

**AMENDMENT TO THE  
POWER PURCHASE AGREEMENT  
BETWEEN  
KERN HYDRO PARTNERS  
AND  
PACIFIC GAS AND ELECTRIC COMPANY  
(PG&E LOG NO. 25H073)**

THIS AMENDMENT (“Amendment”) is by and between PACIFIC GAS AND ELECTRIC COMPANY (“PG&E”), a California corporation, and KERN HYDRO PARTNERS (“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 June 26, 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.

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. 4<sup>th</sup> 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. 4<sup>th</sup> 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<sub>qf</sub>/GMM<sub>sys</sub>"). 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<sub>qf</sub>/GMM<sub>sys</sub> 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: 5-5-06

KERN HYDRO PARTNERS  
a California limited partnership

By: [Signature]  
Name: Fred HERMANN  
Title: CEO, Olcese Hydro Corporation, General Partner of Kern Hydro Partners  
Date: April 28, 2006