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Generator Interconnection Agreement

between

Pacific Gas and Electric Company

and

FEDERAL POWER AVENAL, LLC

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Generator Interconnection Agreement

This Agreement provides for the interconnection and parallel operations of nonutility-owned generation connected to the PG&E Electric System at either transmission (60 kV and above) or distribution (below 60 kV) voltage and applies only to those Generating Facilities that are, or intend to become, a Participating Generator pursuant to the ISO Tariff.

1 PREAMBLE

THIS AGREEMENT, between **FEDERAL POWER AVENAL, LLC** (Applicant) and **PACIFIC GAS AND ELECTRIC COMPANY (PG&E)**, hereinafter sometimes referred to individually as "Party" or collectively as "Parties", is as follows:

2 RECITALS

2.1 Whereas, PG&E is a public utility engaged, among other things, in the business of owning and operating an electric system consisting of transmission and distribution facilities in Northern California;

2.2 Whereas, Applicant has (i) purchased or intends to purchase a Generating Facility from PG&E; or (ii) owns a Generating Facility that sells or sold power to PG&E under a Power Purchase Agreement and intends to convert or has converted the status of such Generating Facility to sell all such power on the wholesale market; or (iii) has constructed or intends to construct, a new or expanded Generating Facility. Applicant intends to operate the Generating Facility, which is described in Appendix E, for the purpose of selling electric power at wholesale and has requested permission from PG&E to interconnect such Generating Facility in order to operate it in parallel with the PG&E Electric System;

2.3 Whereas, Applicant intends to become a Participating Generator pursuant to the requirements of the ISO Tariff;

2.4 Whereas, PG&E is willing to permit such interconnection and parallel operation under the terms and conditions contained in this Agreement;

2.5 Whereas, Applicant understands that this Agreement does not provide any transmission service, distribution service, or Ancillary Services as such services, if necessary, will be provided under separate arrangements with PG&E, the ISO, or Third Parties;

2.6 Whereas, this Agreement obligates Applicant to design new Generating Facilities or additions to existing Generating Facilities consistent with Good Utility Practice;

2.7 Whereas, this Agreement obligates Applicant to operate and maintain its Generating Facility consistent with Good Utility Practice;

2.8 Whereas, this Agreement establishes interconnection and operating responsibilities and associated procedures for communications between Applicant and PG&E Electric System operators. The Agreement also establishes procedures for safe work practices on the PG&E Electric System and routine test procedures;

2.9 Whereas Applicant understands that it will be subject to the ISO Tariff and protocols and operating procedures thereunder and that it is responsible for making any arrangements necessary with the ISO.

3 AGREEMENT

Now, therefore, in consideration of the mutual covenants herein set forth, the Parties agree as

follows:

4 DEFINITIONS

The following terms, when used in this Agreement with the initial letters capitalized, whether in the singular, plural or possessive, shall have the meanings indicated below. Unless otherwise noted, italicized terms are defined by reference to definitions in the currently effective Appendix A, Master Definitions Supplement, to the ISO Tariff.

4.1 Agreement

This Generator Interconnection Agreement between PG&E and Applicant and its Appendices, as it may be amended.

4.2 Ancillary Services

Regulation, Spinning Reserve, Non-Spinning Reserve, Replacement Reserve, Voltage Support and Black Start together with such other interconnected operation services as the ISO may develop to support the transmission of energy from generation resources to loads while maintaining reliable operation of the ISO Controlled Grid in accordance with Good Utility Practice.

4.3 Applicable Reliability Criteria

The reliability standards established by (1) the WECC or its successor, (2) the North American Electric Reliability Council, (3) the ISO, and (4) the Nuclear Regulatory Commission that are relevant to the PG&E Electric System, as amended from time to time.

4.4 Business Day

A day on which banks are open to conduct general banking business in California.

4.5 Claim

Claim has the meaning set forth in Section 15.12.1.

4.6 Claimant

Claimant has the meaning set forth in Section 15.12.2.

4.7 Clearance Point

The point(s) that electrically isolate PG&E's equipment from possible sources of energy from the Generating Facility. Clearance Points may be requested by PG&E from time to time as provided in Section 7.7, so that work can be safely performed on the PG&E Electric System. The Clearance Point is normally located at the Disconnect Device.

4.8 Commencement Date

Commencement Date has the meaning set forth in Section 16.

4.9 Cost

All just, reasonable, necessary and prudent expenses or capital expenditures associated with PG&E's transmission and interconnection facilities, including operation, maintenance, engineering study, adverse impact identification, adverse impact mitigation, contract modification, administrative and general expenses, taxes, depreciation, and costs of capital as determined in accordance with the FERC Uniform System of Accounts as such may be amended or superseded from time to time. The appropriate components of the Cost, as defined herein, shall be applied for the particular transaction performed.

4.10 CPUC

The California Public Utilities Commission, or its successor.

4.11 Designated PG&E Electric Control Center

The PG&E location, identified in Section 8.1 of this Agreement, with operational jurisdiction over the Generating Facility.

4.12 Disconnect Device

A device used to isolate the Generating Facility from the PG&E Electric System and normally located adjacent to the Point of Change-in-Ownership.

4.13 Emergency

An abnormal condition or situation that adversely affects, or potentially may adversely affect, the PG&E Electric System Integrity. Such an event may result from, but is not limited to, a System Emergency.

4.14 FPA

The Federal Power Act as it may be amended or superseded.

4.15 FERC

The Federal Energy Regulatory Commission, or its regulatory successor.

4.16 Force Majeure

Any occurrence beyond the reasonable control of and without the fault or negligence of the Party claiming Force Majeure which causes the Party to be unable to perform part or all of its obligations, which by exercise of due foresight such Party could not reasonably have been expected to avoid and which the Party is unable to overcome by the exercise of due diligence. Such an occurrence may include, but is not limited to, act of God, labor disputes, sudden actions of the elements, actions or inactions by federal, state, or municipal agencies, and actions or inactions of legislative, judicial, or regulatory agencies of competent jurisdiction.

4.17 Generating Facility

The Generating Unit described in Appendix E and associated facilities.

4.18 Generator Special Facilities Agreement

A separate agreement between PG&E and Applicant, specifying facilities, owned by PG&E, that PG&E determines are necessary for Applicant's Generating Facility to interconnect with PG&E and allow the Generating Facility to deliver power up to the Interconnection Capacity into the PG&E Electric System. For new projects, the Generator Special Facilities Agreement also includes certain project milestones that must be met before this Agreement can be executed. PG&E shall have the right to terminate this Agreement in the event that the Generator Special Facilities Agreement terminates pursuant to the terms and conditions of the Generator Special Facilities Agreement.

4.19 Good Utility Practice

Any of the practices, methods, and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods, and acts which, in the exercise of reasonable judgment in light of the facts known at the time 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 any one of a number of the optimum practices, methods, or acts to the exclusion of all others, but rather to be acceptable practices, methods, or acts generally accepted in the region.

4.20 Governmental Authority

Any federal, state, local or other governmental, regulatory or administrative agency, governmental commission, department, board, subdivision, court, tribunal, or other governmental arbitrator, arbitral body or other authority, but excluding Applicant and any subsequent owner of the Generating Facility (if Applicant or any subsequent owner is otherwise a Governmental Authority under this definition).

4.21 Indemnitees

Indemnitees has the meaning set forth in Section 15.12.2.

4.22 Indemnitor

Indemnitor has the meaning set forth in Section 15.12.2.

4.23 Interconnection Capacity

The contractual electric capacity in kW at the Point of Change-in-Ownership up to which the Generating Facility may deliver electrical power into the PG&E Electric System. The Interconnection Capacity for both new and existing projects is specified in Appendix E.2.2.

4.24 Interconnection Facilities

All means required, and apparatus installed as determined by PG&E, to safely interconnect a Generating Facility, or an Applicant-owned generation tie line with the PG&E Electric System. Interconnection Facilities may include, but are not limited to, the Disconnect Device, connection, step-up transformers and related equipment, switching, metering, and communications equipment, as well as any necessary additions, modifications and reinforcements to the PG&E Electric System at the Point of Change-in-Ownership necessitated as a result of interconnecting the Generating Facility to the PG&E Electric System. Interconnection Facilities also include control and safety equipment to protect (i) the PG&E Electric System and its customers from faults occurring at the Generating Facility; and (ii) the Generating Facility from faults occurring on the PG&E Electric System or on the electric system of others to which the PG&E Electric System is directly or indirectly connected.

4.25 Interconnection Service

The term "Interconnection Service" as used in this Agreement shall not refer to any right to transmit power over PG&E's transmission and/or distribution system. Instead, Interconnection Service refers to the Applicant's ability to deliver power into the PG&E Electric System at the Point of Change-in-Ownership under the terms and conditions of this Agreement when the Generating Facility is interconnected with the PG&E Electric System, subject to Section 6.4.

4.26 ISO

The California Independent System Operator Corporation or its successor including any Regional Transmission Organization that exercises operational authority over the PG&E transmission system.

4.27 ISO Controlled Grid

The system of transmission lines and associated facilities of the Participating TOs that have been placed under the ISO's Operational Control.

4.28 ISO Tariff

The currently effective ISO Operating Agreement and Tariff, dated March 31, 1998, as approved by FERC and as it may be modified or superseded from time to time, or any successor tariff of any Independent System Operator or Regional Transmission Organization approved by FERC that has operational authority over the PG&E transmission system.

4.29 NRC

The Nuclear Regulatory Commission, or its successor.

4.30 Non-Test

A procedure used by PG&E in connection with work on a live electric line or near an energized circuit. In a Non-Test, PG&E will request that Applicant contact the Designated PG&E Electric Control Center before re-energizing a circuit following an automatic trip.

4.31 Participating Generator

A Generator or other seller of Energy or Ancillary Services through a Scheduling Coordinator over the ISO Controlled Grid from a Generating Unit with a rated capacity of 1 MW or greater, or from a Generating Unit providing Ancillary Services and/or Imbalance Energy through an aggregation arrangement approved by the ISO, which has undertaken to be bound by the terms of the ISO Tariff, in the case of a Generator through a Participating Generator Agreement.

4.32 Participating Generator Agreement

An agreement between Applicant and the ISO pursuant to which Applicant agrees to be bound by the terms of the ISO Tariff.

4.33 Participating TO

A transmission owner that has placed its transmission assets under the ISO's operational control pursuant to a transmission control agreement.

4.34 Person

An individual, partnership, joint venture, corporation, limited liability company, trust, association or unincorporated organization, or any Governmental Authority.

4.35 PG&E Electric System

All properties and other assets, now or hereafter existing, which are owned or controlled by PG&E or its successor(s), and used for or directly associated with the generation, transmission, transformation, distribution or sale of electric power, including all additions, extensions, expansions, and improvements thereto, but excluding the properties and assets of subsidiaries of PG&E.

4.36 PG&E Electric System Integrity

The state of operation of the PG&E Electric System in a manner that is deemed by PG&E in its sole discretion necessary or desirable to minimize the risk of injury to persons and/or property and enable PG&E to provide adequate and reliable electric service to its customers.

4.37 PG&E Interconnection Handbook

A handbook, developed by PG&E pursuant to TCA Section 10.3.1, describing technical requirements for wholesale generators and loads connected to the PG&E Electric System, as it may be modified or superseded from time to time. PG&E's standards contained in the handbook shall be deemed consistent with Good Utility Practice and Applicable Reliability Criteria. Where there is conflict or inconsistency with the terms in this Agreement and the PG&E Interconnection Handbook, the terms in this Agreement shall apply.

4.38 PG&E Wholesale Distribution Tariff

The PG&E Wholesale Distribution Tariff, effective March 31, 1998, as it may be modified or superseded from time to time. The PG&E Wholesale Distribution Tariff applies to Generating Facilities connected to the PG&E Electric System at distribution voltages.

4.39 Point of Change-in-Ownership

The point where the electrical conductors from the Generating Facility contact the PG&E Electric System. The Point of Change-in-Ownership for the Generating Facility is shown on the diagram in Appendix D.

4.40 Refund Due Date

Refund Due Date has the meaning set forth in Section 14.5.

4.41 Reliability Management System Agreement

The Reliability Management System (RMS) Agreement between the WECC and PG&E, executed on June 18, 1999, as it may be amended or superceded, that requires PG&E to include the terms and conditions of Appendix A of the RMS Agreement in any new interconnection agreement. Appendix A of the RMS Agreement is included as Appendix G of this Agreement.

4.42 Responsible Meter Party

The Party having the responsibility for providing, installing, owning, operating, testing, servicing and maintaining meters and associated recording or telemetering equipment at each Point of Change-in-Ownership. Currently the Responsible Meter Party is Applicant for transmission interconnections and PG&E for distribution interconnections.

4.43 Restoration Date

Restoration Date has the meaning set forth in Section 6.1.5.

4.44 Scheduling Coordinator

An entity certified by the ISO for purposes of undertaking scheduling coordination

functions.

4.45 Significant Regulatory Change

A Significant Regulatory Change occurs when the FERC, the CPUC, the California Energy Commission, the California Legislature, the executive of a state or federal government, the United States Congress the U.S. Bankruptcy Court for the Northern District of California and any other successor bankruptcy court responsible for the activities of PG&E as a debtor under the United States Bankruptcy Code, 11 U.S. C. §§ 101 et seq. (2000) issues an order or decision or adopts or modifies a tariff, or enacts a law that substantially prevents either Party from performing its functions under this Agreement.

4.46 System Emergency

Conditions beyond the normal control of PG&E or the ISO that affect the ability of PG&E and the ISO control area to function normally including any abnormal system condition which requires immediate manual or automatic action to prevent loss of Load, equipment damage, or tripping of system elements which might result in cascading outages or to restore system operation to meet the minimum operating reliability criteria.

4.47 TCA

The Transmission Control Agreement, between the ISO and Participating TOs establishing the terms and conditions under which each Participating TO will discharge its respective duties and responsibilities, as may be modified from time to time. PG&E is a Participating TO and has entered into a TCA with the ISO. To the extent that functions assumed by PG&E under the TCA are later assigned to the ISO, references to such functions being performed pursuant to the TCA shall be deemed to be references to the ISO Tariff.

4.48 Third Party

A Person other than PG&E or Applicant.

4.49 TO Tariff

PG&E's FERC Electric Tariff, as it may be modified from time to time or superseded. To the extent obligations or tasks performed by PG&E under the PG&E TO Tariff are later assigned or transferred to, or undertaken with PG&E's consent by, the ISO, reference to such obligations or tasks being performed pursuant to the PG&E TO Tariff shall be deemed references to the ISO Tariff. To the extent relevant, this includes PG&E's Wholesale Distribution Tariff

4.50 WECC

The Western Electricity Coordinating Council, its predecessor (the Western Systems Coordinating Council) or its successor.

5 TERM AND TERMINATION

5.1 Term

The Parties shall be bound by the terms of this Agreement upon its execution by both Parties, unless otherwise determined by FERC. This Agreement will remain in effect for an initial term of 20 years from the Commencement Date, unless otherwise determined by FERC.

5.1.1 Successor Agreement

At the request of either Party, the Parties shall, provided, this Agreement has not otherwise already terminated, meet no later than one (1) year prior to the expected expiration of this Agreement to discuss renewal of this Agreement or to negotiate a reasonable successor agreement; provided, that nothing herein commits either Party to enter into any renewal or successor agreement.

5.2 Termination

5.2.1 PG&E shall have the right to terminate this Agreement pursuant to Sections 15.3 and 15.9. In addition, PG&E shall have the right to terminate this Agreement in the event that (1) Applicant's license or other permits regarding the Generating Facility terminate and are not renewed with Applicant or Applicant's assignee as the new licensee or permit holder; or (2) the Generator Special Facilities Agreement, if one is required, is terminated as a result of a breach by Applicant. Nothing in this section shall be deemed to limit PG&E's right to make changes pursuant to section 15.23.1.

5.2.2 Upon termination of this Agreement, all rights Applicant shall have under this Agreement for the Generating Facility to be interconnected to the PG&E Electric System shall cease and Applicant shall claim no further right to have the Generating Facility connected to the PG&E Electric System by reason of this Agreement. The provisions of this Section 5.2.2 however shall not be construed as a bar to assertion by Applicant of any rights it may have apart from this Agreement to remain interconnected with PG&E following termination of this Agreement, pursuant to any applicable law or regulation, independent and exclusive of this Agreement.

5.2.3 Notwithstanding the foregoing, no termination shall become effective until the Parties have complied with all applicable laws and regulations applicable to such termination, including, if applicable, the filing with FERC of a notice of termination of this Agreement, which notice has been accepted for filing by FERC.

6 PG&E'S RIGHTS AND OBLIGATIONS

6.1 Limited Responsibility to Accept Energy Into the PG&E Electric System

6.1.1 The intent and purpose of this Agreement is to provide only for the interconnection and parallel operation of the Generating Facility with the PG&E Electric System, including the establishment of the Interconnection Capacity and rules governing the interconnected operations in order to promote safety and reliability.

6.1.2 PG&E shall not be obligated to accept electric energy produced by the Generating Facility into the PG&E Electric System unless separate arrangements have been made for the transmission service needed to transfer that energy from the Point of Change-in-Ownership to where it is to be delivered. In the event that such transmission arrangements have been made, PG&E shall not be obligated to accept electric energy at the Point of Change-in-Ownership in excess of the Interconnection Capacity specified in Appendix E.2.2 and delivered to the PG&E Electric System in accordance with this Agreement.

6.1.3 Nothing in this Agreement shall be deemed either expressly or implied to obligate PG&E to provide or make available any electric transmission or distribution service for the transport of electric energy from the Generating Facility.

6.1.4 Applicant understands that PG&E is subject to the ISO Tariff and to the TCA which it has entered into with the ISO and that, as a result, PG&E cannot arrange to provide transmission services for Applicant. Instead, transmission service must be arranged either by Applicant or a Third Party either under existing transmission arrangements or under new transmission arrangements with the ISO.

6.1.5 Long Term Shutdown

In the event that the Generating Facility is shut down, or partially shutdown, for a period of six (6) months or more for any reason, the Parties, at either Party's request, shall meet to determine on what date ("Restoration Date") the Generating Facility may reasonably be expected to resume full power production if Applicant uses due diligence in curing whatever problems exist. If the Parties cannot agree on such a Restoration Date, the Restoration Date, at either Party's request, shall be determined by dispute resolution pursuant to Section 15.10. Applicant must obtain PG&E's approval pursuant to Section 7.3 prior to resuming normal operations.

6.1.5.1 Right to Reduce Interconnection Capacity

If the Restoration Date, determined by either mutual agreement or dispute resolution pursuant to Section 6.1.5, is greater than eighteen (18) months from the date the Generating Facility is initially shut down or partially shutdown or if the Restoration Date is less than eighteen (18) months but restoration has not occurred within the eighteen (18) month period, PG&E shall have the right to reduce the Interconnection Capacity to a capacity value that reflects the then-current generating capability of the Generating Facility. However if Applicant is making commercially reasonable efforts to resume full power production as quickly as possible, PG&E shall not reduce the Interconnection Capacity under this Section 6.1.5.1. Following a reduction of Interconnection Capacity, any subsequent increase of Interconnection Capacity shall be established pursuant to the applicable provisions of the ISO Tariff and TO Tariff.

6.2 No Facility Preservation Obligation After Termination

After termination of this Agreement, PG&E shall have no obligation under this Agreement to remain interconnected with Applicant's Generating Facility. Any subsequent reconnection of the Generating Facility to the PG&E Electric System shall be governed by the laws and regulations governing electric utility interconnection at that time.

6.3 Right to Disconnect the Generating Facility

6.3.1 Applicant's Failure to Meet Standards

PG&E may disconnect the Generating Facility from the PG&E Electric System if the Generating Facility fails to meet the requirements set forth in this Agreement. Except as described in Section 6.3.1.1, prior to such disconnection PG&E shall provide written notice to Applicant detailing Applicant's failure to adhere to such requirements and provide Applicant thirty (30) calendar days to correct such deficiency, unless a shorter period of time is set forth in the PG&E Interconnection Handbook. PG&E shall not disconnect the Generating Facility if Applicant corrects the deficiencies described in the written notice within thirty (30) calendar days or the time set forth in the PG&E Interconnection Handbook. PG&E may, at its discretion, extend the applicable cure period if Applicant is working diligently, or causing others to work diligently, to achieve a cure that reasonably takes additional time. During any such cure period, PG&E shall reconnect the Generating Facility as soon as reasonably possible following the correction of a failure leading to disconnection hereunder. PG&E reserves the right to terminate this Agreement pursuant to Section 15.9 if PG&E disconnects the Generating Facility under this Section 6.3.

6.3.1.1 Immediate Disconnection

PG&E reserves the right to immediately disconnect the Generating Facility if such deficiencies, as determined by PG&E or the ISO, could be expected to have a material adverse affect on the PG&E Electric System Integrity, endanger the health or safety of the public or any PG&E employee, or cause material damage to the PG&E Electric System or a third party. As set forth in PG&E's Interconnection Handbook (Section G4.4), Applicant acknowledges that if the Generating Facility has transfer trip protection classified as Type A, then the Generating Facility shall separate from the PG&E Electric System immediately upon loss of the transfer trip protection.

6.3.2 Right to Inspect Applicant's Facilities

PG&E shall have the right to enter Applicant's premises at any reasonable times for inspection of Applicant's operations logs and control, protective and safety devices associated with the interconnection of the Generating Facility to the PG&E Electric System; provided, PG&E gives Applicant reasonable notice prior to commencing such an inspection. Upon receiving notice of an inspection from PG&E, Applicant shall provide PG&E with Applicant's written safety, security and operating conventions, protocols and practices. While on Applicant's premises, PG&E shall comply with Applicant's written safety, security and operating conventions, protocols and practices in force on the date of the inspection; provided, that Applicant has provided PG&E with such written safety, security and operating conventions, protocols and practices. If PG&E determines that a hazardous condition exists and immediate action is necessary to protect persons, PG&E's facilities or other customers' facilities from damage or interference caused by the Generating Facility, then PG&E may immediately disconnect the Generating Facility from the PG&E Electric System.

6.4 Right to Interrupt Interconnection Service

6.4.1 Unscheduled Interruptions

PG&E may temporarily interrupt or reduce Interconnection Service to the Generating Facility, or temporarily separate the PG&E Electric System from the Generating Facility, if PG&E determines at any time that: (i) an Emergency condition exists; or (ii) the action is necessary or desirable to prevent a hazard to life or property; or (iii) the operation of the PG&E Electric System is suspended, interrupted or interfered with as a result of Force Majeure; or (iv) at the instruction of the ISO in accordance with the TCA. In the event of such interruption or reduction in Interconnection Service, PG&E shall restore full Interconnection Service on a basis comparable to the restoration of other public service and safety facilities, and, in any event, as directed by the authorized emergency response officials. Should PG&E determine that such interruption or reduction in service will be of a prolonged nature, PG&E and Applicant shall confer and attempt to agree on the time by which full service can be restored.

6.4.2 Interruption by Protective Devices

PG&E utilizes automatic protective devices in order to assist in maintaining the integrity and reliability of the PG&E Electric System and to protect its customers from damage, injury or prolonged outages. Interconnection Service on the PG&E Electric System is subject to interruption in the event of operation of such devices. In the event of such interruption, Interconnection Service will be restored consistent with Good Utility Practice.

6.4.3 Maintenance and Construction Interruptions

6.4.3.1 PG&E may, with authorization of the ISO, interrupt Interconnection Service to the Generating Facility to perform necessary maintenance or construction on the PG&E Electric System; provided, that such interruptions are consistent with Good Utility Practice. PG&E shall coordinate such maintenance or construction interruptions with Applicant and shall provide Applicant with as much advance notice as possible but in no event shall the notice be less than four (4) Business Days except where PG&E determines an Emergency exists or may exist which requires quicker action to correct. Applicant will adjust plant output to levels specified by the ISO to preserve local transmission reliability during this maintenance or construction work. This output adjustment will be made on a prescheduled basis.

6.4.3.2 PG&E normally limits maintenance or construction interruptions to business hours on a Business Day, between 8:00 AM and 5:00 PM. In the event that Applicant desires the proposed maintenance or construction interruption to occur during non-business hours, PG&E reserves the right to charge Applicant the additional Cost for work performed. PG&E will provide Applicant with an estimate of the additional Cost and if Applicant still desires the work to be performed during non-normal business hours and PG&E does perform the work, PG&E shall charge Applicant the actual additional Costs of the work, the amount of which shall not exceed the cost estimate.

6.4.3.3 Applicant understands that generation from the Generating Facility may be subject to curtailment during a construction or maintenance interruption. Furthermore, during such maintenance or construction interruption, Applicant agrees not to seek compensation with respect to the Generating Facility: (i) from PG&E for any such interruption; or (ii) through participation in the California ISO market mechanisms for *Congestion Management*; provided, however, that for any given hour, to the extent that Applicant has already successfully participated in the California ISO *Congestion Management* market prior to the existence of such interruption, Applicant will be entitled to receive and retain compensation from the California ISO for the services provided.

6.4.4 Coordination of Construction Interruptions

6.4.4.1 When Applicant submits its quarterly outage reports to the ISO in accordance with the ISO Tariff, Applicant shall provide a copy of such reports to PG&E in order to facilitate outage coordination. Such reports shall be treated as Confidential Information under this Agreement. If Applicant is not required to submit quarterly outage reports to the ISO, then the Parties shall share outage plans quarterly, or at other intervals as the Parties may agree, to facilitate outage coordination.

6.4.4.2 When PG&E submits its equipment and construction outage reports to the ISO in accordance with the ISO Tariff, PG&E shall provide a copy of such reports regarding outages that could impact Applicant's facilities to Applicant in order to facilitate outage coordination, to the extent permitted by Section 6.5 of this Agreement regarding communications between affiliates; provided, if Applicant is interconnected to PG&E's distribution system, PG&E shall provide Applicant with as much notice as is reasonably practicable of equipment and construction outages that could impact Applicant's facilities. Such reports shall be treated as Confidential Information under this Agreement. PG&E also shall, to the extent permitted under Section 6.5, provide Applicant with a copy of any request submitted to the ISO for authorization to interrupt service that could impact Applicant's facilities at the same time that such requests are submitted to the ISO.

6.4.4.3 Applicant and PG&E shall comply with applicable ISO requirements for approving equipment and construction outages and coordinating such outages between Applicant and PG&E. Applicant will adjust its plant output to levels specified by the ISO to preserve local transmission reliability during approved equipment and construction outages; provided, if Applicant is interconnected to PG&E's distribution system, then Applicant will adjust its plant output to the levels specified by PG&E during approved equipment and construction outages. This output adjustment will be made on a prescheduled basis.

6.5 Provision Applicable if PG&E and Applicant are Affiliates

Notwithstanding anything to the contrary contained in this Section 6 or otherwise in this Agreement, if PG&E and Applicant are affiliates within the scope and terms of FERC Orders No. 888, 888-A, 889, and 889-A, and regulations thereunder as they may be amended or superseded, PG&E shall not provide Applicant access to any information about PG&E's transmission system that is not available to PG&E's open access transmission customers, nor shall PG&E provide Applicant any wholesale market information via any shared telecommunications equipment or services.

6.6 Establishing Interconnection Capacity

For existing projects, the Interconnection Capacity is normally set equal to the maximum kW output of the Generating Facility. For new projects or increases in existing projects, the Interconnection Capacity is established through technical studies conducted by PG&E pursuant to the ISO Tariff Section 5.7. In cases where multiple Generating Facilities are connected to a non PG&E-owned generation tie line that is connected to the PG&E Electric System, a separate Interconnection Capacity is established for each Generating Facility. Interconnection Capacity shall be specified in Appendix E.2.2.

7 APPLICANT'S RIGHTS AND OBLIGATIONS

7.1 Applicant's Right to Deliver Power to the PG&E Electric System

Applicant shall have the right to deliver power from the Generating Facility into the PG&E Electric System; provided, at no time shall Applicant 1) deliver power at a rate that exceeds the Interconnection Capacity specified in Appendix E, 2) deliver power into the PG&E Electric System unless it has arranged for transmission service as provided in Section 6.1.2, and 3) operate the Generating Facility in a manner that is inconsistent with Section 5.1 of the ISO Tariff.

7.1.1 Consequences of Exceeding Interconnection Capacity

It is the intent of the Parties that power deliveries to the PG&E Electric System shall not exceed the Interconnection Capacity specified in Appendix E at any time. In the event that power deliveries exceed the Interconnection Capacity, the Parties, at either Party's request, shall meet to determine the reason that the Interconnection Capacity was exceeded. If the Parties determine that such an event was not due to Force Majeure or an Emergency and is reasonably likely to occur again in the future then a new Interconnection Capacity shall be established. PG&E shall have the right to require that a study be conducted pursuant to the ISO Tariff and/or the TO Tariff, at Applicant's expense, to determine if additional facilities, including upgrades to the PG&E transmission system, are required to accommodate the increased Interconnection Capacity. If the Parties fail to agree, within thirty (30) calendar days after the initial meeting, that the Interconnection Capacity must be increased, the matter, at either Party's request, shall be resolved through the dispute resolution procedures set forth in Section 15.10. If PG&E determines that additional facilities are required, then the Parties shall work together, in good faith, to develop a Generator Special Facilities Agreement as described in Section 7.10.2.

7.1.2 Operating Procedures and Limitations

Applicant shall adhere to the operating procedures and limitations as set forth in Appendix H.

7.2 Generator Must Meet Standards

7.2.1 Generating Facility to Meet Applicable Laws and Good Utility Practice

Applicant shall be fully responsible for designing new Generating Facilities or additions to existing Generating Facilities in accordance with Good Utility Practice. Applicant is also fully responsible for installing, owning, operating and maintaining the Generating Facility in accordance with all applicable laws, rules and regulations of governmental agencies having jurisdiction and in accordance with Good Utility Practice.

7.2.2 Generating Facility to Meet Requirements of the PG&E Interconnection Handbook

New Generating Facilities or modifications to existing Generating Facilities shall be designed and constructed in accordance with the PG&E Interconnection Handbook. The Generating Facility shall be operated and maintained in accordance with the PG&E Interconnection Handbook except as provided in Section 7.2.2.1 and Appendix F.

7.2.2.1 Exceptions for Existing Projects

For existing projects that are already interconnected and operating in parallel with the PG&E Electric System, PG&E may waive, in its sole discretion, specific requirements of the PG&E Interconnection Handbook; provided, that PG&E, (i) shall not waive any requirements where in PG&E's judgment such waiver (a) would be inconsistent with Good Utility Practice or (b) could reduce the ability of the Generating Facility to operate safely, (ii) shall apply such waiver on a non-discriminatory basis for all such existing projects, and (iii) shall specify what requirements have been waived in Appendix F. In the event that such a waiver results, or might result, in PG&E's sole judgment, in an Emergency, a degradation of the PG&E Electric System Integrity, a system disturbance, or any other such event, PG&E shall have the right to rescind such waiver and require the Generating Facility to meet at Applicant's expense and within a reasonable amount of time the then-current requirements of the PG&E Interconnection Handbook as may be necessary to address the problem identified by PG&E. The waivers in Appendix F shall continue to apply with respect to requirements that are not implicated by the problem identified by PG&E. At either Party's request, disputes under this Section 7.2.2.1 shall be resolved through dispute resolution proceedings pursuant to Section 15.10.

7.2.2.2 Waivers for Modified Generating Facilities

The waivers specified in Appendix F relating to Generating Facilities that are modified shall continue to apply with respect to those portions of the Generating Facilities that have not been modified, except as provided under Section 7.2.2.1.

7.2.3 Applicant Shall Provide Transmission Planning Data

Applicant is obligated to provide PG&E with steady state and dynamic data for the Generating Facility as required by the PG&E Interconnection Handbook and the WECC.

7.2.4 Applicant Shall Operate Protective Devices

Applicant shall operate protective and safety devices as required by Section 7.2.2 for safe parallel operation of the Generating Facility with the PG&E Electric System.

7.2.5 Duty to Minimize Disturbances

Applicant agrees to plan and operate its Generating Facility in order to minimize electrical disturbances on the PG&E Electric System caused by the operation of Applicant's Generating Facility.

7.2.6 Power Delivery Standard

Power delivered to the PG&E Electric System from the Generating Facility shall be at what is commonly designated as three phase alternating current, at 60 Hertz, and at the normal voltage specified in Appendix E. Normal variations in voltage and frequency shall be permitted pursuant to Good Utility Practice.

7.3 No Parallel Operation Without Approval

For new Generating Facilities or for existing Generating Facilities that have shut down pursuant to Section 6.1.5, Applicant shall not operate its Generating Facility in parallel with the PG&E Electric System until the Generating Facility has been inspected by an authorized PG&E representative and final written approval has been received from PG&E, which approval shall not be unreasonably withheld. Any such inspection and approval shall not be deemed or construed as any representation, assurance, guarantee or warranty by PG&E of the safety, durability, reliability, or compliance as required in Section 7.2, of the Generating Facility and its control, protective and safety devices or the quality of power produced by the Generating Facility.

7.4 Applicant Must Implement Operating Guidelines

Applicant shall implement the operating guidelines contained in this Agreement, including applicable guidelines included in the PG&E Interconnection Handbook to the extent they do not conflict with FERC or NRC permitting or licensing requirements. Applicant shall ensure that its operating personnel are familiar with the procedures and guidelines contained in or incorporated by reference into this Agreement.

7.5 Obligation to Maintain Power Factor

Applicant understands that the voltage of PG&E's electric transmission system is not automatically regulated and may vary widely. The voltage levels will fluctuate depending on operation and PG&E Electric System conditions. In accordance with the PG&E Interconnection Handbook, Applicant shall install, operate, and maintain the necessary equipment to maintain proper power factor and voltage at the Point of Change-in-Ownership. All voltage regulation equipment shall be operated in an automatic mode being immediately responsive to changes in voltage, except for voltage regulation equipment with respect to which the requirement for automatic mode equipment is waived pursuant to Section 7.2.2.1 of this Agreement.

7.6 Emergency Disconnection

In an Emergency, Applicant agrees to expeditiously open the Disconnect Device upon notification from the Designated PG&E Electric Control Center.

7.7 Clearance Point Request by PG&E

Applicant must open its Disconnect Device if PG&E requests a Clearance Point. A qualified PG&E employee will observe that the Disconnect Device is open, lock it with a PG&E lock, and attach a filled-out "Man-on-Line" tag to indicate it is a Clearance Point.

7.8 Routine Tests and Non-Tests

Unless the parties agree otherwise, when conducting a test or a Non-Test, Applicant agrees to follow the procedures described in Appendix B.

7.9 Obligation to Maintain Insurance

Applicant agrees to acquire and continuously maintain during the term of this Agreement insurance coverage which meets the requirements of Appendix A.

7.10 New or Modified Interconnections

7.10.1 ISO Tariff and TO Tariff Provisions

Applicant shall follow all applicable provisions of the ISO Tariff and/or the TO Tariff regarding new interconnections or modifications to or increases in capacity of its existing interconnection.

7.10.2 Right to Install Special Facilities

In the event it is necessary, consistent with Good Utility Practice, for PG&E to install any PG&E-owned facilities in order to accommodate an increase in the Interconnection Capacity, the Parties shall work together, in good faith, to agree upon the extent and Costs of such facilities. If the Parties cannot agree on the need or Cost of such facilities, then the dispute shall be resolved through procedures set forth in Section 15.10; provided, that in the event that PG&E deems it necessary to begin construction of the facilities prior to the resolution of a dispute, PG&E shall have the right to develop a new or amended Generator Special Facility Agreement and file such new or amended agreement unilaterally with the FERC pursuant to Section 15.23. Each new or amended Generator Special Facility Agreement shall specify that the Applicant pay PG&E the Costs of such facilities and that PG&E has no obligation to begin construction prior to receipt of such payments.

7.11 Conflicting Instructions

In the event that Applicant receives conflicting operating instructions from PG&E and the ISO, Applicant shall follow the instructions of the ISO.

7.12 Participating Generator Agreement

Applicant shall enter into and maintain the effectiveness of a Participating Generator Agreement with the ISO.

8 OPERATING COMMUNICATIONS AND NOTIFICATIONS

8.1 Designated Representatives

The Parties shall provide for operating communications through their respective designated representatives as follows:

_____	FEDERAL POWER AVENAL, LLC
PG&E	Applicant
_____	_____
Title	Name or Title of Operator
_____	_____
Designated PG&E Electric Control Center	Telephone Number
_____	_____
Telephone Number	Alternate Operator
_____	_____
	Telephone Number

8.2 Communication with the Designated PG&E Electric Control Center

8.2.1 Applicant shall maintain operating communications with the Designated PG&E

Electric Control Center. The operating communications shall include, but not be limited to, advising the Designated PG&E Electric Control Center promptly, and in advance if possible, of any paralleling with or separation from the PG&E Electric System and any scheduled and unscheduled shutdowns, equipment clearances, and changes in levels of operating voltage or power factors.

8.2.2 Applicant promptly shall notify the Designated PG&E Electric Control Center of, and any changes in, the following:

- (a) The current names and 24-hour phone numbers of the personnel responsible for operating and maintaining the Generating Facility.
- (b) Any Emergency situation or any request that PG&E de-energize a portion of the PG&E Electric System under its control.
- (c) Any changes in the mechanical or electric condition of the Generating Facility or Interconnection Facilities that may affect the reliability of either the Generating Facility or the PG&E Electric System.
- (d) Immediately upon discovery, any misoperation or inoperable condition of a PG&E-required interconnection relay or circuit breaker.
- (e) Immediately upon discovery, the operation of any circuit breaker that has operated by a PG&E-required interconnection relay, along with the relay targets that caused the circuit breaker to operate.
- (f) Plans to manually parallel with or separate from the PG&E Electric System and the times of actual manual parallels and separations. Emergency separations shall be reported as soon as conditions permit.

8.3 Oral Communications

All oral operating communications shall be conducted through the Designated PG&E Electric Control Center. Applicant agrees to maintain 24-hour direct phone service so that PG&E can give instructions to Applicant or its designated operator.

8.4 Telemetry Requirements

For Generating Facilities 1,000 kW and greater, Applicant must telemeter real-time information pursuant to the requirements of the PG&E Interconnection Handbook. When telemetered real-time information is required for PG&E to bill Applicant for service taken under separate PG&E tariffs, upon PG&E's request, Applicant shall request the ISO to provide PG&E with read-only passwords and other information necessary for PG&E to access Applicant's meters.

8.5 Operating Agreements

The Parties may enter into a separate agreement describing specific operating procedures regarding the Generating Facility.

9 OPERATION AND MAINTENANCE OF GENERATING FACILITY AND GENERATOR STEP-UP FACILITIES

9.1 Daily Operating Log

Applicant shall keep a written daily operations log for the Generating Facility. The log shall include information on unit availability, maintenance, outages, circuit breaker trip operations, and any significant events related to operation of the Generating Facility.

9.2 Power Factor and Voltage Instructions

Applicant will receive, from time to time, and shall follow output voltage or power factor

instructions from the Designated PG&E Electric Control Center or the ISO. The Applicant may also receive voltage instructions that will exceed the normal output voltage or power factor instructions. These instructions will not exceed the normal power factor operating ranges of 0.95 buck (lead) or 0.90 boost (lag). During certain instances the Generating Facility may be given a voltage order of "full boost" or "full buck". Full boost is not less than 105 % of the Generating Facility nameplate terminal voltage. Full buck is not more than 95% of the Generating Facility nameplate terminal voltage. Applicant shall operate the Generating Facility to maintain the specified output voltage or power factor at the Point of Change-in-Ownership, unless prevented from doing so as a consequence of conditions on the PG&E Electric System. If Applicant is unable to maintain the specified voltage or power factor, it shall promptly notify the Designated PG&E Electric Control Center.

9.3 Daily Operating Report and Telemetry Information

9.3.1 The Applicant agrees to transmit, at a minimum, hourly readings of delivered capacity in kW by means of telemetry as described in Section 8.4. Readings shall be taken at the end of each hour.

9.3.2 Upon receiving notice that telemetered data is not being correctly received by PG&E, Applicant agrees to supply the information set forth in section 9.3.1 in a daily operating report by telephone directly to the Designated PG&E Electric Control Center at the phone number in Section 8.1. The Applicant shall submit complete daily operating report information for the previous 24-hour period (ending at 2400 hours) not later than 0030 hours the following day, or as mutually agreed by the Applicant and PG&E. Such report shall also include the total energy, in kWh, delivered to PG&E since the last report.

9.4 Unattended Operation

If the Generating Facility is unattended and has the capability for automatic or remotely initiated paralleling, it is not necessary to notify the Designated PG&E Electric Control Center before paralleling with the PG&E Electric System. However, such Generating Facility must report relay targets within 72 hours following automatic separation, or immediately upon request of the Designated PG&E Electric Control Center. All unattended facilities must be equipped with an event recorder as described in the PG&E Interconnection Handbook.

9.5 Maintenance Notice

Under normal conditions, Applicant shall give as much advance notice as possible (a minimum of four (4) Business Days) to the Designated PG&E Electric Control Center when planning to perform work that may affect the PG&E Electric System. At a minimum, the notice shall include:

- (a) Nature of the work to be performed.
- (b) Date and time the work will begin.
- (c) Date and time the work will be completed.
- (d) Apparatus to be cleared and the Clearance Points required.
- (e) Name and telephone number of the person in charge of the work.
- (f) Whether or not protective grounds will be installed.

9.6 Maintenance on Facilities Energized by PG&E

9.6.1 If Applicant wishes to perform work on its own facilities which would normally be energized by transmitting energy over the PG&E Electric System, Applicant may request that PG&E take a clearance (see UO Standard S1403) on PG&E's associated electric facilities needed to isolate Applicant's facilities from the PG&E Electric System. Applicant's request must be made a minimum of four (4) Business Days in advance or as otherwise may be agreed from time to time. PG&E shall notify any users of PG&E's Electric System that might be affected by the clearance and shall coordinate such request with the ISO as appropriate. PG&E shall reserve the right to delay the clearance if: (1) the ISO does not have the responsibility for approving the clearance; and (2) in PG&E's reasonable judgment, there are PG&E Electric System users that will be adversely affected by such clearance. In such event, PG&E shall not unduly delay the requested clearance.

9.6.2 PG&E is not responsible for Applicant's equipment energized by the generator step-up transformer or by any other means. Applicant agrees that any work it performs is at its own risk. Applicant shall take all necessary steps to ensure that work is conducted consistent with Good Utility Practice and in compliance with all applicable federal, state, and local laws and regulations and in a manner that does not endanger the safety of persons or equipment.

9.7 PG&E Maintenance on Applicant's Facilities

If PG&E provides assistance in the operation or maintenance of the Generating Facility without a written agreement, PG&E assumes no liability for any loss or damage, direct, indirect or consequential, arising from or related to any services PG&E may provide. PG&E reserves the right to charge the Applicant for all such services.

10 METERING

10.1 Delivery Meters

All real and reactive power deliveries to the PG&E Electric System from Applicant's Generating Facility shall be metered at each Point of Change-in-Ownership with meters meeting the requirements of: (i) Appendix J to the ISO Tariff for interconnections at 60 kV and above ("transmission interconnection"); and (ii) the PG&E Wholesale Distribution Tariff for interconnections below 60 kV ("distribution interconnection"). In addition, meters and metering equipment shall meet the requirements of the PG&E Interconnection Handbook. Any conflicts with regard to metering standards that may arise between this Agreement, the ISO Tariff, or the PG&E Wholesale Distribution Tariff shall be resolved consistent with the applicable tariff. Power deliveries shall be metered at the voltage specified for the Point of Change-in-Ownership in Appendix E.2.1.

10.2 Power Supply Metering Requirements

The Parties shall cooperate in the installation and provision of access to the meters, as necessary for each Party to obtain the information needed to perform as contemplated under this Agreement.

10.3 Requirements for Meters and Meter Maintenance

The Responsible Meter Party's metering equipment located at each Point of Change-in-Ownership shall measure and record real and reactive power flows and shall be capable of recording flows in both directions. Such "in" and "out" bi-directional meters shall be designed to prevent reverse registration and shall measure and continuously record such deliveries. Meters, metering transformers and devices shall be maintained and tested by the Responsible Meter Party in accordance with applicable metering maintenance and testing standards and guidelines.

10.4 Meter Access

10.4.1 Access to Meter-Related Facilities

The Party that owns meter-related facilities such as metering transformers and devices shall grant reasonable access to allow the other Party to use such meter-related facilities for the other Party's own meters; provided that, the other Party shall compensate the owning Party for actual costs incurred related to such access.

10.4.2 Reading and Maintaining Meters

If required, the other Party shall grant the Responsible Meter Party access to the other Party's facilities as may be required for meter reading and/or the proper operation and maintenance of all revenue metering facilities.

11 MAINTENANCE OF INTERCONNECTION EQUIPMENT OWNED BY THE APPLICANT

11.1 Modifications to the Interconnection or Protection Devices

Prior to modifying its existing interconnection or protection devices, Applicant agrees to obtain PG&E's written approval; provided that, PG&E's approval shall not be unreasonably withheld. Applicant shall notify PG&E, in writing, at least sixty (60) days prior to such modification.

11.2 Testing of Interconnection Facilities

PG&E-required Interconnection Facilities owned by Applicant shall be periodically tested and maintained at the manufacturer's accepted specifications, but no less than every four (4) years, by qualified personnel. Copies of equipment test reports shall be forwarded to PG&E for review.

11.3 Relay Requirements

11.3.1 If a PG&E-required interconnection relay is removed or disabled for maintenance or repair, Applicant shall notify the Designated PG&E Electric Control Center.

11.3.2 Lamicaid or equivalent forms of nameplates or labels shall be installed by Applicant adjacent to all PG&E-required interconnection relays. Each relay nameplate shall include the device number and the relay's function.

12 REFERENCES

The following reference materials, all of which are subject to revision or being superseded from time to time, are available for use by Applicant and its operating personnel. Copies may be requested from the Designated PG&E Electric Control Center:

12.1 PG&E Utility Operations Standard S1466

A document listing all the standard operating orders followed by PG&E system operators.

12.2 PG&E Utility Operations Standard S1403

A document describing approved PG&E clearance procedures and instructions for obtaining clearances.

13 SIGNIFICANT REGULATORY CHANGE

13.1 Automatic Interim Conformance

This Agreement shall be automatically modified, on an interim basis, to conform to any final order issued by the FERC that directly addresses a provision or provisions of this Agreement. Such conformance shall be prospective only and shall not affect any rights or obligations of either Party that have accrued as of the date of the order requiring conformance under the terms of this Agreement.

13.2 Notification

If, at any time during the term of this Agreement, either Party becomes aware of a Significant Regulatory Change (whether actual or proposed), including any automatic interim conformance under Section 13.1 herein, and if such change may reasonably be expected materially to affect either or both Parties' obligations or operations under this Agreement, such Party shall provide written notice to the other Party promptly no later than one (1) month after becoming aware of such Significant Regulatory Change. The notice shall contain a description of the Significant Regulatory Change, including expected time schedules and its impact on this Agreement. If the Party giving notice believes that it will be necessary to amend this Agreement to address the anticipated change, then the notice to the other Party may include a proposal that the Parties meet as provided in Section 13.4 hereof and shall use reasonable efforts in order to negotiate an appropriate amendment to this Agreement.

13.3 Change in Functions or Scope

The Parties recognize that there may be a change in the functions of the ISO or a change in the scope of the facilities under the operational authority of the ISO or the replacement of the ISO with a Regional Transmission Organization that may perform different functions or have a different scope than the ISO. Such a change shall not be deemed to be a Significant Regulatory Change unless the change may reasonably be expected materially to affect either or both Parties' obligations or operations under this Agreement. Furthermore, a Significant Regulatory Change shall not be deemed to have occurred solely as a consequence of any shifting of functions contemplated in this Agreement between PG&E and the ISO. In such event, functions assigned to PG&E under this Agreement shall be performed by the ISO and the ISO shall have the same rights and obligations as PG&E under this Agreement to obtain information, perform studies, have access to rights-of-way and facilities, construct facilities, and otherwise perform the functions described in this Agreement. Only if the ISO refuses to perform the functions previously performed by PG&E shall a Significant Regulatory Change be deemed to have occurred as a result of a change in functions.

13.4 Amendment of Agreement

13.4.1 Following notification under Section 13.2, the Parties shall meet to discuss whether an amendment to this Agreement is necessary to address the Significant Regulatory Change. Such amendment, if any, shall be limited in scope to what is necessary to allow this Agreement to accommodate the Significant Regulatory Change identified in the notice issued pursuant to Section 13.2.

13.4.2 If the Parties agree that such an amendment to this Agreement is necessary, the Parties will proceed to negotiate in good faith such amendment. If the Parties have not reached agreement on the terms of the amendment within sixty (60) calendar days of the date of the first meeting, any unresolved issues shall be resolved through dispute resolution procedures set forth in Section 15.10. Notwithstanding the above, if any issues remain unresolved as of ninety (90) calendar days before the Significant Regulatory Change is scheduled to take place then, with respect to the unresolved issues, PG&E may, but is not required to, unilaterally file an amendment to this Agreement with FERC pursuant to Section 205 of the FPA, and Applicant may exercise its rights under the FPA to protest or oppose such filing.

13.4.3 If the Parties cannot agree that an amendment to this Agreement is necessary to allow this Agreement to accommodate the Significant Regulatory Change, they shall submit such dispute to dispute resolution proceedings pursuant to Section 15.10; provided, however, that if such dispute is not resolved as of ninety (90) calendar days before the Significant Regulatory Change is scheduled to take place, then PG&E may, but is not required to, unilaterally file an amendment to this Agreement with FERC as set forth in the paragraph above.

13.4.4 Nothing in this Section 13.4 shall be deemed to limit PG&E's right to make changes pursuant to Section 15.23.1.

14 BILLING AND PAYMENT

14.1 Maintenance Payments

PG&E shall bill Applicant for the Costs of performing necessary maintenance during non-working hours at the request of Applicant pursuant to Section 6.4.3.2. Applicant shall pay PG&E for such Costs at:

Pacific Gas and Electric Company
Payment Processing Center
Research Unit / B5A
P.O. Box 770000
San Francisco, CA 94177

PG&E may change the place where payment is made by giving Applicant notice thereof as provided in Section 15.21.

14.2 Payment Due Date

PG&E shall prepare and submit bills to Applicant on or after the first Business Day of each calendar month. The payment of any bill shall be due and must be received by PG&E not later than the 30th calendar day following the day on which Applicant receives the bill or, if that 30th day is a Saturday, Sunday or legal holiday, the next Business Day. Such date shall be referred to as the "Payment Due Date". A bill shall be deemed delivered and received on the third Business Day after the postmarked date unless a copy of the bill is sent by electronic facsimile, in which case it shall be deemed delivered on the same day. If Applicant has a question concerning a bill, it may review the back-up data used in preparation of the bill to the extent that data is still available.

14.3 Estimated Bills

If charges under this Agreement cannot be determined accurately for preparing a bill, PG&E may use its best estimates in preparing the bill and such estimated bill shall be paid by Applicant. Any estimated charges shall be labeled as such and PG&E shall, upon request, document the basis for the estimate used. Estimated bills shall be prepared and paid in the same manner as other bills under this Agreement.

14.4 Disputed Bills

If Applicant disputes all or any portion of a bill submitted by PG&E to Applicant, it nevertheless shall, not later than the Payment Due Date of that bill, pay the bill in full. A dispute between either PG&E or Applicant and any Third Party shall not be a proper basis for withholding payment. Payments to PG&E of Applicant's obligations arising under this Agreement are not subject to any reduction, whether by offset, payments into escrow, or otherwise, except for routine adjustments or corrections as may be agreed to by the Parties or as expressly provided in this Agreement.

14.5 Adjusted Bills

When final and complete billing information becomes available and a charge is determined accurately or billing errors are identified and corrected, PG&E shall promptly prepare and submit an adjusted bill to Applicant, and any additional payments by Applicant shall be made in accordance with the provisions of Section 14.2. Refunds by PG&E shall be paid to Applicant not later than thirty (30) calendar days after the date of the adjusted bill. Such date shall be referred to as the "Refund Due Date". All adjustments or corrections of bills under this Agreement shall be subject to the interest provisions of Sections 14.6 and 14.7.

14.6 Interest on Adjusted Bills

Interest on an additional payment shall accrue from the Payment Due Date of the applicable bill and interest on a refund shall accrue from the date payment of the applicable bill was received by PG&E.

14.7 Interest on Unpaid Bills

Any amount due under this Agreement which is not timely paid shall accrue interest from the date prescribed in Section 14.6 until the date payment is made. The interest amount shall be determined using the interest rate applicable to any amount due during a given month and shall be calculated using the methodology for refunds pursuant to Section 35.19(a) of FERC's Regulations, 18 CFR § 35.19(a). This interest rate shall not exceed the maximum interest rate permitted under California law. Interest shall be calculated for the period during which the payment is overdue or the period during which the refund is accruing interest.

14.8 Payment on Disputed Bills

As provided in Section 14.4, if any portion of a bill is disputed, Applicant shall pay the full amount, without offset or reduction, by the Payment Due Date. In addition, Applicant shall, on or before the Payment Due Date, notify PG&E, in writing, of the amount in dispute and the specific basis for the dispute. PG&E and Applicant shall endeavor to resolve any billing dispute within thirty (30) calendar days of PG&E's receipt of Applicant's notice of a dispute (or such extended period as the Parties may establish). If the Parties cannot agree, either Party may initiate dispute resolution pursuant to Section 15.10.

14.9 Refunds

If, after Applicant has paid the full amount of a disputed bill directly to PG&E, the results of dispute resolution pursuant to Section 15.10 include a determination that the amount due was different than the amount paid by Applicant, a refund by PG&E to Applicant shall include interest for the period from the date Applicant's overpayment was received by PG&E to the date the refund is paid to Applicant. Likewise, an additional payment by Applicant to PG&E shall include interest for the period from the original Payment Due Date to the date Applicant's additional payment is received by PG&E. Interest paid pursuant to this Section 14.9 shall be at the rate determined pursuant to Section 14.7.

14.10 Failure to Make Payment

A Party's failure to make any payment on or before the applicable Payment Due Date or Refund Due Date shall constitute a material breach of this Agreement if that failure is not corrected within seven (7) Business Days after the other Party delivers written notice to the non-paying Party. In such event, the Party not receiving payment shall be entitled to pursue any legal, equitable and regulatory rights and remedies it may have under this Agreement or otherwise.

15 GENERAL PROVISIONS

15.1 Appendices Included

The following Appendices to this Agreement, as they may be revised from time to time by written agreement of the Parties or by order of FERC, are attached hereto and are incorporated by reference as if fully set forth herein:

- Appendix A - Insurance
- Appendix B - Routine Test Guidelines and Non-Test Procedures
- Appendix C - Dispute Resolution and Arbitration
- Appendix D - Elections Made By Applicant for New Generators
- Appendix E - Generating Facility Information and Interconnection Capacity
- Appendix F - PG&E Interconnection Handbook Waivers
- Appendix G - Appendix A of the Reliability Management Agreement
- Appendix H - Operating Procedures and Limitations

15.2 Audit

For good cause and upon reasonable notice each Party shall have the right to audit, at its own expense, the relevant records of the other Party (including the relevant records of Applicant's meters) for the limited purpose of determining whether the other Party is meeting its obligations under this Agreement. Such audits shall be limited to the preceding five (5) year period and to only those records reasonably required to determine compliance with this Agreement, and each Party agrees to disclose the information obtained in such audit only to those persons, whether employed by such Party or otherwise, that are directly involved in the administration of this Agreement. Each Party agrees that under no circumstances will it use any information obtained in such an audit for any commercial purpose or for any purpose other than assuring enforcement of this Agreement. Each Party's right to audit shall extend for a period of five (5) years from the last day of the effectiveness of this Agreement. Records and related back-up data shall be maintained for a period of five (5) years from the last day of the effectiveness of this Agreement to facilitate such audits.

15.3 Adverse Determination or Expansion of Obligations

15.3.1 Adverse Determination

If, after the Commencement Date of this Agreement, FERC or any other Governmental Authority of competent jurisdiction determines that all or any part of this Agreement, its operation or effect is unjust, unreasonable, unlawful, imprudent or otherwise not in the public interest, each Party shall be relieved of any obligations hereunder to the extent necessary to comply with or eliminate such adverse determination. The Parties shall treat such adverse determination as a Significant Regulatory Change and proceed in accordance with Sections 13 and 15.3.3 of this Agreement.

15.3.2 Expansion of Obligations

If, after the Commencement Date of this Agreement, FERC or any other Governmental Authority of competent jurisdiction orders or determines that this Agreement should be interpreted, modified, or significantly extended in such a manner that PG&E or Applicant may be required to extend its obligations under this Agreement to a Third Party, or to incur significant new or different obligations to the other Party or to Third Parties not contemplated by this Agreement, then the Parties shall be relieved of their obligations to the extent lawful and necessary to eliminate the effect of that order or determination, and the Parties shall attempt to renegotiate in good faith the terms and conditions of the Agreement to restore the original balance of benefits and burdens contemplated by the Parties at the time this Agreement was made.

15.3.3 Renegotiation

If, within three (3) months after an order or decision as described in Sections 15.3.1 and 15.3.2, the Parties either: (i) do not agree that a renegotiation is feasible or necessary; or (ii) the Parties cannot agree to amend or supersede this Agreement, then: (a) either Party may submit the dispute for resolution in accordance with procedures set forth in Section 15.10; (b) PG&E may unilaterally file a replacement interconnection agreement with FERC; or (c) either Party may give the other Party written notice of termination, which termination shall be effective thirty (30) calendar days after receipt of the notice by the other Party. The effect of such termination, and the rights of the Parties thereunder, shall be as provided in Section 5.2.

15.4 Assignments

15.4.1 Assignment

The rights under this Agreement shall not be assignable or transferable nor the duties delegable by either Party without the prior written consent of the other Party, which consent shall not be unreasonably withheld or delayed if the assignee, delegatee or transferee, as applicable, meets the creditworthiness requirements of the other Party and/or provides security to the other Party satisfactory to the other Party; provided, that PG&E may, without the other Party's consent, assign this Agreement to a successor entity owning the transmission system in accordance with a confirmed Plan of Reorganization of PG&E.

15.5 Captions

All indices, titles, subject headings, section titles and similar items are provided for the purpose of reference and convenience and are not intended to affect the meaning of the contents or scope of this Agreement.

15.6 Construction of the Agreement

Ambiguities or uncertainties in the wording of this Agreement shall not be construed for or against either Party, but shall be determined by the Agreement taken in its entirety.

15.7 Control and Ownership of Facilities

The PG&E Electric System shall at all times be and remain in the exclusive ownership,

possession and control of PG&E, and nothing in this Agreement shall be construed to give Applicant any right of ownership, possession or control of all or any portion of the PG&E Electric System. All facilities installed hereunder shall, unless otherwise agreed by the Parties, at all times be and remain the property of PG&E, notwithstanding that they may be affixed to premises owned or leased by or under license to Applicant.

15.8 Cooperation and Right of Access and Inspection

Each Party shall give to the other all necessary permission to enable it to perform its obligations under this Agreement. Each Party shall give the other Party the right to have its agents, employees and representatives, when accompanied by the agents, employees and representatives of the other Party, enter its premises at reasonable times and in accordance with reasonable rules and regulations for the purpose of inspecting the property, equipment and records of the Party in a manner which is reasonable for assuring the performance of the Parties under this Agreement.

15.9 Default

15.9.1 Termination for Default

If either Party breaches its material obligations under this Agreement, such breach shall constitute an event of default. If either Party defaults under this Agreement, the other Party may terminate this Agreement; provided, that prior to such termination the other Party must provide the defaulting Party with written notice stating: 1) the Party's intent to terminate; 2) the date of such intended termination; 3) the specific grounds for termination; and 4) specific actions which the defaulting Party must take to cure the default, if any and avoid termination, provided, there is any action which can be taken to cure the default. The pendency of any dispute resolution procedure pursuant to Section 15.10 with regard to any separate dispute(s), other than the event of default, shall not limit the right to terminate this Agreement under this Section 15.9. Except as provided in Section 15.9.2, the defaulting Party shall have thirty (30) calendar days from receipt of such notice within which to cure such Default.

15.9.2 Termination for Default

If a Default is not capable of being cured within the period provided for in Section 15.9.1, or if the Default is not cured during the period provided for in Section 15.9.1, the non-defaulting Party shall have the right to terminate this Agreement by written notice at any time, and be relieved of any further obligation hereunder and, whether or not that Party terminates this Agreement, to recover from the defaulting Party all amounts due hereunder. The provisions of Section 15.2 and this Section 15.9 will survive termination of this Agreement.

15.9.2 Other Remedies for Default

The remedy under Section 15.9.1 is not exclusive, and subject to Section 15.10, either Party also shall be entitled to pursue any other legal, equitable or regulatory rights and remedies it may have in response to a default by the other Party.

15.10 Dispute Resolution

The Parties shall make best efforts to resolve all disputes arising under this Agreement expeditiously and by good faith negotiation. Where this Agreement specifically calls for resolution of disputes pursuant to this Section 15.10, the Parties shall pursue dispute resolution according to the procedures set forth in Appendix C. In all other circumstances the procedures in Appendix C may be used to resolve disputes upon agreement by both Parties. In the event that a matter is submitted to arbitration under Appendix C, the Parties shall be bound by the determination of the arbitrator(s).

15.11 Governing Law

This Agreement shall be interpreted, governed by and construed under the laws of the State of California, as if executed and to be performed wholly within the State of California.

15.12 Indemnity

15.12.1 Definitions

As used in this Section 15.12, with initial letters capitalized, whether in the singular or the plural, the following terms shall have the following meanings:

15.12.1.1 Accident — Personal injury, death, property damage, or economic loss which:

- (a) is sustained by a Third Party ("Claimant");
- (b) arises out of delivery of, or curtailment of, or interruption to electric service, including but not limited to abnormalities in frequency or voltage; and
- (c) results from either or both of the following:
 - (i) engineering, design, construction, repair, supervision, inspection, testing, protection, operation, maintenance, replacement, reconstruction, use, or ownership of either the PG&E Electric System or Applicant's electric facilities; or
 - (ii) the performance or non-performance of either Party's obligations or the exercise of either Party's rights under this Agreement.

15.12.1.2 Indemnitee — A Party defined in Section 15.12.2(b).

15.12.1.3 Indemnitor — A Party defined in Section 15.12.2(b).

15.12.2 Indemnity Duty

If a Claimant makes a claim or brings an action against a Party seeking recovery for loss, damage, costs or expenses resulting from or arising out of an Accident (a "Claim"), the following shall apply:

(a) That Party shall, in its reasonable discretion, either (i) defend any such Claim brought against it, (ii) satisfy any such Claim, (iii) give written notice of such Claim to the other Party within ten (10) Business Days of knowledge of its existence and request that the other Party undertake the defense of such Claim, or (iv) in the event the Indemnitor does not accept the obligation to defend such Claim or does not respond within the period set forth in Section 15.12.2, proceed as set forth in (i) and (ii) in this Section 15.12.2.

(b) That Party ("Indemnitor") shall hold harmless, defend and indemnify, to the fullest extent permitted by law, the other Party, its directors or members of its governing board, officers and employees ("Indemnitees"), upon written request by the Indemnitee, for Claims brought against the Indemnitee allegedly resulting from Accidents caused by acts or omissions of the Indemnitor. The Indemnitor shall respond in writing within twenty (20) Business Days to any written notice of Claim from the Indemnitees, as provided in Section 15.12.2(a), either accepting the obligation to defend the Claim or refusing to undertake such Claim.

(c) No Party shall be obligated to defend, hold harmless or indemnify the other Party, its directors or members of its governing board, officers and employees for Accidents resulting from the latter Party's gross negligence or willful misconduct.

(d) If a Party successfully enforces this indemnity, the Party against which enforcement is required shall pay all costs of satisfying the Claim, including reasonable attorneys' fees and other settlement or litigation expenses, incurred in such enforcement, within sixty (60) days of written notice thereof.

15.13 Interpretation

This Agreement is not intended to modify any PG&E or ISO tariff or rule filed with the CPUC or FERC. In case of conflict between this Agreement and any PG&E or ISO tariff or rule, the tariff or rule shall govern. This Agreement and the Generator Special Facilities Agreement represent the entire

understanding between the Parties hereto relating to the interconnection and parallel operation of the Generating Facility with the PG&E Electric System, and supersedes any and all prior proposals or agreements, whether written or oral, that may exist between the Parties. Where there is conflict or inconsistency with the express terms in this Agreement and any documents referenced by this Agreement excluding the above referenced PG&E and ISO tariffs, the terms of this Agreement shall supersede such conflicting terms.

15.14 Judgments and Determinations

When the terms of this Agreement provide that an action may or must be taken, or that the existence of a condition may be established based on a judgment or determination of a Party, such judgment shall be exercised or such determination shall be made reasonably and in good faith, and where applicable in accordance with Good Utility Practice, and shall not be arbitrary or capricious.

15.15 Liability

15.15.1 To Third Parties

Nothing in this Agreement shall be construed to create any duty to, any standard of care with reference to, or any liability to, any Third Party.

15.15.2 Between the Parties

Except for its willful misconduct, gross negligence, or with respect to breach of this Agreement, or with respect to the indemnity duty under Section 15.12.2, no Party, nor its directors or members of its governing board, officers, employees or agents shall be liable to another Party for any loss, damage, claim, cost, charge or expense arising from or related to this Agreement. In the event of breach of this Agreement, neither Party, nor its directors or members of its governing board, officers, employees or agents shall be liable to the other Party for any consequential, special or indirect damages.

15.15.3 Protection of a Party's Own Facilities

Each Party shall be responsible for protecting its facilities from possible damage by reason of electrical disturbances or faults caused by the operation, faulty operation, or non-operation of another Party's facilities, and such other Party shall not be liable for any such damage so caused.

15.15.4 Liability for Interruptions

Neither Party shall be liable to the other, and each Party hereby releases the other and its directors, officers, employees and agents from and indemnifies them, to the fullest extent permitted by law, for any claim, demand, liability, loss or damage, whether direct, indirect or consequential, incurred by either Party, which results from the interruption or curtailment in accordance with (i) this Agreement, (ii) Good Utility Practice, or (iii) as directed by the ISO, of power flows through a Point(s) of Interconnection made available by PG&E under this Agreement, or of power flows made possible by reason of that Point(s) of Interconnection.

15.16 Modification

This Agreement may be amended or modified only by a written instrument signed by the authorized representatives of both Parties, except as may otherwise herein be expressly provided.

15.17 No Dedication of Facilities

Any undertaking by either Party under any provision of this Agreement is rendered strictly as an accommodation and shall not constitute the dedication by Applicant of any part or all of the Generating Facility or by PG&E of any part or all of the PG&E Electric System to the other, the public, or any Third Party. Any such undertaking by any Party under a provision of, or resulting from, this Agreement shall cease upon the termination of that Party's obligations under this Agreement.

15.18 No Obligation to Offer Same Service To Others

By entering into this Agreement to interconnect with Applicant and filing it with FERC, PG&E does not commit itself to furnish any like or similar undertaking to any other Person.

15.19 No Precedent

This Agreement establishes no precedent with regard to any other entity or agreement. Nothing contained in this Agreement shall establish any rights to or precedent for other arrangements as may exist, now or in the future, between PG&E and Applicant for the provision of any interconnection arrangements or any form of electric service.

15.20 No Transmission, Distribution or Ancillary Services Provided

Under this Agreement, PG&E does not undertake to provide or make available any transmission service, distribution service, or Ancillary Services using any part of the PG&E Electric System for Applicant or any Third Party, or to act as a Scheduling Coordinator or in any other capacity as an intermediary for Applicant with others. Nothing in this Agreement shall be construed to preclude Applicant from seeking transmission, distribution, and Ancillary Services or other services under a separate arrangement or a successor interconnection agreement with PG&E, or pursuant to any tariff for such service which PG&E may have on file with FERC, or on the basis of other rights that may exist in law or regulation.

15.21 Notices

Except as provided in Sections 8 and 9 above and in Appendix C, all notices or other communications herein provided to be given or which may be given by either Party to the other shall be deemed to have been duly given if delivered by electronic facsimile transmission with confirmed receipt, or when made in writing and delivered in person or deposited in the United States mail, postage prepaid, certified mail, return receipt requested and addressed as follows:

<p>To PG&E:</p> <p>Director, Interconnection Services</p> <p>Pacific Gas and Electric Company</p> <p>Mail Code B13M</p> <p>P. O. Box 770000</p> <p>San Francisco, CA 94177</p>	<p>To Applicant:</p> <p>FEDERAL POWER AVENAL, LLC</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p>
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Either Party may change any address or location for notices and other communications by giving notice to the other Party as provided in this Section 15.21.

15.22 Non-waiver

Failure by either Party to enforce any right or obligation with respect to any matter arising in

connection with this Agreement shall not constitute a waiver as to that matter or any other matter.

15.23 Reservation of Rights

15.23.1 Rate Changes

Nothing contained herein shall be construed as affecting in any way the right of PG&E to unilaterally make application to the FERC for a change in rates under section 205 of the FPA and pursuant to the FERC's Rules and Regulations promulgated thereunder, Applicant shall have the right to protest and object to such change in rates and otherwise to exercise any and all rights it may have with respect thereto, including its rights under Section 206 of the FPA. The term "rates" as used herein shall mean all rates, terms and conditions contained in this Agreement. A change in rates may include, but not be limited to, not only changes in rates and charges but also in the underlying methodology by which such rates and charges are developed.

15.23.2 FPA Disputes

The Parties agree that each Party expressly reserves all of its rights under Sections 202(b) and 210 of the FPA, including the right to seek resolution by FERC of disputes arising under Sections 202(b) or 210 of the FPA; provided, however, that the Parties may agree to resolve such dispute through procedures set forth in Section 15.10.

15.24 Rules and Regulations

PG&E and Applicant may each establish and, from time to time, change such procedures, rules, or regulations as they shall determine are necessary in order to establish the methods of operation to be followed in the performance of this Agreement; provided, that any such procedure, rule, or regulation shall not be inconsistent with the provisions of this Agreement. If a Party objects to a procedure, rule, or regulation established by the other Party, it will notify the other Party and the Parties will endeavor to modify the procedure, rule, or regulation in order to resolve the objection. If the Parties cannot reach agreement, either Party may seek to resolve such dispute through procedures set forth in Section 15.10.

15.25 Severability

If any term, covenant or condition of this Agreement or its application is held to be invalid as to any person, entity or circumstance, by FERC or any other regulatory body, or agency or court of competent jurisdiction, then such term, covenant or condition shall cease to have force and effect to the extent of that holding. In that event, however, all other terms, covenants and conditions of this Agreement and their application shall not be affected thereby, but shall remain in full force and effect unless and to the extent that a regulatory agency or court of competent jurisdiction finds that a provision is not separable from the invalid provision(s) of this Agreement.

15.26 Confidentiality

Each Party shall use any non-public information concerning any other Party that is furnished to such party by or on behalf of such other Party in connection with this Agreement (collectively, "Confidential Information") solely for engineering, planning and operating purposes and for the purpose of administering and enforcing this Agreement, and shall limit disclosure of Confidential Information to its employees who need to have the Confidential Information for such purposes. In no event shall Confidential Information be provided to a Third Party except as provided below or with the written consent of the other Party. Notwithstanding the foregoing, each Party may disclose Confidential Information (a) to its directors, officers, employees, auditors, counsel, advisors, or representatives (collectively, the "Representatives") whom it determines need to know such information for the purposes set forth in this Section 15.26; (b) to any governmental agency or regulatory body having or claiming to have authority to regulate or oversee any aspect of such party's business or that of its Representatives in connection with the exercise of such authority or claimed authority; and (c) pursuant to any subpoena or any similar legal process; provided that a Party shall give the other Party prompt notice of any obligation to disclose under paragraphs (b) and (c) above prior to making the disclosure and shall reasonably cooperate with any effort by that Party to oppose the required disclosure. For purposes hereof, the term "Confidential Information" shall not include information that (x) is in a party's possession prior to its being provided by or on behalf of any other party, provided that such information is not known by a Party to be subject to another confidentiality agreement with, or other legal or contractual obligation of confidentiality to, another Party, (y) is or becomes publicly available (other than through a breach hereof by such Party), or (z) becomes available to such Party on a nonconfidential basis, provided that the source of such information was not known by such Party to be bound by a confidentiality agreement or other legal or contractual obligation of confidentiality with respect to such information.

Notwithstanding anything in this Section 15.26 to the contrary, if the FERC or its staff, during the course of an investigation or otherwise, requests information from one of the Parties that is otherwise required to be maintained in confidence pursuant to this Agreement, the Party shall provide the requested information to the FERC or its staff, within the time provided for in the request for information. In providing the information to FERC or its staff, the Party may, consistent with 18 C.F.R. § 388.112, request that the information be treated as confidential and non-public by the FERC and its staff and that the information be withheld from public disclosure. The Party shall notify the other Party to this Agreement when it is notified by FERC or its staff that a request for disclosure of, or decision to disclose, confidential information has been received, at which time either of the Parties may respond before such information would be made public, pursuant to 18 C.F.R. § 388.12.

16 EXECUTION

The signatories hereto warrant and represent that they have been appropriately authorized to enter into this Agreement on behalf of the Party for whom they sign. If Applicant is a Governmental Authority, complete execution on its part requires that a certified copy of a resolution of its governing council, board or other controlling body, authorizing Applicant and those signing on its behalf to enter into this Agreement, must be attached. This Agreement may be executed in one or more counterparts at different times, each of which shall be regarded as an original and all of which, taken together, shall constitute one and the same Agreement.

The term of this Agreement shall commence on the date that this Agreement has been executed by all Parties ("Commencement Date").

Dated this _____ day of _____, 20_____.

FEDERAL POWER AGENCY, LLC
Applicant

PACIFIC GAS AND ELECTRIC COMPANY

BY: _____
(Signature)

BY: _____
(Signature)

Steven F. Gilliland
(Type or Print Name)

Jeffery Butler
(Type or Print Name)

TITLE: **President & Chief Executive Officer**

TITLE: **Sr. VP, Transmission and Distribution**

APPENDIX A

Insurance¹

A.1 General Liability Coverage

A.1.1 Applicant shall maintain during the performance hereof Commercial General Liability Insurance for bodily injury, personal injury, and property damage in limits, of combined single limit or equivalent for the results of any one (1) occurrence, of not less than \$50,000,000. Such insurance shall provide coverage at least as broad as the Insurance Service Office (ISO) Commercial General Liability Coverage "occurrence" form, with no coverage deletions.²

A.1.2 Commercial General Liability Insurance shall include coverage for Premises-Operations, Owners and Contractors Protective, Product/Completed Operations Hazard, Explosion, Collapse, Underground, Contractual Liability, and Broad Form Property Damage including Completed Operations.

A.1.3 Such insurance, by endorsement to the policy(ies), shall include PG&E as an additional insured, shall contain a severability of interest or cross-indemnity clause, shall provide that PG&E shall not by reason of its inclusion as an additional insured incur liability to the insurance carrier for payment of premium for such insurance, and shall provide for thirty (30) calendar days written notice to PG&E prior to cancellation, termination, alteration or material change of such insurance.

A.2 Additional Insurance Provisions

A.2.1 Evidence of coverage described above in Section A.1 shall state that coverage provided is primary and is not excess to or contributing with any insurance or self-insurance maintained by PG&E.

A.2.2 PG&E shall have the right to inspect or obtain a copy of the original policy(ies) of insurance.

A.2.3 Applicant shall furnish the required certificates³ and endorsements to PG&E prior to commencing operation.

A.2.4 All insurance certificates, endorsements, cancellations, terminations, alterations, and material changes of such insurance shall be issued and submitted to the following:

PG&E Corporation
Manager, Insurance Department
Mail Code B24H
P. O. Box 770000
San Francisco, CA 94177

¹ Governmental Authorities which have an established record of self-insurance may provide the required coverage through self-insurance.

² The precise amount of insurance coverage will be negotiated by the parties consistent with the risks associated with the specific interconnection.

³ A Governmental Authority qualifying to maintain self-insurance should provide a statement of self-insurance.

APPENDIX B

Routine Test Guidelines and Non-Test Procedures

B.1 Routine Test Guidelines

The following routine test guidelines apply to a Generating Facility capable of making deliveries of 40 kW or more to the PG&E Electric System.

B.1.1 Applicant shall secondary bench test individual relays by applying the appropriate currents, voltages or frequencies. The relays must be tested at their specified settings to verify the following:

B.1.1.1 Minimum operating point at which relay will actuate (minimum pickup).

B.1.1.2 Time delay for at least three (3) separate multiples of minimum pickup.

B.1.1.3 Phase angle characteristic of directional impedance relays.

B.1.1.4 All relays must meet the following tolerances as applicable under test conditions:

<u>Item</u>	<u>Range</u>
Current	± 10%
Voltage	± 10%
Time	± 10%
Frequency	± 0.5 Hz
Phase Angle	± 5 Degrees

B.1.2 Applicant shall check each protective relay to confirm that the appropriate breaker and/or main breaker is tripped by the relay contact.

B.1.3 Applicant shall check all voltage and frequency relays when energized to confirm that the proper secondary potential is applied.

B.1.4 When the Generating Facility is energized and picking up generation, all relay current coils must be checked by Applicant to confirm that the proper secondary generation current is applied to the relay.

B.2 Non-Test Procedures

B.2.1 Applicant agrees to the following conditions regarding a Non-Test requested by PG&E.

B.2.1.1 Applicant shall not re-energize the affected circuits, whether manually or automatically, without first receiving the approval of the Designated PG&E Electric Control Center.

B.2.1.2 Applicant agrees to install and maintain permanent warning signs on the Generating Facility's main control panel and at each remote operating location where Applicant has remote closing capability. The warning signs shall instruct personnel to contact PG&E before re-closing the circuit.

APPENDIX C

Dispute Resolution and Arbitration

C.1 Negotiation and Mediation

A Party shall initiate dispute resolution by written notice to the other Party describing the dispute and any proposed remedy. As provided in Section 15.10, the Parties agree to seek settlement of all disputes arising under this Agreement by good faith negotiation between officers of the Parties or their delegates before using the other methods of dispute resolution. Unless otherwise agreed in writing, the Parties shall continue to honor their obligations under this Agreement during the course of dispute resolution pursuant to the provisions of this Section C.1 with respect to all matters not subject to such dispute. Within 30 days after notice of dispute is given, each Party shall give written notice to the other Party of its representative(s), including the officer(s) and any delegate(s), and the representatives shall meet and attempt in good faith to resolve such dispute and shall continue to negotiate in good faith in an effort to resolve the dispute. If a settlement is agreed upon as a result of the negotiation, then such settlement shall be recorded in writing, signed by the Parties, and shall be binding on them.

If such representatives fail to resolve a dispute within 30 days after their first meeting, before initiating arbitration proceedings under this Appendix C, the Parties shall seek resolution of a dispute through mediation, with a mediator to be selected by the Parties. The Parties shall meet and confer to establish an appropriate time schedule for mediation, to choose a mediator with at least 10 years' experience in mediating complex commercial disputes, and to agree on any other terms and conditions that will govern the mediation. The mediation shall include the officers of the Parties named in the notice above (even if such officers sent delegates to any prior negotiation) and any other representatives of the Party who participated in the prior negotiations. If a settlement is agreed upon as a result of the mediation, then such settlement shall be recorded in writing, signed by the Parties, and shall be binding on them.

C.2 Technical Arbitration

The Parties agree that it is in the best interest of both Parties to seek expedited resolution of arbitrable disputes that are technical in nature. Technical disputes may include, without limitation, disputes centered on engineering issues involving technical planning studies, the need for and Cost of Special Facilities, and the Interconnection Capacity of a Point of Change-in-Ownership. Such technical issues may be resolved through expert application of established technical knowledge and by reference to Good Utility Practice and industry standards.

The Party initiating arbitration pursuant to Section C.3 below shall indicate in its notice to the other Party whether it regards the dispute to be technical in nature. If both Parties agree that a dispute is technical in nature, then the Parties shall meet and confer to develop an appropriate timetable and process for expedited resolution of the dispute by a neutral expert, or "technical arbitrator". If the Parties cannot agree that a dispute is technical in nature, or if they cannot agree on a neutral arbitrator, then the Parties shall submit the dispute to arbitration under the procedures set forth in Section C.3 below.

C.3 Arbitration

C.3.1 Notices And Selection Of Arbitrators

In the event that a dispute is subject to arbitration under Section 15.10 and is not settled by the Parties within the earlier of 45 days of the first meeting of the Parties with the mediator or 15 days after the conclusion of mediation under Section C.1, the Party that gave notice under Section C.1 shall initiate arbitration by sending written notice to the other Party describing the dispute and any proposed remedy. Within ten (10) *Business Days* after receipt of such notice, the Parties shall select a single arbitrator. If the

Parties cannot agree on the selection of an arbitrator, the arbitrator shall be selected by the American Arbitration Association in accordance with its Commercial Arbitration Rules. The arbitrator selected under these procedures shall be a lawyer or retired judge with at least 10 years' experience arbitrating complex commercial disputes.

C.3.2 Procedures

The arbitration shall be governed by the Commercial Arbitration Rules of the American Arbitration Association, except as modified herein or agreed by the Parties in writing.

C.3.3 Hearing and Decision

After giving the Parties due notice of hearing and a reasonable opportunity to be heard, the arbitrator shall hear the dispute submitted for arbitration and shall provide a reasoned written decision within 90 days or such other date selected by agreement of the Parties. Except for a technical arbitrator, the decision shall conform to applicable law, which includes decisions of a regulatory agency of competent jurisdiction. The decision shall be final and binding upon the Parties; provided, that under no circumstances is the arbitrator authorized to (i) add or modify any rate, term or condition of the Agreement or (ii) render a decision that conflicts with FERC jurisdiction under the Federal Power Act. Judgment may be entered on the decision in any court of competent jurisdiction upon the application of either Party.

C.3.4 Expenses

Each Party shall bear its own costs and the costs and expenses of the arbitrator shall be borne equally by the Parties.

APPENDIX D

Diagram Showing Point of Change-in-Ownership

APPENDIX E

Generating Facility Information and Interconnection Capacity

E.1 Generating Facility Information

E.1.1 Generating Facility is (check one) New Existing

E.1.2 Location of Generating Facility _____, California

E.1.3 Description of Generating Facility:

E.1.3.1 Make _____

E.1.3.2 Model _____

E.1.3.3 Type _____

E.1.3.4 Serial No. _____

E.1.3.5 Nameplate Output Rating _____ kW

E.1.3.6 _____ kVA

E.1.3.7 _____ volts, _____ phase, 60 Hertz

E.1.3.8 Number of units _____

E.2 Interconnection with the PG&E Electric System

E.2.1 Voltage of the Interconnection _____ kV

E.2.2 Interconnection Capacity _____ kW⁴

E.2.3 Step-up transformer available taps

high side _____ kV/ _____ kV _____ kV _____ kV

low side _____ kV/ _____ kV _____ kV _____ kV

Step-up Transformer taps in use _____ kV _____ kV

Step-up Transformer impedance _____ kV _____ kV

⁴ Operating procedures and limitations for the Generating Facility are specified in Appendix II.

APPENDIX F

PG&E Interconnection Handbook Waivers (Applies to Existing Projects Only)

APPENDIX G

Appendix A of the Reliability Management Agreement

G.1 Definitions

The following definitions apply to this Appendix G:

G.1.1 Member

Any party to the WECC Agreement.

G.1.2 Reliability Management System (RMS)

The contractual reliability management program implemented through the WECC Reliability Criteria Agreement, this Appendix G of this Agreement, and any similar contractual arrangement.

G.1.3 Western Interconnection

The area comprising those states and provinces, or portions thereof, in Western Canada, Northern Mexico and the Western United States in which Members of the WECC operate synchronously connected transmission systems.

G.1.4 WECC Agreement

The Western Systems Coordinating Council Agreement dated March 20, 1967, as such may be amended from time to time.

G.1.5 WECC Reliability Criteria Agreement

The Western Systems Coordinating Council Reliability Criteria Agreement dated June 18, 1999, among the WECC and certain of its member transmission operators, as such may be amended from time to time.

G.1.6 WECC Staff

Those employees of the WECC, including personnel hired by the WECC on a contract basis, designated as responsible for the administration of the RMS.

G.2 Reliability Management System

G.2.1 Purpose

In order to maintain the reliable operation of the transmission grid, the WECC Reliability Criteria Agreement sets forth reliability criteria adopted by the WECC to which Applicant and PG&E shall be required to comply.

G.2.2 Compliance

Applicant shall comply with the requirements of the WECC Reliability Criteria Agreement, including the applicable WECC reliability criteria set forth in Section IV of Annex A thereof, and, in the event of failure to comply, agrees to be subject to the sanctions applicable to such failure. Such sanctions shall be assessed pursuant to the procedures contained in the WECC Reliability Criteria Agreement. Each and all of the provisions of the WECC Reliability Criteria Agreement are hereby incorporated by reference into this Section 2 as though set forth fully herein, and Applicant shall for all purposes be considered a Participant, and shall be entitled to all of the rights and privileges and be subject to all of the obligations of a Participant, under and in connection with the WECC Reliability Criteria Agreement, including but not limited to the rights, privileges and obligations set forth in Sections 5, 6 and 10 of the WECC Reliability Criteria Agreement.

G.2.3 Payment of Sanctions

Applicant shall be responsible for payment of any monetary sanction assessed against Applicant by WECC pursuant to the WECC Reliability Criteria Agreement. Any such payment shall be made pursuant to the procedures specified in the WECC Reliability Criteria Agreement.

G.2.4 Transfer of Control or Sale of Generation Facilities.

In any sale or transfer of control of any generation facilities subject to this Agreement, Applicant shall as a condition of such sale or transfer require the acquiring party or transferee with respect to the transferred facilities either to assume the obligations of the Applicant with respect to this Appendix G or to enter into an agreement with PG&E imposing on the acquiring party or transferee the same obligations applicable to Applicant pursuant to this Appendix G.

G.2.5 Publication

Applicant consents to the release by the WECC of information related to Applicant's compliance with this Appendix G only in accordance with the WECC Reliability Criteria Agreement.

G.2.6 Third Parties.

Except for the rights and obligations between the WECC and Applicant specified in this Appendix G, this Appendix G creates contractual rights and obligations solely between the Parties. Nothing in this Appendix G shall create, as between the Parties or with respect to the WECC: (1) any obligation or liability whatsoever (other than as expressly provided in this Appendix G), or (2) any duty or standard of care whatsoever. In addition, nothing in this Appendix G shall create any duty, liability, or standard of care whatsoever as to any other party. Except for the rights as a third-party beneficiary under this Appendix G, of the WECC against Applicant, no third party shall have any rights whatsoever with respect to enforcement of any provision of this Agreement. PG&E and Applicant expressly intend that the WECC is a third-party beneficiary to this Appendix G, and the WECC shall have the right to seek to enforce against Applicant any provision of this Appendix G, provided, that specific performance shall be the sole remedy available to the WECC pursuant to Appendix G of this Agreement, and Applicant shall not be liable to the WECC pursuant to this Agreement for damages of any kind whatsoever (other than the payment of sanctions to the WECC, if so applicable), whether direct, compensatory, special, indirect, consequential, or punitive.

G.2.7 Reserved Rights

Nothing in the RMS or the WECC Reliability Criteria Agreement shall affect the right of the ISO, subject to any necessary regulatory approval, to take such other measures to maintain reliability, including disconnection, which the ISO may otherwise be entitled to take.

G.2.8 Severability.

If one or more provisions of this Appendix G shall be invalid, illegal or unenforceable in any respect, it shall be given effect to the extent permitted by applicable law, and such invalidity, illegality or unenforceability shall not affect the validity of the other provisions of this Agreement.

G.2.9 Termination

Applicant may terminate its obligations pursuant to this Appendix G: (a) if after the Commencement Date of this Agreement, the requirements of the WECC Reliability Criteria Agreement applicable to Applicant are amended so as to adversely affect the Applicant, provided, that Applicant gives fifteen (15) days' notice of such termination to the ISO, PG&E, and the WECC within forty-five (45) days of the date of issuance of a FERC order accepting such amendment for filing, provided further that the forty-five (45) day period within which notice of termination is required may be extended by Applicant for an additional forty-five (45) days if Applicant gives written notice to the ISO and PG&E of such requested extension within the initial forty-five (45) day period; or (b) for any reason on one year's written notice to the ISO, PG&E, and the WECC.

G.2.10 Mutual Agreement

This Section Appendix G may be terminated at any time by mutual agreement of PG&E and

Applicant.

APPENDIX II

Special Operating Procedures and Limitations

Applicant shall operate under the confines of the limitations described below:

- [to be completed].

When the conditions described above exist, Applicant agrees not to seek compensation: (1) from PG&E for any necessary curtailment; or (2) through participation in the California ISO market mechanisms for *Congestion Management*; provided, however, that for any given hour, to the extent that Applicant has already successfully participated in the California ISO *Congestion Management* market prior to the existence of any of the above conditions, Applicant will be entitled to receive and retain compensation from the California ISO for the services provided.



Generator Special Facilities Agreement

At the request of **FEDERAL POWER AVENAL, LLC (Applicant)**, **PACIFIC GAS AND ELECTRIC COMPANY (PG&E)** hereby agrees to furnish at Applicant's expense certain facilities consisting of certain facilities described in Exhibit 1 to Appendix A (Special Facilities). Such Special Facilities are expected to be necessary on or about **June 1, 2009** for the interconnection of Applicant's electric generating project with PG&E's system and/or PG&E's delivery of electrical standby service to Applicant's premises **Avenal Energy Project, located at Avenal Cutoff Road, Avenal, California**

1. This Generator Special Facilities Agreement (Agreement) includes Appendix A, Detail of Special Facilities Charges, and Appendix B, Project Development Milestones, which are attached and incorporated herein by reference. Appendix A and B may be revised or superseded by mutual written agreement and without formal amendment of the remainder of this Agreement. In addition, Appendix B may be revised or superseded pursuant to orders of the Federal Energy Regulatory Commission (FERC) without formal amendment of the remainder of this Agreement.
2. Applicant shall pay PG&E, on written demand prior to commencement of any work by PG&E, an initial charge equal to the sum of the amounts that are specified in Appendix A. Furthermore, Applicant shall pay PG&E all of PG&E's actual costs reasonably incurred in connection with installing the Special Facilities. Within 180 days of completion of the work, PG&E shall determine the actual cost of installing the Special Facilities and shall provide Applicant a final accounting. If the actual cost is greater than the total amount that has been paid by Applicant, then PG&E shall bill Applicant for the remaining amount, including interest determined pursuant to Section 35.19(a) of FERC's Regulations, 18 CFR § 35.19(a). If the actual cost is less than the total amount that has been paid by Applicant, then PG&E shall pay Applicant the difference, including interest determined pursuant to Section 35.19(a) of FERC's Regulations, 18 CFR § 35.19(a).
3. Applicant also shall pay PG&E any applicable monthly rates and charges for service under PG&E's tariff schedules plus an ownership charge, either (a) or (b) below as specified in Appendix A, namely:
 - (a) **COST-OF-OWNERSHIP CHARGE** representing PG&E's continuing monthly cost of financing (if applicable), owning and maintaining Special Facilities; or
 - (b) An **EQUIVALENT ONE-TIME CHARGE** which is equal to the present worth of the monthly **COST-OF-OWNERSHIP CHARGE** in perpetuity. The **COST-OF-OWNERSHIP CHARGE** shall commence on the date Special Facilities are first available for Applicant's use, as such date is established in PG&E's records. PG&E will notify Applicant, in writing, of such commencement date. The **EQUIVALENT ONE-TIME CHARGE** (if applicable) shall be payable by Applicant to PG&E on demand.
4. The **COST-OF-OWNERSHIP CHARGE** for FERC jurisdictional Interconnections set forth herein is determined in accordance with FERC-approved methodology. Initially, the ownership charge is determined in accordance with the applicable percentage rates established in the Special Facilities section of PG&E's Electric Rule 2 as approved by the FERC. Should the CPUC or FERC, as applicable, subsequently authorize higher or lower percentage rates, the monthly **COST-OF-OWNERSHIP CHARGE** shall automatically increase or decrease without formal amendment to Appendix A as of the effective date of the CPUC's or FERC's authorization.
5. Where it is necessary to install Special Facilities on Applicant's premises, Applicant hereby grants to PG&E:
 - (a) the right to make such installation on Applicant's premises along the shortest practical route thereon with sufficient legal clearance from all structures now or hereafter erected on Applicant's premises; and
 - (b) the right of ingress and egress from Applicant's premises at all reasonable hours for any purposes reasonably connected with the operation and maintenance of Special Facilities.
6. Where formal rights of way or easements are required on or over property of Applicant or the property of others for the installation of Special Facilities, Applicant agrees that PG&E shall use all reasonable efforts to obtain such rights of way or easements which shall be at Applicant's expense, or if Applicant and PG&E agree otherwise, Applicant shall obtain any necessary permanent rights of way or easements, satisfactory to and without cost to PG&E.

7. PG&E shall not be responsible for any delay in completion of the installation of Special Facilities resulting from shortage of labor or materials, strike, labor disturbance, war, riot, weather conditions, governmental rule, regulation or order, including orders or judgments of any court or regulatory agency, delay in obtaining necessary rights of way and easements, acts of God, delays resulting from PG&E's responsibility to coordinate certain electric interconnections with the California Independent System Operator Corporation or any other cause or condition beyond the control of PG&E, nor shall PG&E be liable for incidental, indirect, special, punitive, or consequential damages for any such delay. PG&E shall have the right, if for one of the above reasons it is unable to obtain materials or labor for all of its construction requirements, to allocate materials and labor to construction projects which it deems, in its sole discretion, most important to serve the needs of its customers, and any delay in construction, hereunder resulting from such allocation shall be deemed to be a cause beyond PG&E's control. In any event, PG&E's total liability for any delay in the completion of the installation of Special Facilities shall not exceed the amount of Special Facilities Charges paid by Applicant.
8. In the event that PG&E is prevented from completing the installation of Special Facilities for reasons beyond its control after twelve (12) months following the date this Agreement has been executed by all the parties, PG&E shall have the right to supersede this Agreement, subject to Applicant's election as provided below, upon at least thirty (30) days' written notice to Applicant and adjust any amounts paid or required to be paid by Applicant hereunder that may be due based on that portion of the Special Facilities then completed, if any, utilizing the estimated costs developed by PG&E for this Agreement. Such a superseding agreement, if any, shall be in substantially the same form as this Agreement, be executed by both parties hereto, and shall provide that costs be allocated to the portion of the Special Facilities then completed, if any, consistent with those costs estimated by PG&E for this Agreement. If Applicant elects not to execute a superseding agreement, this Agreement shall be terminated and the provisions of paragraph 11 herein shall be applied to that portion of Special Facilities then completed, if any. Applicant also shall reimburse PG&E for any expenses it may have incurred for engineering, surveying, right of way acquisition and other work associated with that portion of special facilities not installed.
9. If it becomes necessary for PG&E to alter, rearrange or make addition to Special Facilities in order to maintain parallel operation of Applicant's generation or electrical standby service to Applicant's premises, Applicant shall be notified, in writing, of such necessity and shall be given the option to either terminate this Agreement upon thirty (30) days' written notice to PG&E, or to pay to PG&E additional Special Facilities charges consisting of:
 - (a) a facility termination charge for that portion of Special Facilities which is being removed because of alteration, rearrangement or addition to Special Facilities. Such charge to be determined in the same manner as described in paragraph 11 herein; plus,
 - (b) an additional ADVANCE and/or REARRANGEMENT CHARGE, if any for any new Special Facilities which shall be applied in the same manner as prescribed in paragraph 2 herein; plus,
 - (c) a revised monthly COST-OF-OWNERSHIP CHARGE or EQUIVALENT ONE-TIME CHARGE based on the estimated installed costs of all new and remaining Special Facilities. Such revised monthly COST-OF-OWNERSHIP CHARGE or EQUIVALENT ONE-TIME CHARGE shall be applied in the same manner as prescribed in paragraph 3 herein.
10. This Agreement shall become effective when executed by the parties hereto and, except as provided for in paragraphs 8 and 9 herein, shall remain in force until one of the following events occurs:
 - (a) Applicant fails to meet the project development milestones listed in Appendix B of this Agreement, or
 - (b) A Generator Interconnection Agreement or parallel operation agreement (if applicable) no longer exists between Applicant and PG&E which would occasion the need for Special Facilities; or
 - (c) The ownership of Special Facilities or any portion thereof is deeded to a public authority; or
 - (d) Applicant fails to pay the monthly COST-OF-OWNERSHIP CHARGE prescribed in this Agreement, if applicable.

Either party shall provide the other at least thirty (30) days' written notice of termination and an opportunity to cure before termination becomes effective pursuant to this paragraph

11. Upon termination of the Agreement for any reason:
 - (a) Applicant shall pay to PG&E on written demand (in addition to all other monies to which PG&E may be legally entitled by virtue of such termination) a facility termination charge defined as the estimated installed cost, plus the estimated removal cost less the estimated salvage value for any Special Facilities which can be removed, all as determined by PG&E in accordance with its standard accounting practices. PG&E shall deduct from the facility termination charge the ADVANCE plus the unamortized balance of the EQUIVALENT ONE-TIME CHARGE previously paid, if any. If the ADVANCE paid plus the unamortized balance of the EQUIVALENT ONE-TIME CHARGE, if any, is greater than the facility termination charge, PG&E shall refund the difference, without interest to Applicant; and

- (b) PG&E shall be entitled to remove and shall have a reasonable time in which to remove any portion of the Special Facilities located on the Applicant's premises; and
 - (c) PG&E may, at its option, alter, rearrange, convey or retain in place any portion of the Special Facilities located on other property off Applicant's premises. Where all or any portion of the Special Facilities located off Applicant's premises are retained in place in anticipation of providing permanent service to customers of PG&E, an equitable adjustment shall be made in the facility termination charge.
12. In the event any of the Special Facilities are used during the term of this Agreement to provide service to a party other than the Applicant, an adjustment shall be made in accordance with then-current regulatory policy.
13. Special Facilities shall at all times be the property of PG&E.
14. This Agreement does not give the Applicant any right to build, place, or maintain any of Applicant's or third party facilities on, under or over any PG&E land, easements or property. If Applicant wishes to build, place, or maintain its facilities (or a third party's facilities) associated with the generation project on, under or over any PG&E land, easements or property, Applicant must specifically request the right to make such use and identify the PG&E property involved, regardless of whether Applicant wants a lease, easement, license or other agreement from PG&E. PG&E will separately consider whether or not it is willing to permit such use. In addition, PG&E may need to obtain approval from the CPUC through a filing under section 851 of the California Public Utilities Code, or obtain a waiver of such filing requirements, before PG&E can provide Applicant with any right to use its land. This CPUC approval could potentially take six to eighteen months or longer to obtain, and the CPUC may deny such applications. Applicant should notify PG&E as soon as possible of any potential request for permission to use or cross PG&E land, easements or property. PG&E shall bear no responsibility for any inability to obtain such CPUC approval or for any delays connected with obtaining such CPUC approval.
15. This Agreement shall be subject to all of PG&E's applicable tariffs on file with and authorized by the CPUC and FERC, and shall at all times be subject to such changes or modifications as the CPUC and FERC may direct from time to time in the exercise of their jurisdictions.
16. (check if applies) Applicant and PG&E agree that the Special Facilities described in this Agreement are already in place as of the date this Agreement has been executed by all the parties and that paragraphs 6, 7, and 8 of this Agreement and Appendix B of this Agreement are not applicable.
17. Nothing contained herein shall be construed as affecting in any way the right of PG&E to unilaterally make application to the FERC for a change in rates under section 205 of the Federal Power Act (FPA) and pursuant to the FERC's Rules and Regulations promulgated thereunder, Applicant shall have the right to protest and object to such change in rates and otherwise to exercise any and all rights it may have with respect thereto, including its rights under Section 206 of the FPA. The term "rates" as used herein shall mean all rates, terms and conditions contained in this Agreement. A change in rates may include, but not be limited to, not only changes in rates and charges but also in the underlying methodology by which such rates and charges are developed.
18. No transfer or assignment of either party's rights, benefits or duties under this Agreement shall be effective without the prior written consent of the other party, which consent shall not be withheld unreasonably; provided, however, that this Section 18 shall not apply to interests that arise by reason of any deed of trust, mortgage, indenture or security agreement heretofore granted or executed by either party. No partial assignment of either party's rights, benefits or duties shall be permitted under this Agreement unless otherwise agreed to by the parties. Any successor to or transferee or assignee of the rights or obligations of a party, whether by voluntary transfer, judicial sale, foreclosure sale or otherwise, shall be subject to all terms and conditions of this Agreement to the same extent as though such successor, transferee, or assignee were an original party
19. Taxes Resulting from Applicant's Contribution of Special Facilities
- (a) Representations And Covenants. In accordance with IRS Notice 2001-82 and IRS Notice 88-129, Applicant represents and covenants that (i) ownership of the electricity generated at Applicant's electric generating plant will pass to another party prior to the transmission of the electricity on PG&E's system, (ii) for income tax purposes, the amount of any payments and the cost of any property transferred to PG&E for the Special Facilities will be capitalized by Applicant as an intangible asset and recovered using the straight-line method over a useful life of 20 years, and (iii) any portion of the Special Facilities that is a "dual-use intertie" within the meaning of IRS Notice 88-129, is reasonably expected to carry only a *de minimis* amount of electricity to the direction of Applicant or parties related to the Applicant during the first ten taxable years of PG&E, beginning with the year in which the transferred property is placed in service. For this purpose, "*de minimis* amount" means no more than 5% of the total power flows in both directions, calculated in accordance with the "5% test" set forth in IRS Notice 88-129. At PG&E's request, Applicant shall provide PG&E with a report from an independent engineer confirming its representation in clause (iii), above
 - (b) Indemnification for Taxes Imposed Upon PG&E. Notwithstanding paragraph 19(a), Applicant shall protect, indemnify and hold harmless PG&E from income taxes imposed against PG&E as the result of

payments or property transfers made by Applicant to PG&E under this Agreement for the construction of Special Facilities, as well as any interest and penalties (other than interest and penalties attributable solely to failure by PG&E to pay taxes in a timely manner for which Applicant made timely payment to PG&E). PG&E shall not include a gross-up for income taxes in the amounts it charges Applicant under this Agreement unless (i) PG&E has determined, in good faith, that the payments or property transfers made by Applicant to PG&E for the construction of Special Facilities should be reported as taxable income, or (ii) any governmental authority with taxing or rate jurisdiction over PG&E directs PG&E to report such payments or property transfers as taxable income. Applicant shall reimburse PG&E for such taxes on a fully grossed-up basis, calculated in accordance with paragraph 19(c), within 30 days of receiving written notification from PG&E of the amount due, including detail about how the amount was calculated.

- (c) **Tax Gross-Up Amount** Applicant's liability for taxes under this paragraph 19 shall equal the product of (i) the gross income realized by PG&E for income tax purposes, whether attributable to the circumstances described in paragraph 19(b) or paragraph 19(d), with respect to the payments or property transfers made by Applicant to PG&E under this Agreement for the construction of Special Facilities (but not including any gross income attributable to the payment of the gross-up calculated under this paragraph 19(c)) (the "Gross Income Amount") multiplied by (ii) the "Gross-up Percentage" (as defined below). The "Gross-up Percentage" shall equal the gross-up percentage determined in accordance with "method 5," as described in CPUC Decision 87-09-026 for taxable contributions-in-aid-of-construction paid to PG&E in the year the Gross Income Amount is includable in PG&E's taxable income. The "Gross-up Percentage" shall be presumed to be the percentage set forth in PG&E's electric tariffs accepted by the CPUC for taxable contributions in aid of construction. To the extent FERC requires that an alternative gross-up calculation be used to compute generator liability for taxes covered by this Agreement, such alternative methodology shall be used, but only if FERC directs that its order should modify gross-up agreements entered into prior to the date of the FERC order.
- (d) **Subsequent Taxable Events** If, within 10 years from the date on which the Special Facilities are placed in service, (i) Applicant breaches any of the covenants contained in paragraph 19(a), (ii) a "disqualification event" occurs within the meaning of IRS Notice 88-129, or (iii) this Agreement terminates and PG&E retains ownership of the Special Facilities, then Applicant shall pay a tax gross-up for the taxes imposed on PG&E, calculated using the methodology described in paragraph 19(c); provided, however, that Applicant will also reimburse PG&E for any such taxes imposed more than 10 years after the date the Special Facilities are placed in service, but only to the extent either 1) PG&E is unable to include such tax costs in its cost of service or 2) such tax costs are included in PG&E's cost of service but the FERC (or other governing regulatory authority) directs that such taxes should nevertheless also be subject to reimbursement.
- (e) **Security.**
- (i) To ensure payment of any indemnity required by paragraphs 19(b) and (d), not later than sixty (60) days prior to initial energy deliveries, Applicant shall provide security which PG&E deems adequate. PG&E shall deem satisfactory any security provisions of general applicability which FERC establishes in docket number RM02-1-000, or any other docket in which FERC resolves the issue of the need for, and possible form and amount of residual security associated with generator interconnections.
- (ii) Unless and until FERC provides such guidance, Applicant shall either provide a letter of credit or equivalent security in the amount of the gross-up computed as if tax had been incurred at inception; or pay PG&E in cash an amount equal to 20% of the amount of the gross-up computed as if tax had been incurred at inception.
- (iii) In the alternative, if the equity interest in Applicant is ultimately owned at least 80% by a parent company which owns multiple generation projects interconnected with PG&E, which all qualify for the safe harbor in IRS Notice 2001-82, and is willing to provide a letter of credit that would apply to the potential gross-up for any of those projects, then such parent company may provide a letter of credit equal to the potential ITCC tax liability associated with the generation project for which PG&E's potential ITCC liability is the greatest; provided that the equity ownership interest for such generation project is ultimately owned at least 80% by such parent. A parent providing a letter of credit under this subsection shall provide PG&E with documentation satisfactory to PG&E that it satisfies (and continues to satisfy) the 80% equity ownership condition of the preceding sentence. To the extent the parent no longer qualifies under this subparagraph 19(e)(iii), additional security may be required at PG&E's sole discretion in accordance with subparagraphs 19(e)(i) and 19(e)(ii). The terms of the letter of credit or other security arrangement shall provide PG&E with reimbursement for the potential taxes imposed on the reportable gross income described in paragraph 19(b) or 19(d) on a fully grossed-up basis, calculated in accordance with paragraph 19(c), within 30 days of receiving written notification from PG&E of the amount due, including detail

about how the amount was calculated. The security option provided in this paragraph 19(e)(iii) is intended to apply only to FERC-jurisdictional interconnection arrangements, and shall not apply to generation projects interconnected under CPUC-jurisdictional arrangements. The fact that the ultimate owner of a particular generation project interconnected under FERC-jurisdiction also owns a project interconnected under CPUC authority shall not disqualify it from eligibility for this security option for its FERC-jurisdictional projects.

- (f) No Waiver with Respect to Residual Security Obligations. Nothing in this paragraph 19 shall waive either Party's rights pursuant to sections 205 or 206 of the Federal Power Act or otherwise to support or oppose, in any proceeding or forum, the need for, the form of, and the amount of any residual ITCC security, if any, which PG&E may obligate Applicant to maintain.
20. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature page were an original thereof.

Dated this _____ day of _____, 20_____.

FEDERAL POWER AVENAL, LLC
Applicant

PACIFIC GAS AND ELECTRIC COMPANY

BY: _____
(Signature)

BY: _____
(Signature)

Steven F. Gilliland
(Type or Print Name)

Jeffery Butler
(Type or Print Name)

TITLE: **President & Chief Executive Officer**

TITLE: **Sr. VP, Transmission and Distribution**

Mailing Address:

**Federal Power Avenal, LLC
Avenal Energy Project
2116 Watts Road
Houston, Texas 77030**

Attachments:

Appendix A
Appendix B (if applicable)
Generator Interconnection Agreement (draft)
Exhibit 1 to Appendix A

Appendix A

Detail of Special Facilities Charges

I. Applicability

The application of charges specified herein are pursuant to the provisions of this Agreement between **FEDERAL POWER AVENAL, LLC** (Applicant) and **PACIFIC GAS AND ELECTRIC COMPANY** (PG&E) and shall be a part thereof and in effect until superseded by mutual agreement.

II. Initial Charge

A. Net cost of all Direct Assignment Special Facilities	\$ 1,950,000	1
B. Plus Net cost of all Network Upgrade Special Facilities	\$ 4,500,000	2
C. <u>Less</u> the cost of "removable and reusable" Special Facilities which are provided, installed and furnished by PG&E pursuant to Rule No. 21	(\$ _____)	1
D. ADVANCE	\$ 6,879,000	3
E. <u>Less</u> PG&E's estimate of the cost of Special Facilities provided, installed and dedeed to PG&E by Applicant (includes costs of design and administration by PG&E)	(\$ _____)	
F. <u>Plus</u> the cost of design, administration and inspection by PG&E of Special Facilities provided, installed and dedeed to PG&E by Applicant	\$ N/A	
G. Initial Charge	\$ 6,879,000	
III. <u>Installed Cost of PG&E's Existing Facilities Allocated for Applicant's Use</u>	\$ N/A	

1 This is the portion of costs related to Direct Assignment Work used to calculate the monthly COST OF OWNERSHIP CHARGE or EQUIVALENT ONE-TIME CHARGE.
 2 This is the portion of costs related to Network Upgrade Work (See breakdown in Exhibit 2). No monthly COST OF OWNERSHIP CHARGE or EQUIVALENT ONE-TIME CHARGE is applicable
 3 This is the estimated total cost of Special Facilities including Direct Assignment Work and Network Upgrade Work, and ITCC of 22% (see Interim Crediting Mechanism for Network Upgrades in Exhibit 1).

IV. Monthly Cost of Ownership Charge

Special Facilities financed by:	Application Base	Current Percentage Rate	Monthly Charge
A. Applicant	ADVANCE (II.D above = 1. + 2. below)		
	1. Cost of distribution facilities \$ <u>0</u> Less allowance for existing facilities ($\$ \frac{N/A}{}$) ^{4,5} Net amount = \$ <u>0</u>	x <u>0.46%</u> /mo	= \$0 /mo
	2. Cost of transmission facilities \$ <u>1,950,000</u> Less allowance for existing facilities ($\$ \frac{N/A}{}$) ⁴ Net amount = \$ <u>1,950,000</u>	x <u>0.31%</u> /mo	= <u>\$6,045.00 /mo</u>
B. PG&E	"Removable and reusable" Special Facilities (II.B above = 3. + 4. below)		
	3. Distribution facilities \$ <u>N/A</u>	x <u>N/A</u> /mo	= \$ <u>N/A</u> /mo
	4. Transmission facilities \$ <u>N/A</u>	x <u>N/A</u> /mo	= \$ <u>N/A</u> /mo
C. PG&E	Existing facilities allocated as Special Facilities (III above = 5. + 6. below)		
	5. Distribution facilities \$ <u>N/A</u>	x <u>N/A</u> /mo	= \$ <u>N/A</u> /mo
	6. Transmission facilities \$ <u>N/A</u>	x <u>N/A</u> /mo	= \$ <u>NA</u> /mo
D. Total Monthly COST OF OWNERSHIP CHARGE			\$6,045.00 /mo

V. EQUIVALENT ONE-TIME CHARGE (in lieu of monthly COST OF OWNERSHIP CHARGE)

Check here if applicable

\$ 6,045.00 / mo (IV.D above) x 12 mo. x 12.8 (present worth factor) = **\$ 928,512.00**

VI. PAYMENT SCHEDULE

Applicant shall pay, in advance within 30 days of receipt of an invoice from PG&E, the estimated cost for the scope of work to be undertaken by PG&E in the next quarter. PG&E and Applicant shall coordinate on the schedule and scope of work to be undertaken by PG&E for construction of the Special Facilities by the target date set forth in the introductory paragraph of this Agreement. In the event Applicant fails to make such advance payment, PG&E shall have no obligation to continue construction or to incur any expenses associated with this Agreement. However, Applicant shall remain obligated to pay any outstanding amounts incurred by PG&E under this Agreement that have not been previously reimbursed by Applicant.

In no event shall either party hereto be liable under the provisions of this Agreement for any losses, damages, costs or expenses for any indirect, special, incidental, consequential or punitive damages, including but not limited to, loss of profits or revenue, loss of use of the equipment, cost of capital, cost of temporary equipment or services, whether based in whole or in part in contract, in tort, including negligence, strict liability, or any other theory of liability; provided, however, that damages for which a Party may be liable to the other Party under another agreement will not be considered to be special, indirect, incidental, or consequential damages hereunder.

- 4 This percentage rate is set forth in Section I of PG&E's Electric Rule No. 2 and is subject to change upon authorization by the California Public Utilities Commission. The current applicable CPUC-approved monthly Cost of Ownership Rates for Distribution-level, customer-financed Special Facilities and Transmission-level, customer-financed Special Facilities are 0.46% and 0.31%, respectively, which became effective August 5, 1996.
- 5 Where Special Facilities displace PG&E's existing facilities, this allowance assures the exclusion of PG&E's existing ownership costs from Applicant's monthly COST OF OWNERSHIP CHARGE or EQUIVALENT ONE-TIME CHARGE.

**Appendix A
Exhibit 1**

Below are the estimated costs of Special Facilities for the Direct Assignment Work and Network Upgrade Work for the **FEDERAL POWER AVENAL, LLC**.

Direct Assignment Cost

Work Description	Cost
Testing (SCADA/EMS and pre-parallel inspection)	\$250,000
Install one new 230 kV breaker, associated relay equipment, and fiber cable termination equipment to connect the new 230 kV generation tie line	\$1,700,000
Total before tax	\$1,950,000
ITCC tax at 22%	\$429,000
Total	\$2,379,000

Network Upgrades Cost

Work Description	Cost
Transmission line work: PG&E to raise two towers of Gates-Arco 230 kV line to allow Applicant to bring the tie line in a flat configuration	\$300,000
Gates Substation work: PG&E to extend 230 kV buses to provide space for a breaker position, associated protection, and telecommunications equipment. PG&E to also expand the control building	\$2,300,000
Gates Substation work: PG&E to replace four overstressed 230 kV breakers	\$1,900,000
Total	\$4,500,000

**Appendix A
Exhibit 2**

**Interim Crediting Mechanism For Network Upgrades Funded By
FEDERAL POWER AVENAL, LLC
As Modified Pursuant to the Commission's Order Dated October 25, 2002
in FERC Docket No. ER02-1330-000 and ER02-1330-001**

A. Method of Providing Credits

PG&E will pay to the generator that funded network upgrades credits based on the cost of the network upgrades funded by the generator, on the amortization schedule described in paragraph B below, with interest at the rate specified in 18 C.F.R. section 35.19a(a)(2).

B. Amortization Schedule for Term Credits

The credit will be paid in quarterly installments. For all projects, regardless of the costs of the network upgrades, the credits will be amortized over a five-year term that commences with commercial operation of the project. However, if the project commenced commercial operation prior to January 28, 2003 (the date of the Commission's *Duke-Hinds II* order (102 FERC ¶ 61,068), and if an agreement requiring generator funding of upgrades, without any crediting mechanism, was previously filed with and approved by the Commission, then no credits will be payable for such prior period of commercial operation. In that case, the total amount of the credit due to the generator will be reduced proportionately to account for the period of commercial operation prior to January 28, 2003.

C. Duration of This Credit Mechanism and Section 205 Rights.

This credit will be paid until the entire amount has been refunded or PG&E obtains FERC permission to terminate providing the credit. PG&E anticipates that this will only be an interim credit mechanism, and that it will seek FERC permission to revise this mechanism to reflect the policy directions given by FERC in its final Interconnection Rulemaking in Docket RM02-1-000. Nothing contained herein shall be construed as affecting in any way the right of PG&E to unilaterally make application to the FERC for a change in rates under Section 205 of the Federal Power Act ("FPA") and pursuant to the FERC's Rules and Regulations promulgated thereunder. Applicant shall have the right to protest and object to such change in rates and otherwise to exercise any and all rights it may have with respect thereto, including its rights under Section 206 of the FPA. The term "rates" as used herein shall mean all rates, terms and conditions contained in this mechanism. A change in rates may include, but not be limited to, not only changes in rates and charges but also in the underlying methodology by which such rates and charges are developed.

D. First Payment Date

Payment will commence sixty (60) days after FERC accepts the crediting mechanism for the specific project, or after it begins commercial operations, whichever occurs later. PG&E reserves the right to seek bankruptcy court approvals, if necessary, prior to making such payments.

Appendix B

Project Development Milestones

This Appendix B describes project milestones to be met by developers of new generation resources. If any of the following project milestones are missed, the Generator Special Facilities Agreement (GSFA) executed by **FEDERAL POWER AVENAL, LLC** on or before _____ (insert date) will terminate pursuant to the terms of Section 10 (a) of the GSFA.

Milestones

Failure to comply with the applicable milestones results in the loss of interconnection priority and termination of the GSFA. If lost, interconnection priority for a project can be reestablished by submitting a new Application.

The project milestones to be met by Applicant are as follows:

1. Submit a Final Project Development Schedule within 8 months of executing the Generator Special Facilities Agreement. A GSFA for this project was executed on or before (insert date); therefore, a final project development schedule must be received by _____ (insert date)
2. Provide within 6 months of executing a GSFA: (a) proof of filing and acceptance of the Applicant's Critical Path Permit, and (b) the expected date of receipt of such permit.
3. Provide by the date specified by the Applicant in the Final Project Development Schedule either (a) written request to PG&E to begin interconnection engineering and material procurement and make payments to PG&E as specified in the GSFA or (b) the date when the Applicant will start construction of any interconnection facilities it plans to build.
4. By the date specified in the Final Project Development Schedule, start construction of the project.
5. If Applicant has completed all previous applicable project milestones and intends to begin parallel operation, it must execute a Generator Interconnection Agreement prior to parallel operation with PG&E transmission or distribution facilities but no sooner than 6 months prior to expected Operation of the new generating resource(s).
6. Successfully complete parallel testing and start Operation within three years of executing the GSFA no later than – _____ (insert date).

Missed Milestones

The parties have an obligation to meet the milestone deadlines pursuant to terms of the applicable tariffs and agreements. Exceptions may be granted by PG&E on a non-discriminatory basis where: (1) no other prospective generator would be harmed by the exception e.g., if no other generators were in the priority queue behind the party which had missed a milestone, or (2) the milestone was missed for reasons outside of the party's control e.g., due to an Uncontrollable Force.^{6/}

Definitions

Final Project Development Schedule. A written document which includes the following information concerning the Applicant's generation project.

1. Type of project (technology)
2. Capacity
3. Estimated average annual energy output
4. Location and description of site
5. Project ownership or management
6. Fuel source
7. Type of generating and ancillary equipment
8. Method for affirming primary energy source
9. Permit application schedule
10. Permit receipt schedule

^{6/} This term is used as defined in PG&E's Transmission Owner's Tariff

11. Construction start date
12. On-line or operation date

Generator Interconnection Agreement: An agreement between PG&E and the Applicant which describes the interconnection service to be provided by PG&E, operating and maintenance provisions required by PG&E as the owner of interconnection and transmission facilities used to deliver facility output, interconnection facility testing rights and obligations, and miscellaneous legal provisions governing the relationship and obligations of the parties including provisions for any electric standby service.

Operation: A generating facility is considered to be in operation: (1) after it has passed parallel testing with the electric grid, (2) obtained any necessary approvals from the California Independent System Operator Corporation, and (3) when it can consistently meet its energy delivery obligations pursuant to applicable ISO Tariff provisions and/or any bilateral contracts to supply power to customers.

Critical Path Permit: The critical path permit for various IPP and QF technologies are as follows:

For All Non-Thermal Projects and Thermal Projects Exempt from CEC Site Certification:

Geothermal:	County Conditional Use Permit or Special Zone Permit
Biomass:	County Conditional Use Permit or Special Zone Permit, or Air Quality Permit
Wind:	County Conditional Use Permit or Special Zone Permit
Cogeneration:	Air Quality Permit
Hydro:	FERC License or Exemption

For Non-Exempt Thermal Projects Over 50 MW:

California Energy Commission Site Certification

If, for whatever reason, the permit cited above is not applicable to a project, a different critical path permit may be substituted, with PG&E's agreement.