

September 28, 2010

Mr. Roy M. Kuga
Vice President, Energy Supply Management
Pacific Gas and Electric Company
77 Beale Street
San Francisco, California 94105

Mr. Matt Burkhart
Vice President, Electric Procurement
San Diego Gas & Electric Company
8315 Century Park Court CP21D
San Diego, California 92123

Mr. Marc L. Ulrich
Vice President, Renewable and Alternative Power
Southern California Edison Company
2244 Walnut Grove Avenue
Rosemead, California 91770

Dear Sirs:

Reference is made to that certain CHP Program Settlement Agreement term sheet (the "Term Sheet"), which Term Sheet is the result of the settlement negotiations entered into by Southern California Edison Company ("SCE"), Pacific Gas and Electric Company ("PG&E"), San Diego Gas & Electric Company ("SDG&E"), and together with SCE and PG&E, the ("IOUs"), the California Cogeneration Council, the Cogeneration Association of California, the Energy Producers and Users Coalition, the Independent Energy Producers Association, the Division of Ratepayer Advocates of the California Public Utilities Commission, and The Utility Reform Network (collectively, the "Settling Parties"). The Term Sheet will be incorporated into a settlement agreement (the "Settlement Agreement") upon the completion of the upcoming arbitration proceedings facilitated by the California Public Utilities Commission (the "CPUC"), which proceedings shall resolve certain disputed issues among the Settling Parties relating the CPUC's Rulemakings 99-11-022, 04-04-003 and 04-04-025, including, without limitation, the implementation of CPUC Decision 07-09-040 (the "Decision").

As part of implementing the Decision, the Settling Parties shall, upon the effectiveness of the Settlement Agreement, agree to the following four forms of contracts, each of which will be attached as an exhibit to the Settlement Agreement: (i) Transition Standard Contract for Existing Qualifying Facilities; (ii) Pro Forma Agreement for CHP Facilities Request for Offers Program; (iii) Standard Contract for Qualifying Facilities with a Power Rating that is Less than or Equal to 20MW; and (iv) Standard Contract for As-Available CHP Facilities (collectively, the "QF/CHP Contracts"). Any initially capitalized term used but not defined in this letter agreement has the meaning set forth in the QF/CHP Contracts.

One of the issues that arose as part of the negotiations with respect to the QF/CHP Contracts was whether, and to what extent, a Seller that enters into a QF/CHP Contract is required to comply with the CAISO Tariff. In order to resolve this outstanding issue, the Settling Parties addressed their respective concerns to the CAISO. Based on direction from the CAISO, the Settling Parties agreed to include the following language in Sections 3.06 and 3.09 of each of the QF/CHP Contracts:

"3.06 CAISO Relationship.

- (a) Throughout the Term, Seller shall comply with all applicable provisions of the CAISO Tariff (including complying with any exemption obtained from the CAISO pursuant to the CAISO Tariff), as determined by the CAISO, including securing and maintaining in full force all of the CAISO agreements, certifications and approvals required in order for the Generating Facility to comply with the applicable provisions of the CAISO Tariff.
- (b) Notwithstanding anything to the contrary set forth in Section 3.06(a), if (i) the Generating Facility is an Existing Qualifying Facility, (ii) Buyer is the Scheduling Coordinator under this Agreement, and (iii) Buyer and Seller were, immediately before the Effective Date, parties to the Existing PPA, then, to the extent that Seller would be out of compliance with the CAISO Tariff as of the Term Start Date if Seller has not installed one or more CAISO-Approved Meters for the Generating Facility on or before the Term Start Date, Seller will not be in breach of this Agreement with respect to such requirement to install CAISO-Approved Meter(s) if Seller installs such CAISO-Approved Meter(s) within 180 calendar days after the Effective Date; *provided, however*, that Seller must demonstrate progress toward compliance with the CAISO Tariff requirement to install CAISO-Approved Meter(s) by complying with a milestone schedule specified by the CAISO in consultation with Seller for satisfaction of this requirement within the 180-calendar-day compliance period. Seller may request further extensions from the CAISO (pursuant to the CAISO Tariff) with respect to Seller's requirement that the CAISO-Approved Meters for the Generating Facility be installed on or before the Term Start Date, which extensions, if approved by the CAISO, must be in writing and provided to Buyer by Seller upon Buyer's request.
- (c) Buyer agrees that, subject to the limitation set forth in Section 3.06(b) and upon the CAISO's request, pending the installation of the CAISO-Approved Meter(s) by Seller for the Generating Facility, Buyer shall provide to the CAISO any settlement quality meter data reasonably requested by the CAISO for settlement purposes."

"3.09 Telemetry System.

- (a) Seller is responsible for designing, furnishing, installing, maintaining and testing a real time Telemetry System in accordance with the CAISO Tariff provisions applicable to the Generating Facility. Seller has the right to request any exemption from such requirements from the CAISO so long as it is obtained pursuant to the CAISO Tariff.
- (b) Notwithstanding anything to the contrary set forth in Section 3.09(a), if (i) the Generating Facility is an Existing Qualifying Facility, (ii) Buyer is the Scheduling Coordinator under this Agreement, and (iii) Buyer and Seller were, immediately before the Effective Date, parties to the Existing PPA, then, to the extent that Seller would be out of compliance with the CAISO Tariff as of the Term Start Date if Seller has not complied with Section 3.09(a) on or before the Term Start Date, Seller will not be in breach of this Agreement if Seller fully complies with Section 3.09(a) within 180 calendar days after the Effective Date; *provided, however*, that Seller must demonstrate progress toward compliance with the CAISO Tariff requirement set forth in Section 3.09(a) by complying with a milestone schedule specified by the CAISO in consultation with Seller for satisfaction of this requirement within the 180-calendar-day compliance period. Seller may request further extensions from the CAISO (pursuant to the CAISO Tariff) with respect to the requirement set forth in Section 3.09(a), which extensions, if approved by the CAISO, must be in writing and provided to Buyer by Seller upon Buyer's request.
- (c) Buyer agrees that, subject to the limitation set forth in Section 3.09(b) and upon the CAISO's request, pending Seller compliance with Section 3.09(a), Buyer shall provide to the CAISO any telemetry data reasonably requested by the CAISO for operating information purposes."

Upon the effectiveness of the Settlement Agreement, one or more of the QF/CHP Contracts will be made available by the IOUs to eligible Qualifying Facilities and CHP Facilities (whether as required by PURPA, the CHP-only RFO program contemplated in the Settlement Agreement, or as otherwise set forth in the Settlement Agreement) for the foreseeable future, and the above provisions will be an integral part of each executed QF/CHP Contract until such time that the CPUC requires a revision to such provisions.

The CAISO acknowledges that the IOUs are concerned that, if an IOU executes one or more QF/CHP Contracts with the applicable Seller(s), which QF/CHP Contract(s) include(s) Sections 3.06 and 3.09 as materially set forth above, that IOU may be deemed to have agreed to provisions that provide the applicable Seller(s) with an exemption from complying with the revenue metering and telemetry provisions of the CAISO Tariff during the up to 180-calendar-day period after the execution of the applicable QF/CHP Contract(s), plus any extension granted by the CAISO in writing, as described in Section 3.06 and 3.09 above. Finally, the IOUs desire to ensure that, if an IOU is the Scheduling Coordinator under one or more QF/CHP Contracts that include Sections 3.06 and 3.09 as materially set forth above, then that IOU, in its role as the Scheduling Coordinator under such QF/CHP Contract(s), is in compliance with the CAISO Tariff.

In order to address the IOUs' concerns set forth in the preceding paragraph, the CAISO acknowledges and agrees that, if Sections 3.06 and 3.09 as set forth above are included, without material modification, in a fully-executed QF/CHP Contract, then the CAISO will deem the IOU under such QF/CHP Contract (in its role as the Scheduling Coordinator) and Seller in compliance with the provisions of the CAISO Tariff requiring revenue metering and telemetry for generating units so long as that IOU (as the Scheduling Coordinator) and Seller are in compliance with such Sections 3.06 and 3.09 in such fully-executed QF/CHP Contract.

Further, with respect to the exemption to Sellers for complying with the revenue metering and telemetry requirements of the CAISO Tariff during the 180-day period after the execution of a QF/CHP Contract(s) (as set forth in Section 3.06 and 3.09 above), the CAISO, pursuant to its authority under the CAISO Tariff, hereby exempts any Seller(s) entering into a QF/CHP Contract from such revenue metering and telemetry provisions during such 180-calendar-day period so long as Seller is making progress to install such revenue metering and real time telemetry during that 180-calendar-day period in accordance with milestone schedules specified by the CAISO in consultation with Seller for such installation, as set forth in Sections 3.06(b) and 3.09(b) above. In the event Seller fails to comply with a milestone in the schedule for its installation of revenue metering or real time telemetry, the CAISO may revoke the exemption and bar Seller and its Scheduling Coordinator from submitting bids or schedules to the CAISO for Seller's Generating Facility. For Sellers that request exemptions from the CAISO's revenue metering and telemetry requirements that are in addition to the exemption granted by the CAISO pursuant to the immediately preceding sentence, the CAISO will consider requests for such extensions on a case-by-case basis, and may grant such exemptions pursuant to Section 10.4 or 7.6.1(d) of the CAISO Tariff.

Further, as set forth in Sections 3.06(b) and 3.09(b) of the QF/CHP Contracts, a Seller may obtain an exemption from compliance with the metering and telemetry requirements set forth in Section 3.06 and 3.09, respectively, only if that Seller (i) has a Generating Facility that is an Existing Qualifying Facility or Existing CHP Facility, as applicable, (ii) was, immediately before the execution of the applicable QF/CHP Contract, a party to an Existing PPA with Buyer, and (iii) has Buyer as its Scheduling Coordinator under the applicable QF/CHP Contract for the period of time that any exemption granted pursuant to Section 3.06(b) or 3.09(b) may be provided by the CAISO. As such, each IOU agrees that it will remain the Scheduling Coordinator for a Seller for the period of any exemption granted by the CAISO pursuant to Section 3.06(b) or 3.09(b), and, during such time, will provide to the CAISO any settlement quality meter data reasonably requested by the CAISO for settlement purposes and to provide to the CAISO any telemetry data reasonably requested by the CAISO for operating information purposes, including data from the source provided to the CAISO prior to the execution of the QF/CHP Contract, such that the CAISO shall receive at least the same quality of data for Seller's Generating Facility as it had received prior to the execution of the QF/CHP Contract.

The IOUs and the CAISO each acknowledge and agree that (i) the execution, delivery and performance of this letter agreement are within its powers, have been duly authorized by all necessary action, and do not violate any of the terms and conditions in its governing documents, any contracts to which it is a party, or any applicable laws, and (ii) it has caused this letter agreement to be duly executed by its authorized representative as of the date first written above.

This letter agreement may be executed in one or more counterparts, each of which will be deemed to be an original of this letter agreement and all of which, when taken together, will be deemed to constitute one and the same agreement. The exchange of copies of this letter agreement and of signature pages by facsimile transmission or by other electronic means constitutes effective execution and delivery of this letter agreement as to the parties hereto and may be used in lieu of the original letter agreement for all purposes. Signatures of the parties hereto transmitted by facsimile or by other electronic means will be deemed to be their original signatures for all purposes.

Sincerely,

California Independent System Operator Corporation,
a California non-profit public benefit corporation

By: 
Name: Karen Edson
Title: Vice President, Policy & Client Services

Pacific Gas and Electric Company,
a California corporation

By: 
Name: Roy M. Kuga
Title: Vice President, Energy Supply Management

San Diego Gas & Electric Company,
a California corporation

By: _____
Name: Matt Burkhart
Title: Vice President, Electric Procurement

Southern California Edison Company,
a California corporation

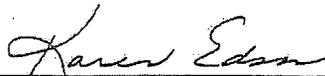
By: _____
Name: Marc L. Ulrich
Title: Vice President, Renewable and Alternative Power

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This letter agreement may be executed in one or more counterparts, each of which will be deemed to be an original of this letter agreement and all of which, when taken together, will be deemed to constitute one and the same agreement. The exchange of copies of this letter agreement and of signature pages by facsimile transmission or by other electronic means constitutes effective execution and delivery of this letter agreement as to the parties hereto and may be used in lieu of the original letter agreement for all purposes. Signatures of the parties hereto transmitted by facsimile or by other electronic means will be deemed to be their original signatures for all purposes.

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a California non-profit public benefit corporation

By: 
Name: Karen Edson
Title: Vice President, Policy & Client Services

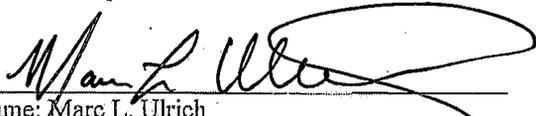
Pacific Gas and Electric Company,
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By: _____
Name: Roy M. Kuga
Title: Vice President, Energy Supply Management

San Diego Gas & Electric Company,
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Name: Matt Burkhardt
Title: Vice President, Electric Procurement

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