

02-045

**MASTER POWER PURCHASE AND SALE AGREEMENT
COVER SHEET**

This *Master Power Purchase and Sale Agreement* (Version 2.1; modified 4/25/00) ("*Master Agreement*") is made as of the following date: October 30, 2002 ("Effective Date"). The *Master Agreement*, together with the exhibits, schedules and any written supplements hereto, the Party A Tariff, if any, the Party B Tariff, if any, any designated collateral, credit support or margin agreement or similar arrangement between the Parties and all Transactions (including any confirmations accepted in accordance with Section 2.3 hereto) shall be referred to as the "Agreement." The Parties to this *Master Agreement* are the following:

Name: AES Delano, Inc. ("Party A")

Name: San Diego Gas & Electric Company ("Party B")

All Notices:

All Notices:

Street: 31500 Pond Road, P.O. Box 550

Street: 8306 Century Park Court

City: Delano, CA Zip: 93215

City: San Diego, CA Zip: 92123

Attn: Plant Manager
Phone: 661-792-3067
Facsimile: 661-792-3072
Duns n/a
Federal Tax ID Number: [REDACTED]

Attn: Contract Administration
Phone: (858) 650-6176
Facsimile: (858) 650-6190
Duns: 006911457
Federal Tax ID Number: [REDACTED]

Invoices:

Invoices:

AES Delano, Inc
P.O. Box 550
Delano, California 93215
Attn: Accounting
Phone: 661-792-3067
Facsimile: 661-792-3072

San Diego Gas & Electric Company
8306 Century Park Ct.
San Diego, California 92123-1593
Attn: Energy Accounting Manager
Phone: (858) 650-6177
Facsimile: (858) 650-6190

Scheduling:

Scheduling:

AES Delano, Inc
P.O. Box 550
Delano, California 93215
Attn: Operations Manager
Phone: 661-792-3067
Facsimile: 661-792-3072

San Diego Gas & Electric Company
8306 Century Park Ct.
San Diego, California 92123-1593
Attn: Transaction Scheduling Manager
Phone: (858) 650-6160
Facsimile: (858) 650-6191

Payments:

Payments:

AES Delano, Inc
P.O. Box 550
Delano, California 93215
Attn: Accounting
Phone: 661-792-3067
Facsimile: 661-792-3072

San Diego Gas & Electric Company
PO Box 25110
Santa Ana, CA 92799-5110
Attn: Mail Payments
Phone: (619) 696-4521
Facsimile: (619) 696-4899

Wire Transfer:

Wire Transfer:

BNK: Well Fargo Bank
for: AES Delano, Inc.
ABA: Routing # [REDACTED]
ACCT: # [REDACTED]
Confirmation: Accounting
Fax: 661-792-3072

BNK: Union Bank of California
for: San Diego Gas & Electric Company
ABA: Routing # [REDACTED]
ACCT: # [REDACTED]
Confirmation: SDG&E, Major Markets
FAX: (213) 244-8316

Credit and Collections:

AES Delano, Inc
P.O. Box 550
Delano, California 93215
Attn: Accounting
Phone: 661-792-3067
Facsimile: 661-792-3072

Credit and Collections:

San Diego Gas & Electric Company, Major Markets
555 W. Fifth Street
ML 10E3
Los Angeles, CA 90013-1011
Attn.: Major Markets, Credit and Collections Manager
Fax No.: (213) 244-8316
Phone: 1-866-313-6622 (toll-free)

With additional Notices of an Event of Default or Potential Event of Default to:

AES Pacific
100 Pine Street, Suite 3300
San Francisco, California 94111
Attn: Group Manager
Facsimile: 415-395-7891

With additional Notices of an Event of Default or Potential Event of Default to:

Sempra Energy
101 Ash Street
San Diego, CA 92101
Attn: Assistant General Counsel, Commercial Law
Facsimile: (619) 696-4377

The Parties hereby agree that the General Terms and Conditions are incorporated herein, and to the following provisions as provided for in the General Terms and Conditions:

Party A Tariff	N/A	Dated _____	Docket Number _____
Party B Tariff	Tariff FERC	Dated 9/10/99 and accepted 10/25/99	Docket Number 88 FERC P61,212

Article Two

Transaction Terms and Conditions X Optional provision in Section 2.4. If not checked, inapplicable.

Article Four

Remedies for Failure to Deliver or Receive X Accelerated Payment of Damages. If not checked, inapplicable.

Article Five

Cross Default for Party A:

Events of Default; Remedies	X Party A: AES Delano, Inc.	Cross Default Amount: <u>\$25 Million Dollars</u>
	<input type="checkbox"/> Other Entity: N/A	Cross Default Amount: \$ N/A
	X Cross Default for Party B:	
	X Party B: San Diego Gas & Electric Company	Cross Default Amount \$25 Million Dollars
	<input type="checkbox"/> Other Entity: N/A	Cross Default Amount \$ N/A

5.6 Closeout Setoff

- Option A (Applicable if no other selection is made.)
- Option B -- Affiliates shall have the meaning set forth in the Agreement unless otherwise specified as follows: Affiliates shall not include those of Party B.
- Option C (No Setoff)

Article 6

Party A and Party B agree to Transaction Netting as described in Article 6.8.

Article 8

8.1 Party A Credit Protection:

Credit and Collateral Requirements

(a) Financial Information:

- Option A
- Option B Specify: _____
- Option C Specify: _____

(b) Credit Assurances:

- Not Applicable
- Applicable

(c) Collateral Threshold:

- Not Applicable
- Applicable

If applicable, complete the following:

Party B Collateral Threshold: N/A

Party B Independent Amount: \$0

Party B Rounding Amount: \$100,000

(d) Downgrade Event:

- Not Applicable
- Applicable

If applicable, complete the following:

- It shall be a Downgrade Event for Party B if San Diego Gas & Electric Company's Credit Rating falls below BBB- from S&P or Baa3 from Moody's or if San Diego Gas & Electric Company is not rated by either S&P or Moody's.
- Other:
Specify: _____

(e) Guarantor for Party B: None

Guarantee Amount: N/A

8.2 Party B Credit Protection:

(a) Financial Information:

- Option A
- Option B Specify:
- Option C Specify: If requested by Party B, Party A shall deliver within 120 days following the end of each fiscal year, a copy of Party A's unaudited consolidated financial statements for such fiscal year. In all cases the statements shall be for the most recent accounting period and prepared in accordance with generally accepted accounting principles; provided, however, that should any such statements not be available on a timely basis due to a delay in preparation or certification, such delay shall not be an Event of Default so long as such Party diligently pursues the preparation, certification and delivery of the statements.

(b) Credit Assurances:

- Not Applicable
- Applicable

(c) Collateral Threshold:

- Not Applicable
- Applicable

If applicable, complete the following:

Party A Collateral Threshold: N/A

Party A Independent Amount: 0

Party A Rounding Amount: \$100,000

(d) Downgrade Event:

- Not Applicable
- Applicable

If applicable, complete the following:

Other:

Specify: _____

(e) Guarantor for Party A: **None.**

Guarantee Amount: N/A

Guarantee must be in full force and effect to guaranty the obligations of all Transactions. If notice to terminate such Guarantee is provided prior to the final and irrevocable satisfaction of all obligations, such notice shall be sufficient to trigger Party B's right to request Performance Assurance under Section 8.2(b) and shall only be effective upon provision of such Performance Assurance.

Article 10

Confidentiality

Confidentiality Applicable

If not checked, inapplicable.

Schedule M

- Party A is a Governmental Entity or Public Power System
- Party B is a Governmental Entity or Public Power System
- Add Section 3.6. If not checked, inapplicable
- Add Section 8.6. If not checked, inapplicable

Other Changes

Specify, if any: Yes, the following changes shall be applicable:

Part 1. GENERAL TERMS AND CONDITIONS.

(a) **Definitions.** The following definitions are amended as set forth below:

- (1) Section 1.11 shall be amended by adding the following after "Party" in third line: "after using commercially reasonable efforts to mitigate or eliminate such costs,"
- (2) Section 1.12 is amended by deleting in the fourth line the word "issues" and replacing it with the word "issuer".
- (3) Section 1.25 shall be modified by adding the following as the last sentence: "Guarantor shall issue a Guarantee in a form acceptable to the party in whose favor the Guarantee is issued."
- (4) Section 1.27 shall be modified by deleting the phrase "or a foreign bank with a U.S. branch" and replacing it with the phrase "or a U.S. branch of a foreign bank (which is not an Affiliate of either party)"
- (5) Section 1.45 shall be modified by including the words "acceptable to the requesting party" after the words "Letter(s) of Credit".
- (6) Section 1.50 is amended by deleting the reference to "Section 2.4" and replacing it with "Section 2.5".
- (7) Section 1.51 is amended by replacing the current definition with the following:

"Replacement Price" means the price at which Buyer, acting in a commercially reasonable manner, purchases for delivery at the Delivery Point (or, if replacement power is not available at the Delivery Point, any other delivery point where Buyer is able to purchase replacement product) a replacement for any Product specified in a Transaction but not delivered by Seller, plus (i) costs reasonably incurred by Buyer in purchasing such substitute Product and (ii) additional transmission charges, if any, reasonably incurred by Buyer to the Delivery Point, or absent a purchase, the market price at the Delivery Point for such Product not delivered as determined by Buyer in a commercially reasonable manner. The Replacement Price also shall include all charges and penalties calculated in dollars per megawatt hour with respect to the deviation from the scheduled supply resulting from Seller's failure to deliver; provided, however, in no event shall such price include any ratcheted demand or similar charges, nor shall Buyer be required to utilize or change its utilization of its owned or controlled assets or market positions to minimize Seller's liability. For the purposes of this definition, Buyer shall be considered to have purchased replacement Product to the extent Buyer shall have entered into one or more arrangements in a commercially reasonable manner whereby Buyer repurchases its obligation to sell and deliver the Product to another party at the Delivery Point. If for any reason a Replacement Price is unavailable at the Delivery Point during a Transaction when Seller fails to deliver Product ("Missing Hours"), then the Replacement Price for Missing Hours shall be the last available Replacement Price prior to the Missing Hours together with any charges and penalties allocated to Buyer for the Missing Hours."

(7) Section 1.53 is amended by replacing the current definition with the following:

"Sales Price" means the price at which Seller, acting in a commercially reasonable manner, resells any Product not received by Buyer, deducting from such proceeds any (i) costs reasonably incurred by Seller in reselling such Product and (ii) additional transmission charges, if any, reasonably incurred by Seller in delivering such Product to the third party purchasers, or absent a sale, the market price at the Delivery Point for such Product not received as determined by Seller in a commercially reasonable manner. The Sales Price also shall include all charges and penalties calculated in dollars per megawatt hour with respect to the deviation from the scheduled supply resulting from Buyer's failure to take Product; provided, however, in no event shall such price include any ratcheted demand or similar charges, nor shall Seller be required to utilize or change its utilization of its owned or controlled assets, including contractual assets, or market positions to minimize Buyer's liability. For purposes of this definition, Seller shall be considered to have resold such Product to the extent Seller shall have entered into one or more arrangements in a commercially reasonable manner whereby Seller repurchases its obligation to purchase and receive the Product from another party at the Delivery Point."

(8) Section 1.60 shall be amended by inserting the words "in writing" immediately following the words "agreed to".

(9) Section 1.62 is added as follows:

"CAISO" is the California Independent System Operator, or its successor in interest.

(10) Section 1.63 is added as follows:

"CAISO Schedule Adjustment" means a schedule change implemented by the CAISO that is neither caused by nor within the control of either Party and that results in the CAISO applying Replacement Pricing to all or part of the Contract Quantity.

(11) Section 1.64 is added as follows:

"ISO Protocol" means the rules protocols, procedures and standards attached to the ISO Tariff as Appendix L, promulgated by the ISO (as amended from time to time).

(12) Section 1.65 is added as follows:

"ISO Tariff" means the CAISO Operating Agreement and Tariff, as it may be modified from time to time.

(b) Transaction Terms and Conditions

New Section 2.6 shall be added to Article Two as follows: "2.6 No Oral Agreements or Modifications. Notwithstanding anything to the contrary in this Master Agreement, including in this Article Two, no Transaction or other binding commitment between the Parties shall be entered into unless such Transaction or commitment is in writing, including through electronic communication, and signed by both Parties, and this Agreement and any and all Transactions may not be orally amended or modified, including by Recording pursuant to Section 2.5."

(c) Transmission and Scheduling. Section 3.2, "Transmission and Scheduling" shall be amended by renaming it "Transmission, Scheduling and Imbalance Charges" and inserting the following sentences at the end thereof:

"In addition to the remedies provided under Article 4: (a) Buyer shall assume all liability for and reimburse Seller within thirty (30) days of presentation of an invoice for any Penalties incurred as a result of Buyer's failure to (i) notify Seller of a failure to Schedule or a change in a Schedule or (ii) abide by a transmitting utility's tariff and scheduling policies; and (b) Seller shall assume all liability for and reimburse Buyer within thirty (30) days of presentation of an invoice for any Penalties incurred as a result of Seller's failure to (i) notify Buyer of a failure to Schedule or a change in a Schedule or (ii) abide by the ISO Tariff and Protocols. The Parties shall promptly notify each other as soon as possible of any imbalance that is occurring or has occurred and shall cooperate to eliminate imbalances and minimize Penalties to the extent possible. "Penalties" shall be defined as any fees, liabilities, assessments or similar charges assessed by the ISO as a result of a Party's failure to comply with its obligations hereunder."

(d) Events of Default.

1) Section 5.1(b) shall be amended by adding the words "and such breach has, or can reasonably be expected to have, a material adverse effect upon the Party to whom such representation or warranty was made".

2) Section 5.1(c) shall be amended by adding the words ", including those set forth in Exhibit A," after the word Agreement in the second line.

3) Section 5.1 (h)(i) shall be amended by adding before the period at the end, the words "and such breach has a material adverse effect upon the Party to whom such representation or warranty was made".

4) Section 5.1(h)(ii) is hereby amended to delete the following phrase from the third and fourth line thereof: "and such failure shall not be remedied within three (3) Business Days after written notice".

5) Section 5.1(h)(iv) is hereby amended by replacing the words "its terms" with "the Guaranty's and this Agreement's terms".

6) Section 5.1 (h)(v), the last sentence, shall be amended by adding the words "made in connection with this Agreement" immediately after the words "any guaranty".

(e) Declaration of an Early Termination Date and Calculation of Settlement Amount. Section 5.2 is amended to delete the following phrase from the last two lines: "under applicable law on the Early Termination Date, as soon thereafter as is reasonably practicable".

(f) Declaration of an Early Termination Date and Calculation of Settlement Amount. The following shall be added to the end of Section 5.2: "under applicable law on the Early Termination Date, then each such Transaction (individually, an "Excluded Transaction" and collectively, the "Excluded Transactions") shall be terminated as soon thereafter as reasonably practicable, and upon termination shall be deemed to be a Terminated Transaction and the Termination Payment payable in connection with all such

Transactions shall be calculated in accordance with Section 5.3 below. The Gains and Losses for each Terminated Transaction shall be determined by calculating the amount that would be incurred or realized to replace or to provide the economic equivalent of the remaining payments or deliveries in respect of that Terminated Transaction. The Non-Defaulting Party (or its agent) may determine its Gains and Losses by reference to information either available to it internally or supplied by one or more third parties including, without limitation, quotations (either firm or indicative) of relevant rates, prices, yields, yield curves, volatilities, spreads or other relevant market data in the relevant markets. Third parties supplying such information may include, without limitation, dealers in the relevant markets, end-users of the relevant product, information vendors and other sources of market information. Notwithstanding the other provisions of this Agreement, if the Non-Defaulting Party has the right to liquidate or terminate all obligations arising under the Transactions under the provisions of this Article 5 because the Defaulting Party either (a) is the subject of a bankruptcy, insolvency, or similar proceeding, or (b) applies for, seeks, consents to, or acquiesces in the appointment of a receiver, custodian, trustee, liquidator, or similar official for all or a substantial portion of its assets, then this agreement and all associated transactions shall automatically terminate, without notice, as if the Early Termination Date was the day immediately preceding the events listed in Section 5.1."

(g) **Notice of Payment of Termination Payment.** The following shall be added to the end of Section 5.4:

"Notwithstanding any provision to the contrary contained in this Agreement, the Non-Defaulting Party shall not be required to pay to the Defaulting Party any amount under Article 5 until the Non-Defaulting Party receives confirmation satisfactory to it in its reasonable discretion (which may include an opinion of its counsel) that all other obligations of any kind whatsoever of the Defaulting Party to make any payments to the Non-Defaulting Party or any of its Affiliates under this Agreement or otherwise which are due and payable as of the Early Termination Date (including for these purposes amounts payable pursuant to Excluded Transactions) have been fully and finally performed."

(h) **Suspension of Performance.** Section 5.7 is amended by deleting the phrase "ten (10) NERC Business Days" and replacing it with "five (5) NERC Business Days."

(i) **Payment and Netting.** Section 6.4 shall be amended by deleting in the second line the words "on the same date" and by adding in the third line the words "during any given month" immediately after the words "all Transactions".

(j) **Limitations.** Section 7.1, shall be amended by (i) deleting in the fifteenth line the words, "UNLESS EXPRESSLY HEREIN PROVIDED", (ii) adding in the nineteenth line the words PROVIDED, HOWEVER, NOTHING IN THIS SECTION SHALL AFFECT THE ENFORCEABILITY OF THE PROVISIONS OF THIS AGREEMENT RELATING TO REMEDIES FOR FAILURE TO DELIVER/RECEIVE IN SECTIONS 4.1 AND 4.2, AND CALCULATION AND PAYMENT OF THE TERMINATION PAYMENT IN SECTIONS 5.2 AND 5.3." immediately after the words "ANY INDEMNITY PROVISION OR OTHERWISE", and (iii) adding at the end of the last sentence the words "AND ARE NOT PENALTIES".

(k) **Downgrade Event.** Section 8.1(d) is amended to add the following phrase "or fails to maintain such Performance Assurance or guaranty or other credit assurance for so long as the Downgrade Event is continuing" immediately after the phrase "or other credit assurance acceptable to Party B within two (2) Business Days of receipt of notice".

(l) **Downgrade Event.** Section 8.2(d) is amended to add the following phrase "or fails to maintain such Performance Assurance or guaranty or other credit assurance for so long as the Downgrade Event is continuing" Immediately after the phrase "or other credit assurance acceptable to Party A within two (2) Business Days of receipt of notice".

(m) **Representations and Warranties.** Section 10.2(vi) is amended to delete the phrase "or any of its Affiliates",

(n) Section 10.4 shall be amended by inserting the phrase "To the extent permitted by law" at the beginning of each of the first two sentences.

(o) **Assignment.** Article 10.5 shall be amended by placing a period after the word "arrangements" and deleting the remainder of the paragraph.

(p) **Governing Law/Venue.** The first sentence of Article 10.6 shall be replaced with the following: "This Agreement shall be governed by and construed according to the laws of the State of California (notwithstanding otherwise applicable conflicts of law principles). The Parties hereby consent to conduct all dispute resolution, judicial actions or proceedings arising directly, indirectly or otherwise in conjunction with, out of, related to or arising from this Agreement in the City of San Diego, California."

(q) Section 10.8 shall be amended by deleting the second to the last sentence in its entirety and replacing it with the following sentences: "The indemnity provisions of this Agreement shall survive the termination of this Agreement for the period of the applicable statute of limitations. The audit provisions of this Agreement shall survive the termination of this Agreement for a period of twelve (12) months."

(r) **Miscellaneous.** Add new sections to Article 10 as follows:

10.12 Dispute Resolution.

(a) If a dispute shall arise between the Parties relating to the interpretation of this Agreement or to performance of any Transaction under it, the Party desiring resolution of the dispute shall notify the other Party in writing. The notice shall set forth the matter in dispute in reasonable detail and a proposed solution.

(b) The Parties shall attempt to resolve any dispute within 30 calendar days after delivery of the written notice referred to above. Any disputes not so resolved shall be referred by each Party to an officer (or the officer's designee) for resolution. If the Parties fail to reach an agreement within 30 days after such referral, each Party shall have the right to pursue any and all remedies provided in this Agreement and as afforded by law.

(c) The existence of any dispute or controversy under this Agreement or the pendency of the dispute settlement or resolution procedures set forth herein shall not in and of themselves relieve or excuse either Party from its ongoing duties and obligations under this Agreement.

10.13. CPUC Approval. The Parties hereby acknowledge and agree that SDG&E shall submit this Agreement to the CPUC for approval within 5 Business Days after execution of this Agreement. This Agreement and the Parties' obligations under this Agreement are subject to SDG&E first receiving CPUC Approval. "CPUC Approval" shall mean the issuance by the CPUC of a decision that (1) does not materially alter the commercial aspects of this Agreement; (2) finds that the payments under this Agreement are reasonable; and (3) authorizes SDG&E to recover the full amount of any payment made to Seller under this Agreement from SDG&E's customers in rates through any existing or future cost recovery mechanism that may be developed or instituted by the CPUC.

Should the CPUC issue a decision approving this Agreement with conditions or modifications that materially alters the commercial aspects of this Agreement, the Parties shall have ten (10) Business Days from the mailing date of such decision to provide the other Party written notice of the issuing Party's acceptance or rejection of the CPUC conditions or modifications; provided however, if a Party fails to provide written notification of its acceptance or rejection to the other Party within such ten (10) day period, that Party's silence shall be deemed to constitute acceptance of the condition or modification and agreement by such Party, upon the CPUC Approval Date (as defined below).

"CPUC Approval Date" means the first Business Day after the date on which the CPUC issues an approval of this Agreement, whether or not relevant and applicable time periods for rehearing or judicial review expires.

Each of the Parties shall use its commercially reasonable efforts to obtain CPUC Approval on or before January 31, 2003. Neither Party shall oppose or protest the Agreement in any way, at the CPUC. If called upon to do so, the Parties shall take reasonable actions to facilitate initial approval by the CPUC or other regulatory agencies

10.14 No Agency. In performing their respective obligations hereunder, neither Party is acting, or is authorized to act, as agent of the other Party.

Part 2. SCHEDULE P

The following definition is hereby added to Schedule P:

"CAISO Energy" means with respect to a transaction, a Product under which the Seller shall sell and the Purchaser shall purchase a quantity of energy equal to the hourly quantity without Ancillary Services (as defined in the Tariff) that is or will be scheduled as a schedule coordinator to schedule coordinator transaction pursuant to the applicable tariff and protocol provisions of the CAISO (as amended from time to time, the "Tariff") for which the only excuse for failure to deliver or receive is an "Uncontrollable Force" (as defined in the Tariff). A CAISO "Schedule Adjustment" (defined as a schedule change implemented by the CAISO that is neither caused by, or within the control of, either Party) shall not constitute an Uncontrollable Force (as defined in the Tariff). In the absence of such an Uncontrollable Force, the Party to which performance is owed shall be entitled to receive from the Party which failed to deliver/receive an amount determined pursuant to Article Four."

The following definition shall replace the previous "Firm (LD)" definition:

"Firm (LD)' means, with respect to a Transaction, that either Party shall be relieved of its obligations to sell and deliver or purchase and receive without liability only to the extent that, and for the period during which, such performance is prevented by Force Majeure. A CAISO Schedule Adjustment shall not constitute a Force Majeure. In the absence of Force Majeure, the Party to which performance is owed shall be entitled to receive from the Party which failed to deliver/receive an amount determined pursuant to Article Four".

IN WITNESS WHEREOF, the Parties have caused this Master Agreement to be duly executed as of the date first above written.

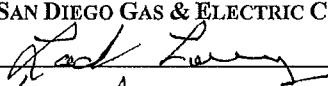
Party A -- AES DELAWARE, INC.

By: 

Name: Doyle Hibler

Title: Vice President and Plant Manager

Party B -- SAN DIEGO GAS & ELECTRIC COMPANY

By: 

Name: CHAD LORENZ

Title: VP ELECTRIC & GAS PROCUREMENT

APPROVED as to legal form A.S.

**MASTER POWER PURCHASE AND SALE AGREEMENT
CONFIRMATION LETTER**

This Confirmation Letter ("Confirmation") shall confirm the transaction agreed to on October 30, 2002 between AES Delano, Inc. ("Party A") and San Diego Gas and Electric Company ("Party B"), sometimes referred to as "Party" or "Parties" regarding the sale/purchase of the Product under the terms and conditions as follows:

Seller: Party A
Buyer: Party B
Product: Unit Firm

Capacity Availability Guarantees: Commencing on the Effective Date and continuing for the term of this Confirmation, Party A estimates an annual Net Energy production from the Project each calendar year of 343,392 MWh. Party A shall operate at an annual average minimum capacity factor of 70% (MW x hr/yr x 70%) that equates to producing a minimum annual average amount of 300,468 MWh, subject to allowances for Force Majeure Hours and SDG&E Outage Hours. Party B shall in its sole discretion have the right to terminate this Confirmation without any further obligations under the Master Power Purchase and Sales Agreement ("Master Agreement") in the event Party A fails to achieve the average minimum capacity factor in any 12 month period, or has Net Energy production equal to zero for four consecutive months, unless as a result of scheduled maintenance, Force Majeure, Curtailment, as set forth below or SDG&E outages.

"Force Majeure Hours" means any hours during which Party A may interrupt or reduce deliveries of Output due to Force Majeure, and any hours during which Output is reduced per "Curtailements" set forth below. "SDG&E Outage Hours" means hours during which Party A may interrupt or reduce deliveries of Output due to acts or omissions of SDG&E, including without limitation, outages on SDG&E's system or breach of this Confirmation or the Master Agreement by SDG&E.

Specified Units: AES Delano, Inc., having available (net) capacity rating of 49 MW ("MW") (the "Project"), consisting of an existing biomass-fired generating facility located in Delano, California.

Contract Quantity: The Contract Capacity shall be 49 MW. During the Delivery Period, except as specified in the Curtailements section below, Party A shall deliver, and Party B shall receive and pay for, all of the Output (as defined below) of the Project.

For the purposes of this Confirmation, "Output" means all electrical energy produced by the Project, which may, on an instantaneous basis, be greater or less than the total estimated capacity of 49 MW of the Project, as metered at the Delivery Point. However, Party B's obligation to purchase shall be limited to 49 MW as measured and metered hourly at the Delivery Point. All energy deliveries are subject to CAISO, State, Federal or other regulatory agency adjustments if applicable. In addition, in no event shall Party A have the right to procure electric energy from sources other than the Project for sale and delivery pursuant to this Confirmation.

Delivery Point: The point of delivery (the "Delivery Point") shall be at the interconnection of AES Delano, on the high side of the AES Delano step-up transformer, with the ISO controlled transmission grid. AES Delano, designated as the Pandol_6_Unit, is located at the northeast quadrant of the intersection of Highway 99 and Pond Road. Party A shall be responsible for the delivery of Output to the CAISO controlled grid.

Contract Price: The Contract Price shall be the sum of the Energy Price and the Capacity Price. The Energy Price shall be \$40 per MWH and the Capacity Price shall be \$120 per KW year.

The Monthly Energy Payment shall be equal to the monthly Output multiplied by the Energy Price.

The Monthly Capacity Payment shall be equal to the Capacity Price multiplied by the number of days in the relevant month, divided by 365, multiplied by the Contract Capacity and multiplied further by the Monthly Availability Factor. The Monthly Availability Factor shall be calculated by dividing the kWh of Output made available by the Project by the product of 49 MW times the total number of hours in the relevant month, but shall in no event exceed 1.0.

Party B shall be responsible for all charges with respect to uninstructed energy as applied to this Confirmation by the CAISO or other regulatory agency, all as further provided under the caption "Scheduling."

Delivery Period: Beginning on the date the Project first schedules and delivers Output to the Delivery Point, which shall be as soon as practicable after the CPUC Approval Date, but no earlier than January 1, 2003 ("Effective Date") and ending at hour ending midnight five (5) years thereafter.

Forecast: For Party B's planning purposes, Party A shall, by December 1 of the current year, provide a forecast of energy production and scheduled maintenance, by month, for the following year.

Scheduling: Party A shall be responsible for scheduling the forecast of Output to the

Delivery Point during the Delivery Period. Party A shall submit schedules and any updates to such schedules to the CAISO based on the most current forecast of Output consistent with all scheduling protocols of the CAISO and communicate those Schedules to Party B in a timely manner. In the event of imbalanced situations, Party B will have the right to instruct Party A to either (1) adjust its Project output to match its schedule or (2) adjust its schedule to match its Project output. All generation scheduling and transmission services shall be performed in accordance with all applicable operating policies, criteria, guidelines and tariff of CAISO or its successor, and any other generally accepted operational requirements. Party A, at its own expense, shall also fulfill contractual, metering and interconnection requirements as set forth in the CAISO tariff and any implementing CAISO standards and requirements, including but not limited to executing a CAISO Participating Generator Agreement, so as to be able to deliver energy to the CAISO controlled grid. In the event that CAISO modifies or amends its scheduling protocols in the future, Party A hereby agrees to adhere to such changes to scheduling procedures with Party B so as to effect the changes necessary and any costs and economic benefits from such changes shall be shared equally.

Notwithstanding anything to the contrary herein, in the event Party A makes a change to its schedule on the actual date of delivery for any reason (other than an adjustment imposed by CAISO) which results in a change to its Output (whether in part or in whole), Party A shall use its commercially reasonable efforts to notify Party B at least one (1) hour prior to the deadline for Party B to submit hour-ahead schedules to CAISO in its capacity as an SC.

Party B shall be responsible for any uninstructed energy charges payable to, and will receive any credits and revenues from, the CAISO as the result of differences between actual generation and scheduled generation. Party A shall invoice Party B upon settlement of such charges and credits with its Scheduling Coordinator.

Operating Procedures: Prior to the Effective Date and from time-to-time as reasonably determined necessary by the Parties, the Parties shall agree upon written operating procedures ("Operating Procedures") addressing how the Parties will perform their respective obligations under this Confirmation, including, but not limited to: (1) the method of day-to-day communications; (2) key personnel lists for each Party; (3) procedures for Forced Outage and Scheduled Maintenance Outage reporting; (4) procedures for daily capacity level and energy output reporting; (5) procedures for record keeping; and (6) scheduling Project maintenance; provided that the failure to agree on Operating Procedures will not relieve the Parties of their respective obligations under this Confirmation.

AES Delano
Operating / Scheduling Procedures

AES Delano scheduling coordinator is yet to be determined for 2003.

AES Delano CAISO ID is "Pandol_6_Unit"

The pre-schedule of Delano hourly generation will be sent daily via e-mail to the SDG&E designate utilizing a 7 day rolling schedule forecast and high-lighting the day ahead schedule based on the CAISO Day Ahead schedule format:

- Monday morning prior to 0600 schedule for Tuesday all hours
- Tuesday morning prior to 0600 schedule for Wednesday all hours
- Wednesday morning prior to 0600 schedule for Thursday all hours
- Thursday morning prior to 0600 schedule for Friday and Saturday all hours
- Friday morning prior to 0600 schedule for Sunday and Monday all hours

Hard copy schedule will be sent via facsimile each morning until such time all parties agree that the e-mail information transfer is functional, adequate and timely. All scheduling activity will originate from, and return to the AES Delano control room shift Operator. Weekly schedules will be archived for future reference.

Changes to the pre-schedule due to forced or other outage will be by the control room shift Operator via telephone to the SDG&E designate on a timely basis to accommodate hour ahead CAISO requirements. Schedule changes will be confirmed and acknowledged via e-mail and also reflected in the 7 day rolling schedule.

Scheduled Maintenance Outage schedules will be sent via e-mail and will include year forward forecasts and conform to the schedule as prescribed in the Contract Confirmation. All outage schedules and reporting will be via the AES Delano control room shift Operator to the SDG&E designate. Outage or reporting question are to be routed through the control room shift Operator.

Daily hourly generation will be recorded in an Excel spreadsheet and will be transmitted to SDG&E as required via e-mail. All meter readings will be obtained from the existing CAISO certified metering. Daily meter readings are for information only and subject to CAISO verification. Month end summary and totals will be provided with invoice.

Monthly energy deliveries and capacity calculations will be provided with the invoice and will include hard copy meter data.

All communications will be routed to the appropriate Party representatives per the "Master Agreement" Cover sheet or the following key personnel list unless otherwise stated or agreed upon. The general tone of these procedures is to keep communications simple and precise to avoid unnecessary confusion and mistakes and assure appropriate parties have any information required.

Party A shall operate and maintain, and arrange Scheduled Maintenance Outages for the Project in accordance with Prudent Industry Practices. Scheduled Maintenance for the Generating Facility shall not exceed 876 hours (10% yearly hours or 36.5 days) in any 12-month period. Major outages of more than one (1) day shall not be scheduled during the peak months (May through September). Scheduled maintenance shall not exceed three (3) peak days (hour beginning 6:00 a.m. to hour ending 10:00 p.m.) during the peak months in any calendar year. Scheduled maintenance shall be scheduled such that a maximum percentage of scheduled unavailability occurs during Off-Peak hours. Party A shall use reasonable efforts to notify Party B by 6:00 AM Pacific Prevailing Time two days prior to the date of scheduled outage for an outage of 24 hours or less, and one week prior to a scheduled outage of more than 24 hours. Party A shall adhere to the requirements of the CAISO or other regulatory agency scheduled maintenance requirements if applicable.

“Prudent Industry Practice” means any practices, methods and/or acts (i) required by the National Electric Safety Code or NERC, whether or not Party A is a member thereof, or (ii) otherwise engaged in or approved by a significant portion of the non-utility electric generation industry during the relevant time period or any of the practices, methods and acts that in the exercise of commercially reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Prudent Industry Practice is not intended to be the optimum practice, method or act to the exclusion of all others, but rather is intended to be any of the practices, methods and/or actions generally accepted in the region.

For Projects interconnected to Party B’s electric grid, Party A shall operate the Project in accordance with the IFA, Party B’s Electric Department Rule 21 and other applicable Rules and Tariffs.

Curtailments:

At the request of Party B, Party A shall reduce the Project’s Output during any hour provided that Party B incurs a system emergency or the CAISO has directed the SC for the Project or Party B (if different) to reduce the Output of the Project to manage an over-generation condition in the CAISO control area (due to a lack of decremental bids from other generation resources). In addition, Party A shall reduce the Project’s Output if notified by the CAISO to curtail deliveries, or if deliveries are otherwise curtailed by the CAISO. In the event of CAISO directed Curtailment to manage over-generation conditions, Party B shall make payments to Party A in the amount of the Energy Price times the amount of output that was available from the Project but curtailed by Party B.

Suspension of Performance: Notwithstanding, and in addition to the remedies provided pursuant

to Sections 4.1 and 4.2 of the Master Agreement, if Seller or Buyer fails to schedule, deliver or receive all or part of the Product for a period of three (3) of more consecutive days during the Delivery Period, and such failure is not excused under the terms of this Confirmation, by the other Party's failure to perform or by agreement of the Parties, then upon one (1) Business Day prior notice, and for so long as the non-performing Party fails to perform, the performing Party shall have the right to suspend its performance under such Transaction. In the event the performing Party suspends performance pursuant to this paragraph, it shall not be obligated to resume performance until it has received notice from the non-performing Party at least one (1) Business Day prior to the date upon which the non-performing Party intends to resume its performance; provided that, if the performing Party has entered into a replacement contract with a term of 31 days or less, the performing Party may resume performance at the end of the term of such contract.

Delivery & Metering: All Output shall be delivered to Party B at the Delivery Point and such delivered Output shall be metered in real-time basis at the Delivery Point.

A copy of all of Party A's meter information shall be included in each monthly invoice. All meters and equipment used for the measurement of Output shall be provided, owned, maintained, inspected, tested, and read at no cost to Party B by Party A.

Billings: Party A shall submit a monthly invoice during the Delivery Period to Party B for the amount payable based on the Contract Price section of this Confirmation for each month (including the initial partial month, if applicable). Party B shall pay Party A the Contract Price for all energy and capacity (if applicable) pursuant to this Confirmation on a monthly basis as set forth in Article Six of the Master Agreement.

Special Conditions: Party B shall be entitled to ownership and unrestricted use of all Environmental and Renewable Energy Credits associated with the Project, and Party A shall assign any interest Party A may have in such Environmental and Renewable Energy Credits to Party B at no additional cost to Party B.

Party A represents and warrants that during the Delivery Period (i) the Project will qualify as an "eligible renewable energy resource", as defined in Section 399.12(a) of the California Public Utilities Code, and (ii) the Project Output will qualify under the requirements of the California Renewable Portfolio Standard.

Termination: Party A shall have the right to terminate this Confirmation without any further obligations under the Master Agreement, including any obligation to make a termination payment, if CPUC Approval is not obtained (or waived by Party B) on or before January 31, 2003.

PGC Funding:

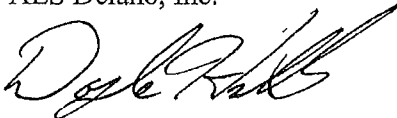
(a) If Party A determines, in its reasonable discretion, that it will lose some or all of its expected Public Goods Charge funding ("PGC Funding") of \$10 per MWH, Party A shall have the right to request the renegotiation of the Master Agreement and this Confirmation, and Party B shall undertake such negotiations with Party A in good faith with the understanding that any renegotiated Master Agreement and Confirmation must be approved by the CPUC before it would become effective. If the CPUC rejects or fails to approve such renegotiated Master Agreement and Confirmation within 90 days of execution, Party A may terminate the original and renegotiated Master Agreement and Confirmation upon written notice to Party B.

(b) If the Public Goods Charge program is modified in such a way that materially affects Party A's receipt of such PGC Funding, or if Party A otherwise fails to receive the PGC Funding that has been awarded as of the date of execution of the Master Agreement with Party B, then Party A shall have, at its sole discretion, the option to terminate, upon 30 days notice, this Confirmation and the Master Agreement, without any further obligations under the Master Agreement, including any obligation to make a termination payment.

This Confirmation is being provided pursuant to and in accordance with the Master Agreement dated October 30, 2002 between Party A and Party B, and constitutes part of and is subject to the terms and provisions of such Master Agreement. Terms used but not defined herein shall have the meanings ascribed to them in the Master Agreement.

Party A

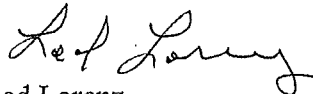
AES Delano, Inc.



By: Doyle Hibler
Title: Vice President and Plant Manager
Phone No: (661) 792-3067
Fax: (661) 792-3072

Party B

San Diego Gas & Electric Company



By: Lad Lorenz
Title: Vice President, Electric and Gas
Procurement
Phone No: (858) 650-6150
Fax: (858) 650-6191

APPROVED as to legal form AS.