September 17, 2003

Confirmation Letter for Unit(s)-Firm Renewable Product

When-fully executed, this Confirmation letter ("Confirmation") confirms the Agreement by Sierra Power Corporation ("Seller"), to provide to Pacific Gas and Electric Company ("PG&E" or "Buyer"), the right to dispatch the Unit(s) identified below for all electrical products as specified herein. Either Seller or Buyer may be referred to as "Party" or, collectively, as "Parties."

1. Definitions. The following definitions shall be used to interpret this Agreement. Terms that are not defined in Section I or elsewhere in this Confirmation shall have the meaning ascribed to them in the Master Agreement.

   a. "Agreement" means the Master Agreement, Cover Sheet and Exhibits thereto, as modified by this Confirmation.

   b. "CPUC Approval" means that the CPUC has issued a final order, no longer subject to appeal, without conditions or modifications unacceptable to the Parties, or either of them, that: (1) finds that any procurement pursuant to this Agreement is deemed incremental procurement by PG&E from a renewable resource for purposes of determining PG&E's compliance with any obligation that it may have pursuant to the Renewable Portfolio Standard, CPUC Decision 03-06-071, or other applicable law to procure an additional one percent (1%) of its annual electricity sales from renewable resources; (2) finds that any procurement pursuant to this Agreement be deemed part of PG&E's "baseline" quantity of eligible renewable resources for purposes of Section 399.15 of the Public Utilities Code or other applicable law; and (3) approves this Agreement in its entirety, and contains findings that this Agreement and PG&E's entry into this Agreement are reasonable and prudent for all purposes, including, but not limited to, PG&E's recovery in rates of all payments made under this Agreement, subject only to CPUC review with respect to the reasonableness of PG&E's administration of the Agreement. If there is no timely application for rehearing or reconsideration of an acceptable CPUC resolution approving procurement pursuant to this Agreement, that resolution shall be deemed to satisfy this "CPUC Approval"

   c. "Consumer Price Index," or "CPI" shall mean the California CPI for All Urban Consumers, published by the California Department of Industrial Relations.

   d. "Delivery Point" is defined in Section 8, below.

   e. "Environmental Attributes" means any and all credits, benefits, emissions reductions, offsets, and allowances, howsoever entitled, attributable from the Unit(s), except those required by the local Air District for operation of the facility. Environmental Attributes include but are not limited to: (1) any avoided emissions of pollutants to the air, soil or water such (subject to the foregoing)

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sulfur oxides (SOx), nitrogen oxides (NOx), carbon monoxide (CO) and other pollutants; (2) any avoided emissions of carbon dioxide (CO2), methane (CH4) and other greenhouse gases (GHGs) that have been determined by the United Nations Intergovernmental Panel on Climate Change to contribute to the actual or potential threat of altering the Earth's climate by trapping heat in the atmosphere; and (3) the reporting rights to these avoided emissions such as Green Tag Reporting Rights. Green Tag Reporting Rights are the right of a Green Tag Purchaser to report the ownership of accumulated Green Tags in compliance with federal or state law, if applicable, and to a federal or state agency or any other party at the Green Tag Purchaser's discretion, and include without limitation those accruing under Section 1605(b) of The Energy Policy Act of 1992 and any present or future federal, state, or local law, regulation or bill, and international or foreign emissions trading program. Green Tags are accumulated on kWh basis and one Green Tag represents the Environmental Attributes associated with one (1) MWh of energy. Environmental Attributes do not include any fuel subsidies, including but not limited to the Agricultural Biomass Grant program administered by the State of California; energy, capacity, reliability or other power attributes from the Unit(s) or production tax credits associated with the construction or operation of the energy projects.

f. "Force Majeure" means any occurrence beyond the reasonable control of a Party, which causes that Party to be unable to perform, in whole or in part, an obligation under this Agreement, and which was not anticipated as of the date the particular transaction was agreed to, and which could not have been avoided by the exercise of due diligence. Force Majeure includes acts of God and natural catastrophes; actual or threatened civil disturbance, terrorism, war, or riot; strike or other labor dispute; emergencies declared by or forced curtailment required by the ISO or any other authorized successor or regional transmission organization or any state or federal regulator or legislature, physical damage to the gas or transmission system making it impossible to transmit energy or gas,; explosion.

Force Majeure shall not be based on: (i) Buyer's inability economically to use or resell the Product purchased hereunder; (ii) Seller's ability to sell the Product at a price greater than the price set forth in this Agreement; (iii) Seller's inability to obtain regulatory approvals for the construction, operation, or maintenance of its Unit(s); (iv) Seller's inability to obtain sufficient fuel to operate the Unit(s); (v) Seller's failure to obtain funds from the California Energy Commission to supplement the payments made pursuant to this Agreement; or (vi) a Forced Outage. The suspension of performance due to a claim of Force Majeure must be of no greater scope and of no longer duration than is required by the Force Majeure.

Buyer shall not be required to make any payments for capacity or energy not delivered or provided as a result of Force Majeure during the term of a Force

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Majeure. A Force Majeure shall not result in a breach or Event of Default hereunder except as provided in Section 16.e.

g. "Forced Outage" means an unplanned reduction or suspension of the electrical output from the Unit(s) in response to a mechanical, electrical, or hydraulic control system trip or operator-initiated trip in response to an alarm or equipment malfunction.

h. "GMM" means the generation meter multiplier as defined in the ISO tariff.

i. "ISO" means the California Independent System Operator or any successor entity performing similar functions.

j. "Master Agreement" means the Edison Electric Institute Master Power Purchase and Sale Agreement, Version 2.1 (modified 4/25/00) as modified by the Cover Sheet and this Confirmation.

k. "Planned Outage" means removing the equipment from service availability for inspection and/or general overhaul of one or more major equipment groups. To qualify as a Planned Outage, the maintenance must actually be conducted during the Planned Outage, and in the Seller's sole discretion must be of the type that is both necessary to reliably maintain the Unit(s) and cannot be reasonably conducted during Unit(s) operations.

1, "Product" means the Contract Capacity and Received Energy from the Unit(s).

m. "Prolonged Outage" is any period of more than 30 consecutive days during which the Unit(s) is or will be unable, for whatever reason, to provide at least 60% of the Product as scheduled by Buyer.

n. "Prudent Electrical Practices" means those practices, methods, applicable codes and acts engaged in or approved by a significant portion of the electric power industry during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time decision is made, that could have been expected to accomplish a desired result at reasonable cost consistent with good business practices, reliability, safety and expedition. Prudent Electrical Practices are not intended to be limited to the optimum practices, methods, or acts to the exclusion of others, but rather to those practices, methods and acts generally accepted or approved by a significant portion of the electric power industry in the relevant region, during the relevant time period, as described in the immediately preceding sentence.

o. "Received Energy" means energy delivered from the Unit(s) to Buyer, or substitute power not to exceed three (3) hours pursuant to Section 16.c. of this Agreement, measured in MWh at the ISO revenue meter for the Unit(s), net of the following: (a) any line or transformation losses between the ISO revenue meter

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and the Delivery Point and (b) the applicable GMM or any successor method to account for losses or congestion established by the ISO.

p. "RMR" means Reliability Must Run.

q. "Station Use" means energy used to operate the auxiliary equipment of the Unit(s). The auxiliary equipment includes, but is not limited to, forced and induced draft fans, cooling towers, boiler feed pumps, lubricating oil systems, plant lighting, fuel handling systems, control systems and sump pumps.

2. Unit(s): The Unit(s) are described in Appendix A. Seller represents and warrants throughout the Term of Agreement that: (a) the Unit(s) qualifies and is certified by the CEC as an Eligible Renewable Energy Resource ("ERR") as defined in Public Utilities Code Section 399.12; and (b) the Unit(s) output delivered to Buyer qualifies under the requirements of the California Renewable Portfolio Standard. All Product must be delivered by the specified ERR.

3. All output from the Unit(s) must be delivered through a single ISO revenue meter and that meter must be dedicated exclusively to those Unit(s) described herein. All Product purchased under this Confirmation must be measured by the Unit(s) ISO revenue meter to be eligible for payment under this Agreement.

4. Seller represents and warrants that the output of the Unit(s) up to the Contract Capacity shall be dedicated and delivered solely to Buyer throughout the Term of Agreement, except as set forth in Section lO.d. of this Agreement or as provided to Seller's sawmill adjacent to the Unit. Buyer represents and warrants that it shall take or pay for the output scheduled from the Unit(s), up to the amount of the Contract Capacity, throughout the Term of the Agreement, unless excused pursuant to the terms of this Agreement.

5. Energy Price. Buyer shall be obligated to take or pay for all available output from the Unit(s) up to the Contract Capacity, at a rate of $30.00 per MWh throughout the Term of Agreement, unless excused pursuant to the terms of this Agreement. In addition, Buyer will pay Seller at a rate of $30.00 per MWh for up to one (1) MW above the Contract Capacity for all Received Energy delivered by Seller from the Unit(s).

6. Capacity.

a. Contract Capacity: 7.0 MW.

b. Contract Capacity Price: Buyer shall pay Seller for Contract Capacity at a rate of $14.50/kW-month, adjusted for availability by the Availability Factor specified in Section 6.d..

c. Beginning after the 3rd anniversary of CPUC Approval, the Capacity Price and Energy Price shall be adjusted each year of the remainder of the Term of Agreement by 75% of the annual percentage change in the Consumer Price Index

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("CPI") during the previous year.' However each annual change in capacity and energy price shall not exceed 2.75% per year.

d. Availability Factor: The Availability Factor shall be calculated for each Period as follows:

Received Energy (limited by Contract Capacity) + PG&E Curtailments (pursuant to Section lO.a.) + Received Energy up to 1 MW above Contract Capacity
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Contract Capacity x (Total Hours in Period - any Force Majeure hours in Period)

Where,

i. PG&E Curtailments are any reductions in deliveries at Buyer's request, and are measured by the positive difference in MWh between: (a) the Allowable Delivery Amount in MW (as used in Section lO.a.) times the number of hours of instructed curtailment by Buyer in the Period and (b) the MWh Seller could have delivered in the same period in the absence of any curtailment instructions from Buyer. The level of MWh the Seller could have delivered is determined by the average operating capacity, up to the Contract Capacity, during four hours of operation before the start of any curtailment requested by Buyer. The Availability Factor can be.no greater than 100%.

ii. Received Energy up to 1 MW above the Contract Capacity shall apply only if and when the seller designates its Contract Capacity as 6 MW or less.

iii. In calculating the Availability Factor "Period" means the individual months of June, July, August and September, (Period A) and the aggregate of the months of October through May (Period B.)

e. Capacity Payments:

i. Period A includes June, July, August and September. Capacity payments for each month in period A shall be adjusted, based on each month's Availability Factor, as follows: for each month in which the Availability Factor is below 92%, the capacity payment shall be decreased by 5% for every 1% the Availability Factor is below 92%. If Contract Capacity has not been reduced below 7 MW the capacity payment shall be increased 3% for every 1% the Availability Factor is above 95% in any month within Period A. This 3% increase in capacity payments for each 1% the

[1] The CPI shall be found in www.dir.ca.eov/DLSRyentireCCPI.pdf. or its successor. An illustration of how to calculate the annual change is as follows: The change from 2001 to 2002 - (186.1-181.7)7181.7=2.42%.

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Availability Factor is greater than 95% shall apply only if Contract Capacity has not been reduced below 7 MW.

ii. Period B includes the consecutive months of October, November, December, January, February, March, April and May. Buyer shall pay Seller the unreduced Contract Capacity Price if Seller's aggregate Availability Factor for all of Period B is at least 85%. Capacity payments shall be reduced by 1.5% for every 1% the AvailabilityFactor is below 85%. During Period B capacity payments will be made monthly, based on each month's individual Availability Factor. However payment for deliveries during the month of May shall be increased or decreased to adjust for the aggregate Availability Factor achieved in Period B. The ' Contract Capacity payment shall never be increased due to an Availability Factor above 85% in any month of Period B or in Period B in the aggregate.

iii. All Availability Factors and capacity payments shall be calculated with 5 significant digits before rounding. (E.g., 0.98756 or 98.756%.)

iv. Examples of Capacity Payment adjustments:

Example A: For a month in Period A, the Capacity Payment would be adjusted as follows, depending on the Unit(s)'Availability Factor:

Assumed Availability Factor	Change in Capacity Payment
95%	0%
92%	0%
90%	(90-92)*5 = -10%
87.5%	(87.5-92)*5 = -22.5%

Example B: If the Unit(s) had achieved the following Availability Factors in Period B, capacity payments would be calculated as below:

Month/Total Period	Assumed A...i»u:i:+..	Monthly Adjustment/Total Period True-Up

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Period (Hours per month)	Availability Factor	Adjustment Calculation	Capacity Payment (Assuming a Contract Capacity of 10MW& Capacity Price of 14.50 $/kw-mo)
October (744)	85	0	10*1000*14.50*(100%-0%) = $145,000
November (720)	80	(80-85)* 1.5 = -7.5%	10*1 000* 14.50*(100%-7.5%) = $134,125
December (744)	85	0	10*1000*14.50*(100%-0%) = $145,000
January (744)	87	(87-85}*1.5 = 3.0%>0 = 0%	10*1 000* 14.50*(100%-0%) =- $145,000
February (672)	85	0	10*1000*14.50*(100%-0%) = $145,000
March (744)	88	(88-85)* 1.5 =4.5 >0 = 0%	10*1000*14.50*(100%-0%) = $145,000
April (720)	86	(86-85)*1.5 = 1.5>0 = 0%	10*1000* 14.50*(100%-0%) = $145,000
May (744)	82	(82-85)* 1.5 = -4.5%	10* 1000* l'4.50*(100%-4.5%) = $138,475
Total Hours in Period (5832)			
Total Payments in Period	84.76		$1,142,600
Total Period Amount Due	84.76	(84.76-85)* 1.5 = -0.36%	10*1000*14.50*8*(100%- 0.36%) = $1,1 55,824
Final Month True-up			$1,155,824 -$1,142,600 = $13,224

7. Term of Agreement.

a. The Term of Agreement shall commence on the first date Seller delivers energy and capacity from the Unit(s) pursuant to.this Agreement (the "Initial Energy Delivery Date") and end upon the termination of the Agreement. The Initial Energy Delivery Date shall not occur until CPUC Approval and Seller's compliance with the "Security Provided by Seller" provisions of Section 29.1.. Buyer and Seller shall schedule the Initial Energy Delivery Date on a mutually agreeable date, no later than 30 days after CPUC Approval, or the expiration date

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of interim contracts for the Unit(s) entered into by Seller, whichever is later, but no later than 90 days after CPUC Approval.

b. Term 1. Term 1 shall begin on the Initial Energy Delivery Date and shall continue year-to-year until one ofthe following events occurs:

i. Termination by Buyer During Term 1. During Term 1, PG&E may terminate the Agreement on each anniversary ofthe Initial Energy Delivery Date; provided that PG&E has given Seller written notice of its intention to terminate the Agreement at least 90 days before the termination date;

ii. PG&E has sole discretion .at any time during Term 1 to elect to extend the Agreement for 5 years. If PG&E makes such an election, Term 2 shall commence on the notification date;

iii. Termination by Seller During Term 1. If PG&E does not exercise its option to extend the Agreement pursuant to Section 7.b.ii. within 90 days after attaining an investment-grade credit rating as determined by at least two major ratings agencies (BBB minus by Standard and Poor's and Fitch or Baa3 by Moody's), Seller shall have thirty days from the end ofthe 90-day period in which it may send PG&E a written notice advising PG&E of its intent to terminate the Agreement. Seller's termination shall become effective 90 days after providing PG&E written notice of its intention to terminate the Agreement.

iv. During Term 1, Seller may also terminate the Agreement on each anniversary of the Initial Energy Delivery Date, and any subsequent anniversary date(s) unless PG&E exercises its option to enter Term 2 after PG&E attains an investment grade credit rating (as defined above), provided Seller gives PG&E written notice of its intention to terminate the Agreement at least 90 days before the termination date.

c. Term 2. Term 2 begins if PG&E exercises its sole discretion to extend the Agreement pursuant to Section 7.b.ii.. Term 2 shall have a term of 5 years from the date PG&E delivers written notice of its election to extend the Agreement.

d. Term 3. If PG&E has elected to enter Term 2, PG&E shall have sole discretion to extend the Agreement for an additional 5-year term ("Term 3") by delivering to Seller written notice of its intent to extend the Agreement no later than 90 days before the expiration of Term 2. If PG&E does not exercise its option to enter Term 3, the Agreement shall terminate at the end of Term 2.

e. Seller shall have the right to. terminate this Agreement if there has been no CPUC Approval 120 days after PG&E has made its written request for CPUC Approval.

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8. Delivery Point. NP15. In the event NP15 is redefined such that the point at which the Unit(s) is interconnected to the PG&E transmission system is no longer in NP15, the Delivery Point shall be the zone or node within which the Unit(s) is interconnected to the PG&E transmission system.

9. Seller hereby provides and conveys all Environmental Attributes associated with generation from the Unit(s) to Buyer as included in the delivery of the Product from the Initial Energy Delivery Date throughout the Term of Agreement. Environmental Attributes shall have the meaning set forth in Section I.e.. Seller represents and warrants that Seller holds the rights to all Environmental Attributes associated with the Unit(s), and Seller agrees to convey and hereby conveys all such Environmental Attributes to Buyer as included in the delivery of the Product from the Unit(s).

10. Curtailment of the UnitCs") by Buyer.

a. The energy deliveries from the Unit(s) may be partially or completely curtailed at the request of the Buyer, beginning on the Initial Energy Delivery Date, for up to 1,500 hours each year. The curtailment outputs, notification times, minimum curtailment times and curtailment ramp rates are described in Appendix B. Buyer shall issue a curtailment order no later than: (a) for day-ahead scheduling, two (2) hours before the Seller's Scheduling Coordinator is required to submit its preferred day-ahead schedule to the ISO; (b) for the intra-day scheduling changes, one (1) hour before the Seller's Scheduling Coordinator is required to submit its preferred hour-ahead schedule to the ISO. Notice shall be oral and confirmed in writing and shall include the amount of allowable delivery measured in MW (the "Allowable Delivery Amount") and the duration of the curtailment period. Buyer's exercise of its curtailment rights under this Confirmation shall be at Buyer's sole discretion. Seller shall receive no payment for energy delivered during a properly-noticed curtailment period to the extent such deliveries exceed the Allowable Delivery Amount.

b. Buyer will pay for start-ups following a complete curtailment of the Unit(s) requested by Buyer as follows:

i. Hot Start: Buyer shall pay $ [Not Applicable] per start. The term "Hot Start" is defined in Appendix B.

ii. Cold Start: Buyer shall pay $ 4,000.00 per start. The term "Cold Start" is defined in Appendix B.

iii. Warm Start: Buyer shall pay $ [Not Applicable] per start. The term "Warm Start" is defined in Appendix B.

iv. Buyer shall be entitled to a total of 8 Cold Starts per year at no cost to Buyer.

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c. Seller waives any claim for and agrees it shall not seek compensation or damages from Buyer for any administrative penalties or fines, economic losses or damage to the Unit(s) resulting from Buyer's exercise of its curtailment rights under this Agreement.

d. Seller is entitled, during any curtailment, to sell energy from the Unit(s) into the wholesale market. If Seller sells into the wholesale market and as a consequence thereof does not require a start-up for a Unit or Units, Buyer's instructions to resume deliveries after Seller's sales into the wholesale market under section lO.d. shall not constitute a start-up of the Unit(s).

11. Duty of Care. Seller agrees to use Prudent Electrical Practices in the maintenance and operation of the Unit(s).

12. Scheduling with ISO. Seller shall arrange and be responsible for transmission service to the Delivery Point, and shall obtain Schedule Coordination Services necessary to deliver the Product to the Delivery Point. Seller shall be responsible for all ISO costs and charges, including imbalance charges due to deviations from power schedules, regardless of the cause thereof. Seller shall comply with all applicable ISO rules and tariffs.

13. Schedule of Deliveries. Seller shall provide day-ahead delivery schedules to Buyer no later than fourteen (14) hours before the beginning of the preschedule day (i.e., 38 hours in advance of the beginning of the trading day) in accordance with ISO scheduling protocols. Buyer may reduce the 14-hour period whenever it is practicable to do so. Each delivery schedule shall clearly identify, for each hour, Seller's best estimate of all amounts of Product to be-delivered and sold to Buyer pursuant to this Agreement. These notices and schedules shall be sent to:

Day-Ahead Trading Desk
415-973-6222
Fax: 415-973-0400
daenergy@pge.com

Thereafter, Seller shall promptly/immediately notify Buyer of any changes to the day-ahead schedule and provide a revised schedule as soon as possible but, in no event later than one (1) hour before the Buyer's Scheduling Coordinator is required to submit hour-ahead schedules to the ISO. These notices and schedule changes shall be sent to:

Hour-Ahead Trading Desk
415-973-7900
Fax: 415-972-5340
rtenergv@pge.com

14. Seller agrees to use its best efforts to obtain and maintain all regulatory approvals needed to operate and maintain the Unit(s) and the ERR status of the Unit(s), so that there is no delay in the commencement of service hereunder and no interruption of deliveries

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