

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: August 31, 2005 ("*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 this Agreement) shall be referred to as the "Agreement." The Parties to this *Master Agreement* are the following:

Name: Covanta Otay 3 Company ("Party A")

All Notices:

Street: 4040 Fink Road
City: Crows Landing, CA Zip: 95313
Attn: VP, Business Management
Phone: (209) 837-4423
Facsimile: (209) 837-4604
Duns: N/A
Federal Tax ID Number:

Invoices:

Covanta Otay 3 Company
4040 Fink Road
Crows Landing, CA 95313
Attn: VP, Business Management
Phone: (209) 837-4423
Facsimile: (209) 837-4604

Scheduling:

Covanta Otay 3 Company
Attn: Almo Pladson
Phone: (562) 708-3855
Facsimile: (562) 695-5683

Payments:

Covanta Otay 3 Company
4040 Fink Road
Crows Landing, CA 95313
Attn: VP, Business Management
Phone: (209) 837-4423
Facsimile: (209) 837-4604

Wire Transfer:

BNK: JP Morgan Chase Bank for Covanta Otay3
ABA: Routing #
ACCT: #
Confirmation: Covanta Power Pacific Inc
FAX: (209) 837-4604

Credit and Collections:

Covanta Otay 3 Company
4040 Fink Road
Crows Landing, CA 95313
Attn: VP, Business Management
Phone: (209) 837-4423
Facsimile: (209) 837-4604

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

All Notices:

Street: 8315 Century Park Court
City: San Diego, CA Zip: 92123
Attn: Contract Administration
Phone: (858) 650-6176
Facsimile: (858) 650-6190
Duns: 006911457
Federal Tax ID Number:

Invoices:

San Diego Gas & Electric Company
8315 Century Park Ct.
San Diego, California 92123-1593
Attn: Energy Accounting Manager
Phone: (858) 650-6177
Facsimile: (858) 650-6190

Scheduling:

San Diego Gas & Electric Company
8315 Century Park Ct.
San Diego, California 92123-1593
Attn: Transaction Scheduling Manager
Phone: (858) 650-6160
Facsimile: (858) 650-6191

Payments:

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:

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

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:

Covanta Energy Group
40 Lane Road
Fairfield, NJ 07004
Attn: General Counsel
Phone: (973) 882-7308
Facsimile: (973) 882-7357

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 – Qualified Facility

Party B Tariff FERC Electric Tariff, Original Volume No. 10, Original Sheet Nos. 1-3 (Supersedes FERC Electric Tariff, Original Volume Nos. 7 and 8) Effective May 12, 2003, Docket No. ER03-418-000.

Article Two

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

Article Four

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

Article Five

Events of Default; Remedies

- Cross Default for Party A:
 Party A: N/A Cross Default Amount: N/A
 Other Entity: N/A Cross Default Amount: N/A
- Cross Default for Party B:
 Party B: N/A Cross Default Amount: N/A
 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:
 Option C (No Setoff)
-

Article 8

Credit and Collateral Requirements.

8.1 Party A Credit Protection:

- (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: N/A

Party B Collateral Threshold: \$ _____; provided, however, that Party B's Collateral Threshold shall be zero if an Event of Default or Potential Event of Default with respect to Party B has occurred and is continuing.

Party B Independent Amount \$ _____

Party B Rounding Amount \$ _____

(d) Downgrade Event:

- Not Applicable
- Applicable

If applicable, complete the following: N/A

- It shall be a Downgrade Event for Party B if Party B's Credit Rating falls below _____ from S&P or _____ from Moody's or if Party B 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: Unaudited Financial Statements

(b) Credit Assurances:

- Not Applicable
 Applicable

(c) Collateral Threshold:

- Not Applicable
 Applicable

If applicable, complete the following: N/A

Party A Collateral Threshold: \$ _____; provided, however, that Party A's Collateral Threshold shall be zero if an Event of Default or Potential Event of Default with respect to Party A has occurred and is continuing.

Party A Independent Amount \$ _____

Party A Rounding Amount \$ _____

(d) Downgrade Event:

- Not Applicable
 Applicable

If applicable, complete the following: N/A

- It shall be a Downgrade Event for Party A if Party A's Credit Rating falls below _____ from S&P or _____ from Moody's or if Party A is not rated by either S&P or Moody's

- Other:

Specify: _____

(e) Guarantor for Party A: None

Guarantee Amount: \$N/A

(f) 8.4 If the parties elect as being applicable, Section 8.4 shall apply:

- Not Applicable
 Applicable

Article 10

Confidentiality

- Option A: Confidentiality Applicable. If not checked, inapplicable.
 Option B: RPS Confidentiality Applicable. If not checked, inapplicable.
 Option C: Confidentiality Notification.

If Option C is checked on the Cover Sheet, Seller has waived its right to notification in accordance with Section 10.11(v).

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

Schedule P

Schedule P: Products and Related Definitions shall be deleted in its entirety.

Other Changes

Specify, if any: The following changes shall be applicable:

Article One. General Definitions.

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

(1) Section 1.11 "Costs" shall be deleted in its entirety and replaced with the following:

"Costs" means, with respect to the Non-Defaulting Party, brokerage fees, commissions and other similar third party transaction costs and expenses reasonably incurred by such Party either in terminating any arrangement pursuant to which it has hedged its obligations or entering into new arrangements which replace a Terminated Transaction; and all reasonable attorneys' fees and expenses incurred by the Non-Defaulting Party in connection with the termination of a Transaction.

(2) Section 1.23 "Force Majeure" shall be deleted in its entirety and replaced with the following:

"Force Majeure" means any cause or event beyond the reasonable control of the affected Party which was not anticipated as of the date of the Transaction and not due to the fault or negligence of the Party affected, and which could not have been avoided by due diligence and use of reasonable efforts, including but not limited to (but only to the extent that the following examples satisfy such definition): (a) acts of God such as extreme weather conditions, droughts, floods, earthquakes, (b) fires, explosions, accidents that could not have been prevented by acting in accordance with Good Utility Practice (defined below), and (c) war (declared or undeclared), riots, insurrection, rebellion, acts of the public enemy, acts of terrorism and sabotage, blockades, embargoes, industry-wide strikes. Notwithstanding anything to the contrary in the foregoing, the following shall not constitute Force Majeure: (a) lack of finances; (b) breakage or malfunction of equipment, (except to the extent that such failure was caused by an event that would otherwise satisfy the definition of a Force Majeure event as defined above); or (c) changes in governmental approvals or the conditions imposed thereunder or the failure to grant or renew such governmental approvals.

"Good Utility Practice" means any practices, methods and acts (i) required by the National Electric Safety Code or NERC, whether or not Seller is a member thereof, or (ii) otherwise engaged in or approved by a significant portion of the 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. Good Utility 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.

(3) Section 1.24 "Gains" shall be deleted in its entirety and replaced with the following:

"Gains" means with respect to any Party, an amount equal to the present value of the economic benefit to it, if any (exclusive of Costs), resulting from the termination of a Terminated Transaction for the remaining term of such Transaction, determined in a commercially reasonable manner. Factors used in determining economic benefit may include, without limitation, 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 market referent prices for renewable power set by the CPUC, comparable transactions, forward price curves based on economic analysis of the relevant markets, settlement prices for comparable transactions at liquid trading hubs (e.g., NYMEX), all of which should be calculated for the remaining term of the applicable Transaction and include the value of Environmental Attributes.

- (4) Section 1.25 shall be modified by adding the following as the last sentence: "Guarantor shall issue a Guaranty in substantially the same format attached hereto as Exhibit B."
- (5) Section 1.27 shall be modified by adding the words "and substantially in the same form as the Letter of Credit template attached hereto as Exhibit C" at the end of the first sentence.
- (6) Section 1.28 "Losses" shall be deleted in its entirety and replaced with the following:

"Losses" means with respect to any Party, an amount equal to the present value of the economic loss to it, if any (exclusive of Costs), resulting from the termination of a Terminated Transaction for the remaining term of such Transaction, determined in a commercially reasonable manner. Factors used in determining the loss of economic benefit may include, without limitation, 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, market referent prices for renewable power set by the CPUC, comparable transactions, forward price curves based on economic analysis of the relevant markets, settlement prices for comparable transactions at liquid trading hubs (e.g. NYMEX), all of which should be calculated for the remaining term of the applicable Transaction and include the value of Environmental Attributes.

- (7) Sections 1.35 and 1.36 shall be modified by deleting the phrase "as defined in Schedule P." and replacing such phrase with "as defined in the Confirmation."
- (8) Section 1.45 shall be modified by including the words "acceptable to the requesting party" after the words "Letter(s) of Credit".
- (9) 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 that includes its associated Environmental Attributes and meets the requirements of Section 10.2(xiii) but was 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 such 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.

- (10) 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 including all costs charged by CAISO to deliver the Product into the CAISO System, 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 shall also be reduced by all costs, 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. The Sales Price may be less than zero.

(11) Section 1.62 is added as follows:

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

(12) Section 1.63 is added as follows:

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

(13) Section 1.64 is added as follows:

"California Renewables Portfolio Standard" means the Renewables Portfolio Standard of California under California Senate Bill 1078 as codified in Sections 387, 390.1, and 399.25 and Article 16 (commencing with Section 399.11) of Chapter 2.3 of Part 1 of Division 1 of, the California Public Utilities Code, as such code reference may be amended from time to time.

(14) Section 1.68 is added as follows:

"Environmental Attributes" means any and all credits, benefits, emissions reductions, offsets, and allowances, howsoever entitled, attributable to the generation from the Unit(s) and its displacement of conventional energy generation. Environmental Attributes include but are not limited to: (1) any avoided emissions of pollutants to the air, soil or water such as 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 Green Tag Reporting Rights 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 (i) any energy, capacity, reliability or other power attributes from the Unit(s), (ii) production tax credits associated with the construction or operation of the energy projects and other financial incentives in the form of credits, reductions, or allowances associated with the project that are applicable to a state or federal income taxation obligation, (iii) fuel-related subsidies or "tipping fees" that may be paid to Seller to accept certain fuels, or local subsidies received by the generator for the destruction of particular pre-existing pollutants or the promotion of local environmental benefits, or (iv) emission reduction credits encumbered or used by the Unit(s) for compliance with local, state, or federal operating and/or air quality permits. If Seller's Unit(s) is a biomass or landfill gas facility and Seller receives any tradable Environmental Attributes based on the greenhouse gas reduction benefits or other emission offsets attributed to its

fuel usage, it shall provide Buyer with sufficient Environmental Attributes to ensure that there are zero net emissions associated with the production of electricity from such facility.

Article Two: Transaction Terms and Conditions

- (a) Amend Section 2.1 by deleting the phrase “orally, or if expressly required by either party with respect to a particular Transaction,”
- (b) Section 2.3 shall be deleted in its entirety and replaced with the following: “The Transaction between the parties will be evidenced in writing and signed by both parties (the “Confirmation”).”
- (c) Section 2.5 shall be amended by deleting the last two sentences thereof.

Article Three: Obligations and Deliveries

- (a) Section 3.2 “Transmission and Scheduling” shall be deleted in its entirety.
- (b) **Force Majeure.** Add the following two paragraphs at the end of Section 3.3:

“Before and after the Commercial Operation date, this Agreement may be terminated by the non-Claiming party with no further obligation to either party if a Force Majeure event prevents the performance of a material portion of the obligations hereunder and such Force Majeure is not resolved within twelve (12) months after the notice given above.”

“In the event that the Federal Energy Regulatory Commission or its successor imposes obligations or restrictions due to standard market design restructuring that directly or indirectly alter the relative economic positions of the Parties hereunder in a material detrimental way, then a Party so affected may, by written notice to the other Party, require that the Parties meet promptly to discuss in good faith whether the Transaction can be modified so as to re-impose the relative economic positions of the Parties held hereunder prior to such governmental action. Such notice shall describe the action taken, and shall provide reasonable particulars as to the manner and extent to which the economic position of the Party giving notice has been affected adversely. The Parties shall meet thereafter as soon as mutually convenient, using all commercially reasonable efforts during the ninety (90) day period following the initial meeting to consider appropriate changes to the Transaction. In the event that the Parties are unable to agree upon the modifications necessary to restore the relative economic balance between them by the end of such period, the affected party may terminate the Transaction under this Section 3.3 –Force Majeure.”

Article Five: Events of Default

- (a) **Section 5.1 Events of Default.**

Section 5.1(c) is amended by deleting the reference to “three (3) Business Days” and replacing it with “thirty (30) days.”

Amend Sections 5.1(b) and 5.1(h)(i) by adding the following at the end thereof: “or with respect to the representations and warranties made pursuant to Section 10.2 of this Agreement or any additional representations and warranties agreed upon by the parties, any such representation and warranty becomes false or misleading in any material respect during the term of this Agreement or any Transaction entered into hereunder.”

Within Section 5.1, add the following new Events of Default:

“(i) if at any time during the Term of Agreement, Seller delivers or attempts to deliver to the Delivery Point for sale under this Agreement electrical power that was not generated by the Unit(s)”

“(j) failure to meet the performance requirements agreed to pursuant to Section 7.1 hereof.”

“(k) a Letter of Credit Default as described in Section 8.4.”

(b) **Section 5 Declaration of an Early Termination Date and Calculation of Settlement Amount.**

Section 5.2, 5.3, 5.4, and 5.5 shall be deleted in their entirety and replaced with the following:

“5.2 Declaration of Early Termination Date and Calculation of Settlement Amounts. If an Event of Default with respect to a Defaulting Party shall have occurred and be continuing, the other Party (“Non-Defaulting Party”) shall have the right to (i) designate a day, no earlier than the day such notice is effective and no later than 20 days after such notice is effective, as an early termination date (“Early Termination Date”) to accelerate all amounts owing between the Parties and to liquidate and terminate all, but not less than all, Transactions (each referred to as a “Terminated Transaction”) between the Parties, (ii) withhold any payments due to the Defaulting Party under this Agreement and (iii) suspend performance. The Non-defaulting Party shall calculate, in a commercially reasonable manner, a Settlement Amount for each such Terminated Transaction as of the Early Termination Date. Third parties supplying information for purposes of the calculation of Gains or Losses may include, without limitation, dealers in the relevant markets, end-users of the relevant product, information vendors and other sources of market information. The Settlement Amount shall not include consequential, incidental, punitive, exemplary, indirect or business interruption damages. The Non-Defaulting Party shall not have to enter into replacement transactions to establish a Settlement Amount.

5.3 Net Out of Settlement Amounts. The Non-Defaulting Party shall aggregate all Settlement Amounts into a single amount by: netting out (a) all Settlement Amounts that are due to the Defaulting Party, plus, at the option of the Non-Defaulting Party, any cash or other form of security then available to the Non-Defaulting Party pursuant to Article Eight, plus any or all other amounts due to the Defaulting Party under this Agreement against (b) all Settlement Amounts that are due to the Non-Defaulting Party, plus any or all other amounts due to the Non-Defaulting Party under this Agreement, so that all such amounts shall be netted out to a single liquidated amount (the “Termination Payment”). If the Non-Defaulting Party’s aggregate Gains exceed its aggregate Losses and Costs, if any, resulting from the termination of this Agreement, the Termination Payment shall be zero.

5.4 Notice of Payment of Termination Payment. As soon as practicable after a liquidation, notice shall be given by the Non-Defaulting Party to the Defaulting Party of the amount of the Termination Payment and whether the Termination Payment is due to the Non-Defaulting Party. The notice shall include a written statement explaining in reasonable detail the calculation of such amount and the sources for such calculation. The Termination Payment shall be made to the Non-Defaulting Party, as applicable, within two (2) Business Days after such notice is effective.

5.5 Disputes With Respect to Termination Payment. If the Defaulting Party disputes the Non-Defaulting Party’s calculation of the Termination Payment, in whole or in part, the Defaulting Party shall, within five (5) Business Days of receipt of Non-Defaulting Party’s calculation of the Termination Payment, provide to the Non-Defaulting Party a detailed written explanation of the basis for such dispute; provided, however, that if the Termination Payment is due from the Defaulting Party, the Defaulting Party shall first transfer Performance Assurance to the Non-Defaulting Party in an amount equal to the Termination Payment.”

(c) **Section 5.7 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.”

Further amend Section 5.7 by the deletion of the following phrase in the first sentence “or (b) a Potential Event of Default”.

Article Six: Payment and Netting

(a) **Section 6.2 Timeliness of Payment.**

Section 6.2 shall be replaced by the following:

“Timeliness of Payment. Unless otherwise agreed by the Parties in a Transaction, all invoices under this Master Agreement shall be due and payable in accordance with each Party’s invoice instructions thirty (30)

days after receipt of the invoice or, if such day is not a Business Day, then on the next Business Day. Each Party will make payments by electronic funds transfer, or by other mutually agreeable method(s), to the account designated by the other Party. Any amounts not paid by the due date will be deemed delinquent and will accrue interest at the Interest Rate, such interest to be calculated from and including the due date to but excluding the date the delinquent amount is paid in full. Seller shall submit a monthly invoice via fax and email during the Delivery Term. Buyer has thirty (30) days to pay the invoice. Invoice shall be itemized, identifying all component charges and unit prices. Invoice shall identify the Output scheduled and delivered during all hours of the month. The invoice shall describe in reasonable detail the calculations used to arrive at invoiced amounts.”

(b) **Sections 6.7**

Section 6.7 Payment for Options is amended by deleting the text and substituting therefore “Intentionally omitted.”

(c) **Sections 6.8**

Section 6.8 Transaction Netting is amended by deleting the text and substituting therefore “Intentionally omitted.”

Article Eight: Credit and Collateral Requirements

(a) **Party A Credit Protection.** The first three sentences in Section 8.1 shall be deleted in their entirety and replaced with the following:

“8.1 Party A Credit Protection. The applicable credit and collateral requirements shall be as specified on the Cover Sheet and shall only apply if marked as “Applicable” on the Cover Sheet.”

(b) **Party B Credit Protection.** The first three sentences in Section 8.2 shall be deleted in their entirety and replaced with the following:

“8.2 Party B Credit Protection. The applicable credit and collateral requirements shall be as specified on the Cover Sheet and shall only apply if marked as “Applicable” on the Cover Sheet.”

(c) **Performance Security.** Section 8.3 is amended by deleting “or deemed occurrence” from the beginning of the second sentence.

(d) If the parties elect as being applicable on the Cover Sheet, the following new Section 8.4 shall be added:

“8.4 To secure its obligations under this Agreement, in addition to satisfying any credit terms pursuant to the terms of Section 8.2 to the extent marked applicable, Seller agrees to deliver to Buyer (the “Secured Party”) within thirty (30) days of the date on which all of the conditions precedent set forth in Section 1 of the Confirmation are either satisfied or waived, and Seller shall maintain in full force and effect (a) until the Commercial Operation date a Letter of Credit, a posting of cash collateral as Performance Assurance by wire transfer to Buyer’s account as established in accordance with Section 10.7 (Notices), or a Surety Bond, in the amount of \$240,000, from an issuer and in a form determined in the sole discretion of Buyer and (b) from the Commercial Operation Date until the end of the Term a Letter of Credit, a posting of cash collateral as Performance Assurance by wire transfer to Buyer’s account as establish in accordance with Section 10.7 (Notices), or a Surety Bond as accepted by Buyer in its sole discretion, in the amount of \$240,000, from an issuer an in a form determined in the sole discretion of the Buyer. Any such security shall not be deemed a limitation of damages.

All Letters of Credit shall be subject to the following provisions:

(a) The Seller shall (i) renew or cause the renewal of each outstanding Letter of Credit on a timely basis as provided in the relevant Letter of Credit and in accordance with this Agreement, (ii) if the issuer has

indicated its intent not to renew such Letter of Credit, provide a substitute Letter of Credit at least sixty (60) days prior to the expiration of the outstanding Letter of Credit, and (iii) if an issuer of a Letter of Credit shall fail to honor the Buyer's properly documented request to draw on an outstanding Letter of Credit, provide for the benefit of the Buyer a substitute Letter of Credit, that is issued by an alternate issuer acceptable to the Buyer within five (5) Business Days after the Seller receives notice of such refusal.

(b) "Letter of Credit Default" shall mean with respect to an outstanding Letter of Credit, the occurrence of any of the following events: (i) the issuer of such Letter of Credit shall fail to maintain a Credit Rating of at least "A-" by S&P or "A3" by Moody's; (ii) the issuer of the Letter of Credit shall fail to comply with or perform its obligations under such Letter of Credit if such failure shall be continuing after the lapse of any applicable grace period; (iii) the issuer of such Letter of Credit shall disaffirm, disclaim, repudiate or reject, in whole or in part, or challenge the validity of, such Letter of Credit; or (iv) Seller shall fail to meet the requirements of this Section 8.4 after the applicable cure periods, if any.

(c) In all cases, the reasonable costs and expenses of (including but not limited to the reasonable costs, expenses, and attorneys' fees, including reasonably allocated costs of in-house counsel of the Buyer for enforcing) establishing, renewing, substituting, canceling, increasing and reducing the amount of (as the case may be) one or more Letters of Credit shall be borne by the Seller."

Article Ten: Miscellaneous

(a) **Term of Master Agreement.** Add the following sentence to Section 10.1: "The Transaction shall terminate on the day following the last day of the Delivery Term, unless terminated sooner pursuant to the express provisions of this Agreement".

(b) **Representations and Warranties.**

Section 10.2(vi) is amended to delete the phrase "or any of its Affiliates."

The following Section 10.2(xiii) shall be added:

"The Seller and, if applicable, its successors, represents and warrants throughout the term of the Delivery Term of each Transaction entered into under this Agreement that: (a) the Unit(s) qualifies and is certified by the CEC as an Eligible Renewable Energy Resource ("ERR") as such term is defined in Public Utilities Code Section 399.12 or Section 399.16, and (b) the Unit(s) Output delivered to Buyer qualifies under the requirements of the California Renewable Portfolio Standard."

(c) **Assignment.**

Section 10.5 shall be deleted in its entirety and replaced with the following:

"10.5.1 Assignment. Neither Party shall assign this Agreement or its rights hereunder without the prior written consent of the other Party, which consent shall not be unreasonably withheld; provided, however, either Party may, without the consent of the other Party (and without relieving itself from liability hereunder), transfer, sell, pledge, encumber or assign this Agreement or the accounts, revenues or proceeds hereof to its financing providers and the financing provider(s) shall assume the payment and performance obligations provided under this Agreement with respect to the transferring Party provided, however, that in each such case, any such assignee shall agree in writing to be bound by the terms and conditions hereof and so long as the transferring Party delivers such tax and enforceability assurance as the non-transferring Party may reasonably request

10.5.2 Financing Documents. Buyer agrees to enter into a commercially reasonable consent to assignment with financing parties that is consistent with industry standards."

(d) **Governing Law/Venue** Section 10.6 shall be modified as follows:

Section 10.6 Governing Law shall be amended by deleting "NEW YORK" and inserting "CALIFORNIA" in place thereof.

Add the following to the end of Section 10.6:

"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."

- (e) **Section 10.11 Confidentiality.** Section 10.11 shall be deleted in its entirety and replaced with the following:

"10.11 Confidentiality. Neither Party shall disclose the non-public terms or conditions of this Agreement or any Transaction hereunder to a third party, other than (i) the Party's employees, lenders, counsel, accountants or advisors who have a need to know such information and have agreed to keep such terms confidential, (ii) for disclosure to the Buyer's Procurement Review Group, as defined in CPUC Decision (D) 02-08-071, subject to a confidentiality agreement, (iii) to the CPUC under seal for purposes of review, (iv) disclosure of terms specified in and pursuant to Section 10.12 of this Agreement; (v) in order to comply with any applicable law, regulation, or any exchange, control area or ISO rule, or order issued by a court or entity with competent jurisdiction over the disclosing Party ("Disclosing Party"), other than to those entities set forth in subsection (vi); or (vi) in order to comply with any applicable regulation, rule, or order of the CPUC, CEC, or the Federal Energy Regulatory Commission. In connection with requests made pursuant to clause (v) of this Section 10.11 ("Disclosure Order") each Party shall, to the extent practicable, use reasonable efforts: (i) to notify the other Party prior to disclosing the confidential information and (ii) prevent or limit such disclosure. After using such reasonable efforts, the Disclosing Party shall not be: (i) prohibited from complying with a Disclosure Order or (ii) liable to the other Party for monetary or other damages incurred in connection with the disclosure of the confidential information. Except as provided in the preceding sentence, the Parties shall be entitled to all remedies available at law or in equity to enforce, or seek relief in connection with, this confidentiality obligation."

- (f) **RPS Confidentiality.** Add a new section to Article Ten as follows:

"10.12 RPS Confidentiality. Notwithstanding Section 10.11 of this Agreement, at any time on or after the date on which the Buyer makes its advice filing letter seeking CPUC Approval of the Agreement either Party shall be permitted to disclose the following terms with respect to such Transaction: Party names, resource type, delivery term, project location, and project capacity. If Option B is checked on the Cover Sheet, neither Party shall disclose party name or project location, pursuant to this Section 10.12, until six months after such CPUC Approval."

- (g) **Publicity.** Add a new Section to Article Ten as follows:

"10.13 Publicity. Except as provided for in Section 10.11 and 10.12, no announcement, publicity, advertising, press release, promotional or marketing materials regarding the arrangement contemplated under this Agreement, including the existence hereof, shall be made by either Party without the prior written approval of the other Party which approval shall not be unreasonably withheld or delayed."

- (h) **Dispute Resolution.** Add a new section to Article Ten as follows:

"10.14 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 a

senior 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."

(i) **Prevailing Wages.** Add a new section to Article Ten as follows:

"10.15. **Prevailing Wages.** To the extent applicable, Seller shall comply with the prevailing wage requirements of California Public Utilities Code section 399.14, subdivision (h).

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

Party A – Covanta Otay 3 Company

Party B – SAN DIEGO GAS & ELECTRIC COMPANY

By: Amy R. Wolfe

By: William Reed

Name: Amy R. Wolfe

Name: William Reed

Title: V.P. Regional Business Mgmt

Title: SVP - Regulatory and Strategic Planning

APPROVED as to legal form A.S.

CONFIRMATION LETTER

This Confirmation Letter ("Confirmation") is being provided pursuant to and in accordance with the Master Power Purchase and Sale Agreement, dated August 31, 2005 (the "Master Agreement"), between **Covanta Otay 3 Company**, ("Seller") and **San Diego Gas & Electric Company** ("Buyer"), and constitutes part of and is subject to the terms and provisions of such Master Agreement (collectively, the "Agreement"). Terms used but not defined herein shall have the meanings ascribed to them in the Master Agreement.

1.0 Effectiveness of Confirmation Letter. The obligation of Buyer to purchase the Product, including the Output (as defined in Section 3 of this Confirmation), under this Agreement is expressly conditioned upon the following:

1.1 CPUC Approval. The Parties agree to cooperate and use all reasonable efforts to obtain the CPUC Approval as soon as is practicable. "CPUC Approval" means a final and non-appealable order of the CPUC, without conditions or modifications unacceptable to the Parties, or either of them, which contains the following terms: (1) Approves this Agreement in its entirety, including payments to be made by the Buyer, subject to CPUC review of Buyer's administration of the Agreement; (2) finds that any procurement pursuant to this Agreement is procurement from an eligible renewable energy resource for purposes of determining Buyer's compliance with any obligation that it may have to procure eligible renewable energy resources pursuant to the California Renewables Portfolio Standard (Public Utilities Code Section 399.11 et seq.), Decision 03-06-071, or other applicable law; (3) finds that any procurement pursuant to this Agreement constitutes incremental procurement or procurement for baseline replenishment by Buyer from an eligible renewable energy resource for purposes of determining Buyer's compliance with any obligation to increase its total procurement of eligible renewable energy resources that it may have pursuant to the California Renewables Portfolio Standard, CPUC Decision 03-06-071, or other applicable law; and CPUC Approval will be deemed to have occurred on the date that a CPUC decision containing such findings becomes final and non-appealable. Should the CPUC issue an order approving this Agreement with conditions or modifications that materially alter the commercial aspects of this Agreement or fail to issue an order by 03/01/2006, the Parties shall have ten (10) Business Days from the mailing date of such order to provide the other Party written notice of the issuing Party's acceptance or rejection of the CPUC order as issued; 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 CPUC Approval as issued and agreement by such Party that this condition has been satisfied, upon the CPUC Approval Date. If a notice of rejection is sent, the Parties agree to use good faith efforts to renegotiate this Agreement. If, within sixty (60) days, no agreement is

reached, either Party may terminate this Agreement upon delivery of notice to the other Party. For purposes of this Agreement, the "CPUC Approval Date" shall be defined as the first Business Day after the date on which the CPUC issues a final, non-appealable order approving this Agreement.

2.0 Product: As-Available. "As Available" means, with respect to a Transaction, that Seller shall deliver to Buyer and Buyer shall purchase at the Delivery Point the Product from the Units, in accordance with the terms of this Agreement and subject to the excuses for performance specified in this Agreement.

3.0 Facility. The Output (defined below) will be supplied from the following generation assets only (collectively, the "Facility" or the "Units"):

Facility Name:	Otay – 3
Site Name:	Otay Landfill - State of California Solid Waste Information System Number 37-AA-0010
Facility Physical Address:	1600 Maxwell Road, Chula Vista, CA
Technology Type:	Biogas (landfill gas)
Specific Unit Description:	Cooper Superior Reciprocating Engines
Facility Total Nameplate Capacity:	3.75 MW (gross)
Net Output Capacity:	3.375MW

3.1 "Output" means all electrical energy produced from the Facility, net of electrical energy used to operate the Facility that is generated by the Facility, which may, on an instantaneous basis, be greater or less than the total nameplate rated Output of 3.75MW and an annual maximum Output of 29,565 MWh and an annual estimated Output of 24,000 MWh.

3.2 The Facility must meet Commercial Operation by the Commercial Operation Deadline.

"Commercial Operation Deadline" with respect to the Facility shall be no later than December 31, 2006 as extended by reason of Force Majeure, interconnection delays not attributable to Seller or as may otherwise be extended by written agreement signed by the Parties.

3.3 "Commercial Operation" means that (a) Seller shall have satisfied the requirements set forth in the Certificate of Commercial Operation in the form attached as Exhibit D; (b) Seller shall have delivered and Buyer shall have accepted in its reasonable discretion completed Certificates of Commercial Operation from the Seller and a Licensed Professional Engineer (defined below); (c) Seller shall have delivered credit support, as accepted by Buyer, in accordance with Section 8.4(b) of the Master Agreement; and (d) Seller has received all local, state and federal licenses, permits and other approvals as may be required by law

as of the date of the certificate for the construction, operation and maintenance of the Facility, including approvals, if any, required under the California Environmental Quality Act for the Facility and related interconnection facilities.

3.4 "Licensed Professional Engineer" means a person acceptable to Buyer in its reasonable judgment who (i) is licensed to practice engineering in the state of California (ii) has training and experience in the gas fired reciprocating engine power industry, (iii) has no economic relationship, association, or nexus with the Seller, (iv) is not a representative of a consulting engineer, contractor, designer or other individual involved in the development of the Facility, or of a manufacturer or supplier of any equipment installed in the Facility, and (v) is licensed in an appropriate engineering discipline for the required certification being made.

4.0 Delivery Point. The Delivery Point is the Buyer's facilities at the Point of Common Coupling as will be specified in the Generation Facility Interconnection Agreement.

5.0 Delivery Term. The Parties shall specify the period of Product delivery for the "Delivery Term," as defined herein, by checking one of the following boxes:

(Check one)

- delivery shall be for a period of ten (10) years.
- delivery shall be for a period of fifteen (15) years.
- delivery shall be for a period of twenty (20) years.
- delivery shall be for a period of _____ years.

If the "Non-standard Delivery" contract term is selected, the Parties need to apply to the CPUC justifying the need for non-standard delivery.

5.1 "Delivery Term" shall begin on the Commercial Operation date and continue for the time period specified above.

5.2 "Contract Year" shall mean any of the twelve (12) consecutive months starting with the first day of the month following the Commercial Operation date.

6.0 Output Requirements.

6.1 Contract Quantity. During the Delivery Term, Seller shall deliver, and Buyer shall receive and pay for, the energy from the Facility as more fully described in Section 9. In no event shall Seller have the right to procure electric energy from sources other than the Facility for sale and delivery pursuant to this Agreement. Station Service Power - Retail (defined below) shall be provided by the local service provider and the electrical usage shall be metered separately from the Output metered at the Delivery Point.

6.2 "Station Service Power - Retail" means any electrical energy used to operate the Facility other than electrical energy that is generated by the Facility.

7.0 Performance Guarantees / Excuses for Failure to Perform.

7.1 Energy Production Guarantees. Buyer shall in its sole discretion have the right to declare an Event of Default if Seller fails to achieve the Guaranteed Energy Production in any 12 calendar month period and such failure is not excused by the reasons set forth in subSections (ii), (iii), or (v) of Section 7.2 of this Agreement, "Excuses for Failure to Perform."

Guaranteed Energy Production = 20,000 MWh.

7.2 Seller Excuses. Seller shall not be liable to Buyer for any damages determined pursuant to Article Four of the Agreement in the event that Seller fails to deliver the Product to Buyer for any of the following reasons:

- i. if the specified generation asset(s) are unavailable as a result of a Forced Outage (as defined in the NERC Generating Unit Availability Data System (GADS) Forced Outage reporting guidelines) and such Forced Outage is not the result of Seller's negligence or willful misconduct;
- ii. Force Majeure;
- iii. by Buyer's failure to perform;
- iv. by Scheduled Maintenance Outages of the specified units;
- v. a reduction in Output as ordered under terms of the dispatch down and Curtailment provisions (including CAISO or Buyer's system emergencies); or
- vi. the unavailability of landfill gas which was not anticipated as of the date this Confirmation was agreed to, which is not within the reasonable control of, or the result of negligence of, Seller or the party supplying such landfill gas to the Project, and which by the exercise of reasonable due diligence, Seller is unable to overcome or avoid or causes to be avoided;

7.3 Buyer Excuses. The performance of Buyer to receive the Product may be excused only (i) during periods of Force Majeure, (ii) by Seller's failure to perform or (iii) during dispatch down periods.

Dispatch down periods will be treated in accordance with Section 17 of this Confirmation.

8.0 Exclusivity/Right of First Refusal.

8.1 Exclusivity. At no time shall Seller sell or otherwise dispose of Output or Environmental Attributes from the Facility to any third party except in the case of an Event of Default of Buyer.

8.2 Right of First Refusal. If, at any time during the term of this Agreement, Seller or any of its affiliates intends to install new facilities using landfill gas from the Otay Landfill or any expansion thereof to produce additional energy beyond that produced by the Facility or the two existing landfill gas facilities that are owned by affiliates of Seller and commonly referred to as Otay 1 and 2 (collectively, the “New Facilities Energy”), it shall first offer, or shall cause its affiliate to offer, the New Facilities Energy to Buyer by delivering notice to Buyer setting forth the terms and conditions of the offer in writing and in reasonable detail (each, an “Option Election Notice”). Except to the extent otherwise noted in the Option Election Notice, any such New Facilities Energy shall be purchased and sold pursuant to a power purchase agreement in form and substance (other than price) substantially the same as this Agreement (with the security requirements adjusted). Seller shall, or shall cause its affiliate to, promptly answer any questions that Buyer may have concerning the offered terms and conditions and shall meet with Buyer to discuss the offer. If Buyer does not accept in writing the offered terms and conditions within thirty (30) days after receiving the Option Election Notice, Seller or its affiliate may enter into an agreement to sell the New Facilities Energy to a third party on terms and conditions no more favorable to the third party than those offered to Buyer. If Seller or its affiliate wishes to enter into an agreement with a third party on terms more favorable than those previously offered to Buyer, Seller shall, or shall cause its affiliate to, first offer the revised terms and conditions to Buyer under this Section, and Buyer shall have an additional thirty (30) days after receiving the revised Option Election Notice to accept the revised offer. If Buyer accepts an offer made under this Section, Seller shall, or shall cause its affiliate to, within a further sixty (60) days enter into a power purchase agreement with Buyer in substantially the same form as this Agreement, but incorporating such changes as are expressly identified in the terms and conditions in the Option Election Notice.

9.0 Monthly Payments.

9.1 Contract Price. The Contract Price shall be \$57.00/MWH.

9.2 Energy Payment. Energy payment shall be only for Delivered Energy, delivered by Seller and received by Buyer. The energy payment shall be calculated as follows:

$$\text{Energy Payment} = \sum_1^{\text{Hr}} \text{Delivered Energy} \times \text{Contract Price}$$

Where:

H_T = All hours of the billing month.

Contract Price is the price specified in Section 9.1.

Delivered Energy means the lower of scheduled or metered amounts less Delivery Losses.

Delivery Losses means all electrical losses occurring between the CAISO approved revenue meter and the Delivery Point and electrical losses occurring over the CAISO grid as such losses are assigned by the CAISO to the Facility including if applicable, but not limited to:

- a. If the CAISO approved revenue meter is not installed on the high voltage side of the Facility's substation bus bar, transformer and other electrical losses occurring between the CAISO approved revenue meter and the high voltage side of the Facility's substation bus bar;
- b. Any electrical losses between the high voltage side of the Facility's substation bus bar and the CAISO grid, including the following if applicable: DLF or TLF.

DLF means a measure of all net electrical losses as determined by the CPUC associated with the transmission of electric energy through the electric system from the high voltage side of the Facility's substation bus bar to the interface with the CAISO grid, also known as the distribution loss factor.

TLF (for resources outside of the CAISO grid) means a measure of all net electrical losses, as determined by the Transmission Provider, associated with the transmission of electric energy through the electric system from the high voltage side of the Facility's substation bus bar to the interface with the CAISO Grid, also known as the transmission loss factor.

; and

- c. Electrical losses determined by utilizing the GMM, or TMM if applicable, assigned to the Facility.

GMM(s) means the generation meter multipliers as determined by the CAISO representing the calculation of all electrical losses assigned to the Facility associated with the transmission of electric energy delivered by the Facility over the CAISO grid, which values are, as of the Effective Date, posted by CAISO on its website. The values used in the Agreement will be those appearing on the CAISO website on the third (3rd) Business Day of the calendar month following the month for which such values are being applied.

TMM means the tie meter multipliers as determined by the CAISO representing the calculation of all electrical losses over the CAISO grid associated with the transmission of electric energy delivered at a

CAISO Control Area boundary, which values are, as of the Effective Date, posted by the CAISO on its website. The values used in the Agreement will be those appearing on the CAISO website on the third (3rd) Business Day of the calendar month following the month for which such values are being applied.

9.2.1 CAISO Charges. Seller shall assume all liability and pay for all imbalance charges attributable to it and inter-zonal congestion charges. Seller shall also assume all liability and reimburse Buyer for any Penalties (as defined below) incurred by Buyer as a result of Seller's failure to abide by the CAISO Tariff and all applicable protocols. The Parties shall cooperate to eliminate imbalances and minimize Penalties to the extent possible. Seller shall promptly notify Buyer as soon as possible of any material imbalance that is occurring or has occurred. Such notification shall not impact Seller's responsibilities for payment for all imbalance and inter-zonal congestion charges and Penalties under this Agreement. Notwithstanding anything to the contrary which may be contained herein, Seller shall be entitled to any and all credits and/or payments made by CAISO to Seller or its Scheduling Coordinator in accordance with the CAISO Tariff and all applicable protocols.

9.2.2 "Penalties" shall be defined as any fees, liabilities, assessments, or similar charges assessed by the CAISO.

10.0 Environmental Attributes. Seller hereby provides and conveys all Environmental Attributes from the Unit(s) to Buyer as part of the Product being delivered, as such term is described in the applicable Transaction confirmation for the period set forth in such confirmation. Seller represents and warrants that Seller holds the right to all Environmental Attributes from 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).

11.0 Facility Schedule. The Facility Milestones are the following:

No.	Task	Milestone Date
1	Apply for RPS registration number	02/15/2006
2	Obtain Air Quality Management District's Permit to Construct	02/28/2006
3	Initial Submittal of engineering/design plans to San Diego County	03/01/2006
4	Submit application to CAISO for Participating Generator Agreement	04/30/2006
5	Submit application to CAISO for Meter Service Agreement	04/30/2006

11.1 Buyer's Right to Monitor. Buyer may exercise its due diligence responsibilities via the following:

11.1.1 Buyer shall have the right to review Facility design drawings and documents.

11.1.2 Buyer may inspect the Facility's construction site or on-site Seller data and information pertaining to the Facility during business hours upon reasonable notice.

11.1.3 Within seven (7) days after the close of each calendar quarter until the Commercial Operation date, Seller shall provide to Buyer Quarterly Progress Reports similar in form and content of Exhibit E: Quarterly Progress Reports. Regularly scheduled meetings shall be held between representatives of Seller and Buyer for the purpose of reviewing Quarterly Progress Reports and Seller's construction progress.

11.2 Milestone Completion Notice. No later than seven (7) days after completion of each milestone set forth in Section 11.0, Seller shall submit written notice to inform Buyer of milestone completion. Seller must provide accompanying documentation (including copies of applicable agreements redacted, permits and certificates) sufficient to demonstrate evidence of such milestone completion.

12.0 Facility Delays.

12.1 Missed Milestones. If Seller misses three or more milestones set forth in Section 11.0 or misses any one by more than ninety (90) days except as a result of Force Majeure, Seller shall submit to Buyer, within ten (10) days of such missed milestone date, a remedial action plan (the "Remedial Action Plan").

12.2 Missed Commercial Operation Deadline. Seller shall cause the Facility to achieve Commercial Operation on or before the scheduled Commercial Operation

Deadline. If Commercial Operation occurs after the scheduled Commercial Operation Deadline (for reasons other than attributable to Force Majeure), Seller shall pay Buyer delay damages equal to three hundred and twenty nine dollars (US\$329.00) for each day or portion of a day that the Commercial Operation occurs after the scheduled Commercial Operation Deadline, up to a total of one hundred and eighty (180) days. Seller shall also submit a Remedial Action Plan within ten (10) days of a missed Commercial Operation Deadline. Each Party agrees and acknowledges that (a) the actual damages that Buyer would incur due to delay in achieving the Commercial Operation on or before the scheduled Commercial Operation Deadline would be difficult or impossible to predict with certainty, (b) the daily delay damages set forth in this section are a reasonable and appropriate approximation of such damages, and (c) the daily delay damages set forth in this section are the exclusive remedy for Seller's delay in achieving Commercial Operation by the scheduled Commercial Operation Deadline but shall not otherwise act to limit any of Buyer's rights or remedies arising from any other Event of Default by Seller, including, without limitation, the failure by Seller to achieve Commercial Operation altogether.

12.3 Remedial Action Plan/Additional Event of Default. For purposes of Section 12.1 and Section 12.2, at a minimum, a Remedial Action Plan shall set forth a detailed description of Seller's course of action and plan to achieve all milestones set forth in Section 11.0 and Commercial Operation by the Commercial Operation Deadline. Approval of a Remedial Action Plan shall not relieve Seller of its obligation to meet any subsequent milestones and Commercial Operation by the Commercial Operation Deadline. Buyer at its sole discretion may reject any Remedial Action Plan submitted under Section 12.1 or 12.2 and declare an Event of Default.

13.0 Operating Procedures. No later than forty-five (45) days before the Commercial Operation date, and from time to time as reasonably determined necessary by the Parties, the Parties shall meet to address how each Party will perform its respective obligations under this Agreement, 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 delivery forecasting; (5) procedures for record keeping; (6) scheduling procedures, including executing a Scheduling Coordinator Services Agreement between the Parties (the "Scheduling Coordinator Agreement"); and (7) invoicing and payment procedures; provided, that the failure to agree on operating procedures will not relieve the Parties of their respective obligations under this Agreement.

14.0 Maintenance.

14.1 Scheduled Maintenance Outages. Seller shall operate, maintain, and arrange Scheduled Maintenance Outages for the Facility in accordance with Good Utility Practices. Seller shall be limited to eight hundred forty (840) hours of Scheduled Maintenance Outages per year.

14.1.1 No later than forty-five (45) days before the start of each calendar year, Seller shall provide Buyer with a timetable of Scheduled Maintenance Outages for the following twelve (12) months. Buyer may accept or reject such schedules but shall not unreasonably withhold or delay approval. If Seller reasonably determines that it is necessary to change a Scheduled Maintenance Outage, Seller shall notify Buyer of the proposed change at least ten (10) days before the outage begins. Buyer shall promptly respond to such notice and may request reasonable modifications in the schedule for the outage. Seller shall use best efforts in accordance with Good Utility Practices not to schedule Scheduled Maintenance Outages during Summer Months (as defined below). "Summer Months" shall be defined as July, August, September and October.

14.1.2 A "Scheduled Maintenance Outage" means a planned shut down of any part of the Facility scheduled by Seller in accordance with this Section that affects Seller's ability to provide Output from the Facility to Buyer under this Agreement.

14.2 Emergency Periods. At Buyer's request, Seller shall use commercially reasonable efforts to deliver Output during CAISO declared emergency periods. In the event Seller has previously scheduled a Scheduled Maintenance Outage coincident with an emergency, Seller shall use commercially reasonable efforts to reschedule the Scheduled Maintenance Outage.

14.3 Maintenance Log. Seller shall maintain a maintenance log for the Facility. The log shall include but not be limited to information on power production, fuel consumption and efficiency (if applicable), availability, maintenance (both breakdown and preventative) performed, outages, changes in operating status, inspections, manufacturer recommended services and replacement, electrical characteristics of the generators, control settings or adjustments of equipment and protective devices. Information maintained pursuant to this paragraph shall be kept for two years and provided to Buyer electronically, within thirty (30) days of Buyer's request.

15.0 Participating Generator. Seller shall execute a CAISO Participating Generator Agreement and a Meter Service Agreement for CAISO Metered Entities.

16.0 Scheduling and Scheduling Coordinator.

Buyer or Buyer's designee shall be the Scheduling Coordinator for the Facility and shall be responsible for scheduling the forecast of Output to the Delivery Point during the Delivery Term. Buyer shall submit schedules, and any updates to such schedules, to the CAISO based on the Seller's most current schedule, as submitted to Buyer in accordance with Section 16. All generation scheduling and transmission services shall be performed in accordance with all applicable operating policies, criteria, guidelines and the CAISO

Tariff or its successor, and any other generally accepted operational requirements. Seller shall fulfill contractual, metering and interconnection requirements set forth in the CAISO Tariff and implementing CAISO standards and requirements, including but not limited to executing a CAISO Participating Generator Agreement, so as to be able to deliver Output to the CAISO controlled grid.

Notwithstanding anything to the contrary herein, in the event Seller makes a change to its schedule on the actual date of delivery for any reason including Forced Outages (other than a scheduling change imposed by Buyer or CAISO) which results in a change to its Daily Delivery Schedules as defined in Section 16.3 (whether in part or in whole), Seller shall notify Buyer immediately by calling Buyer's on-duty scheduling coordinator. Within two hours of the scheduling change due to Forced Outage, Seller shall submit Exhibit F: Outage Notification Form to Buyer in accordance with the instructions shown on the form. Seller shall keep Buyer informed of any developments that will affect either the duration of the outage or the availability of the Facility during or after the end of the outage.

- 16.1 Annual Delivery Schedules. No later than forty-five (45) days before the beginning of each calendar year, Seller shall provide an annual forecast of each month's average-day deliveries of Output, by hour, for the following calendar year (the "Annual Delivery Schedule").
- 16.2 Monthly Delivery Schedules. Ten (10) Business Days before the beginning of each month, Seller shall provide a monthly forecast of each day's average deliveries of Output, by hour, for the following month ("Monthly Delivery Forecast").
- 16.3 Daily Delivery Schedules. In accordance with the Scheduling Coordinator Agreement and by 5:30 AM Pacific Prevailing Time on the Business Day immediately preceding the date of delivery, Seller shall provide Buyer with a copy of the required schedule of deliveries of Output for each hour of the immediately succeeding day concurrent. A schedule provided in a day prior to any non-Business Day(s) shall include schedules for the immediate day, each succeeding non-Business Day and the next Business Day. Seller shall provide Buyer with a copy of any and all updates to such schedule indicating a change in scheduled Output.
17. Dispatch Down/Curtailment. Both parties shall be excused from performing their obligations under this Agreement for (a) curtailments ordered directly or indirectly by the CAISO or (b) scheduled and unscheduled maintenance on Buyer's facilities that prevents Seller and/or Buyer from delivering and/or taking Output at the Delivery Point.
18. Delivery and Metering. All deliveries of Output shall be metered in real-time basis to reflect deliveries at the Delivery Point. A copy of hourly metered and hourly scheduled 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 Buyer by Seller.

- 18.1 CAISO Agreements. Seller shall enter into a Participating Generator Agreement and a Meter Service Agreement with the CAISO and shall comply with the CAISO Tariff and standards applicable to metering. All meters and equipment used for the measurement of deliveries shall be provided, owned, maintained, inspected and tested at no cost to Buyer. To facilitate monthly settlement processes, Seller shall authorize Buyer to view the Facility's CAISO on-line meter data by identifying Buyer as an authorized user with "read only" privileges on Schedule 3 of Seller's Meter Service Agreement with the CAISO.
- 18.2 Testing and Calibration. Seller shall perform or cause to be performed, at its expense, annual testing and calibration of the electric meters in accordance with Good Industry Practice and the CAISO Tariff. Seller shall give Buyer reasonable advance notice of any inspection, testing or calibration of the electric meters. Buyer shall have the right to have a representative or designee present at such inspection, test or calibration of the electric meters. Buyer shall have the right to require, at Buyer's expense, except as required below, a test of any of the electric meters not more often than two (2) times every twelve (12) months.
- 18.3 Inaccurate Meters. If any of the electric meters is deemed to be inaccurate under the Meter Service Agreement, deliveries shall be measured by reference to Seller's check-meters, if installed and registering accurately, or the meter readings for the period of inaccuracy shall be adjusted as far as can be reasonably ascertained by Seller from the best available data, subject to review and approval by Buyer. If the period of the inaccuracy cannot be ascertained reasonably, any such adjustment shall be for a period equal to one-half of the time elapsed since the preceding test by applying the percentage of inaccuracy so found. Seller shall promptly cause such electric meters to be corrected and, where such inaccuracy was determined pursuant to a test required by Buyer, Seller shall bear the expense of any such test.
- 18.4 Delivered MWh Adjustments. In the event that, due to correction for inaccurate electric meters deemed to be inaccurate under the Meter Service Agreement, the amount of Output is increased or decreased, the revised quantity of Output shall be used for purposes of calculating the Energy Payment. If any of such amounts for any period have already been calculated using the previous quantity of Output, they shall be recalculated using the revised quantity of Output. If the recalculation increases any amount payable by Seller to Buyer or decreases any amount payable by Buyer to Seller, Seller shall pay to Buyer the amount of such increase or decrease. If the recalculation increases any amount payable by Buyer to Seller or decreases any amount payable by Seller to Buyer, Buyer shall pay to Seller the amount of such increase or decrease.

19. SEP Awards, Contingencies.

Seller Termination Right

- (a) If Seller's Bid Price exceeds the Market Price Referent, Seller may seek a PGC Funding Award from the California Energy Commission, or its successor agency ("CEC"), for an amount (in \$ per MWh) equal to the positive difference derived by subtracting (a) the Market Price Referent (in \$ per MWh) from (b) the Bid Price (in \$ per MWh) ("PGC Fund Amount"). To the extent that Seller seeks such PGC Fund Award, Seller shall use best efforts to comply with all funding criteria and obtain the PGC Fund Amount and Buyer shall reasonably support Seller's efforts. If Seller does not obtain a PGC Funding Confirmation or PGC Funding Award by 11:59 p.m. Pacific Standard Time on the 120th day from the date on which Buyer files this Transaction for CPUC Approval ("Funding Termination Deadline"), then Seller may unilaterally terminate this Transaction prior to the Funding Termination Deadline effective as of the date on which Buyer receives Seller's written notice of termination. If Seller exercises this termination right, neither Buyer nor Seller shall be subject to liability of any kind.
- (b) At any time prior to the Funding Termination Deadline, if applicable, Seller shall send to Buyer within ten (10) days of (i) obtaining a PGC Funding Confirmation or PGC Funding Award, written notice of such confirmation or award and a copy of the final funding award agreement entered into by the California Energy Commission, or its successor agency ("CEC") and Seller, if the funding award agreement has been granted at that time, or (ii) receiving written notice from the CEC denying Seller's application for the requested PGC Fund Amount, a copy of such notice and a written statement from Seller, in which Seller shall (A) waive its termination rights under this Section 19 or (B) notify Buyer that the Transaction is terminated, pursuant to the terms of this Confirmation. If Seller has the right to terminate this Transaction, but fails to send written notice of termination by the Funding Termination Deadline, then Seller's termination right per this Section 19 shall be deemed waived in its entirety

"Bid Price" means the price as bid by Seller in response to the RFP or such other price as may be arrived at through negotiation.

"Market Price Referent" means the market price referent applicable to this Agreement, as determined by the CPUC in accordance with Public Utilities Code Section 399.15(c).

"Public Goods Charge Funding" or "PGC Funds" means any supplemental energy payments, pursuant to Public Utilities Code Section 399.15, as shall be modified or amended from time to time.

“PGC Funding Award” means the final award of allocated PGC Funds from the CEC to Seller, pursuant to Section 25743(a) of the Public Resource Code, as shall be modified or amended from time to time.

“PGC Funding Confirmation” means a written notice from the CEC to Seller acknowledging Seller’s request for PGC Funds and the availability of such funds for Seller in a future PGC Funding Award.

20. PGC Funding Termination Event

- (a) PGC Funding Revocation. If at any time after Seller obtains a PGC Funding Confirmation or PGC Funding Award, (i) the PGC Funding Confirmation or PGC Funding Award is revoked in whole or in part by the CEC for reasons not caused by Seller’s action or inaction, (ii) such revocation occurs prior to the issuance of a PGC Funding Award or during the term of the PGC Funding Award, and (iii) Seller has not received a financial benefit in the form of tax credits or any other source of public funding or credit directly related to the Product sold under this Confirmation, which benefit would offset the loss incurred from the revocation of the PGC Funding Confirmation or PGC Funding Award, then Seller shall have the right to terminate this Transaction, subject to Buyer’s Right of First Refusal Option. If Seller exercises this termination right neither Buyer nor Seller shall be subject to liability arising from such termination.

Not more than ten (10) days from Seller’s receipt of written notification regarding revocation of the PGC Funding Confirmation or PGC Funding Award in whole or part, Seller shall notify Buyer in writing of the revocation of the PGC Funding Confirmation or PGC Funding Award, certify it has not received an offsetting financial benefit per clause (iii) above, and certify that such revocation is not due to Seller’s action or inaction. Seller shall also provide Buyer with a copy of such CEC notification. (the “Revocation Notice”). Seller shall specify in its Revocation Notice what percentage of lost PGC funding it is willing to accept to continue to perform under this Transaction (not exceeding 100%).

- (b) Right of First Refusal Option.

(i) Option. Buyer, in its sole discretion, shall have the right, but not the obligation, to pay to Seller the percentage of lost PGC funding specified in its Revocation Notice (“Lost PGC Funds”) and Seller shall continue performing under the Transaction for the remaining term of the Transaction (the “Option”). Buyer shall have thirty (30) days from its receipt of the Revocation Notice to exercise the Option (“Exercise Period”), subject to Option Approval, as defined below.

(ii) Exercise of Option. If Buyer chooses to exercise the Option, Buyer shall send written notice to Seller stating that Buyer is exercising the Option, conditioned upon Buyer’s receipt of Option Approval, as defined below, within 180 days of date on which Buyer received the Revocation Notice. The effectiveness of the

Option exercise shall be subject to Buyer's receipt of a final, non-appealable order issued by the CPUC, satisfactory to Buyer, approving Buyer's exercise of the Option and recovery of costs associated with the payment of the percentage of lost PGC Funding ("Option Approval"). The date on which Buyer provides written notice of its Option exercise to Seller shall be the "Exercise Date." Buyer shall file an advice filing or application seeking the Option Approval within thirty (30) days of the Exercise Date.

(iii) Payment. Prior to Buyer's receipt of Option Approval, Buyer shall pay Seller the Lost PGC Funds, which would have been due to Seller on a monthly basis for the period between the Exercise Date and the next invoice following the date on which the Option Approval is issued. Upon receipt of Option Approval Buyer shall continue paying Seller's Lost PGC Funds on a monthly basis until the expiration of the term of Seller's PGC Funding Award, or Reinstatement of Seller's PGC funding, whichever comes first.

(iv) Seller's Termination Right. Seller may terminate the Transaction in accordance with subSection (a) above upon the occurrence of any of the following events: (A) Buyer provides written notice to Seller rejecting the exercise of the Option, (B) the Option expires without being exercised, (C) Buyer fails to seek Option Approval within thirty (30) days of the Exercise Date, or (D) Buyer fails to obtain Option Approval within 180 days of Buyer's receipt of the Revocation Notice. If Seller then terminates the Transaction, such termination shall be effective thirty (30) days from the date on which Seller notifies Buyer of such termination. Both Parties shall continue to perform under this Transaction until the effectiveness of any such termination by Seller.

- (c) Reinstatement of PGC Funding. If the PGC Funding Award is reinstated in its entirety, including retroactive payments for lost PGC Funds, at anytime before (i) Seller's termination of this Transaction or (ii) Buyer's exercise of the Option, then Seller shall no longer be permitted to terminate this Transaction, pursuant to Section 20(a), and both Parties shall continue to perform under this Transaction. If the PGC Funding Award is reinstated in whole or in part at anytime after Buyer has exercised the Option, then Buyer shall be relieved of all further obligations to pay any of Seller's lost PGC Funds, which will be covered by the reinstated PGC Funding Award. If PGC Funding Award is reinstated in whole or in part on a retroactive basis after Buyer has exercised the Option, then Buyer shall have the right to offset against payments due to Seller that portion of such award amount equivalent to the lost PGC Funds paid by Buyer to Seller between the period in which the PGC Funds were revoked and reinstated. Seller shall notify Buyer in writing of any such reinstatement of PGC Funds within ten (10) days of receiving notice of such reinstatement from the CEC, CPUC, or other regulatory agency responsible for the PGC Funds program, which notice shall include a copy of such notice.

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

Seller: Covanta Otay 3 Company

Buyer: San Diego Gas & Electric Company

Signature: *Amy R. Wolfe*

Signature: *William Reed*

By: Amy R. Wolfe

By: William Reed

Title: Vice President,
Regional Business Management

Title: Senior Vice President,
Regulatory and Strategic Planning

Approved as to form: *AS* AS