

SECOND AMENDMENT TO THE
POWER PURCHASE AGREEMENT

BETWEEN

KERN HYDRO PARTERS LIMITED PARTNERSHIP, AS SUCCESSOR TO THE
OLCESE WATER DISTRICT

AND

PACIFIC GAS AND ELECTRIC COMPANY

(PG&E LOG NO. 25H073)

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

RECITALS

- A. On June 26, 1985 Seller (or Seller's predecessor in-interest, 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 01-06-015, which approved as reasonable certain non-standard PPA energy price modifications.
- D. Seller and PG&E now desire to enter into the PPA energy price modification set forth below.

AMENDMENT

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

I. FIXED ENERGY PRICE

Upon approval by the Bankruptcy Court as specified in Section 2 below, 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. Upon approval by the Bankruptcy Court as specified in Section 2 below, such amended energy prices shall become effective on July 16, 2001, at 00:00 PDT. 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.

2. EFFECTIVENESS OF AMENDMENT

This Amendment shall not become effective unless and until it has been approved by the Bankruptcy Court, and the Seller has received the consent of the Olcese Water District and if required, US Bank Trust National Association, the Trustee under the Trust Agreement relating to the Water Delivery System dated August 1, 1986. If the Bankruptcy Court, the Olcese Water District and, if required, such Trustee have not approved this Amendment by August 31, 2001, this Amendment shall be and 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: [Signature]

Title: Director UEPM

Date: 7/14/01

KERN HYDRO PARTNERS LIMITED

PARTNERSHIP a California limited partnership

By: Olcese Hydro Corporation, a Minnesota corporation, its sole General Partner

By: [Signature]

Title: President

Date: 7-13-01

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)	(e) = 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:					
With Time-of-Use Metering:					
Period A - Summer					
Peak	0.047181	774		1.065	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	0.044633
Period B - Winter					
Peak	—	—		—	—
Partial-Peak	0.060330	1,612		1.032	0.062261
Off-Peak	0.060330	2,008		0.992	0.059866
Super Off-Peak	0.060330	723		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 - (1.065 * 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.