

**ATTACHMENT 1**

**MASTER POWER PURCHASE AND SALE AGREEMENT**

**COVER SHEET**

02-0116 (copy)  
3/2/02  
32 330 (copy)  
Coyote Canyon

This *Master Power Purchase and Sale Agreement* (Version 2.1; modified 4/25/00) ("*Master Agreement*") is made as of the following date: October 31, 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:** \_Gas Recovery Systems, Inc. ("Party A")

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

**All Notices:** \_\_\_\_\_  
Gas Recovery Systems, Inc.

**All Notices:** San Diego Gas & Electric Company

Street: 5717 Brisa Street

Street: 8306 Century Park Court

City: Livermore, CA                      Zip: 94550

City: San Diego, CA                      Zip: 92123

Attn: Chief Operating Officer

Attn: Contract Administration

Phone: (925) 606-3700

Phone: (858) 650-6176

Facsimile: (925) 606-3710

Facsimile: (858) 650-6190

D&B 09-838-

Duns: 006911457

0504 \_\_\_\_\_

Federal Tax ID Number: \_\_\_\_\_

Federal Tax ID Number: \_\_\_\_\_

**Invoices:**

**Invoices:**

Gas Recovery Systems, Inc.

San Diego Gas & Electric Company

5717 Brisa Street

8306 Century Park Ct.

Livermore, CA. 94550

San Diego, California 92123-1593

Attn: Controller

Attn: Energy Accounting Manager

Phone: (925) 606-3700

Phone: (858) 650-6177

Facsimile: (925) 606-3715

Facsimile: (858) 650-6190

**Scheduling:**

**Scheduling:**

Gas Recovery Systems, Inc.

San Diego Gas & Electric Company

20662 Newport Coast Drive

8306 Century Park Ct.

Irvine, CA. 92612

San Diego, California 92123-1593

Attn: Regional Manager

Attn: Transaction Scheduling Manager

Phone: (949) 721-4151

Phone: (858) 650-6160

Facsimile: (949) 721-5826

Facsimile: (858) 650-6191

**Payments:**

**Payments:**

Gas Recovery Systems, Inc.

San Diego Gas & Electric Company

5717 Brisa Street

PO Box 25110

Livermore, CA. 94550

Santa Ana, CA 92799-5110

Attn: Controller

Attn: Mail Payments

Phone: (925) 606-3700

Phone: (619) 696-4521

Facsimile: (925) 606-3715

Facsimile: (619) 696-4899

**Wire Transfer:**

BNK: US Bank  
for: Gas Recovery Systems, Inc.  
ABA: Routing # [REDACTED]  
ACCT: # [REDACTED]  
Confirmation: GRS, Controller  
FAX: (925) 606-3715

**Credit and Collections:**

Gas Recovery Systems, Inc.  
5717 Brisa Street  
Livermore, CA. 94550  
Attn: Controller  
Phone: (925) 606-3700  
Facsimile: (925) 606-3715

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

Gas Recovery Systems, Inc.  
320 Pinebush Road, Suite 12  
Cambridge, ONT N3C 2V3  
Attn: President  
Phone: (519) 621-6669  
Facsimile: (519) 621-9944

**Wire Transfer:**

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:**

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:**

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  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**

Cross Default for Party A:

Events of Default; Remedies

Party A: Gas Recovery Systems, Inc.

Cross Default Amount: \$25 Million Dollars

Other Entity:

Cross Default Amount: N/A

X Cross Default for Party B

X Party B: San Diego Gas & Electric Company Cross Default : \$25 million

Other Entity: N/A Cross Default Amount \$ N/A

5.6 Closeout Setoff

- Option A (Applicable if no other selection is made.)
- X 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:

- X Option A
- Option B Specify: \_\_\_\_\_
- Option C Specify: \_\_\_\_\_

(b) Credit Assurances:

- Not Applicable
- X Applicable

(c) Collateral Threshold:

- X 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

(e) Guarantor for Party B: None

Guarantee Amount: \$0

8.2 Party B 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:

Party A Collateral Threshold: \$N/A.

Party A Independent Amount: 0

Party A Rounding Amount: \$100,000

(d) Downgrade Event:

- Not Applicable
- Applicable

(e) Guarantor for Party A: None.

Guarantee Amount: \$0

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**Article 10**

Confidentiality

X Confidentiality Applicable If not checked, inapplicable.

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**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 1.25 shall be modified by adding the following as the last sentence: "Guarantor shall issue a Guarantee in the format attached hereto as Exhibit A."
- (2) 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 B" at the end of the first sentence.
- (3) Section 1.45 shall be modified by including the words "acceptable to the requesting party" after the words "Letter(s) of Credit".
- (4) 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."

(5) 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.”

(6) Section 1.62 is added as follows:

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

(7) 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.

(8) 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).

(9) 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) **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, 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. 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.”

(c) **Force Majeure.** Section 3.3 shall be amended by adding the following paragraph at the end of the section:

“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 thirty (30) 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.”

(d) **New Section 3.4 to be added for non-unit specific sales and renewables if the delivery location is SP-15:** “In the event the current definition of the Delivery Point set forth in the Transaction is modified by CAISO or a successor control area operator/regional transmission operator, deliveries of Product by Seller shall continue but will be divided among the replacement nodes based on the proportion of former zonal retail load, regardless of supplier, that is located in each replacement zone or node, or as mutually agreed to by the Parties.”

(e) **Remedies for Filure to Deliver/Receive.** Section 4.3 is added as follows:

Duty to Mitigate: Each Party agrees that it (1) has a duty to mitigate damages and (2) covenants to use commercially reasonable efforts to minimize any damages it may incur as a result of the other Party’s performance, or non-performance, under this Agreement.

(f) **Events of Default.**

(1) Section 5.1(g) is hereby amended to delete the following language in lines 7 and 8: “or becoming capable at such time of being declared.”

(2) 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”.

(3) Section 5.1(h)(iv) is hereby amended by replacing the words “its terms” with “the Guaranty’s and this Agreement’s terms”.

(g) **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”.

(h) **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."

(i) **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."

(j) **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."

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

(o) **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."

(p) **Dispute Resolution.** Add a new section 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.

(q) **Change in Rates.** Add a new section to Article 10 as follows:

**“10.13 Changes in Rates.**

If applicable, each Party expressly retains all of its rights under Section 206 of the Federal Power Act. The standard of review for any Section 206 filing shall be the “just and reasonable” standard of review for any such filing. Each Party expressly retains its rights to protest or otherwise challenge any such filing.”

(r) **CPUC Approval.** Add a new section to Article 10 as follows:

**10.14. CPUC Approval.** The Parties hereby acknowledge and agree that SDG&E shall submit this Agreement or any amendment thereto resulting from the negotiation process described in Section 3.3 hereof (a “Section 3.3 Amendment”), to the CPUC for approval with a reasonable time after execution of this Agreement or a Section 3.3 Amendment. This Agreement and any Section 3.3 Amendment thereto and the Parties’ obligations under this Agreement or a Section 3.3 Amendment are subject to SDG&E first receiving CPUC Approval. “CPUC Approval” shall mean: (1) the issuance by the CPUC of a decision that does not materially alter the commercial aspects of this Agreement; (2) a finding by the CPUC that the payments under this Agreement are reasonable; and (3) SDG&E is authorized 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 or a Section 3.3 Amendment with conditions or modifications that materially alters the commercial aspects of this Agreement or a Section 3.3 Amendment, 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 or any Section 3.3 approval, whether or not relevant and applicable time periods for rehearing or judicial review expire..

Each of the Parties shall use its commercially reasonable efforts to obtain CPUC Approval. Neither Party shall oppose or protest the Agreement or any previously agreed to Section 3.3 Amendment in any way, at the CPUC. If called upon to do so, the Parties shall take reasonable actions to facilitate initial approval by (i) the CPUC or (2) other regulatory agencies

**Add New Section 10.15 SIGNATURES**

IN WITNESS OF, the Parties hereto have caused two originals of this Agreement to be executed by their duly authorized representatives. This Agreement may be executed in counterparts, each of which shall be deemed an original and which together shall constitute a single instrument.

**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.”

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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 - Gas Recovery Systems, Inc.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Party B - SAN DIEGO GAS & ELECTRIC COMPANY

By: Paul Lorenz

Name: Paul Lorenz

Title: Electric and Gas Procurement VP

APPROVED as to legal form d.s.

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 – Gas Recovery Systems, Inc.

Party B – SAN DIEGO GAS & ELECTRIC COMPANY

By:  \_\_\_\_\_

By: \_\_\_\_\_

Name: ALAN J PINES

Name: \_\_\_\_\_

Title: CHIEF OPERATING OFFICER

Title: \_\_\_\_\_

## Exhibit "A" Form of Guaranty

### GUARANTY

In consideration of San Diego Gas and Electric Company ("Company") entering into a contract with or furnishing electric and/or gas service or other goods or services or credit to [NAME OF COUNTERPARTY] (hereinafter referred to as "Applicant"), [NAME OF GUARANTOR], a [TYPE OF LEGAL ENTITY i.e. California corporation], (hereinafter referred to as "Guarantor") agrees with Company as follows:

1. The term "Obligations" is used herein in its broadest and most comprehensive sense and shall mean, without limiting the generality of the foregoing, all obligations, liabilities and indebtedness of any kind whatsoever now or hereafter owing by Applicant to the Company in respect of or pursuant to the EEI Master Power Purchase & Sale Agreement between the parties dated \_\_\_\_\_ and any amendments, modifications or extensions thereof ("the Agreement"). In addition, without limiting the generality of the foregoing, the term "Obligations" shall include all obligations, liabilities and indebtedness of any kind whatsoever arising in connection with or under any security agreement or other agreement between the Company and Applicant. The amount of Obligations existing from time to time shall be calculated after giving effect to all contractual netting arrangements between Applicant and the Company.

2. Guarantor unconditionally and irrevocably guarantees to Company the full, prompt and faithful payment and performance when due of each and all of the Obligations.

3. This is a continuing guaranty relating to the Obligations. Guarantor acknowledges that there is a continuing consideration to Guarantor for this Guaranty and therefore Guarantor waives and relinquishes the right to revoke or terminate this Guaranty as provided in California Civil Code Section 2815 except for the right to terminate this Guaranty in accordance with this paragraph 3. No termination of this Guaranty by Guarantor shall affect any Obligations outstanding or contracted or committed for as of the effective date of the termination, the payment of which Obligations shall continue to be guaranteed by Guarantor pursuant to this Guaranty notwithstanding such termination, and this Guaranty shall remain in full force and effect with respect to such Obligations until finally and irrevocably paid in full. Guarantor may terminate this Guaranty with respect to future Obligations only by delivering personally, by certified mail, postage prepaid and return receipt requested, or by confirmed facsimile transmission (fax), written notice thereof to Company, provided that such notice shall specify the effective date thereof, which effective date shall be no sooner than forty-five (45) days after Company's actual receipt of such notice, at the address set forth below (or to such new address or fax number as Company may designate hereafter in a notice to Guarantor) and Company's receipt of Performance Assurance (as defined in the Agreement):

San Diego Gas and Electric Company  
555 W. Fifth Street  
Attn: Major Markets 10E3, Credit Manager  
Los Angeles, CA 90013  
Fax No.: (213) 244-8316

4. Any of the Obligations may be amended, modified, waived, or increased (whether or not beyond any dollar limitation hereunder), further agreements may be entered into between Company and Applicant, Company may

provide additional goods or services or credit to Applicant or increase or decrease the dollar value of such goods, services or credit, and further obligations (including, without limitation, the provision or pledging of security to Company for any obligation), indebtedness and liabilities may be entered into or incurred from time to time by Applicant and without further authorization from or notice to Guarantor and no such action shall terminate, release, impair, reduce, discharge, diminish or in any way affect any of the obligations of Guarantor hereunder or any security furnished by Guarantor or give Guarantor any recourse or defense against Company. Company need not inquire into the power of Applicant or the authority of its officers, directors, partners or agents acting or purporting to act in its behalf.

5. With respect to all Obligations, this is a guaranty of payment and performance and not of collection, and Guarantor waives and agrees not to assert or take advantage of:

(a) any right to require Company to proceed against Applicant or any other person or to resort to, proceed against or exhaust any security held by it at any time or to pursue any other remedy in its power before proceeding against any Guarantor;

(b) demand, presentment, protest and notice of any kind including, without limiting the generality of the foregoing, notice of nonperformance, protest, dishonor and acceptance of this Guaranty, notice under Section 9504(3) of the California Commercial Code, and notice of the existence, creation or incurring of any new or additional indebtedness or obligation or of any action or non-action on the part of Applicant, Company, a guarantor under this or any other instrument, or creditor of Applicant or any other person whomsoever, in connection with any of the Obligations or any collateral for any of the Obligations or in connection with any of the Obligations; and

(c) any suretyship defenses and suretyship rights of every nature otherwise available under California law and the laws of any other state or jurisdiction, including, without limitation, all defenses and rights arising under Sections 2787 through 2855 of the California Civil Code (the "Suretyship Provisions") and any successor provisions to those Sections. Without limiting the generality of the foregoing, Guarantor acknowledges his, her or its understanding that the Suretyship Provisions provide various partial or complete defenses to the recovery by Company from Guarantor and/or grant Guarantor rights the enforcement of which could reduce or eliminate entirely Guarantor's liability hereunder to Company. Among the defenses and rights contained in the Suretyship Provisions are the following: (1) Section 2809 of the Civil Code, which provides, in part, that the obligation of a surety must not be either larger in amount or in other respects more burdensome than that of the principal; (2) Section 2810 of the Civil Code, which provides, in part, that a surety is not liable if for any reason other than the mere personal disability of the principal there is no liability upon the part of the principal at the time of execution of the contract, or the liability of the principal thereafter ceases; (3) Section 2819 of the Civil Code, which provides, in part, that a surety is exonerated if the creditor alters the original obligation of the principal without the consent of the surety; (4) Section 2845 of the Civil Code, which provides, in part, that a surety is exonerated to the extent that the creditor fails to proceed against the principal, or to pursue any other remedy in the creditor's power which the surety cannot pursue and which would lighten the surety's burden; (5) Section 2846 of the Civil Code, which provides that a surety may compel his principal to perform the obligation when due; (6) Section 2847 of the Civil Code, which provides, in part, that if a surety satisfies the principal obligation, or any part thereof, the principal is obligated to reimburse the surety for the amounts paid by the surety; (7) Section 2848 of the Civil Code, which provides, in part, that a surety, upon satisfaction of the obligation of the principal is entitled to enforce remedies which the creditor then has against the principal; (8) Section 2849 of the Civil Code, which provides, in part, that a surety is entitled to the benefit of security held by the creditor for the performance of the principal obligation held by the creditor; (9) Section 2850 of the Civil Code, which provides, in part, that whenever the property of a surety is hypothecated with property of the principal, the surety is entitled to have the property of the principal first applied to the discharge of the obligation; and (10) Section 2822 of the Civil Code, which provides, in part, for a right to have the principal designate the portion of any obligation to be satisfied by the surety in the event that the principal provides partial satisfaction of such obligation.

6. All existing and future indebtedness of Applicant to Guarantor ("Intercompany Obligations") is subordinated to all Obligations hereby guaranteed. All of Guarantor's right, title and interest in and to the Intercompany Obligations and rights to receive any payments of the Intercompany Obligations are hereby granted and assigned to Company as continuing security for the Obligations hereby guaranteed, and, in the event of any default in the payment of any of the Obligations when due and until the Obligations guaranteed hereby have been paid in full (a) at the Company's request, Applicant shall forthwith pay to the Company all or any part of such Intercompany Obligations and any capital which Guarantor is entitled to withdraw until all of the Obligations guaranteed hereby have been paid in full, and (b) Guarantor shall pay to Company immediately any payments of such Intercompany Obligations received by Guarantor.

7. Guarantor agrees to pay all attorneys' fees (including without limitation, reasonably allocated fees of in-house counsel) and all other costs and expenses which may be incurred by Company in the enforcement of this Guaranty against Guarantor.

8. This Guaranty shall inure to the benefit of Company and its successors and assigns, including the assignees of any Obligations, and bind the heirs, executors, administrators, successors and assigns of Guarantor. This Guaranty is assignable by Company with respect to all or any portion of the Obligations, and when so assigned Guarantor shall be liable to the assignees under this Guaranty without in any manner affecting the liability of Guarantor hereunder with respect to any Obligations retained by Company.

9. This Guaranty shall be governed by and construed in accordance with the laws of the State of California. Guarantor hereby irrevocably and unconditionally agrees that any legal action or proceeding against Guarantor or any of Guarantor's property with respect to this Guaranty may be brought in the courts of the State of California in the County of San Diego or the courts of the United States in the County of San Diego, as Company may elect, and by executing and delivering this Guaranty Guarantor hereby submits to and accepts with regard to any such action or proceeding for himself, herself or itself and in respect of his, her or its property, generally, irrevocably and unconditionally, the jurisdiction of the above mentioned courts. Guarantor hereby irrevocably appoints the Secretary of State of the State of California as his, her or its agent for service of process in any suit or proceeding if the Guarantor is located outside the State of California at the time of service or cannot reasonably be located by Company. The foregoing, however, shall not limit the right of Company as it may elect to bring any legal action or proceeding or to obtain execution of judgment in any other appropriate jurisdiction including but not limited to any other jurisdiction in which Guarantor or his, her or its property is located.

10. Except as provided in any other written agreement now or at any time hereafter in force between Company and Guarantor, this Guaranty shall constitute the entire agreement of Guarantor with Company with respect to the subject matter hereof and no representation, understanding, promise or condition concerning the subject matter hereof shall be binding upon Company unless expressed herein.

11. All notices, demands, requests and other communications required or permitted hereunder shall be in writing and, except for notice of termination of this Guaranty pursuant to paragraph 3 which shall be effective as provided therein, shall be given personally, by certified or registered mail, postage prepaid, return receipt requested, or by reliable overnight courier to the address of the Company set forth in paragraph 3 herein (or to such new address as Company may designate hereafter in a notice to Guarantor) in the case of a communication to the Company and to the address appearing next to Guarantor's signature on this Guaranty (or to such new address as Guarantor may designate hereafter in a notice to Company) in the case of a communication to Guarantor. Any notice served personally shall be deemed delivered upon receipt, and any notice served by certified or registered mail or by reliable overnight courier shall be deemed delivered on the date of receipt as shown on the addressee's registry or certification of receipt or on the date receipt is refused as shown on the records or manifest of the U.S. Postal Service or such courier.

12. Until all of the Obligations guaranteed hereby have been satisfied in full, Guarantor shall have no right of subrogation or reimbursement from the Applicant which Guarantor may have as a result of any payment by Guarantor under this Guaranty, and waives any right to enforce any remedy which Company now has or may hereafter have against the Applicant as a result of such payment by Guarantor under this Guaranty and waives any right under section 2849 of the California Civil Code and any other benefit of or right to participate in any security now or hereafter held by Company.

13. All amounts payable by Guarantor hereunder shall be paid without set-off or counterclaim and without any deduction or withholding whatsoever unless and to the extent that Guarantor shall be prohibited by law from doing so, in which case Guarantor shall pay to Company such additional amount as shall be necessary to ensure that Company receives the full amount it would have received if no such deduction or withholding had been made.

IN WITNESS WHEREOF, the undersigned Guarantor has executed this Guaranty on [MONTH AND DAY], 2001.

GUARANTOR: [NAME OF GUARANTOR]

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Title

\_\_\_\_\_  
Printed Name of Person Signing for Guarantor

\_\_\_\_\_  
Guarantor's Address

\_\_\_\_\_  
City, State, Zip

\_\_\_\_\_  
Guarantor's Phone No.



Exhibit "B" Form of Letter of Credit

[DATE]

TO: [NAME AND ADDRESS OF SECURED PARTY]

RE: OUR IRREVOCABLE STANDBY LETTER OF CREDIT NO. \_\_\_\_\_  
IN THE [APPROXIMATE] AMOUNT OF US \_\_\_\_\_

GENTLEMEN:

WE HEREBY OPEN OUR IRREVOCABLE STANDBY LETTER OF CREDIT NUMBER \_\_\_\_\_ IN FAVOR OF [NAME OF SECURED PARTY], BY ORDER AND FOR ACCOUNT OF [NAME OF PLEDGOR] ("PLEDGOR"), [ADDRESS OF PLEDGOR], AVAILABLE AT SIGHT, FOR AN [APPROXIMATE] AMOUNT OF US \_\_\_\_\_ [AMOUNT SPELLED OUT AND XX/100 U.S. DOLLARS] AGAINST PRESENTATION OF THE FOLLOWING DOCUMENT:

1- STATEMENT SIGNED BY A PERSON PURPORTED TO BE AN AUTHORIZED REPRESENTATIVE OF [SECURED PARTY] STATING THAT: "[NAME OF PLEDGOR] ("PLEDGOR") IS IN DEFAULT UNDER THE AGREEMENT BETWEEN [SECURED PARTY] AND PLEDGOR DATED \_\_\_\_\_ OR UNDER ANY TRANSACTION CONTEMPLATED THEREBY (WHETHER BY OCCURRENCE OF A "DEFAULT", "EVENT OF DEFAULT" OR SIMILAR TERM AS DEFINED IN SUCH AGREEMENT, ANY OTHER AGREEMENT BETWEEN [SECURED PARTY] AND PLEDGOR OR OTHERWISE). THE AMOUNT DUE TO [SECURED PARTY] IS US \$ \_\_\_\_\_."

SPECIAL CONDITIONS:

- ALL COSTS AND BANKING CHARGES PERTAINING TO THIS CREDIT ARE FOR THE ACCOUNT OF PLEDGOR.
- PARTIAL AND MULTIPLE DRAWINGS ARE PERMITTED.
- TELEX OR TELEFAX OF DOCUMENT 1 ABOVE ACCEPTABLE.

THIS LETTER OF CREDIT EXPIRES ON \_\_\_\_\_ AT OUR COUNTERS.

WE HEREBY ENGAGE WITH [SECURED PARTY] THAT UPON PRESENTATION OF A DOCUMENT AS SPECIFIED UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS CREDIT, THIS CREDIT WILL BE DULY HONORED IN THE AMOUNT STATED IN DOCUMENT 1 ABOVE. IF A DOCUMENT IS SO PRESENTED BY 1:00 PM ON ANY NEW YORK BANKING DAY, WE WILL HONOR THE SAME IN FULL IN IMMEDIATELY AVAILABLE NEW YORK FUNDS ON THAT DAY AND, IF SO PRESENTED AFTER 1:00 PM ON A NEW YORK BANKING DAY, WE WILL HONOR THE SAME IN FULL IN IMMEDIATELY AVAILABLE NEW YORK FUNDS BY NOON ON THE FOLLOWING NEW YORK BANKING DAY.

WE AGREE THAT IF THIS CREDIT WOULD OTHERWISE EXPIRE DURING, OR WITHIN 30 DAYS AFTER, AN INTERRUPTION OF OUR BUSINESS CAUSED BY AN ACT OF GOD, RIOT, CIVIL COMMOTION, INSURRECTION, WAR OR ANY OTHER CAUSE BEYOND OUR CONTROL OR BY ANY STRIKE OR LOCKOUT, THEN THIS CREDIT

SHALL EXPIRE ON THE 30TH DAY FOLLOWING THE DAY ON WHICH WE RESUME OUR BUSINESS AFTER THE CAUSE OF SUCH INTERRUPTION HAS BEEN REMOVED OR ELIMINATED AND ANY DRAWING ON THIS CREDIT WHICH COULD PROPERLY HAVE BEEN MADE BUT FOR SUCH INTERRUPTION SHALL BE PERMITTED DURING SUCH EXTENDED PERIOD (SUBJECT TO APPROVAL OF THE ISSUING BANK).

THIS CREDIT IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1993 REVISION) INTERNATIONAL CHAMBER OF COMMERCE, PUBLICATION NO. 500.

[NAME OF BANK]

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AUTHORIZED SIGNATURE(S)

02-056

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

This amended and restated Confirmation Letter ("Confirmation") shall confirm the transaction agreed to on October 31, 2002 between Gas Recovery Systems, Inc ("Party A") and San Diego Gas & 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: As Available, which means, with respect to a Confirmation, that the Product subject to this Confirmation is intended to be supplied from a generation asset or assets specified in this Confirmation. Party A's failure to deliver under an "As Available" Confirmation shall be excused: (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); (ii) by an event or circumstance that affects the specified generation asset(s) so as to prevent Party A from performing its obligations, and which is (a) not within the reasonable control of, Party A or (b) not the result of the negligence of Party A, (iii) by Party B's failure to perform, (iv) to the extent that landfill gas is not available due to a Force Majeure, which for purposes of this subpart (iv) replaces Master Purchase and Sale Agreement ("Master Agreement") Section 1.23 (iii) and shall mean 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, Party A or the party supplying such landfill gas to the Project, and which by the exercise of reasonable due diligence, Party A is unable to overcome or avoid or causes to be avoided, or (v) by scheduled maintenance outages of the specified units, or (vi) a reduction in Output as ordered under terms of Curtailments. In any of such events, Party A shall not be liable to Party B for any damages, including any amounts determined pursuant to Article Four of the Master Agreement and the paragraph entitled "Remedies for Failure to Deliver/Receive Guaranteed Energy Production" contained in this Confirmation Letter.

Energy Production Guarantees:

Subject to the excuses enumerated above, commencing from the Commercial Operation Date and continuing for the term of this Confirmation, Party A will supply energy to Party B, on an annual basis, in accordance with the output specified in Attachment 1, Energy Production Table attached to this Confirmation. As set forth in Attachment 1, Party A

designates that, on an annual basis, (i) its estimated energy deliveries are designated as "Scheduled Energy Production"; (ii) its maximum allowable energy deliveries under the Confirmation are designated as "Maximum Energy Production"; and (iii) its minimum guaranteed energy deliveries are designated as "Guaranteed Energy Production".

Should Party A fail to achieve its Guaranteed Energy Production during any annual (12) month period and (i) that failure is not otherwise excused or (ii) Party A fails to make a payment when due pursuant to the immediately following paragraph entitled "Remedies for Failure to Deliver/Receive Guaranteed Energy Production, Party B shall, in its sole discretion, have the right to terminate this Confirmation without any further obligations under the Master Agreement except for amounts owed to Party A by Party B for energy already produced and delivered under this Confirmation.

Additionally, Party B shall have no obligation to purchase any energy under this Confirmation, in excess of the Maximum Energy Production but may enter into such purchases at its sole discretion.

Remedies for Failure to Deliver/Receive Guaranteed Energy Production:

1. Party A Failure. If Party A fails to schedule and/or deliver the Guaranteed Energy Production, and such failure is not excused under the terms and provisions of the Master Agreement, Cover Letter, and this Confirmation or Party B's failure to perform, then Party A shall pay Party B, thirty (30) days after the close of the Annual Delivery Period in which the failure occurred an amount for such deficiency equal to the positive difference, if any, obtained by subtracting the Contract Price from the annual average Replacement Price for energy purchased by Party B from an eligible renewable energy resource as defined in Section 399.12 of the California Public Utilities Code and that qualifies under the requirements of the California Renewable Portfolio Standard. The invoice for such amount shall include a written statement explaining in reasonable detail the calculation of such amount.
2. Party B Failure. If Party B fails to schedule and/or purchase the Guaranteed Energy Production, and such failure is not excused under the terms and provisions of the Master Agreement, Cover Letter, and this Confirmation or Party A's failure to perform, then Party B shall pay Party A, thirty (30) days after the close of the Annual Delivery Period in which the failure occurred an amount for such deficiency equal to the positive difference, if any, obtained by subtracting the annual average Sales Price for energy sold by Party A to third party purchasers from the

Contract Price. The invoice for such amount shall include a written statement explaining in reasonable detail the calculation of such amount.

For purposes of this Confirmation, "Annual Delivery Period" shall be measured by the twelve (12) month periods following the Commercial Operation Date as defined in the Master Agreement

Specified Units: Coyote Canyon having available net capacity rating as designated on an annual basis in Attachment 1 for this transaction (the "Project"), consisting of landfill gas (Prime Mover Type): located in Irvine, California.

Contract Quantity: During the Delivery Period, except as specified in the Curtailments 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 pursuant to the terms and conditions of this Confirmation Letter, which may, on an instantaneous basis, be greater or less than the total estimated capacity MW of the Project stated above, as metered at the Delivery Point. However, Party B's obligation to purchase shall be limited to the 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 the event that Party A cannot deliver the Contract Quantity from the Specified Unit, Party A shall have the right (i) to procure electric energy from its other Specified Units as designated in the Party A Confirmation Letters pursuant to the Master Agreement for sale and delivery pursuant to this Confirmation and (ii) to provide the Contract Quantity from other resources that qualify (x) as energy from an eligible renewable energy resource as defined in Section 399.12 of the California Public Utilities Code and (y) under the requirements of the California Renewable Portfolio Standard, regardless if it is owned and/or operated by Party A.

If, prior to the conclusion of the Delivery Period, the CPUC authorizes the use of "green" tags (the transfer of a renewable credit from the Specified Unit as defined herein to another facility which does not qualify as a renewable resource) permitted by the CPUC, Party A may, in its sole discretion, provide to Party B a "green" tag or designation in conformance with the requirements of the California Renewable Portfolio Standard.

Delivery Point: Select One:

\_\_\_\_\_ For Projects located in the Party B service territory, if not

already applicable, Party A and Party B shall enter into a separate interconnection agreement that will define the interconnection point and interconnection requirements pursuant to Party B's Electric Rule 21 and other applicable rules and tariffs.

X For Projects located outside of Party B's service territory, the point of delivery shall be the meter located on the high side of the transformers in connection with the existing 66 kV COYGEN substation (interconnection facility). This substation will allow the Project to interconnect to the 66 kV Santiago-Crown transmission line. Party A shall be responsible for the delivery of Output to the CAISO controlled grid at SP-15.

Either of the above shall be known as (the "Delivery Point").

Contract Price: During the Delivery Period: \$ 53.70/MWh.

Where Party B is the Scheduling Coordinator, Party B shall be responsible for all charges with respect to 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 schedules and delivers to the Delivery Point its first MWh and ending at hour ending midnight 10 years from the Effective Date or Commercial Operation Date whichever is later, but in no event shall the Commercial Operation Date be later than December 31, 2003.

If applicable, Party A shall provide periodic construction status updates to Party B at such times as reasonably requested by Party B.

Forecast: For Party B's planning purposes only, 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: For all Projects less than or equal to 5 MW, and located within Party B's service territory, Party A may request that Party B be its designated Scheduling Coordinator (SC) (as defined in the CAISO tariff) for the Project and schedule the forecast of the Project Output to the Delivery Point during the Delivery Period. Party B may, at its sole discretion, accept the designation as an SC. If Party B accepts the designation as an SC, Party B may charge Party A either a standard fee or fee to be negotiated between the Parties. Such fee(s) may be required to be filed with the CPUC.

For all Projects where Party B is the SC, Party A shall submit schedules and any updates to such schedules to Party B 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 shall have the right to adjust Party A's schedules of energy deliveries. 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 Party B's Electric Rule 21 or other applicable tariffs, 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 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 economic benefit from such changes shall inure on an equal basis to both Party A and Party B.

For a Party A who (a) desires to be an SC or designate an SC (as defined in the CAISO tariff), or (b) whose Project is greater than 5 MW or (c) whose Project is located outside of Party B's service territory, 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 Party B's Electric Rule 21 or other applicable tariffs (if applicable), the CAISO tariff and implementing CAISO standards and requirements (if applicable), 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 economic benefit from such changes shall inure on an equal basis to both Party A and Party B.

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 an increase to its Output (whether in part or in whole), Party A shall use its best 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.

Where Party B is the scheduling coordinator, Party B shall be responsible for all 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

Operating Procedures: Prior to the Commercial Operation 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 and Curtailment Procedures will not relieve the Parties of their respective obligations under this Confirmation.

Party A shall operate and maintain, and arrange Scheduled Maintenance Outages for the Project in accordance with Prudent Industry Practices. 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 unavailability occurs during Off-Peak hours. Party A shall 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.

"Commercial Operation" means, with respect to the Project (as defined herein), that Party A shall have completely installed and commissioned the applicable electrical generating equipment and control systems including, but not limited to the process of starting up, testing and normalization of all operating systems of the installed units with the distribution or transmission system grid, and each installed unit is available to generate and deliver power to the electrical distribution or transmission grid in accordance with any applicable operating permits. Upon achieving Commercial Operation with respect to the Project, Party A shall certify to Party B in writing that Commercial Operation is achieved, which will be known as the



“Commercial Operation Date.” If applicable and as expeditiously as possible, but in any event within thirty (30) days of CPUC approval of this Confirmation pursuant to Section 10.14 of the Master Agreement, Party B shall propose to Party A a draft set of written acceptance procedures addressing how the Parties will determine whether Commercial Operation has been achieved and the Parties shall agree upon a final set of such written acceptance procedures not later than thirty (30) days after the draft acceptance procedures are proposed to Party A. Party B may inspect the Project’s construction site or on-site Party A data and information pertaining to the Project during business hours upon reasonable notice.

In no event shall Party B have any obligation, including but not limited to payment obligations for the Project that have not achieved Commercial Operation by December 31, 2003 unless Party B elects not to exercise its rights under the Early Termination provisions with respect to the Project.

“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 or Party B (if different) for the Project 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. If curtailments by Party B or the CAISO result in the deliveries of Party A being below the amount designated in the Energy Production Guarantees on an annual basis, then Party B (1) shall not deem Party A in default under this Confirmation or the Agreement; and (2) shall not have the right to terminate this Confirmation or the Agreement.

**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.

For Projects located inside Party B's service territory, all interconnection and metering requirements shall be provided in the IFA.

For Projects located outside Party B's service territory, a copy of such 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:** For Projects located in Party B's service territory, Party B shall prepare a monthly invoice during the Delivery Period to Party A for the amount payable based on the Contract Price section of this Confirmation for each month (including the initial partial month, if applicable).

For Projects located outside Party B's service territory, 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).

For all projects, 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 California Renewable Energy Credits (presently know as "green tags") associated with the electricity generation delivered by the Project pursuant to this Confirmation, and Party A shall assign any interest Party A may have in such 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:

(a) Either Party may terminate this Confirmation, Master Agreement, and Cover Letter without penalty or default and have no further obligation to the other Party if the Project has not achieved a Commercial Operation Date by December 31, 2003.

(b) In addition, in the event that during the Delivery Period and without being excused by the terms of the Master Agreement and/or by Party B, Party A does not generate and/or deliver any energy to the Delivery Point for a period of six (6) months Party B shall in its sole discretion have the right to terminate this Confirmation without any further obligations under the Master Agreement.

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This Confirmation is being provided pursuant to and in accordance with the Master Agreement dated October 31, 2002 between Party A and Party B, and constitutes part of and is subject to the terms and provisions of such Master Agreement. Termination or expiration of the Master Agreement, the Cover Letter and this Confirmation shall not release either Party from any liabilities or obligations set forth in the Master Agreement or this Confirmation that remain to be performed or by their nature would be intended to be applicable following such termination or expiration. Terms used but not defined herein shall have the meanings ascribed to them in the Master Agreement. . Where the terms and the provisions of this Confirmation Letter conflict with the Master Agreement or the Cover Letter or there is an ambiguity between these documents, the Confirmation Letter terms and provisions shall control.

This Agreement may be executed in counterparts, each of which shall be deemed an original and which together shall constitute a single instrument.

[Party A]   
Gas Recovery Systems, Inc.

[Party B]  
San Diego Gas & Electric Company

By: WALTER GRAZIANI

  
By: Lad Lorenz

Title: PRESIDENT

Title: VP Electric and Gas Procurement

Phone No 519 621 6669

Phone No: (858) 650-6150

Fax:

Fax:

Date: Oct 31/2002

Date: Oct. 31, 2002

APPROVED as to legal form A.S.

**Attachment 1**

**Energy Production Table**

<b>COYOTE CANYON</b>	<b>Capacity (KW)</b>	<b>Maximum Energy Production (kwh)</b>	<b>Scheduled Energy Production (kwh)</b>	<b>Guaranteed Energy Production (kwh)</b>
Year				
2003	7,500	72,270,000	55,845,000	49,275,000
2004	7,238	63,400,500	53,890,425	47,550,375
2005	6,984	61,181,483	52,004,260	45,886,112
2006	6,740	59,040,131	50,184,111	44,280,098
2007	6,504	56,973,726	48,427,667	42,730,295
2008	6,276	54,979,646	46,732,699	41,234,734
2009	6,057	53,055,358	45,097,054	39,791,519
2010	5,845	51,198,421	43,518,657	38,398,815
2011	5,640	49,406,476	41,995,504	37,054,857
2012	5,443	47,677,249	40,525,662	35,757,937