

AGREEMENT

THIS AGREEMENT, dated as of July 31, 2001 (the "Effective Date"), by and among I.T.R. ("QF") and Pacific Gas and Electric Company ("PG&E"). QF and PG&E are sometimes referred to herein as the "Parties."

WITNESSETH

WHEREAS, QF and PG&E are Parties to power purchase agreement for PG&E's purchase of power from QF's project identified by PG&E Log No. 256106 ("PPA");

WHEREAS, starting on February 1, 2001 (the "Initial Default Date"), PG&E failed to pay the full amount due to QF under the PPA for deliveries of energy and capacity for the period between December 1, 2000 and April 6, 2001;

WHEREAS, the amount of payables for QF are set forth in Attachment A hereto for a total amount of _____ dollars (\$533,142.⁵⁶), excluding interest thereon (the "Prepetition Payables"); FIVE HUNDRED THIRTY THREE THOUSAND ONE HUNDRED FORTY TWO AND 56 CENTS.

WHEREAS, PG&E asserted that its failure to make certain of the Prepetition Payables was excused based on a claim of force majeure and QF protested PG&E's assertion of such a force majeure and QF continues to dispute such assertions of PG&E's claim of force majeure;

WHEREAS, PG&E filed a Chapter 11 bankruptcy petition pursuant to Title 11 United States Codes §§ 101 *et seq.* ("Bankruptcy Code") in the United States Bankruptcy Court for the Northern District of California, San Francisco Division (the "Bankruptcy Court") on April 6, 2001;

WHEREAS, on June 13, 2001, the California Public Utilities Commission (the "CPUC") issued Decision No. 01-06-015 whereby Qualifying Facilities under Standard Offer Contracts with PG&E may request that their contracts be modified to replace the energy pricing term with a five-year average fixed price of 5.37 cents/kwh, as proposed in the March 23, 2001 comments of the Independent Energy Producers referred to in CPUC Decision No. 01-06-015;

WHEREAS, QF notified PG&E of its desire to modify the PPA pursuant to CPUC Decision No. 01-06-015;

NOW THEREFORE, in consideration of the premises described above and the terms and conditions set forth below, the Parties hereby agree as follows:

1. Acceptance of the CPUC Five-Year Fixed Energy Price Option. Subject to entry of a Bankruptcy Court order authorizing the assumption of the PPA as specified in Section 2 of this Agreement, PG&E and QF shall amend the PPA to replace the energy price term (PG&E's "full short-run avoided costs" or "full short-run avoided operating costs," as the case may be) for the lesser of the term of the PPA or five years with the applicable energy prices as specified in

Attachment B to this Agreement. These amended energy prices become effective on August 1, 2001, at 00:00 PST. No provision of the PPA other than the energy pricing term is or shall be deemed to be modified, amended, waived or otherwise affected by this Agreement. The Parties agree to reasonably cooperate and contest any challenge in any CPUC proceeding that seeks to alter or modify the energy pricing terms set forth in Attachment B to this Agreement, including, but not limited to, any challenge to the reasonableness of PG&E having entered into this Agreement. If, despite such cooperation and contest, a CPUC decision that alters or modifies the pricing terms in Attachment B to this Agreement becomes final and nonappealable, the Parties shall in good faith renegotiate the pricing terms in Attachment B to this Agreement, solely on a prospective basis, to preserve a five-year annual average fixed price of 5.37 cents/kwh, as proposed in the March 23, 2001 comments of the Independent Energy Producers referred to in Decision No. 01-06-015. Concurrent with the execution of this Agreement the Parties shall execute an amendment to the PPA consistent with the terms of this Section 1.

2. Conditioned on Assumption. The effectiveness of the PPA amendment contemplated in Section 1 of this Agreement is contingent upon assumption of the PPA in accordance with the procedures described below:

- a. PG&E and QF shall use their respective best efforts to enter into a Stipulation Regarding Assumption of the PPA ("Stipulation") that shall be filed in the Bankruptcy Court specifying the terms of this Agreement;
- b. PG&E shall use its best efforts to file and serve a Motion for Bankruptcy Court Approval of the Stipulation ("Motion"); and
- c. The Bankruptcy Court must grant the Motion and authorize PG&E's assumption of the PPA effective as of August 1, 2001.

3. Full Payment. In connection with PG&E's assumption of the PPA, PG&E agrees to pay on the "Plan Effective Date" (as such term is defined in the plan) the Prepetition Payables, including all interest thereon at the Interest Rate (as defined in Section 4 of this Agreement), which is amortized and added to the outstanding balance of the Prepetition Payables (the "Cure Amount"), all as part of its administrative priority cure obligations pursuant to sections 365 and 503 of the Bankruptcy Code. There is no "Cure Amount" other than as defined in this Section 3.

4. Interest. Interest shall accrue on the Prepetition Payables from their respective due dates until paid, at a rate (the "Interest Rate") to be negotiated in good faith by the Parties. If the Parties do not agree on the Interest Rate prior to the Plan Effective Date, the Interest Rate shall be determined in accordance with the terms of the Plan, if any, or by the Bankruptcy Court as part of the plan confirmation process. If no plan is confirmed or if PG&E's bankruptcy case is dismissed or converted to Chapter 7, then the Bankruptcy Court shall determine the Interest Rate. If the Bankruptcy Court declines to exercise jurisdiction over the determination of the Interest Rate, the Parties reserve all rights to pursue their appropriate remedies. The Parties agree that interest shall accrue and the Interest Rate shall be determined as set forth herein but each of the Parties reserves all of its respective rights as to the appropriate Interest Rate and to the capitalization or compounding thereof in any proposed plan or in connection with any other

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determination of the Interest Rate by the Bankruptcy Court. Specifically, though not exclusively, QF reserves the right to dispute any Interest Rate set forth in a proposed plan and preserves the right to assert that the claim of QF is impaired under the proposed plan as a result of such proposed Interest Rate.

5. Waiver of Pecuniary Loss Damages. QF waives its right to assert claims to recover "pecuniary loss" damages in connection with assumption of the PPA pursuant to Bankruptcy Code section 365(b)(1)(B). This waiver shall not diminish or affect QF's right to payment of the Prepetition Payables or the Cure Amount, or to recover interest thereon; nor shall this waiver affect the determination of the Interest Rate.

6. Waiver of Right to Pre-Assumption Claim. QF waives its right to assert claims to receive the difference between the market price and the contract price for energy and capacity delivered to PG&E from and after April 6, 2001 through August 1, 2001, the effective date that PG&E assumes the PPA, pursuant to Bankruptcy Code sections 365 and 503(b).

7. Payment of Post-Assumption Obligations. PG&E shall pay in full any and all post-assumption obligations due under the PPA on such dates, at such times, and under the PPA, pursuant to Bankruptcy Code section 365. Such obligations shall be afforded administrative priority status under Bankruptcy Code section 503. Good faith disputes regarding the amounts to be paid to QF under the PPA for post-assumption deliveries of energy and capacity shall not be deemed a breach of this Agreement.

8. Reservation of Rights. Neither this Agreement nor PG&E's assumption of the PPA in the manner contemplated herein shall modify, waive, or otherwise prejudice either Party's rights and obligations with respect to any proceedings before the CPUC, the Federal Energy Regulatory Commission and the courts, relating to the energy price to be paid pursuant to the PPA for the period prior to PG&E's assumption of the PPA provided herein, including, but not limited to, PG&E's pending Emergency Motion for Stay of D.99-11-025 to End True-Up for Switching QFs, filed January 10, 2001 in CPUC proceeding R.99-11-022, and petitions for rehearing, enforcement actions, and judicial challenges to CPUC Decision No. 01-03-067 and the dispute between the Parties with respect to the statement, computation and payment for electricity sold and delivered pursuant to the PPA during the period from January 1 through January 18, 2001. However, QF hereby waives any claim for payment from PG&E based on any QF assertion of economic hardship, other than that as set forth in the PPA and this Agreement or as has otherwise already been approved for the QF by the Bankruptcy Court and accrued before July 31, 2001.

9. Further Assurances. QF and PG&E shall take all necessary action to implement the terms and conditions contemplated herein, including but not limited to executing the amendment contemplated in Section 1 of this Agreement and preparing any documentation and taking any actions necessary to implement Section 2 of this Agreement and approving, executing and delivering this Agreement.

10. Descriptive Headings. The descriptive headings of this Agreement are inserted for convenience of reference only and do not constitute a part of this Agreement. All references

to sections, attachments, or exhibits are to the sections, attachments or exhibits of this Agreement.

11. Expenses. Each Party shall pay its own expenses, professional fees and other costs connected with or associated with the negotiation and execution of this Agreement. In the event any Party breaches this Agreement, the breaching Party shall pay all costs and expenses (including attorneys' fees and expenses) incurred by the other Party or Parties in connection with or arising out of such breach.

12. Governing Law. This Agreement is made and entered into in the State of California, and shall in all respects be interpreted and governed under the laws of California, without regard to principles of conflicts of law.

13. Entire Agreement. This Agreement, and all attachments hereto, sets forth the entire agreement between the Parties relating to the acceptance by QF of the CPUC five-year fixed energy price option set forth in CPUC Decision No. 01-06-015, assumption by PG&E of the PPA and the payment of the Cure Amount and supercedes and replaces any prior understanding, correspondence, commitments or agreement, whether oral or written concerning the subject matters of this Agreement. Any modification or amendment to this Agreement must be in writing and must be signed and dated by the Parties, and must explicitly state that it is intended to be an amendment to or modification of this Agreement.

14. Binding Agreement. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Parties hereto.

15. Construction of Agreement. Counsel for the respective Parties have reviewed and participated in the drafting of this Agreement. Consequently, the principle of construction of contracts that ambiguities shall be resolved against the drafter shall not be used or applied in the interpretation of this Agreement.

16. Representations. Each Party hereby represents and warrants to each of the other Parties that (a) the execution of this Agreement has been duly authorized by all necessary corporate, shareholder and similar actions; (b) this Agreement has been duly executed and delivered and constitutes the legal valid and binding obligation of such Party, enforceable against such Party in accordance with its terms; and (c) the execution and delivery of this Agreement and the performance by such Party of its obligations hereunder do not and will not conflict with, contravene or breach, and law, judgment, order or material contract applicable to or binding on such Party or any of its properties or assets.

17. Execution by Counterparts. This Agreement may be executed in separate counterparts, each of which when executed shall be an original, but all of which, taken together, shall constitute one and the same instrument.

18. Bankruptcy Court Approval. This Agreement is subject to Bankruptcy Court approval. If such approval has not been given by September 13, 2001, this Agreement shall be deemed a nullity.

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19. CPUC Approval. This Agreement is subject to a decision by the CPUC, in a form satisfactory to PG&E, finding PPA amendments entered into after July 14, 2001 per se reasonable under the same standards as established in D.01-06-015.

IN WITNESS WHEREOF, this Agreement has been duly executed by or on behalf of QF and PG&E as of the Effective Date.

I.T.R. (QF)

Pacific Gas and Electric Company,
a California corporation

By:



By:

Name:

ERIK NIELSEN

Name:

Title:

VICE PRESIDENT

Title:

Attachment B

Pacific Gas and Electric Company

FIXED ENERGY PRICES FOR QUALIFYING FACILITIES UNDER D. 01-06-015¹

Effective through December 31, 2001

	Starting Energy Value \$/kwh	2001 TOU Hours	SRAC TF Base ²	2001 TOU Factor ³	2001 TOU Energy Price ⁴ \$/kwh
	(a)	(b)	(c)	(d)	(e) = a * d
Allocation of Annual Fixed Price to Seasons:					
					Without Time-of-Use Metering:
Period A - Summer	0.053700	4,417	0.018748	0.879	0.047181
Period B - Winter	0.053700	4,343	0.023973	1.123	0.060330
Annual Average	0.053700	8,760	0.021338		0.053700
Allocation of Seasonal Prices to TOU Periods:					
					With Time-of-Use Metering:
Period A - Summer					
Peak	0.047181	774		1.085	0.060248
Partial-Peak	0.047181	803		1.022	0.048218
Off-Peak	0.047181	2,003		0.985	0.046485
Super Off-Peak	0.047181	737		0.946	0.044633
Period B - Winter					
Peak	-	-		-	-
Partial-Peak	0.060330	1,812		1.032	0.062291
Off-Peak	0.060330	2,008		0.992	0.059866
Super Off-Peak	0.060330	723		0.950	0.057314

1. These energy prices are derived solely for purposes of implementing the five-year fixed energy price (5.37 cents/kwh) option in CPUC Decision (D.) 01-06-015. These prices will be reallocated annually using appropriate TOU calendar hours.
2. SRAC TF Base values reflect the seasonal allocation factors currently specified in PG&E's SRAC Transition Formula, as adopted by the CPUC in D.96-12-028. Seasonal values reflect the Base SRAC energy prices adopted in D.96-12-028. The annual average value shown derives from weighting the seasonal values by TOU period hours.
3. TOU factors allocate the fixed annual energy price for seasons, and seasonal values for time-of-use periods. Seasonal TOU factors are derived from the ratio of the seasonal SRAC TF Base values to the average annual value shown. Intra-seasonal TOU factors are as adopted in D.96-12-028 (as corrected in CPUC D.97-01-027). Off-peak period values are calculated using seasonal period hours for the applicable year, per the following:

<u>Period A (May 1 - October 31)</u> [Total Summer hours - (1.055 * Summer Peak hours) - (1.022 * Summer Partial Peak hours) - (0.946 * Summer Super Off-Peak hours)] / Summer Off-Peak hours	<u>Period B (November 1 - April 30)</u> [Total Winter hours - (1.032 * Winter Partial-Peak hours) - (0.960 * Winter Super Off-Peak hours)] / Winter Off-Peak hours.
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4. TOU energy price is the product of the starting energy value and the TOU factor. Energy prices shown do not include applicable line loss adjustments. Line loss adjustments will be determined in accordance with CPUC D.01-01-007.

**JULY 31, 2001 AMENDMENT TO THE
POWER PURCHASE AGREEMENT
BETWEEN
[QF]
AND
PACIFIC GAS AND ELECTRIC COMPANY
(PG&E LOG NO. 25W105)**

THIS AMENDMENT ("Amendment"), dated as of July 31, 2001, is by and between PACIFIC GAS AND ELECTRIC COMPANY ("PG&E"), a California corporation and [QF] ("Seller"), a California Corporation PG&E and Seller are sometimes referred to herein individually as "Party" and collectively as the "Parties."

RECITALS

A. On 3-1-85 Seller (or Seller's predecessor, as applicable) and PG&E entered into a Power Purchase Agreement (as amended, the "PPA"), pursuant to which PG&E purchases electric power from Seller and Seller sells electric power to PG&E.

B. On April 6, 2001, PG&E filed a voluntary petition under chapter 11 of the United States Bankruptcy Code in the San Francisco Division of the United States Bankruptcy Court for the Northern District of California (the "Bankruptcy Court") (*In re Pacific Gas and Electric Company*, Bankr. Case No. 01-03923).

C. On June 14, 2001, the California Public Utilities Commission (the "Commission") issued Decision ("D.") 01-06-015, which approved as "per se reasonable" certain non-standard PPA energy price modifications if such modifications were entered into before July 15, 2001 (the "Initial Deadline").

D. On July 19, 2001, Commission administrative law judge John S. Wong issued a ruling extending the Initial Deadline until the Commission rules on a petition submitted by the Independent Energy Producers Association in D.01-06-015.

E. Seller notified PG&E of its desire to modify the PPA pursuant to D.01-06-015 after the Initial Deadline.

F. PG&E is willing to agree to Seller's request to modify Seller's PPA to replace the energy pricing term subject to the terms set forth below.

AMENDMENT

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

1. **FIXED ENERGY PRICE**

Subject to satisfaction of the conditions specified in Section 2 below, beginning August 1, 2001 at 00:00 PST, the energy price term specified in the PPA (PG&E's "full short-run avoided costs" or "full short-run avoided operating costs" as the case may be) shall be replaced for the lesser of the remaining term of the PPA or five years with the applicable energy prices as specified in Attachment A, which is hereby incorporated by reference. No provision of the PPA other than the energy price term is or shall be deemed to be modified, amended, waived or otherwise affected by this Amendment. The Parties agree to reasonably cooperate and contest any challenge in any Commission proceeding that seeks to alter or modify the energy pricing terms set forth in Attachment A, including, but not limited to, any challenge to the reasonableness of PG&E having entered into this Amendment.

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2. CONDITIONS ON EFFECTIVENESS OF AMENDMENT

This Amendment shall not become effective unless (1) it has been approved by the Bankruptcy Court; and (2) the Commission issues a decision, in a form satisfactory to PG&E, finding PPA amendments such as this Amendment entered into after the Initial Deadline as "per se reasonable" under the same standards as established in D.01-06-015 for PPA amendments entered into by the Initial Deadline. If both conditions (1) and (2) do not occur by September 13, 2001, this Amendment shall be deemed a nullity.

3. 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: _____
Title: _____
Date: _____

INTERNATIONAL TURBINE RESEARCH, INC.

[OF]
a CALIFORNIA CORPORATION
By: [Signature]
Title: VICE PRESIDENT
Date: JULY 30, 2001

Attachment A
Pacific Gas and Electric Company
FIXED ENERGY PRICES FOR QUALIFYING FACILITIES UNDER D. 01-06-015¹
Effective through December 31, 2001

	Starting Energy Value \$/kwh	2001 TOU Hours	SRAC TF Base ²	2001 TOU Factor ³	2001 TOU Energy Price ⁴ \$/kwh
	(a)	(b)	(c)	(d)	(a) * d
Allocation of Annual Fixed Price to Seasons:					
Period A - Summer	0.053700	4,417	0.018748	0.879	0.047181
Period B - Winter	0.053700	4,343	0.023973	1.123	0.060330
Annual Average	0.053700	8,760	0.021338		0.053700
Without Time-of-Use Metering:					
Allocation of Seasonal Prices to TOU Periods:					
Period A - Summer					With Time-of-Use Metering:
Peak	0.047181	774		1.085	0.050248
Partial-Peak	0.047181	903		1.022	0.048219
Off-Peak	0.047181	2,003		0.985	0.046465
Super Off-Peak	0.047181	737		0.946	0.044833
Period B - Winter					
Peak	0.060330	-		-	0.062261
Partial-Peak	0.060330	1,612		1.032	0.062261
Off-Peak	0.060330	2,006		0.992	0.059856
Super Off-Peak	0.060330	123		0.950	0.057314

- These energy prices are derived solely for purposes of implementing the five-year fixed energy price (5.37 cents/kwh) option in CPUC Decision (D.) 01-06-015. These prices will be reallocated annually using appropriate TOU calendar hours.
- SRAC TF Base values reflect the seasonal allocation factors currently specified in PG&E's SRAC Transition Formula, as adopted by the CPUC in D.96-12-028. Seasonal values reflect the Base SRAC energy prices adopted in D.96-12-028. The annual average value shown derives from weighting the seasonal values by TOU period hours.
- TOU factors allocate the fixed annual energy price for seasons, and seasonal values for time-of-use periods. Seasonal TOU factors are derived from the ratio of the seasonal SRAC TF Base values to the average annual value shown. Intra-seasonal TOU factors are as adopted in D.96-12-028 (as corrected in CPUC D.97-01-027). Off-peak period values are calculated using seasonal period hours for the applicable year, per the following:

Period A (May 1 - October 31)	Period B (November 1 - April 30)
[Total Summer hours * (1.085 * Summer Peak hours) - (1.022 * Summer Partial Peak hours) - (0.946 * Summer Super Off-Peak hours)] / Summer Off-Peak hours	[Total Winter hours - (1.032 * Winter Partial-Peak hours) - (0.950 * Winter Super Off-Peak hours)] / Winter Off-Peak hours.

- TOU energy price is the product of the starting energy value and the TOU factor. Energy prices shown do not include applicable line loss adjustments. Line loss adjustments will be determined in accordance with CPUC D.01-01-007.