

## SETTLEMENT AGREEMENT AND SPECIAL RELEASE

THIS SETTLEMENT AGREEMENT AND SPECIAL RELEASE (the “Agreement”) is entered into by and between Southern California Edison Company (“SCE”) and the United States of America (“United States”) as of April 12, 2007 (“Effective Date”). The United States and SCE hereinafter sometimes are referred to individually as “party” and collectively as “parties.”

### I.

#### RECITALS

A. SCE is an investor-owned electric utility organized and existing under the laws of the State of California.

B. BPA Power Administration (“BPA”) was formed by statute in 1937 to market power in the Pacific Northwest. BPA is part of the Department of Energy, a Department of the United States.

C. In 1988, SCE entered into a twenty year contract, No. DE-MS79-88BP 92275, with the United States Department of Energy, acting by and through BPA, covering the sale or exchange of energy (“Contract”).

D. On or about December 26, 2002, SCE filed a Complaint against the United States in the Court of Federal Claims, Case No. 02-1953 C for, *inter alia*, breach of the Contract (“Conversion Action”).

E. On or about December 30, 2003, SCE filed a Complaint against the United States in the Court of Federal Claims, Case No. 3-2869 C for, *inter alia*, breach of the Contract (“Option Capacity Action”).

F. On or about November 30, 2004, SCE filed a Complaint against the United States in the Court of Federal Claims, Case No. 04-1716 C for, *inter alia*, breach of the Contract (“Termination Action”).

G. SCE and BPA now wish to resolve the Option Capacity Action and any and all claims made therein, through settlement in accordance with the terms and conditions set forth below.

## II.

### TERMS

NOW, THEREFORE, it is agreed as follows:

#### 1. No Effect on Prior Settlement

A. SCE and the United States have previously entered into a settlement agreement with respect to the “Conversion Action” and the “Termination Action,” (hereafter “Settlement Agreement”) as described in the Recitals.

B. The parties agree that this Agreement does not affect those actions or that Settlement Agreement in any way.

#### 2. No Effect on Status of California Refund Process

A. The “California Refund Process” includes: (1) those regulatory proceedings presently known as Federal Energy Regulatory Commission (hereinafter “FERC”) Docket Nos. EL00-95-000 and EL00-98-000; and (2) the claims and/or lawsuits that seek to modify the amounts that BPA, as a seller to the California Independent System Operator (hereinafter “CAISO”) and/or to the California Power Exchange (hereinafter “PX”) in the California wholesale electric power market, received for the period October 2, 2000 through June 20, 2001

(the “Refund Period”) and/or for the period March 1, 2000 through October 1, 2000 (the “Summer Period”).

B. SCE and BPA have been and continue to be adversaries in the California Refund Process. In addition to participating as a party in the FERC proceedings, SCE has also filed a claim with BPA regarding the California Refund Process. The parties understand that the Option Capacity Action and the California Refund Process are not related to each other in any manner, and the settlement in one is not conditioned upon settlement in the other in any manner. Moreover, notwithstanding any express or implied terms of this Agreement, nothing in this Agreement precludes SCE from pursuing those claim(s) against BPA or from filing a Complaint in a court of competent jurisdiction, if necessary to pursue its claims. SCE understands that, notwithstanding any express or implied terms of this Agreement, nothing in this Agreement precludes BPA from initiating or pursuing in the California Refund Process any claim, suit, counterclaim, or countersuit against SCE or any other party.

**3. Attorneys’ Fees and Costs Incurred in These Actions**

SCE and the United States will each pay its own attorneys’ fees, costs and expenses incurred in litigating the Option Capacity Action.

**4. Conditions Precedent to Specific Obligations**

The payment and release provisions set forth in sections 5 and 7 of this Agreement are subject to the following conditions precedent, as set forth in section 4-A (“BPA Approval”) and section 4-B (“PUC Approval”) below; *provided, however*, that either party may waive all or part of any condition precedent included for its benefit by providing written notice to the other party:

A. BPA Approval

This condition will be satisfied as follows:

(1) Within fifteen (15) days following the Effective Date, BPA shall in whatever form or manner it deems appropriate provide notice of this Agreement to interested parties in the Pacific Northwest, along with the opportunity to provide comment on it within (fifteen) 15 days of the notice (“Notice Period”), unless the Administrator determines it necessary to subsequently extend the Notice Period for up to (fifteen) 15 days. No further extensions of the Notice Period may be provided by the Administrator unless, acting in response to third-party requests for further time to evaluate or comment on the Agreement, he determines that it is appropriate to provide an extension of up to (fifteen) 15 days to respond to the third-party requests, *provided however*, that before the Administrator provides any additional extension, the United States will first notify SCE of the reasons for the extension and the amount of time to be provided.

(2) Prior to issuance of the notice, BPA shall provide a draft of the notice to SCE. SCE shall have the opportunity to provide written comments on the proposed notice to BPA within five (5) days of SCE’s receipt of the draft.

(3) Within fifteen (15) days following the expiration of the Notice Period, BPA will notify SCE by letter and e-mail as to whether it is or is not proceeding with the settlement. If BPA’s notification states that it will proceed with the settlement, the BPA Approval condition will be satisfied. If BPA does not provide notice within the prescribed time period, the United States will be deemed to have elected not to proceed with the settlement.

(4) If BPA states, or is deemed to have stated, under paragraph 4(A)(3) that it will not proceed with the settlement, the United States and SCE will cooperate in re-commencing the litigation of the Option Capacity Action.

(5) If this settlement does not go forward for any reason, SCE agrees that this Agreement, the fact that BPA sought public comment on this Agreement, BPA's notice, as well as any verbal or other documentary communications made by BPA or any other person or entity in connection with the Agreement, including but not limited to those communications made in response to any objections or requests for information in connection with the Agreement, shall not be used by SCE in any proceedings involving BPA or the United States.

B. California Public Utilities Commission Approval ("PUC Approval")

This condition will be satisfied as follows:

(1) Within thirty (30) days following the Effective Date, SCE will file with the PUC an application seeking approval of this Agreement ("Application"). All opinions of counsel or other testimony supporting said application may, at SCE's sole discretion, be filed under section 583 of the California Public Utilities Code.

(2) If the PUC issues a decision that has become final and is no longer subject to review and that approves the terms of this Agreement in their entirety, the PUC Approval Condition will be satisfied.

(3) If the PUC issues a decision that does not approve the terms of this Agreement in their entirety or if the PUC fails to issue a decision within eighteen (18) months of SCE's filing its Application, the United States and SCE will cooperate in re-commencing the litigation of the Option Capacity Action.

(4) If this settlement does not go forward for any reason, the United States agrees that the fact that SCE sought PUC approval of this settlement, SCE's Application, as well as any verbal or documentary communications submitted by SCE to the PUC in connection with the application or in response to any objections or requests for information in connection with the Application shall not be used by the United States in any proceedings involving SCE.

**5. Payment**

A. Escrow Deposit: Within five (5) business days of execution of the Escrow Agreement described in section 5.B, BPA shall cause \$13.4 million (\$13,400,000) ("Escrow Deposit"), to be transferred to an escrow account ("Escrow Account") with a financial institution agreed upon by the BPA and SCE ("Escrow Agent") pursuant to the wire transfer instructions specified by the Escrow Agent. The Escrow Deposit, plus any amounts earned on the Escrow Deposit while it is held in escrow, shall constitute the "Escrow Amount."

B. Not later than five (5) business days from the Effective Date, the BPA and SCE will execute an Escrow Agreement consistent with the terms of this Agreement. BPA and SCE shall each bear one half (1/2) of all fees, including but not limited to the compensation of the Escrow Agent, associated with the Escrow Account. The escrow fees shall be paid directly by BPA and SCE to the Escrow Agent. The Escrow Agreement will provide that the Escrow Agent will hold or disburse the Escrow Amount in accordance with the escrow instructions. The escrow instructions will provide that the Escrow Amount shall be disbursed to SCE upon the Escrow Agent receiving Notice in accordance with the escrow instructions that both the BPA Approval and PUC Approval conditions precedent have been satisfied or waived. The escrow instructions shall further provide that the Escrow Amount shall be returned to BPA if either the

BPA Approval condition precedent or PUC Approval condition precedent is not satisfied or waived within the time allotted in Section 4.

**6. Dismissal of Claims**

A. Within fifteen (15) working days following the Effective Date, the United States and SCE will request, by joint motion, that the Court stay the Option Capacity Action until disbursement of the Escrow Amount is made under paragraph 5.B of this Agreement

B. If the Court permits the stay of the Option Capacity Action as described in paragraph 6.A, in consideration of the terms and conditions set forth in this Agreement, SCE shall file a Request for Dismissal With Prejudice of the Option Capacity Action within five (5) business days of its receipt of the Escrow Amount.

C. If the Court does *not* permit the stay of the Option Capacity Action as described in paragraph 6.A, the United States and SCE will file a joint motion requesting that the Court retain jurisdiction to enforce the terms of this Agreement . If the Court requires SCE to dismiss the Option Capacity Action prior to SCE's receipt of the Escrow Amount, in consideration of the terms and conditions set forth in this Agreement, SCE shall file a Request for Dismissal Without Prejudice of the Option Capacity Action within five (5) business days of receipt of the Court's Order requiring such a dismissal.

D. If SCE files a Request for Dismissal Without Prejudice and for any reason the settlement does not go forward, the United States agrees that it will not put any impediment, including, without limitation, assertion of any prejudice, laches, or statute of limitations arising from the fact of the filing of the Request for Dismissal Without Prejudice, in the way of SCE's recommencing the Option Capacity Action in the same posture it was in prior to the Dismissal. The United States also agrees to cooperate in the reinstatement of the Option Capacity Action.

E. If the Court stays the Option Capacity Action or SCE files a Request for Dismissal Without Prejudice and for any reason the settlement does not go forward, then SCE agrees that it will not put any impediment, including, without limitation, assertion of any prejudice, laches, or statute of limitations arising from the fact of the passage of time occasioned by settlement negotiations or this Agreement or the filing of the Request for Dismissal Without Prejudice, in the way of BPA or the United States from filing or commencing any claim or counter-claim that the United States has or could have brought as of November 24, 2006. Nothing in this Agreement prevents SCE from defending against any such claim or counterclaim brought pursuant to this paragraph in any way that would have been available to SCE on November 24, 2006.

F. If the settlement does not go forward for any reason, the parties agree that it is their intent that the Option Capacity Action be restored to the posture it was in prior to November 24, 2006, that each party will cooperate to achieve that end, and that neither the passage of time nor anything said or not said, done or not done, by either or both of the parties in connection with this Agreement shall be used by the other in any way to argue against or otherwise preclude restoration of the Option Capacity Action to its posture prior to November 24, 2006.

G. This Agreement is not an admission of any liability but is a compromise and settlement and this Agreement shall not be treated as an admission of liability. All communications (whether oral or in writing) between and/or among the parties, their counsel and/or their respective representatives relating to, concerning or in connection with this Agreement, or the matters covered hereby, shall be governed and protected in accordance with the Federal Rule of Evidence 408 to the fullest extent permitted by law.

7. **Special Releases**

The Releases set forth herein become operative when the Option Capacity Action has been dismissed with prejudice, or, if the Option Capacity Action was dismissed without prejudice, when the Escrow Amount has been received by SCE (“Effective Date”). Both parties acknowledge that these releases are not general releases as that term is used in California Civil Code Section 1542.

A. Release by SCE

(1) As of the Effective Date, except as to obligations imposed by or under this Agreement, SCE, for and on behalf of itself and for and on behalf of each of its directors, officers, attorneys, agents, predecessors, successors, assigns, and each of them (hereinafter “SCE Related Entities”) releases the United States, including without limitation BPA, from any and all claims relating to the matters set forth in SCE’s claims to the contracting officer, SCE’s complaints in United States Court of Federal Claims Case No. 03-2869 C, the claim submitted in anticipation of this complaint to the BPA contracting officer, any matters raised by the United States’ answers to SCE’s complaint and any right or claimed right to appeal from any Order in that Action, as well as any claim for interest, costs, attorney fees, or expenses under any provision of law, as against the United States, its agencies, or its officers, agents, or employees as related to the issues raised in these matters.

(2) Except as expressly set forth in the preceding subparagraph, the release by SCE shall not include any other matter that it now has or may have in the future with the United States or any of its Agencies and/or Departments.

B. Release by United States

As of the Effective Date, except as to obligations imposed by or under this Agreement, the United States, including, without limitation, BPA, releases SCE and the SCE Related Entities from any and all claims relating to the matters set forth in SCE's claims to the contracting officer, SCE's complaints in United States Court of Federal Claims Case No. 03-2869 C, the United States's contracting officers' final decisions and answers to the above referenced complaint, any counterclaims that could have been brought by the United States in that case and any right or claimed right to appeal from any Order in that Action as well as any claim for interest, costs, attorney fees, or expenses under any provision of law, as against SCE, its agencies, or its officers, agents, or employees as related to the issues raised in these matters.

C. Non-Waiver

The United States does not waive any rights it may have or acquire concerning possible violations of statutes or regulations relating to false statements or claims submitted to the United States.

**8. Non-Assignment of Claims**

Each party hereto warrants that it has not expressly assigned, conveyed, granted, transferred, or otherwise disposed of any of the claims released by this Agreement. Each party covenants that it will not make, assert, or maintain any claim, demand, action, suit, or proceeding against any party it has released in this Agreement, nor will it assign any claim, demand, action, suit, or proceeding with respect to claims released in this Agreement. This Agreement may be pleaded as a full and complete defense to, and may be used as the basis for an injunction against any action, suit, or other proceeding that may be instituted, prosecuted, or attempted in breach of this Agreement.

9. **Press Releases**

No sooner than two (2) days following execution of this Agreement, each party may issue a press release. Each party's press release shall be reviewed by the other party in advance of its issuance, and the party shall be afforded at least 24 hours during a business day for its review. The United States will inform SCE when it intends to issue its release. SCE will wait at least three (3) hours after the time at which the United States informs SCE it will issue its release before issuing its release. Notwithstanding the forgoing, SCE may issue its release at any time if BPA has not issued a release within three (3) business days following the execution of this Agreement.

10. **Covenant to Sign Documents**

Each party will take all actions and execute all documents and writings that may be necessary or proper to achieve the purposes and objectives of this Agreement.

11. **Warranty of Authority**

Each signatory to this Agreement warrants that he or she has the authority to execute this Agreement on behalf of the party for which such execution is made, and to bind that party through such execution.

12. **No Admissions**

This Agreement is for the purpose of settling all claims relating to the Option Capacity Action, and for no other purpose. The parties understand and agree that nothing contained herein shall be construed as an admission of liability by any party; all such liability being expressly denied. Except to enforce its terms or to meet any regulatory requirements, the Agreement shall not be cited or otherwise referred to in any proceedings, whether judicial or administrative, in which the parties or counsel for the parties have or may acquire an interest.

**13. Binding on Successors**

This Agreement shall be binding upon the parties and each of their Related Entities and any successors thereto.

**14. Advice of Counsel**

The parties hereto represent that in executing this Agreement they relied solely upon their own judgment, belief and knowledge, and the advice and recommendations of their own independently selected counsel, concerning the nature, extent, and duration of their rights and claims, and that they have not been influenced to any extent whatsoever in executing the same by any representations or statements covering any matters made by the other parties hereto other than the statements set forth in this Agreement

**15. Entire Agreement**

This Agreement embodies the entire understanding and agreement of the parties and there are no further or other agreements or understandings, written or oral, in effect between the parties relating to the subject matter hereof except those set forth or referred to herein. All prior negotiations or agreements, if any, between the parties hereto related to the subject matter hereof are superseded by this Agreement.

**16. Modification**

This Agreement may not be modified in whole or in part except by an agreement in writing signed by all of the parties to this Agreement, and executed in the same manner as this Agreement. Waiver of a condition precedent set forth in paragraph 3 shall not constitute a modification of this Agreement.

**17. Faxing and E-mailing of Signature Lines**

Facsimile signatures, delivered either by facsimile machine or e-mail, will be acceptable and binding with respect to the enforceability of this Agreement the same as originals.

**18. Drafting of the Agreement**

It is acknowledged that all parties to this Agreement participated in the drafting of the Agreement and that in any action involving the interpretation of this Agreement, the language and terms of the Agreement should not be construed against any party to this Agreement.

**19. Notices**

Any notice, demand or request provided for in this Agreement, or served, given or made in connection with it, shall be in writing and shall be deemed properly served, given, or made if delivered in person or sent by e-mail *and* by facsimile or overnight delivery, to the persons specified below or their successors:

To SCE:	Alan J. Fohrer Chief Executive Officer and Stephen E. Pickett Senior Vice President and General Counsel Southern California Edison 2244 Walnut Grove Avenue Rosemead, California 91770
To: United States	Stephen Wright Administrator and Randy Roach General Counsel BPA Power Administration 905 Northeast 11th Ave. Portland, Oregon 97232  And to: Martin F. Hockey, Jr.

	Assistant Director Commercial Litigation Branch Civil Division Department of Justice Attn: Classification Unit 8th Floor 1100 L Street, N.W. Washington, D.C. 20530
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**20. Counterparts**

This Agreement may be executed in counterparts, and shall be effective when fully executed.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement:

SOUTHERN CALIFORNIA EDISON  
COMPANY

UNITED STATES OF AMERICA

By: /s/ Alan J. Fohrer  
ALAN J. FOHRER  
Chief Executive Officer

PETER D. KEISLER  
Assistant Attorney General

By: /s/ Jeanne E. Davidson  
JEANNE E. DAVIDSON  
Director, Authorized Representative of the  
Attorney General

By: /s/ Martin F. Hockey, Jr.  
MARTIN F. HOCKEY, JR.  
Assistant Director  
Commercial Litigation Branch  
Civil Division  
Department of Justice  
Attn: Classification Unit  
8th Floor  
1100 L Street, N.W.  
Washington, D.C. 20530  
Tele: (202) 616-0319

APPROVED AS TO FORM:

By: /s/ Charles D. Siegal

CHARLES D. SIEGAL

JOSEPH J. YBARRA

MUNGER, TOLLES & OLSON LLP

Of Counsel:

LEON BASS, JR.

SOUTHERN CALIFORNIA EDISON

COMPANY