



**Pacific Gas and  
Electric Company**

July 8, 2004

245 Market Street  
San Francisco, CA 94105-1702

*Mailing Address*  
Mail Code N12  
P.O. Box 770000  
San Francisco, CA 94177-0001

Mr. Kent Duysen  
President  
Sierra Power Corporation  
9000 Road 234  
Terra Bella, CA 93270

**Subject:** Extension of Sierra Power Corporation Agreement (PG&E Log No. 33R007) to Term 2

Dear Mr. Duysen:

Section 7 of Sierra Power Corporation ("SPC") Confirmation, dated September 17, 2004 provides PG&E with the option to extend the Agreement within 90 days after attaining an investment-grade credit rating as determined by at least two major ratings agencies (BBB minus by Standard and Poor's, and Fitch or Baa3 by Moody's).

Standard and Poor's, and Moody's assigned an investment grade credit rating to PG&E in April 2004. With the satisfaction of this requirement, PG&E is required to exercise its option to extend the Agreement to Term 2 within a 90-day period.

Resolution E-3853, which initially approved the Agreements in October 2003, required PG&E to seek Commission approval through an advice letter for contract extensions as required by the Commission resolution. PG&E filed an Advice Letter 2506-E on May 10, 2004 to seek Commission approval to extend the Agreements.

On July 8, 2004, the Commission approved Advice Letter 2506-E through adoption of Resolution E-3877. With the satisfaction of these two requirements, i.e., achieving an investment-grade credit rating from two rating agencies and obtaining Commission's approval for extension, PG&E has now satisfied all requirements to become eligible to exercise its option to extend the Agreement.

Therefore, pursuant to Section 7 of the Confirmation, PG&E hereby exercises its option to extend the Agreement to Term 2 and notifies SPC in writing of the extension through this letter. Accordingly, Term 2 of the Agreement begins on July 9, 2004 and shall expire on July 8, 2009.

Please note that all other provisions of the Agreement that are not specifically changed by this notification remain unmodified and in full effect.

Should you have questions, please call Brij Basho at (415) 973-4711.

Sincerely,

Gordon R. Smith  
President and Chief Executive Officer