.5 million. SCW's investment in SWP is currently included in Other Property and Investments. The remaining balance of the related liability of approximately \$7 million is recorded as other long-term debt. SCW intends to recover its investment in SWP through contributions from developers on a per-lot or other basis, and, failing that, sale of its 500 acre-foot entitlement in SWP. SCW believes that its full investment and on-going costs associated with its ownership will be fully recovered.
4. New water rates with an annual increase of approximately \$2.5 million for seven ratemaking districts in SCW's Region I were implemented in January 2001. SCW's application to combine the seven ratemaking customer service areas (CSAs) into one regional rate was, however, denied by the CPUC. Step increases of approximately \$1.7 million for CSAs in SCW's Region III were also effective in January 2001. An attrition increase of approximately \$2.8 million for Region II was in effect from February 2001. There are no active regulatory proceedings affecting CCWC or its operations.
5. As permitted by the CPUC, SCW maintains water and electric supply cost balancing accounts to account for under-collections and over-collections of revenues designed to recover such costs. Recovery or refund of such over/under collections are recorded in income when received from customers and charged to balancing accounts when such costs are incurred. The balancing accounts are reversed when such costs are recovered through rate adjustments.

As previously disclosed in Registrant's Form 10-K for the year ended December 31, 2000, SCW, like other California utilities, has experienced rapid increases in the price of electric energy. As of June 30, 2001, SCW had an aggregate under-collection of \$19.7 million in its water and electric balancing accounts. Of this total amount, approximately \$16.8 million is related to purchased power costs at SCW's Bear Valley Electric customer service area (BVE). This is a result of the differences between wholesale purchased power costs, which have averaged approximately \$0.16 per kilowatt-hour during the first six months of this year, and the \$0.024 per kilowatt-hour (KWh) currently authorized in rates for collection of purchased power costs from customers. On May 24, 2001, the CPUC approved SCW's Advice Letter filed in May 2000 for recovery over a five-year period of approximately \$2.4 million in under-collected power costs, which resulted in an overall rate increase of 12.5% for customers of BVE, and imposed a condition of conducting a subsequent audit on the electric balancing account. SCW filed a second Advice Letter on April 9, 2001 for recovery over a five-year period of an additional under-collection of \$8.7 million. A draft Resolution issued by the CPUC on July 24, 2001 approves, with modifications, the Advice Letter, which will result in an additional rate increase of 14.8% to BVE's customers. The draft Resolution is scheduled to be on the agenda at the Commission meeting on August 23, 2001. On May 11, 2001, SCW filed a third Advice Letter with the CPUC to seek recovery of \$0.095 per KWh for electric energy purchased pursuant to a five-year, fixed cost contract with Mirant Americas Energy Marketing, LP. (Mirant). SCW subsequently withdrew the Advice Letter and anticipates filing an application in the third quarter of 2001 with the CPUC, along with a motion requesting immediate recovery of these costs, subject to refund, after completion of the review process. The application, if approved, will result in an additional rate increase of approximately 50%. Registrant believes that the recovery of these amounts is probable but is unable to predict when, or if, the CPUC will authorize recovery of all or any of these expenses. SCW will continue to file additional Advice Letters to recover the differences between actual wholesale power costs and the amounts currently recovered through rates. Registrant also believes that timely actions by the CPUC to authorize SCW to recover past and future power costs are necessary to avoid any material adverse effect on SCW's financial condition.

In March 2001, the CPUC approved SCW's first filing for recovery of increased costs of electric power incurred to pump water for its water customers. In April 2001, SCW filed a second Advice Letter to increase water rates by approximately \$2.3 million company-wide to cover additional electric base rate increases, authorized recently by the CPUC for the Southern California Edison Company and the Pacific Gas and Electric Company.

See the sections entitled "Liquidity and Capital Resources," "Electric Energy Situation in California," and "Regulatory Matters" for information on actions being taken by SCW to recover these costs. CCWC, subject to regulation by the Arizona Corporation Commission (ACC), does not maintain balancing accounts and increases in costs are recovered through general rate case applications.

6. On October 2000, AWR completed the acquisition of the common stock of CCWC for an aggregate value of \$31.2 million, including assumption of approximately \$12 million in debt. As of June 30, 2001, Registrant has \$12,906,000 in goodwill included in Other Property and Investments. The amount represents the difference between the purchase price of the common equity of CCWC and CCWC's book equity at the time of closing and is being amortized over a period of 40 years.
7. In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 eliminates the pooling-of-interests method of accounting, effective June 30, 2001. After that, all

business combinations will be recorded under the purchased method of accounting (record goodwill for excess of costs over the net assets acquired). SFAS No. 142 requires that companies cease amortizing goodwill, effective January 1, 2002. Goodwill initially recognized after June 30, 2001, will not be amortized. Goodwill on the balance sheet at June 30, 2001 will be amortized until January 1, 2002. Under SFAS No. 142, goodwill will be tested for impairment using a fair-value approach when events or circumstances occur indicating that impairment might exist. A benchmark assessment for goodwill is also required within six months of the date of adoption of SFAS No. 142. Registrant is assessing the impact on future financial reporting related to both past and future transactions, but believes that adoption of this statement will not have a significant impact on its financial position or results of operation.

8. AWR has three principal business units: water and electric distribution units, through its SCW subsidiary, a water service utility operation conducted through its Chaparral City Water Company (CCWC) unit, and a non-regulated activity unit through the American States Utilities Services, Inc. (ASUS) subsidiary. All activities of SCW currently are geographically located within California. All activities of CCWC are located in the state of Arizona. Both SCW and CCWC are regulated utilities. On a stand-alone basis, AWR has no material assets other than its investments in its subsidiaries. The tables below set forth information relating to SCW's water and electric operating segments, CCWC, and non-regulated businesses, consisting of ASUS and AWR corporate expenses. Included in the amounts set forth, certain assets, revenues and expenses have been allocated. The identifiable assets are net of respective accumulated provisions for depreciation.

(dollars in thousands)

For The Three Months Ended June 30, 2001

	SCW		CCWC Water	Non- Regulated	Consolidated AWR
	Water	Electric			
Operating revenues	\$ 44,834	\$ 3,176	\$ 1,661	\$ 199	\$ 49,870
Operating income before income taxes	13,345	(1,533)	696	50	12,558
Identifiable assets	467,143	26,766	28,783	-	522,692
Depreciation expense	3,821	361	311	-	4,493
Capital additions	\$ 11,128	\$ 497	\$ 86	-	\$ 11,711

(dollars in thousands)

For The Three Months Ended June 30, 2000

	SCW		CCWC Water	Non- Regulated	Consolidated AWR
	Water	Electric			
Operating revenues	\$ 42,089	\$ 3,156	N.A.	\$ 183	\$ 45,428
Operating income before income taxes	10,215	713	N.A.	(102)	10,826
Identifiable assets	437,555	25,860	N.A.	-	463,415
Depreciation expense	3,457	350	N.A.	-	3,807
Capital additions	\$ 10,093	\$ 335	N.A.	-	\$ 10,428

(dollars in thousands)

For The Six Months Ended June 30, 2001

	SCW		CCWC Water	Non- Regulated	Consolidated AWR
	Water	Electric			
Operating revenues	\$ 79,639	\$ 7,133	\$ 3,001	\$ 388	\$ 90,161
Operating income before income taxes	21,651	(266)	1,014	95	22,494
Identifiable assets	467,143	26,766	28,783	-	522,692

Depreciation expense	7,634	722	621	-	8,977
Capital additions	\$ 22,187	\$ 1,062	\$ 216	-	\$ 23,465

(dollars in thousands)

For The Six Months Ended June 30, 2000

	SCW		CCWC Water	Non- Regulated	Consolidated AWR
	Water	Electric			
Operating revenues	\$ 76,676	\$ 7,167	N.A.	\$ 334	\$ 84,177
Operating income before income taxes	17,455	2,130	N.A.	(145)	19,440
Identifiable assets	437,555	25,860	N.A.	-	463,415
Depreciation expense	6,909	700	N.A.	-	7,609
Capital additions	\$ 19,983	\$ 912	N.A.	-	\$ 20,895

(dollars in thousands)

For The Twelve Months Ended June 30, 2001

	SCW		CCWC Water	Non- Regulated	Consolidated AWR
	Water	Electric			
Operating revenues	\$ 170,493	\$ 14,331	\$ 4,267	\$ 853	\$ 189,944
Operating income before income taxes	46,730	2,125	1,312	320	50,487
Identifiable assets	467,143	26,766	28,783	-	522,692
Depreciation expense	14,412	1,422	874	-	16,708
Capital additions	\$ 45,686	\$ 2,453	\$ 413	-	\$ 48,552

(dollars in thousands)

For The Twelve Months Ended June 30, 2000

	SCW		CCWC Water	Non- Regulated	Consolidated AWR
	Water	Electric			
Operating revenues	\$ 164,945	\$ 13,814	N.A.	\$ 591	\$ 179,350
Operating income before income taxes	39,206	3,652	N.A.	(355)	42,503
Identifiable assets	437,555	25,860	N.A.	-	463,415
Depreciation expense	12,997	1,372	N.A.	-	14,369
Capital additions	\$ 46,773	\$ 2,127	N.A.	-	\$ 48,900

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

FORWARD-LOOKING INFORMATION

Certain matters discussed in this report (including the documents incorporated herein by reference) are forward-looking statements intended to qualify for the "safe harbor" from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as Registrant "believes," "anticipates," "expects" or words of similar import. Similarly, statements that describe Registrant's future plans, objectives, estimates or goals are also forward-looking statements. Such statements address future events and conditions concerning capital expenditures, earnings, litigation, rates, water quality and other regulatory matters, adequacy of water supplies, the California energy crisis, liquidity and capital resources, opportunities related to operations and maintenance of water systems owned by governmental entities and other utilities and providing related services, and accounting matters. Actual results in each case could differ materially from those currently anticipated in such statements, by reason of factors such as utility restructuring, including ongoing local, state and federal activities; future economic conditions, including changes in customer demand and changes in water and energy supply cost; future climatic conditions; litigation developments; and legislative, regulatory and other circumstances affecting anticipated revenues and costs. See the section entitled "Risk Factors" for more information.

GENERAL

American States Water Company (AWR), incorporated in 1998, is engaged in the business of holding, for investment, the stock primarily of utility companies. AWR's primary investment is the stock of Southern California Water Company (SCW). SCW is a California public utility company engaged principally in the purchase, production, distribution and sale of water (SIC No. 4941). SCW also distributes electricity in one customer service area (SIC No. 4911). SCW is regulated by the California Public Utilities Commission (CPUC) and was incorporated on December 31, 1929 under the laws of the State of California.

SCW is organized into three regions and one electric customer service area (CSA) operating within 75 communities in 10 counties in the State of California and provides water service in 21 CSAs. Region I incorporates 7 CSAs in northern and central California; Region II has 4 CSAs located in Los Angeles; Region III incorporates 10 water CSA's. SCW also provides electric service to the City of Big Bear Lake and surrounding areas in San Bernardino County. See the section entitled "Electric Energy Situation in California" for more information.

SCW served 245,738 water customers and 21,566 electric customers at June 30, 2001, or a total of 267,304 customers, compared with 265,842 total customers at June 30, 2000.

SCW's utility operations exhibit seasonal trends. Although SCW's water utility operations have a diversified customer base, revenues derived from commercial and residential water customers accounted for approximately 85.1%, 90.4% and 91.2% of total water revenues for the three, six and twelve months ended June 30, 2001, respectively, as compared to 86.1%, 90.7% and 90.6% for the three, six and twelve months ended June 30, 2000, respectively.

AWR also owns two other subsidiaries. American States Utility Services, Inc. (ASUS) contracts to lease, operate and maintain water and wastewater systems owned by others and to provide related services, such as billing and meter reading, to approximately 90,000 accounts. Chaparral City Water Company (CCWC) is an Arizona public utility company serving 11,342 customers as of June 30, 2001 in the town of Fountain Hills, Arizona and a portion of the City of Scottsdale, Arizona. The Arizona Corporation Commission (ACC) regulates CCWC. AWR completed the acquisition of the common stock of CCWC on

October 10, 2000 for an aggregate value of \$31.2 million, including assumption of approximately \$12 million in debt. Neither AWR nor ASUS is regulated by either the CPUC or the ACC.

#### ACQUISITION OF PEERLESS WATER CO.

In December 1999, Registrant agreed to acquire Peerless Water Co., a privately owned water company in Bellflower, California, subject to satisfaction of certain conditions, including CPUC approval. The number of Common Shares to be issued will be determined at the closing, but will in no event be greater than 131,036 shares nor less than 107,538 shares. The transaction, if approved by the CPUC, is not anticipated to close before the end of the fourth quarter of 2001.

#### RESULTS OF OPERATION

Basic earnings per common share for the three months ended June 30, 2001 increased by 13.6% to \$0.50 per share as compared to \$0.44 per share for the comparable period last year. Basic earnings for the six months ended June 30, 2001 increased by 6.6% to \$0.81 per share from \$0.76 per share for the same period of last year. As compared to the twelve months ended June 30, 2000, basic earnings increased by 13.4% to \$1.95 per share from \$1.72 per share. The increases in the recorded results primarily reflect the impact of various rate increases authorized by the CPUC at SCW, additional revenues generated by CCWC since the acquisition and various reasons as discussed below. Fully diluted earnings per share for the three, six and twelve months ended June 30, 2001 are \$0.49, \$0.80 and \$1.93 per share, respectively, as compared to \$0.43, \$0.75 and \$1.72 per share for the comparable periods of 2000.

As compared to the same periods ended June 30, 2000, water operating revenues increased by 10.5%, 7.8% and 6.0% for the three, six and twelve months ended June 30, 2001, respectively, due to (i) the increases in rates authorized by the CPUC, and additional revenues generated by CCWC. New rates in the customer service areas that comprise SCW's Region I were effective January 2, 2001. Attrition increases for SCW's Metropolitan customer service area and step increases for SCW's Region III were also in effect in the first quarter of 2001. The additional revenues generated by rate increases were partially offset by a reduction of 4.2%, 4.7% and 1.8% in water sales, respectively, for the three, six and twelve months ended June 30, 2001 to customers of SCW. See the section entitled "Regulatory Matters" for more information.

Electric revenues increased slightly by 0.6% for the three months ended June 30, 2001 as compared to the same period ended June 30, 2000 reflecting a rate increase of 12.5% effective May 24, 2001 authorized by the CPUC to recover previous under-collected energy costs, offset by a decrease of 3.5% in usage. Kilowatt-hour sales of electricity decreased by 2.1% for the six months ended June 30, 2001 as compared to the same period ended June 30, 2000 resulting in a 0.5% decrease in electric operating revenues. The decrease in sales was due principally to more winter snows experienced in Registrant's service area during the first quarter of this year, which decreased the use of snow making machines at ski resorts in the area. As compared to the twelve months ended June 30, 2000, kilowatt-hour sales increased by 3.3% due to increase in commercial and residential usage. As a result, electric operating revenues for the twelve months ended June 30, 2001 increased by 3.7%. See the section entitled "Regulatory Matters" and "Electric Energy Situation in California" for more information.

Other revenues increased by 8.2%, 15.8% and 44.3% for the three, six and twelve months ended June 30, 2001, respectively, due to new ASUS service contracts and increased activities with existing contracts.

Purchased water costs decreased by 5.9%, 9.2% and 2.1%, respectively, for the three, six and twelve months ended June 30, 2001 as compared to the same periods ending in 2000 reflecting a decrease in purchased water volume resulting from lower sales and less purchased water in Registrant's supply mix.

Cost of power purchased for pumping increased by 19.3%, 12.3% and 6.1% for the three, six and twelve months ended June 30, 2001, respectively, due to the rate increases implemented by SCW's energy suppliers pursuant to CPUC decisions. On March 27, 2001, the CPUC approved SCW's Advice Letters to increase revenues by approximately \$762,000 annually to recover the costs of purchased power for its water ratemaking districts. Another Advice Letter to increase water rates by approximately \$2.3 million annually to recover additional electric power increases was filed in April 2001, and is pending CPUC approval. See the section entitled "Regulatory Matters" and "Electric Energy Situation in California" for more information.

As compared to the three, six and twelve months ended June 30, 2000, costs of power purchased for resale to customers in SCW's Bear Valley Electric customer service area increased by 63.0%, 189.1% and 142.9%, respectively, due primarily to significant increases in wholesale market prices for energy in the State of California. The increases were partially offset by a one-time sale of energy on the spot market that resulted in a \$580,000 gain in April 2001. The sale of excess energy on the spot market resulted from a one-month overlap of energy purchase agreements. Most of this increase has been included in the electric supply cost balancing account that, as described below, partially insulates earnings from the effects of the significantly increased power costs, unless recovery of these costs is disallowed. The CPUC approved an overall rate increase on May 24, 2001 to recover approximately \$2.4 million in under-collected power costs incurred prior to March 31, 2000 over a five-year period. Two Advice Letters to increase electric rates by approximately \$10.7 million in the aggregate annually were filed with the CPUC during the second quarter of 2001 to recover additional electric power costs incurred during the electric power crisis in California. SCW subsequently withdrew one of the Advice Letter filings and now anticipates filing an application with a motion requesting immediate recovery of these costs, subject to refund, after completion of the review process. SCW intends to continue to file additional Advice Letters to recover the differences between actual wholesale power costs and the costs recovered through previously approved rates. Due to the nature of the regulatory process, there is a risk of disallowance of full recovery of costs or additional delays in the recovery of costs during any period in which there has been a substantial escalation in costs. See the sections entitled "Liquidity and Capital Resources", "Regulatory Matters" and "Electric Energy Situation in California" for more information.

Groundwater production assessments for the three, six and twelve months ended June 30, 2001 decreased by 3.3%, 19.8% and 14.3%, respectively, as compared to the same periods in 2000. The decrease incurred principally in SCW's San Gabriel and San Dimas customer service areas due to (i) lower administrative assessments levied against production for the water year ended June 30, 2001, (ii) over-accrued costs during the periods ended June 30, 2000 for excess pumping, which were corrected in the third quarter of 2000, and (iii) less pumped water volume.

A positive entry for the provision for supply cost balancing accounts reflects recovery of previously under-collected supply costs. Conversely, a negative entry for the provision for supply cost balancing accounts reflects an under-collection of previously incurred supply costs. At June 30, 2001, Registrant had a net under-collected position of \$19.7 million in both its water and electric balancing accounts primarily due to the increases in energy costs. See the sections entitled "Liquidity and Capital Resources", "Regulatory Matters" and "Electric Energy Situation in California" for more information.

Other operating expenses increased by 3.8%, 4.9% and 4.3% for the three, six and twelve months ended June 30, 2001, respectively, as compared to the same periods of last year. The increases were primarily due to additional costs related to the inclusion of CCWC and increases in labor and billing costs due to additional billing and customer service contracts obtained by ASUS.

Administrative and general expenses increased by 49.0%, 30.3% and 11.1%, respectively, for the three, six and twelve months ended June 30, 2001 as compared to the same periods ended June 30, 2000 reflecting additional costs and reserves associated with SCW's Bear Valley Electric customer service area in

response to the energy situation in California, including possible disallowances of past costs included in the balancing account as well as an adverse settlement with SCW's energy provided, increased reserves for self-insured worker's compensation liabilities, and additional costs from CCWC.

Depreciation expense increased by 18.0%, 18.0% and 16.3%, respectively, for the three, six and twelve months ended June 30, 2001 reflecting, among other things, the effects of recording approximately \$40.1 million in net plant additions at SCW during 2000, depreciation on which began in January 2001, and additional depreciation associated with CCWC's plant. In addition, amortization of goodwill, which represents the difference between the purchase price of the common equity of CCWC and CCWC's book equity at the time of closing, began October 2000.

As compared to the three, six and twelve months ended June 30, 2000, maintenance expense decreased by 19.4%, 16.5% and 15.3%, respectively, due primarily to the implementation of Registrant's Cash Preservation Plan (CPP) in April 2001. See the sections entitled "Liquidity and Capital Resources", "Electric Energy Situation in California" and "Regulatory Matters" for more information.

Taxes on income increased by 25.0%, 19.7% and 21.6%, respectively, as compared to the three, six and twelve months ended June 30, 2000, due to an increase in pre-tax operating income of 26%, 20.8% and 25.3%, respectively, for the comparable periods ended June 30, 2001. The twelve-month comparison was also affected by a lower effective tax rate for the same period ended June 30, 2001.

Other taxes increased by 10.9%, 10.7% and 9.5%, respectively, for the three, six and twelve months ended June 30, 2001, respectively, as compared to the same periods last year reflecting principally increased property taxes due to higher property valuation assessments, and additional property and payroll taxes at CCWC.

The loss recorded in other income for the six and twelve months ended June 30, 2001 was due principally to the effects of recording amortization and interest expenses, starting January 2000, on SCW's entitlement in the State Water Project, and higher expenses associated with increased non-regulated activities.

Interest expense increased by 11.9%, 14.9% and 9.5%, respectively, for the three, six and twelve months ended June 30, 2001 as compared to the three, six and twelve months ended June 30, 2000 due to (i) short-term borrowing, incurred by AWR to fund the acquisition of CCWC, (ii) the issuance of \$20 million in long-term debt by SCW in January 2001 and (iii) the inclusion of long-term debt at Registrant's CCWC unit.

#### LIQUIDITY AND CAPITAL RESOURCES

AWR funds its operating expenses and pays dividends on its outstanding Common and Preferred Shares principally through dividends from its subsidiaries, principally SCW. AWR has a Registration Statement on file with the Securities and Exchange Commission (SEC) for issuance, from time to time, of up to \$60 million in Common Shares, Preferred Shares and/or debt securities. On August 16, 2000, AWR issued 1,107,000 Common Shares at \$26.125 per share under this Registration Statement. Net proceeds from the offering have been used to fund a portion of the purchase price of CCWC and to invest in additional shares of SCW. As of June 30, 2001, approximately \$31,074,000 remained for issuance under this Registration Statement. AWR completed the acquisition of the common stock of CCWC on October 10, 2000 for an aggregate value of \$31.2 million, including assumption of approximately \$12 million in debt.

AWR maintains a credit facility with a \$25 million aggregate borrowing capacity. At June 30, 2001, \$20 million was outstanding under this facility.

SCW funds the majority of its operating expenses, payments on its debt, and dividends on its outstanding Common Shares through internal sources. Internal sources of cash flow are provided primarily by retention of a portion of earnings, amortization of deferred charges, and depreciation expense. Internal cash generation is influenced by factors such as weather patterns, environmental regulation, litigation, changes in supply costs, and timing of rate relief. See the sections entitled "Risk Factors" and "Electric Energy Situation in California" for more information.

Because of the seasonal nature of its water and electric operations, SCW utilizes its short-term borrowing capacity to finance current operating expenses, including expenses for purchased power distributed through its Bear Valley Electric customer service area. SCW has experienced increased costs for electric energy, particularly during the fourth quarter of 2000, and first and second quarters of 2001. At December 31, 2000, SCW had under-collected its electric power costs by approximately \$8.6 million. During the first two quarters of 2001, SCW incurred \$8.2 million more in purchased power costs than it was authorized to recover in current rates. SCW also has an additional \$2.9 million of under-collected supply costs in its water business.

CPUC approval has been obtained to increase electric rates to recover \$2.4 million in under-collected electric power costs over a five-year period. CPUC approval has also been obtained to recover approximately \$762,000 annually of costs for purchased power for its water ratemaking districts. Applications are pending before the CPUC for additional rate increases to recover under-collected power costs from SCW's electric and water customers. See the sections entitled "Electric Energy Situation in California" and "Regulatory Matters". SCW's under-collected position for purchased power relative to its Bear Valley Electric Service division could reach approximately \$23 million by the end of 2001 if the CPUC does not timely authorize recovery of both past electric power costs as well as costs associated with the new power purchase agreement. Registrant believes that timely regulatory approval of these applications by the CPUC is necessary to avoid any material adverse impact on SCW's liquidity and financial condition.

Registrant implemented a Cash Preservation Plan (CPP) in April 2001 to control costs and temporarily to limit capital and maintenance expenditures principally to those projects that are believed necessary to meet public safety and health requirements or otherwise provide for continued service pending CPUC approval of rate increases that will permit SCW to begin recovery of power costs incurred during California's energy crisis. The CPP impacts both the electric and water businesses of SCW. Management anticipates that the CPP, through deferral of capital expenditures alone, could reduce cash expenditures in 2001 by as much as \$20 million. See the sections entitled "Electric Energy Situation in California" and "Regulatory Matters" for more information.

The aggregate short-term borrowing capacity available to SCW under its three bank lines of credit was \$60 million as of June 30, 2001, of which a total of \$22 million was then outstanding. SCW routinely employs short-term bank borrowing as an interim-financing source.

SCW also relies on external sources, including equity investments from AWR, long-term debt, contributions-in-aid-of-construction, advances for construction and install-and-convey advances, to fund the majority of its construction expenditures. In January 2001, SCW issued the remaining \$20 million of long-term debt under a Registration Statement filed in 1998 with the proceeds used to reduce then outstanding bank borrowing. During 2001, SCW anticipates filing a Registration Statement with the SEC for issuance, from time to time, of additional debt securities. On March 30, 2001, AWR purchased an additional \$25 million equity investment in SCW.

CCWC funds the majority of its operating expenses, payments on its debt and dividends, if any, through internal sources. CCWC also relies on external sources, including long-term debt, contributions-

in-aid-of-construction, advances for construction and install-and-convey advances, to fund the majority of its construction expenditures.

ASUS funds its operating expenses primarily through contractual management fees.

#### ELECTRIC ENERGY SITUATION IN CALIFORNIA

The electric energy environment in California has changed as a result of the December 1995 CPUC decision on restructuring of California's electric utility industry and state legislation passed in 1996. On September 23, 1996, the State of California enacted legislation, California Assembly Bill 1890 as amended by California Senate Bill 477, to provide a transition to a competitive market structure, which was expected to provide competition and customer choice, beginning January 1, 1998, with all consumers ultimately participating by 2002. SCW's Bear Valley electric customer service area was exempted by the CPUC from compliance with most of the provisions of the CPUC order and the state legislation.

On January 17, 2001, the Governor of the State of California proclaimed a state of emergency in California due to shortages of electricity available to certain of California's utilities (resulting in blackouts), the unanticipated and dramatic increases in electricity prices and the insufficiency of electricity available from certain of California's utilities to prevent disruption of electric service in California. The reasons for the high cost of energy are under investigation but are reported to include, among other things, limited supply caused by a lack of investment in new power plants to meet growth in demand, planned and unplanned outages of power plants, lower than usual availability of hydroelectric power from the Pacific Northwest due to lower than usual precipitation and higher demand for electricity in the region, transmission line constraints, increased prices for natural gas, the fuel used in many of the power plants serving the region, and an uncertain power market.

Recently, legislation has been enacted and executive orders issued designed to encourage and accelerate the construction of additional power plants and the re-powering and updating of existing power plants to increase the supply of electricity in the State. A number of investigations have also been instituted as to the causes of the California energy situation and numerous pieces of legislation have been introduced at the California Legislature to deal with different aspects of the situation. The long-term impact of these legislative initiatives on SCW's Bear Valley Electric (BVE) customer service area is difficult to predict. For the short-term, however, management expects energy costs to remain high and to continue to be volatile.

On July 25, 2001, the Federal Energy Regulatory Commission (FERC) established the scope and methodology for calculating refunds related to transactions in the spot markets operated by the California Independent System Operator Corporation (Cal-ISO) and the California Power Exchange Corporation (Cal-PX) during the period October 2, 2000 through June 20, 2001, and ordered evidentiary hearings for the purpose of determining the amount of such refunds. SCW is a party to these proceedings, but has not been a direct participant in either the Cal-ISO or Cal-PX markets. SCW does not believe that these proceedings or any other proceedings currently pending before FERC will result in any reduction in SCW's under-collected power costs in the near term, if at all.

All electric energy sold by SCW to customers in its BVE customer service area is purchased from others. Historically, SCW purchased electric energy from the Southern California Edison (SCE) unit of Edison International. However, in order to keep electric power costs as low as possible, SCW entered into an energy brokerage contract with Sempra Energy Corporation (Sempra). SCW purchased electric energy for its BVE customer service area from Sempra during the period beginning March 26, 1996 through April 30, 1999. SCW changed energy brokers to Illinova Energy Partners (Illinova) beginning May 1, 1999

through April 30, 2000, and with Dynegy Power Marketing, Inc. (Dynegy) since May 1, 2000. Illinova has been acquired by Dynegy.

In May 2000, SCW entered into a one-year, block forward purchase contract with Dynegy for 12 megawatts (MW's) of electric energy for its BVE customer service area at a price of \$35.50 per MW hour (MWh). This contract expired April 30, 2001.

SCW entered into a five-year, block forward purchase contract with Mirant Americas Energy Marketing, LP (Mirant) to supply its BVE customer service area with 15 MW's of electric energy at a price of \$95 per MWh beginning April 1, 2001 through December 31, 2006. SCW also finalized an agreement with Pinnacle West Capital Corporation on June 14, 2001 for additional 8 MW's of electric energy to meet BVE's peak winter demands. The contract provides for pricing of \$75 per MWh from November 1, 2001 to March 31, 2002, \$48 per MWh from November 1, 2002 to March 31, 2003, and \$36 per MWh from November 1, 2003 to March 31, 2004. The average minimum load at SCW's Bear Valley Electric customer service area has been approximately 12 MW's. The average winter load has been 18 MW's with a winter peak of 38 MW's when the snowmaking machines at the ski resorts are operating. Under the terms of a contract with Dynegy that expires on April 30, 2002, Dynegy has agreed to procure electric energy for SCW in excess of the amounts it has purchased under the forward block purchase contracts previously described, to sell excess energy purchased by SCW under the terms of these contracts and to act as scheduling coordinator for SCW. SCW has withheld payment on \$3.4 million invoiced by Dynegy for the period December 20, 2000 through February 20, 2001, pending resolution of certain disputes. Although most of this amount is included in the electric supply cost balancing account, SCW has reserved against the portion not currently included in the balancing account.

Demand for energy in SCW's Bear Valley Electric customer service area generally has been increasing. However, the ability of SCW to deliver purchased power to these customers is limited by the ability of the transmission facilities owned by Southern California Edison Company ("Edison") to transmit this power. See section entitled "Legal Proceedings" for a discussion of litigation between Edison and SCW regarding Edison's obligations to upgrade these transmission facilities. In order to meet these increasing energy demands, SCW is considering, in addition to the renegotiated block forward purchase of electric energy, a number of options including (i) the purchase of electric energy from on-site generation facilities installed by a third party, (ii) the use of portable generation, and (iii) the installation of generation owned by Registrant. Each of these options is expected to result in further increases in electric energy prices for customers of SCW's BVE customer service area.

#### WATER SUPPLY

For the three months ended June 30, 2001, SCW supplied a total of 22,834,000 ccf of water as compared to 23,954,000 ccf for the three months ended June 30, 2000. Of the total 22,833,818 ccf of water supplied during the second quarter of 2001, approximately 59% came from pumped sources and 38.5% was purchased from others, principally the Metropolitan Water District of Southern California (MWD) and its member agencies. The remaining 2.5% of total supply came from the United States Bureau of Reclamation (the Bureau). For the three months ended June 30, 2000, 55.5%, 41.9% and 2.5% was supplied from pumped sources, purchased from MWD and the Bureau, respectively.

For the six months ended June 30, 2001, SCW supplied a total of 38,422,000 ccf of water, 61.1% of which came from pumped sources, 37.4% was purchased and the remaining amount was supplied by the Bureau. During the six months ended June 30, 2000, SCW produced 40,468,000 ccf of water. Of this amount 57.7% came from pumped sources, 40.7% was purchased and the remainder was provided by the Bureau.

During the twelve months ended June 30, 2001, SCW supplied 85,393,638 ccf of water as compared to 88,346,000 ccf supplied during the twelve months ended June 30, 2000. During the twelve months ended June 30, 2001, pumped sources provided 57.1% of total supply, 40.9% was purchased from MWD and its member agencies. The remaining 2.0% of total supply came from the United States Bureau of Reclamation (the Bureau) under a no-cost contract. For the twelve months ended June 30, 2000, 56.6%, 41.3% and 2.1%, respectively, was supplied from pumped sources, purchased from MWD and the Bureau.

The MWD is a water district organized under the laws of the State of California for the purpose of delivering imported water to areas within its jurisdiction. Registrant has 57 connections to the water distribution facilities of MWD and other municipal water agencies. MWD imports water from two principal sources: the Colorado River and the State Water Project (SWP). Available water supplies from the Colorado River and the SWP have historically been sufficient to meet most of MWD's requirements and MWD's supplies from these sources are anticipated to remain adequate through 2001. MWD's import of water from the Colorado River is expected to decrease in future years due to the requirements of the Central Arizona Project (CAP). In response, MWD has taken a number of steps to secure additional storage capacity and to increase available water supplies, by effecting transfers of water rights from other sources.

Registrant's water supply and revenues are significantly affected, both in the short-run and the long run, by changes in meteorological conditions. Statewide precipitation from October 2000 to May 2001 remains at 75% of average. Reservoir storage, at May 31, 2001, is about average, which helps to ensure sufficient water supplies for most local agency users. Based on the May 1, 2001 snow survey and water in storage, the Department of Water Resources (DWR) has increased the 2001 allocation of entitlement water for long-term State Water Project contractors including MWD from 1.38 million acre-feet to 1.44 million acre-feet. Although overall groundwater conditions remain at adequate levels in most of SCW's operating areas, certain of SCW's groundwater supplies have been affected to varying degrees by various forms of contamination which, in some cases, have caused increased reliance on purchased water in its supply mix.

Likewise the Colorado River water outlook remains favorable. The April-July inflow to Lake Powell is forecast to be 5.6 million acre-feet, which is 72% of average. The May 2001 snow pack in the Upper Colorado River basin was 78% of average.

CCWC obtains its water supply from three operating wells and from Colorado River water delivered by the CAP. The majority of CCWC's water supply is obtained from its CAP allocation and well water is used for peaking capacity in excess of treatment plant capability, during treatment plant shutdown, and to keep the well system in optimal operating condition. CCWC has an Assured Water Supply designation, by decision and order of the Arizona Department of Water Resources, providing in part that, subject to its requirements, CCWC currently has a sufficient supply of ground water and CAP water which is physically, continuously and legally available to satisfy current and committed demands of its customers, plus at least two years of predicted demands, for 100 years.

Notwithstanding such a designation, CCWC's water supply may be subject to interruption or reduction, in particular owing to interruption or reduction of CAP water. In the event of interruption or reduction of CAP water, CCWC can currently rely on its well water supplies for short-term periods. However, in any event, the quantity of water CCWC supplies to some or all of its customers may be interrupted or curtailed, pursuant to the provisions of its tariffs.

#### REGULATORY MATTERS

SCW is subject to regulation by the CPUC, which has broad powers with respect to service and facilities, rates, classifications of accounts, valuation of properties, the purchase, disposition and

mortgaging of properties necessary or useful in rendering public utility service, the issuance of securities, the granting of certificates of convenience and necessity as to the extension of services and facilities and various other matters. CCWC is subject to similar regulation by the ACC.

AWR and ASUS are not regulated by the CPUC. The CPUC does, however, regulate certain transactions between SCW and its non-regulated affiliates.

The 22 customer service areas (CSAs) of SCW are grouped into 16 water districts and 1 electric district for ratemaking purposes. Water rates vary among the 16 ratemaking districts due to differences in operating conditions and costs. SCW monitors operations on a regional basis in each of these districts so that applications for rate changes may be filed, when warranted. Under the CPUC's practices, rates may be increased by three methods: general rate case increases (GRC's), offsets for certain expense increases and advice letter filings related to certain plant additions. GRC's are typically for three-year periods, which include step increases for the second and third year. Rates are based on a forecast of expenses and capital costs. GRC's have a typical regulatory lag of one year. Offset rate increases typically have a two to four month regulatory lag.

New water rates with an annual increase of approximately \$2.5 million for seven ratemaking districts in SCW's Region I were implemented in January 2001. SCW's application to combine the seven ratemaking CSAs into one regional rate was, however, denied by the CPUC. Step increases of approximately \$1.7 million for CSAs in SCW's Region III were also effective in January 2001. An attrition increase of approximately \$2.8 million for Region II was in effect from February 2001.

As of June 30, 2001, SCW had accrued approximately \$16.8 million in under-collected purchased power costs included in the electric balancing account. In May 2000, SCW filed an Advice Letter with the CPUC for recovery over a five-year period of approximately \$2.4 million in under-collected power costs and removal of a negative amortization authorized by the CPUC in 1997. The CPUC issued a final order on May 24, 2001 authorizing an overall rate increase of 12.5%, with a condition of conducting a subsequent audit on the expenses included in the electric balancing account.

SCW filed a second Advice Letter on April 9, 2001 seeking recovery, over five years, of an additional under-collection of \$8.7 million for energy costs. A draft resolution issued by the CPUC on July 24, 2001 approves, with modifications, the Advice Letter filed by SCW. The draft resolution is scheduled to be on the agenda at the CPUC meeting on August 23, 2001. If approved by the Commission, as drafted, rates in SCW's BVE service territory will increase by an additional 14.8%.

On May 11, 2001, SCW filed with the CPUC for an additional increase in electric rates to recover energy costs under the purchase agreement with Mirant. SCW subsequently withdrew the Advice Letter and anticipates filing an application in the third quarter of 2001 with the CPUC, along with a motion requesting immediate recovery of these costs, subject to refund after completion of the review process. The application, if approved, will result in an additional electric rate increase of approximately 50%. SCW expects to continue to file additional Advice Letters to recover differences between actual electric power costs and amounts recovered through electric rates. SCW believes that timely regulatory actions to authorize SCW to recover its past and future power costs are necessary to avoid any material adverse effect on SCW's liquidity and financial condition. See the sections entitled "Liquidity and Capital Resources" and "Electric Energy Situation in California" for more information.

In March 2001, the CPUC approved SCW's filing for recovery of increased costs of electric power incurred to pump water for its water customers. In April 2001, SCW filed a second Advice Letter to increase water rates by approximately \$2.3 million company-wide to recover additional electric base rate increases, authorized recently by the CPUC for the Southern California Edison Company and the Pacific

Gas and Electric Company. See the section entitled "Electric Energy Situation in California" for more information.

Hearings before the CPUC have concluded on SCW's application to include an additional \$1.6 million in rate base for a water treatment facility in SCW's Clearlake service area. In 1993, the CPUC disallowed the entire \$1.6 million and Registrant wrote off the entire amount. A draft decision issued on March 30, 2001 by the CPUC allows SCW to include \$500,000 of the \$1.6 million in the regulated rate base. An alternate draft decision issued by one of the CPUC Commissioners proposes to deny the application. A final order is anticipated in the third quarter of 2001.

On April 22, 1999, the CPUC issued an order denying SCW's application seeking approval of its recovery through rates of costs associated with its participation in the Coastal Aqueduct Extension of the State Water Project (SWP). SCW's participation in the SWP commits it to a 40-year entitlement. SCW's investment of approximately \$9.5 million in SWP is currently included in Other Property and Investments. The remaining balance of the related liability of approximately \$7 million is recorded as other long-term debt. SCW intends to recover its investment in SWP either through contributions from developers on a per-lot or other basis, or from the sale of its 500 acre-foot entitlement in SWP.

On December 26, 2000, SCW filed an Advice Letter with the CPUC, in accordance with a prior CPUC resolution authorizing such a filing, seeking recovery of approximately \$1,800,000 in expenses associated with its lawsuits against Aerojet General Corporation and the Department of Water Resources of the State of California. An order, issued April 28, 2001, authorized SCW to recover these costs from customers in SCW's Arden-Cordova customer service area over a six-year period.

On January 26, 2001, the CPUC Staff, SCW and Peerless Water Co., a privately owned water company in Bellflower, California, signed a Settlement Agreement, which recommends approval of the proposed acquisition by SCW of Peerless. A final decision from the CPUC is not anticipated prior to the fourth quarter of 2001.

There are no active regulatory proceedings affecting CCWC or its operations.

#### ENVIRONMENTAL MATTERS

##### 1996 Amendments to Federal Safe Drinking Water Act

On August 6, 1996, amendments (the 1996 SDWA amendments) to the Safe Drinking Water Act (the SDWA) were signed into law. The 1996 SDWA revised the 1986 amendments to the SDWA with a new process for selecting and regulating contaminants. The U. S. Environmental Protection Agency (EPA) can only regulate contaminants that may have adverse health effects, are known or likely to occur at levels of public health concern, and the regulation of which will provide "a meaningful opportunity for health risk reduction." The EPA has published a list of contaminants for possible regulation and must update that list every five years. In addition, every five years, the EPA must select at least five contaminants on that list and determine whether to regulate them. The new law allows the EPA to bypass the selection process and adopt interim regulations for contaminants in order to address urgent health threats. Current regulations, however, remain in place and are not subject to the new standard-setting provisions. The DOHS, acting on behalf of the EPA, administers the EPA's program in California.

The 1996 SDWA amendments allow the EPA for the first time to base primary drinking water regulations on risk assessment and cost/benefit considerations and on minimizing overall risk. The EPA must base regulations on best available, peer-reviewed science and data from best available methods. For proposed regulations that involve the setting of maximum contaminant levels (MCL's), the EPA must use,

and seek public comment on, an analysis of quantifiable and non-quantifiable risk-reduction benefits and cost for each such MCL.

SCW and CCWC currently test their wells and water systems according to requirements listed in the SDWA. Water from wells found to contain levels of contaminants above the established MCL's is treated to reduce contaminants to acceptable levels before it is delivered to customers.

Since the SDWA became effective, SCW has experienced increased operating costs for testing to determine the levels, if any, of the constituents in SCW's sources of supply and additional expense to lower the level of any contaminants in order to meet the MCL standards. Such costs and the costs of controlling any other contaminants may cause SCW to experience additional capital costs as well as increased operating costs.

AWR is currently unable to predict the ultimate impact that the 1996 SDWA amendments might have on the financial position or results of operation of its regulated utility subsidiaries. The CPUC and ACC ratemaking processes provide SCW and CCWC with the opportunity to recover prudently incurred capital and operating costs associated with water quality. Management believes that such incurred costs will be authorized for recovery by the CPUC and ACC, as appropriate.

#### Proposed Enhanced Surface Water Treatment Rule

On July 29, 1994, the EPA proposed an Enhanced Surface Water Treatment Rule (ESWTR), which would require increased surface-water treatment to decrease the risk of microbial contamination. The EPA has proposed several versions of the ESWTR for promulgation. The version selected for promulgation will be determined based on data collected by certain water suppliers and forwarded to the EPA pursuant to EPA's Information Collection Rule, which requires such water suppliers to monitor microbial and other contaminants in their water supplies and to conduct certain tests in respect of such contaminants. The EPA has adopted an Interim ESWTR applicable only to systems serving greater than 10,000 persons. On April 10, 2000, EPA published the proposed Long Term 1 Enhanced Surface Water Treatment Rule and Filter Backwash Rule (LT1FBR) in the Federal Register. This proposed rule will apply to each of SCW's five surface water treatment plants and the CCWC's surface water treatment plant. It basically extends the requirements of the ESWTR to systems serving less than 10,000 persons and will require some systems to institute changes to the return of recycle filter backwash flows within the treatment process to reduce the effects of recycle on compromising microbial control. Registrant is presently unable to predict the ultimate impact of the LT1FBR, but it is anticipated that all five SCW's plants and the CCWC's plant will achieve compliance within the three year to five-year time frames identified by EPA.

#### Regulation of Disinfection/Disinfection By-Products

SCW and CCWC are also subject to the new regulations concerning disinfection/disinfection by-products (DBP's), Stage I of which regulations were effective in November 1998 with full compliance required by 2001. Stage I requires reduction of trihalomethane contaminants from 100 micrograms per liter to 80 micrograms per liter. Two of SCW's systems are immediately impacted by this rule. SCW implemented modifications to the treatment process in its Bay Point and Cordova systems. It is anticipated that both systems will be in full compliance by 2001. A third SCW plant will require treatment modifications in order to comply with this rule. SCW is preparing to conduct studies in Calipatria to determine the best treatment methods to comply with this rule.

It is anticipated that the EPA will adopt Stage II rules pertaining to DBP's by year-end 2001. The EPA is not allowed to use the new cost/benefit analysis provided for in the 1996 SDWA amendments for establishing the Stage II rules applicable to DBP's but may utilize the regulatory negotiating process

provided for in the 1996 SDWA amendments to develop the Stage II rule. The final rule is expected by 2002.

#### Ground Water Rule

On May 10, 2000, the EPA published the proposed Ground Water Rule (GWR), which establishes multiple barriers to protect against bacteria and viruses in drinking water systems that use ground water. The proposed rule will apply to all U.S. public water systems that use ground water as a source. The proposed GWR includes system sanitary surveys conducted by the state to identify significant deficiencies; hydrogeologic sensitivity assessments for undisinfected systems, source water microbial monitoring by systems that do not disinfect and draw from hydrogeologically sensitive aquifer or have detected fecal indicators within the system's distribution system; corrective action; and compliance monitoring for systems which disinfect to ensure that they reliably achieve 4-log (99.99%) inactivation or removal of viruses. The GWR is scheduled to be issued as a final regulation in 2001. While no assurance can be given as to the nature and cost of any additional compliance measures, if any, SCW and CCWC do not believe that such regulations will impose significant compliance costs, since they already currently engage in disinfection of their groundwater systems.

#### Regulation of Radon and Arsenic

The final regulation on arsenic was published in January 2001 with a new federal standard of 10 parts per billion (ppb). Compliance with an MCL of 10 ppb will require implementation of wellhead treatment remedies for eight affected wells in SCW's system and three wells in CCWC's system. However, the EPA recently withdrew the pending arsenic standard for a sixty-day review to seek independent reviews of both the science behind the standard and of the cost estimates to communities of implementing the rule. Registrant is unable to predict if or when the rule will be officially released.

The EPA has proposed new radon regulations following a National Academy of Sciences risk assessment and study of risk-reduction benefits associated with various mitigation measures. The National Academy of Sciences study is in agreement with much of EPA's original findings but has slightly reduced the ingestion risk initially assumed by EPA. EPA established an MCL of 300 Pico Curies per liter based on the findings and has also established an alternative MCL of 4000 Pico Curies per liter, based upon potential mitigation measures for overall radon reduction. It is our understanding that the United States Office of Management and Budget has sent the radon rule back to EPA for reconsideration. The final rule was expected to be effective in August 2000, but has been delayed by the new administration. SCW and CCWC currently monitor their wells for radon in order to determine the best treatment appropriate for affected wells.

#### Voluntary Efforts to Exceed Minimum Surface Water Treatment Requirements

SCW is a voluntary member of the EPA's "Partnership for Safe Water", a national program designed to further protect the public from diseases caused by cryptosporidium and other microscopic organisms. As a volunteer in the program, SCW commits to exceed minimum operating requirements governing surface water treatment, optimize surface water treatment plant operations and ensure that its surface water treatment facilities are performing as efficiently as possible.

#### Fluoridation of Water Supplies

SCW is subject to State of California Assembly Bill 733, which requires fluoridation of water supplies for public water systems serving more than 10,000 service connections. Although the bill requires affected systems to install treatment facilities only when public funds have been made available to cover

capital and operating costs, the bill requires the CPUC to authorize cost recovery through rates should public funds for operation of the facilities, once installed, become unavailable in future years.

#### Matters Relating to SCW's Arden-Cordova System

In January 1997, SCW was notified that ammonium perchlorate in amounts above the state-determined action level had been detected in three of its wells serving its Rancho-Cordova system. Aerojet-General Corp. has, in the past, used ammonium perchlorate in their processing as an oxidizer of rocket fuels. SCW took the three wells detected with ammonium perchlorate out of service at that time. Although neither the EPA nor the DOHS has established a drinking water standard for ammonium perchlorate, DOHS has established an action level of 18 parts per billion (ppb) which required SCW to notify customers in its Rancho-Cordova customer service area of detection of ammonium perchlorate in amounts in excess of this action level. In April 1997, SCW found ammonium perchlorate in three additional wells and, at that time, removed those wells from service until it was determined that the levels were below the state-determined action level. Those wells were returned to service. SCW periodically monitors these wells to determine that levels of perchlorate are below the action level currently in effect.

In February 1998, SCW was informed that nitrosodimethylamine (NDMA) had been detected in amounts in excess of the EPA reference dosage for health risks in four of its wells in its Rancho-Cordova system. The wells have been removed from service. Another well was also removed from service in September 1999 due to the contamination. NDMA is an additional by-product from the production of rocket fuel and it is believed that such contamination is related to the activities of Aerojet-General Corp. Aerojet-General Corp. has reimbursed SCW for constructing a pipeline to interconnect with the City of Folsom water system to provide an alternative source(s) of water supply in SCW's Rancho-Cordova customer service area and has reimbursed SCW for costs associated with the drilling and equipping of two new wells. As of June 30, 2001, Aerojet-General Corp. has previously reimbursed SCW \$4.5 million. The remainder of the costs is subject to further reimbursement, including interest. The reimbursement from Aerojet-General Corp. reduces SCW's utility plant and costs of purchased water.

On October 25, 1999, SCW filed a lawsuit against the California Regional Water Quality Control Board (CRWQCB) alleging that the CRWQCB has willfully allowed portions of the Sacramento County Groundwater Basin to be injected with chemical pollution that is contaminating the underground water supply in SCW's Rancho Cordova customer service area. In a separate case, also filed on October 25, 1999, SCW sued Aerojet General Corp. for causing the contamination. On March 22, 2000 Aerojet General Corp. filed a cross complaint against SCW for negligence and constituting a public nuisance. SCW is unable to determine at this time what, if any, potential liability it may have with respect to the cross complaint, but intends to vigorously defend itself against these allegations. Management cannot predict the outcome of these proceedings. See the section entitled "Legal Proceedings" for more information.

#### Matters Relating to SCW's Culver City System

The compound, methyl tertiary butyl ether (MTBE), an oxygenate used in reformulated fuels, has been detected in the Charnock Basin, located in the city of Santa Monica and within SCW's Culver City customer service area. At the request of the Regional Water Quality Control Board, the City of Santa Monica and the California Environmental Protection Agency, SCW removed two of its wells in the Culver City system from service in October 1996 to help in efforts to avoid further spread of the MTBE contamination plume. Neither of these wells has been found to be contaminated with MTBE. SCW is purchasing water from the Metropolitan Water District of Southern California (MWD) at an increased cost to replace the water supply formerly pumped from the two wells removed from service.

Pursuant to an agreement with SCW in December 1998, two of the potentially responsible parties (the Participants) have reimbursed SCW's legal and consulting costs related to this matter and for increased costs incurred by SCW in purchasing replacement water. However, a notice of termination from the Participants to the settlement agreement was received in October 1999 claiming overpayments for replacement water in excess of SCW's water rights. No assurances can be given that future negotiations will result in complete restoration of SCW's water rights or that continued reimbursement of SCW's costs will be forthcoming.

On September 22, 1999, the U.S. EPA and the Los Angeles Regional Water Quality Control Board ordered Shell Oil Company, Shell Oil Products Company and Equilon Enterprises LLC to provide replacement drinking water to both SCW and the City of Santa Monica due to MTBE contamination of the Charnock Sub-Basin drinking water. The EPA has ordered Shell Oil to reimburse SCW for water replacement costs. The agencies are continuing to investigate the causes of MTBE pollution and intend to ensure that all responsible parties contribute to its clean up although SCW is unable to predict the outcome of the EPA's enforcement efforts.

On April 25, 2001, Registrant filed a lawsuit against all the potentially responsible parties for polluting and contaminating water existing in areas of the Sub-Basin from which SCW has pumped water through its Charnock Well Field. Management cannot predict the likely outcome of this proceeding.

#### Matters Relating to SCW's Yorba Linda System

The compound, MTBE, has been detected in three wells serving SCW's Yorba Linda system. Two of the wells are standby wells and the third well has not shown MTBE above the DOHS secondary standard of 5.0 ppb at this time. SCW has constructed an interconnection with the MWD to provide for additional supply in the event the third well experienced levels of detection in excess of the DOHS standard.

SCW has met with the Regional Water Quality Control Board, the Orange County Water District, the City of Anaheim, the DOHS and three potentially responsible parties (PRP's) to define the extent of the MTBE contamination plume and assess the contribution from the PRP's. The PRP's have voluntarily initiated a work plan for regional investigation. While there have not been significant disruptions to the water supply in Yorba Linda at this point in time, no assurances can be given that MTBE contamination will not increase in the future.

#### RISK FACTORS

You should carefully read the risks described below and other information in this Form 10-Q in order to understand certain of the risks of our business.

**OUR LIQUIDITY, AND IN CERTAIN CIRCUMSTANCES, EARNINGS, COULD BE ADVERSELY AFFECTED BY THE INCREASE IN ELECTRICITY PRICES IN CALIFORNIA.**

Under California law, we are permitted to file for a rate increase to recover electric power costs not being recovered in current rates. Increases in electric power costs generally have no direct impact on profit margins, but do affect cash flows and can therefore impact the amount of our capital resources. Electric power costs have increased substantially in California since April 2000. As of June 30, 2001, SCW had accrued \$19.7 million in unrecovered power costs in its water and electric balancing accounts

We have been funding these power costs from our short-term borrowing facilities. In addition, in April 2001, the Company implemented a Cash Preservation Plan to control costs and temporarily to limit capital and maintenance expenditures. SCW has filed Advice Letters to recover the under-collection of power costs in its water and electric balancing accounts and intends to continue to do so until such time

as its actual power costs are being fully recovered in rates. However, due to the nature of the regulatory process, there is a risk of disallowance of full recovery of supply costs during any period in which there has been a substantial run-up in these costs. Any material disallowance of purchased power costs could have a material adverse impact on cash flow and earnings. In addition, we believe that timely action by the CPUC to authorize the recovery of these costs is necessary to avoid a material adverse effect on SCW's financial condition. Delays in obtaining regulatory approval or disallowance of recovery of costs could also affect SCW's ability to pay dividends to AWR. AWR's ability to pay dividends on its Common Shares is dependent upon the payment of dividends by SCW.

The Company has established reserves for its Bear Valley Electric division for possible disallowance of the recovery of past power costs included in the supply cost balancing account arising out of the California electric crisis as well as amounts currently in dispute with our energy supplier.

THE BALANCING ACCOUNT MECHANISM, ALTHOUGH APPLICABLE TO WATER SUPPLY COSTS, DOES NOT INSULATE THE COMPANY'S EARNINGS FROM CHANGES IN WATER SUPPLY MIX.

We recover certain water supply costs through a balancing account mechanism. Water supply costs include the cost of purchased water and power and groundwater production assessments. The balancing account is not, however, designed to insulate SCW's earnings against changes in supply mix. As a result, SCW may not recover increased costs due to increased use of purchased water, which is generally more expensive than groundwater, through the balancing account mechanism.

SIGNIFICANT CLAIMS HAVE BEEN ASSERTED AGAINST US IN WATER QUALITY LITIGATION.

SCW has been sued in eighteen water quality related lawsuits alleging personal injury and property damage as a result of the delivery of water that was allegedly contaminated involving multiple plaintiffs and defendants. Fifteen of the lawsuits involve plaintiffs who receive water from the San Gabriel Basin in Los Angeles County. The other lawsuits involve plaintiffs in Sacramento County. On September 1, 1999, the First District Court of Appeal in San Francisco held that the CPUC had preemptive jurisdiction over regulated utilities and ordered dismissal of a series of these lawsuits, including seven of the lawsuits against SCW. On October 1, 1999, one group of plaintiffs appealed this decision to the California Supreme Court, which has accepted the petition. We anticipate that the California Supreme Court will hear oral arguments during 2001. The lawsuits not involved in the appeal are currently inactive pending the decision of the California Supreme Court.

In March 1998, the CPUC issued an Order Instituting Investigation as a result of water quality lawsuits being filed against water utilities in California. On November 2, 2000, the CPUC issued a final order concluding that the CPUC has jurisdiction to regulate the service of water utilities with respect to the health and safety of that service; that DOHS requirements governing drinking water quality adequately protect the public health and safety; and that regulated water utilities, including SCW, have satisfactorily complied with past and present drinking water quality requirements.

If the California Supreme Court upholds the dismissal of the lawsuits, it is not known whether the plaintiffs will seek recourse through new legislation, or through the CPUC, and what effect, if any, this may have on us. If the California Supreme Court permits these lawsuits to proceed, the lawsuits will be tried on the merits.

The CPUC has authorized a memorandum account for legal expenses incurred by water utilities, including SCW, in the water quality lawsuits. Under the memorandum account procedure, SCW may recover litigation costs from ratepayers to the extent authorized by the CPUC. The CPUC has not yet authorized SCW to recover any of its litigation costs. As of June 30, 2001, SCW had incurred \$888,600 in this memorandum account.

OUR OPERATING COSTS HAVE INCREASED AND ARE EXPECTED TO CONTINUE TO INCREASE AS A RESULT OF GROUNDWATER CONTAMINATION.

SCW's operations have been impacted by groundwater contamination in certain of its service territories. We have taken a number of steps to address this contamination, including the removal of wells from service, the construction of water treatment facilities and securing alternative sources of supply from other areas not affected by the contamination.

In some cases, we have been reimbursed for our costs by potentially responsible parties. In other cases, we have taken legal action against parties that we believe to be potentially responsible for the contamination.

Certain government officials have suggested that water producers, such as SCW and CCWC, may have liability under certain environmental statutes if their pumping operations affect the movement of the contamination. SCW has been required to remove certain wells from service because its pumping activities might affect the movement of contamination in other service areas. Currently, neither the Environmental Protection Agency nor any other governmental agency has identified the Company or, to our knowledge, any other water producer, as a potentially responsible party. We cannot assure you, however, that SCW or CCWC will not be identified as a potentially responsible party in the future. Our future results of operations could be adversely affected if either SCW or CCWC is required to pay clean-up costs and is not allowed to recover such costs in rates.

ENVIRONMENTAL REGULATION HAS INCREASED, AND IS EXPECTED TO CONTINUE TO INCREASE, OUR OPERATING COSTS.

SCW and CCWC are subject to increasingly stringent environmental regulations that will result in increasing capital and operating costs. These regulations include:

- The 1996 amendments to the Safe Drinking Water Act that require increased testing and treatment of water to reduce specified contaminants to minimum containment levels
- Approved regulations requiring increased surface-water treatment to decrease the risk of microbial contamination; these regulations will affect SCW's five surface water treatment plants and one CCWC plant
- Additional regulation of disinfection/disinfection byproducts expected to be adopted before the end of 2002; these regulations will potentially affect two of SCW's systems
- Additional regulations expected to be adopted in 2001 requiring disinfection of certain groundwater systems
- Potential regulation of arsenic and radon
- California customer requirements to fluoridate public water systems serving over 10,000 customers

SCW and CCWC may be able to recover costs incurred to comply with these regulations through the ratemaking process for their regulated systems. We may also be able to recover certain of these costs under our contractual arrangements with municipalities. In certain circumstances, we may be able to recover costs from parties responsible or potentially responsible for contamination.

THE ADEQUACY OF OUR WATER SUPPLIES DEPENDS UPON A VARIETY OF FACTORS BEYOND OUR CONTROL.

The adequacy of our water supplies varies from year to year depending upon a variety of factors, including:

- Rainfall
- The amount of water stored in reservoirs
- The amount of water used by our customers and others
- Water quality, and
- Legal limitations on use

Population growth and increases in the amount of water used have increased limitations on use to prevent over-drafting of groundwater basins. The import of water from the Colorado River, one of SCW's important sources of supply, is expected to decrease in future years due to the requirements of the Central Arizona Project ("CAP"). We have also taken wells out of service due to groundwater contamination.

CCWC obtains its water supply from operating wells and from the Colorado River through the CAP. CCWC's water supply may be subject to interruption or reduction if there is an interruption or reduction in CAP water.

Water shortages may affect us in a variety of ways:

- ~ They adversely affect supply mix by causing us to rely on more expensive purchased water
- ~ They adversely affect operating costs
- ~ They may result in an increase in capital expenditures for building pipelines to connect to alternative sources of supplies and reservoirs and other facilities to conserve or reclaim water

We may be able to recover increased operating and construction costs for our regulated systems through the ratemaking process. We may also be able to recover certain of these costs under the terms of our contractual agreements with municipalities. In certain circumstances, we may recover these costs from third parties that may be responsible, or potentially responsible, for groundwater contamination.

OUR EARNINGS ARE GREATLY AFFECTED BY WEATHER DURING DIFFERENT SEASONS.

The demand for water varies by season. Therefore, the results of operations for one period may not indicate results to be expected in another period. For instance, most water consumption occurs during the third quarter of each year when weather tends to be hot and dry. On warm days, use of water by residential and commercial customers may be significantly greater than on cold days because of the increased use of water for outdoor landscaping. Likewise the demand for electricity in our Big Bear service area is greatly affected by winter snows. An increase in winter snows reduces the use of snow making machines at ski resorts in the Big Bear area and, as a result reduces electric revenues.

Variability of weather from normal temperatures or changes in snow or rainfall can materially impact results of operations. As a result, weather has been and will continue to be one of the dominant factors in our financial performance.

OUR BUSINESS IS HEAVILY REGULATED AND, AS A RESULT DECISIONS BY REGULATORY AGENCIES AND CHANGES IN LAWS AND REGULATIONS CAN SIGNIFICANTLY AFFECT OUR BUSINESS.

Our revenues depend substantially on the rates that we are permitted to charge our customers and our ability to recover our costs in these rates, including the ability to recover the costs of purchased water, groundwater assessments and electric power costs in rates. In April 1999, the CPUC denied our request to recover through rates the costs associated with our participation in the Coastal Aqueduct Extension of the State Water Project. We also have an application pending before the CPUC to include

an additional \$1.6 million in rate base for a water treatment plant in SCW's Clearlake service area that was previously disallowed by the CPUC in 1993. In addition, we have applications pending to acquire the Peerless Water Co. and to recover additional amounts in our water and electric balancing accounts.

We have been adversely affected by electric restructuring in California and the escalation of energy costs attributable thereto. The California Department of Water Resources has attempted to alleviate the crisis by purchasing electricity for Pacific Gas and Electric Company, Southern California Edison Company and San Diego Gas and Electric Company, but does not purchase any electricity for our Bear Valley electric division. FERC has taken certain actions intended to stabilize the energy market in the West and has ordered evidentiary proceedings for the purpose of determining the amount of refunds that may be due to direct participants in the Cal-ISO and Cal-PX markets. We are not direct participants in these markets. We therefore do not believe that this or any of the other proceedings currently pending before FERC will result, either directly or indirectly, in any reduction in SCW's under collected power costs in the near term, if at all.

#### OUR BUSINESS REQUIRES SIGNIFICANT CAPITAL EXPENDITURES.

The utility business is capital intensive. On an annual basis, we spend significant sums for additions to or replacement of property, plant and equipment. During calendar years 2000, 1999 and 1998, we spent \$45,786,000, \$51,578,000 and \$45,269,000, respectively, for these purposes. Our budgeted capital expenditures for calendar year 2001 for these purposes are approximately \$50,400,000. Actual expenditures will be lower because of the cash preservation plan adopted by the Company to conserve cash temporarily during the electric energy crisis.

We obtain funds for these capital projects from operations, contributions by developers and others and advances from developers (which must be repaid). We also periodically borrow money for these purposes. We maintain bank lines of credit that we can use for these purposes. We cannot assure you that these sources will continue to be adequate or that the costs of funds will remain at levels permitting us to remain profitable.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Registrant has no derivative financial instruments, financial instruments with significant off-balance sheet risks or financial instruments with concentrations of credit risk. The disclosure required is, therefore, not applicable.

### PART II

#### ITEM 1. LEGAL PROCEEDINGS

SCW is a defendant in eighteen lawsuits involving claims pertaining to water quality. Fifteen of the lawsuits involve customer service areas located in Los Angeles County in the southern portion of the State of California; three of the lawsuits involve a customer service area located in Sacramento County in northern California.

On September 1, 1999, the First District Court of Appeal in San Francisco, in a published opinion entitled *Hartwell Corporation v. The Superior Court of Ventura County (Hartwell)*, held that the CPUC had preemptive jurisdiction over regulated public utilities and ordered dismissal of a series of lawsuits pertaining to water quality filed against water utilities, including SCW. Seven lawsuits against SCW have been ordered for dismissal by the state Court of Appeals -- the Adler (Case No. 1), Santamaria (Case No. 2), Anderson (Case No. 3), Dominguez (Case No. 4), Celi (Case No. 5), Boswell (Case No. 6),

and Demciuc (Case No. 7) Matters. On October 11, 1999, one group of plaintiffs appealed to the California Supreme Court, which has accepted the case. Management is unable to predict the outcome of this proceeding but, in any event, does not anticipate a decision prior to the fourth quarter of 2001.

On December 3, 1998, SCW was named as a defendant in a complaint in multiple counts, styled Abarca, et al. v. City of Pomona, et al. (Case No. 8), filed in Los Angeles Superior Court which seeks recovery for negligence, wrongful death, strict liability, permanent trespass, continuing trespass, continuing nuisance, permanent nuisance, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, conspiracy/fraudulent concealment, battery and unfair business practices on behalf of 383 plaintiffs (the Abarca Matter). Plaintiffs seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief.

SCW was named as a defendant, along with the City of Pomona, California and Xerox Corporation in the matter styled Adejare, et al. v. Southern California Water Company, et al. (Case No. 9), filed on July 22, 1999 in Los Angeles Superior Court which seeks recovery for wrongful death, battery and fraudulent concealment (the Adejare Matter). Plaintiffs seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief.

In December 1997 SCW was named a defendant in the matter of Nathaniel Allen, Jr., et al. v. Aerojet-General Corporation, et al. (Case No. 10), which was filed in Sacramento Superior Court. The complaint makes claims based on wrongful death, personal injury, property damage as a result of nuisance and trespass, medical monitoring, and diminution of property values (the Allen Matter). Plaintiffs allege that SCW and other defendants have delivered water to plaintiffs which allegedly is, or has been in the past, contaminated with a number of chemicals, including TCE, PCE, carbon tetrachloride, perchlorate, Freon-113, hexavalent chromium and other, unnamed, chemicals. SCW filed Demurrers and Motion to Strike in this matter on June 5, 1998. A stay of all proceeding in the Allen matter is in effect pending the outcome of the California Supreme Court's proceeding in the Hartwell case.

In March 1998, SCW was named a defendant in the matter of Daphne Adams, et al. v. Aerojet General, et al. (Case No. 11) that was filed in Sacramento Superior Court (the Adams Matter). The complaint makes claims based on negligence, strict liability, trespass, public nuisance, private nuisance, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, violation of California Business and Professions Code section 17200 et seq., intentional infliction of emotional distress, intentional spoilage of evidence, negligent destruction of evidence needed for prospective civil litigation, wrongful death and medical monitoring. Plaintiffs seek damages, including general, punitive and exemplary damages, as well as attorney's fees, costs of suit, injunctive and restitutionary relief, disgorged profits and civil penalties, medical monitoring according to proof and other unspecified relief. SCW filed its Demurrers and Motion to Strike in this matter on June 5, 1998. A stay of all proceedings in the Adams Matter is in effect pending the outcome of the California Supreme Court's proceeding in the Hartwell case.

In May 2000, SCW was named a defendant in the matter of Wallace Andrew Pennington, et al. v. Aerojet General, et al. (Case No. 12) that was filed in Sacramento Superior Court (the Pennington Matter). The complaint makes claims based on negligence, intentional infliction of emotional distress, strict liability, public liability for ultra hazardous activity and fraudulent concealment. Plaintiffs allege that SCW and other defendants knowingly operated and maintained wells, which provided contaminated drinking water to the surrounding communities. Plaintiffs seek damages, including general, punitive and exemplary damages, as well as attorney's fees, costs of suit, special damages, according to proof of medical bills and lost wages and lost income as occasioned by personal injury and plaintiff's inability to pursue employment, and other unspecified relief. All counsels in the Pennington matter have agreed to a stay in this matter, pending the outcome of the Hartwell case.

In April 2000, SCW was named a defendant in the matter of Almelia Brooks, et al. v. Suburban Water Sys., et al. (Case No. 13) that was filed in Los Angeles Superior Court which seeks recovery for negligence, wrongful death, strict liability, permanent trespass, continuing trespass, continuing nuisance, permanent nuisance, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, conspiracy/fraudulent concealment, battery and unfair business practices on behalf of plaintiffs (the Brooks Matter). Plaintiffs seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief. SCW was served in October 2000. Management is unable to predict the outcome of this proceeding.

In August 1999, SCW was named a defendant in the matter of Lori Alexander, et al. v. Suburban Water Sys., et al. (Case No. 14) that was filed in Los Angeles Superior Court which seeks recovery for negligence, wrongful death, strict liability, permanent trespass, continuing trespass, continuing nuisance, permanent nuisance, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, conspiracy/fraudulent concealment, battery and unfair business practices on behalf of plaintiffs (the L. Alexander Matter). Plaintiffs seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief. SCW was served in October 2000. Management is unable to predict the outcome of this proceeding.

In December 2000, SCW was named a defendant in the matter of David Arnold, et al. v. City of Pomona, et al. (Case No. 15) that was filed in Los Angeles Superior Court which seeks recovery for negligence, wrongful death, strict products liability, continuing trespass, permanent trespass, continuing nuisance, permanent nuisance, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, conspiracy/fraudulent concealment, battery and unfair business practices on behalf of plaintiffs (the Arnold Matter). Plaintiffs seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief. SCW was served in May 2001. Management is unable to predict the outcome of this proceeding.

In December 2000, SCW was named a defendant in the matter of Gilda Ambrose-Dubre, et al. v. City of Pomona, et al. (Case No. 16) that was filed in Los Angeles Superior Court which seeks recovery for negligence, strict products liability, continuing trespass, permanent trespass, continuing nuisance, permanent nuisance, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, civil conspiracy/fraudulent concealment, battery and unfair business practices on behalf of plaintiffs (the Ambrose-Dubre Matter). Plaintiffs seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief. SCW was served in May 2001. Management is unable to predict the outcome of this proceeding.

In January 2001, SCW was named a defendant in the matter of Melissa Garrity Alvarado, et al. v. Suburban Water Systems, et al. (Case No. 17) that was filed in Los Angeles Superior Court which seeks recovery for negligence, survival of personal injuries, wrongful death, strict liability, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, conspiracy/fraudulent concealment, battery and unfair business practices on behalf of plaintiffs (the Alvarado Matter). Plaintiffs seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief. SCW was served in May 2001. Management is unable to predict the outcome of this proceeding.

In March 2001, SCW was named a defendant in the matter of Charles Alexander, et al. v. City of Pomona, et al. (Case No. 18) that was filed in Los Angeles Superior Court which seeks recovery for negligence, wrongful death, strict products liability, continuing trespass, permanent trespass, continuing nuisance, permanent nuisance, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, civil conspiracy/fraudulent concealment, battery and unfair business practices on behalf of plaintiffs (the C. Alexander Matter). Plaintiffs seek damages, including general and special damages

according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief. SCW was served in May 2001. Management is unable to predict the outcome of this proceeding.

In light of the breadth of plaintiffs' claims in these matters, the lack of factual information regarding plaintiffs' claims and injuries, if any, and the fact that no discovery has yet been completed, SCW is unable at this time to determine what, if any, potential liability it may have with respect to these claims. Registrant believes there are no merits to these claims and intends to vigorously defend against them.

SCW is subject to self-insured retention provisions in its applicable insurance policies and has either expensed the self-insured amounts or has reserved against payment of these amounts as appropriate. SCW's various insurance carriers have, to date, provided reimbursement for costs incurred for defense against these lawsuits.

#### ORDER INSTITUTING INVESTIGATION (OII)

In March 1998, the CPUC issued an OII to regulated water utilities in the state of California, including SCW. The purpose of the OII was to determine whether existing standards and policies regarding drinking water quality adequately protect the public health and whether those standards and policies were being uniformly complied with by those water utilities. On November 2, 2000, a final decision from the CPUC concluded that the Commission has the jurisdiction to regulate the service of water utilities with respect to the health and safety of that service; that DOHS requirements governing drinking water quality adequately protect the public health and safety; and that regulated water utilities, including SCW, have satisfactorily complied with past and present drinking water quality requirements.

On December 26, 2000, SCW filed an Advice Letter with the CPUC seeking recovery of \$879,000 in deferred expense incurred during the OII. The CPUC had previously authorized establishment of memorandum accounts to capture such expenses. Management believes that these expenses will be fully recovered but is unable to predict when, or if, the CPUC will authorize recovery of all or any of the costs.

#### OTHER LITIGATION

On October 25, 1999, SCW filed a lawsuit against the California Central Valley Regional Water Quality Control Board (CRWQCB) alleging that the CRWQCB has willfully allowed portions of the Sacramento County Groundwater Basin to be injected with chemical pollution that is destroying the underground water supply in SCW's Rancho Cordova customer service area. Management cannot predict the likely outcome of this proceeding.

In a separate case, also filed on October 25, 1999, SCW sued Aerojet General Corp. for causing the contamination of the Sacramento County Groundwater Basin. On March 22, 2000 Aerojet General Corp. filed a cross complaint against SCW for negligence and constituting a public nuisance. Registrant is unable to determine at this time what, if any, potential liability it may have with respect to the cross complaint, but intends to vigorously defend itself against these allegations. Management cannot predict the likely outcome of this proceeding.

The CPUC has authorized memorandum accounts to allow for recovery of costs incurred by SCW in prosecuting these cases from customers, less any recovery from the defendants or others. As of June 30, 2001, approximately \$4,103,000 has been recorded in the memorandum accounts. The CPUC has authorized SCW to increase rates, effective April 28, 2001, for recovery over a six-year period of approximately \$1,800,000, in expenses that were incurred on or before August 31, 2000. SCW will continue to file additional Advice Letters to recover the remaining costs. Management believes these

costs are recoverable but cannot give assurance that the CPUC will ultimately allow recovery of all or any of the remaining costs through rates.

On April 25, 2001, Registrant filed a lawsuit against all the potentially responsible parties, who stored, transported and dispensed gasoline containing methyl tertiary butyl ether (MTBE) in underground storage tanks, pipelines or other related infrastructure. Said MTBE polluted and contaminated water existed in areas of the Sub-Basin from which SCW has pumped water through its Charnock Wall Field. As a result thereof, SCW ceased operation of its Charnock Well Field in October 1996. Management cannot predict the likely outcome of this proceeding.

SCW has been, in conjunction with the Southern California Edison (Edison) unit of Edison International, planning to upgrade transmission facilities to 115kv (the 115kv Project) in order to meet increased energy and demand requirements for SCW's Bear Valley Electric Service area. On December 27, 2000, SCW filed a lawsuit against Edison for declaratory relief and seeking damages for breach of contract as a result of delays in the 115kv Project. Subsequently Edison filed a cross-complaint against SCW for breach of contract, anticipatory breach, quantum meruit and common counts. Management cannot predict the likely outcome of this proceeding.

Registrant is also subject to ordinary routine litigation incidental to its business. Other than as disclosed above, no legal proceedings are pending, except such incidental litigation, to which Registrant is a party or of which any of its properties is the subject, which are believed to be material.

#### ITEM 2. CHANGES IN SECURITIES

As of June 30, 2001, earned surplus amounted to \$68,863,000. As of June 30, 2001, there were no retained earnings restricted, under any of SCW's debt instruments, as to the payment of cash dividends on Common Shares. Delays in obtaining approval of the CPUC for recovery of energy costs in rates or disallowance of the recovery of such costs could affect SCW's ability to pay dividends to AWR. AWR's ability to pay dividends on its Common Shares is dependent upon the payment of dividends from SCW. CCWC is subject to contractual restrictions on its ability to pay dividends.

There are 493,039 and 63,411 Common Shares authorized but un-issued under the DRP and the 401(k) Plan, respectively, at June 30, 2001. Shares reserved for the 401(k) Plan are in relation to company matching contributions and for investment purposes by participants.

There are 250,000 Common Shares reserved for issuance under Registrant's 2000 Stock Incentive Plan. Under the Plan, stock options representing a total of 91,647 Common Shares upon exercise were granted to certain eligible employees on May 1, 2000 and January 2, 2001.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No items were submitted during the second quarter of the fiscal year covered by this report to a vote of security holders through the solicitation of proxies or otherwise.

#### ITEM 5. OTHER INFORMATION

On July 27, 2001, the Board of Directors of Registrant declared a regular quarterly dividend of \$0.325 per common share. The dividend will be paid September 1, 2001 to shareholders of record as of the

close of business on August 7, 2001. In other actions, the Board of Directors declared regular quarterly dividends of \$0.25 per share, \$0.265625 per share and \$0.3125 per share on its 4%, 4-1/4% and 5% Cumulative Preferred Shares, respectively.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- 3.2.1 Amended and Restated By-laws of Southern California Water Company
- 10.17 American States Water company Annual Incentive Plan as amended April 23, 2001.
- 10.23 Power Purchase Agreement between Southern California Water Company and Pinnacle West Capital Corporation.
- 10.24 Western Systems Power Pool Agreement

No Reports of Form 8-K were filed during the period covered by this report.

## SIGNATURES

Pursuant to the requirements of Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned duly authorized officer and chief financial officer.

AMERICAN STATES WATER COMPANY  
and its subsidiary  
SOUTHERN CALIFORNIA WATER COMPANY

By:s/ McClellan Harris III  
-----  
McClellan Harris III  
Vice President-Finance,  
Chief Financial Officer,  
Treasurer and Secretary

By:s/ Linda J. Matlick  
-----  
Linda J. Matlick  
Controller  
Southern California Water Company

Dated: August 14, 2001

## BYLAWS

FOR THE REGULATION, EXCEPT  
AS OTHERWISE PROVIDED BY STATUTE OR  
ITS RESTATED ARTICLES OF INCORPORATION,

OF

SOUTHERN CALIFORNIA WATER COMPANY

(A CALIFORNIA CORPORATION)

## ARTICLE I. OFFICES.

SECTION 1. PRINCIPAL EXECUTIVE OFFICE. The principal executive office of the corporation shall be fixed and located at such place as the Board of Directors (herein called the "Board") shall determine. The Board is hereby granted full power and authority to change said principal executive office from one location to another.

SECTION 2. OTHER OFFICES. Branch or subordinate offices may at any time be established by the Board at any place or places.

## ARTICLE II. MEETINGS OF SHAREHOLDERS.

SECTION 1. PLACE OF MEETINGS. Meetings of shareholders shall be held either at the principal executive office of the corporation or at any other place within or without the State of California which may be designated either by the Board or by the written consent of all persons entitled to vote thereat, given either before or after the meeting and filed with the Secretary.

SECTION 2. ANNUAL MEETINGS. The annual meetings of shareholders shall be held on such date and at such time as may be fixed by the Board.

SECTION 3. SPECIAL MEETINGS. Special meetings of the shareholders, for any purpose or purposes whatsoever, may be called at any time by the Board, the Chairman of the Board, the President, or by the holders of shares entitled to cast not less than ten percent of the votes at such meeting.

## ARTICLE III. DIRECTORS.

SECTION 1. POWERS. Subject to limitations of the Articles, these Bylaws and of the California General Corporation Law as to action required to be approved by the shareholders or by the outstanding shares, the business and affairs of the corporation

shall be managed and all corporate powers shall be exercised by or under the direction of the Board.

SECTION 2. NUMBER OF DIRECTORS. The authorized number of directors shall be eight (8).

#### ARTICLE IV. OFFICERS.

SECTION 1. OFFICERS. The officers of the corporation shall be a President, a Secretary, and a Chief Financial Officer. The corporation may also have, at the discretion of the Board, such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as the Board may from time to time determine.

SECTION 2. PRESIDENT. The President shall be the general manager and chief executive officer of the corporation and has, subject to the control of the Board, general supervision, direction and control of the business and officers of the corporation. The President shall preside at all meetings of the shareholders and at all meetings of the Board. The President has the general powers and duties of management usually vested in the office of president and general manager of a corporation and has such other powers and duties as may be prescribed by the Board.

SECTION 3. SECRETARY. The Secretary shall keep or cause to be kept, at the principal executive office or such other place as the Board may order, a book of minutes of all meetings of the shareholders, the Board and its committees, and a share register or a duplicate share register.

The Secretary shall give, or cause to be given, notice of all the meetings of the shareholders and of the Board and any committees thereof required by the Bylaws or by law to be given, shall keep the seal of the corporation in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board.

SECTION 4. CHIEF FINANCIAL OFFICER. The Chief Financial Officer is the chief financial officer of the corporation and shall keep and maintain, or cause to be kept and maintained, adequate and correct accounts of the properties and business transactions of the corporation, and shall send or cause to be sent to the shareholders of the corporation such financial statements and reports as are by law or these Bylaws required to be sent to them. The books of account shall at all times be open to inspection by any director.

The Chief Financial Officer shall deposit all moneys and other valuables in the name and to the credit of the corporation with such depositaries as may be designated by the Board. The Chief Financial Officer shall disburse the funds of the corporation as may be ordered by the Board, shall render to the President and the directors, whenever they request it, an account of all transactions as Treasurer and of the financial condition of

the corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board.

#### ARTICLE V. OTHER PROVISIONS.

SECTION 1. ANNUAL REPORT TO SHAREHOLDERS. The annual report to shareholders referred to in Section 1501 of the California General Corporation Law is expressly waived, but nothing herein shall be interpreted as prohibiting the Board from issuing annual or other periodic reports to shareholders.

SECTION 2. CONSTRUCTION AND DEFINITIONS. Unless the context otherwise requires, the general provisions, rules of construction and definitions contained in the General Provisions of the California Corporations Code and in the California General Corporation Law shall govern the construction of these Bylaws.

#### ARTICLE VI. AMENDMENTS.

These Bylaws may be amended or repealed either by approval of the outstanding shares (as defined in Section 152 of the California General Corporation Law) or by the approval of the Board; provided, however, that after the issuance of shares, a bylaw specifying or changing a fixed number of directors or the maximum or minimum number or changing from a fixed to a variable number of directors or vice versa may be adopted only by approval of the outstanding shares, and a bylaw reducing the fixed number or the minimum number of directors to a number less than five shall be subject to the provisions of Section 212(a) of the California General Corporation Law.

#### ARTICLE VII. INDEMNIFICATION.

##### SECTION 1. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

(a) Each person who was or is a party or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director or officer of the corporation, or of any predecessor corporation, or is or was a director or officer who is or was serving at the request of the corporation as a director, officer, employee or other agent of another corporation, a partnership, joint venture, trust or other enterprise (including service with respect to corporation-sponsored employee benefit plans), whether the basis of such proceeding is alleged action or inaction in an official capacity as a director or officer or in any other capacity while serving as a director or officer, shall, subject to the terms of any agreement between the corporation and such person, be indemnified and held harmless by the corporation to the fullest extent permissible under California law and the corporation's Articles, against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) actually and reasonably incurred or suffered by such person in connection therewith; provided, however, that amounts paid in settlement of a proceeding shall be payable only if the settlement is approved in writing by the corporation. Such indemnification shall continue as to a person who has ceased to be a director or officer for acts performed while a director or officer and shall inure to the benefit of his or her heirs, executors and administrators. Notwithstanding the foregoing, the corporation shall indemnify any such person in connection with a proceeding (or part

thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of the corporation. The right to indemnification conferred in this Article shall include the right to be paid by the corporation the expenses incurred in defending any proceeding in advance of final disposition to the fullest extent permitted by law; provided, however, that the payment under this Article of such expenses in advance of the final disposition of a proceedings shall be conditioned upon the delivery to the corporation of a written request for such advance and of an undertaking by or on behalf of the director or officer to repay all amounts so advanced if it shall be ultimately determined that such director or officer is not entitled to be indemnified.

(b) Notwithstanding the foregoing or any other provisions under this Article, the corporation shall not be liable under this Article to indemnify a director or officer against expenses, liabilities or losses incurred or suffered in connection with, or make any advances with respect to, any proceeding against a director or officer: (i) as to which the corporation is prohibited by applicable law from paying as an indemnity; (ii) with respect to expenses of defense or investigation, if such expenses were or are incurred without the corporation's consent (which consent may not be unreasonably withheld); (iii) for which payment is actually made to the director or officer under a valid and collectible insurance policy maintained by the corporation, except in respect of any excess beyond the amount of payment under such insurance; (iv) for which payment is actually made to the director or officer under an indemnity by the corporation otherwise than pursuant to this Bylaw Article, except in respect of any excess beyond the amount of payment under such indemnity; (v) based upon or attributable to the director or officer gaining in fact any personal profit or advantage to which he or she was not legally entitled; (vi) for an accounting of profits made from the purchase or sale by the director or officer of securities of the corporation pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any federal, state or local statutory law; or (vii) based upon acts or omissions involving intentional misconduct or a knowing and culpable violation of law.

SECTION 2. INDEMNIFICATION OF EMPLOYEES AND AGENTS. A person who was or is a party or is threatened to be made a party to or is involved in any proceeding by reason of the fact that he or she is or was an employee or agent of the corporation or is or was an employee or agent of the corporation who is or was serving at the request of the corporation as an employee or agent of another enterprise, including service with respect to corporation-sponsored employee benefits plans, whether the basis of such action is alleged action or inaction in an official capacity or in any other capacity while serving as an employee or agent, may, upon appropriate action by the corporation and subject to the terms of any agreement between the corporation and such person, be indemnified and held harmless by the corporation up to the fullest extent permitted by California law and the corporation's Articles, against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) actually and reasonably incurred or suffered by such person in connection therewith.

SECTION 3. RIGHT OF DIRECTORS AND OFFICERS TO BRING SUIT. If a claim under Section 1 of this Article is not paid by the corporation or on its behalf within 90 days after a written claim has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim, and, if successful in whole or in part, the claimant also shall be entitled to be paid the expense of prosecuting such claim.

SECTION 4. SUCCESSFUL DEFENSE. Notwithstanding any other provision of this Article, to the extent that a director or officer has been successful on the merits or otherwise (including the dismissal of a proceeding without prejudice or the settlement with the written consent of the corporation of a proceeding without admission of liability) in defense of any proceeding referred to in Section 1 or in defense of any claim, issue or matter therein, such director or officer shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred in connection therewith.

SECTION 5. INDEMNITY AGREEMENTS. The corporation may enter into agreements with any director, officer, employee or agent of the corporation providing for indemnification to the fullest extent permissible under applicable law and the corporation's Articles.

SECTION 6. SUBROGATION. In the event of payment by the corporation of a claim under Section 1 of this Article, the corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the indemnified person, who shall execute all papers required and shall do everything that may be necessary or appropriate to secure such rights, including the execution of such documents necessary or appropriate to enable the corporation effectively to bring suit to enforce such rights.

SECTION 7. NON-EXCLUSIVITY RIGHTS. The right to indemnification provided by this Article shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, bylaw, agreement, vote of shareholders or disinterested directors or otherwise.

SECTION 8. INSURANCE. The corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the corporation or another corporation, a partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under California law.

SECTION 9. EXPENSES AS A WITNESS. To the extent that any director, officer or employee of the corporation is by reason of such position a witness in any action, suit or proceeding, he or she will be indemnified against all costs and expenses actually and reasonably incurred by him or her or on his or her behalf in connection therewith.

SECTION 10. NONAPPLICABILITY TO FIDUCIARIES OF EMPLOYEE BENEFIT PLANS. This Article does not apply to any proceeding against any trustee, investment manager or other fiduciary of an employee benefit plan in such person's capacity as such, even though such person may also be an agent of the corporation. The corporation shall have power to indemnify such trustee, investment manager or other fiduciary to the extent permitted by subdivision (f) of Section 207 of the California General Corporation Law.

SECTION 11. SEPARABILITY. Each and every paragraph, sentence, term and provision of this Article is separate and distinct so that if any paragraph, sentence, term or provision shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or enforceability of any other paragraph, sentence, term or provision hereof. To the extent required, any paragraph, sentence, term or provision of this Article may be modified by a court of competent jurisdiction to preserve its validity and to provide the claimant with, subject to the

limitations set forth in this Article and any agreement between the corporation and the claimant, the broadest possible indemnification permitted under applicable law.

SECTION 12. EFFECT OF REPEAL OR MODIFICATION. Any repeal or modification of this Article shall not adversely affect any right of indemnification of a director, officer, employee or agent of the corporation existing at the time of such repeal or modification with respect to any action or omission occurring prior to such repeal or modification.

American States Water Company  
Annual Incentive Plan

As Amended April 23, 2001

AMERICAN STATES WATER COMPANY  
ANNUAL INCENTIVE PLAN  
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AMERICAN STATES WATER COMPANY  
ANNUAL INCENTIVE PLAN

I. THE PLAN

- 1.1 Purpose: The purpose of this Plan is to promote the success of the Company by contributing to a team culture, focusing attention on increasing shareholder value, and creating an incentive program that will support future growth.
- 1.2 Definitions: For purposes of this Plan, the following terms shall have the meanings indicated below:
- (a) "Actual Return on Rate Base" shall mean the Company's actual annual rate of return on net assets included in the Company's rate filings, determined on a consolidated basis.
  - (b) "Authorized Return on Rate Base" shall mean the composite annual rate of return on equity authorized for the Company during the Plan Year by the California Public Utilities Commission. The Authorized Rate of Return shall be calculated by the Company in accordance with the rules and/or examples approved by the Committee, and will be reviewed by the Company's external auditors.
  - (c) "Award" shall mean an award of a specified amount of cash or restricted stock to a Participant under the Plan.
  - (d) "Base Compensation" shall mean the salary and hourly wages, exclusive of overtime and bonuses, paid to an Eligible Employee during the calendar year proceeding the Determination Date.
  - (e) "Board" shall mean the Board of Directors of the Company.
  - (f) "Change in Control Event": Shall have the meaning given such term in the Company's 2000 Stock Incentive Plan.
  - (g) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.
  - (h) "Committee" shall mean the Compensation Committee of the Board of Directors.

- (i) "Company" shall mean American States Water Company.
- (j) "Consolidated Total Operating Revenues" shall be as set forth in the Company's audited consolidated financial statements.
- (k) "Determination Date" shall mean the last day of each Plan Year.
- (l) "Eligible Employee" shall mean an employee of the Company, or a Subsidiary, designated by the Committee at the beginning of a Plan Year as eligible to receive an Award under this Plan.
- (m) "Employer" shall mean the Company, or a Subsidiary of the Company which directly employs an Eligible Employee.
- (n) "Financial Performance" shall mean the Company's Actual Return on Rate Base as a percentage of its Authorized Return on Rate Base, determined on a consolidated basis.
- (o) "Individual Adjustment" shall be the adjustment determined in accordance with section 2.1(a)(iv) of this document.
- (p) "Increase in Total Operating Revenues from Acquisition" shall mean the projected increase in Consolidated Total Operating Revenues from the Company's acquisition of another firm during the Plan Year.
- (q) "Maintenance Adjustment" shall be calculated in accordance with section 2.1(a)(ii) of this document.
- (r) "Participant" shall mean an Eligible Employee whose last performance appraisal was satisfactory.
- (s) "Personal Representative" shall mean the person or persons who, upon the Total Disability or incompetence of a Participant, shall have acquired on behalf of the Participant, by legal proceeding or otherwise, the power to exercise the rights or receive benefits under this Plan and who shall have become the legal representative of the Participant.
- (t) "Plan" shall mean this Annual Incentive Plan.
- (u) "Plan Year" shall mean the calendar year.
- (v) "Restricted Stock" shall mean shares of the common stock of the Company that are non-transferable and subject to forfeiture upon termination of employment within a specified period of time following the date of grant.

- (w) "Strategic Adjustment" shall be a factor based on Company performance. At the beginning of each plan year the Committee will establish performance criteria reflecting progress towards the Company's strategic goals. The Committee will, at that time, also establish the amount of the adjustment (no more than 50% in total) to be made to Awards otherwise payable under the Plan based on the achievement of these criteria.
- (x) "Subsidiary" shall mean any corporation or other entity a majority of whose outstanding voting stock or voting power is beneficially owned directly or indirectly by the Company.
- (y) "Target Award" shall mean the amount equal to a Participant's Base Compensation multiplied by a percentage determined at the beginning of each Plan Year by the Committee. For 2001, the target award for the Chief Executive Officer is 30%; the target award for Vice Presidents is 25%; and the target award for managers is 12.5% equally weighted between the Company's financial performance and the manager's individual performance.

1.3 Administration and Authorization; Power and Procedure:

- (a) Committee: This Plan shall be administered by, and all granting of Awards to Eligible Employees shall be authorized by, the Committee. Action with respect to the administration of this Plan shall be the sole and absolute discretion and responsibility of the Committee.
- (b) Plan Awards; Interpretation; Powers of Committee: Subject to the express provisions of this Plan, the Committee shall have the sole and absolute authority:
  - (i) to determine which employees are eligible to participate in the Plan for a Plan Year;
  - (ii) to determine the amount of the Award payable to each Participant for a Plan Year;
  - (iii) to construe and interpret this Plan and any agreements defining the rights and obligations of the Company and Participants under this Plan, further define the terms used in this Plan, and prescribe, amend and rescind rules and regulations relating to the administration of this Plan;
  - (iv) to make all other determinations and take such other action as contemplated by this Plan or as may be necessary or advisable for the administration of this Plan and the effectuation of its purposes.
- (c) Binding Determinations: The Committee shall have full discretion to construe and interpret the terms and provisions of the Plan, which interpretation or construction shall be final and binding on all parties, including but not limited to the Company, any Subsidiary and any Participants or Beneficiaries. Any action taken by, or inaction of, the

Company, or the Committee relating or pursuant to this Plan shall be within the absolute discretion of that entity or body and shall be conclusive and binding upon all persons. No member of the Committee, or officer of the Company, shall be liable for any such action or inaction of the entity or body, of another person or, except in circumstances involving bad faith, of himself or herself.

- (d) Reliance on Experts: In making any determination or in taking or not taking any action under this Plan, the Committee may obtain and may rely upon the advice of experts, including professional advisors to the Company.
  - (e) Delegation: The Committee may delegate ministerial, non-discretionary functions to individuals who are officers or employees of the Company or a Subsidiary.
  - (f) Absence of Liability; Indemnity: No member of the Committee, director, officer or agent of the Company shall be liable for any action or determination taken, made or omitted in good faith. To the extent permitted under applicable state law, the Company shall indemnify and hold harmless the members of the Committee and any delegate against any and all claims, loss, damage, expense or liability arising from any action or failure to act with respect to this Plan, except in the case of gross negligence or willful misconduct.
- 1.4 Payment/Grant of Awards: Subject to the express provisions of this Plan, the Committee shall determine the amount of each Award.
- 1.5 Non-Transferability: Neither a Participant nor any other person shall have the right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt of the amounts, if any, payable hereunder, or any part thereof, part thereof, which are, and all rights to which are, expressly declared to be unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.
- 1.6 Beneficiary Designation:
- (a) "Beneficiary" or "Beneficiaries" shall mean the person or persons, including a trustee, Personal Representative or other fiduciary, last designated in writing by a Participant in accordance with procedures established by the Committee to receive the benefits, if any, specified hereunder in the event of the Participant's death. No beneficiary designation shall become effective

until it is filed with the Committee, and no Beneficiary designation of someone other than the Participant's spouse shall be effective unless such designation is consented to by the Participant's spouse on a form provided by and in accordance with procedures established by the Committee. If there is no valid Beneficiary designation in effect, or if there is no surviving designated Beneficiary, then the Participant's surviving spouse shall be the Beneficiary. If there is no surviving spouse to receive any benefits payable in accordance with the preceding sentence, the duly appointed and currently acting personal representative of the Participant's estate (which shall include either the Participant's probate estate or living trust) shall be the Beneficiary. In any case where there is no such personal representative of the Participant's estate duly appointed and acting in that capacity within 90 days after the Participant's death (or such extended period as the Committee determines is reasonably necessary to allow such personal representative to be appointed but not to exceed 180 days after the Participant's death), then Beneficiary shall mean the person or persons who can verify by affidavit or court order to the satisfaction of the Committee that they are legally entitled to receive the benefits specified hereunder. In the event any amount is payable under the Plan to a minor, payment shall not be made to the minor, but instead be paid (a) to that person's living parent(s) to act as custodian, (b) if that person's parents are then divorced, and one parent is the sole custodial parent, to such custodial parent, or (c) if no parent of that person is then living, to a custodian selected by the Committee to hold the funds for the minor under the Uniform Transfers of Gifts to Minors Act in effect in the jurisdiction in which the minor resides. If no parent is living and the Committee decides not to select another custodian to hold the funds for the minor, then payment shall be made to the duly appointed and currently acting guardian of the estate for the minor or, if no guardian of the estate for the minor is duly appointed and currently acting within 60 days after the date the amount becomes payable, payment shall be deposited with the court having jurisdiction over the estate of the minor.

- (b) Effect of Payment: The payment to the Beneficiary or deemed Beneficiary, in accordance with the provisions of this Plan, shall completely discharge all obligations under this Plan of the Committee, the Company and any Subsidiary.

## II. AWARDS

## 2.1 Award Determination:

## (a) Performance Evaluation:

- (i) Financial Performance: Performance shall first be evaluated based on the Company's Actual Return on Rate Base, determined on a consolidated basis, as a percentage of its Authorized Return on Rate Base as determined by the California Public Utilities Commission. In 2001, the following schedule shall apply:

Actual/Authorized Return	Financial Performance Percentage
Greater than 120%	At Committee's Discretion
120%	120%
115%	115%
110%	110%
105%	105%
Equal to 100%	100%

Note: Percentages will be interpolated for performance between levels.

- (ii) Maintenance Adjustment: If the Company's maintenance costs are significantly less than estimated for rate base purposes (more than .5% of the Authorized Return on Rate Base), the Actual Return on Rate Base will be adjusted downwards by the amount of the shortfall.
- (iii) Strategic Adjustment: For Executives (Vice Presidents and above), the Company's Financial Performance shall be adjusted (up or down) based on factors including the achievement of strategic goals such as acquisitions of other firms. The maximum adjustment for strategic performance in one year shall be capped at 50%. In 2001, the following schedule shall apply:

Increase in Total Operating Revenues from Acquisition	Strategic Adjustment
Less than 10%	0%
10%	10%
13%	12%
16%	14%
19%	16%
22%	18%
25%	20%
28%	22%
31%	24%
Greater than 33%	25%

- (iv) Individual Adjustment: For Managers, the individual award consists of two equal parts - a Financial Performance component and an Individual Performance component shall be based on the accomplishment of goals that are established by the Employer at the beginning of each Plan Year. The degree to which goals are accomplished could impact one-half of the Award for managers from 0% to 100%.
  - (b) Determination of Individual Awards: For Executives, the Award to be paid to any Participant will be equal to (i) the Participant's base salary times (i) the applicable Target Award times (ii) the Financial Performance adjustment factor times (iii) the Strategic Adjustment factor. For Managers, the Award to be paid to any Participant is determined in two parts. One-half of the Award will be equal to (i) the Participant's base salary times (ii) the Financial Performance Adjustment factor times (iii) 50% of the applicable Target Award; and one-half of the Award will be equal to (i) the Participant's base salary times (ii) the Individual Adjustment factor times (iii) 50% of the applicable Target Award.
  - (c) Participant's Award: A Participant's Award shall be pro-rated in the event he/she participates in the Plan for less than the full year, moves into a position covered under a different schedule of awards, and/or moves into or from a position not currently included under this Plan. The pro-rated amount will be calculated by multiplying the Award otherwise payable to the Participant for the entire year by a fraction, the numerator of which is the number months completed by the Participant during the Plan Year , and the denominator of which is 12.
- 2.2 Vesting: There is no vested right to receive an Award and no Award is earned until paid. A Participant who terminates employment for any reason before the payment of the Awards shall forfeit any unpaid Awards, except in the cases of death or disability.
- 2.3 Award Payment: Awards will be paid by the Employer following the completion of the audit of the financials, normally within 75 days of the end of the fiscal year. Payment shall be provided in cash and/or Restricted Stock. All payments less than 20% of Base Compensation shall be paid cash. Payments above 20% of Base Compensation may be paid, at the discretion of the Committee, in Restricted Stock issued in accordance with the provisions of the American States Water Company Long-Term Incentive Plan (the "Long-Term Incentive Plan"). The number of shares of Restricted Stock (if any) to be issued shall equal the difference between the amount of the Award and the amount paid in cash divided by the Fair Market Value (as defined in the Long-Term Incentive Plan) of a share of the Company common stock determined as of the Determination Date. Unless the Committee otherwise provides, the rights of a Participant with respect to Restricted Stock issued hereunder shall vest, and the applicable restrictions shall

lapse, in a series of three successive equal annual installments commencing on the first anniversary of the Determination Date.

- 2.4 Acceleration of Awards upon Change in Control: Notwithstanding the foregoing, unless prior to a Change in Control Event the Committee determines that, upon its occurrence, benefits under any or all Awards shall not be accelerated or determines that only certain or limited benefits under any or all Awards shall be accelerated and the extent to which they shall be accelerated, then upon the occurrence of a Change in Control Event, the Awards shall be vested and the Participant shall be entitled to the payment thereof within 75 days after the Change in Control Event. The Award to be paid to any Participant will be equal to (i) the Financial Performance for the 12 month period preceding the Change in Control Event times (ii) one hundred percent (100%) plus the Strategic Adjustment or Individual Adjustment, whichever is applicable, for the 12 month period preceding the Change in Control Event, times the Target Award times (iii) a fraction, the numerator of which is the number of months completed by the Participant during the Plan Year, and the denominator of which is 12. Any discretion with respect to these events shall be limited to the extent required by applicable accounting requirements in the case of a transaction intended to be accounted for as a pooling of interests transaction. The Committee may override the limitations on acceleration and may accord any Participant the right to refuse any acceleration in such circumstances as the Committee may approve.

## III. OTHER PROVISIONS

## 3.1 Rights of Eligible Employees, Participants and Beneficiaries:

- (a) Employment Status: Status as an Eligible Employee shall not be construed as a commitment that any Award will be made under this Plan to an Eligible Employee or to Eligible Employees generally.
- (b) No Employment Contract: Nothing contained in this Plan (or in any other documents related to this Plan or to any Award) shall confer upon any Eligible Employee or Participant any right to continue in the employ or other service of the Company, or any Subsidiary, or constitute any contract or agreement of employment or other service, nor shall interfere in any way with the right of the Company, or any Subsidiary, to change such person's compensation or other benefits or to terminate the employment of such person, with or without cause, but nothing contained in this Plan or any document related hereto shall adversely affect any independent contractual right of such person without his or her consent thereto.

3.2 Compliance with Laws: This Plan, the granting and vesting of Awards under this Plan and the payment of money under this Plan or under Awards granted hereunder are subject to compliance with all, applicable federal and state laws, rules and regulations and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith.

3.3 Withholding; Payroll Taxes: The Employer shall withhold from payments made hereunder any taxes required to be withheld from such payments under federal, state or local law.

## 3.4 Plan Amendment, Termination and Suspension:

- (a) Board Authorization: The Board may, at any time, terminate or, from time to time, amend, modify or suspend this Plan, in whole or in part. Any Restricted Stock outstanding at that time will be governed by the terms of the American States Water Company Long-Term Incentive Plan.

3.5 Effective Date of the Plan: This Plan shall be effective as of January 1, 1999.

## 3.6 Governing Law: Severability

- (a) Choice of Law: This Plan shall be governed by, and construed in accordance with the laws of the State of California applicable to contracts made and performed within such State, except as such laws may be preempted by the

laws of the United States of America, which laws shall then govern its effect and its construction to the extent they preempt California law.

(b) Severability: If any provision shall be held by a court of competent jurisdiction to be invalid and unenforceable, the remaining provisions of this Plan shall continue in effect.

3.7 Captions: Captions and headings are given to the sections and subsections of this Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

3.8 Terms: Whenever any words are used herein in the masculine, they shall be construed as though they were used in the feminine in all cases where they would so apply; and wherever any words are used herein in the singular or plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.

3.9 Non-Exclusivity of Plan: Nothing in this Plan shall limit or be deemed to limit the authority of the Board or the Committee to grant awards or authorize any other compensation.

EXECUTED this 1st day of April 23, 2001.

AMERICAN STATES WATER COMPANY

By: -----

Title: -----

[PINNACLE WEST LETTERHEAD]

CONFIDENTIAL

June 14, 2001

To: Southern California Water Company

The following terms and conditions shall govern this agreement on June 14, 2001, between Southern California Water Company ("SCWC"), and Pinnacle West Capital Corporation ("PWMT"), whereby SCWC agreed to purchase and receive and PWMT agreed to sell and deliver energy as follows:

SELLER: Pinnacle West Capital Corporation  
400 N. 5th Street, M/S 9842  
Phoenix, Arizona 85004

BUYER: Southern California Water Company  
630 E. Foothills Blvd.  
San Dimas, CA 91773-9016

CONFIRM  
ADMINISTRATOR: Margie Logan  
(602) 250-2809 (phone)  
(602) 371-5256 (fax)

CONFIRM  
ADMINISTRATOR: Raymond P. Juels  
(909) 394-3600 X 679 (phone)  
(909) 394-3768 (fax)

PRESCHEDULE: (602) 250-4371  
REAL TIME: (602) 250-4470

PRESCHEDULE: (909) 280-9411  
REAL TIME: (909) 280-9411

QUANTITY (MW/HR.): 8 Megawatts  
PRICE (\$/MWH): Simple average price of  
\$53.00/MWh for the Winter  
periods listed below.  
Payment for each year will be  
based on each Winter period  
price as follows:  
Winter Period 1 - \$75.00/MWH  
Winter Period 2 - \$48.00/MWH  
Winter Period 3 - \$36.00/MWH

QUANTITY (MWH): 87,168 MWh's  
TYPE OF ENERGY: CAISO Firm with Liquidated  
Damages.

START DATE: WINTER PERIODS  
Period 1 - November 1, 2001  
Period 2 - November 1, 2002  
Period 3 - November 1, 2003

END DATE: WINTER PERIODS  
March 31, 2002  
March 31, 2003  
March 31, 2004  
HOURS: H.E. 0100-2400 Pacific  
Prevailing Time ("PPT").

DAY(S) OF WEEK: Monday through Sunday,  
including NERC holidays

DELIVERY POINT: SP15 (Inter SC Trade) - Dynegy is current SC. SCWC to notify PWMT if  
SC changes.

TRANSMISSION CONTINGENCIES: None

GENERATION CONTINGENCIES: None

ENABLING AGREEMENT: PWMT and SCWC enter into this transaction pursuant to and in accordance with the WSPP Agreement and Service Schedule C (SSC) of the WSPP Agreement, to which PWMT and SCWC are parties. Terms used but not defined herein shall have the meanings ascribed to them in the WSPP Agreement.

ADDITIONAL TERMS: Per attached.

## ADDITIONAL TERMS

SCHEDULING: Preschedules shall be exchanged for all deliveries of energy, including identifications of receiving and generating control areas under this Agreement by 11:00 a.m. Pacific Prevailing Time on the last work day observed by both Parties prior to the scheduled date of delivery. Interchange scheduling shall be conducted in accordance with Western Systems Power Pool (WSPP) Operating Procedure No. 1.

SPECIAL PROVISIONS: Deliveries will be made except during interruptions or reductions which are due to uncontrollable forces as defined in Section 10 of the Western Systems Power Pool Agreement, dated February 1, 2001, ("WSPP Agreement"), in which case the obligations of both Parties will be reduced for the duration of the interruption or reduction.

NERC HOLIDAYS: The following shall be deemed holidays for purposes of this Agreement: New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving, and Christmas Day.

ADDITIONAL TERMS AND CONDITIONS: Neither Party shall transfer or assign all or any part of this Agreement or its rights or obligations hereunder or otherwise dispose of any right, title or interest herein without the prior written consent of the other Party, which consent shall not be unreasonably withheld or delayed. Notwithstanding the foregoing, either Party may, without the need for consent from the other Party, (a) transfer, pledge, or assign this Agreement as security for any financing; (b) transfer, assign or delegate this Agreement or its rights or obligations hereunder to an Affiliate of such party; or (c) transfer, assign or delegate this Agreement to any person or entity succeeding to all or substantially all of the assets of such party; PROVIDED, HOWEVER, THAT ANY SUCH ASSIGNEE SHALL AGREE TO BE BOUND BY THE TERMS AND CONDITIONS HEREOF AND, PROVIDED, FURTHER, THAT ANY TRANSFER, ASSIGNMENT OR DELEGATION THAT DOES NOT REQUIRE CONSENT HEREUNDER SHALL NOT, IN ANY WAY, RELEASE THE ASSIGNOR FROM LIABILITY FOR THE FULL PERFORMANCE OF ANY OBLIGATIONS (AND ONLY THOSE OBLIGATIONS) ARISING UNDER THIS AGREEMENT PRIOR TO THE EFFECTIVE DATE OF THE TRANSFER, ASSIGNMENT OR DELEGATION. To the extent a transfer does not require consent, the transferring Party shall provide prompt notice to the other party of the transfer and the effective date thereof. Any transfer in violation of this section shall be deemed null and void.

The definition of Affiliate: "AFFILIATE" means, with respect to any person, any entity controlled, directly or indirectly, by such person, any entity that controls, directly or indirectly, such person, or any entity directly or indirectly under common control with such person. For this purpose, "control" of any entity or person means ownership of a majority of the voting power of the entity or person.

"CAISO ENERGY" means with respect to a Transaction, a Product under which the Seller shall sell and the Buyer shall purchase a quantity of energy equal to the hourly quantity without Ancillary Services (as defined in the Tariff) that is or will be scheduled as a schedule coordinator to schedule coordinator transaction pursuant to the applicable tariff and protocol provisions of the California Independent Operator ("CAISO")(as amended from time to time, the "Tariff") for which the only excuse for failure to deliver or receive is an "Uncontrollable Force."

A CAISO "Schedule Adjustment", (defined as a schedule change implemented by the CAISO that is neither caused by, or within the control of, either Party) shall not constitute an Uncontrollable Force.

BILLING AND PAYMENT: Monthly billings and payment shall be in accordance with Section 9 of the WSP Agreement. Billings and payment shall be sent to:

Pinnacle West Capital Corporation  
Attention: Cash Management, Station 9996  
P. O. Box 53920  
Phoenix, AZ 85072-3920

Southern California Water Company  
Attention: Raymond P. Juels  
630 E. Foothills Blvd.  
San Dimas, CA 91773-9015

PWMT Contract No. 62803 shall be included on all correspondence or invoices in reference to this agreement.

If the above accurately reflects the terms and conditions of the agreement between PWMT and SCWC on June 14, 2001, please sign a copy of this Agreement and return it via fax to the PWMT Confirm Administrator listed above.

PINNACLE WEST CAPITAL CORPORATION

SOUTHERN CALIFORNIA WATER COMPANY

Signature: /s/ DAVID A. HANSEN  
-----

Signature: /s/ JOEL A. DICKSON  
-----

Print Name: David A. Hansen  
-----

Print Name: Joel A. Dickson  
-----

Title: Director, Marketing & Trading  
-----

Title: Vice President  
-----

Date: 6-15-01  
-----

Date: 6/14/01  
-----

CERTIFICATE  
OF  
CORPORATE SECRETARY

The undersigned, McClellan Harris III, hereby certifies:

- (1) That he is the duly elected, qualified and acting Corporate Secretary of Southern California Water Company, a California corporation; and
- (2) That Joel A. Dickson, in his capacity as an executive officer of Southern California Water Company, is authorized by the Bylaws of Southern California Water Company, to execute that agreement styled as PWMT Contract No. 62803 dated June 14, 2001, relating to the purchase and receipt by Southern California Water Company of electric energy delivered and sold by Pinnacle West Capital Corporation; and
- (3) That the authority granted by the Bylaws of Southern California Water Company is currently in full force and effect.

WITNESS, the hand of the undersigned and the seal of said Corporation this 14th day of June 2001.

[SIGNATURE ILLEGIBLE]

-----  
Corporate Secretary

(SEAL)

WESTERN SYSTEMS POWER POOL  
AGREEMENT

Issued by: Michael E. Small, General Counsel to  
Western Systems Power Pool  
Issued on: May 2, 2001

Effective: July 1, 2000

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SERVICE SCHEDULES

- A. ECONOMY ENERGY SERVICE
- B. UNIT COMMITMENT SERVICE
- C. FIRM CAPACITY/ENERGY SALE OR EXCHANGE SERVICE

LIST OF MEMBERS

Issued by: Michael E. Small, General Counsel to      Effective: February 1, 2001  
 Western Systems Power Pool

Issued on: December 1, 2001

Filed to comply with order of the Federal Energy Regulatory Commission,  
 Docket Nos. ER00-3338, et al., issued November 2, 2000.

## 1. PARTIES:

The Parties to this Western Systems Power Pool Agreement (hereinafter referred to as "Agreement") are those entities that have executed this Agreement, hereinafter sometimes referred to individually as "Party" and collectively as "Parties," but excluding any such entity that withdraws its participation in the Agreement.

## 2. RECITALS:

- 2.1 The WSPP experiment has been successfully concluded. Its main purpose was to determine the feasibility of a marketing arrangement which would increase the efficiency of interconnected power system operations above that already being accomplished with existing agreements through increased market knowledge and market pricing of commodities.
- 2.2 The Parties now desire to proceed with a similar marketing arrangement on a long term basis for prescheduled and real-time coordinated power transactions, such as economy energy transactions, unit commitment service, firm system capacity/energy sales or exchanges. Accordingly, this Agreement, together with any applicable Confirmation Agreement, sets forth the terms and conditions to implement these services within any applicable rate ceilings set forth in the Service Schedules in conformance with FERC orders where applicable.

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- 2.3 Each Party meets the membership requirements set out in Section 16.
- 2.4 The Parties are willing to utilize their respective electric generation and transmission systems or contractual rights thereto to the extent of their respective obligations which are set forth in this Agreement.

3. AGREEMENT:

In consideration of the mutual covenants and promises herein set forth, the Parties agree as follows:

4. DEFINITIONS:

The following terms, when used herein with initial capitalization, whether in the singular or in the plural, shall have the meanings specified:

- 4.1 Agreement: This Western Systems Power Pool Agreement, including the Service Schedules and Exhibits attached hereto, as amended; provided, however, that Confirmation Agreements are not included within this definition.
- 4.1a Business Day(s): Any day other than a Saturday or Sunday or a national (United States or Canadian, whichever is applicable) holiday. United States holidays shall be holidays observed by Federal Reserve member banks in New York City. Where both the Seller and the Purchaser have their principal place of business in the United States, Canadian holidays shall not apply. Similarly, where both the Seller and the Purchaser have their principal place of business in Canada, United States holidays shall not apply. In situations where one Party has its principal place of business within the United States and the other Party's principal place of

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business is within Canada, both United States and Canadian holidays shall be observed.

- 4.1b Confirmation Agreement(s): Any oral agreement or written documentation for transactions under the Service Schedules which sets forth terms and conditions for transactions that are in addition to, substitute, or modify those set forth in the Agreement. A sample written confirmation document is included as Exhibit C. Section 32 of this Agreement provides for such Confirmation Agreements. The Parties may agree to modify terms of this Agreement for more than one transaction pursuant to a separate written agreement. The changes to the Agreement agreed to through such written agreements shall be considered part of the Confirmation Agreement and shall apply to all transactions entered into between the two Parties under the Agreement unless the Parties specifically agree to override such changes for a particular transaction consistent with Section 32 of this Agreement.
- 4.1c Contract Price: The price agreed to between the Seller and the Purchaser for a transaction under the Agreement and any Confirmation Agreement.
- 4.1d Contract Quantity: The amount of electric energy and/or capacity to be supplied for a transaction under a Service Schedule as agreed to through any Confirmation Agreement.
- 4.2 Control Area: Shall mean an electric system capable of regulating its generation in order to maintain its interchange schedule with other electric systems and to

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contribute its frequency bias obligation to the interconnection as specified in the North American Electric Reliability Council (NERC) Operating Guidelines.

- 4.3 Economy Energy Service: Non-firm energy transaction whereby the Seller has agreed to sell or exchange and the Purchaser has agreed to buy or exchange energy that is subject to immediate interruption upon notification, in accordance with the Agreement, including Service Schedule A, and any applicable Confirmation Agreement.

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- 4.4 Electric Utility: An entity or lawful association which (i) is a public utility, Independent Power Producer, or Power Marketer regulated under applicable state law or the Federal Power Act, or (ii) is exempted from such regulation under the Federal Power Act because it is the United States, a State or any political subdivision thereof or an agency of any of the foregoing, or a Rural Utilities Service cooperative, or (iii) is a public utility, Independent Power Producer, or Power Marketer located in Canada or Mexico that is similarly regulated.
- 4.5 Executive Committee: That committee established pursuant to Section 8 of this Agreement.
- 4.6 FERC: The Federal Energy Regulatory Commission or its regulatory successor.
- 4.7 Firm Capacity/Energy Sale or Exchange Service: Firm capacity and/or energy transaction whereby the Seller has agreed to sell or exchange and the Purchaser has agreed to buy or exchange for a specified period available capacity with or without associated energy which may include a Physically-Settled Option and a capacity transaction in accordance with the Agreement, including Service Schedule C, and any applicable Confirmation Agreement.
- 4.7a Guarantee Agreement: An agreement providing a guarantee issued by a parent company or another entity guaranteeing responsibility for specific obligations for transactions under this Agreement and Confirmation Agreements. A sample form of guarantee is provided in Exhibit B.
- 4.7b Guarantor: The entity providing a guarantee pursuant to a Guarantee Agreement.

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- 4.8 Hub: An electronic communication center that functions as a central point to electronically receive and assemble data for offers to buy or sell power or transmission service from each Party and make that data electronically available concurrently to all Parties.
- 4.9 Incremental Cost: The forecasted expense incurred by the Seller in providing an additional increment of energy or capacity during a given hour.
- 4.10 Independent Power Producer: An entity which is a non-traditional public utility that produces and sells electricity but which does not have a retail service franchise.
- 4.11 Interconnected Transmission System: The total of all transmission facilities owned or operated by the Parties, including transmission facilities over which Parties have scheduling rights.
- 4.11a Letter of Credit: An irrevocable, transferable, standby letter of credit, issued by an issuer acceptable to the Party requiring the Letter of Credit.
- 4.11b NERC. North American Electric Reliability Council or any successor organization.
- 4.12 Operating Agent: Arizona Public Service Company, or its successor as may be designated by the Executive Committee.
- 4.13 Operating Committee: That committee established pursuant to Section 8 of this Agreement.

Issued by: Michael E. Small, General Counsel to  
Western Systems Power Pool  
Issued on: May 2, 2001

Effective: July 1, 2001

- 4.14 Power Marketer: An entity which buys, sells, and takes title to electric energy, transmission and/or other services from traditional utilities and other suppliers.
- 4.14a Physically-Settled Option: Includes (i) a call option which is the right, but not the obligation, to buy an underlying power product as defined under Service Schedules B or C according to the price and exercise terms set forth in the Confirmation Agreement; and (ii) a put option which is the right, but not the obligation, to sell an underlying power product as defined under Service Schedules B or C according to the price and exercise terms set forth in the Confirmation Agreement.
- 4.14b Premium: The amount paid by the Purchaser of a Physically-Settled Option to the Seller of such Option by the date agreed to by the Parties in the Confirmation Agreement.
- 4.15 Purchaser: Any Party which agrees to buy or receive from one or more of the other Parties any service pursuant to the Agreement under any Service Schedule and any applicable Confirmation Agreement.
- 4.16 Qualifying Facility: A facility which is a qualifying small power production facility or a qualifying cogeneration facility as these terms are defined in Federal Power Act Sections 3(17)(A), 3(17)(C), 3(18)(A), and 3(18)(B); which meets the requirements set forth in 18 C.F.R. Sections 292.203-292.209; or a facility in Canada or Mexico that complies with similar requirements.

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- 4.16a Replacement Price: The price at which the Purchaser, acting in a commercially reasonable manner, effects a purchase of substitute electric energy in place of the electric energy not delivered by the Seller or, absent such a purchase, the market price for such quantity of electric energy, as determined by the Purchaser in a commercially reasonable manner, at the delivery point (agreed upon by the Seller and the Purchaser for the transaction).
- 4.16b Retail Entity: A retail aggregator or supplier or retail customer; provided, however, only those Retail Entities eligible for transmission service under the FERC's pro forma open access transmission tariff are eligible to become members of the WSPP.
- 4.16c Sales Price: The price at which the Seller, acting in a commercially reasonable manner, effects a resale of the electric energy not received by the Purchaser or, absent such a resale, the market price for such quantity of electric energy at the delivery point (agreed upon by the Seller and the Purchaser), as determined by the Seller in a commercially reasonable manner.
- 4.17 Seller: Any Party which agrees to sell or provide to one or more of the other Parties any service pursuant to the Agreement under any Service Schedule and any applicable Confirmation Agreement.
- 4.18 Service Schedule: A schedule of services established pursuant to Section 6 of this Agreement.
- 4.19 Uncontrollable Forces: As defined in Section 10 of this Agreement or in a Confirmation Agreement.

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Western Systems Power Pool  
Issued on: May 2, 2001

Effective: July 1, 2001

4.20 Unit Commitment Service: A capacity and associated scheduled energy transaction or a Physically-Settled Option which the Seller has agreed to sell and the Purchaser has agreed to buy from a specified unit(s) for a specified period, in

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Effective: July 1, 2001

Issued on: May 2, 2001

accordance with the Agreement, including Service Schedule B, and any applicable Confirmation Agreement.

4.20a WSPP: The Western Systems Power Pool.

4.20b WSPP Default Transmission Tariff: The transmission tariff filed on behalf of WSPP Members with FERC as it may be amended from time to time.

5. TERM AND TERMINATION:

5.1 This Agreement shall become effective as of July 27, 1991 when acceptance or approvals required under Section 13.2 of this Agreement with respect to those Parties that are subject to FERC jurisdiction have been obtained; provided, however, that this Agreement shall not become effective as to any Party in the event the pre-grant of termination requested under Section 13.3 is not allowed by FERC, absent that Party's consent; and provided, further, that this Agreement shall not become effective as to any Party if any terms, conditions or requirements imposed by FERC are found unacceptable by that Party. This Agreement shall continue in effect for a period of ten (10) years from said effective date and thereafter on a year to year basis until terminated by the Parties; provided, however, that any Party may withdraw its participation at any time after the effective date of this Agreement on thirty (30) days prior written notice to all other Parties.

5.2 As of the effective date of any withdrawal, the withdrawing Party shall have no further rights or obligations under this Agreement except the right to collect

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money or receive service owed to it for transactions under any Service Schedule and the obligation to pay such amounts due to another Party and to complete any transactions agreed to under any Service Schedule as of said date. No Party shall oppose, before any court or regulatory agencies having jurisdiction, any other Party's withdrawal as provided in this Section.

- 5.3 Except as provided for in Section 5.2, after termination, or withdrawal with respect to the withdrawing Party, all rights to services provided under this Agreement or any tariff or rate schedule which results from or incorporates this Agreement shall cease, and no Party shall claim or assert any continuing right to such services under this Agreement. Except as provided for in Section 5.2, no Party shall be required to provide services based in whole or in part on the existence of this Agreement or on the provision of services under this Agreement beyond the termination date, or date of withdrawal with respect to the withdrawing Party.

6. SERVICE SCHEDULES AND WSPP DEFAULT TRANSMISSION TARIFF:

- 6.1 The Parties contemplate that they may, from time to time, add or remove Service Schedules under this Agreement. The attached Service Schedules A through C for Economy Energy Service, Unit Commitment Service, and Firm System Capacity/Energy Sale or Exchange Service are hereby approved and made a part of this Agreement. Nothing contained herein shall be construed as affecting in any way the right of the Parties to jointly make application to FERC for a change

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in the rates and charges, classification, service, terms, or conditions affecting WSPP transactions under Section 205 of the Federal Power Act and pursuant to FERC rules and regulations promulgated thereunder. Subject to the provisions of Section 13, future Service Schedules, if any, shall be adopted only by amendment of this Agreement and shall be attached hereto and become a part of this Agreement.

6.2 [RESERVED]

6.3 When the WSPP Default Transmission Tariff applies as specified in the preamble to such Default Transmission Tariff, Transmission Service under it shall be available both to Parties and nonParties under this Agreement; provided, however, each Party or nonParty must be an eligible customer under the WSPP Default Transmission Tariff in order to receive service.

7. HUB AND OPERATING AGENT:

7.1 The Operating Agent shall act for itself and as agent for the Parties to carry out its designated responsibilities under this Agreement.

7.2 The Operating Agent shall, as directed by the Operating Committee pursuant to Section 8.2.4, and on behalf of the Parties, either (i) purchase or lease, and install or have installed, operate and maintain the necessary equipment to operate the Hub or (ii) contract for Hub services.

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- 7.3 The Operating Agent's estimated total costs to be incurred under Section 7.2 shall be subject to review by the Operating Committee and approval by the Executive Committee.
- 7.4 At least sixty (60) days prior to each calendar year that this Agreement is in effect, the Operating Agent shall prepare a budget for said year of operation under this Agreement and shall submit same to the Operating Committee for review, and to the Executive Committee for approval. Subsequent budget revisions shall be submitted to the Operating Committee for review and to the Executive Committee for approval.
- 7.5 The Operating Agent shall perform other administrative tasks necessary to implement this Agreement as directed by the Executive Committee.
- 7.6 Except as provided in Section 7.7, all Parties shall share equally in all costs of the Operating Agent incurred under this Agreement, including but not limited to initial FERC filing fees and any reasonable legal fees.
- 7.7 Each Party, in coordination with the Operating Agent, shall at its own expense acquire, install, operate, and maintain all necessary software and hardware on its system and the necessary communications link to the Hub to conduct transactions under this Agreement.
- 7.8 The Operating Agent shall bill the Parties for costs incurred under this Agreement on an estimated basis reasonably in advance of when due, and such billings shall be paid by the Parties when due. Such billings shall be adjusted in the following

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month(s) to reflect recorded costs. Billing and payment of the Operating Agent's costs shall otherwise be implemented in accordance with the provisions of Section 9.

- 7.9 The Operating Agent, at reasonable times and places, shall make available its records and documentation supporting costs for bills rendered under this Agreement for the inspection of any Party for a period of time not to exceed two (2) years from the time such bills were rendered.
- 7.9.1 A Party requesting review of the Operating Agent's records shall give the Operating Agent sufficient notice of its intent, but in no event less than thirty (30) days.
- 7.9.2 The requesting Party may perform this review using personnel from its own staff or designate a certified public accounting firm for the purpose of this review.
- 7.9.3 All costs incurred to perform this review shall be at the requesting Party's own expense.
- 7.9.4 The Party performing the review shall not voluntarily release the Operating Agent's records or disclose any information contained therein to any third party unless the written consent of the Operating Agent and the Executive Committee has been obtained.
- 7.10 Upon the termination of this Agreement, unless otherwise directed by the Executive Committee, the Operating Agent shall either dispose of any Hub

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equipment which it has purchased, or have the right of first refusal to purchase such equipment at original cost less depreciation, and shall apply any net proceeds from the sale of the Hub equipment against its costs incurred under this Agreement. The Operating Agent shall refund any excess proceeds equally to the Parties.

8. ORGANIZATION AND ADMINISTRATION:

As a means of securing effective and timely cooperation within the activities hereunder and as a means of dealing on a prompt and orderly basis with various problems which may arise in connection with system coordination and operation under changing conditions, the Parties hereby establish an Executive Committee and an Operating Committee.

8.1 Executive Committee:

The Executive Committee shall consist of one representative and an alternate from each Party designated pursuant to Section 8.5 herein. The responsibilities of the Executive Committee are as follows:

- 8.1.1 To establish sub-committees as it may from time to time deem necessary.
- 8.1.2 To review at least annually the service activities hereunder to ensure that such activities are consistent with the spirit and intent of this Agreement.
- 8.1.3 To review any unresolved issues which may arise hereunder and endeavor to resolve the issues.

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- 8.1.4 To review and approve the Operating Agent's annual budget under this Agreement, and any revision thereto, within thirty (30) days of recommendation by the Operating Committee.
- 8.1.5 To establish and approve any additional budgets under this Agreement as may be deemed necessary.
- 8.1.6 To review and recommend to the Parties for approval any additions or amendments to this Agreement, including Service Schedules.
- 8.1.7 To review and act on the application of an entity to become a Party to this Agreement.
- 8.1.8 To designate a successor to the Operating Agent, if necessary.
- 8.1.9 To do such other things and carry out such duties as specifically required or authorized by this Agreement; provided, however, that the Executive Committee shall have no authority to amend this Agreement.
- 8.1.10 To notify any Party of the rescission of its interest in this Agreement due to its failure to continue to meet the requirements of Section 16.1.
- 8.1.11 To arrange for legal representation for filing this Agreement (and any subsequent amendments) with FERC and supporting the Agreement (or amendments) in any FERC proceeding, and for other purposes as required.

8.2 Operating Committee:

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The Operating Committee shall consist of one representative and an alternate from each Party designated pursuant to Section 8.5. The responsibilities of the Operating Committee are as follows:

- 8.2.1 To establish, review, approve, or modify procedures and standard practices, consistent with the provisions hereof, for the guidance of load dispatchers and other operating employees in the Parties' electric systems as to matters affecting transactions under this Agreement.
- 8.2.2 To submit to the Executive Committee any proposed new or revised Service Schedules.
- 8.2.3 To establish, review, approve, or modify any scheduling or operating procedures required in connection with transactions under this Agreement.
- 8.2.4 To direct the Operating Agent in matters governed by this Agreement.
- 8.2.5 To review and make recommendations to the Executive Committee for approval of the Operating Agent's annual budget under this Agreement, including any proposed revisions thereto, within thirty (30) days of receipt from the Operating Agent.
- 8.2.6 To review and recommend as necessary the types and arrangement of equipment for intersystem communication facilities to enhance transactions and benefits under this Agreement.
- 8.2.7 To review the Operating Agent's estimated total costs of providing, having provided or contracting for a Hub.

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- 8.2.8 To review new member applications for membership to this Agreement and make recommendations on said applications to the Executive Committee.
- 8.2.9 To do such other things and carry out such duties as specifically required or authorized by this Agreement or as directed by the Executive Committee; provided, however, that the Operating Committee shall have no authority to amend this Agreement.
- 8.3 All matters which require Operating Committee or Executive Committee approval as provided in this Agreement shall be by no less than ninety percent (90%) affirmative agreement of the committee members present.
- 8.4 Unless otherwise agreed by all committee members, the chairperson of each committee shall provide the other Parties at least ten (10) Business Days advance notification of all committee meetings, including an agenda of matters to be discussed and voted on at the meeting. All material issues to be submitted to a vote of the committee shall appear on the agenda. Prior to the selection of a chairperson the Operating Agent shall provide such advance notice for the initial meeting of each committee.
- 8.5 Each Party shall give written notice to the other Parties of the name of its designated representative and alternate representative (to act in the absence of the designated representative) on each committee within thirty (30) days after the execution of this Agreement. Notice of any change of representative or alternate

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representative shall be given by written notice to the other Parties. Each Party's designated representative shall be authorized to act on its behalf with respect to those committee responsibilities provided herein.

8.6 Each committee shall meet as necessary or at the request of any Party.

8.7 Each committee shall elect a chairperson and other officers at its first meeting.

9. PAYMENTS:

9.1 The accounting and billing period for transactions under Service Schedules to this Agreement shall be one (1) calendar month, unless otherwise specified in a Service Schedule agreed to through a Confirmation Agreement. Bills sent to any Party shall be sent to the appropriate billing address as set forth on the WSPP homepage or as otherwise specified by such Party.

9.2 Payments for amounts billed under Service Schedules hereto shall be paid so that such payments are received by the Party to be paid on the 20th day of the invoicing month or the tenth (10) day after receipt of the bill, whichever is later. Notwithstanding the foregoing, Premiums shall be paid within three (3) Business Days of receipt of the invoice therefor. Payment shall be made at the location designated by the Party to which payment is due. Payment shall be considered received when payment is received by the Party to which Payment is due at the location designated by that Party. If the due date falls on a non-Business Day of either Party, then the payment shall be due on the next following Business Day.

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Issued on: May 2, 2001

Effective: July 1, 2001

- 9.3 Amounts not paid on or before the due date shall be payable with interest accrued at the rate of one percent (1%) per month, or the maximum interest rate permitted

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Effective: July 1, 2001

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by law, if any, whichever is less, prorated by days from the due date to the date of payment unless and until the Executive Committee shall determine another rate.

- 9.4 In case any portion of any bill is in dispute, the entire bill shall be paid when due. Any excess amount of bills which, through inadvertent errors or as a result of a dispute, may have been overpaid shall be returned by the owing Party upon determination of the correct amount, with interest accrued at the rate of one percent (1%) per month, or the maximum interest rate permitted by law, if any, whichever is less, prorated by days from the date of overpayment to the date of refund unless and until the Executive Committee shall determine another rate. The Parties shall have no rights to dispute the accuracy of any bill or payment after a period of two (2) years from the date on which the first bill was delivered for a specific transaction.
- 9.5 If a Party's records reveal that a bill was not delivered for a specific transaction, then the Party may deliver to the appropriate Party a bill within two (2) years from the date on which the bill would have been delivered under Section 9.1 of this Agreement. The right to payment is waived with respect to transactions, or portions thereof, not billed within such two (2) year period.
- 9.6 Each Party, or any third party representative of a Party, shall keep complete and accurate records, and shall maintain such data as may be necessary for the purpose of ascertaining the accuracy of all relevant data, estimates, or statements

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Effective: July 1, 2001

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of charges submitted hereunder for a period of two (2) years from the date the first bill was delivered for a specific transaction completed under this Agreement.

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Party to settle any strike or labor dispute in which it may be involved. Any Party rendered unable to fulfill any of its obligations by reason of an Uncontrollable Force shall give prompt notice of such fact and shall exercise due diligence, as provided above, to remove such inability within a reasonable time period. If oral notice is provided, it shall be promptly followed by written notice.

Notwithstanding the "due diligence" obligations or obligations to remove or remedy the causes set forth in the foregoing paragraph (which do not apply to this paragraph except as specified below), where the entity providing transmission services for transactions under any Service Schedule interrupts such transmission service, the interruption in transmission service shall be considered an Uncontrollable Force under this Section 10 only in the following two sets of circumstances:

- (1) An interruption in transmission service shall be considered an Uncontrollable Force if (a) the Parties agreed on a transmission path for that transaction at the time the transaction under this Agreement was entered into by the Parties' thereto, (b) firm transmission involving that transmission path was obtained pursuant to a transmission tariff or contract to effectuate the transaction under the applicable Service Schedule, and (c) the entity providing transmission service curtailed or interrupted such firm transmission pursuant to the applicable transmission tariff or contract;
- (2) if the Parties did not agree on the transmission path for a transaction at the time the transaction was entered into, an interruption in transmission service shall be

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considered an Uncontrollable Force only if (a) the Party contracting for transmission services shall have made arrangements with the entity providing transmission service for firm transmission to effectuate the transaction under the applicable Service Schedule, (b) the entity providing transmission service curtailed or interrupted such transmission service due to an event of Uncontrollable Forces or provision of like effect, and (c) the Party which contracted for such firm transmission services could not obtain alternate energy at the delivery point, alternate transmission services, or alternate means of delivering energy after exercising due diligence.

No Party shall be relieved by operation of this Section 10 of any liability to pay for power delivered to the Purchaser or to make payments then due or which the Party is obligated to make with respect to performance which occurred prior to the Uncontrollable Force.

11. WAIVERS:

Any waiver at any time by any Party of its rights with respect to a default under this Agreement or any Confirmation Agreements, or any other matter under this Agreement, shall not be deemed a waiver with respect to any subsequent default of the same or any other matter.

12. NOTICES:

12.1 Except for the oral notice provided for in Section 10 of this Agreement, any formal notice, demand or request provided for in this Agreement shall be in

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writing and shall be deemed properly served, given or made if delivered in person, or sent by either registered or certified mail, postage prepaid, or prepaid telegram or fax or other means agreed to by the Parties.

12.2 RESERVED

12.3 Notices and requests of a routine nature applicable to delivery or receipt of power or energy or operation of facilities shall be given in such manner as the committees from time to time or the Parties to a transaction shall prescribe.

13. APPROVALS:

13.1 This Agreement is subject to valid laws, orders, rules and regulations of duly constituted authorities having jurisdiction. Nothing contained in this Agreement shall give FERC jurisdiction over those Parties not otherwise subject to such jurisdiction or be construed as a grant of jurisdiction over any Party by any state or federal agency not otherwise having jurisdiction by law.

13.2 This Agreement, including any Service Schedule hereto, shall become effective as to any Party when it is accepted for filing by FERC, without changes or conditions unacceptable to such Party, for application to the Parties subject to FERC jurisdiction under the Federal Power Act; provided, however, that nothing in this Agreement is intended to restrict the authority of the Bonneville Power Administration (BPA) pursuant to applicable statutory authority to use its existing wholesale power and transmission rates or to adopt new rates, rate schedules, or general rate schedule provisions for application under this Agreement and obtain

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interim or final approval of those rates from FERC pursuant to Section 7 of the Pacific Northwest Electric Power Planning and Conservation Act, 16 U.S.C. Sec. 839e, provided such rates do not exceed the maximum rates in the applicable Service Schedule and are consistent with the terms and conditions of said Service Schedule. If, upon filing of this Agreement by Parties subject to FERC jurisdiction under the Federal Power Act, FERC orders a hearing to determine whether this Agreement or a Service Schedule under this Agreement is just and reasonable under the Federal Power Act, the Agreement or Service Schedule shall not become effective until the date when an order issued by FERC, determining this Agreement or the Service Schedule to be just and reasonable without changes or new conditions unacceptable to the Parties, is no longer subject to judicial review. Any changes or conditions imposed by any agency or court, including FERC ordering a hearing, shall be cause for immediate withdrawal by any nonconsenting Party.

- 13.3 The Parties subject to FERC jurisdiction under the Federal Power Act shall have the right to terminate their participation in this Agreement, and any rate schedule or services included herein, pursuant to the terms of Section 5 of this Agreement and without the necessity of further filing with or approval by FERC.
- 13.4 Any amendment or change in maximum rates specified in the Service Schedules shall not become effective with regard to any Party that is subject to FERC jurisdiction under the Federal Power Act until it is accepted for filing or

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confirmed and approved by FERC as specified in and subject to the conditions of Section 13.2.

13.5 Nothing contained in this Agreement shall be construed to establish any precedent for any other agreement or to grant any rights to or impose any obligations on any Party beyond the scope and term of this Agreement.

14. TRANSFER OF INTEREST IN AGREEMENT:

No Party shall voluntarily transfer its membership under this Agreement without the written consent and approval of all other Parties except to a successor in operation of the applicable properties of such Party. With regard to the transfer of the rights and obligations of any Party associated with transactions under the Service Schedules, neither Party may assign such rights or obligations unless (a) the other Party provides its prior written consent which shall not be unreasonably withheld; or (b) the assignment is to a successor in operation whose creditworthiness is comparable to or higher than that of the assigning Party. Any successor or assignee of the rights of any Party, whether by voluntary transfer, judicial or foreclosure sale or otherwise, shall be subject to all the provisions and conditions of this Agreement and Confirmation Agreements (where applicable) to the same extent as though such successor or assignee were the original Party under this Agreement or the Confirmation Agreements, and no assignment or transfer of any rights under this Agreement or any Confirmation Agreement shall be effective unless and until the assignee or transferee agrees in writing to assume all of the obligations of the assignor or transferor and to be bound by all of the provisions and

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conditions of this Agreement and any Confirmation Agreement (where applicable). The execution of a mortgage or trust deed or a judicial or foreclosure sale made thereunder shall not be deemed a voluntary transfer within the meaning of this Section 14.

15. SEVERABILITY:

In the event that any of the terms, covenants or conditions of this Agreement or any Confirmation Agreement, or the application of any such term, covenant or condition, shall be held invalid as to any person or circumstance by any court, regulatory agency, or other regulatory body having jurisdiction, all other terms, covenants or conditions of this Agreement and the Confirmation Agreement and their application shall not be affected thereby, but shall remain in force and effect unless a court, regulatory agency, or other regulatory body holds that the provisions are not separable from all other provisions of this Agreement or such Confirmation Agreement.

16. MEMBERSHIP:

16.1 Any Electric Utility, Retail Entity or Qualifying Facility may become a Party to this Agreement. The Executive Committee shall notify such Electric Utility, Retail Entity or Qualifying Facility of its decision within sixty (60) days of a request to become a Party to this Agreement, and any acceptable entity shall become a Party hereto by the execution of this Agreement or a counterpart hereof, payment of costs pursuant to Section 16.4, and concluding any necessary acceptance or approval referred to in Section 13. Any such Party, if it is subject to the ratemaking jurisdiction of FERC,

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shall be responsible for any FERC filing necessary for it to implement its performance under this Agreement.

- 16.2 Each Party shall continue to meet the requirements of Section 16.1 in order to remain a Party to this Agreement
- 16.3 Being a Party to this Agreement shall not serve as a substitute for contractual arrangements that may be needed between any Party which operates a Control Area and any other Party which operates within that Control Area.
- 16.4 Any entity that becomes a Party to this Agreement which was not a party to the experimental Western Systems Power Pool Agreement shall pay a one time fee of \$25,000 under this Agreement in recognition of prior efforts and costs incurred by the parties to the experimental Western Systems Power Pool Agreement, which efforts greatly facilitated development of this Agreement. Such fee shall be credited to future costs of the Operating Agent incurred hereunder.

17. RELATIONSHIP OF PARTIES:

- 17.1 Nothing contained herein or in any Confirmation Agreement shall be construed to create an association, joint venture, trust, or partnership, or impose a trust or partnership covenant, obligation, or liability on or with regard to any one or more of the Parties. Each Party shall be individually responsible for its own covenants, obligations, and liabilities under this Agreement and under any applicable Confirmation Agreement.

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17.2 All rights of the Parties are several, not joint. No Party shall be under the control of or shall be deemed to control another Party. Except as expressly provided in this Agreement, no Party shall have a right or power to bind another Party without its express written consent.

18. NO DEDICATION OF FACILITIES:

Any undertaking by one Party to another Party under any provision of this Agreement shall not constitute the dedication of the electric system or any portion thereof of the undertaking Party to the public or to the other Party, and it is understood and agreed that any such undertaking under any provision of this Agreement by a Party shall cease upon the termination of such Party's obligations under this Agreement.

19. NO RETAIL SERVICES:

Nothing contained in this Agreement shall grant any rights to or obligate any Party to provide any services hereunder directly to or for retail customers of any Party.

20. THIRD PARTY BENEFICIARIES:

This Agreement shall not be construed to create rights, in, or to grant remedies to, any third party as a beneficiary of this Agreement or of any duty, obligation or undertaking established herein except as provided for in Section 14.

21. LIABILITY AND DAMAGES:

21.1 This Agreement contains express remedies or measures of damages in Sections 21.3 and 22 for non-performance or default. THE LIABILITY OF THE NON-PERFORMING OR DEFAULTING PARTY SHALL BE LIMITED AS SET

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FORTH IN SUCH PROVISIONS, AND ALL OTHER DAMAGES OR REMEDIES ARE  
HEREBY WAIVED. Therefore, except as provided in Sections 21.3 and  
22, no Party or its directors, members of its governing bodies,  
officers or employees shall be liable to any other Party or  
Parties for any loss or damage to property, loss of earnings

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or revenues, personal injury, or any other direct, indirect, or consequential damages or injury, or punitive damages, which may occur or result from the performance or non-performance of this Agreement (including any applicable Confirmation Agreement), including any negligence arising hereunder. Any liability or damages faced by an officer or employee of a Federal agency or by that agency that would result from the operation of this provision shall not be inconsistent with Federal law.

21.2 [RESERVED]

21.3 The following damages provision shall apply to transactions under Service Schedules B and C. For transactions under Service Schedule A, this damages provision or some other damages provision will apply only if such a damages provision is agreed to through a Confirmation Agreement. The damages under this Section 21.3 apply to a Party's failure to deliver or receive electric power or energy in violation of the terms of the Agreement and any Confirmation Agreement. The Contract Quantity and Contract Price referred to in this Section 21.3 are part of the agreement between the Parties for which damages are being calculated under this Section.

- (a) If either Party fails to deliver or receive, as the case may be, the quantities of electric power or energy due under the Agreement and any Confirmation Agreement (thereby becoming a "Non-Performing Party" for the purposes of this Section 21.3), the other party (the "Performing

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Party") shall be entitled to receive from the Non-Performing Party an amount calculated as follows (unless performance is excused by Uncontrollable Forces as provided in Section 10, the applicable Service Schedule, or by the Performing Party):

- (1) If the amount the Purchaser scheduled or received in any hour is less than the applicable hourly Contract Quantity, then the Purchaser shall be liable for (a) the product of the amount (whether positive or negative), if any, by which the Contract Price differed from the Sales Price (Contract Price - Sales Price) and the amount by which the quantity received by the Purchaser was less than the hourly Contract Quantity; plus (b) the amount of transmission charge(s), if any, for firm transmission service upstream of the delivery point, which the Seller incurred to achieve the Sales Price, less the reduction, if any, in transmission charge(s) achieved as a result of the reduction in the Purchaser's schedule or receipt of electric energy (based on Seller's reasonable commercial efforts to achieve such reduction). If the total amounts for all hours calculated under this paragraph (1) are negative, then neither the Purchaser nor the Seller shall pay any amount under this Section 21.3(a)(1).

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- (2) If the amount the Seller scheduled or delivered in any hour is less than the applicable hourly Contract Quantity, then the Seller shall be liable for (a) the product of the amount (whether positive or negative), if any, by which the Replacement Price differed from the Contract Price (Replacement Price - Contract Price) and the amount by which the quantity delivered by the Seller was less than the hourly Contract Quantity; plus (b) the amount of transmission charge(s), if any, for firm transmission service downstream of the delivery point, which the Purchaser incurred to achieve the Replacement Price, less the reduction, if any, in transmission charge(s) achieved as a result of the reduction in the Seller's schedule or delivery (based on Purchaser's reasonable commercial effort to achieve such reduction). If the total amounts for all hours calculated under this paragraph (2) are negative, then neither the Purchaser nor the Seller shall pay any amount under this Section 21.3(a)(2).
- (3) The Non-Performing Party shall pay any amount due from it under this section within the billing period as specified in Section 9 of this Agreement or agreed to in the applicable Confirmation Agreement if the Parties agreed to revise the billing period in Section 9.

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- (b) The Parties agree that the amounts recoverable under this Section 21.3 are a reasonable estimate of loss and not a penalty, and represent the sole and exclusive remedy for the Performing Party. Such amounts are payable for the loss of bargain and the loss of protection against future risks.
- (c) Each Party agrees that it has a duty to mitigate damages in a commercially reasonable manner to minimize any damages it may incur as a result of the other Party's performance or non-performance of this Agreement.
- (d) In the event the Non-Performing Party disputes the calculation of the damages under this Section 21.3, the Non-Performing Party shall pay the full amount of the damages as required by Section 9 of this Agreement to the Performing Party. After informal dispute resolution as required by Section 34.1, any remaining dispute involving the calculation of the damages shall be referred to binding dispute resolution as provided by Section 34.2 of this Agreement. If resolution or agreement results in refunds or the need for refunds to the Non-Performing Party, such refunds shall be calculated in accordance with Section 9.4 of this Agreement.

22. DEFAULT OF TRANSACTIONS UNDER THIS AGREEMENT AND CONFIRMATION AGREEMENTS:

22.1 EVENTS OF DEFAULT

An "Event of Default" shall mean with respect to a Party ("Defaulting Party"):

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- (a) the failure by the Defaulting Party to make, when due, any payment required pursuant to this Agreement or Confirmation Agreement if such failure is not remedied within two (2) Business Days after written notice of such failure is given to the Defaulting Party by the other Party ("the Non-Defaulting Party"). The Non-Defaulting Party shall provide the notice by facsimile to the designated contact person for the Defaulting Party and also shall send the notice by overnight delivery to such contact person; or
- (b) the failure by the Defaulting Party to provide clear and good title as required by Section 33.3, or to have made accurate representations and warranties as required by Section 37 and such failure is not cured within five (5) Business Days after written notice thereof to the Defaulting Party; or
- (c) The institution, with respect to the Defaulting Party, by the Defaulting Party or by another person or entity of a bankruptcy, reorganization, moratorium, liquidation or similar insolvency proceeding or other relief under any bankruptcy or insolvency law affecting creditor's rights or a petition is presented or instituted for its winding-up or liquidation; or
- (d) The failure by the Defaulting Party to provide adequate assurances of its ability to perform all of its outstanding material obligations to the Non-Defaulting Party under the Agreement or Confirmation Agreement

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pursuant to Section 27 of this Agreement or any substitute or modified provision in the Confirmation Agreement.

- (e) With respect to its Guarantor, if any:
- (i) if a material representation or warranty made by a Guarantor in connection with this Agreement, or any transaction entered into hereunder, is false or misleading in any material respect when made or when deemed made or repeated; or
  - (ii) the failure of a Guarantor to make any payment required or to perform any other material covenant or obligation in any guarantee made in connection with this Agreement, including any transaction entered into hereunder, and such failure shall not be remedied within three (3) Business Days after written notice; or
  - (iii) a Guarantor becomes Bankrupt;
  - (iv) the failure, without written consent of the other Party, of a Guarantor's guarantee to be in full force and effect for purposes of this Agreement (other than in accordance with its terms) prior to the satisfaction of all obligations of such Party under each transaction to which such guarantee shall relate; or
  - (v) a Guarantor shall repudiate, disaffirm, disclaim, or reject, in whole or in part, or challenge the validity of, any guarantee.

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## 22.2 REMEDIES FOR EVENTS OF DEFAULT

If an Event of Default occurs, the Non-Defaulting Party shall possess the right to terminate all transactions between the Parties under this Agreement upon written notice (by facsimile or other reasonable means) to the Defaulting Party, such notice of termination to be effective immediately upon receipt. If the Non-Defaulting Party fails to exercise this right of termination within thirty (30) days following the time when the Event of Default becomes known (or more than thirty days if the Non-Defaulting and Defaulting Parties agree to an extension), then such right of termination shall no longer be available to the Non-Defaulting Party as a remedy for the Event(s) of Default. The Non-Defaulting Party terminating transaction(s) under this Section 22.2 may do so without making a filing at FERC.

Upon termination, the Non-Defaulting Party shall liquidate all transactions as soon as practicable, provided that in no event will the Non-Defaulting Party be allowed to liquidate Service Schedule A transactions. The payment associated with termination ("Termination Payment") shall be calculated in accordance with this Section 22.2 and Section 22.3. The Termination Payment shall be the sole and exclusive remedy for the Non-Defaulting Party for each terminated transaction ("Terminated Transaction") for the time period beginning at the time notice of termination under this Section 22 is received. Prior to receipt

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of such notice of termination by the Defaulting Party, the Non-Defaulting Party may exercise any remedies available to it under Section 21.3 of this Agreement or Confirmation Agreement(s), and any other remedies available to it at law or otherwise.

Upon termination, the Non-Defaulting Party may withhold any payments it owes the Defaulting Party for any obligations incurred prior to termination under this Agreement or Confirmation Agreement(s) until the Defaulting Party pays the Termination Payment to the Non-Defaulting Party. The Non-Defaulting Party shall possess the right to set-off the amount due it under this Section 22 by any such payments due the Defaulting Party as provided in Section 22.3(d).

### 22.3 LIQUIDATION CALCULATION OPTIONS

The Non-Defaulting Party shall calculate the Termination Payment as follows:

- (a) The Gains and Losses shall be determined by comparing the value of the remaining term, transaction quantities, and transaction prices under each Terminated Transaction had it not been terminated to the equivalent quantities and relevant market prices for the remaining term either quoted by a bona fide third-party offer or which are reasonably expected to be available in the market under a replacement contract for each Terminated Transaction. To ascertain the market prices of a replacement contract, the Non-Defaulting Party may consider, among other valuations, quotations

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from leading dealers in energy contracts, any or all of the settlement prices of the NYMEX power futures contracts (or NYMEX power options contracts in the case of Physically-Settled Options) and other bona fide third party offers, all adjusted for the length of the remaining term and differences in transmission. It is expressly agreed that the Non-Defaulting Party shall not be required to enter into replacement transactions in order to determine the Termination Payment.

- (b) The Gains and Losses calculated under paragraph (a) shall be discounted to present value using the Present Value Rate as of the time of termination (to take account to the period between the time notice of termination was effective and when such amount would have otherwise been due pursuant to the relevant transaction). The "Present Value Rate" shall mean the sum of 0.50% plus the yield reported on page "USD" of the Bloomberg Financial Markets Services Screen (or, if not available, any other nationally recognized trading screen reporting on-line intraday trading in United States government securities) at 11:00 a.m. (New York City, New York time) for the United States government securities having a maturity that matches the average remaining term of the Terminated Transactions; and
- (c) The Non-Defaulting Party shall set off or aggregate, as appropriate, the Gains and Losses (as calculated in Section 22.3(a)) and Costs and notify

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the Defaulting Party. If the Non-Defaulting Party's aggregate Losses and Costs exceed its aggregate Gains, the Defaulting Party shall, within three (3) Business Days of receipt of such notice, pay the Termination Payment to the Non-Defaulting Party, which amount shall bear interest at the Present Value rate from the time notice of termination was received until paid. If the Non-Defaulting Party's aggregate Gains exceed its aggregate Losses and Costs, the Non-Defaulting Party, after any set-off as provided in paragraph (d), shall pay the remaining amount to the Defaulting Party within three (3) Business Days of the date notice of termination was received including interest at the Present Value from the time notice of termination was received until the Defaulting Party receives payment.

- (d) The Non-Defaulting Party shall aggregate or set off, as appropriate, at its election, any or all other amounts owing between the Parties (discounted at the Present Value Rate) under this Agreement and any Confirmation Agreements against the Termination Payment so that all such amounts are aggregated and/or netted to a single liquidated amount. The net amount due from any such liquidation shall be paid within three (3) Business Days following the date notice of termination is received.

If the Defaulting Party disagrees with the calculation of the Termination Payment and the Parties cannot otherwise resolve their differences, the calculation issue shall be submitted to informal dispute resolution as provided in Section 34.1

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of this Agreement and thereafter binding dispute resolution pursuant to Section 34.2 if the informal dispute resolution does not succeed in resolving the dispute. Pending resolution of the dispute, the Defaulting Party shall pay the full amount of the Termination Payment calculated by the Non-Defaulting Party within three (3) Business Days of receipt of notice as set forth in Section 33.2(c) subject to the Non-Defaulting Party refunding, with interest, pursuant to Section 9.4, any amounts determined to have been overpaid.

For purposes of this Section 22.3:

- (i) "Gains" means the economic benefit (exclusive of Costs), if any, resulting from the termination of the Terminated Transactions, determined in a commercially reasonable manner as calculated in accordance with this Section 22.3;
- (ii) "Losses" means the economic loss (exclusive of Costs), if any, resulting from the termination of the Terminated Transactions, determined in a commercially reasonable manner as calculated in accordance with this Section 22.3;
- (iii) "Costs" means brokerage fees, commissions and other similar transaction costs and expenses reasonably incurred in terminating any specifically related arrangements which replace a Terminated Transaction, transmission and ancillary service costs associated with Terminated Transactions, and reasonable attorneys' fees, if any, incurred in connection

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with the Non-Defaulting Party enforcing its rights with regard to the Terminated Transactions. The Non-Defaulting Party shall use reasonable efforts to mitigate or eliminate these Costs.

- (iv) In no event, however, shall a Party's Gains, Losses or Costs include any penalties or similar charges imposed by the Non-Defaulting Party.

22A. DEFAULT IN PAYMENT OF WSPP OPERATING COSTS:

22A.1 A Party shall be deemed to be in default in payment of its share of WSPP operating costs pursuant to Section 7 of this Agreement, if any, when payment is not received within ten (10) days after receipt of written notice. A default by any Party in such payment obligations shall be cured by payment of all overdue amounts together with interest accrued at the rate of one percent (1%) per month, or the maximum interest rate permitted by law, if any, whichever is less, prorated by days from the due date to the date the payment curing the default is made unless and until the Executive Committee shall determine another rate.

22A.2 A defaulting Party, which is in default under Section 22.A1, shall be liable for all costs, including costs of collection and reasonable attorney fees, plus interest as provided in Section 22.A1 hereof.

22A.3 The rights under this Agreement of a Party which is in default of its obligation to pay operating costs under this Agreement for a period of three (3) months or more may be revoked by a vote of the non-defaulting

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Parties' representatives on the Executive Committee consistent with Section 8.3. The defaulting Party's rights shall not be revoked, however, unless said Party has received at least thirty (30) days written notice of the non-defaulting Parties' intent to revoke such rights. Said notice shall state the date on which the revocation of rights shall become effective if the default is not cured and shall state all actions which must be taken or amounts which must be paid to cure the default. This provision allowing the non-defaulting Parties to revoke such rights is in addition to any other remedies provided in this Agreement or at law and shall in no way limit the non-defaulting Parties' ability to seek judicial enforcement of the defaulting Party's obligations to pay its share of the operating costs under this Agreement. Upon the effective date of such revocation of rights, the defaulting party shall not be allowed to enter into any new transactions under this Agreement. The defaulting party under the Agreement or any Confirmation Agreements shall be required to carry out all obligations that existed prior to the effective date of such revocation. If a defaulting Party's rights under this Agreement have been revoked, the Executive Committee may restore that Party's rights upon the defaulting Party paying all amounts due and owing under this Agreement.

- 22A.4 Upon revocation of the rights of a defaulting Party under this Agreement, Operating Agent costs hereunder shall be equally shared among the

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remaining Parties. Cost allocation adjustments shall be retroactive to the date of the default.

23. OTHER AGREEMENTS:

No provision of this Agreement shall preclude any Party from entering into other agreements or conducting transactions under existing agreements with other Parties or third parties. This Agreement shall not be deemed to modify or change any rights or obligations under any prior contracts or agreements between or among any of the Parties.

24. GOVERNING LAW:

This Agreement and any Confirmation Agreement shall be governed by and construed in accordance with the laws of the State of Utah, without regard to the conflicts of laws rules thereof. The foregoing notwithstanding, (1) if both the Seller and Purchaser are organized under the laws of Canada, then the laws of the province of the Seller shall govern, or (2) if the Seller is an agency of or part of the United States Government, then the laws of the United States of America shall govern.

25. JUDGMENTS AND DETERMINATIONS:

Whenever it is provided in this Agreement that a Party shall be the sole judge of whether, to what extent, or under what conditions it will provide a given service, its exercise of its judgment shall be final and not subject to challenge. Whenever it is provided that (i) a service under a given transaction may be curtailed under certain conditions or circumstances, the existence of which are determined by or in the judgment of a Party, or (ii) the existence of qualifications for membership shall be determined by

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the Executive Committee pursuant to Section 16, that Party's or the Executive Committee's determination or exercise of judgment shall be final and not subject to challenge if it is made in good faith and not made arbitrarily or capriciously.

26. COMPLETE AGREEMENT:

This Agreement and any subsequent amendments, including the Service Schedules and Exhibits incorporated herein, and any Confirmation Agreement, shall constitute the full and complete agreement of the Parties with respect to the subject matter hereof, and all prior or contemporaneous representations, statements, negotiations, understandings and inducements are fully merged and incorporated in this Agreement.

27. CREDITWORTHINESS:

Should a Party's creditworthiness, financial responsibility, or performance viability become unsatisfactory to the other Party in such other Party's reasonably exercised discretion with regard to any transaction pursuant to this Agreement and any Confirmation Agreement (after the transaction is agreed to or begins), the dissatisfied Party (the "First Party") may require the other Party (the "Second Party") to provide, at the Second Party's option (but subject to the First Party's acceptance based upon reasonably exercised discretion), either (1) the posting of a Letter of Credit, (2) a cash prepayment, (3) the posting of other acceptable collateral or security by the Second Party, (4) a Guarantee Agreement executed by a creditworthy entity; or (5) some other mutually agreeable method of satisfying the First Party. The Second Party's obligations under this Section 27 shall be limited to a reasonable estimate of the damages to the First Party

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(consistent with Section 21.3 of this Agreement) if the Second Party were to fail to perform its obligations. Events which may trigger the First Party questioning the Second Party's creditworthiness, financial responsibility, or performance viability include, but are not limited to, the following:

- (1) The First Party has knowledge that the Second Party (or its Guarantor if applicable) are failing to perform or defaulting under other contracts.
- (2) The Second Party has exceeded any credit or trading limit set out in the Confirmation Agreement or other agreement between the Parties.
- (3) The Second Party or its Guarantor has debt which is rated as investment grade and that debt falls below the investment grade rating by at least one rating agency or is below investment grade and the rating of that debt is downgraded further by at least one rating agency.
- (4) Other material adverse changes in the Second Party's financial condition occur.
- (5) Substantial changes in market prices which materially and adversely impact the Second Party's ability to perform under this Agreement or any Confirmation Agreement occur.

If the Second Party fails to provide such reasonably satisfactory assurances of its ability to perform a transaction hereunder within three (3) Business Days of demand therefore, that will be considered an Event of Default under Section 22 of this Agreement and the First Party shall have the right to exercise any of the remedies provided for under

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that Section 22. Nothing contained in this Section 27 shall affect any credit agreement or arrangement, if any, between the Parties.

28. NETTING AND SET-OFF:

28.1 If the Purchaser and the Seller are each required to pay an amount to each other in the same calendar month for transactions under this Agreement, then such amounts with respect to each Party may be aggregated and the Parties may discharge their obligations to pay through netting of the respective amounts due, in which case the Party, if any, owing the greater aggregate amount may pay to the other Party the difference between the amounts owed. Each Party reserves to itself all rights, set-offs, counterclaims, and other remedies and defenses (to the extent not expressly herein waived or denied) which such Party has or may be entitled to arising from or out of this Agreement and any applicable Confirmation Agreements. All outstanding transactions and the obligations to make payments under this Agreement, any Confirmation Agreement, or any other agreement between the Parties may be offset against each other, set off, or recouped therefrom.

28.2 Parties shall net payments (associated with transactions under this Agreement and Confirmation Agreement) in accordance with Exhibit A, if such Parties have executed the form attached as Exhibit A. The Parties obligation to net shall include the netting of all payments received by the Parties in the same calendar month. Parties that have executed Exhibit A shall provide a signed copy of

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Exhibit A to the Parties under this Agreement and indicate on the WSPP Homepage that they have so executed Exhibit A (once the WSPP Homepage possesses the necessary capability). If a Party executed Exhibit A, that Party may withdraw its agreement to net by providing thirty (30) days notice to all Parties that it is withdrawing its agreement to net. If a Party indicated its election to net payments on the WSPP Homepage and that Party desires to withdraw its agreement to net, that Party shall provide 30 days notice on the WSPP Homepage of the change in its election to net and such action shall be sufficient to satisfy the notice requirement of the preceding sentence. Any such changes in netting status shall apply beginning 30 days after notice is provided and only shall apply to transactions agreed to beginning on or after the date the change in netting status becomes effective.

28.3 The Parties may by separate agreement either through a Confirmation Agreement or some other agreement set out specific terms relating to the implementation of the netting and/or set-off in addition to or in lieu of Exhibit A.

29. TAXES:

The Contract Price for all transactions under the Service Schedules shall include full reimbursement for, and the Seller is liable for and shall pay, or cause to be paid, or reimburse the Purchaser for if the Purchaser has paid, all taxes applicable to a transaction that arise prior to the delivery point. If the Purchaser is required to remit such tax, the amount shall be deducted from any sums due to the Seller. The Seller shall indemnify,

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defend, and hold harmless the Purchaser from any claims for such taxes. The Contract Price does not include reimbursement for, and the Purchaser is liable for and shall pay, cause to be paid, or reimburse the Seller for if the Seller has paid, all taxes applicable to a transaction arising at and from the delivery point, including any taxes imposed or collected by a taxing authority with jurisdiction over the Purchaser. The Purchaser shall indemnify, defend, and hold harmless the Seller from any claims for such taxes. Either Party, upon written request of the other Party, shall provide a certificate of exemption or other reasonably satisfactory evidence of exemption if either Party is exempt from taxes, and shall use reasonable efforts to obtain and cooperate with the other Party in obtaining any exemption from or reduction of any tax. Taxes are any amounts imposed by a taxing authority associated with the transaction.

30. CONFIDENTIALITY:

The terms of any transaction under the Service Schedules or any other information exchanged by the Purchaser and Seller relating to the transaction shall not be disclosed to any person not employed or retained by the Purchaser or the Seller or their affiliates, except to the extent disclosure is (1) required by law, (2) reasonably deemed by the disclosing Party to be required to be disclosed in connection with a dispute between or among the Parties, or the defense of any litigation or dispute, (3) otherwise permitted by consent of the other Party, which consent shall not be unreasonably withheld, (4) required to be made in connection with regulatory proceedings (including proceedings relating to FERC, the United States Securities and Exchange Commission or any other

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federal, state or provincial regulatory agency); (5) required to comply with North American Electric Reliability Organization, regional reliability council, or successor organization requirements; or (6) necessary to obtain transmission service. In the event disclosure is made pursuant to this provision, the Parties shall use reasonable efforts to minimize the scope of any disclosure and have the recipients maintain the confidentiality of any documents or confidential information covered by this provision, including, if appropriate, seeking a protective order or similar mechanism in connection with any disclosure. This provision shall not apply to any information that was or is hereafter in the public domain (except as a result of a breach of this provision).

31. TRANSMISSION TARIFF:

Pursuant to FERC Order No. 888, issued on April 24, 1996, and FERC orders where applicable, the WSPP Default Transmission Tariff has been filed and has become effective. The Parties agree to be bound by the terms of that Tariff for so long as they are Western Systems Power Pool members.

32. TRANSACTION SPECIFIC TERMS AND ORAL AGREEMENTS:

32.1 The Parties' agreement to transaction specific terms which constitute the Confirmation Agreement shall be made by one of the following methods: (1) provision of pertinent information through written Confirmation Agreements (see Exhibit C for a sample); or (2) oral conversation, provided that such oral conversation is recorded electronically. By mutual agreement and consistent with and pursuant to the provisions of this Section 32, the Parties to a transaction under

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this Agreement may agree to modify any term of this Agreement which applies to such transaction (but now to provisions regarding the operation of the WSPP as an organization including Sections 7 and 8), such agreement to be reflected in a Confirmation Agreement. Written confirmation shall be required for all transactions of one week or more. Upon request of the Purchaser or at the election of the Seller, the Seller shall provide written confirmation which must be received by the Purchaser within five Business Days of the date of the agreement or request. The Purchaser shall have five Business Days from date of receipt to respond to the confirmation. If the Purchaser does not respond within that time period, the Seller's written confirmation shall be considered as accepted and final. If the Seller fails to provide any required written confirmation within five Business Days, as described above, then the Purchaser may submit a written confirmation to the Seller. The Purchaser shall submit such written confirmation within five Business Days after the deadline for submitting a written confirmation applicable to the Seller as set forth above has expired. If the Seller fails to respond to Purchaser's confirmation within five Business Days, then the Purchaser's written confirmation shall be considered as accepted and final. Notwithstanding the foregoing, any failure of the Seller or the Purchaser to provide written confirmation of the transaction shall not invalidate any oral agreement of the Parties. Nor shall any oral agreement of the Parties be considered invalidated before and during the time period the confirmation process

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is ongoing and no final Confirmation Agreement under these procedures or through mutual agreement has been reached.

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- 32.2 The Parties agree not to contest, or assert any defense with respect to, the validity or enforceability of any agreement to the terms concerning a specific transaction(s), on the basis that documentation of such terms fails to comply with the requirements of any statute that agreements be written or signed. Each Party consents to the recording by the other Party, without any further notice, of telephone conversations between representatives of the Parties, which contain agreements to or discussion concerning the terms of a specific transaction(s). All such recordings may be introduced and admitted into evidence for the purpose of proving agreements to terms, and any objection to such introduction or admission for such purpose is hereby expressly waived. The terms documented hereunder, whether stated in a written document or a recording, are intended by the Parties as a final expression of their agreement with respect to such terms as are included therein and may not be contradicted by evidence of any prior agreement, but may be supplemented by course of dealing, performance, usage of trade and evidence of consistent additional mutually agreed-upon terms.
- 32.3 For individual transactions under the Service Schedules, the Agreement as it may be modified or supplemented by a Confirmation Agreement shall bind the Parties and govern the transactions; provided, however, if the Parties to a transaction do not reach agreement on such modification or change to a term of the Agreement, or the Confirmation Agreement is not considered accepted and final pursuant to Section 32.1, then the term or terms of the Agreement, which the Parties could not

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reach agreement to modify or change or which are not considered modified pursuant to Section 32.1, shall apply to that transaction. In the event of a conflict between a binding and effective Confirmation Agreement and this Agreement, the Confirmation Agreement shall govern.

32.4 The Seller shall not be required to file written confirmations with FERC except as provided in the Service Schedules.

33. PERFORMANCE, TITLE, AND WARRANTIES FOR TRANSACTIONS UNDER SERVICE SCHEDULES:

33.1 Performance

33.1.1 The Seller shall deliver to the delivery point(s) as agreed to in the applicable Confirmation Agreement and sell to the Purchaser in accordance with the terms of the Agreement and such Confirmation Agreement.

33.1.2 The Purchaser shall receive and purchase the Contract Quantity, as agreed to by the Parties in the applicable Confirmation Agreement, at the delivery point(s) and purchase from the Seller in accordance with the terms of the Agreement and such Confirmation Agreement.

33.2 Title and Risk of Loss

Title to and risk of loss of the electric energy shall pass from the Seller to the Purchaser at the delivery point agreed to in the Confirmation Agreement; provided, however, with regard to federal agencies or parts of the United States

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Government, title to and risk of loss shall pass to Purchaser to the extent permitted by and consistent with applicable law.

### 33.3 Warranties

The Seller warrants that it will transfer to the Purchaser good title to the electric energy sold under the Agreement and any Confirmation Agreement, free and clear of all liens, claims, and encumbrances arising or attaching prior to the delivery point and that Seller's sale is in compliance with all applicable laws and regulations. THE SELLER HEREBY DISCLAIMS ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

## 34. DISPUTE RESOLUTION:

### 34.1 INFORMAL DISPUTE RESOLUTION

Before binding dispute resolution or any other form of litigation may proceed, any dispute between the Parties to a transaction under this Agreement first shall be referred to nonbinding mediation. The Parties shall attempt to agree upon a mediator from a list of ten (10) candidates provided by the Chairman of the WSPP Operating Committee or his or her designee. If the Parties are unable to agree, then the Chairman or the designee shall appoint a mediator for the dispute. Neither the mediator nor the person involved on behalf of the WSPP in developing a list of mediators for the Parties to choose from or in selecting the

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mediator (if the Parties are unable to do so) shall possess a direct or indirect interest in either Party or the subject matter of the mediation. The WSPP shall establish procedures for the appointment of mediators and the conduct of mediation and those procedures shall apply to the mediation.

#### 34.2 BINDING DISPUTE RESOLUTION

The Parties to a dispute may elect binding dispute resolution using the following process unless binding arbitration of certain disputes is required under this Agreement in which event the Parties shall use the process set forth in this Section 34.2 to resolve such disputes, unless the Parties otherwise agree:

- (a) WSPP Dispute Resolution: A Party to a dispute (if binding dispute resolution is required) or all Parties to a dispute (if agreement of the Parties is required for binding dispute resolution) may initiate binding dispute resolution under WSPP procedures by notifying the Chairman of the WSPP Operating Committee or his or her designee. The Chairman or his or her designee shall provide the Parties with a list of ten (10) eligible arbitrators. Within ten (10) days of receiving the list, the Parties shall agree on a single arbitrator from the list to conduct the arbitration, or notify the Chairman of the Operating Committee or the designee of their inability to reach agreement. If notified of the Parties inability to reach agreement, then the Chairman or the designee shall choose the arbitrator from the list within five (5) days. Neither the arbitrator nor the person

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involved on behalf of the WSPP in developing a list of arbitrators for the Parties to choose from or in selecting the arbitrator (if the Parties are unable to do so) shall possess a direct or indirect interest in either Party or the subject matter of the arbitration. The Procedures to be used for this arbitration shall follow the arbitration procedures which shall be developed and maintained by the WSPP and the procedures will be generally consistent with the commercial arbitration rules of the American Arbitration Association though not involving the Association.

If the Parties agree to binding dispute resolution under this Section 34.2, each Party understands that it will not be able to bring a lawsuit concerning any dispute that may arise which is covered by this arbitration provision. Notwithstanding the foregoing, nothing herein is intended to waive any provision of the Federal Arbitration Act, 9 U.S.C. Section 1, et. seq., or any right under state statute or common law to challenge an arbitration award or to prevent any action to enforce any arbitration award.

A Party's liability and damages under any arbitration award resulting from the process set forth in this Section 34.2 shall be limited as provided in this Agreement or in any Confirmation Agreement.

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## 34.3 COSTS

Each Party shall be responsible for its own costs and those of its counsel and representatives. The Parties shall equally divide the costs of the arbitrator or mediator and the hearing.

## 34.4 CONFIDENTIALITY

Any arbitration or mediation under this Section 34 shall be conducted on a confidential basis and not disclosed, including any documents or results which shall be considered confidential, unless the Parties otherwise agree or such disclosure is required by law.

## 35. FORWARD CONTRACTS:

The Parties acknowledge and agree that all transactions under the Agreement and Confirmation Agreement(s) are forward contracts and that the Parties are forward contract merchants, as those terms are used in the United States Bankruptcy Code. The Parties acknowledge and agree that all of their transactions, together with this Agreement and the related Confirmation Agreement(s) form a single, integrated agreement, and agreements and transactions are entered into in reliance on the fact that the agreements and each transaction form a single agreement between the Parties.

## 36. TRADE OPTION EXCEPTION

The Parties intend that any Physically Settled Option under this Agreement shall qualify under the trade option exception, 17 C.F.R. Section 32.4. Accordingly, each Party buying or selling a Physically Settled Option agrees and warrants that any such option

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shall be offered only to a provider, user, or merchant and that the entities entering into the options are doing so solely for purposes related to their business.

37. ADDITIONAL REPRESENTATIONS AND WARRANTIES:

Each Party warrants and represents to the other(s) that it possesses the necessary corporate, governmental and legal authority, right and power to enter into and agree to the applicable Confirmation Agreement for a transaction or transactions and to perform each and every duty imposed, and that the Parties' agreement to buy and sell power under this Agreement and the Confirmation Agreement represents a contract. Each Party also warrants and represents to the other(s) that each of its representatives executing or agreeing through a Confirmation Agreement to a transaction under this Agreement is authorized to act on its behalf.

Each Party further warrants and represents that entering into and performing this Agreement and any applicable Confirmation Agreement does not violate or conflict with its Charter, By-laws or comparable constituent document, any law applicable to it, any order or judgment of any court or other agency of government applicable to it or any agreement to which it is a party and that this Agreement and applicable Confirmation Agreement(s), constitute a legal, valid and binding obligation enforceable against such Party in accordance with the terms of such agreements.

Each Party also represents that it is solvent and that on each delivery this representation shall be deemed renewed unless notice to the contrary is given in writing by the Purchaser to the Seller before delivery.

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## 38. AMENDMENT:

- 38.1 This Agreement may be amended upon the submission to FERC and acceptance by FERC of that amendment. The Parties through the Executive Committee shall direct the filing of any amendments. The Parties to this Agreement agree to bound by this Agreement as it may be amended, provided that the Parties possess the right to challenge any amendments at FERC and to exercise any applicable withdrawal rights under this Agreement.
- 38.2 Unless otherwise stated in the amendment, all amendments shall apply only to new transactions entered into or agreed to on or after the effective date of the amendment. Preexisting agreements and transactions shall operate under the version of the WSPP Agreement effective at the time of the agreement for the transaction unless the Parties to a transaction or transactions mutually agree otherwise.
- 38.3 An agreement modifying this Agreement or a Confirmation Agreement for a transaction needs no consideration to be binding.

## 39. EXECUTION BY COUNTERPARTS:

This Agreement may be executed in any number of counterparts, and upon execution by all Parties, each executed counterpart shall have the same force and effect as an original instrument and as if all Parties had signed the same instrument. Any signature page of this Agreement may be detached from any counterpart of this Agreement without impairing the legal effect of any signatures thereon, and may be attached to another

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counterpart of this Agreement identical in form hereto but having attached to it one or more signature pages.

40. WITNESS:

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their duly authorized representative as of the 27th day of July, 1991 (or as of the date of execution of this Agreement by each Party's duly authorized representation, in the case of any Party that becomes a signatory to this Agreement subsequent to July 27, 1991).

By: \_\_\_\_\_  
Name:  
Title:



[WSPP SAMPLE FORM -- PARTIES ARE FREE TO USE THIS OR DISREGARD IT.]

EXHIBIT B

FORM OF COUNTERPARTY GUARANTEE AGREEMENT

This Guarantee Agreement (this "Guarantee"), dated, as of [\_\_\_\_], 199[\_\_\_], is made and entered into by [\_\_\_\_], a [\_\_\_\_] corporation ("Guarantor").

WITNESSETH:

WHEREAS, [\_\_\_\_] (the "Company") may enter into transactions involving power sales under the Western Systems Power Pool ("WSPP Agreement") and related confirmation agreements<sup>1</sup> (collectively "Agreements") with [Company Name] ("Guaranteed Party"); and

WHEREAS, Guarantor will directly or indirectly benefit from the Agreements.

NOW THEREFORE, in consideration of the Guaranteed Party agreeing to conduct business with Company, Guarantor hereby covenants and agrees as follows:

1. GUARANTY. Subject to the provisions hereof, Guarantor hereby irrevocably and unconditionally guarantees the timely payment when due of the obligations of Company (the "Obligations") to the Guaranteed Party in accordance with the Agreements. If Company fails to pay any Obligations, Guarantor shall promptly pay to the Guaranteed Party no later than the next Business Day (as defined in the WSPP Agreement), after notification, the amount due in the same currency and manner provided for in the Agreements. This Guarantee shall constitute a guarantee of payment and not of collection. Guarantor shall have no right of subrogation with respect to any payments it makes under this Guarantee until all of the Obligations of Company to the Guaranteed Party are paid in full. The liability of Guarantor under the Guarantee shall be subject to the following:

(a) Guarantor's liability hereunder shall be and is specifically limited to payments expressly required to be made in accordance with the Agreements (even if such payments are deemed to be damages) and, except to the extent specifically provided in the Agreements, in no event shall Guarantor be subject hereunder to consequential, exemplary, equitable, loss of profits, punitive, tort, or any other even if such fees together with the payments

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exceed the cap in Section 1(b), damages, costs, except that Guarantor shall be required to pay reasonable attorney fees.

(b) The aggregate liability of the Guarantor shall not exceed [\_\_\_\_\_] Million U.S. Dollars [\_\_\_\_\_].

2. DEMANDS AND NOTICE. If Company fails or refuses to pay any Obligations, the Guaranteed Party may make a demand upon Guarantor (hereinafter referred to as a "Payment Demand"). A Payment Demand shall be in writing and shall reasonably and briefly specify in what manner and what amount Company has failed to pay and an explanation of why such payment is due, with a specific statement that the Guaranteed Party is calling upon Guarantor to pay under this Guarantee. A Payment Demand satisfying the foregoing requirements shall be deemed sufficient notice to Guarantor that it must pay the Obligations. A single written Payment Demand shall be effective as to any specific default during the continuance of such default, until Company or Guarantor has cured such default, and additional Payment Demands concerning such default shall not be required until such default is cured.

3. REPRESENTATIONS AND WARRANTIES. Guarantor represents and warrants that:

(a) it is a corporation duly organized and validly existing under the laws of the State of [\_\_\_\_\_] and has the corporate power and authority to execute, deliver and carry out the terms and provisions of this Guarantee;

(b) no authorization, approval, consent or order of, or registration or filing with, any court or other governmental body having jurisdiction over Guarantor is required on the part of Guarantor for the execution and delivery of this Guarantee; and

(c) this Guarantee constitutes a valid and legally binding agreement of Guarantor enforceable against Guarantor in accordance with its terms, except as the enforceability of this Guarantee may be limited by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and by general principles of equity.

4. EFFECT OF BANKRUPTCY BY COMPANY. The Guarantor's obligation to pay under this Guarantee shall not be affected in any way by the institution with respect to the Company of a bankruptcy, reorganization, moratorium or similar insolvency proceeding or other relief under any bankruptcy or insolvency law affecting creditor's rights or a petition for the Company's winding-up or liquidation.

5. AMENDMENT. No term or provision of this Guarantee shall be amended, modified, altered, waived, or supplemented except in a writing signed by the Guarantor and Guaranteed Party hereto.

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6. WAIVERS. Guarantor hereby waives (a) notice of acceptance of this Guarantee; (b) presentment and demand concerning the liabilities of Guarantor, except as expressly hereinabove set forth; and (c) any right to require that any action or proceeding be brought against Company or any other person, or except as expressly hereinabove set forth, to require that the Guaranteed Party seek enforcement of any performance against Company or any other person, prior to any action against Guarantor under the terms hereof.

Except as to applicable statutes of limitation, no delay of the Guaranteed Party in the exercise of, or failure to exercise, any rights hereunder shall operate as a waiver of such rights, a waiver of any other rights or a release of Guarantor from any obligations hereunder.

Guarantor consents to the renewal, compromise, extension, acceleration or other changes in the time of payment of or other changes in the terms of the Obligations, or any part thereof or any changes or modifications to the terms of the Agreements.

Guarantor may terminate this Guarantee by providing written notice of such termination to the Guaranteed Party and upon the effectiveness of such termination, Guarantor shall have no further liability hereunder, except as provided in the last sentence of this paragraph. No such termination shall be effective until fifteen (15) Business Days after receipt by the Guaranteed Party of such termination notice. No such termination shall affect Guarantor's liability with respect to any obligations arising under any transaction entered into prior to the time the termination is effective, which transaction shall remain guaranteed pursuant to the terms of this Guarantee.

7. ASSIGNMENT. The Guarantor shall not assign this Guarantee without the express written consent of the Guaranteed Party. The Guaranteed Party shall be entitled to assign its rights under this Agreement in its sole discretion.

8. NOTICE. Any Payment Demand, to the Guaranteed Party or the Guarantor notice, request, instruction, correspondence or other document to be given hereunder by any party to another (herein collectively called "Notice") shall be in writing and delivered personally or mailed by certified mail, postage prepaid and return receipt requested, or by telegram or telecopier, as follows:

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To [Name of Guaranteed Party] \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Attn: \_\_\_\_\_  
Fax No.: (\_\_\_\_) \_\_\_\_\_

To Guarantor: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Attn: \_\_\_\_\_  
Fax No.: (\_\_\_\_) \_\_\_\_\_

Notice given by personal delivery or mail shall be effective upon actual receipt. Notice given by telegram or telecopier shall be effective upon actual receipt if received during the recipient's normal business hours, or at the beginning of the recipient's next business day after receipt if not received during the recipient's normal business hours. All Notices by telegram or telecopier shall be confirmed promptly after transmission in writing by certified mail or personal delivery. Any party may change any address to which Notice is to be given to it by giving notice as provided above of such change of address.

8. MISCELLANEOUS. THIS GUARANTEE SHALL IN ALL RESPECTS BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF [State], WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS. This Guarantee shall be binding upon Guarantor, its successors and assigns and inure to the benefit of and be enforceable by the Guaranteed Party, its successors and assigns. The Guarantee embodies the entire agreement and understanding between Guarantor and the Guaranteed Party and supersedes all prior agreements and understandings relating to the subject matter hereof. The headings in this Guarantee are for purposes of reference only, and shall not affect the meaning hereof. This Guarantee may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

EXECUTED as of the day and year first above written.

[\_\_\_\_\_] \_\_\_\_\_  
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Issued by: Michael E. Small, General Counsel to Western Systems Power Pool  
Effective: July 1, 2000  
Issued on: September 29, 2000  
Filed to comply with order of the Federal Energy Regulatory Commission,  
Docket Nos. ER00-3338, et al., issued September 15, 2000.

EXHIBIT C  
SAMPLE FORM FOR CONFIRMATION

1. TRANSACTION SPECIFIC AGREEMENTS

The undersigned Parties agree to sell and purchase electric energy, or a Physically-Settled Option, pursuant to the WSPP Agreement as it is supplemented and modified below:

- (a) Seller: \_\_\_\_\_
- (b) Purchaser: \_\_\_\_\_
- (c) Period of Delivery: From \_\_\\_\_\\_\_ To \_\_\\_\_\\_\_
- (d) Schedule (Days and Hours): \_\_\_\_\_
- (e) Delivery Rate: \_\_\_\_\_
- (f) Delivery Point(s): \_\_\_\_\_
- (g) Type of Service (Check as Applicable)
  - Service Schedule A \_\_\_\_\_
  - Service Schedule B \_\_\_\_\_
  - Service Schedule C \_\_\_\_\_
  - Physically-Settled Option Service Schedule B \_\_\_\_\_
  - Physically-Settled Option Service Schedule C \_\_\_\_\_
- (h) Contract Quantity: \_\_\_\_\_ Total MWhrs.
- (i) Contract or Strike Price: \_\_\_\_\_
- (j) Transmission Path for the Transaction (If Applicable): \_\_\_\_\_
- (k) Date of Agreement if different: \_\_\_\_\_
- (l) Additional Information for Physically-Settled Options
  - (i) Option Type: Put \_\_\_\_\_ Call \_\_\_\_\_
  - (ii) Option Style: \_\_\_\_\_
  - (iii) Exercise Date or Period: \_\_\_\_\_
  - (iv) Premium: \_\_\_\_\_
  - (v) Premium Payment Date: \_\_\_\_\_
  - (vi) Method for providing notice of exercise \_\_\_\_\_
- (m) Special Terms and Exceptions:  
See Attachment A

[Special Terms and Exceptions shall be shown on an Attachment to this Confirmation.]

-----  
 Name of Trader for Purchaser                      Name of Trader for Seller

Issued by: Michael E. Small, General Counsel to                      Effective: February 1, 2001  
 Western Systems Power Pool  
 Issued on: December 1, 2000  
 Filed to comply with order of the Federal Energy Regulatory Commission,  
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-----  
Authorized Signature  
for Purchaser

-----  
Authorized Signature  
for Seller

-----  
Date

-----  
Date

Issued by: Michael E. Small, General Counsel to  
Western Systems Power Pool

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## EXHIBIT D

## WSPP MEDIATION AND ARBITRATION PROCEDURES

## I. MEDIATION

- A. INFORMAL MEDIATION. WSPP members with a dispute or a potential dispute involving transactions under the WSPP Agreement may request non-binding, informal mediation by contacting the WSPP's General Counsel and by providing a brief explanation in writing of the dispute and the remedy being sought. All parties to the dispute must request this Informal Mediation for it to become effective. After this contact, a telephonic conference call will be arranged among the affected WSPP members and the WSPP's General Counsel, the Chairman of the Operating Committee, and/or some other independent and knowledgeable person requested by the Chairman of the Operating Committee to participate. The purpose of the conference call will be to discuss the issues and to have an independent person or persons state their views. Best efforts will be made to set up this conference call within five Business Days after the WSPP's General Counsel is contacted subject to accommodating the schedules of all involved. This Informal Mediation shall be considered as satisfying the Mediation requirements of Section 34.1 of the WSPP Agreement.

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- B. INITIATING FORMAL MEDIATION. A WSPP member which believes that it possesses a claim against another WSPP member relating to a WSPP transaction, which is unable to resolve the dispute through agreement with the other member to the transaction, and which desires to pursue that claim shall initiate non-binding formal mediation pursuant to Section 34.1 of the WSPP Agreement. The member initiating such mediation shall do so by Serving written notice to the Chairman of the WSPP Operating Committee, the WSPP's General Counsel, and the other members against which the claim is directed. Such notice shall state the nature of the dispute, the remedy sought, and support the claim.
- C. RESPONSE TO DOCUMENT INITIATING FORMAL MEDIATION. Within eight days, the member or members against which the claim is directed may provide a response to the notice which shall be Served on the member which initiated the Mediation, the Chairman of the WSPP's Operating Committee, and the WSPP's General Counsel.
- D. CHOOSING THE MEDIATOR. The Mediator shall be chosen in accordance with the procedures set forth in Section 34.1 of the WSPP Agreement. Each Party may suggest persons to be included on the list of Mediators to be presented to the Parties provided that these suggested persons shall be provided to the WSPP Representative together with relevant personal histories within two Business Days

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of the date by which time the list of Mediators is to be sent out. The WSPP Representative shall allow at least one person suggested by each Party to be added to the list of Mediators. A brief personal history of each person on the list of potential mediators shall be provided to the Parties, with that history showing the person's employment over the last five years and any other relevant facts. The WSPP Representative shall provide the Parties with the list of Mediators within five days of receipt of notice of the dispute. The Parties then shall have five days in which to reach agreement on a Mediator or inform the WSPP Representative that they were unable to reach agreement in which event the WSPP Representative shall appoint the Mediator consistent with Section 34.1 of the WSPP Agreement. Upon request of the Parties for expedition, the WSPP Representative shall use best efforts to expedite this process.

- E. LOCATION FOR THE FORMAL MEDIATION. The Parties shall agree on a location for the Mediation. If the Parties fail to reach agreement, then the WSPP Representative shall set the location which shall be convenient for the Parties and the Mediator.
- F. TIME FOR THE FORMAL MEDIATION. The Parties shall agree on the time for the Mediation after consultation with the Mediator if one has been appointed. If the Parties fail to reach agreement, then the WSPP Representative shall set the time

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which shall not be more than twenty-one days after the notice initiating the Mediation is received after consultation with the Parties and any Mediator.

- G. CONDUCT OF THE FORMAL MEDIATION. The Mediator shall have the ability to conduct the Mediation in any manner which the Mediator believes is appropriate to facilitate resolution of the dispute. Each Party shall have at least one representative with the authority to settle the dispute present at the Mediation. The Mediation shall be private and confidential and the Mediator shall have the authority to exclude any person not directly involved unless the Parties agree otherwise in writing. At the Mediation, each Party shall have the right to make a brief presentation of its case and to question the other Party. Each Party also may be represented by counsel.
- H. REPLACEMENT OF THE MEDIATOR. If the Mediator resigns, withdraws or is no longer able to serve, then the Parties shall have two Business Days in which to agree on a new Mediator. If the Parties are unable to agree within such time, the WSPP Representative shall appoint a replacement Mediator from the list used to select the first Mediator within two Business Days after being notified that the Parties are unable to agree. The dates and deadlines in this section may require modification if the mediator is replaced. Any extensions shall be as limited as possible.

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## II. ARBITRATION

- A. INITIATING ARBITRATION. A WSPP member which initiates Arbitration pursuant to Section 34.2 of the WSPP Agreement shall do so by Serving the Chairman of the WSPP Operating Committee, the WSPP General Counsel and the members against which the claim is directed with written notice of its demand for arbitration. Such notice shall state the nature of the dispute, the remedy sought, and support the claim.
- B. RESPONSE. Within ten days of receipt of the notice, any member or members against which the claim is directed may provide a response to the notice. Such response must include any counterclaims which the member believes are appropriate. If a counterclaim is submitted, then the member which submitted the notice may respond to the counterclaim within ten days of receipt. All such responses shall be Served on the Parties, the Chairman of the WSPP Operating Committee, and the WSPP General Counsel.
- C. CHOOSING THE ARBITRATOR. The Arbitrator shall be chosen in accordance with the procedures set forth in Section 34.2 of the WSPP Agreement. Each Party may suggest persons to be included on the list of Arbitrators to be presented to the Parties provided that these suggested persons are provided to the WSPP Representative together with relevant personal histories within two business days

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shall set the time which shall not be more than 60 days after the notice is received. The WSPP Representative shall set a time after consultation with the Parties and the Arbitrator to check their schedules.

- F. DISCOVERY. After appointment of the Arbitrator, each Party shall be entitled to obtain relevant documents from the other Parties and to take depositions. Each Party shall respond to such a document request within seven days of receipt of the request and make its employees or consultants available for depositions to the extent that the employee or consultant possesses knowledge and information relevant to the dispute. Each Party shall disclose documents that are confidential or commercially sensitive subject to a reasonable protective order. Any disputes concerning discovery shall be promptly referred to the Arbitrator who shall have authority to resolve such disputes, including the authority to require attendance of witnesses at depositions. The Federal Rules of Civil Procedure shall apply to discovery under these procedures.
- G. CONDUCT OF ARBITRATION IF THE PARTIES AGREE TO WAIVE AN ORAL HEARING. If the Parties agree to waive an oral hearing, then the Parties shall Serve Initial Briefs no later than 35 days after the notice is received or notify the Arbitrator that they do not wish to submit any additional documents. Parties shall Serve any Reply Briefs no later than ten days after the date for Service of Initial Briefs.

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- H. CONDUCT OF THE ARBITRATION HEARING. No later than fifteen days before any hearing, any Party may Serve an Initial Brief or notify the Arbitrator that they do not wish to submit any additional documents. A Party shall Serve any Reply Brief no later than five Business Days before any hearing. The Arbitrator shall preside over any hearing and rule on all objections including objections as to the admissibility of evidence or whether the questioning is proper. All testimony shall be submitted under oath. The Arbitrator is not bound to follow any particular rules governing the conduct of the proceeding. The Arbitrator may rely on legal advice provided through the WSPP. The Arbitrator may require any person employed by a Party to attend and testify at the hearing. Each Party shall possess the right to present evidence, including witnesses, and to cross-examine other Parties' witnesses. The Arbitration shall be private and the Arbitrator shall have the authority to exclude any person not directly involved unless the Parties otherwise agree. Each Party may be represented by counsel. A stenographic record of the Arbitration shall be kept.
- I. DECISION. Within ten Business Days after the end of the Arbitration hearing, the Arbitrator shall issue his award in writing. If the Parties waived the right to an oral hearing, then the Arbitrator shall issue the award within ten Business Days of the last date Briefs were to be submitted. The Arbitrator is not limited in the

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remedies he may order so long as any arbitration award is consistent with the provisions and limitations of the WSPP Agreement and any applicable Confirmation Agreement with respect to the liability and damages of any Party; provided, however, upon agreement of the Parties to the dispute, the Arbitrator's choice of remedies may be limited.

- J. REPLACEMENT OF THE ARBITRATOR. If the Arbitrator resigns, withdraws, or is no longer able to serve then the Parties shall have two Business Days in which to agree on a new Arbitrator. If the Parties are unable to agree within such time, the WSPP Representative shall appoint a replacement Arbitrator from the list used to select the first Arbitrator within two Business Days after being notified that the Parties are unable to agree. The dates and deadlines in this section may require modification if the mediator is replaced. Any extensions shall be as limited as possible.

### III. MISCELLANEOUS

- A. CONFIDENTIALITY. Any Arbitration or Mediation shall be confidential as provided in Section 34.4 of the WSPP Agreement.
- B. COSTS. Costs shall be borne by Parties as provided in Section 34.3 of the WSPP Agreement.

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- C. RESTRICTIONS ON LAWSUITS. Each Party shall be subject to the restrictions provided in Section 34.2 of the WSPP Agreement.
- D. ATTORNEY-CLIENT/ATTORNEY WORKPRODUCT. The Arbitrator or Mediator shall not take any action which would result in disclosure of information in violation of the attorney-client privilege or attorney workproduct doctrine.

## IV. DEFINITIONS

- A. ARBITRATOR OR ARBITRATION. The Arbitrator appointed pursuant to these procedures and Section 34.2 of the WSPP Agreement and the Arbitration pursuant to these procedures and the WSPP Agreement.
- B. INITIAL OR REPLY BRIEFS. Written documents submitted by the Parties to support their positions and respond to each others positions. Such documents shall be limited to 25 pages.
- C. BUSINESS DAYS. Defined as in the WSPP Agreement.
- D. MEDIATOR OR MEDIATION. The Mediator appointed pursuant to these procedures and Section 34.1 of the WSPP Agreement and the Mediation pursuant to these procedures and the WSPP Agreement.
- E. PARTIES. The WSPP members involved in the Mediation or Arbitration which have a direct interest in the dispute.

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- F. SERVICE, SERVING, OR SERVED. The method of service shall be by fax, unless impracticable because of the size of the document. In all events, the document should be delivered to the Party by overnight mail. Parties also should attempt to send the document out by email if possible. Service will be accomplished to a Party if sent to the Party's contact person for the disputed transaction. If there are multiple contact persons for one Party, service to one such person shall suffice. Service shall be to those individuals or entities specified in this procedures, but must include service to the Parties, the Mediator or Arbitrator (if either has been appointed), and to the WSPG General Counsel.
- G. WSPG REPRESENTATIVE. The Chairman of the WSPG Operating Committee or his or her designee for the purposes of the Arbitration or Mediation.

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## SERVICE SCHEDULE A

## ECONOMY ENERGY SERVICE

## A-1 PARTIES:

This Service Schedule is agreed upon as a part of this Agreement by the Parties.

## A-2 PURPOSE:

The purpose of this Service Schedule is to define additional specific procedures, terms and conditions for requesting and providing Economy Energy Service.

## A-3 TERMS:

A-3.1 A Party may schedule Economy Energy Service from another Party by mutual agreement; provided, however, that each Party shall be the sole judge as to the extent to and the conditions under which it is willing to provide or receive such service hereunder consistent with statutory requirements and contractual commitments including the Agreement and any applicable Confirmation Agreement.

A-3.2 Scheduling of Economy Energy Service hereunder shall be a responsibility of the Parties involved.

A-3.3 Each Seller/Purchaser may prepare a daily estimate of the amount of Economy Energy Service that it is willing and able to sell/buy each hour and the associated hourly sale/purchase price for the next Business Day, plus the weekend and

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holidays, and communicate this information to all other Parties via the Hub.

- A-3.4 Purchasers shall arrange purchases directly with Sellers, and shall be responsible for transmission arrangements.
- A-3.5 Unless otherwise mutually agreed between the Purchaser and the Seller, all Economy Energy Service transactions shall be pre-scheduled, and billings shall be based on amounts and prices agreed to in advance by schedulers, subject to Paragraphs A-3.6 and 3.7 and subject to change by mutual agreement between dispatchers or schedulers due to system changes.
- A-3.6 The price for Economy Energy Service shall be mutually agreed to in advance between Seller and Purchaser and shall not be subject to the rate caps specified in Section A-3.7 in either of the following two circumstances:
- (1) where the Seller is a FERC regulated public utility and that Seller has been authorized to sell power like that provided for under this Service Schedule at market-based rates; or
  - (2) where the Seller is not a FERC regulated public utility. A Party is a FERC regulated public utility if it is a "public utility" as defined in Section 201(e) of the Federal Power Act, 16 U.S.C. Section 824(e).
- A-3.7 Except as provided for in Section A-3.6, the price shall not exceed the Seller's forecasted Incremental Cost plus up to: \$7.32/kW/ month; \$1.68/kW/week;

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33.78cents/kw/day; 14.07 mills/kwh; or 21.11 mills/kwh for service of sixteen (16) hours or less per day. The hourly rate is capped at the Seller's forecasted Incremental Cost plus 33.78cents/kw/ day. The total demand charge revenues in any consecutive seven-day period shall not exceed the product of the weekly rate and the highest demand experienced on any day in the seven-day period. In lieu of payment, such Parties may mutually agree to exchange economy energy at a ratio not to exceed that ratio provided for in Section C-3.7 of Service Schedule C. The Seller's forecasted Incremental Cost discussed above also may include any transmission and/or ancillary service costs associated with the sale, including the cost of any transmission and/or ancillary services that the Seller must take on its own system. Any such transmission and/or ancillary services charges shall be separately identified by the Seller to the Purchaser for transactions under this Schedule including the exchange of economy energy. The transmission and ancillary service rate ceilings shall be available through the WSPP's Hub or homepage. Any such transmission services (and ancillary service provided in conjunction with such transmission service) by Seller shall be provided pursuant to any applicable transmission tariff or agreement, and the rates therefore shall be consistent with such tariff or agreement.

A-3.8 Unless otherwise agreed, the Purchaser shall be responsible for maintaining

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operating reserve requirements as back-up for Economy Energy Service purchased and the Seller shall not be required to maintain such operating reserve.

- A-3.9 Each Party that is a FERC regulated public utility as defined in A-3.6 shall file the Confirmation Agreement with FERC for each transaction under this Service Schedule with a term in excess of one year no later than 30 days after service begins if that Party would have been required to file such Confirmation Agreements or similar agreements with FERC under an applicable FERC accepted market based rate schedule.

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SERVICE SCHEDULE B  
UNIT COMMITMENT SERVICE

## B-1 PARTIES:

This Service Schedule is agreed upon as part of this Agreement by the Parties.

## B-2 PURPOSE:

The purpose of this Service Schedule is to define additional specific procedures, terms, and conditions for requesting and providing Unit Commitment Service.

## B-3 TERMS:

B-3.1 A Party may schedule Unit Commitment Service from another Party by mutual agreement; provided, however, that each Party shall be the sole judge as to the extent to and the conditions under which it is willing to provide or receive such service hereunder consistent with statutory requirements and contractual commitments including the Agreement and any applicable Confirmation Agreement. Once an agreement is reached, then the obligation for Unit Commitment Service becomes a firm commitment, for both Parties, for the agreed capacity and terms.

B-3.2 Unless otherwise mutually agreed by the Parties involved in a Unit Commitment Service transaction, the terms set forth in this Service Schedule B shall govern such transaction.

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B-3.3 Unless otherwise agreed between the Purchaser and the Seller, all transactions shall be prescheduled, subject to any conditions agreed to by schedulers, for a specified unit for a specified period of time.

B-3.4 Purchasers shall arrange purchases directly with Sellers.

B-3.5 The price for Unit Commitment Service shall be mutually agreed to in advance between Seller and Purchaser and shall not be subject to the rate caps specified in Section B-3.6 in either of the following two circumstances:

- (1) where the Seller is a FERC regulated public utility and that Seller has been authorized to sell power like that provided for under this Service Schedule at market-based rates; or
- (2) where the Seller is not a FERC regulated public utility.

A Party is a FERC regulated public utility if it is a "public utility" as defined in Section 201(e) of the Federal Power Act, 16 U.S.C. Section 824(e). B-3.6 Except as provided for in Section B-3.5, the price shall not exceed the Seller's forecasted Incremental Cost plus up to: \$7.32/kw/month; \$1.68/kw/week; 33.78cents/kw/day; 14.07 mills/kwh; or 21.11 mills/kwh for service of sixteen (16) hours or less per day. The hourly rate is capped at the Seller's forecasted Incremental Cost plus 33.78cents/kw/day. The total demand charge revenues in any consecutive seven-day period shall not exceed the product of the weekly rate and the

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highest demand experienced on any day in the seven-day period. The Seller's forecasted Incremental Cost discussed above also may include any transmission and/or ancillary service costs associated with the sale, including the cost of any transmission and/or ancillary services that the Seller must take on its own system. Any such transmission and/or ancillary service charges shall be separately identified by the Seller to the Purchaser. The transmission and ancillary service rate ceilings shall be available through the WSPP's Hub or homepage.

- B-3.7 Start-up costs and no-load costs if included by the Seller shall be stated separately in the price.
- B-3.8 Energy schedules for the Purchaser's share of a unit may be modified by the Purchaser with not less than a thirty (30) minute notice before the hour in which the change is to take place, unless otherwise mutually agreed or unforeseen system operating conditions occur.
- B-3.9 Unit Commitment Service is intended to have assured availability; however, scheduled energy deliveries may be interrupted or curtailed as follows:
- (a) By the Seller by giving proper recall notice to the Purchaser if the Seller and the Purchaser have mutually agreed to recall provisions,
  - (b) By the Seller when all or a portion of the output of the unit is unavailable, by an amount in proportion to the amount of the reduction in the output of the

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unit, unless otherwise agreed by the schedulers,

- (c) By the Seller to prevent system separation during an emergency, provided the Seller has exercised all prudent operating alternatives prior to the interruption or curtailment,
- (d) Where applicable, by the Seller to meet its public utility or statutory obligations to its customers, or
- (e) By either the Seller or the Purchaser due to the unavailability of transmission capacity necessary for the delivery of scheduled energy.

B-3.10 Each Party that is a FERC regulated public utility as defined above in B-3.5 shall file the Confirmation Agreement with FERC for each transaction under this Service Schedule with a term in excess of one year no later than 30 days after service begins if that Party would have been required to file such Confirmation Agreements or similar agreements with FERC under an applicable FERC accepted market based rate schedule.

B-4 BILLING AND PAYMENT PROVISIONS:

B-4.1 Except as provided in Sections B-4.2 and B-5, billing for Unit Commitment Service shall be computed based upon the agreed upon prices.

B-4.2 In the event the Seller requests recall of Unit Commitment Service in a shorter time frame than was mutually agreed pursuant to Section B-3.9(a) and the

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Purchaser agrees to allow such recall, the Purchaser shall be relieved of any obligation to pay start-up costs.

B-5 TERMINATION PROVISION:

In the event Unit Commitment Service is curtailed or interrupted except as provided in Section B-3.9(a), the Purchaser shall have the option to cancel the Unit Commitment Service at any time by paying the Seller for (i) all energy deliveries scheduled up to the notice of termination and (ii) all separately stated start-up and no-load costs.

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SERVICE SCHEDULE C  
FIRM CAPACITY/ENERGY SALE OR EXCHANGE SERVICE

## C-1 PARTIES:

This Service Schedule is agreed upon as a part of this Agreement by the

## Parties. C-2 PURPOSE:

The purpose of this Service Schedule is to define additional specific procedures, terms, and conditions for requesting and providing Firm Capacity/Energy Sale or Exchange Service.

## C-3 TERMS:

- C-3.1 A Party may schedule Firm Capacity/Energy Sale or Exchange Service from another Party by mutual agreement; provided, however, that each Party shall be the sole judge as to the extent to and the conditions under which it is willing to provide or receive such service hereunder consistent with statutory requirements and contractual commitments including the Agreement and any applicable Confirmation Agreement. Once an agreement is reached, then the obligation for Firm Capacity/Energy Sale or Exchange Service becomes a firm commitment, for both Parties, for the agreed service and terms.
- C-3.2 Unless otherwise agreed between the Purchaser and the Seller, all transactions shall be prescheduled, subject to any conditions agreed to by schedulers.
- C-3.3 Firm capacity transactions shall include buying, selling, or exchanging capacity between Parties with or without associated energy. Firm capacity is deemed a capacity sale from the Seller's resources and backed by the Seller's

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capacity reserves.

- C-3.4 Firm energy transactions shall include buying, selling, or exchanging firm energy between Parties. Subject to mutual agreement, firm energy is deemed a quantity of energy the Seller has agreed to sell and deliver and the Purchaser has agreed to buy within a specified time period.
- C-3.5 Purchaser shall arrange purchases directly with Sellers.
- C-3.6 The price for Firm Capacity/Energy Sale or Exchange Service shall be mutually agreed to in advance between Seller and Purchaser and shall not be subject to the rate caps specified in Section C-3.7 in either of the following two circumstances:
- (1) where the Seller is a FERC regulated public utility and that Seller has been authorized to sell power like that provided for under this Service Schedule at market-based rates; or
  - (2) where the Seller is not a FERC regulated public utility. A Party is a FERC regulated public utility if it is a "public utility" as defined in Section 201(e) of the Federal Power Act, 16 U.S.C. Section 824(e).
- C-3.7 Except as provided for in Section C-3.6, the price shall not exceed the Seller's forecasted Incremental Cost plus up to: \$7.32/kw/month; \$1.68/kw/week; 33.78cents/kw/day; 14.07 mills/kwh; or 21.11 mills/kwh for service of sixteen (16) hours or less per day. The hourly rate is capped at the Seller's forecasted Incremental Cost plus 33.78cents/kw/day. The total demand charge revenues in any consecutive seven-day period shall not exceed the product of the weekly rate and the

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highest demand experienced on any day in the seven-day period. Exchange ratios among such Parties shall be as mutually agreed between the Purchaser and the Seller, but shall not exceed the ratio of 1.5 to 1.0. The Seller's forecasted Incremental Cost discussed above also may include any transmission and/or ancillary service costs associated with the sale, including the cost of any transmission and/or ancillary services that the Seller must take on its own system. Any such transmission and/or ancillary service charges shall be separately identified by the Seller to the Purchaser for transactions under this Schedule including exchanges. The transmission and ancillary service rate ceiling shall be available through the WSPP's Hub or homepage. Any such transmission service (and ancillary services provided in conjunction with such transmission service) by Seller shall be provided pursuant to any applicable transmission tariff or agreement, and the rates therefore shall be consistent with such tariff or agreement.

C-3.8 Firm Capacity/Energy Sale or Exchange Service shall be interruptible only if the interruption is: (a) within the recall time or allowed by other applicable provisions governing interruptions of service under this Service Schedule mutually agreed to by the Seller and the Purchaser, (b) due to an Uncontrollable Force as provided in Section 10 of this Agreement; or (c) where applicable, to meet Seller's public utility or statutory obligations to its customers. If service under this Service Schedule is interrupted under Section C-3.8(a) or (b), neither Seller nor Purchaser shall be obligated to pay any damages under this Agreement or Confirmation Agreement. If service under this Service Schedule is interrupted for any reason

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other than pursuant to Section C-3.8(a) or (b), the Non-Performing Party shall be responsible for payment of damages as provided in Section 21.3 of this Agreement or in any Confirmation.

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C-3.9 Each Party that is a FERC regulated public utility as defined in Section C-3.6 shall file the Confirmation Agreement with FERC for each transaction under this Service Schedule with a term in excess of one year no later than 30 days after service begins if that Party would have been required to file such Confirmation Agreements or similar agreements with FERC under an applicable FERC accepted market based rate schedule.

C-3.10 Seller shall be responsible for ensuring that Service Schedule C transactions are scheduled as firm power consistent with the most recent rules adopted by the applicable NERC regional reliability council.

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## LIST OF MEMBERS

ACN Power, Inc.	CMS Marketing, Services and Trading Co.
Amerada Hess Corporation	CNG Power Services Corp.
Ameren Energy Marketing Company	Coastal Merchant Energy, L.P.
American Electric Power Service Corporation as agent for Ohio Power Company, Public Service Company of Oklahoma and Southwestern Electric Power Company	Colorado Springs Utilities
APS Energy Services Company, Inc.	
Aquila Energy Marketing Corporation	Colton, City of
Arizona Electric Power Co.	Columbia Energy Power Marketing
Arizona Public Service Co.	Columbia Power Corporation
Arkansas Electric Coop. Corp.	ConAgra Energy Services, Inc.
Associated Electric Cooperative, Inc.	Conectiv Energy Supply, Inc.
Astra Oil Company, Inc.	Conoco Gas & Power Marketing
Avista Corporation	Constellation Power Source
Avista Energy, Inc.	Cook Inlet Energy Supply
Basin Electric Power Cooperative	Coral Power, L.L.C.
Benton Public Utility District No. 1 of Benton County	Deseret G&T
Blackhills Power & Light Company	DTE Energy Trading, Inc.
Bonneville Power Adm.	
BP Energy Company	Duke Energy Trading & Marketing, LLC
Burbank, City of	Duke/Louis Dreyfuss, LLC
Calif. Dept. of Water Resources	Dynegy Power Marketing, Inc.
California Polar Power Brokers, LLC	Dynegy Power Services, Inc.
Calpine Energy Services, L.P.	E prime
Candela Energy Corporation	Edison Mission Marketing & Trading, Inc.
Cargill-Alliant, LLC	Edison Source
Carolina Power & Light Company	Edmonton Power Authority, Alberta
Cinergy Capital & Trading, Inc.	El Paso Electric
Cinergy Operating Companies	El Paso Merchant Energy, L.P.
City of Anaheim, Public Utilities Dept.	Empire District Electric Co.
City of Glendale Water & Power Dept.	Energy Transfer Group, LLC
City of Independence	EnerZ Corporation
City of Riverside, California	Engelhard Power Marketing, Inc.
City of Santa Clara Electric Department	ENMAX Energy Corporation
City of Sikeston, Board of Municipal Utilities	Enron Power Marketing, Inc.
City Utilities of Springfield, Missouri	Enserco Energy Inc.
City Water & Light (Jonesboro, AR)	Entergy Electric System
Cleco Marketing & Trading LLC	Entergy Power Marketing Corp.
Cleco Utility Group Inc.	Entergy Power, Inc.
	Equitable Power Services Co.
	Eugene Water & Electric Board

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Farmington, City of

Federal Energy Sales, Inc.  
 FPL Energy Power Marketing Inc.  
 Golden Spread Electric Cooperative  
 Grand River Dam Authority  
 Hafslund Energy Trading, LLC  
 Hetch-Hetchy Water & Power  
 Howard Energy Co., Inc.  
 Idaho Power Company  
 IGI Resources, Inc.  
 Illinova Energy Partners, Inc.  
 Imperial Irrigation District  
 Industrial Energy Applications, Inc.  
 InterCoast Power Marketing  
 J. Aron & Company  
 KAMO Electric Cooperative, Inc.  
 Kansas City Board of Public Utilities  
 Kansas City Power & Light  
 KN Energy Marketing  
 Kock Energy Trading, Inc.  
 Lafayette Utilities System  
 LG&E Energy Marketing Inc.  
 Lincoln Electric System  
 Los Alamos County  
 Los Angeles Dept. of Water & Power  
 Louisiana Generating LLC  
 Louisville Gas & Electric Company  
 Mason County PUD No. 3  
 McMinnville Water & Light  
 Merchant Energy Group of the Americas, Inc.  
 Merrill Lynch Capital Services, Inc.  
 Metropolitan Water District  
 MidAmerican Energy Company  
 MidCon Power Services Corp.  
 MIECO, Inc.  
 Minnesota Power & Light Company  
 Minnesota Power, Inc.

Missouri Joint Municipal Electric Utility  
 Comm.  
 Mock Energy Services, L.P.  
 Modesto Irrigation District  
 Morgan Stanley Capital Group, Inc.  
 M-S-R Public Power Agency  
 Municipal Energy Agency of Mississippi  
 Municipal Energy Agency of Nebraska  
 National Gas & Electric L.P.  
 Nebraska Public Power District  
 Nevada Power Co.  
 New West Energy  
 NewEnergy, Inc.  
 NorAm Energy Services, Inc.  
 Northern California Power Agency  
 Northern States Power Company  
 NP Energy Inc.  
 NRG Power Marketing Inc.  
 OGE Energy Resources, Inc.  
 Oklahoma Gas & Electric  
 Oklahoma Municipal Power Authority  
 Omaha Public Power District  
 ONEOK Power Marketing Company  
 Pacific Gas & Electric Co.  
 Pacific Northwest Generating Cooperative  
 PacifiCorp  
 PacifiCorp Power Marketing  
 PanCanadian Energy Services  
 Pasadena, City of  
 PECO Energy  
 PG&E Energy Services  
 PG&E Energy Trading - Power, L.P.  
 PG&E Power Services Company  
 Phibro Inc.  
 Pinnacle West Capital Corporation  
 Plains Elec. Gen. & Trans. Coop. Inc.  
 Platte River Power Authority  
 Portland General Electric Co.

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Power Exchange Corporation  
Powerex  
PPL Electric Utilities Corporation  
PPL EnergyPlus, LLC  
PPL Montana, LLC  
Public Service Co. of NM  
Public Service Co. of Colorado  
Public Utility District No. 1 of Franklin Cty.  
PUD No. 1 of Chelan County  
PUD No. 1 of Grays Harbor County  
PUD No. 1 of Snohomish County  
PUD No. 2 of Grant County  
Puget Sound Energy  
QST Energy Trading Inc.  
Questar Energy Trading  
Rainbow Energy Marketing Corporation  
Redding, City of  
Reliant Energy Services, Inc.  
Rocky Mountain Generation Coop., Inc.  
Sacramento Municipal Utility District  
Salt River Project  
San Diego Gas & Electric Co.  
SCANA Energy Marketing, Inc.  
Seattle City Light  
Sempra Energy Solutions  
Sempra Energy Trading Corp.  
Sierra Pacific Power Co.  
Sonat Power Marketing LP  
Southern California Edison Co.  
Southern California Water Company  
Southern Company Energy Marketing L.P.  
Southern Company Services, Inc.  
Southern Illinois Power Cooperative  
Southwest Power Administration  
Southwestern Public Service  
Split Rock Energy LLC  
St. Joseph Light & Power Co.  
Statoil Energy Trading, Inc.

Strategic Energy LLC  
Sunflower Electric Power Corp.  
Tacoma Power  
Tenaska Power Services Co.  
Tennessee Valley Authority  
Texaco Energy Services  
Texas-New Mexico Power Company  
The Energy Authority  
The Montana Power Company  
The Power Company of America, LP  
Tractebel Energy Marketing, Inc.  
TransAlta Energy Marketing (US) Inc.  
TransCanada Power  
Tri-State Generation and Transmission Assoc.  
Tucson Electric Power  
Turlock Irrigation District  
TXU Energy Trading Company  
Union Electric Company  
Utah Associated Municipal Power Systems  
UtiliCorp United  
Vastar Power Marketing, Inc.  
Vernon, City of  
Virginia Electric and Power Company  
Vitol Gas & Electric LLC  
West Kootenay Power Ltd.  
Western Adm. Lower Colorado  
Western Adm. Sacramento  
Western Adm. Upper Colorado  
Western Adm. Upper Great Plains  
Western Farmers Electric Co-op  
Western Power Services, Inc.  
Western Resources, Inc.  
Williams Energy Marketing & Trading Co.  
WPS Energy Services, Inc.

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