

Mr. Bob Ellery
Sierra Pacific Industries
P. O. Box 496014
Redding, Ca 96049-6014

June 27, 2006

Subject: Sierra Pacific Industries Lincoln, PG&E Log No. 12C008, Incremental Purchase/Sale Letter Agreement

Dear Mr. Ellery:

In April 2006, Sierra Pacific Industries (SPI) and PG&E executed an Amendment to SPI's Power Purchase Agreement (PPA) with PG&E for energy deliveries to PG&E from SPI's generation facility located at Lincoln ("Lincoln facility"), California. That Amendment is currently pending approval by the California Public Utilities Commission (CPUC) in dockets R.04-04-003, R.04-04-025 and R.99-11-022 as part of a settlement agreement that PG&E and the Independent Power Producers Association (IEP) filed on April 18, 2006. SPI has recently installed new equipment at this facility that now makes it possible for the facility to make deliveries at a rate greater than the 10,500 kW limit that SPI and PG&E agreed to as part of a previous, June 4, 2002 Settlement Agreement.

SPI now wishes to increase its deliveries of energy to PG&E from the Lincoln facility beyond the 10,500 kW limit. PG&E is willing to purchase such incremental energy from SPI's Lincoln facility at the price specified in the PG&E/IEP Settlement Amendment referenced above subject to the following terms and conditions.

1. PG&E acknowledges that the nameplate of the generator installed at SPI's Lincoln facility is 17,200 kW. Nothing in this agreement shall be construed to change the 54,500 kW aggregate nameplate rating specified in Schedule 1-4 (Article 3 (b)) of the June 4, 2002 Settlement Agreement.
2. The limit on the actual rate of delivery into the PG&E system specified in Schedule 1-4 (Article 3 (d)) of the June 4, 2002 Settlement Agreement shall be increased from 10,500 kW up to a maximum of 17,200 kW to accommodate the additional energy deliveries. This increase shall not become effective and PG&E shall not be obligated to take or pay for any incremental energy deliveries until PG&E determines, in its sole discretion, that: (a) no system reinforcements in the Lincoln area are required to enable PG&E to take delivery of the additional deliveries on a continuous basis; or (b) that any reinforcements that PG&E in its sole discretion determines are necessary have been completed. SPI shall be responsible for paying for any system re-enforcements or upgrades necessary as required by the terms of the existing SPI/PG&E PPA and any applicable electrical interconnection and special facilities agreements between PG&E and SPI for its Lincoln facility.
3. SPI will work in good faith and use commercially reasonable efforts to provide PG&E a daily schedule of expected deliveries in a form and manner acceptable to PG&E.

4. Deliveries exceeding 10,500 kW shall not be eligible for capacity payments.
5. Deliveries above 10,500 kW shall not be used for the purposes of calculating the performance bonus factor as described in the SPI/PG&E PPA or for determining capacity payments under that PPA as previously amended.
6. PG&E shall have no obligation to pay for deliveries made pursuant to this letter agreement (i.e. amounts above 10,500 Kw) during Period B (January 1 through April 30 and from November 1 through December 30) of any year that exceed a cumulative amount of 3000 Mwh.
7. This letter agreement shall terminate if (1) the conditions in item 2 above are not satisfied; (2) the CPUC does not approve the April 2006 Amendment to SPI's PPA with PG&E now pending before the CPUC in a form acceptable to PG&E; (3) the CPUC finds this letter agreement unreasonable or unacceptable for any reason after PG&E has submitted it for CPUC Approval as part of PG&E's Quarterly Advice Letter (Transactions Report) as required, initially, by CPUC Decision 02-10-062, a submission PG&E will timely make, (4) by either Party upon 7 business days written notice after the April 2006 Amendment to SPI's PPA with PG&E terminates by its terms or (5) no later than midnight on June 15, 2011 unless extended by agreement of the Parties, whichever of the foregoing five circumstances occurs first.

This Amendment shall be effective June 19, 2006.

Please confirm your agreement by signing below.

PACIFIC GAS and ELECTRIC COMPANY, as
Buyer

Pacific Gas and Electric Company

By: 

Date: 7/11/06

Accepted and Agreed:

SIERRA PACIFIC INDUSTRIES

By: 
Bob Ellery, Director

Date: 7/10/2006