

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



February 20, 2008

Advice Letter 2987-E

Brian K. Cherry
Vice President, Regulatory Relations
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177

Subject: 2006 Contract Amendments and Modifications Previously
Submitted in PG&E's Quarterly Procurement Transaction
Compliance Advice Letters

Dear Mr. Cherry:

Advice Letter 2987-E is effective March 17, 2007.

Sincerely,

A handwritten signature in black ink, appearing to read "Sean H. Gallagher".

Sean H. Gallagher, Director
Energy Division

February 15, 2007

Advice 2987-E

(Pacific Gas and Electric Company ID U 39E)

Public Utilities Commission of the State of California

Subject: 2006 Contract Amendments and Modifications previously submitted in PG&E's Quarterly Procurement Transaction Compliance Advice Letters

Pacific Gas and Electric Company (PG&E) hereby submits this advice letter to the California Public Utility Commission (CPUC) in compliance with Decision (D.) 06-12-009, *Opinion Approving Pacific Gas and Electric Company's 2005 Energy Resource Recovery Account (ERRA) Compliance*. PG&E requests that the Commission approve the 2006 contract amendments and modifications which are submitted in this advice letter as directed in Ordering Paragraph (OP) 3 of D.06-12-009.

Background

Decision D.06-12-009 clarified the process for submitting contract amendments and modifications to the Commission for approval. Specifically, OP 3 directed the utility to request approval of contract amendments and modifications by a separate advice letter or in the annual ERRA reasonableness application. Prior to issuance of this decision, PG&E had submitted routine and non-controversial contract amendments and modifications for approval in its quarterly procurement transaction (also referred to by the Commission as the procurement transaction quarterly compliance review (PTQCR)) advice letters as outlined in D.02-10-062, appendix B, *Adopted Master Data Request for Monthly Advice Letters*¹. D.06-12-009 stated that the quarterly advice letter filing was not the appropriate vehicle for requesting approval of contract amendments and modification. Specifically, the Decision stated:

¹ The term "Monthly" was later changed to "Quarterly" in a subsequent decision, D.03-06-076, OP 8.

“The PTQCR is a compliance filing that explains why and how a utility enters into a contract. As such, the PTQCR is not an appropriate vehicle for an approval request². The PTQCR serves a specific purpose as defined in D.04-10-062, Conclusion of Law 7. That purpose is not compatible with a request for contract modifications. PG&E should file a separate advice letter when seeking Commission approval for contract amendments and modifications.”

PG&E agrees with this language and submits this advice letter to promote a timely review and approval of these contract amendments and modifications.

Compliance Items

In compliance with D.06-12-009, OP 3, PG&E is resubmitting the 2006 contract amendments and modifications originally submitted in its first, second, and third quarterly procurement transaction advice letters, 2821-E, 2869-E and 2921-E, respectively.

The contract amendments included in this filing fall into one of four categories: Standard Offer (SO) 1 extensions, pay-for-curtailment (PFC), incremental energy purchases, and PG&E-Independent Energy Producers (IEP) Settlement Agreement amendments.

SO1 Extensions

Chevron Richmond

PG&E exercised a provision contained within the second amendment of the PPA under which the term of the PPA is extended by one-year, until March 31, 2007, for the Chevron Richmond facility. This is a 99-MW generator that provides self generation to the refinery and sells a small amount of surplus power to PG&E. This SO1 extension was originally submitted in advice letter 2821-E, PG&E’s First Quarter Procurement Transaction Compliance Advice Letter.

Zond Windsystem Partners, Ltd.

The Zond Windsystem’s PPA was due to expire on December 29, 2005. It was extended by letter agreement until January 31, 2006 to allow Zond Windsystem time to secure its management’s approval to extend the PPA for 5-years pursuant to D.04-01-050. In spite of repeated efforts by PG&E to contact the QF, Zond Windsystem did not execute the extension agreement PG&E had tendered. Consequently the PPA expired on January 31, 2006. However, on May 19, 2006, PG&E successfully executed the fourth Amendment to the PPA extending the term of the PPA

² This issue may be considered more fully in the Long-Term Plan Rulemaking 06-02-043, where the three major energy utilities may participate in a streamlining procurement reporting process.

through December 29, 2010. This SO1 extension was originally submitted in advice letter 2869-E, PG&E's Second Quarter Procurement Transaction Compliance Advice Letter.

American Energy, Inc.

PG&E executed 2 Transitional Standard Offer 1 (TSO1) extensions with American Energy, Inc, one agreement for the San Luis Bypass facility and one for the Wolfsen Bypass facility. The original SO4 Agreement would have expired on September 1, 2006, but pursuant to D.05-12-009, OP 1, these agreements are in effect from September 2, 2006 through September 1, 2011. These SO1 extensions were originally submitted in advice letter 2921-E, PG&E's Third Quarter Procurement Transaction Compliance Advice Letter.

Pay-for-Curtailment (PFC)

Santa Maria and Fresno Cogen

The Santa Maria and Fresno Cogen PFC agreements allow PG&E to dispatch energy from both facilities as it is economic and needed by PG&E. In exchange for dropping the requirement that each project meet FERC-specified operating and efficiency standards, PG&E receives capacity discounts and the ability to dispatch the energy when needed in lieu of the 8:30 a.m., to 9:30 p.m. each non-holiday week day standard delivery schedule that would otherwise apply.

Incremental Energy

Pacific Lumber

Pacific Lumber requested and PG&E agreed to increase the maximum rate of delivery from 22 MW to 28.8 MW for their biomass facility under an existing QF contract. The incremental renewable generation will count towards PG&E's RPS compliance targets. This agreement was originally submitted in advice letter 2869-E, PG&E's Second Quarter Procurement Transaction Compliance Advice Letter.

Sierra Pacific Industries, Lincoln

In April of 2006, PG&E and Sierra Pacific (SPI) Industries executed an Amendment as part of the settlement agreement between PG&E and IEP. In June of 2006, PG&E and SPI executed a five-year incremental energy agreement for the purchase of renewable energy from SPI's facility in Lincoln. SPI installed new equipment that allows for the delivery of additional incremental energy. The incremental energy will be priced at the energy pricing terms contained in the Settlement Agreement amendment.

PG&E and Independent Energy Producers (IEP) Settlement

Collins Pine

In Q2 2006, PG&E executed a contract amendment with Collins Pine, which contains the exact same pricing and contract terms as the 121 IEP amendments that were submitted for advance CPUC approval. PG&E and Collins Pine have agreed that CPUC approval of the April 18, 2006 motion for approval of the IEP settlement, as amended, would satisfy the requirement for CPUC approval specified in the Collins Pine amendment.

Wineagle Development Company

In Q3 2006, PG&E executed a contract amendment with Wineagle Development Company, which contains the exact same pricing and contract terms as the joint settlement negotiated between PG&E and the Independent Energy Producers Association (IE) approved through D.06-07-032. PG&E and Wineagle Development Company have agreed that CPUC approval of the April 18, 2006 motion for approval of the IEP settlement, as amended, would satisfy the requirement for CPUC approval specified in the Wineagle amendment.

Calpine Gilroy Settlement Agreement

In Q2 2006, Calpine executed IEP Settlement Agreement amendments for several of its QFs with effective Standard Offer contracts. These amendments settled potential claims resulting from the 2000/2001 energy crisis. PG&E bought out the Calpine Gilroy contract in 1999, and therefore this contract was not eligible for an IEP Settlement Agreement amendment. PG&E and Calpine executed a settlement agreement to resolve potential liability for the Gilroy contract. The agreement was signed on June 26, 2006.

A Non-Confidential Appendix and Confidential Appendix are being submitted to the Energy Division as follows:

Non-Confidential Appendix A

The supporting Non-Confidential Appendix A includes the following signed agreements:

- Chevron Richmond Refinery
- Zond Windsystem Partners Ltd.
- American Energy, Inc. Wolfsen Bypass
- American Energy San Luis Bypass
- Pacific Lumber Incremental Purchase/Sale Letter Agreement
- Sierra Pacific Industries (Lincoln) Incremental Purchase/Sale Letter Agreement

- Collins Pine Letter Agreement and Amendment
- Wineagle Letter Agreement and Amendment
- Calpine Gilroy Settlement Agreement

Confidential Appendix B

The Confidential Appendix contains information, which is protectable material pursuant to Decision 06-06-066, Appendix I, Item XI, under Public Utilities Code sections 454.5(g) and 583.

The supporting Confidential Appendix B includes the following signed agreements:

- Fresno Cogen Pay-For-Curtailment Agreement
- Santa Maria Cogen Pay-For-Curtailment Agreement

Protests

Anyone wishing to protest this filing may do so by letter sent via U.S. mail, by facsimile or electronically, any of which must be received no later than **March 7, 2007**, which is 20 days after the date of this filing. Protests should be mailed to:

CPUC Energy Division
Attention: Tariff Unit, 4th Floor
505 Van Ness Avenue
San Francisco, California 94102
Facsimile: (415) 703-2200
E-mail: mas@cpuc.ca.gov and jnj@cpuc.ca.gov

Copies of protests also should be sent by e-mail and facsimile to Mr. Honesto Gatchalian, Energy Division, as shown above and by U.S. mail to Mr. Gatchalian at the address shown above.

The protest also should be sent via U.S. mail (and by facsimile and electronically, if possible) to PG&E at the address shown below on the same date it is mailed or delivered to the Commission:

Brian K. Cherry
Vice President, Regulatory Relations
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177
Facsimile: (415) 973-7226
E-mail: PGETariffs@pge.com

Effective Date

PG&E requests that this advice letter become effective on regular notice, **March 17, 2007**, which is 30 calendar days after the date of filing.

Notice

In accordance with General Order 96-A, Section III, Paragraph G, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list **and the parties on the service lists for Rulemaking (R.) 01-10-024 and R.04-04-003**. Address changes to the General Order 96-A service list should be directed to Rose de la Torre at (415) 973-4716 (RxDd@pge.com). Advice letter filings can also be accessed electronically at:

<http://www.pge.com/tariffs>



Vice President, Regulatory Relations

cc: Service Lists for – R.01-10-024, R.04-04-003
Procurement Review Group

Attachments:

Non-Confidential Appendix A
Confidential Appendix B (Only available for the CPUC and PRG)

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. Pacific Gas and Electric Company (ID39E)

Utility type:

ELC GAS
 PLC HEAT WATER

Contact Person: David Poster

Phone #: (415) 973- 1082

E-mail: dxpu@pge.com

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas
PLC = Pipeline HEAT = Heat WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: **2987-E**

Subject of AL: 2006 Contract Amendments and Modifications previously submitted in PG&E's Quarterly Procurement Transaction Compliance Advice Letters

Keywords (choose from CPUC listing): Procurement, Compliance

AL filing type: Monthly Quarterly Annual One-Time Other

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: D.06-12-009

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: N/A

Summarize differences between the AL and the prior withdrawn or rejected AL: _____

Resolution Required? Yes No

Requested effective date: **03-17-07**

No. of tariff sheets: 0

Estimated system annual revenue effect (%): N/A

Estimated system average rate effect (%): N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: N/A

Service affected and changes proposed¹: N/A

Pending advice letters that revise the same tariff sheets: N/A

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division

Attention: Tariff Unit

505 Van Ness Ave.,

San Francisco, CA 94102

mas@cpuc.ca.gov and jnj@cpuc.ca.gov

Utility Info (including e-mail)

Attn: Brian K. Cherry

Vice President, Regulatory Relations

77 Beale Street, Mail Code B10C

P.O. Box 770000

San Francisco, CA 94177

E-mail: PGETariffs@pge.com

**DECLARATION OF RICHARD A. MIRAM
SEEKING CONFIDENTIAL TREATMENT
FOR CERTAIN DATA AND INFORMATION CONTAINED
IN ADVICE LETTER 2987-E
(PACIFIC GAS AND ELECTRIC COMPANY ID U 39 E)**

I, Richard A. Miram, declare:

1. I am presently employed by Pacific Gas and Electric Company (PG&E) and have been an employee since 1973. My current title is Principal in PG&E's Energy Procurement Department. In this position, my responsibilities include negotiating power purchase agreements with sellers and other counter parties in the business of producing electric energy. In carrying out these responsibilities, I have acquired knowledge of PG&E's contracts with such sellers, including contract restructurings and amendments, and the negotiation of such transactions. I have also gained knowledge of the operations of such sellers in general and, based on my experience in dealing with facility owners and operators, I am familiar with the types of data and information about their operations that such owners and operators consider confidential and proprietary.

2. Based on my knowledge and experience, and in accordance with the "Administrative Law Judge's Ruling Clarifying Interim Procedures For Complying With Decision 06-06-066," issued August 22, 2006, I make this declaration seeking confidential treatment of certain agreements contained in Advice Letter 2987-E submitted on February 15, 2007. Specifically, the Santa Maria and Fresno Cogen PFC agreements allowed PG&E to dispatch energy from both facilities when it was economic and needed by PG&E. In exchange for dropping the requirement that each project meet operating and efficiency standards, PG&E received capacity discounts and the ability to dispatch the energy when needed in lieu of the must take delivery schedule that would have otherwise applied.

3. PG&E will comply with the limitations on confidentiality described in the Confidentiality Matrix for the type of data specified in category VII.B, as follows:

VII.B: Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS)

Contract summaries public, including counterparty, resource type, location, capacity, expected deliveries, delivery point length of contract and online date.

Other terms confidential for three years from date contract states deliveries to begin; or until one year following expiration, whichever comes first.

4. This information is not already public.

5. The agreements cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.

I declare under penalty of perjury, under the laws of the State of California, that the foregoing is true and correct. Executed on February 15, 2007, at San Francisco, California.



RICHARD A. MIRAM



*Pacific Gas and
Electric Company.*

77 Beale Street, Room 1087
P.O. Box 770000
San Francisco, CA 94177

415.973.7000
Fax: 415.973.7226

August 24, 2006

Tariff Files, Room 4005
DMS Branch
Energy Division
505 Van Ness Avenue
San Francisco, CA 94102

**Re: Declaration of Confidential Treatment – Advice Letter 2872-E
Fresno Cogen Restructuring Advice Letter Filing**

Dear Mr. Royer

On August 22, 2006, an Administrative Law Judge (ALJ) Ruling was issued clarifying interim procedures for complying with Decision (D.) 06-06-066 (Confidentiality Decision). This ruling explicitly applies to “electric procurement, resource adequacy, and renewables.”

In accordance with the ALJ Ruling, PG&E hereby submits this executed declaration seeking confidential treatment for certain data and information contained in Advice Letter 2872-E, which was filed with the Energy Division on August 8, 2006. PG&E asks that the attached supplemental declaration seeking confidential treatment, executed on August 24, 2006, be included and considered with PG&E's Advice Letter 2872-E. Enclosed is an original and 4 copies of the cover letter and the declaration of confidentiality.

Please telephone me at (415) 973-1082 should you have any questions regarding this supplemental sheet. Thank you.

David Poster
Regulatory Relations

cc: Pacific Gas and Electric Company's Procurement Review Group
Service List GO 96-A
Scott Cauchois (DRA)
Teresa Hortinela (DRA)
Linda Serizawa (CSID)
Rose de la Torre--PG&E
File--Advice 2872-E

**DECLARATION OF RICHARD A. MIRAM
SEEKING CONFIDENTIAL TREATMENT
FOR CERTAIN DATA AND INFORMATION CONTAINED
IN ADVICE LETTER 2872-E
(PACIFIC GAS AND ELECTRIC COMPANY ID U 39 E)**

I, Richard A. Miram, declare:

1. I am presently employed by Pacific Gas and Electric Company (PG&E) and have been an employee since 1973. My current title is Principal in PG&E's Energy Procurement Department. In this position, my responsibilities include negotiating wholesale electric transactions with Qualifying Facilities (QFs) and other counter parties in the business of producing electric energy. In carrying out these responsibilities, I have acquired knowledge of PG&E's contracts with QFs, including contract restructurings and amendments, and the negotiation of such transactions. I have also gained knowledge of QF operations in general and, based on my experience in dealing with QF facility owners and operators, I am familiar with the types of data and information about their operations that such owners and operators consider confidential and proprietary.

2. Based on my knowledge and experience, and in accordance with the "Administrative Law Judge's Ruling Clarifying Interim Procedures For Complying With Decision 06-06-066," issued August 22, 2006, I make this declaration seeking confidential treatment of certain data and information contained in PG&E's "Fresno Cogen Restructuring Advice Letter Filing," Advice 2872, submitted August 8, 2006.

3. The data and information for which PG&E is seeking confidential treatment fall into three general categories:

- The “Amended and Restated Power Purchase Agreement (PPA) between PG&E and Fresno Cogeneration Partners, L.P.,” a related “Santa Maria Dispatch Agreement,” and data/information related to or derived from these agreements.
- Data and analysis of the projected ratepayer benefits that will result from the restructuring, if the Commission approves the Fresno Cogen Restructuring Advice Letter.
- Operational data concerning the historical operations of the two QF facilities whose contracts are the subject of the Fresno Cogen Restructuring Advice Letter Filing.

4. The first two categories above correspond to categories of protected, confidential information specified in Appendix 1 of the Commission’s recent confidentiality decision, D.06-06-066 (Confidentiality Matrix). The third category does not directly correspond to any of the categories set forth in the Confidentiality Matrix, but should be kept confidential because it concerns information QFs consider confidential and proprietary. I am informed and believe that such information qualifies for confidential treatment pursuant to this Commission’s General Order No. 66-C.

5. As the Restructuring Advice Letter states, the Amended and Restated PPA and the related Santa Maria Dispatch Agreement restructure two existing QF contracts between the QFs and PG&E. As such, they are protected by category VII.B. of the Confidentiality Matrix, which governs “Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS).”

6. The Restructuring Advice Letter provides the contract summary information, including counterparty (p. 1 and 7), resource type (p. 7), location (p. 7), capacity (p. 3 for Fresno

and p.6 for Santa Maria), the length of the contracts (p. 3 for Fresno and p.6 for Santa Maria), and the effective date of the restructured PPA, which in this case is dependent on Commission approval of the Restructuring Advice Letter (p. 1). The expected delivery point is also detailed in the Restructuring Advice Letter (see location, p.7). The expected deliveries from the restructured PPA are not known because the restructured PPA provides for a dispatchable resource and therefore such information is not specified in the PPA.

7. PG&E will comply with the limitations on confidentiality described in the Confidentiality Matrix for the type of data specified in category VII.B.

8. This information is not already public.

9. The data has been summarized in accordance with the Confidentiality Matrix as explained in paragraph 6 of this declaration.

10. The second general category described in paragraph 3 above, includes data concerning projected reductions in PG&E's annual firm capacity payments and projected cost savings, or ratepayer benefits, associated with the dispatch rights PG&E will gain as part of the PPA restructuring. The shareholder incentive amount, which is calculated at 10 percent of the expected ratepayer benefit, must also be protected because, with knowledge of the incentive amount the expected savings can be readily determined. As such, all this information is protected by category II.B.3. of the Confidentiality Matrix, which governs "Cost Forecast Data – Electric; Generation Cost Forecasts; QF Contracts."

11. PG&E will comply with the limitations on confidentiality described in the Confidentiality Matrix for the type of data specified in category II.B.3; the information will be treated as public by resource category after three years.

12. This information is not already public.

13. The data cannot be aggregated, redacted, summarized, or otherwise protected in a way that allows partial disclosure beyond the redactions made in the Restructuring Advice Letter.

14. The third category specified in paragraph 3, above, includes operating data such as the QFs' firm capacity performance bonus factors and their historical generation patterns. This data does not fall directly within any of the categories specified in the Confidentiality Matrix, but the Commission should keep this data confidential because QFs generally consider this type of data confidential and proprietary. In this case, Fresno Cogen has asked PG&E to attempt to protect the confidentiality of this data.

15. In my experience, QFs are generally very sensitive about any dissemination of their operating data. Historically, PG&E has attempted to protect the confidentiality of QF-specific contract and operating data to the extent possible, consistent with this Commission's decisions and orders.

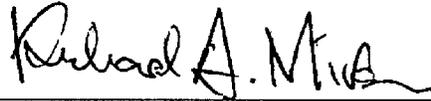
16. If the Commission orders disclosure of the confidential QF-specific data included in the Restructuring Advice Letter, PG&E may be hampered in future QF contract restructurings. QFs may be more reluctant to restructure their agreements with PG&E if they know their confidential, proprietary information must be made public as part of the Commission approval process. Such a circumstance could limit PG&E's ability to reduce customer costs by restructuring existing QF contracts. Also, disclosure of expected savings or ratepayer benefits would disadvantage PG&E in its negotiations for restructuring other QF PPAs.

17. To my knowledge, the QF-specific information is not already public.

18. The data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.

19. I am informed and believe that this QF-specific information qualifies for confidential treatment pursuant to paragraphs 2.2 and 2.8 of General Order No. 66-C.

I declare under penalty, under the laws of the State of California, that the foregoing is true and correct. Executed on August 24, 2006, at San Francisco, California.



RICHARD A. MIRAM

APPENDIX A
PG&E AL 2987-E



**Pacific Gas and
Electric Company***

245 Market Street
San Francisco, CA 94105-1702

Mailing Address
Mail Code N12
Pacific Gas and Electric Company
P.O. Box 770000
San Francisco, CA 94177-0001

March 27, 2006

**Mr. Paul Millner
Manager – Commercial Business Development
Chevron Products Company
Richmond Refinery - Admin 314
841 Chevron Way
Richmond, CA 94802**

Subject: Chevron Cogeneration Project (Log. No. 01C202)

Dear Mr. Millner:

Pursuant to Section 2 of the Amended and Restated Second Amendment to the Power Purchase Agreement for the above-described project dated November 27, 2002, PG&E hereby notifies Chevron of its election to extend the term of the power purchase agreement for an additional year.

The agreement, as extended, shall expire March 31, 2007. All other terms and conditions of the PPA, as amended, remain the same.

Sincerely,

**Roy M. Kuga
VP – Energy Supply
Pacific Gas and Electric Company**



**Pacific Gas and
Electric Company**

245 Market Street
San Francisco, CA 94105-1702

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

January 12, 2006

Mr. Ramon G. Coe
President
Owl Energy Resources, Inc.
2465 Campus Drive
Irvine, CA 92612

Re: Termination of the Owl Energy Resources Standard Offer 1("SO1") Power Purchase Agreement ("PPA") – PG&E Log No. 08C017

Dear Mr. Coe:

PG&E is in receipt of your letter dated December 1, 2005 requesting termination of the PPA listed above.

PG&E and Owl Companies, Inc. executed a SO1 PPA on November 8, 1985. In Article 7 of this PPA it states that the agreement will remain in effect until terminated by the seller. Therefore, we consider this PPA terminated effective December 1, 2005.

On November 26, 1985, Owl Companies, Inc. and PG&E executed an Agreement for Installation or Allocation of Special Facilities for Parallel Operation in Nonutility-Owned Generation and/or Electrical Standby Service (Special Facilities Agreement, or SFA). The SFA provides that it will terminate if the PPA, parallel operation, or electrical standby service or other agreement no longer exists which would occasion the need for special facilities. The SFA further states that either party shall provide the other at least thirty (30) days' written notice of termination. Since your letter dated December 1, 2005 has not requested that your Special Agreement for Electrical Standby Service be terminated it is important to contact a PG&E representative ASAP. This representative will make an appointment with you regarding removal of any additional special facilities that may remain on your property.

For your reference PG&E will forward a copy of this termination letter along with your original letter to PG&E requesting termination to Mr. Tufon and Mr. Glidden. However, it is important that you make contact with one of these PG&E representatives. To help expedite this process and for your convenience, Mr. Tufon can be reached at 415-973-4212 and/or Mr. Glidden at 415-972-7051.

If you have additional questions, please don't hesitate to call me at 415-973-1065.

Sincerely,

Donna Rajewski
Power Contracts

cc: Chris Tufon, Josh Glidden



GES - Power Contracts

245 Market Street
San Francisco, CA 94105-1702

Mailing Address
Mail Code N12E
Pacific Gas and Electric Company
P.O. Box 770000
San Francisco, CA 94177-0001

December 28, 2005

Eric Gadd
Zond Windsystem Partners Ltd.
P.O. Box 1188
Houston, Texas 77251-1188

Via Facsimile
(713) 646-3225

Re: Zond Windsystem Partners Ltd., Series 85-C (PG&E Log No. 01W017)

Dear Mr. Gadd:

As you discussed with John Laszlo of my staff, Pacific Gas and Electric Company ("PG&E") and Zond Windsystem Partners, Ltd., Series 85-C ("Seller") have agreed to extend the term of the subject Power Purchase Agreement ("PPA") through January 31, 2006. Seller and PG&E also agree that this extension shall correspondingly reduce the term of any extension of the PPA the parties may execute pursuant to CPUC Decision 04-01-050. Except as contained in this Letter Agreement, the balance of the terms and conditions contained in the PPA remain in full force and effect.

If Seller is in agreement with the foregoing, please sign in the space provided below and return the original of this Letter Agreement to Mr. Laszlo's attention at the letterhead address.

Sincerely,

PACIFIC GAS AND ELECTRIC COMPANY

BY: _____
Roy Kuga
Vice President - GES

ACCEPTED AND AGREED 28th DAY OF DECEMBER, 2005

ZOND WINDSYSTEMS PARTNERS LTD., SERIES 85-C
By: Zond Windsystems Management V LLC

BY: Eric D. Gadd
PRINT: ERIC D. GADD
TITLE: PRESIDENT & CEO



**Pacific Gas and
Electric Company***

GES - Power Contracts

**245 Market Street
San Francisco, CA 94105-1702**

**Mailing Address
Mail Code N12E
Pacific Gas and Electric Company
P.O. Box 770000
San Francisco, CA 94177-0001**

December 28, 2005

Eric Gadd
Zond Windsystem Partners Ltd.
P.O. Box 1188
Houston, Texas 77251-1188

**Via Facsimile
(713) 646-3225**

Re: Zond Windsystem Partners Ltd., Series 85-C (PG&E Log No. 01W017)

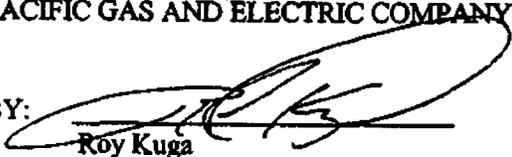
Dear Mr. Gadd:

As you discussed with John Laszlo of my staff, Pacific Gas and Electric Company ("PG&E") and Zond Windsystem Partners, Ltd., Series 85-C ("Seller") have agreed to extend the term of the subject Power Purchase Agreement ("PPA") through January 31, 2006. Seller and PG&E also agree that this extension shall correspondingly reduce the term of any extension of the PPA the parties may execute pursuant to CPUC Decision 04-01-050. Except as contained in this Letter Agreement, the balance of the terms and conditions contained in the PPA remain in full force and effect.

If Seller is in agreement with the foregoing, please sign in the space provided below and return the original of this Letter Agreement to Mr. Laszlo's attention at the letterhead address.

Sincerely,

PACIFIC GAS AND ELECTRIC COMPANY

BY: 

Roy Kuga
Vice President - GES

ACCEPTED AND AGREED _____ DAY OF DECEMBER, 2005

ZOND WINDSYSTEMS PARTNERS LTD., SERIES 85-C
By: Zond Windsystems Management V LLC

BY: _____

PRINT: _____

TITLE: _____

**FOURTH AMENDMENT TO THE
POWER PURCHASE AGREEMENT BETWEEN
ZOND WINDSYSTEM PARTNERS, LTD
AND PACIFIC GAS AND ELECTRIC COMPANY**

(PG&E Log No. 01W017)

This Amendment, dated as of the latest date set forth below ("Amendment"), is entered into by and between PACIFIC GAS AND ELECTRIC COMPANY ("PG&E"), a California corporation, and ZOND WINDSYSTEM PARTNERS LTD., Series 85-C, a California limited partnership, ("Seller"). PG&E and Seller are sometimes referred to herein individually as a "Party" and collectively as the "Parties."

RECITALS

1. Wind Developers, Inc. ("WDI"), Seller's predecessor, and PG&E entered into an interim Standard Offer No. 4 Power Purchase Agreement ("PPA") dated January 7, 1985, for the purchase and sale of electric energy and capacity from a wind generating facility managed by Zond that is located at the Altamont Pass in Alameda County, California ("Facility"). The PPA was assigned by WDI to Zond Systems, Inc. ("Zond") and thereafter assigned by Zond to Seller. The PPA was subsequently amended by agreement of the Parties. The PPA and any amendments thereto that were executed prior to the date of this Amendment are collectively referred to herein as the "Agreement."

2. The Agreement was scheduled to expire on December 29, 2005, but was extended through January 31, 2006 by letter agreement between the Parties dated December 28, 2005.

3. On January 26, 2004, the California Public Utilities Commission ("CPUC") issued Decision 04-01-050 ("the Decision"), in which it ordered the utilities to offer five-year SO1 contracts at short-run avoided cost prices, as may be modified by the CPUC, to qualifying facilities ("QFs") with expiring PPAs, pursuant to a Standard Offer 1 ("SO1") contract provided: (1) the QF was in operation and under contract with a utility to sell power at any time during the period between January 1, 1998 and the effective date of the Decision; and (2) the QF contract expired or is set to expire before December 31, 2005. The Decision provides that any new pricing methodology adopted by the CPUC would apply to the five-year SO1 contracts.

4. The California Court of Appeal issued an opinion on review of the Decision, requiring any overpayments made to a QF operating under a five-year SO1 contract to be subject to refund to the utilities if the CPUC determines that the prices paid under that contract exceed the utilities' avoided costs. *Southern Cal. Edison Co. v. Public Utilities Comm.*, 128 Cal. App. 4th 1 (2005).

5. The Agreement was executed by the Parties prior to: (1) the formation of the California Independent System Operator ("CAISO"); and (2) the enactment of the California Renewables Portfolio Standard ("RPS") Program, Public Utilities Code §§ 399.11 through 399.16.

6. PG&E and Seller hereby amend the Agreement to comply with the Decision, as modified by the Court of Appeal, and to make certain other modifications of the Agreement, as set forth below.

AGREEMENT

In consideration of the premises described above and the terms and conditions set forth below, PG&E and Seller agree to modify the Agreement and agree as follows:

1. **DEFINITIONS**

Any term not defined herein shall have the meaning ascribed to it in the Agreement.

2. **TERM OF AGREEMENT**

This Amendment shall be in effect from December 30, 2005 through December 29, 2010 (the Extended Term), provided that Seller shall have the right to terminate the Agreement upon the delivery to PG&E of written notice at least thirty (30) days prior to the requested termination date.

3. **ENERGY PURCHASE**

A. PG&E shall purchase and accept delivery of Seller's Net Energy Output from the Facility.

B. Through July 16, 2006 PG&E shall pay Seller for energy deliveries pursuant to the fixed energy price specified in the Third Amendment to the PPA dated November 13, 2001. PG&E shall pay Seller for energy deliveries during the remainder of the Extended Term at prices equal to PG&E's short-run avoided cost, according to the methodology that is approved and may be revised by the CPUC for payments to QFs.

C. Payment for energy shall be based on the time of delivery. The time periods currently in effect are shown in Appendix A to this Amendment. Time period definitions may change from time to time as determined by the CPUC.

D. PG&E has contracted to purchase the energy associated with the Facility with the nameplate rating specified in Article 3 (b) of the Agreement. If Seller installs a Facility with a nameplate rating greater than that specified in Article 3 (b) of the Agreement, PG&E shall not be required to accept or pay for energy associated with the incremental increase in the nameplate rating under this Amendment.

E. Energy payments made to Seller pursuant to this Amendment will be adjusted by an energy loss adjustment factor, as approved by the CPUC and may be modified by the CPUC from time to time.

4. **CAPACITY PURCHASE**

A. PG&E shall pay Seller for as-delivered capacity during the Extended Term at prices authorized (and as may be revised) by the CPUC.

B. Payment for capacity shall be based on time of delivery. The time periods currently in effect are shown in Appendix A to this Amendment. Time period definitions may change from time to time as determined by the CPUC.

C. PG&E has contracted to purchase the as-delivered capacity associated with the Facility of the nameplate rating described in Article 3 (b) of the Agreement. If Seller installs a Facility with a nameplate rating greater than that specified in Article 3 (b) of the Agreement, PG&E shall not be required to accept or pay for as-delivered capacity associated with the incremental increase in nameplate rating under this Amendment.

D. As-delivered capacity payments made to Seller pursuant to this Amendment will be multiplied by a capacity loss adjustment factor (CLAF) as approved by the CPUC and may be modified by the CPUC from time to time.

5. **ENVIRONMENTAL ATTRIBUTES**

A. Seller hereby agrees to convey and hereby conveys to PG&E all Environmental Attributes (as defined below) associated with the Net Energy Output and as delivered capacity from the Facility purchased by PG&E during the Extended Term. Seller represents and warrants that during the Extended Term, as defined in Section 2 of this Amendment, Seller holds the rights to all Environmental Attributes from the Facility. Seller has

not contracted nor intends to contract to transfer any such rights to any third party and Seller agrees to convey and hereby conveys all such Environmental Attributes to Buyer as included in the delivery of the energy and capacity from the Facility. As used in this Amendment, the term "Environmental Attributes" means any and all benefits, emissions reductions, offsets, and allowances, howsoever entitled, directly attributable to the generation from the Facility. Environmental Attributes include but are not limited to: (1) any avoided emissions of pollutants to the air, soil or water such as sulfur oxides (SO_x), nitrogen oxides (NO_x), carbon monoxide (CO) and other pollutants; (2) any avoided emissions of carbon dioxide (CO₂), methane (CH₄) and other greenhouse gases (GHGs) that have been determined by the United Nations Intergovernmental Panel on Climate Change to contribute to the actual or potential threat of altering the Earth's climate by trapping heat in the atmosphere, and (3) the reporting rights to these avoided emissions such as Green Tag Reporting Rights. Green Tag Reporting Rights are the right of a Green Tag Purchaser to report the ownership of accumulated Green Tags in compliance with federal or state law, if applicable, and to a federal or state agency or any other party at the Green Tag Purchaser's discretion, and include without limitation those Green Tag Reporting Rights accruing under Section 1603(b) of the Energy Policy Act of 1992 and any present or future federal, state, or local law, regulation or bill, and international or foreign emissions trading program. Green Tags are accumulated on kWh basis and one Green Tag represents the Environmental Attributes associated with one (1) MWh of energy. Notwithstanding the forgoing, the term "Environmental Attributes" shall not include (i) any energy, capacity, reliability or other power attributes from the Facility, (ii) production or other tax credits associated with the construction or operation of energy projects or the production of electricity from the Facility and other financial incentives in the form of credits, reductions, or allowances associated with the Facility or the production of energy from the Facility that are

applicable to a state or federal income taxation obligation; (iii) fuel-related subsidies or "tipping fees" that may be paid to Seller to accept certain fuels, or local subsidies received by the generator for the destruction of particular pre-existing pollutants or the promotion of local environmental benefits, (iv) emission reduction credits encumbered or used by the Facility for compliance with local, state, or federal operating and/or air quality permits and (v) any payment or other subsidy made or granted to the Seller by the California Energy Commission (CEC) or any other governmental entity with respect to the production of energy from or the capacity of the Facility.

B. Seller agrees that within three months of the date of this Amendment it shall obtain and maintain certification of the Facility as a renewable energy resource for California's Renewable Portfolio Standard (RPS) program, for the Extended Term, in accordance with CEC's Renewables Portfolio Standard Eligibility Guidebook (publication no. 500-04-002FT) and as may be subsequently amended. PG&E and Seller agree that the Facility, as currently constructed, meets the requirements for such certification on the date of this Amendment. In the event that at any time during the Extended Term the Facility no longer meets the stated criteria for an eligible renewable resource, PG&E shall have the right to terminate the Agreement upon the delivery to Seller of written notice at least thirty (30) days prior to the requested termination date and PG&E shall have no further obligation to accept and pay for any electricity generated by the Facility.

6. PAYMENTS

PG&E shall pay Seller once a month for energy and as-delivered capacity deliveries during the prior month as specified in Section A-4 of Appendix A to the Agreement.

7. **OTHER MODIFICATIONS**

To comply with the CPUC's directive that utilities purchase QF energy and as-delivered capacity at short-run avoided operating costs, the Parties agree to delete in their entirety Articles 2, 3 (f), 4, 5, 7 and 12, and Appendices B, C, D, and E of the Agreement.

8. **RESERVATION OF RIGHTS**

PG&E is entering into this Amendment as directed by the CPUC in the Decision. PG&E reserves its right to seek reimbursement of payments made under this Amendment to the extent that such payments are determined by the CPUC, a court, or other governmental entity to exceed PG&E's avoided costs (as defined in the Public Utility Regulatory Policies Act of 1978, 16 U.S.C. § 824a-3, *et seq.*)

9. **INTERRUPTION OF DELIVERIES**

In the event that PG&E receives a notice from the CAISO ordering PG&E to interrupt delivery of energy from the Facility, then Seller shall not be required to deliver such energy and as-delivered capacity from the Facility and PG&E shall not be obligated to accept or pay for such deliveries of energy and as-delivered capacity that have been interrupted or reduced pursuant to any such order issued by the CAISO.

10. **NO OTHER MODIFICATIONS**

Except as expressly modified by this Amendment, no provision of the Agreement is or shall be deemed to be modified, amended, waived, or otherwise affected by this Amendment. To the extent that this Amendment is inconsistent with any provision of the Agreement, this Amendment shall govern the rights and obligations of the Parties.

11. **EFFECTIVE DATE**

This Amendment shall be effective as of December 29, 2005.

12. SIGNATURES

IN WITNESS WHEREFORE, Seller and PG&E have caused this Amendment to be executed by their authorized representatives. By signing this Amendment, the representatives of the Parties warrant that they have the requisite authority to bind their respective principals.

PACIFIC GAS AND ELECTRIC COMPANY

ZOND WINDSYSTEM PARTNERS, LTD
Series 85-G-2 California Limited Partnership

By:



Name: Roy Kuga

Title: Vice President, Energy Supply

Date:

May 19, 2006

By: Zond Windsystems Management, LLC,
its general partner

Signature:



Name (print):

JESSE E. NEYMAN

Title:

President & CEO

Date:

May 16, 2006

**AMENDMENT TO THE
POWER PURCHASE AGREEMENT
AMERICAN ENERGY, INC.,
AND PACIFIC GAS AND ELECTRIC COMPANY
(PG&E Log No. 25H038)**

This Amendment, dated as of the latest date set forth below ("Amendment"), is entered into by and between PACIFIC GAS AND ELECTRIC COMPANY ("PG&E"), a California corporation, and AMERICAN ENERGY, INC., a California Corporation ("Seller"). PG&E and Seller are sometimes referred to herein individually as a "Party" and collectively as the "Parties."

RECITALS

1. Seller's predecessor and PG&E entered into a Standard Offer No.4 Power Purchase Agreement ("PPA") dated September 28, 1984 for the purchase and sale of electric energy and capacity from Seller's 1,000 kw facility located at the Delta Mendota Canal (Wolfsen Bypass) near Los Banos in Merced County, California (Facility). The PPA was subsequently amended by agreement of the Parties. The PPA and any amendments thereto that were executed prior to the date of this Amendment are collectively referred to herein as the "Agreement."

2. The Agreement is scheduled to expire on September 1, 2006.

3. On January 26, 2004, the California Public Utilities Commission ("CPUC") issued Decision 04-01-050 ("the Decision"), in which it ordered the utilities to offer five-year SO1 contracts at short-run avoided cost prices, as may be modified by the CPUC, to qualifying facilities ("QFs") with expiring PPAs, pursuant to a Standard Offer 1 ("SO1") contract provided: (1) the QF was in operation and under contract with a utility to sell power at any time during the

Appendix G

Qualifying Facilities

period between January 1, 1998 and the effective date of the Decision; and (2) the QF contract expired or is set to expire before December 31, 2005. The Decision provides that any new pricing methodology adopted by the CPUC would apply to the five-year SO1 contracts.

4. In Ordering Paragraph 1 of Decision 05-12-009, the CPUC directed PG&E and the other utilities to continue purchasing power pursuant to a five-year SO1 contract from any QF with a contract set to expire after January 1, 2006, and before the CPUC's issuance of a final decision in the combined dockets, Rulemaking 04-04-003 and 04-04-025.

5. The California Court of Appeal issued an opinion on review of the Decision, requiring any overpayments made to a QF operating under a five-year SO1 contract to be subject to refund to the utilities if the CPUC determines that the prices paid under that contract exceed the utilities' avoided costs. *Southern Cal. Edison Co. v. Public Utilities Comm.*, 128 Cal. App. 4th 1 (2005).

6. The Agreement was executed by the Parties prior to: (1) the formation of the California Independent System Operator ("CAISO"); and (2) the enactment of the California Renewables Portfolio Standard ("RPS") Program, Public Utilities Code §§ 399.11 through 399.16.

7. PG&E and Seller hereby amend the Agreement to comply with the Decision, as modified by the Court of Appeal, and to make certain other modifications of the Agreement, as set forth below.

AGREEMENT

In consideration of the premises described above and the terms and conditions set forth below, PG&E and Seller agree to modify the Agreement and agree as follows:

1. DEFINITIONS

Any term not defined herein shall have the meaning ascribed to it in the Agreement.

2. TERM OF AMENDMENT

This Amendment shall be in effect from September 2, 2006 through September 1, 2011 (the Extended Term).

3. ENERGY PURCHASE

A. PG&E shall purchase and accept delivery of Seller's Net Energy Output from the Facility.

B. PG&E shall pay Seller for energy deliveries during the Extended Term at prices equal to PG&E's short-run avoided cost, according to the methodology that is approved and may be revised by the CPUC for payments to QFs.

C. Payment for energy shall be based on the time of delivery. The time periods currently in effect are shown in Appendix A. Time period definitions may change from time to time as determined by the CPUC.

D. PG&E has contracted to purchase the energy associated with the Facility with the nameplate rating specified in Article 3 (b) of the Agreement. If Seller installs a Facility with a nameplate rating greater than that specified in Article 3 (b) of the Agreement, PG&E shall not be required to accept or pay for energy associated with the incremental increase in the nameplate rating under this Amendment.

E. Energy payments made to Seller pursuant to this Amendment will be adjusted by an energy loss adjustment factor, as approved by the CPUC and may be modified by the CPUC from time to time.

4. CAPACITY PURCHASE

A. PG&E shall pay Seller for as-delivered capacity during the Extended Term at prices authorized (and as may be revised) by the CPUC.

B. Payment for capacity shall be based on time of delivery. The time periods currently in effect are shown in Appendix A. Time period definitions may change from time to time as determined by the CPUC.

C. PG&E has contracted to purchase the as-delivered capacity associated with the Facility of the nameplate rating described in Article 3 (b) of the Agreement. If Seller installs a Facility with a nameplate rating greater than that specified in Article 3 (b) of the Agreement, PG&E shall not be required to accept or pay for as-delivered capacity associated with the incremental increase in nameplate rating under this Amendment.

D. As-delivered capacity payments made to Seller pursuant to this Amendment will be multiplied by a capacity loss adjustment factor (CLAF) as approved by the CPUC and may be modified by the CPUC from time to time.

5. ENVIRONMENTAL ATTRIBUTES

A. Seller hereby provides and conveys all Environmental Attributes from the Facility to PG&E for the Extended Term. Seller represents and warrants that Seller holds the rights to all Environmental Attributes from the Facility, and Seller agrees to convey and hereby conveys all such Environmental Attributes to Buyer as included in the delivery of the energy and capacity from the Facility. As used in this Section, the term "Environmental Attributes" means any and all credits, benefits, emissions reductions, offsets, and allowances, howsoever entitled, directly attributable to the generation from the Facility. Environmental Attributes include but are not limited to: (1) any avoided emissions of pollutants to the air, soil or water such as sulfur oxides (SO_x), nitrogen oxides (NO_x), carbon monoxide (CO) and other pollutants; (2) any

avoided emissions of carbon dioxide (CO₂), methane (CH₄) and other greenhouse gases (GHGs) that have been determined by the United Nations Intergovernmental Panel on Climate Change to contribute to the actual or potential threat of altering the Earth's climate by trapping heat in the atmosphere; and (3) the reporting rights to these avoided emissions such as Green Tag Reporting Rights. Green Tag Reporting Rights are the right of a Green Tag Purchaser to report the ownership of accumulated Green Tags in compliance with federal or state law, if applicable, and to a federal or state agency or any other party at the Green Tag Purchaser's discretion, and include without limitation those Green Tag Reporting Rights accruing under Section 1605(b) of the Energy Policy Act of 1992 and any present or future federal, state, or local law, regulation or bill, and international or foreign emissions trading program. Green Tags are accumulated on kWh basis and one Green Tag represents the Environmental Attributes associated with one (1) MWh of energy. Environmental Attributes do not include (i) any energy, capacity, reliability or other power attributes from the Facility, (ii) production tax credits associated with the construction or operation of the energy projects and other financial incentives in the form of credits, reductions, or allowances associated with the project that are applicable to a state or federal income taxation obligation, (iii) fuel-related subsidies or "tipping fees" that may be paid to Seller to accept certain fuels, or local subsidies received by the generator for the destruction of particular pre-existing pollutants or the promotion of local environmental benefits, or (iv) emission reduction credits encumbered or used by the Facility for compliance with local, state, or federal operating and/or air quality permits. If Seller's Facility is a biomass or landfill gas facility and Seller receives any tradable Environmental Attributes based on the greenhouse gas reduction benefits attributed to its fuel usage, it shall provide Buyer with sufficient Environmental Attributes to ensure that there are zero net GHGs associated with the production of electricity from the Facility.

B. Seller agrees that it shall obtain and maintain certification of the Facility as a renewable energy resource for California's Renewable Portfolio Standard (RPS) program, for the Extended Term, in accordance with California Energy Commission's (CEC) Renewables Portfolio Standard Eligibility Guidebook (publication no. 500-04-002F1) and as may be subsequently amended.

6. **PAYMENTS**

PG&E shall pay Seller once a month for energy and as-delivered capacity deliveries during the prior month as specified in Section A-4 of the Agreement.

7. **OTHER MODIFICATIONS**

To comply with the CPUC's directive that utilities purchase QF energy and as-delivered capacity at short-run avoided operating costs, the Parties agree to delete in their entirety Articles 2, 3 (f), 4, 5, 7 and 12, and Appendices B, C, D, and E of the Agreement.

8. **RESERVATION OF RIGHTS**

PG&E is entering into this Amendment as directed by the CPUC in the Decision. PG&E reserves its right to seek reimbursement of payments made under this Amendment to the extent that such payments are determined to exceed PG&E's avoided costs (as defined in the Public Utility Regulatory Policies Act of 1978, 16 U.S.C. § 824a-3, *et seq.*).

9. **INTERRUPTION OF DELIVERIES**

PG&E shall not be obligated to accept or pay for deliveries of energy and as-delivered capacity that have been interrupted or reduced pursuant to orders issued by the CAISO.

10. **NO OTHER MODIFICATIONS**

Except as expressly modified by this Amendment, no provision of the Agreement is or shall be deemed to be modified, amended, waived, or otherwise affected by this Amendment. To

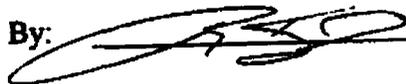
the extent that this Amendment is inconsistent with any provision of the Agreement, this Amendment shall govern the rights and obligations of the Parties.

11. SIGNATURES

IN WITNESS WHEREFORE, Seller and PG&E have caused this Amendment to be executed by their authorized representatives. By signing this Amendment, the representatives of the Parties warrant that they have the requisite authority to bind their respective principals.

PACIFIC GAS AND ELECTRIC COMPANY

AMERICAN ENERGY, INC.

By: 

Name: Roy Kuga

Title: VP - Energy Supply

Date: 8/31, 2006

By: Scott Goodwin

Name: Scott Goodwin

Title: Pres.

Date: 8-23, 2006

**AMENDMENT TO THE
POWER PURCHASE AGREEMENT
AMERICAN ENERGY, INC.,
AND PACIFIC GAS AND ELECTRIC COMPANY
(PG&E Log No. 25H039)**

This Amendment, dated as of the latest date set forth below ("Amendment"), is entered into by and between PACIFIC GAS AND ELECTRIC COMPANY ("PG&E"), a California corporation, and AMERICAN ENERGY, INC., a California Corporation ("Seller"). PG&E and Seller are sometimes referred to herein individually as a "Party" and collectively as the "Parties."

RECITALS

1. Seller's predecessor and PG&E entered into a Standard Offer No.4 Power Purchase Agreement ("PPA") dated September 28, 1984 for the purchase and sale of electric energy and capacity from Seller's 675 kw facility located at the Delta Mendota Canal (San Luis Bypass) near Los Banos in Merced County, California (Facility). The PPA was subsequently amended by agreement of the Parties. The PPA and any amendments thereto that were executed prior to the date of this Amendment are collectively referred to herein as the "Agreement."

2. The Agreement is scheduled to expire on September 1, 2006.

3. On January 26, 2004, the California Public Utilities Commission ("CPUC") issued Decision 04-01-050 ("the Decision"), in which it ordered the utilities to offer five-year SO1 contracts at short-run avoided cost prices, as may be modified by the CPUC, to qualifying facilities ("QFs") with expiring PPAs, pursuant to a Standard Offer 1 ("SO1") contract provided: (1) the QF was in operation and under contract with a utility to sell power at any time during the

Appendix A

TABLE A¹ - TIME PERIODS

	Monday through Friday²	Saturdays, Sundays, and Holidays
Seasonal Period A (May 1 - October 31)		
Peak	Noon to 6:00 p.m.	None
Partial-Peak	8:30 a.m. to noon 6:00 p.m. to 9:30 p.m.	None
Off-Peak	9:30 p.m. to 1:00 a.m.	
Super Off-Peak	5:00 a.m. to 8:30 a.m. 1:00 a.m. to 5:00 a.m.	5:00 a.m. to 1:00 a.m. 1:00 a.m. to 5:00 a.m.
Seasonal Period B (November 1 - April 30)		
Partial Peak	8:30 a.m. to 9:30 p.m.	None
Off-Peak	9:30 p.m. to 1:00 a.m. 5:00 a.m. to 8:30 a.m.	5:00 a.m. to 1:00 a.m.
Super Off-Peak	1:00 a.m. to 5:00 a.m.	1:00 a.m. to 5:00 a.m.

¹ This table is subject to change to accord with the peak, partial-peak, off-peak, and super off-peak periods as defined by CPUC decision.

² Except for the following holidays: New Year's Day, Washington's Birthday, Memorial Day, Independence Day, Labor Day, Veteran's Day, Thanksgiving Day, and Christmas Day, as specified in Public Law 90-363 (5 U.S.C.A. Section 6103(a)).

period between January 1, 1998 and the effective date of the Decision; and (2) the QF contract expired or is set to expire before December 31, 2005. The Decision provides that any new pricing methodology adopted by the CPUC would apply to the five-year SO1 contracts.

4. In Ordering Paragraph 1 of Decision 05-12-009, the CPUC directed PG&E and the other utilities to continue purchasing power pursuant to a five-year SO1 contract from any QF with a contract set to expire after January 1, 2006, and before the CPUC's issuance of a final decision in the combined dockets, Rulemaking 04-04-003 and 04-04-025.

5. The California Court of Appeal issued an opinion on review of the Decision, requiring any overpayments made to a QF operating under a five-year SO1 contract to be subject to refund to the utilities if the CPUC determines that the prices paid under that contract exceed the utilities' avoided costs. *Southern Cal. Edison Co. v. Public Utilities Comm.*, 128 Cal. App. 4th 1 (2005).

6. The Agreement was executed by the Parties prior to: (1) the formation of the California Independent System Operator ("CAISO"); and (2) the enactment of the California Renewables Portfolio Standard ("RPS") Program, Public Utilities Code §§ 399.11 through 399.16.

7. PG&E and Seller hereby amend the Agreement to comply with the Decision, as modified by the Court of Appeal, and to make certain other modifications of the Agreement, as set forth below.

AGREEMENT

In consideration of the premises described above and the terms and conditions set forth below, PG&E and Seller agree to modify the Agreement and agree as follows:

1. DEFINITIONS

Any term not defined herein shall have the meaning ascribed to it in the Agreement.

2. TERM OF AMENDMENT

This Amendment shall be in effect from September 2, 2006 through September 1, 2011 (the Extended Term).

3. ENERGY PURCHASE

A. PG&E shall purchase and accept delivery of Seller's Net Energy Output from the Facility.

B. PG&E shall pay Seller for energy deliveries during the Extended Term at prices equal to PG&E's short-run avoided cost, according to the methodology that is approved and may be revised by the CPUC for payments to QFs.

C. Payment for energy shall be based on the time of delivery. The time periods currently in effect are shown in Appendix A. Time period definitions may change from time to time as determined by the CPUC.

D. PG&E has contracted to purchase the energy associated with the Facility with the nameplate rating specified in Article 3 (b) of the Agreement. If Seller installs a Facility with a nameplate rating greater than that specified in Article 3 (b) of the Agreement, PG&E shall not be required to accept or pay for energy associated with the incremental increase in the nameplate rating under this Amendment.

E. Energy payments made to Seller pursuant to this Amendment will be adjusted by an energy loss adjustment factor, as approved by the CPUC and may be modified by the CPUC from time to time.

4. CAPACITY PURCHASE

A. PG&E shall pay Seller for as-delivered capacity during the Extended Term at prices authorized (and as may be revised) by the CPUC.

B. Payment for capacity shall be based on time of delivery. The time periods currently in effect are shown in Appendix A. Time period definitions may change from time to time as determined by the CPUC.

C. PG&E has contracted to purchase the as-delivered capacity associated with the Facility of the nameplate rating described in Article 3 (b) of the Agreement. If Seller installs a Facility with a nameplate rating greater than that specified in Article 3 (b) of the Agreement, PG&E shall not be required to accept or pay for as-delivered capacity associated with the incremental increase in nameplate rating under this Amendment.

D. As-delivered capacity payments made to Seller pursuant to this Amendment will be multiplied by a capacity loss adjustment factor (CLAF) as approved by the CPUC and may be modified by the CPUC from time to time.

5. ENVIRONMENTAL ATTRIBUTES

A. Seller hereby provides and conveys all Environmental Attributes from the Facility to PG&E for the Extended Term. Seller represents and warrants that Seller holds the rights to all Environmental Attributes from the Facility, and Seller agrees to convey and hereby conveys all such Environmental Attributes to Buyer as included in the delivery of the energy and capacity from the Facility. As used in this Section, the term "Environmental Attributes" means any and all credits, benefits, emissions reductions, offsets, and allowances, howsoever entitled, directly attributable to the generation from the Facility. Environmental Attributes include but are not limited to: (1) any avoided emissions of pollutants to the air, soil or water such as sulfur oxides (SOx), nitrogen oxides (NOx), carbon monoxide (CO) and other pollutants; (2) any

avoided emissions of carbon dioxide (CO₂), methane (CH₄) and other greenhouse gases (GHGs) that have been determined by the United Nations Intergovernmental Panel on Climate Change to contribute to the actual or potential threat of altering the Earth's climate by trapping heat in the atmosphere; and (3) the reporting rights to these avoided emissions such as Green Tag Reporting Rights. Green Tag Reporting Rights are the right of a Green Tag Purchaser to report the ownership of accumulated Green Tags in compliance with federal or state law, if applicable, and to a federal or state agency or any other party at the Green Tag Purchaser's discretion, and include without limitation those Green Tag Reporting Rights accruing under Section 1605(b) of the Energy Policy Act of 1992 and any present or future federal, state, or local law, regulation or bill, and international or foreign emissions trading program. Green Tags are accumulated on kWh basis and one Green Tag represents the Environmental Attributes associated with one (1) MWh of energy. Environmental Attributes do not include (i) any energy, capacity, reliability or other power attributes from the Facility, (ii) production tax credits associated with the construction or operation of the energy projects and other financial incentives in the form of credits, reductions, or allowances associated with the project that are applicable to a state or federal income taxation obligation, (iii) fuel-related subsidies or "tipping fees" that may be paid to Seller to accept certain fuels, or local subsidies received by the generator for the destruction of particular pre-existing pollutants or the promotion of local environmental benefits, or (iv) emission reduction credits encumbered or used by the Facility for compliance with local, state, or federal operating and/or air quality permits. If Seller's Facility is a biomass or landfill gas facility and Seller receives any tradable Environmental Attributes based on the greenhouse gas reduction benefits attributed to its fuel usage, it shall provide Buyer with sufficient Environmental Attributes to ensure that there are zero net GHGs associated with the production of electricity from the Facility.

B. Seller agrees that it shall obtain and maintain certification of the Facility as a renewable energy resource for California's Renewable Portfolio Standard (RPS) program, for the Extended Term, in accordance with California Energy Commission's (CEC) Renewables Portfolio Standard Eligibility Guidebook (publication no. 500-04-002F1) and as may be subsequently amended.

6. PAYMENTS

PG&E shall pay Seller once a month for energy and as-delivered capacity deliveries during the prior month as specified in Section A-4 of the Agreement.

7. OTHER MODIFICATIONS

To comply with the CPUC's directive that utilities purchase QF energy and as-delivered capacity at short-run avoided operating costs, the Parties agree to delete in their entirety Articles 2, 3 (f), 4, 5, 7 and 12, and Appendices B, C, D, and E of the Agreement.

8. RESERVATION OF RIGHTS

PG&E is entering into this Amendment as directed by the CPUC in the Decision. PG&E reserves its right to seek reimbursement of payments made under this Amendment to the extent that such payments are determined to exceed PG&E's avoided costs (as defined in the Public Utility Regulatory Policies Act of 1978, 16 U.S.C. § 824a-3, *et seq.*).

9. INTERRUPTION OF DELIVERIES

PG&E shall not be obligated to accept or pay for deliveries of energy and as-delivered capacity that have been interrupted or reduced pursuant to orders issued by the CAISO.

10. NO OTHER MODIFICATIONS

Except as expressly modified by this Amendment, no provision of the Agreement is or shall be deemed to be modified, amended, waived, or otherwise affected by this Amendment. To

the extent that this Amendment is inconsistent with any provision of the Agreement, this Amendment shall govern the rights and obligations of the Parties.

11. SIGNATURES

IN WITNESS WHEREFORE, Seller and PG&E have caused this Amendment to be executed by their authorized representatives. By signing this Amendment, the representatives of the Parties warrant that they have the requisite authority to bind their respective principals.

PACIFIC GAS AND ELECTRIC COMPANY

AMERICAN ENERGY, INC.

By: 

By: 

Name: Roy Kuga

Name: Scott D Goodwin

Title: VP - Energy Supply

Title: Pres.

Date: 8/31, 2006

Date: 8-23, 2006

Appendix A

TABLE A¹ - TIME PERIODS

	Monday through Friday²	Saturdays, Sundays, and Holidays
Seasonal Period A (May 1 - October 31)		
Peak	Noon to 6:00 p.m.	None
Partial-Peak	8:30 a.m. to noon 6:00 p.m. to 9:30 p.m.	None
Off-Peak	9:30 p.m. to 1:00 a.m.	
Super Off-Peak	5:00 a.m. to 8:30 a.m. 1:00 a.m. to 5:00 a.m.	5:00 a.m. to 1:00 a.m. 1:00 a.m. to 5:00 a.m.
Seasonal Period B (November 1 - April 30)		
Partial Peak	8:30 a.m. to 9:30 p.m.	None
Off-Peak	9:30 p.m. to 1:00 a.m.	
Super Off-Peak	5:00 a.m. to 8:30 a.m. 1:00 a.m. to 5:00 a.m.	5:00 a.m. to 1:00 a.m. 1:00 a.m. to 5:00 a.m.

¹ This table is subject to change to accord with the peak, partial-peak, off-peak, and super off-peak periods as defined by CPUC decision.

² Except for the following holidays: New Year's Day, Washington's Birthday, Memorial Day, Independence Day, Labor Day, Veteran's Day, Thanksgiving Day, and Christmas Day, as specified in Public Law 90-363 (5 U.S.C.A. Section 6103(a)).



**Pacific Gas and
Electric Company**

245 Market Street
San Francisco, CA 94105-1702
Mailing Address
Mail Code M12
P O Box 770000
San Francisco, CA 94177-0001

Mr. Dennis Wood
The Pacific Lumber Company
P.O. Box 37
Scotia, CA 95565

May 4, 2006

Subject: Pacific Lumber Company, PG&E Log No. 19C010
Incremental Purchase/Sale Letter Agreement

Dear Mr. Wood:

Pursuant to recent discussions between our companies, PG&E is interested in purchasing incremental renewable generation which is available from PALCO's existing generating facilities that are interconnected to PG&E's electrical system, subject to the conditions described below. PG&E agrees to accept and purchase such additional generation for a five-year period under the provisions of the existing Standard Offer No. 1 PPA ("PPA") between PG&E and PALCO, and all amendments thereto, in accordance with and subject to the following:

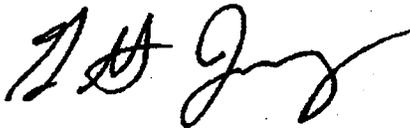
1. The maximum rate of delivery into the PG&E system under Article 2(c) of the SO1 shall be increased from 22.0 mW to 28.8 mW. However, Article 2(c) shall not be amended until the conditions in Items 2 and 3 have been satisfied. If the conditions in Items 2 and 3 are not both satisfied, Article 2(c) shall not be amended.
2. PG&E determines: (a) no reinforcements of the Humboldt area system are required to allow PG&E to take delivery of the additional generation on a continuous basis, or (b) that any reinforcements that PG&E determines are necessary are complete. The responsibility for paying for any upgrades will be determined under the terms of the existing PPA and the applicable electric interconnection and special facilities agreements between PG&E and PALCO. *(FERC) Dennis Wood 5/4/06*
3. The California Public Utilities Commission ("CPUC") approves by a final order: (1) the amendment to the PPA dated May 5, 2006 executed by PG&E and PALCO pursuant to the proposed April 18, 2006 settlement between PG&E and the Independent Energy Producers; and (2) the CPUC approves this letter agreement.

Mr. Dennis Wood
May 4, 2006
Page 2

This letter agreement shall terminate: (1) if the conditions in Items 2 and 3 are not satisfied; or (2) five years from the date when the conditions in Items 2 and 3 have both been satisfied and Article 2(c) has been amended as described in Item 1.

If you concur with the agreements outlined in this letter, please sign both originals of this letter and return one to me.

Sincerely,

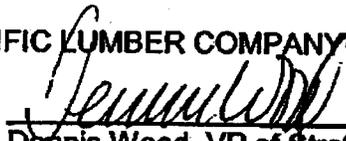


Gary Jeung
Director
Structured Transactions

Agreed:

PACIFIC LUMBER COMPANY

By:



Date:

5-4-06

Dennis Wood, VP of Strategic Planning and Implementation

cc: Doug Davie

Mr. Bob Ellery
Sierra Pacific Industries
P. O. Box 496014
Redding, Ca 96049-6014

June 27, 2006

Subject: Sierra Pacific Industries Lincoln, PG&E Log No. 12C008, Incremental Purchase/Sale Letter Agreement

Dear Mr. Ellery:

In April 2006, Sierra Pacific Industries (SPI) and PG&E executed an Amendment to SPI's Power Purchase Agreement (PPA) with PG&E for energy deliveries to PG&E from SPI's generation facility located at Lincoln ("Lincoln facility"), California. That Amendment is currently pending approval by the California Public Utilities Commission (CPUC) in dockets R.04-04-003, R.04-04-025 and R.99-11-022 as part of a settlement agreement that PG&E and the Independent Power Producers Association (IEP) filed on April 18, 2006. SPI has recently installed new equipment at this facility that now makes it possible for the facility to make deliveries at a rate greater than the 10,500 kW limit that SPI and PG&E agreed to as part of a previous, June 4, 2002 Settlement Agreement.

SPI now wishes to increase its deliveries of energy to PG&E from the Lincoln facility beyond the 10,500 kW limit. PG&E is willing to purchase such incremental energy from SPI's Lincoln facility at the price specified in the PG&E/IEP Settlement Amendment referenced above subject to the following terms and conditions.

1. PG&E acknowledges that the nameplate of the generator installed at SPI's Lincoln facility is 17,200 kW. Nothing in this agreement shall be construed to change the 54,500 kW aggregate nameplate rating specified in Schedule 1-4 (Article 3 (b)) of the June 4, 2002 Settlement Agreement.
2. The limit on the actual rate of delivery into the PG&E system specified in Schedule 1-4 (Article 3 (d)) of the June 4, 2002 Settlement Agreement shall be increased from 10,500 kW up to a maximum of 17,200 kW to accommodate the additional energy deliveries. This increase shall not become effective and PG&E shall not be obligated to take or pay for any incremental energy deliveries until PG&E determines, in its sole discretion, that: (a) no system reinforcements in the Lincoln area are required to enable PG&E to take delivery of the additional deliveries on a continuous basis; or (b) that any reinforcements that PG&E in its sole discretion determines are necessary have been completed. SPI shall be responsible for paying for any system re-enforcements or upgrades necessary as required by the terms of the existing SPI/PG&E PPA and any applicable electrical interconnection and special facilities agreements between PG&E and SPI for its Lincoln facility.
3. SPI will work in good faith and use commercially reasonable efforts to provide PG&E a daily schedule of expected deliveries in a form and manner acceptable to PG&E.

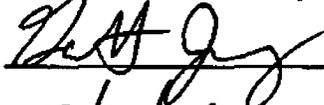
4. Deliveries exceeding 10,500 kW shall not be eligible for capacity payments.
5. Deliveries above 10,500 kW shall not be used for the purposes of calculating the performance bonus factor as described in the SPI/PG&E PPA or for determining capacity payments under that PPA as previously amended.
6. PG&E shall have no obligation to pay for deliveries made pursuant to this letter agreement (i.e. amounts above 10,500 Kw) during Period B (January 1 through April 30 and from November 1 through December 30) of any year that exceed a cumulative amount of 3000 Mwh.
7. This letter agreement shall terminate if (1) the conditions in item 2 above are not satisfied; (2) the CPUC does not approve the April 2006 Amendment to SPI's PPA with PG&E now pending before the CPUC in a form acceptable to PG&E; (3) the CPUC finds this letter agreement unreasonable or unacceptable for any reason after PG&E has submitted it for CPUC Approval as part of PG&E's Quarterly Advice Letter (Transactions Report) as required, initially, by CPUC Decision 02-10-062, a submission PG&E will timely make, (4) by either Party upon 7 business days written notice after the April 2006 Amendment to SPI's PPA with PG&E terminates by its terms or (5) no later than midnight on June 15, 2011 unless extended by agreement of the Parties, whichever of the foregoing five circumstances occurs first.

This Amendment shall be effective June 19, 2006.

Please confirm your agreement by signing below.

PACIFIC GAS and ELECTRIC COMPANY, as
Buyer

Pacific Gas and Electric Company

By: 

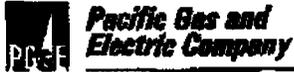
Date: 7/11/06

Accepted and Agreed:

SIERRA PACIFIC INDUSTRIES

By: 
Bob Ellery, Director

Date: 7/10/2006



June 23, 2006

245 Market Street
San Francisco, CA 94105-1702
Mailing Address
Mail Code #12
P.O. Box 770000
San Francisco, CA 94177-0001

Wade Moseby
Collins Pine Company
1618 SW First Ave., Suite 500
Portland, OR. 97201-5706

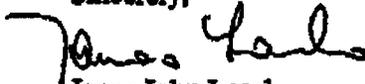
By Fax (503) 417-1441

Dear Wade;

This Letter Agreement addresses circumstances surrounding Collins Pine's submission to PG&E of a PG&E/IEP Settlement Agreement Amendment dated April 6, 2006 ("the Amendment"). Collins Pine and PG&E hereby agree that it was the intent of Collins Pine that the Amendment be executed and timely transmitted, but PG&E did not receive the Amendment in time to submit it to the California Public Utilities Commission (CPUC) as contemplated by the Amendment. Collins Pine and PG&E therefore agree that if: (1) PG&E agrees to execute the Amendment; and (2) the CPUC approves the PG&E/IEP Settlement Agreement filed by PG&E for approval on April 18, 2006, and as amended on May 10, 2006 and May 23, 2006, as reasonable according to the terms of that agreement, such approval shall be deemed approval of the Amendment as contemplated by Paragraph 9.1 of the Amendment.

If the above is acceptable to you, please sign below and return a hardcopy of this letter to us along with the PPA amendments. Please call me on (415) 973-2736 if you have any questions.

Sincerely,


Janos John Laszlo
Manager
Energy Supply

Agreed and Accepted

By: 
Name: R. Wade Moseby
Title: Semio Vice President
Date: June 23, 2006

**AMENDMENT TO THE
POWER PURCHASE AGREEMENT
BETWEEN
COLLINS PINE COMPANY
AND
PACIFIC GAS AND ELECTRIC COMPANY
(PG&E LOG NO. 10C003)**

THIS AMENDMENT ("Amendment") is by and between PACIFIC GAS AND ELECTRIC COMPANY ("PG&E"), a California corporation, and COLLINS PINE COMPANY ("Seller"), an Oregon corporation. PG&E and Seller are sometimes referred to herein individually as "Party" and collectively as "Parties."

RECITALS

A. Seller (or Seller's predecessor(s), as applicable) and PG&E entered into a power purchase agreement ("PPA") as amended, dated July 12, 1984, pursuant to which PG&E purchases electric power from Seller and Seller sells electric power to PG&E.

B. On April 1, 2004, the CPUC issued an *Order Instituting Rulemaking To Promote Policy and Program Coordination and Integration in Electric Utility Resource Planning* (R.04-04-003). In that Rulemaking, the CPUC noted that it would issue a separate rulemaking on avoided cost issues.

C. On September 30, 2004, the assigned Administrative Law Judge (ALJ) in R.04-04-003 issued a ruling designating that proceeding as the forum for the CPUC's consideration of long-term policy for new and expiring QF contracts.

D. On April 22, 2004, the CPUC issued an Order Instituting Rulemaking that addresses avoided cost issues in various electric resource-related proceedings. (R.04-04-025.)

E. On January 1, 2005, the Assigned Commissioner in R.04-04-025 issued a ruling and scoping memo that established a separate phase in that rulemaking to address SRAC pricing issues for QFs including: (1) whether or not the CPUC's current SRAC energy pricing formula, including existing time-of-delivery and line loss factors should be replaced, and if so, what changes should be made; and (2) updating current as-delivered capacity prices.

F. A joint ALJ ruling was issued January 21, 2005 transferring certain SRAC issues from R.99-11-022 to R.04-04-025, including the determination of an incremental energy rate (IER) and an operation and maintenance (O&M) adder, but excluding issues pertaining to the remand order of the California Court of Appeal in *Southern California Edison v. Public Utilities Commission*, 101 Cal. App. 4th 982 (2002) regarding SRAC pricing between December 2000 and March 2001. The resolution of the Court of Appeal's remand remains in R.99-11-022.

G. In Decision 99-11-025, the Commission allowed QFs to switch to the Power Exchange Corporation's ("PX") zonal day-ahead market clearing price instead of SRAC energy pricing, subject to the potential for a later true-up by the Commission. The true-up issue for QFs who switched to PX pricing remains in R.99-11-022.

H. By an Assigned Commissioner's ruling and scoping memo dated February 18, 2005, R.04-04-003 and R.04-04-025 were consolidated for the limited purpose of joint evidentiary hearings on policy and pricing related to QF contracts. Those hearings were held between January 18, 2006 and February 2, 2006. Opening briefs were served on March 3, 2006 and reply briefs were served on March 17, 2006.

I. In Decision 01-01-007, the Commission adopted a Generation Meter Multiplier (GMM)-based formula for reflecting transmission line losses in calculating payments to QFs who switched to PX-based pricing and QFs who continued to receive payments based on the SRAC-based transition formula adopted in Public Utilities Code section 390. In Decision 01-02-072, the Commission reverted QFs that switched to PX-based pricing back to CPUC approved SRAC-based pricing. During the proceeding described in recital H, above, several parties presented proposals addressing how to adjust QF payments for transmission line losses.

J. On December 22, 2005, Rio Bravo filed a petition for modification of D.01-02-072 in R. 99-11-022 that requests the Commission to direct PG&E to recalculate QF payments using the GMMqf/GMMsys formula adopted in D.01-01-007, retroactive to January 19, 2001.

K. On April 18, 2006 Independent Energy Producers Association and Pacific Gas and Electric Company entered a Settlement Agreement resolving certain issues pending in Rulemakings 99-11-022, 04-04-003, and 04-04-025 for QFs electing to sign an Amendment (Settlement Agreement). There are two energy price options available under the Settlement Agreement to QFs electing to execute an Amendment.

L. Seller and PG&E hereby agree to amend Seller's PPA, as identified in Recital A above, as follows.

AGREEMENT

In consideration of the mutual promises and covenants contained herein, PG&E and Seller agree to modify the PPA and resolve the Settled Issues as follows:

SELECTION OF ENERGY PRICE OPTION

Seller hereby elects the following energy price option (selected option is marked with an "X" in space provided):

Option 1 -- Option 1 provides a variable energy price that is based upon an annual average heat rate of 8,700 Btu/kWh adjusted in accordance with monthly changes in burnertip natural gas prices (as defined below), plus a variable O&M adder of \$2/MWh. Option 1 is available only to natural gas-fired cogeneration QFs.

Option 2 -- Option 2 provides a fixed energy price for up to five years equal to \$64.50/MWh, with escalation of 1% beginning one year after commencement of the Fixed Price

Period and annually thereafter. Option 2 is available only to Renewable QFs or non-gas-fired QFs.

DEFINITIONS

When used herein, the following definitions shall be used to interpret this Amendment.

Underlined terms not defined herein shall have the meaning ascribed to it in the PPA.

CAISO: The California Independent System Operator as described in section 345 et seq. of the California Public Utilities Code, or successor organization.

CAISO Day-Ahead Energy Market: The day-ahead market that the CAISO's recent Market Redesign and Technology Upgrade Tariff (MRTU) shall create, which is pending FERC approval and currently scheduled to become operational in November 2007.

CPUC: The Public Utilities Commission of the State of California.

CPUC Approval: A final CPUC order or resolution, no longer subject to appeal, without conditions or modifications unacceptable to a Party in its sole discretion, which order approves this Amendment in its entirety, and contains findings that this Amendment is reasonable and prudent for all purposes, including, but not limited to, PG&E's recovery in rates of all payments made under the Amendment, subject only to ongoing CPUC review with respect to the reasonableness of PG&E administration of the Amendments. The Parties agree that if the CPUC fails to approve the Amendment as reasonable, and adopt it unconditionally and without modification, including the findings and determinations requested herein, any Party may in its sole discretion, elect to terminate the Amendment upon written notice to the other Party. If there is no timely application for rehearing or reconsideration of an acceptable CPUC resolution or

decision approving this Amendment, that resolution or decision shall be deemed adequate CPUC approval. Unless otherwise agreed by the Parties, the Amendment shall terminate if the CPUC has not issued a decision approving this Amendment by September 1, 2006.

Effective Date: The day of CPUC Approval of this Amendment.

Fixed Price Period: The period, for each individual QF that has executed an Option 2 Amendment, that begins on the later of: (1) the Effective Date; or (2) the expiration of the existing fixed energy pricing amendment to the QF's PPA pursuant to D.01-06-015 currently in effect. If the Effective Date occurs after the expiration of the existing fixed energy pricing amendment as set forth in (2) above, then, as of the day following such expiration date, the QF will be paid the then-current SRAC as determined by the CPUC for energy deliveries until the Fixed Price Period begins on the Effective Date. The Fixed Price Period concludes on the earlier of: (1) the date that is five years after the commencement of the Fixed Price Period; or (2) the expiration of the PPA. During the Fixed Price Period, PG&E shall pay a fixed energy price in lieu of PG&E's SRAC as defined in the PPA.

Option 1: The energy pricing option in the Amendment containing a variable energy price, as set forth in Section 1.

Option 2: The energy pricing option in the Amendment containing a fixed energy price as set forth in Section 2.

PPA: The power purchase agreement between PG&E and Seller, as subsequently amended in writing by the Parties.

PURPA: The Public Utility Regulatory Policies Act of 1978, as modified and amended. (sections applicable to QFs appear primarily in 16 U.S.C.A. §§ 796 and 824a-3)

Qualifying Facility or QF: A qualifying cogeneration facility or qualifying small power production facility as defined in PURPA and in 18 C.F.R. § 292.101 (b) (1).

QF Switchers: Those QFs who switched to the PX market-clearing price at any time between June 2000 and January 2001 pursuant to CPUC Decision 99-11-025.

Renewable QFs: Those QFs who meet the definition of Eligible Renewable Energy Resource included in Public Utilities Code Section 398.4(h)(1)(F) as such definition existed as of the date the last party executed this Amendment.

Settled Issues: The following issues are settled and resolved pursuant to this Amendment:

- (1) The issues relating to QFs that are settled in Rulemakings 04-04-003 and 04-04-025 are: (a) the methodology for determining SRAC energy payments including proposed “adders;” (b) the determination of As Delivered Capacity Payments; (c) the methodology for deriving energy Line Loss Factors as applicable to energy deliveries; and (d) the determination of Time of Delivery factors;
- (2) The CPUC’s policy regarding expiring QF contracts and new QF contracts as addressed in Rulemakings 04-04-003 and 04-04-025;
- (3) The issues settled in R.99-11-022 are: (a) PG&E’s claims for a retroactive adjustment of SRAC energy payments made to QFs from December 1, 2000 to March 31, 2001 arising from the Court of Appeal remand in *Southern California Edison v. Public Utilities Commission*, 101 Cal. App. 4th 982 (2002); (b) PG&E’s claims for a retroactive adjustment of energy payments made to QF Switchers from June 1, 2000 through January 18, 2001; and (c) QF claims that the Commission should direct PG&E to calculate the SRAC energy payment to change the transmission line loss for QF Switchers by

using the $GMMqf/GMMsys$ formula, retroactive from January 19, 2001 to the present.

Settlement Rate Expiration Date: For QFs electing Option 1: the expiration of the QF's PPA or September 30, 2009, whichever occurs earlier. For QFs electing Option 2: the expiration of the QF's PPA or five years from the first day of the Fixed Price Period, whichever occurs earlier.

SRAC: PG&E's full short-run avoided operating costs.

1. Option 1 –Variable Energy Pricing

1.1 Heat Rate: The Average Annual Heat Rate shall be 8,700 (Btu/kWh). The summer and winter seasonal factors shall each be 1.0 resulting in a Summer Heat Rate of 8,700 (Btu/kWh) and Winter Heat Rate of 8,700 (Btu/kWh).

1.2 TOD Factors: The Time of Delivery Factors shall be applied to the Heat Rate in Section 1.1 above and shall be: (a) 1.20 for the Peak and Partial Peak delivery periods, and; (b) approximately 0.88 for the Off Peak and Super Off Peak delivery periods. The actual TOD factor for Off Peak and Super Off Peak shall be calculated monthly on a residual basis so that the hourly-weighted TOD factor for the entire month shall be equal to 1.0. The formula deriving the monthly Off Peak and Super Off Peak TOD factor is as follows: Off Peak and Super Off Peak TOD Factor = [Total Monthly Hours minus (1.20 x (Monthly On Peak plus Partial Peak hours))] divided by (Monthly Off Peak plus Super Off Peak Hours).

1.3 TOD Periods: The Time of Delivery (TOD) periods shall be PG&E's TOD periods in effect as of January 1, 2006.

1.4 Variable O&M Adder: The energy price shall include an operations and maintenance (O&M) adder of \$2/MWh. There will be no escalation of the variable O&M Adder.

1.5 Gas Price Basis: The monthly burnertip gas price shall be the sum of: (a) Average PG&E Citygate Bidweek Index; (b) PG&E's tariffed G-EG transportation charge (non-backbone) or its successor, excluding the customer access charge; and (c) PG&E's tariffed G-SUR franchise fee surcharge or its successor. The Average PG&E Citygate Bidweek Index shall be a simple average of Natural Gas Intelligence (NGI) and Inside FERC's Gas Market Report (IFGMR) (or successor publications) bidweek monthly contract gas price indices for the PG&E Citygate delivery location. PG&E shall use tariffed rates for G-EG and G-SUR in effect on the first day of a calendar month to calculate the monthly burnertip price.

If either the NGI or IFGMR PG&E Citygate index is not published for a month, PG&E will use the one published index for that month. Should neither PG&E Citygate index be published for a month, PG&E will use a simple average of Malin and Topock bidweek indices plus firm transportation (currently G-AFT) to calculate the Average PG&E Citygate Bidweek Index. The Malin and Topock bidweek indices will each be based on averages of bidweek indices from NGI and IFGMR (or successor publications).

1.6 Variable Energy Price Posting: PG&E shall calculate the Variable Energy Price monthly and shall post the price in its monthly SRAC filing with the CPUC and on PG&E's website.

1.7 Term: The Variable Energy Price shall commence at the *later* of: (a) the first day after the expiration of fixed energy pricing under the PPA, as amended pursuant to D.01-06-015; or (b) the Effective Date. The Variable Energy Price shall terminate on the *earlier* of the expiration of Seller's PPA or September 30, 2009. Commencing on October 1, 2009, the successor pricing methodology described in Section 5, below, shall apply for the remaining term of the PPA.

2. Option 2: Fixed Energy Pricing

2.1 Eligibility: Option 2 is available only to Renewable QFs or QFs that are non-gas-fired.

2.2 Energy Price: The energy price is equal to \$64.50/MWh for the first year of the Fixed Price Period. Starting on the day one year after commencement of the Fixed Price Period, the fixed energy price shall be escalated 1% and annually thereafter at each anniversary of the commencement of the Fixed Price Period.

2.3 TOD Factors/TOD Periods: The Time of Delivery Factors shall be PG&E's time of delivery factors in effect as of January 1, 2006. The Time of Delivery Periods shall be PG&E's time of delivery periods in effect as of January 1, 2006.

2.4 RPS Credit: The Parties agree and condition the effectiveness of this Amendment upon a finding by the Commission at the time of approval of the Amendment that PG&E is entitled to and shall receive full credit for all energy purchased by PG&E under the Amendment with Renewable QFs as procurement for purposes of compliance with the Renewable Portfolio Standard (RPS) requirements. A Seller that is a Renewable QF warrants that it meets the requirements of a Renewable QF and that it will continue to meet those requirements for the term of the Amendment. PG&E will participate in the CEC's RPS credit certification, tracking, and verification system described in Public Utilities Code Section 399.13 sub. (b) to the extent required to maintain full RPS credit for its purchases from Renewable QFs.

2.5 Term: Fixed energy pricing under Option 2 shall be for the term of the Fixed Price Period.

3. AS-DELIVERED CAPACITY PRICE

If payment for as-delivered capacity in the PPA is due to Seller under a Standard Offer No. 1 PPA, USO1 or Interim Standard Offer No. 4 PPA with as-delivered capacity payment Option 1, Seller shall receive payments for as-delivered capacity based on the price of \$50/kW-year beginning on the Effective Date. The as-delivered capacity price shall remain in effect until the Settlement Rate Expiration Date and thereafter shall be subject to prospective modification and adjustment by the CPUC. The Parties agree and condition the effectiveness of this Amendment upon a finding by the CPUC at the time of approval of the Amendment that PG&E is entitled to and shall receive Resource Adequacy credit based upon the historic deliveries methodology adopted for QFs in Decision 04-10-035 for as-delivered capacity purchased by PG&E pursuant to this Amendment. The as-delivered capacity payment shall continue to be time-differentiated in accordance with the then-current method and capacity allocation factors approved by the CPUC.

4. LINE LOSSES

The energy line loss factor shall be equal to the QF's project Generation Meter Multiplier (GMM) divided by the system average GMM, as defined in D.01-01-007 ("GMM_{qf}/GMM_{sys}"). In addition, the hourly line loss factor for Renewable QFs electing Option 2 shall not be less than 0.95. The Parties agree and condition the effectiveness of this Amendment upon a finding by the CPUC approving the 0.95 line loss factor floor for Renewable QFs and a further finding that PG&E is entitled to and shall receive full credit for all energy purchased and paid for by PG&E under the Amendment with Renewable QFs for purposes of compliance with the Renewable Portfolio Standard (RPS). If GMMs are discontinued by the CAISO, then the annual average of the hourly GMM_{qf}/GMM_{sys} for the twelve prior calendar months shall continue in effect until

there is a transition under Section 5 to an electricity market-based SRAC mechanism that reflects line losses in the energy price.

5. SUCCESSOR PRICING METHODOLOGY AND TRANSITION TO MARKET

The Parties agree that SRAC pricing for QFs operating under PPAs should transition to an electricity market-based SRAC mechanism on the day the CPUC has made a determination, that is final and is no longer subject to appeal, that the CAISO Day-Ahead Energy Market or an equivalent market is functioning properly for the purposes of SRAC pricing. The Parties further agree that it is reasonable for the CPUC to adopt a rebuttable presumption that the CAISO Day-Ahead Energy Market, if it is operational and functioning properly, should provide the basis for such market-based pricing mechanism. The transition to a market-based SRAC pricing mechanism contemplated by this Section shall not occur prior to the Settlement Rate Expiration Date. After the Settlement Rate Expiration Date, the transition to a market-based SRAC price shall occur for the Seller as provided in Sections 5.1 through 5.3.

5.1 CPUC Early Ruling re CAISO Day-Ahead Market: If the CPUC issues an order finding that the CAISO Day-Ahead Market or an equivalent market is operational and functioning properly for the purpose of SRAC pricing prior to the Settlement Rate Expiration Date, then on the day following the Settlement Rate Expiration Date, the SRAC pricing for Seller shall be equal to the CAISO Day-Ahead Market price for the applicable time periods of energy delivery or such other market-based rate specified by the CPUC for QFs operating under PPAs.

5.2 No CPUC Ruling As Of The Settlement Rate Expiration Date: If the CPUC has not issued a an order finding that the CAISO Day-Ahead Market or an equivalent market is operational and functioning properly for the purpose of SRAC pricing as of the Settlement Rate

Expiration Date then, effective upon the Settlement Rate Expiration Date, the SRAC pricing for such QFs (whether they signed an Amendment under Option 1 or Option 2) shall be equal to the variable energy price under Option 1, subject to the following heat rate adjustment:

The 8,700 Btu/kWh heat rate in Option 1 shall be adjusted as of the Settlement Rate Expiration Date, and annually thereafter, up or down by no more than 75 Btu/kWh in the direction of the simple average of:

(1) The average NP-15 day-ahead market heat rate in the prior year for transactions at NP-15, or its equivalent successor. The market heat rate for the prior 12 months will be equal to the average of the daily NP-15 day-ahead market heat rates for the prior 12 months. The daily NP-15 market heat rate for any particular day shall be calculated using: a) the day-ahead electricity market price for that day (equal to the time weighted average of on-peak and off-peak prices) from the InterContinental Exchange and Megawatt Daily, or equivalent successors thereto; and b) the burnertip gas price for that same day. The burnertip gas price for that day shall be equal to the PG&E Citygate burnertip gas price derived using daily prices from Gas Daily, (or equivalent successor), plus PG&E's CPUC rates for tariffed transportation to the burnertip, (currently equal to the sum of G-EG and G-SUR); and,

(2) The annual average of the market heat rates embedded in the forward electricity prices for the next 12 months for transactions at NP-15 or its equivalent successor. The forward market heat rates will be determined using: a) the forward market electricity prices from Megawatt Daily, or equivalent successor, averaged for all NYMEX trading days in September for October Henry Hub contracts and modified as described below to convert the on-peak forward prices to all-hours forward prices; and b) the average of the NYMEX Henry Hub forward gas prices for each month of the next year adjusted to the PG&E Citygate delivery location using the NYMEX ClearPort basis, (or its equivalent successor), averaged for all

NYMEX trading days in September for the October Henry Hub contract, plus PG&E's then-current CPUC tariff rates for transportation to the burnertip (currently equal to the sum of G-EG and G-SUR).

The forward market electricity prices currently published by Megawatt Daily for the year ahead are for quarterly periods. Therefore, the annual average of the market heat rates embedded in the forward electricity prices for the next year shall be calculated using the quarterly forward prices and the monthly PG&E burnertip gas prices averaged for the corresponding quarter. In the event that the granularity of the published electricity market forward prices changes (e.g. to monthly) this method will change to accommodate the change in published data. Monthly or quarterly prices shall be weighted by the number of days in such month or quarter for purposes of averaging.

The conversion from on-peak forward prices to all-hour forward prices will be based on the annual average of the ratio of i) daily all-hours NP-15 prices from the prior 12 months and ii) the daily on-peak NP-15 prices from the prior 12 months.

The cumulative change in heat rate shall not exceed 225 Btu/kWh.

If the CPUC has not issued a finding that the CAISO Day-Ahead Market or an equivalent market is operational and functioning for the purposes of SRAC pricing as of January 1, 2013, this formula is subject to prospective modification by the CPUC.

5.3 CPUC Ruling After Settlement Rate Expiration Date: If the CPUC issues an order, that is final and no longer subject to appeal, finding that the CAISO Day-Ahead Market or an equivalent market is operational and functioning for the purposes of SRAC pricing after the Settlement Rate Expiration Date, then, effective as of the date of such final CPUC ruling, the adjusted pricing described in Section 5.2 shall terminate and the SRAC pricing for such QF shall be as ordered by the CPUC for the time period applicable to the energy deliveries.

6. REDUCTION IN PAYMENTS TO QF SWITCHERS

Check appropriate box:

- Seller is a QF Switcher (Switch month: _____)
- Seller is not a QF Switcher
- Seller is a QF Switcher but has already resolved issue with PG&E

For QF Switchers that have not already settled and resolved the issue of potential contingent liability with PG&E, there shall be a reduction in the net energy price payment to the affected QF equal to \$0.90/MWh, calculated monthly that shall apply for a period of time ranging from one and one-half years to four and one-half years, depending upon the month Seller switched from SRAC to PX pricing. The energy price reductions shall commence with the term of the Variable Energy Price set forth in Section 1.6 above for Option 1 or the Fixed Price Period for Option 2. The \$0.90/MWh reduction shall be applied to the Variable O&M Adder for Option 1 or the fixed energy price for Option 2. The following table defines the period for energy price reductions:

Switch Month	Energy Price Reduction Period
June 2000	4 ½ years
July 2000	4 years
August 2000	3 ½ years
September 2000	3 years
October 2000	2 ½ years
November 2000	2 years
December 2000	1 ½ years

7. SELLER'S RIGHT TO A SUBSEQUENT AGREEMENT WITH PG&E

Seller agrees, for itself and all of its successors and assigns, that following the expiration of its PPA, that Seller shall be entitled to exercise of the mandatory purchase obligation available

to QFs under PURPA solely by invoking the following options: (1) participation in PG&E's all-source or renewable solicitations or; (2) execution of a one-year power purchase agreement with PG&E (renewable for successive one-year terms) under which PG&E shall pay for energy deliveries a price equal to the CAISO Day-Ahead Market Price for the applicable delivery period or such other market-based mechanism as specified by the CPUC. The Parties remain free to negotiate mutually acceptable bi-lateral agreements independent of the exercise of Seller's rights under PURPA. Seller further agrees that it will include the PURPA rights limitation described in this section as a condition of any sale, lease or other transfer of the Facility. The capacity price under the one-year contract shall be mutually agreed between Seller and PG&E, provided that, if agreement cannot be reached on a capacity payment, Seller retains the right to sell its capacity to a third party or in a capacity market. Any obligation undertaken by PG&E pursuant to this Amendment to execute or renew a one-year contract shall expire as of the date that FERC issues an order suspending the mandatory purchase obligation for QFs under PURPA in accordance with Section 210(m) of PURPA.

8. RELEASE AND WAIVER OF LIABILITIES

8.1 PG&E (on behalf of itself, its predecessors, successors, and assigns by operation of law or otherwise) and Seller (on behalf of itself, its predecessors, successors, and assigns by operation of law or otherwise), hereby release, and forever discharge each other and each of the other Party's present and former affiliates, parents, guarantors, directors, officers, shareholders, partners, employees, agents, representatives, attorneys, insurers, predecessors, assigns, and successors-in-interest, from any and all claims, actions, causes of action, regulatory challenges, liabilities, breaches of contract, offsets, defenses, demands, losses, and damages of any kind whatsoever, whether known or unknown, asserted or unasserted, suspected or unsuspected, arising from Section (3) of the Settled Issues. In addition, subject to the last

paragraph of Section 5.2, each Party acknowledges and agrees that the Amendment results in full, binding resolution of Section (1) and (2) of the Settled Issues and that each Party will not seek to apply to the PPA, either on a prospective or retroactive basis, or otherwise obtain the benefit of, any decision by the CPUC that would result in a resolution of Section (1) and (2) of the Settled Issues other than as provided in the Amendment.

9. APPROVAL OF AMENDMENT

9.1. CPUC Approval is a condition precedent to the effectiveness of this Amendment. Seller and PG&E agree to actively support, as necessary, prompt approval of the Amendment. The Parties agree that if the CPUC fails to approve the Amendment as reasonable, and adopt it unconditionally and without modification, including the findings and determinations requested herein, any Party may in its sole discretion, elect to terminate the Amendment upon written notice to the other Party. The Parties further agree that any material change to the Amendment shall give each Party in its sole discretion, the option to terminate the Amendment.

9.2 Seller and PG&E shall take all necessary action to implement the terms and conditions contemplated herein, including by taking any actions necessary to approve, execute, and deliver this Amendment to the other Party. Seller and PG&E agree to take all necessary actions to obtain other necessary approvals of this Amendment in its entirety including, if applicable, Bankruptcy Court approval.

10. The Parties agree that this Amendment reflects a compromise, not an agreement or endorsement of disputed facts and law presented in CPUC Rulemaking 99-11-022, 04-04-003

or 04-04-025 and shall not establish binding precedent for any future proceeding. The Parties have assented to the terms of this Amendment only to reach the compromise embodied herein.

11. This Amendment embodies the entire understanding and agreement of the Parties with respect to the matters described herein, and, except as described herein, supersedes and cancels any and all prior oral or written agreements, principles, negotiations, statements, representations or understandings among the Parties or their representatives.

12. The Amendment may be amended or changed only by a written agreement signed by the Parties.

13. The Parties intend the Amendment to be interpreted and treated as a unified, interrelated agreement.

14. Each of the Parties hereto and its respective counsel and advocates have contributed to the preparation of this Amendment. Accordingly, the Parties agree that no provision of this Amendment shall be construed against any Party because that Party or its representative or counsel drafted the provision.

15. This Amendment shall be governed by and construed in accordance with the laws of the State of California, excluding any choice of law rules that may specify the laws of another jurisdiction.

16. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute the same instrument.

17. SIGNATURES

IN WITNESS WHEREFORE, Seller and PG&E have caused this Amendment to be executed by their authorized representatives.

PACIFIC GAS AND ELECTRIC COMPANY
a California corporation

By: 
Name: Roy Kugan
Title: V.P. Energy Supply
Date: 6/26/06

COLLINS PINE COMPANY
an Oregon corporation

By: 
Name: R. Wade Mosby
Title: Senior Vice President
Date: April 6, 2006

**AMENDMENT TO THE
POWER PURCHASE AGREEMENT
BETWEEN
WINEAGLE DEVELOPERS
AND
PACIFIC GAS AND ELECTRIC COMPANY
(PG&E LOG NO. 10G011)**

THIS AMENDMENT ("Amendment") is by and between PACIFIC GAS AND ELECTRIC COMPANY ("PG&E"), a California corporation, and Wineagle Developers ("Seller"), a California Limited Partnership. PG&E and Seller are sometimes referred to herein individually as "Party" and collectively as "Parties."

RECITALS

A. Seller (or Seller's predecessor(s), as applicable) and PG&E entered into a power purchase agreement ("PPA") as amended, dated April 16, 1985, pursuant to which PG&E purchases electric power from Seller and Seller sells electric power to PG&E.

B. On April 1, 2004, the CPUC issued an *Order Instituting Rulemaking To Promote Policy and Program Coordination and Integration in Electric Utility Resource Planning (R.04-04-003)*. In that Rulemaking, the CPUC noted that it would issue a separate rulemaking on avoided cost issues.

C. On September 30, 2004, the assigned Administrative Law Judge (ALJ) in R.04-04-003 issued a ruling designating that proceeding as the forum for the CPUC's consideration of long-term policy for new and expiring QF contracts.

JUL. 5. 2006 . 2:30PM PG&E



July 5, 2006

245 Market Street
San Francisco, CA 94105-1702
Mailing Address
Mail Code M12
P.O. Box 770000
San Francisco, CA 94177-0001

Johan Otto
Carson Development Co
1722 3rd Street, Suite 202
Sacramento, CA 95814

By Fax: (916) 441-4974

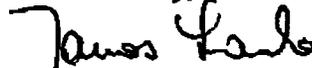
Subject: Wineagle Project (PG&E Log. No. 10G011)
IEP/PG&E Amendment to PPA

Dear Johan;

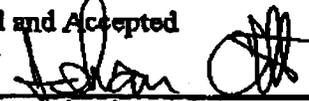
Wineagle and PG&E hereby agree that it was the intent of both parties that the subject Amendment be executed, however, PG&E did not receive the Amendment in time to submit it to the California Public Utilities Commission (CPUC) for approval, as contemplated by the Amendment. Wineagle and PG&E therefore agree that if: (1) PG&E and Wineagle execute the Amendment; and (2) the CPUC approves the PG&E/IEP Settlement Agreement filed by PG&E for approval on April 18, 2006, and amended on May 10, 2006 and May 23, 2006, as reasonable according to the terms of that agreement, such approval shall be deemed approval of the Amendment as contemplated by Paragraph 9.1 of the Amendment.

If the above is acceptable to you, please sign below and return a hardcopy of this letter to us along with the PPA amendments. Please call me on (415) 973-2736 if you have any questions.

Sincerely,


Janos John Laszlo
Manager
Energy Supply

Agreed and Accepted

By: 

Name: JOHAN OTTO

Title: PRES

Date: 7-5-06

D. On April 22, 2004, the CPUC issued an Order Instituting Rulemaking that addresses avoided cost issues in various electric resource-related proceedings. (R.04-04-025.)

E. On January 1, 2005, the Assigned Commissioner in R.04-04-025 issued a ruling and scoping memo that established a separate phase in that rulemaking to address SRAC pricing issues for QFs including: (1) whether or not the CPUC's current SRAC energy pricing formula, including existing time-of-delivery and line loss factors should be replaced, and if so, what changes should be made; and (2) updating current as-delivered capacity prices.

F. A joint ALJ ruling was issued January 21, 2005 transferring certain SRAC issues from R.99-11-022 to R.04-04-025, including the determination of an incremental energy rate (IER) and an operation and maintenance (O&M) adder, but excluding issues pertaining to the remand order of the California Court of Appeal in *Southern California Edison v. Public Utilities Commission*, 101 Cal. App. 4th 982 (2002) regarding SRAC pricing between December 2000 and March 2001. The resolution of the Court of Appeal's remand remains in R.99-11-022.

G. In Decision 99-11-025, the Commission allowed QFs to switch to the Power Exchange Corporation's ("PX") zonal day-ahead market clearing price instead of SRAC energy pricing, subject to the potential for a later true-up by the Commission. The true-up issue for QFs who switched to PX pricing remains in R.99-11-022.

H. By an Assigned Commissioner's ruling and scoping memo dated February 18, 2005, R.04-04-003 and R.04-04-025 were consolidated for the limited purpose of joint evidentiary hearings on policy and pricing related to QF contracts. Those hearings were held between January 18, 2006 and February 2, 2006. Opening briefs were served on March 3, 2006 and reply briefs were served on March 17, 2006.

I. In Decision 01-01-007, the Commission adopted a Generation Meter Multiplier (GMM)-based formula for reflecting transmission line losses in calculating payments to QFs who switched to PX-based pricing and QFs who continued to receive payments based on the SRAC-based transition formula adopted in Public Utilities Code section 390. In Decision 01-02-072, the Commission reverted QFs that switched to PX-based pricing back to CPUC approved

SRAC-based pricing. During the proceeding described in recital H, above, several parties presented proposals addressing how to adjust QF payments for transmission line losses.

J. On December 22, 2005, Rio Bravo filed a petition for modification of D.01-02-072 in R. 99-11-022 that requests the Commission to direct PG&E to recalculate QF payments using the GMMqf/GMMsys formula adopted in D.01-01-007, retroactive to January 19, 2001.

K. On April 18, 2006 Independent Energy Producers Association and Pacific Gas and Electric Company entered a Settlement Agreement resolving certain issues pending in Rulemakings 99-11-022, 04-04-003, and 04-04-025 for QFs electing to sign an Amendment (Settlement Agreement). There are two energy price options available under the Settlement Agreement to QFs electing to execute an Amendment.

L. Seller and PG&E hereby agree to amend Seller's PPA, as identified in Recital A above, as follows.

AGREEMENT

In consideration of the mutual promises and covenants contained herein, PG&E and Seller agree to modify the PPA and resolve the Settled Issues as follows:

SELECTION OF ENERGY PRICE OPTION

Seller hereby elects the following energy price option (selected option is marked with an "X" in space provided):

[] Option 1 -- Option 1 provides a variable energy price that is based upon an annual average heat rate of 8,700 Btu/kWh adjusted in accordance with monthly changes in burnertip

natural gas prices (as defined below), plus a variable O&M adder of \$2/MWh. Option 1 is available only to natural gas-fired cogeneration QFs.

[X] Option 2 -- Option 2 provides a fixed energy price for up to five years equal to \$64.50/MWh, with escalation of 1% beginning one year after commencement of the Fixed Price Period and annually thereafter. Option 2 is available only to Renewable QFs or non-gas-fired QFs.

DEFINITIONS

When used herein, the following definitions shall be used to interpret this Amendment. Underlined terms not defined herein shall have the meaning ascribed to it in the PPA.

CAISO: The California Independent System Operator as described in section 345 et seq. of the California Public Utilities Code, or successor organization.

CAISO Day-Ahead Energy Market: The day-ahead market that the CAISO's recent Market Redesign and Technology Upgrade Tariff (MRTU) shall create, which is pending FERC approval and currently scheduled to become operational in November 2007.

CPUC: The Public Utilities Commission of the State of California.

CPUC Approval: A final CPUC order or resolution, no longer subject to appeal, without conditions or modifications unacceptable to a Party in its sole discretion, which order approves this Amendment in its entirety, and contains findings that this Amendment is reasonable and prudent for all purposes, including, but not limited to, PG&E's recovery in rates of all payments made under the Amendment, subject only to ongoing CPUC review with respect to the reasonableness of PG&E administration of the Amendments. The Parties agree that if the CPUC

fails to approve the Amendment as reasonable, and adopt it unconditionally and without modification, including the findings and determinations requested herein, any Party may in its sole discretion, elect to terminate the Amendment upon written notice to the other Party. If there is no timely application for rehearing or reconsideration of an acceptable CPUC resolution or decision approving this Amendment, that resolution or decision shall be deemed adequate CPUC approval. Unless otherwise agreed by the Parties, the Amendment shall terminate if the CPUC has not issued a decision approving this Amendment by September 1, 2006.

Effective Date: The day of CPUC Approval of this Amendment.

Fixed Price Period: The period, for each individual QF that has executed an Option 2 Amendment, that begins on the later of: (1) the Effective Date; or (2) the expiration of the existing fixed energy pricing amendment to the QF's PPA pursuant to D.01-06-015 currently in effect. If the Effective Date occurs after the expiration of the existing fixed energy pricing amendment as set forth in (2) above, then, as of the day following such expiration date, the QF will be paid the then-current SRAC as determined by the CPUC for energy deliveries until the Fixed Price Period begins on the Effective Date. The Fixed Price Period concludes on the earlier of: (1) the date that is five years after the commencement of the Fixed Price Period; or (2) the expiration of the PPA. During the Fixed Price Period, PG&E shall pay a fixed energy price in lieu of PG&E's SRAC as defined in the PPA.

Option 1: The energy pricing option in the Amendment containing a variable energy price, as set forth in Section 1.

Option 2: The energy pricing option in the Amendment containing a fixed energy price as set forth in Section 2.

PPA: The power purchase agreement between PG&E and Seller, as subsequently amended in writing by the Parties.

PURPA: The Public Utility Regulatory Policies Act of 1978, as modified and amended. (sections applicable to QFs appear primarily in 16 U.S.C.A. §§ 796 and 824a-3)

Qualifying Facility or QF: A qualifying cogeneration facility or qualifying small power production facility as defined in PURPA and in 18 C.F.R. § 292.101 (b) (1).

QF Switchers: Those QFs who switched to the PX market-clearing price at any time between June 2000 and January 2001 pursuant to CPUC Decision 99-11-025. .

Renewable QFs: Those QFs who meet the definition of Eligible Renewable Energy Resource included in Public Utilities Code Section 398.4(h)(1)(F) as such definition existed as of the date the last party executed this Amendment.

Settled Issues: The following issues are settled and resolved pursuant to this Amendment:

- (1) The issues relating to QFs that are settled in Rulemakings 04-04-003 and 04-04-025 are: (a) the methodology for determining SRAC energy payments including proposed “adders;” (b) the determination of As Delivered Capacity Payments; (c) the methodology for deriving energy Line Loss Factors as applicable to energy deliveries; and (d) the determination of Time of Delivery factors;
- (2) The CPUC’s policy regarding expiring QF contracts and new QF contracts as addressed in Rulemakings 04-04-003 and 04-04-025;

- (3) The issues settled in R.99-11-022 are: (a) PG&E's claims for a retroactive adjustment of SRAC energy payments made to QFs from December 1, 2000 to March 31, 2001 arising from the Court of Appeal remand in *Southern California Edison v. Public Utilities Commission*, 101 Cal. App. 4th 982 (2002); (b) PG&E's claims for a retroactive adjustment of energy payments made to QF Switchers from June 1, 2000 through January 18, 2001; and (c) QF claims that the Commission should direct PG&E to calculate the SRAC energy payment to change the transmission line loss for QF Switchers by using the GMMqf/GMMsys formula, retroactive from January 19, 2001 to the present.

Settlement Rate Expiration Date: For QFs electing Option 1: the expiration of the QF's PPA or September 30, 2009, whichever occurs earlier. For QFs electing Option 2: the expiration of the QF's PPA or five years from the first day of the Fixed Price Period, whichever occurs earlier.

SRAC: PG&E's full short-run avoided operating costs.

1. Option 1 –Variable Energy Pricing

1.1 Heat Rate: The Average Annual Heat Rate shall be 8,700 (Btu/kWh). The summer and winter seasonal factors shall each be 1.0 resulting in a Summer Heat Rate of 8,700 (Btu/kWh) and Winter Heat Rate of 8,700 (Btu/kWh).

1.2 TOD Factors: The Time of Delivery Factors shall be applied to the Heat Rate in Section 1.1 above and shall be: (a) 1.20 for the Peak and Partial Peak delivery periods, and; (b) approximately 0.88 for the Off Peak and Super Off Peak delivery periods. The actual TOD factor for Off Peak and Super Off Peak shall be calculated monthly on a residual basis so that the hourly-weighted TOD factor for the entire month shall be equal to 1.0. The formula

deriving the monthly Off Peak and Super Off Peak TOD factor is as follows: Off Peak and Super Off Peak TOD Factor = [Total Monthly Hours minus (1.20 x (Monthly On Peak plus Partial Peak hours))] divided by (Monthly Off Peak plus Super Off Peak Hours).

1.3 TOD Periods: The Time of Delivery (TOD) periods shall be PG&E's TOD periods in effect as of January 1, 2006.

1.4 Variable O&M Adder: The energy price shall include an operations and maintenance (O&M) adder of \$2/MWh. There will be no escalation of the variable O&M Adder.

1.5 Gas Price Basis: The monthly burnertip gas price shall be the sum of: (a) Average PG&E Citygate Bidweek Index; (b) PG&E's tariffed G-EG transportation charge (non-backbone) or its successor, excluding the customer access charge; and (c) PG&E's tariffed G-SUR franchise fee surcharge or its successor. The Average PG&E Citygate Bidweek Index shall be a simple average of Natural Gas Intelligence (NGI) and Inside FERC's Gas Market Report (IFGMR) (or successor publications) bidweek monthly contract gas price indices for the PG&E Citygate delivery location. PG&E shall use tariffed rates for G-EG and G-SUR in effect on the first day of a calendar month to calculate the monthly burnertip price.

If either the NGI or IFGMR PG&E Citygate index is not published for a month, PG&E will use the one published index for that month. Should neither PG&E Citygate index be published for a month, PG&E will use a simple average of Malin and Topock bidweek indices plus firm transportation (currently G-AFT) to calculate the Average PG&E Citygate Bidweek Index. The Malin and Topock bidweek indices will each be based on averages of bidweek indices from NGI and IFGMR (or successor publications).

1.6 Variable Energy Price Posting: PG&E shall calculate the Variable Energy Price monthly and shall post the price in its monthly SRAC filing with the CPUC and on PG&E's website.

1.7 Term: The Variable Energy Price shall commence at the *later* of: (a) the first day after the expiration of fixed energy pricing under the PPA, as amended pursuant to D.01-06-015; or (b) the Effective Date. The Variable Energy Price shall terminate on the *earlier* of the expiration of Seller's PPA or September 30, 2009. Commencing on October 1, 2009, the successor pricing methodology described in Section 5, below, shall apply for the remaining term of the PPA.

2. Option 2: Fixed Energy Pricing

2.1 Eligibility: Option 2 is available only to Renewable QFs or QFs that are non-gas-fired.

2.2 Energy Price: The energy price is equal to \$64.50/MWh for the first year of the Fixed Price Period. Starting on the day one year after commencement of the Fixed Price Period, the fixed energy price shall be escalated 1% and annually thereafter at each anniversary of the commencement of the Fixed Price Period.

2.3 TOD Factors/TOD Periods: The Time of Delivery Factors shall be PG&E's time of delivery factors in effect as of January 1, 2006. The Time of Delivery Periods shall be PG&E's time of delivery periods in effect as of January 1, 2006.

2.4 RPS Credit: The Parties agree and condition the effectiveness of this Amendment upon a finding by the Commission at the time of approval of the Amendment that PG&E is entitled to and shall receive full credit for all energy purchased by PG&E under the Amendment with Renewable QFs as procurement for purposes of compliance with the Renewable Portfolio Standard (RPS) requirements. A Seller that is a Renewable QF warrants that it meets the requirements of a Renewable QF and that it will continue to meet those requirements for the term of the Amendment. PG&E will participate in the CEC's RPS credit certification, tracking, and

verification system described in Public Utilities Code Section 399.13 sub. (b) to the extent required to maintain full RPS credit for its purchases from Renewable QFs.

2.5 Term: Fixed energy pricing under Option 2 shall be for the term of the Fixed Price Period.

3. AS-DELIVERED CAPACITY PRICE

If payment for as-delivered capacity in the PPA is due to Seller under a Standard Offer No. 1 PPA, USO1 or Interim Standard Offer No. 4 PPA with as-delivered capacity payment Option 1, Seller shall receive payments for as-delivered capacity based on the price of \$50/kW-year beginning on the Effective Date. The as-delivered capacity price shall remain in effect until the Settlement Rate Expiration Date and thereafter shall be subject to prospective modification and adjustment by the CPUC. The Parties agree and condition the effectiveness of this Amendment upon a finding by the CPUC at the time of approval of the Amendment that PG&E is entitled to and shall receive Resource Adequacy credit based upon the historic deliveries methodology adopted for QFs in Decision 04-10-035 for as-delivered capacity purchased by PG&E pursuant to this Amendment. The as-delivered capacity payment shall continue to be time-differentiated in accordance with the then-current method and capacity allocation factors approved by the CPUC.

4. LINE LOSSES

The energy line loss factor shall be equal to the QF's project Generation Meter Multiplier (GMM) divided by the system average GMM, as defined in D.01-01-007 ("GMM_{qf}/GMM_{sys}"). In addition, the hourly line loss factor for Renewable QFs electing Option 2 shall not be less than 0.95. The Parties agree and condition the effectiveness of this Amendment upon a finding by the CPUC approving the 0.95 line loss factor floor for Renewable QFs and a further finding that

PG&E is entitled to and shall receive full credit for all energy purchased and paid for by PG&E under the Amendment with Renewable QFs for purposes of compliance with the Renewable Portfolio Standard (RPS). If GMMs are discontinued by the CAISO, then the annual average of the hourly GMMqf/GMMsys for the twelve prior calendar months shall continue in effect until there is a transition under Section 5 to an electricity market-based SRAC mechanism that reflects line losses in the energy price.

5. SUCCESSOR PRICING METHODOLOGY AND TRANSITION TO MARKET

The Parties agree that SRAC pricing for QFs operating under PPAs should transition to an electricity market-based SRAC mechanism on the day the CPUC has made a determination, that is final and is no longer subject to appeal, that the CAISO Day-Ahead Energy Market or an equivalent market is functioning properly for the purposes of SRAC pricing. The Parties further agree that it is reasonable for the CPUC to adopt a rebuttable presumption that the CAISO Day-Ahead Energy Market, if it is operational and functioning properly, should provide the basis for such market-based pricing mechanism. The transition to a market-based SRAC pricing mechanism contemplated by this Section shall not occur prior to the Settlement Rate Expiration Date. After the Settlement Rate Expiration Date, the transition to a market-based SRAC price shall occur for the Seller as provided in Sections 5.1 through 5.3.

5.1 CPUC Early Ruling re CAISO Day-Ahead Market: If the CPUC issues an order finding that the CAISO Day-Ahead Market or an equivalent market is operational and functioning properly for the purpose of SRAC pricing prior to the Settlement Rate Expiration Date, then on the day following the Settlement Rate Expiration Date, the SRAC pricing for Seller shall be equal to the CAISO Day-Ahead Market price for the applicable time periods of

energy delivery or such other market-based rate specified by the CPUC for QFs operating under PPAs.

5.2 No CPUC Ruling As Of The Settlement Rate Expiration Date: If the CPUC has not issued a an order finding that the CAISO Day-Ahead Market or an equivalent market is operational and functioning properly for the purpose of SRAC pricing as of the Settlement Rate Expiration Date then, effective upon the Settlement Rate Expiration Date, the SRAC pricing for such QFs (whether they signed an Amendment under Option 1 or Option 2) shall be equal to the variable energy price under Option 1, subject to the following heat rate adjustment:

The 8,700 Btu/kWh heat rate in Option 1 shall be adjusted as of the Settlement Rate Expiration Date, and annually thereafter, up or down by no more than 75 Btu/kWh in the direction of the simple average of:

(1) The average NP-15 day-ahead market heat rate in the prior year for transactions at NP-15, or its equivalent successor. The market heat rate for the prior 12 months will be equal to the average of the daily NP-15 day-ahead market heat rates for the prior 12 months. The daily NP-15 market heat rate for any particular day shall be calculated using: a) the day-ahead electricity market price for that day (equal to the time weighted average of on-peak and off-peak prices) from the InterContinental Exchange and Megawatt Daily, or equivalent successors thereto; and b) the burnertip gas price for that same day. The burnertip gas price for that day shall be equal to the PG&E Citygate burnertip gas price derived using daily prices from Gas Daily, (or equivalent successor), plus PG&E's CPUC rates for tariffed transportation to the burnertip, (currently equal to the sum of G-EG and G-SUR) ; and,

(2) The annual average of the market heat rates embedded in the forward electricity prices for the next 12 months for transactions at NP-15 or its equivalent successor. The forward market heat rates will be determined using: a) the forward market electricity prices from

Megawatt Daily, or equivalent successor, averaged for all NYMEX trading days in September for October Henry Hub contracts and modified as described below to convert the on-peak forward prices to all-hours forward prices; and b) the average of the NYMEX Henry Hub forward gas prices for each month of the next year adjusted to the PG&E Citygate delivery location using the NYMEX ClearPort basis, (or its equivalent successor), averaged for all NYMEX trading days in September for the October Henry Hub contract, plus PG&E's then-current CPUC tariff rates for transportation to the burnertip (currently equal to the sum of G-EG and G-SUR).

The forward market electricity prices currently published by Megawatt Daily for the year ahead are for quarterly periods. Therefore, the annual average of the market heat rates embedded in the forward electricity prices for the next year shall be calculated using the quarterly forward prices and the monthly PG&E burnertip gas prices averaged for the corresponding quarter. In the event that the granularity of the published electricity market forward prices changes (e.g. to monthly) this method will change to accommodate the change in published data. Monthly or quarterly prices shall be weighted by the number of days in such month or quarter for purposes of averaging.

The conversion from on-peak forward prices to all-hour forward prices will be based on the annual average of the ratio of i) daily all-hours NP-15 prices from the prior 12 months and ii) the daily on-peak NP-15 prices from the prior 12 months.

The cumulative change in heat rate shall not exceed 225 Btu/kWh.

If the CPUC has not issued a finding that the CAISO Day-Ahead Market or an equivalent market is operational and functioning for the purposes of SRAC pricing as of January 1, 2013, this formula is subject to prospective modification by the CPUC.

5.3 CPUC Ruling After Settlement Rate Expiration Date: If the CPUC issues an order, that is final and no longer subject to appeal, finding that the CAISO Day-Ahead Market or an equivalent market is operational and functioning for the purposes of SRAC pricing after the Settlement Rate Expiration Date, then, effective as of the date of such final CPUC ruling, the adjusted pricing described in Section 5.2 shall terminate and the SRAC pricing for such QF shall be as ordered by the CPUC for the time period applicable to the energy deliveries.

6. REDUCTION IN PAYMENTS TO QF SWITCHERS

Check appropriate box:

Seller is a QF Switcher (Switch month: _____)

Seller is not a QF Switcher

Seller is a QF Switcher but has already resolved issue with PG&E

For QF Switchers that have not already settled and resolved the issue of potential contingent liability with PG&E, there shall be a reduction in the net energy price payment to the affected QF equal to \$0.90/MWh, calculated monthly that shall apply for a period of time ranging from one and one-half years to four and one-half years, depending upon the month Seller switched from SRAC to PX pricing. The energy price reductions shall commence with the term of the Variable Energy Price set forth in Section 1.6 above for Option 1 or the Fixed Price Period for Option 2. The \$0.90/MWh reduction shall be applied to the Variable O&M Adder for Option 1 or the fixed energy price for Option 2. The following table defines the period for energy price reductions:

Switch Month	Energy Price Reduction Period
June 2000	4 ½ years
July 2000	4 years
August 2000	3 ½ years
September 2000	3 years
October 2000	2 ½ years
November 2000	2 years
December 2000	1 ½ years

7. SELLER'S RIGHT TO A SUBSEQUENT AGREEMENT WITH PG&E

Seller agrees, for itself and all of its successors and assigns, that following the expiration of its PPA, that Seller shall be entitled to exercise of the mandatory purchase obligation available to QFs under PURPA solely by invoking the following options: (1) participation in PG&E's all-source or renewable solicitations or; (2) execution of a one-year power purchase agreement with PG&E (renewable for successive one-year terms) under which PG&E shall pay for energy deliveries a price equal to the CAISO Day-Ahead Market Price for the applicable delivery period or such other market-based mechanism as specified by the CPUC. The Parties remain free to negotiate mutually acceptable bi-lateral agreements independent of the exercise of Seller's rights under PURPA. Seller further agrees that it will include the PURPA rights limitation described in this section as a condition of any sale, lease or other transfer of the Facility. The capacity price under the one-year contract shall be mutually agreed between Seller and PG&E, provided that, if agreement cannot be reached on a capacity payment, Seller retains the right to sell its capacity to a third party or in a capacity market. Any obligation undertaken by PG&E pursuant to this Amendment to execute or renew a one-year contract shall expire as of the date that FERC issues

an order suspending the mandatory purchase obligation for QFs under PURPA in accordance with Section 210(m) of PURPA.

8. RELEASE AND WAIVER OF LIABILITIES

8.1 PG&E (on behalf of itself, its predecessors, successors, and assigns by operation of law or otherwise) and Seller (on behalf of itself, its predecessors, successors, and assigns by operation of law or otherwise), hereby release, and forever discharge each other and each of the other Party's present and former affiliates, parents, guarantors, directors, officers, shareholders, partners, employees, agents, representatives, attorneys, insurers, predecessors, assigns, and successors-in-interest, from any and all claims, actions, causes of action, regulatory challenges, liabilities, breaches of contract, offsets, defenses, demands, losses, and damages of any kind whatsoever, whether known or unknown, asserted or unasserted, suspected or unsuspected, arising from Section (3) of the Settled Issues. In addition, subject to the last paragraph of Section 5.2, each Party acknowledges and agrees that the Amendment results in full, binding resolution of Section (1) and (2) of the Settled Issues and that each Party will not seek to apply to the PPA, either on a prospective or retroactive basis, or otherwise obtain the benefit of, any decision by the CPUC that would result in a resolution of Section (1) and (2) of the Settled Issues other than as provided in the Amendment.

9. APPROVAL OF AMENDMENT

9.1. CPUC Approval is a condition precedent to the effectiveness of this Amendment. Seller and PG&E agree to actively support, as necessary, prompt approval of the Amendment. The Parties agree that if the CPUC fails to approve the Amendment as reasonable, and adopt it unconditionally and without modification, including the findings and determinations requested herein, any Party may in its sole discretion, elect to terminate the Amendment upon

written notice to the other Party. The Parties further agree that any material change to the Amendment shall give each Party in its sole discretion, the option to terminate the Amendment.

9.2 Seller and PG&E shall take all necessary action to implement the terms and conditions contemplated herein, including by taking any actions necessary to approve, execute, and deliver this Amendment to the other Party. Seller and PG&E agree to take all necessary actions to obtain other necessary approvals of this Amendment in its entirety including, if applicable, Bankruptcy Court approval.

10. The Parties agree that this Amendment reflects a compromise, not an agreement or endorsement of disputed facts and law presented in CPUC Rulemaking 99-11-022, 04-04-003 or 04-04-025 and shall not establish binding precedent for any future proceeding. The Parties have assented to the terms of this Amendment only to reach the compromise embodied herein.

11. This Amendment embodies the entire understanding and agreement of the Parties with respect to the matters described herein, and, except as described herein, supersedes and cancels any and all prior oral or written agreements, principles, negotiations, statements, representations or understandings among the Parties or their representatives.

12. The Amendment may be amended or changed only by a written agreement signed by the Parties.

13. The Parties intend the Amendment to be interpreted and treated as a unified, interrelated agreement.

14. Each of the Parties hereto and its respective counsel and advocates have contributed to the preparation of this Amendment. Accordingly, the Parties agree that no provision of this Amendment shall be construed against any Party because that Party or its representative or counsel drafted the provision.

15. This Amendment shall be governed by and construed in accordance with the laws of the State of California, excluding any choice of law rules that may specify the laws of another jurisdiction.

16. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute the same instrument.

17. SIGNATURES

IN WITNESS WHEREFORE, Seller and PG&E have caused this Amendment to be executed by their authorized representatives.

PACIFIC GAS AND ELECTRIC COMPANY
a California corporation

By: [Signature]
Name: Roy M. Kuga
Title: VP - Energy Supply
Date: 7/13/06

WINEAGLE DEVELOPERS
a California limited partnership,
Carson Development Co, Inc., its General Partner

By: [Signature]
Name: JOHAN OTTO
Title: PRES
Date: 7-5-06

SETTLEMENT AGREEMENT
BETWEEN
CALPINE GILROY COGEN, L.P.
AND
PACIFIC GAS AND ELECTRIC COMPANY
(PG&E LOG NO. 08C002)

THIS SETTLEMENT AGREEMENT (the "Settlement Agreement"), dated as of June ²⁶ 2006 ("Execution Date"), is by and between PACIFIC GAS AND ELECTRIC COMPANY ("PG&E"), a California corporation, and CALPINE GILROY COGEN, L.P. ("Gilroy"), a Delaware limited partnership. PG&E and Gilroy are sometimes referred to herein individually as "Party" and collectively as "Parties."

RECITALS

A. Gilroy (or Gilroy's predecessor(s), as applicable) and PG&E entered into that certain Standard Offer #4 Purchase Power Agreement for Long-Term Energy and Capacity, as amended, dated December 19, 1983 (the "Gilroy PPA"), pursuant to which PG&E purchased electric power from Gilroy and Gilroy sold electric power to PG&E through October 31, 2002 whereupon the Gilroy PPA was terminated pursuant to that certain Agreement Between PG&E and Gilroy For Termination and Buy-Out of Standard Offer 4 Power Purchase Agreement, as amended and supplemented, executed by PG&E on July 1, 1999 (the "Termination Agreement").

B. As consideration for the exchanges set forth in the Termination Agreement, and subject to the performance obligations of Gilroy described therein, the Parties agreed that PG&E would make monthly termination payments not to exceed a nominal amount of \$20.7 million per

year for 14 years, 8 months commencing February 28, 2000 with the last payment due on September 30, 2014 (collectively, the “Termination Agreement Payments”).

C. In D.99-11-025, the California Public Utilities Commission (“CPUC”) allowed QFs to be paid for energy at prices based on the Power Exchange Corporation’s (“PX”) zonal day-ahead market-clearing price instead of the CPUC’s administrative determination of energy pricing based on short run avoided cost (“SRAC”) principles, subject to the potential for a later true-up by the CPUC. Gilroy elected to switch to the PX zonal day-ahead market-clearing price for energy deliveries commencing on June 1, 2000. The energy price true-up issue for QFs who switched, including Gilroy (collectively, the “QF Switchers”), to PX pricing remains pending in R.99-11-022. In addition, at issue in R.99-11-022, are claims for certain other retroactive adjustments to SRAC-determined energy payments PG&E made to Qualifying Facilities (“QFs”), including Gilroy, for energy deliveries made from December 1, 2000 to March 31, 2001 arising from the Court of Appeal remand to the CPUC in *Southern California Edison v. Public Utilities Commission*, 101 Cal. App. 4th 982 (2002).

D. In anticipation of a potential claim that PG&E may have against Gilroy in connection with the energy price true-up issue pending in R.99-11-022 associated with Gilroy’s exercise of the option to switch to PX-based energy pricing as anticipated under D.99-11-025, Gilroy provided to PG&E a certain letter, dated December 3, 2001, addressed to Mr. Joseph C. Henri, wherein it “...agree[d] and acknowledge[d] that, in the event that [Gilroy] becomes liable to PG&E for a payment obligation pursuant to a final order by any state or federal regulatory authority, then PG&E shall be entitled to set off the amount of such payment obligation against any one or more payments owed by PG&E under the Gilroy Termination Agreement and up to an amount that such payment obligation is satisfied.” A copy of the December 3, 2001 letter (“December 2001 Letter”) is attached.

E. On April 18, 2006, Independent Energy Producers Association (“IEP”) and PG&E entered a Settlement Agreement (the “IEP/PG&E Settlement Agreement”) resolving certain issues pending in Rulemakings 99-11-022, 04-04-003, and 04-04-025 for QFs electing to sign a certain form Amendment to their respective power purchase contracts (the “IEP/PG&E Settlement Agreement Amendment”). On April 18, 2006, PG&E and IEP jointly filed the IEP/PG&E Settlement Agreement and the IEP/PG&E Settlement Agreement Amendments for the QFs that elected to sign an IEP/PG&E Settlement Agreement Amendment.

F. While the other QFs with effective Standard Offer contracts that are owned and/or operated by Gilroy’s parent, Calpine Corporation (“Calpine”), have executed the IEP/PG&E Settlement Agreement Amendment (subject to certain conditions), Gilroy was unable to execute the IEP/PG&E Settlement Agreement Amendment as the Gilroy PPA has been terminated pursuant to the Termination Agreement.

G. Calpine has expressed to PG&E that the resolution of the potential true-up liability for all of its QFs, including Gilroy, was an important factor in its decision to direct its eligible QFs to execute the IEP/PG&E Settlement Agreement Amendment.

H. In accordance with the terms of this Settlement Agreement, Gilroy and PG&E wish to settle the following issues that are subject to R.99-11-022 (collectively, the “Settled Issues”): (i) PG&E’s claims for a retroactive adjustment of SRAC energy payments made to Gilroy for energy deliveries made from December 1, 2000 to March 31, 2001 arising from the Court of Appeal remand in *Southern California Edison v. Public Utilities Commission*, 101 Cal. App. 4th 982 (2002), if any; (b) PG&E’s claims for a retroactive adjustment of energy payments made to Gilroy as a QF Switcher for energy delivered from June 1, 2000 through January 18, 2001; and (c) QF claims that the CPUC should direct PG&E to calculate the SRAC energy

payment to change the transmission line loss for QF Switchers by using the GMMqf/GMMsys formula, retroactive from January 19, 2001 to the present.

I. Gilroy and PG&E wish to resolve the Settled Issues pursuant to the terms of this Settlement Agreement by agreeing to a mechanism, which would be economically analogous to the terms of the IEP/PG&E Settlement Agreement and which would serve as an effective proxy for the IEP/PG&E Settlement Agreement Amendment, whereby Gilroy makes payments to PG&E on a monthly basis calculated by multiplying the number of megawatt hours delivered from the Calpine King City QF facility (the "King City QF Facility") under Standard Offer #4 between Calpine King City Cogen, LLC and PG&E, as amended, executed on November 30, 1984, (PG&E Log No. 18C006) (the "King City PPA") by a payment factor of \$0.975/MWh for 4 years, 6 months.

J. Gilroy filed for bankruptcy court protection on December 20, 2005 in the Federal Bankruptcy Court, Southern District of New York ("Bankruptcy Court"). The effectiveness of this Settlement Agreement is subject to Bankruptcy Court and CPUC approval as described herein.

AGREEMENT

In consideration of the mutual promises and covenants contained herein, PG&E and Gilroy agree to resolve the Settled Issues as follows:

1. DEFINITIONS Capitalized terms not defined herein shall have the meaning ascribed to them in the Gilroy PPA.

2. RESOLUTION OF SETTLED ISSUES

2.1 Monthly Settlement Payment. As consideration for the resolution of the Settled Issues, and the release and waiver of liabilities set forth herein, for each calendar month commencing on the first day (the "First Payment Date") of the first calendar month following the Settlement Effective Date (as defined in Section 4 below) and ending on the last day of the 54th

calendar month from the Settlement Effective Date (the "Settlement Payment Period"), Gilroy shall pay to PG&E an amount equal to the product of the total number of MWhs delivered to PG&E from the King City QF Facility as calculated pursuant to Section A-4 (subject to any adjustment pursuant to Section A-5) of the King City PPA in any calendar month during the Settlement Payment Period multiplied by \$0.975/MWh (the "Monthly Settlement Payment"). The Monthly Settlement Payment shall not include any payment for MWhs of energy that the King City QF Facility delivered to PG&E or the California Independent System Operator ("CAISO") as a result of a CAISO dispatch of the King City QF Facility.

2.2 Invoicing of Monthly Settlement Payment. Within 5 business days of issuing the invoice under the King City PPA for any calendar month, PG&E shall invoice Gilroy for the Monthly Settlement Payment for such calendar month during the Settlement Payment Period. Within 10 business days of the date PG&E sends an invoice pursuant to this Section 2.2, Gilroy shall make payment to PG&E of the Monthly Settlement Payment as invoiced; provided, however, that in the event that the payment amounts under the King City PPA are adjusted pursuant to Section A-5 thereof based on a change in the quantity of MWhs delivered to PG&E by the King City QF Facility during a calendar month (i.e. increased or decreased), the Monthly Settlement Payment for such month shall be adjusted to reflect the revised quantity of MWhs and PG&E or Gilroy, as the case may be, shall make prompt payment of the amount associated with such adjustment upon receipt of notice from the other Party.

2.3 Termination of Settlement Agreement. This Settlement Agreement shall be deemed null and void if the conditions in Section 4 are not satisfied or waived by the applicable Party prior to December 31, 2006, unless otherwise agreed by the Parties in writing.

3. RELEASE AND WAIVER OF LIABILITIES; OFFSET RIGHTS LIMITATION

3.1 **Mutual Release and Waiver.** As of the Settlement Effective Date, PG&E (on behalf of itself, its predecessors, successors, and assigns by operation of law or otherwise) and Gilroy (on behalf of itself, its predecessors, successors, and assigns by operation of law or otherwise), hereby release, and forever discharge each other and each of the other Party's present and former affiliates, parents, guarantors, directors, officers, shareholders, partners, employees, agents, representatives, attorneys, insurers, predecessors, assigns, and successors-in-interest, from any and all claims, actions, causes of action, regulatory challenges, liabilities, breaches of contract, offsets, defenses, demands, losses, and damages of any kind whatsoever, whether known or unknown, asserted or unasserted, suspected or unsuspected, arising from the Settled Issues.

3.2 **Limitation on PG&E's Rights under December 2001 Letter Agreement.** To the extent that Gilroy timely makes the Monthly Settlement Payment in accordance with the provisions of Section 2.2, PG&E may not, with respect to the month for which the Monthly Settlement Payment was timely made, exercise its right in the December 2001 Letter to offset any portion of the Termination Payment.

4. CPUC/BANKRUPTCY COURT APPROVAL

The Settlement Agreement shall become effective upon the later of CPUC Approval or Bankruptcy Court Approval (respectively defined in (a) and (b) below) (the "Settlement Effective Date"):

(a) **CPUC Approval.** "CPUC Approval" is a condition precedent to the effectiveness of this Settlement Agreement. If the CPUC approves the IEP/PG&E Settlement Agreement Amendment described in Recital E, above, as reasonable and without conditions or modifications unacceptable to PG&E in its sole discretion, then this Settlement Agreement shall

become effective on the first business day after the day the CPUC decision or resolution approving the IEP/PG&E Settlement Agreement becomes final and no longer subject to judicial review. If the CPUC fails to approve the IEP/PG&E Settlement Agreement Amendment as reasonable and without conditions or modifications unacceptable to PG&E in its sole discretion, or if the IEP/PG&E Settlement Agreement or the IEP/PG&E Settlement Agreement Amendment is terminated pursuant to sections 13 or 9.1 thereof, respectively, then PG&E shall have the option, in its sole discretion, which discretion PG&E shall exercise within 30 days, either to terminate this Settlement Agreement or to submit it to the CPUC as soon as reasonably practicable to seek CPUC approval of the Settlement Agreement using whatever procedural vehicle PG&E deems appropriate for seeking such approval. In the event PG&E elects to submit the Settlement Agreement to the CPUC for approval, PG&E will use its best efforts to make such a filing within 15 business days after providing notice to Gilroy that CPUC Approval was not obtained as contemplated by this Section 4(a). The Parties further agree that if the CPUC makes any material change to the Settlement Agreement submitted to the CPUC for approval or imposes any condition or modification unacceptable to either Party in its sole discretion, either Party shall, in its sole discretion, have the option to terminate the Settlement Agreement, exercisable within 30 days from the effective date of the resolution or decision imposing such material change or unacceptable condition or modification. PG&E shall timely inform Gilroy of all material events related to the pursuit of CPUC Approval under this Section 4(a).

(b) Bankruptcy Court Approval. "Bankruptcy Court Approval" is a condition precedent to the effectiveness of this Settlement Agreement. Gilroy shall file this Settlement Agreement with the Bankruptcy Court within 15 business days of the Execution Date. If the Bankruptcy Court fails to approve the Settlement Agreement, Gilroy may in its sole discretion, elect to terminate the Settlement Agreement upon written notice to PG&E. Gilroy shall provide

PG&E written notice that Bankruptcy Court Approval has been obtained within 2 business days of such Bankruptcy Court Approval.

5. INDEMNIFICATION OF GILROY. As of the Settlement Effective Date, PG&E agrees to indemnify and hold Gilroy harmless for any claims, penalties, refunds of any portion of energy payments and Termination Payments previously made and/or damages that the CPUC may impose upon Gilroy associated with the Settled Issues. In any proceeding in which the CPUC may consider imposing any liability with respect to the Settled Issues on any QF selling power to PG&E under a Standard Offer agreement, PG&E shall present testimony and/or pleadings, as may be appropriate, representing that the terms of this Settlement Agreement are intended to extinguish for Gilroy any possible liability with respect to any of the Settled Issues and PG&E shall advocate that the CPUC should not impose on Gilroy any such possible liability with respect to the Settled Issues.

6. MISCELLANEOUS.

6.1 The Parties agree that this Settlement Agreement reflects a compromise, not an agreement or endorsement of disputed facts and law presented in CPUC Rulemakings 99-11-022, 04-04-003 or 04-04-025, and shall not establish binding precedent for any future proceeding. The Parties have assented to the terms of this Settlement Agreement only to reach the compromise embodied herein.

6.2 This Settlement Agreement embodies the entire understanding and agreement of the Parties with respect to the matters described herein, and, except as described herein, supersedes and cancels any and all prior oral or written agreements, principles, negotiations, statements, representations or understandings among the Parties or their representatives.

6.3 The Settlement Agreement may be amended or changed only by a written agreement signed by the Parties.

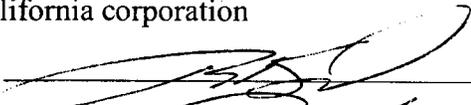
6.4 Each of the Parties hereto and its respective counsel and advocates have contributed to the preparation of this Settlement Agreement. Accordingly, the Parties agree that no provision of this Settlement Agreement shall be construed against any Party because that Party or its representative or counsel drafted the provision.

6.5 This Settlement Agreement shall be governed by and construed in accordance with the laws of the State of California, excluding any choice of law rules that may specify the laws of another jurisdiction.

6.6 This Settlement Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute the same instrument.

IN WITNESS WHEREFORE, Gilroy and PG&E have caused this Settlement Agreement to be executed by their authorized representatives.

PACIFIC GAS AND ELECTRIC COMPANY
a California corporation

By: 

Name (print): Roy Kuga

Title: VP Energy Supply

Date: 6/26/06

GILROY COGEN, L.P.
a Delaware limited partnership

By: CALPINE GILROY I, INC.,
a Delaware corporation,
its general partner

By: 

Name (print): Mike Rogers

Title: Vice President

Date: June 20, 2006

**PG&E Gas and Electric Advice
Filing List
General Order 96-A, Section III(G)**

ABAG Power Pool	Douglass & Liddell	PG&E National Energy Group
Accent Energy	Downey, Brand, Seymour & Rohwer	Pinnacle CNG Company
Aglet Consumer Alliance	Duke Energy	PITCO
Agnews Developmental Center	Duke Energy North America	Plurimi, Inc.
Ahmed, Ali	Duncan, Virgil E.	PPL EnergyPlus, LLC
Alcantar & Kahl	Dutcher, John	Praxair, Inc.
Ancillary Services Coalition	Dynegy Inc.	Price, Roy
Anderson Donovan & Poole P.C.	Ellison Schneider	Product Development Dept
Applied Power Technologies	Energy Law Group LLP	R. M. Hairston & Company
APS Energy Services Co Inc	Energy Management Services, LLC	R. W. Beck & Associates
Arter & Hadden LLP	Exelon Energy Ohio, Inc	Recon Research
Avista Corp	Exeter Associates	Regional Cogeneration Service
Barkovich & Yap, Inc.	Foster Farms	RMC Lonestar
BART	Foster, Wheeler, Martinez	Sacramento Municipal Utility District
Bartle Wells Associates	Franciscan Mobilehome	SCD Energy Solutions
Blue Ridge Gas	Future Resources Associates, Inc	Seattle City Light
Bohannon Development Co	G. A. Krause & Assoc	Sempra
BP Energy Company	Gas Transmission Northwest Corporation	Sempra Energy
Braun & Associates	GLJ Energy Publications	Sequoia Union HS Dist
C & H Sugar Co.	Goodin, MacBride, Squeri, Schlotz &	SESCO
CA Bldg Industry Association	Hanna & Morton	Sierra Pacific Power Company
CA Cotton Ginners & Growers Assoc.	Heeg, Peggy A.	Silicon Valley Power
CA League of Food Processors	Hitachi Global Storage Technologies	Smurfit Stone Container Corp
CA Water Service Group	Hogan Manufacturing, Inc	Southern California Edison
California Energy Commission	House, Lon	SPURR
California Farm Bureau Federation	Imperial Irrigation District	St. Paul Assoc
California Gas Acquisition Svcs	Integrated Utility Consulting Group	Sutherland, Asbill & Brennan
California ISO	International Power Technology	Tabors Caramanis & Associates
Calpine	Interstate Gas Services, Inc.	Tecogen, Inc
Calpine Corp	IUCG/Sunshine Design LLC	TFS Energy
Calpine Gilroy Cogen	J. R. Wood, Inc	Transcanada
Cambridge Energy Research Assoc	JTM, Inc	Turlock Irrigation District
Cameron McKenna	Luce, Forward, Hamilton & Scripps	U S Borax, Inc
Cardinal Cogen	Manatt, Phelps & Phillips	United Cogen Inc.
Cellnet Data Systems	Marcus, David	URM Groups
Chevron Texaco	Matthew V. Brady & Associates	Utility Cost Management LLC
Chevron USA Production Co.	Maynor, Donald H.	Utility Resource Network
City of Glendale	MBMC, Inc.	Wellhead Electric Company
City of Healdsburg	McKenzie & Assoc	Western Hub Properties, LLC
City of Palo Alto	McKenzie & Associates	White & Case
City of Redding	Meek, Daniel W.	WMA
CLECA Law Office	Mirant California, LLC	
Commerce Energy	Modesto Irrigation Dist	
Constellation New Energy	Morrison & Foerster	
CPUC	Morse Richard Weisenmiller & Assoc.	
Cross Border Inc	Navigant Consulting	
Crossborder Inc	New United Motor Mfg, Inc	
CSC Energy Services	Norris & Wong Associates	
Davis, Wright, Tremaine LLP	North Coast Solar Resources	
Defense Fuel Support Center	Northern California Power Agency	
Department of the Army	Office of Energy Assessments	
Department of Water & Power City	OnGrid Solar	
DGS Natural Gas Services	Palo Alto Muni Utilities	