

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE

SAN FRANCISCO, CA 94102-3298



February 20, 2007

Advice Letter 2911-E

Rose de la Torre
Pacific Gas & Electric
77 Beale Street, Room 1088
Mail Code B10C
San Francisco, CA 94105

Subject: Settlement and Amendment to Master Power Purchase and Sale Agreements for
Renewable Energy Resources Resulting from PG&E's Interim Renewable Energy
Solicitation

Dear Ms. de la Torre:

Advice Letter 2911-E is effective January 11, 2007. A copy of the advice letter and resolution are
returned herewith for your records.

Sincerely,

A handwritten signature in dark ink, appearing to read 'S. H. Gallagher'.

Sean H. Gallagher, Director
Energy Division

RECEIVED
REGULATORY RELATIONS DEPARTMENT

FEB 21 2007



Brian K. Cherry
Vice President
Regulatory Relations

77 Beale Street, Room 1087
San Francisco, CA 94105

Mailing Address
Mail Code B10C
Pacific Gas and Electric Company
P.O. Box 770000
San Francisco, CA 94177

415.973.4977
Internal: 223.4977
Fax: 415.973.7226
Internet: BKC7@pge.com

October 6, 2006

Advice 2911-E

(Pacific Gas and Electric Company ID U39 E)

Public Utilities Commission of the State of California

**Subject: Settlement and Amendment to Master Power Purchase and
Sale Agreements for Renewable Energy Resources Resulting
from PG&E's Interim Renewable Energy Solicitation**

Pacific Gas and Electric Company (PG&E) hereby submits to the California Public Utilities Commission (Commission or CPUC) for its approval amendments to three CPUC-approved power purchase agreements (PPA) between PG&E and Madera Power, LLC (Madera), Community Renewable Energy Services, Inc. (CRES), and Sierra Power Corporation (Sierra) (collectively, the Sellers) that would resolve disputes among the parties regarding certain contract provisions in the original PPAs. Those PPAs resulted from the advice letter process outlined in the *Assigned Commissioner's Ruling Specifying Criteria for Interim Renewable Energy Solicitations* (ACR) dated August 13, 2003. The original PPAs were filed for Commission approval on September 18, 2003 in Advice 2423-E, and approved by the Commission on October 9, 2003 in Resolution E-3853. PG&E requested the Commission to authorize an extension of the term of these PPAs on May 10, 2004 in Advice 2506-E, which the Commission approved on July 8, 2004 in Resolution E-3877.

I. INTRODUCTION

These Amendments are the result of a settlement of contract disputes between the Sellers and PG&E. The Amendments address a dispute over the interpretation of revisions to contract capacity, allow the Sellers to retain the rights to federal Production Tax Credits (PTC) consistent with other existing Qualifying Facilities, increase the contract price, and increase the Sellers performance security amount. Deliveries pursuant to the PPAs would be priced lower than the 2005 market price referent (MPR). Because each of the PPAs is the result of bilateral negotiations rather than part of a competitive solicitation,

and are a result of the ACR, the PPAs will not be eligible for any Supplemental Energy Payments (SEPS) from the California Energy Commission (CEC).

The settlement results in PG&E retaining a baseload renewable resource at terms and pricing more favorable than the cost of replacing the renewable power that Sellers provide to PG&E pursuant to the PPAs, allows Sellers to operate in an economically viable manner, and maintains customer benefits.

PG&E requests that the Commission approve these contract amendments through a resolution that is final and no longer subject to rehearing on or before January 15, 2007¹, that contains the findings required by the definition of "CPUC Approval" in Appendix A of D.04-06-014. In support of this request, the following confidential information is being submitted under the confidentiality protection of Section 583 of the Public Utilities Code and General Order 66-C. Pursuant to the Administrative Law Judge's Ruling Clarifying Interim Procedures For Complying with Decision 06-06-066, issued August 22, 2006 in Rulemaking 05-06-040, a separate Declaration of Confidential Treatment regarding the confidential information is being filed concurrently with this Advice letter.

Confidential Appendix A – Amendments to Power Purchase Agreements

Appendix B – Settlement Agreement

Appendix C – Sellers' Operating Costs

Confidential Appendix D – Feasibility Analysis Without and With Revised Pricing

II. BACKGROUND

On September 18, 2003, PG&E requested Commission approval to enter into three biomass contracts with the following characteristics:

Biomass Power Producer	Facility Location	Capacity (MW)
Madera	Firebaugh	24.0
CRES	Reedley (Dinuba)	12.0
Sierra	Terra Bella	7.0

The original PPAs were later approved by the Commission on October 9, 2003 as part of the Interim Renewable Energy Solicitation. On July 8, 2004, the Commission authorized PG&E to extend the PPAs for 5 years pursuant to a PG&E extension option in the contract.

¹ The date of the thirty day rehearing period falls on a Saturday. The date for resolution that is final and no longer subject to rehearing is moved to the next business day.

Prior to the execution of the original PPAs, Assigned Commissioner Peevey issued an ACR that provided guidance and outlined the parameters of utility procurement of renewable resources prior to full Renewable Portfolio Standard (RPS) implementation. The ACR required that any PTCs received by renewable facilities be passed through entirely to customers. Although existing facilities such as Madera, CRES, and Sierra had not previously been eligible for PTCs, in compliance with the ACR, the original PPAs included the pass-through requirement in the event PTCs did become eligible for existing facilities.

On September 29, 2003, after the PPAs had been submitted for approval, but before they were approved, Commissioner Peevey issued a Ruling Granting Motion for Reconsideration by The Independent Energy Producers Association (the Reconsideration Ruling). The Reconsideration Ruling modified the PTC pass-through requirement to instead require bidders to submit two price offers, one price to be used if the PTC program was extended by federal law, the other if the PTC program was not extended.

PG&E did not request the Sellers to provide two new bids after the Reconsideration Ruling because the PPAs were already executed and had been submitted for Commission approval, and because legislation extending PTCs to biomass facilities had not been enacted. On October 22, 2004, approximately one year after the PPAs were approved, the "American Jobs Creation Act of 2004" extended the PTCs to existing biomass facilities.

On May 17, 2005, the Sellers filed a Joint Motion asking Assigned Commissioner Peevey to confirm that the Reconsideration Ruling was intended to eliminate the PTC pass-through requirement. The Reconsideration Ruling did not resolve the PTC pass-through issue between PG&E and the Sellers. On June 1, 2005, PG&E filed a response to the Joint Motion contending the Reconsideration Ruling did not eliminate the PTC pass-through requirement as the Sellers had alleged, but modified the pass-through requirement to submit two price offers as discussed above. PG&E further requested that Commissioner Peevey deny the Sellers' motion and direct the Sellers to follow the dispute resolution procedures in the PPAs. The Utility Reform Network (TURN) filed its own response to the joint motion requesting that the Commission allow PG&E to resolve this dispute through bilateral negotiations. The Commission subsequently denied the Joint Motion on June 28, 2005, and directed PG&E to negotiate with the Sellers pursuant to the dispute resolution provisions included in the PPAs.

On November 14, 2005, the Sellers formally requested mediation in accordance with Section 26(a) of their respective PPAs. During mediation, the Parties agreed to stay the dispute resolution procedure to attempt to resolve the disputes

As a result, PG&E entered into negotiations with the Sellers to resolve the contract disputes. In addition to the PTC pass-through issue just discussed, the parties also disputed the proper interpretation of provisions unique to the Sellers'

PPAs regarding the Sellers' right to reduce the Contract Capacity set forth in the PPAs. The Sellers also indicated during the settlement negotiations that changes in their fuel supply costs were such that, unless the PPAs pricing provisions were altered as a result of the settlement, the Sellers would continue to suffer operating losses. PG&E believed that if Sellers continued to sustain such losses they would not be able to perform under the PPAs. The Sellers supplied PG&E with financial and expense documents in support of their claims. (See Appendix C for the declarations of John Richardson and Kent Duysen filed with this Advice Letter.) (See also Appendix D – Feasibility Analysis Without and With Revised Pricing.)

To resolve their disputes, PG&E and the Sellers ultimately agreed to the Amendments submitted with this Advice Letter, which include a price that is reasonable and cost effective, and enables the projects to continue to be a source of renewable power for PG&E's customers. These projects are an important part of PG&E's renewable generation mix and offer value for customers because the Amendments' contract price is lower than the 2005 MPR.

Parties signed the Amendment to the Master Power Purchase and Sale Agreements and the Settlement Agreement on September 15, 2006. These amendments and the Settlement Agreement would:

- Clarify the Sellers' obligation to deliver the Contract Capacity.
- Allow the Sellers to retain rights to any PTCs.
- Revise the contract Energy Price.
- Increase the Performance Security Amount.
- Make any breach of the Settlement Agreement a breach of the PPA.

The Amendments and Settlement Agreement are attached as Appendix A and B.

III. PRG FEEDBACK PRG

On March 29, 2006, PG&E provided its PRG with a brief report on the status of discussions with several renewable entities PG&E had previously signed contracts with and that were requesting pricing adjustments to address project viability by those parties. There was little reaction by the PRG at the time.

IV. SUPPLEMENTAL ENERGY PAYMENTS

As each of the PPAs is the result of bilateral negotiations, rather than part of a competitive solicitation, and are a result of the ACR, the PPAs will not be eligible for any SEPS from the CEC.

V. REQUEST FOR COMMISSION APPROVAL

The Amendments are conditioned on CPUC approval of those Amendments. Except as expressly amended by the Amendments, the terms and conditions of PPAs this Commission previously approved remain in full force and effect. Time is of the essence in the Commission's consideration and approval of this advice letter.

Therefore, PG&E requests that the Commission issue a resolution no later than December 14, 2006 that:

1. Approves the Amendments in their entirety, including payments to be made by PG&E, subject to CPUC review of PG&E's administration of the Agreements;
2. Finds that procurement pursuant to these amended Agreements constitutes procurement from eligible renewable energy resources for purposes of determining PG&E's compliance with any obligation that it may have to procure eligible renewable energy resources pursuant to the California Renewables Portfolio Standard (Public Utilities Code Section 399.11 et seq.), Decision (D.)03-06-071, or other applicable law;
3. Finds that any procurement pursuant to these amended Agreements constitutes incremental procurement or procurement for baseline replenishment by PG&E from eligible renewable energy resources for purposes of determining PG&E's compliance with any obligation to increase its total procurement of eligible renewable energy resources that it may have pursuant to the California Renewables Portfolio Standard (Public Utilities Code Section 399.11 et seq.), D.03-06-071, or other applicable law;
4. Finds that payments made under the amended Agreements and any indirect costs of renewables procurement identified in Section 399.15(a)(2) shall be recovered in rates.
5. Finds that the costs associated with these contracts between PG&E and Sellers are reasonable and in the public interest, and that approved payments are eligible for recovery through a non-bypassable charge over the life of the contracts consistent with the provisions of D.04-12-048.

Protests:

Anyone wishing to protest this filing may do so by sending a letter by October 26, 2006 which is **20** days from the date of this filing. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. 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: jjr@cpuc.ca.gov and jinj@cpuc.ca.gov

Copies should also be mailed to the attention of the Director, Energy Division, Room 4005 and Jerry Royer, Energy Division, 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.

Pacific Gas and Electric Company
Attention: Brian Cherry
Vice President, Regulatory Relations
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 filing become effective on **December 14, 2006**.

Notice:

In accordance with General Order 96-A, Section III, Paragraph G, a copy of this advice letter excluding the confidential appendices and the confidentiality declaration are being sent electronically and via U.S. mail to parties shown on the attached list and the service list for R.01-10-024 and R.06-05-027. Non-market participants who are members of PG&E's Procurement Review Group and have signed appropriate Non-Disclosure Certificates will also receive the advice letter and accompanying confidential attachments by overnight mail. Address changes should be directed to Rose De La Torre (415) 973-4716. Advice letter filings can also be accessed electronically at:

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



Vice President - Regulatory Relations

cc: Service List R.06-05-027
Service List R.01-10-024
Paul Douglas -- Energy Division

Attachments

Limited Access to Confidential Material:

The portions of this advice letter so marked Confidential Protected Material are submitted under the confidentiality protection of Section 583 of the Public Utilities Code and General Order 66-C. Pursuant to the Administrative Law Judge's Ruling Clarifying Interim Procedures For Complying with Decision 06-06-066, issued August 22, 2006 in Rulemaking 05-06-040, a separate Declaration of Confidential Treatment regarding the confidential information is filed concurrently herewith.

Index of Appendices:

Confidential Appendix A – Amendments to Power Purchase Agreements

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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 U39M

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) #: 2911-E

Subject of AL: Settlement and Amendment to Master Power Purchase and Sale Agreements for Renewable Energy Resources
Resulting from PG&E's Interim Renewable Energy Solicitation

Keywords (choose from CPUC listing): RPS Procurement

AL filing type: ☐ Monthly ☐ Quarterly ☐ Annual ☒ One-Time ☐ Other _____

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution:

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

Resolution Required? ☒ Yes ☐ No

Requested effective date: **12-14-2006**

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:

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

Utility Info (including e-mail)

Attention: Tariff Unit

505 Van Ness Ave.,

San Francisco, CA 94102

jjr@cpuc.ca.gov and jnj@cpuc.ca.gov

Appendix B – Settlement Agreement

Advice 2911-E

**SETTLEMENT AGREEMENT AND MUTUAL RELEASE BY AND AMONG
PACIFIC GAS AND ELECTRIC COMPANY, SIERRA POWER CORPORATION,
COMMUNITY RENEWABLE ENERGY SERVICES, INC., AND MADERA POWER,
LLC**

Pacific Gas and Electric Company ("PG&E"), Sierra Power Corporation ("Sierra"), Community Renewable Energy Services, Inc. ("CRES"), and Madera Power, LLC ("Madera") (Sierra, CRES and Madera are collectively referred to as the "Sellers"; and the four entities are collectively referred to as the "Parties" or individually as a "Party"), hereby enter into this Settlement Agreement and Mutual Release ("Agreement"), dated September 15, 2006, to resolve all claims made by the Parties relative to the Dispute Resolution proceedings ("Dispute Resolution Proceedings") initiated by Sellers' November 15, 2005 demand for mediation regarding the respective Power Purchase Agreements ("PPA") between PG&E, on the one hand, and Sierra, CRES, and Madera, individually, on the other hand, as set forth below.

Recitals

A. On September 18, 2003, PG&E entered into a separate PPA with each individual Seller. Each PPA is comprised of a Master Power Purchase and Sale Agreement ("Master Agreement"), Cover Sheet, and Confirmation Letter. Thereafter, on December 22, 2003, PG&E and Madera entered into a First Amendment to Confirmation Letter for Unit(s)-Firm Renewable Product. In July, 2004, PG&E extended the term for each of the three PPAs.

B. On November 15, 2005, Sierra, CRES, and Madera jointly demanded mediation regarding certain claims under the PPA pursuant to Section 26(a), entitled "Dispute Resolution," of the PPA. PG&E also made counter-claims in response. The claims made by the Parties shall be referred to herein as the "Disputed Issues".

C. The Parties conducted a mediation of the Disputed Issues on March 2, 2006 and thereafter continued to engage in settlement discussions concerning the Disputed Issues.

Throughout the course of the mediation and subsequent negotiations, PG&E conducted said negotiations jointly with the Sellers with respect to issues common to the PPAs and individually with respect to issues unique to a Seller's respective PPA.

D. The Parties now have reached a resolution concerning the Disputed Issues, and this resolution shall hereinafter be referred to as the "Settled Issues". The Parties desire to memorialize the resolution of the Settled Issues in this Agreement.

Agreement

1. As a compromise among their respective litigation positions, and subject to the recitals and reservations set forth in this Agreement, the Parties hereby agree to resolve the Disputed Issues, as follows.

2. In settlement of the Disputed Issues, PG&E and Sellers have reached an agreement to modify the terms of each Seller's individual PPA, and as such the Parties negotiated a Master Amendment to the Power Purchase and Sale Agreement (collectively, the "PPA Master Amendments"), each of which PG&E and the applicable Seller shall execute concurrently with this Agreement. The terms of each said PPA Master Amendment are incorporated by reference as though fully set forth herein, and a copy of each PPA Master Amendment is attached to this Agreement as Exhibit 1. Further, the terms of this Agreement have been incorporated by reference in the PPA Master Amendments.

3. Subject to the terms of Sections 4 and 11 below, each Party hereby expressly waives all rights each may have in unknown claims and assumes the risks that the facts and law pertaining to such claims may change or be different than it is now known to each said Party to date. Each Party to this Agreement has had the benefit of counsel, and has been advised of,

understands, and knowingly and specifically waives its respective rights under California Civil Code Section 1542 which provides as follows:

“A general release does not extend to claims which the creditor does not know of or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.”

4. The waiver of claims in Section 3 above is expressly subject to the terms of Section 11 below and expressly limited to the claims made to date by the Parties relating to each Seller's alleged right to reduce its individual Contract Capacity, as that term is defined and specified in Section 6.a. of each Seller's respective PPA, pursuant to Section 15 of each Seller's PPA, as specified below:

(a) With respect to Sierra and Sierra only, Sierra's reduction of its Contract Capacity from 7.0 MW to 5.0 MW and operation of the Unit(s) under the PPA at 5.0 MW from December 16, 2005 up to and including the date of this Agreement;

(b) With respect to Madera and Madera only, Madera's reduction of its Contract Capacity from 24.0 MW to 23.0 MW and operation of the Units(s) under the PPA at 23.0 MW from December 16, 2005 up to and including the date of this Agreement; and

(c) With respect to CRES and CRES only, CRES's reduction of its Contract Capacity from 12.0 MW to 0.0 MW and operation of the Unit(s) under the PPA at 0.0 MW from December 3, 2005 up to and including March 21, 2006, and operation of the Unit(s) under the PPA at 12.0 MW from March 22, 2006 up to and including the date of this Agreement.

Reservations

5. The Parties agree that this Agreement and the PPA Master Amendments reflect a compromise, not an agreement or endorsement of disputed facts and/or law presented by the Parties with respect to the Disputed Issues.

6. This Agreement is the product of negotiation and preparation by and among the Parties hereto and their respective attorneys. Sellers expressly deny each and every claim asserted by PG&E. This Agreement shall not be deemed nor considered an admission by Sellers to any claim asserted by PG&E. Sellers deny any and all liability to PG&E. PG&E expressly denies each and every claim asserted by Sellers. This Agreement shall not be deemed nor considered an admission by PG&E to any claim asserted by Sellers. PG&E denies any and all liability to Sellers.

7. CPUC Approval of both the PPA Master Amendments and this Agreement is a condition precedent to the effectiveness of this Agreement. Thus, if the PPA Master Amendments do not receive CPUC Approval, this Agreement shall not become effective regardless of whether this Agreement receives CPUC Approval. The definition and terms for CPUC Approval are set forth in the PPA Master Amendments and incorporated herein by reference.

8. If this Agreement does not become effective in accordance with Section 7 above, this Agreement shall terminate, subject to the terms of paragraphs 5 and 6 in the PPA Master Amendments.

9. This Agreement and the concurrently executed PPA Master Amendments (and the respective PPAs they modify) embody the entire understanding and agreement of the Parties with respect to the Disputed Issues and matters described herein and, except as described herein, supersede and cancel any and all prior oral or written agreements, principles, negotiations, statements, representations or understandings by or among the Parties with respect to the Disputed Issues.

10. This Agreement may be amended or changed only by a written agreement signed by the Parties.

11. This Agreement constitutes a settlement of the Disputed Issues and represents a compromise of the Parties' respective litigation positions in the Dispute Resolution Proceedings described above. This Agreement shall not at any time, for any purpose, be considered or construed as any: precedent in any matter or for any agreement (including, but not limited to, each Seller's respective PPA and PPA Master Amendment) or proceeding; course of conduct or performance by or on the part of any of the Parties; or admission, agreement or endorsement of any disputed facts and/or law presented in the Dispute Resolution Proceedings. The Parties have assented to the terms of this Agreement only for the purpose of arriving at the settlement and compromise embodied herein. Each Party represents, warrants and covenants that it will not assert, argue, claim or represent at any time that this Agreement or the provisions contained herein, including, without limitation, the terms and conditions in Section 4 ("waiver of claims") and all subsections thereto, constitute or represent any precedent, course of conduct or performance, or admission, as described in this Section 11, by or on the part of any of the Parties whatsoever. In addition:

(a) Seller(s) shall not at any time attempt to argue or use this Agreement, the PPA(s) or the PPA Master Amendment(s) to dispute its obligations to provide Contract Capacity under or as required by its PPA and PPA Master Amendment; provided that, Sierra and Madera may assert their respective right to change the level of Contract Capacity only as specified in their respective PPA Master Amendment.

(b) A Party shall not use this Agreement, the PPA(s) or the PPA Master Amendment(s) to assert, claim or represent that it has any right to revise or modify the Contract

Capacity except as may be set forth in the applicable PPA Master Amendment(s), or deem that the Contract Capacity under a PPA(s) and the associated PPA Master Amendment(s) has been met at a level that is not permitted under such PPA(s) and PPA Master Amendment(s).

(c) Seller(s) shall not at any time attempt to use this Agreement, the PPA(s) or the PPA Master Amendment(s) to argue, assert, claim or represent that it is entitled to any increase in pricing for energy or capacity under its respective PPA or PPA Master Amendment, notwithstanding any pricing for energy or capacity that may be available to other renewable resources during the term of the PPA and PPA Master Amendment.

12. Any breach of this Agreement by any Seller or by PG&E shall constitute a breach by that breaching Party of such Seller's PPA and the associated PPA Master Amendment. With respect to any such breach, PG&E and the subject Seller shall be entitled to pursue their respective rights and remedies and to assert their respective defenses under that Seller's PPA and PPA Master Amendment.

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

14. This 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.

15. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute the same instrument. If this Agreement is executed in counterparts, no signatory hereto shall be bound until all of the Parties have duly

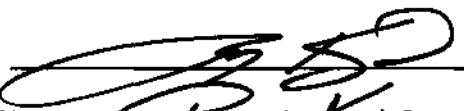
Execution Version

executed or caused to be duly executed a counterpart of this Agreement. A signature provided via facsimile or in PDF form shall have the same legal effect as an original.

16. If any dispute develops between PG&E and any Seller regarding the terms of this Agreement and the Seller's respective PPA Master Amendment, the terms of such Seller's PPA Master Amendment shall control.

In witness whereof, intending to be legally bound, the signatories hereto have duly executed this Agreement on behalf of the Party each signatory represents.

PACIFIC GAS AND ELECTRIC COMPANY

By:  CACW
Title: Ray Kuga VP Energy Supply
Date: 9/12/06

SIERRA POWER CORPORATION

By: _____
Title: _____
Date: _____

COMMUNITY RENEWABLE ENERGY SERVICES, INC.

By: _____
Title: _____
Date: _____

Execution Version

executed or caused to be duly executed a counterpart of this Agreement. A signature provided via facsimile or in PDF form shall have the same legal effect as an original.

16. If any dispute develops between PG&E and any Seller regarding the terms of this Agreement and the Seller's respective PPA Master Amendment, the terms of such Seller's PPA Master Amendment shall control.

In witness whereof, intending to be legally bound, the signatories hereto have duly executed this Agreement on behalf of the Party each signatory represents.

PACIFIC GAS AND ELECTRIC COMPANY

By: _____

Title: _____

Date: _____

SIERRA POWER CORPORATION

By: Kent Simpson

Title: President

Date: Sept. 14, 2006

COMMUNITY RENEWABLE ENERGY SERVICES, INC.

By: _____

Title: _____

Date: _____

Execution Version

executed or caused to be duly executed a counterpart of this Agreement. A signature provided via facsimile or in PDF form shall have the same legal effect as an original.

16. If any dispute develops between PG&E and any Seller regarding the terms of this Agreement and the Seller's respective PPA Master Amendment, the terms of such Seller's PPA Master Amendment shall control.

In witness whereof, intending to be legally bound, the signatories hereto have duly executed this Agreement on behalf of the Party each signatory represents.

PACIFIC GAS AND ELECTRIC COMPANY

By: _____

Title: _____

Date: _____

SIERRA POWER CORPORATION

By: _____

Title: _____

Date: _____

COMMUNITY RENEWABLE ENERGY SERVICES, INC.

By:  _____

Title: _____

Date: 9-14-06

Execution Version

MADERA POWER, LLC

By: 

Title: V.P. OF MANAGING MEMBER

Date: 9-14-06

Appendix C – Sellers' Operating Costs

Advice 2911-E

Appendix C

DECLARATION OF KENT DUYSSEN

I, Kent Duysen, declare:

1. I am the General Manager of Sierra Forest Products (Sierra) and I make this declaration in support of Pacific Gas and Electric Company's (PG&E) request for Commission approval of the Settlement and Amendments submitted by Advice Letter 2911-E.
2. In September 2003, Sierra executed a power purchase agreement (PPA) for the sale of renewable energy to PG&E from a biomass facility, resulting from the process outlined in the Assigned Commissioner's Ruling (ACR) for Interim Renewable Energy Solicitations dated August 13, 2003.
3. Sierra operates a sawmill at the site of the facility. Waste from the sawmill and other sources of biomass waste (25 percent sawmill, 35 percent agricultural, and 40 percent urban waste) fuel in the facility.
4. On November 14, 2005, Sellers formally initiated the dispute resolution process to resolve contract disputes involving entitlement to federal Production Tax Credits (PTC), the amount by which and how often contract capacity could be revised, and other matters. After a mediation session, Sellers and PG&E agreed to stay the dispute resolution process to determine if a negotiated solution could be reached.
5. During the course of the ensuing discussions, I informed PG&E that the contract pricing under the PPA would need to be an element of the negotiations. The pricing under the PPA and other provisions put Sierra in an economically and competitively disadvantageous position when compared to other existing biomass facilities.
6. To support Sierra's position during the negotiations, I provided operating cost data and other financial information to PG&E. For example, Sierra sustained substantial operating losses in 2004 and 2005. Fuel prices and certain non-fuel expenses have increased significantly since Sierra executed the PPA, and I anticipate that there will continue to be upward pressure on these costs.
7. In light of the foregoing facts, the minimum energy price Sierra could accept to resolve the disputed issues is the amount reflected in the Amendments.

8. The revised energy pricing, coupled with the capacity price (which has not been modified by the Amendments), satisfactorily resolve the disputed contract issues and allow Sierra to operate in an economically viable manner.

I declare under penalty of perjury under the laws of California that the foregoing is true and correct.

Executed on October 2, 2006 at Terra Bella, California.



Kent Duysen

Appendix C

DECLARATION OF JOHN RICHARDSON

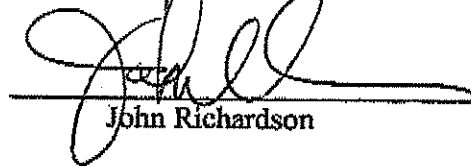
I, John Richardson, declare:

1. I am the Vice President of the Managing Member of Madera Power, LLC (Madera) and Vice President of Community Renewable Energy Services (CRES), and I make this declaration in support of Pacific Gas and Electric Company's (PG&E) request for Commission approval of the Settlement and Amendments submitted by Advice Letter 2911-E.
2. In September 2003, Madera and CRES (collectively, "Sellers") each executed a power purchase agreement (PPA) for the sale of renewable energy to PG&E from biomass facilities, resulting from the process outlined in the Assigned Commissioner's Ruling (ACR) for Interim Renewable Energy Solicitations dated August 13, 2003.
3. Madera and CRES operate waste-to-energy production facilities using agricultural waste and other sources of biomass fuel composed of approximately 30 percent agricultural and 70 percent urban waste.
4. On November 14, 2005, Sellers formally initiated the dispute resolution process to resolve contract disputes involving entitlement to federal Production Tax Credits (PTC), the amount by which and how often contract capacity could be revised, and other matters. After a mediation session, Sellers and PG&E agreed to stay the dispute resolution process to determine if a negotiated solution could be reached.
5. During the course of the ensuing discussions, I informed PG&E that the contract pricing under the PPAs would need to be an element of the negotiations. The pricing under the PPAs and other provisions put Madera and CRES in an economically and competitively disadvantageous position when compared to other existing biomass facilities.
6. To support the Sellers' position during the negotiations, I provided operating cost data and other financial information to PG&E. For example, Sellers sustained substantial operating losses in 2004 and 2005. Fuel prices and certain non-fuel expenses have increased significantly since Madera and CRES executed the PPAs, and I anticipate that there will continue to be upward pressure on these costs.
7. In light of the foregoing facts, the minimum energy price Sellers could accept to resolve the disputed issues is the amount reflected in the Amendments.

8. The revised energy pricing, coupled with the capacity price (which has not been modified by the Amendments), satisfactorily resolve the disputed contract issues and allow Madera and CRES to operate in an economically viable manner.

I declare under penalty of perjury under the laws of California that the foregoing is true and correct.

Executed on October 2, 2006 at SUN VALLEY California


John Richardson

**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 & Elsesser	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	Stanford University
California ISO	International Power Technology	Sutherland, Asbill & Brennan
Calpine	Interstate Gas Services, Inc.	Tabors Caramanis & Associates
Calpine Corp	IUCG/Sunshine Design LLC	Tecogen, Inc
Calpine Gilroy Cogen	J. R. Wood, Inc	TFS Energy
Cambridge Energy Research Assoc	JTM, Inc	Transcanada
Cameron McKenna	Luce, Forward, Hamilton & Scripps	Turlock Irrigation District
Cardinal Cogen	Manatt, Phelps & Phillips	U S Borax, Inc
Cellnet Data Systems	Marcus, David	United Cogen Inc.
Chevron Texaco	Matthew V. Brady & Associates	URM Groups
Chevron USA Production Co.	Maynor, Donald H.	Utility Cost Management LLC
City of Glendale	MBMC, Inc.	Utility Resource Network
City of Healdsburg	McKenzie & Assoc	Wellhead Electric Company
City of Palo Alto	McKenzie & Associates	Western Hub Properties, LLC
City of Redding	Meek, Daniel W.	White & Case
CLECA Law Office	Mirant California, LLC	WMA
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	