

**SECOND AMENDMENT
TO OPTION AND WATER SERVICES AGREEMENT**

This Second Amendment to Option and Water Services Agreement (the "Amendment") is entered into on August 20, 2001, by and between Pastoria Energy Facility L.L.C., a Delaware limited liability company ("PEF") and Kern Water Bank Authority, a joint powers authority organized and existing under the Joint Exercise of Powers Act of the State of California ("KWBA").

WHEREAS, Azurix-Pastoria, Inc., a Delaware corporation ("Azurix") and KWBA are parties to that certain Option and Water Services Agreement, dated as of March 15, 2001 (the "Option Agreement").

WHEREAS, Azurix has assigned all its right, title and interest in, to, and under the Option Agreement to PEF, and PEF has assumed all of the obligations and liabilities of Azurix under the Option Agreement, pursuant to that certain Transfer and General Release Agreement, dated March 30, 2001 (the "Release Agreement").

WHEREAS, the Option Agreement was amended August 6, 2001, by an Amendment To Option and Water Service Agreement (the "First Amendment"). The Option Agreement, as amended by the First Amendment, is hereinafter referred to as the "Agreement".

WHEREAS, PEF exercised the Option during the Option Period and, pursuant thereto, PEF and KWBA consummated, or will consummate, all of the transactions necessary to effect the Closing pursuant to Section 2.5 of the Agreement.

WHEREAS, PEF and KWBA desire now to amend further the Agreement in certain respects in accordance with the terms and conditions of this Amendment in order to clarify the terms by which PEF and KWBA shall consummate the remaining transactions in Section 2.5, and in particular, to clarify the terms by which PEF shall post the Azurix Security.

NOW, THEREFORE, PEF and KWBA agree as follows:

1. Unless the context otherwise provides, capitalized terms not otherwise defined in this Amendment shall have the meanings set forth in the Agreement, as the same may be amended by this Amendment.

2. Section 2.5 of the Agreement is hereby amended to read as follows:

2.5 Option Closing. Subject to this Section 2.5, the closing under the Option (the "Closing") will occur on the 5th Business Day next succeeding the date on which the Option is exercised. Unless specified otherwise below, at the Closing: (1) Azurix will pay \$4.5 million to KWBA, representing the purchase price of the Initial Trust Water, (2) on or before August 28, 2001, Azurix will post the Azurix Security, (3) KWBA will execute the Trust Agreement as settlor and initial trustee, (4) KWBA will acquire the Initial Trust Water from the Participating Members and immediately thereafter transfer the Initial Trust Water to the Trust, (5) on or before August 28, 2001, KWBA will provide Azurix with evidence reasonably satisfactory to Azurix (a) as to the identity of the Participating Members, and (b) that KWBA and the Participating Members have taken the steps required to be taken by them under Section 2.6, and (6) KWBA will execute the Transfer Agreement in its capacity as initial Trustee of the Trust.

3. Section 2.7 of the Agreement is hereby amended to read as follows:

2.7 Guarantee or Letter of Credit.

(a) PEF shall, in its sole discretion, either post the Guarantee or the Letter of Credit. In the event that PEF opts to post the Guarantee and the senior unsecured debt rating of the Person who executed, or shall execute, the Guarantee, falls below Investment Grade Credit, then PEF shall post within ten (10) days of

such event the Letter of Credit and any Guarantee then outstanding shall automatically terminate upon the issuance of the Letter of Credit and such Person shall be released and fully discharged from all obligations, duties and liabilities arising from such Guarantee, to the extent required to be performed or arising out of acts or events occurring or omissions from and after such termination.

(b) In the event that PEF opts to post the Guarantee, PEF hereby agrees to prepay, on or before December 31, 2001, the Per Acre Foot Commodity Charge for the first 3000 acre-feet of Non-Trust Water to be delivered under this Agreement.

(c) Notwithstanding the requirements of the form of the Guarantee as set forth in the definition of Guarantee in Section 18.17, the Guarantee shall be in a form reasonably acceptable to KWBA.

4. Subsection (b) of Section 11 of the Agreement is hereby amended to read as follows:

(b) Azurix shall fail to perform any of its obligations, other than any failure of performance provided for elsewhere in this Section 11, as and when required to be performed under this Agreement, including but not limited to providing a Letter of Credit if required pursuant to Section 2.7, *provided*, KWBA shall have demanded in writing that Azurix cure such non-performance and Azurix shall have failed to do so (either by performance of the obligation as written or by substitute arrangements which achieve the substantial equivalent of the defaulted performance within 90 days after the receipt of such demand if such cure is commercially practicable (or within such longer period as is reasonably necessary to accomplish such cure, if it cannot be reasonably accomplished within such 90-day period and Azurix diligently commences such cure in such period

and thereafter diligently tries to complete it for so long as completion thereof is commercially practicable);

5. Section 18.7 of the Agreement is amended to read as follows:

PEF: Pastoria Energy Facility L.L.C.
C/O Calpine Corporation
6700 Koll Center Parkway, Suite 200
Pleasanton, CA 94566
ATTN: Project Manager
Voice: (925) 600-2000
Fax: (925) 600-0862

with a copy to: Calpine Pastoria Holdings, LLC
c/o Calpine Corporation
6700 Koll Center Parkway, Suite 200
Pleasanton, CA 94566
ATTN: Regional Counsel
Voice: (925) 600-2000
Fax: (925) 600-0862

KWBA: Kern Water Bank Authority
P.O. Box 80607
33141 E. Lerdo Hwy.
Bakersfield, California 93380-0607
Attn: William Phillimore
Voice: (661) 399-8735
Fax: (661) 399-9751

with a copy to: Ernest Conant, Esq.
Law Offices of Young Wooldridge L.L.P.
1800 30th Street, 4th Floor
Bakersfield, CA 93301
Voice: 661-327-9661
Fax: 661-327-1087

6. The definition of "Azurix Security" at Section 18.17 of the Agreement is amended to read as follows:

Azurix Security - the Letter of Credit or the Guarantee, as provided at Section 2.7.

7. For the avoidance of doubt, and with effect from the date of execution of the Release Agreement, all references to Azurix in the Agreement, as amended by this Amendment, shall be deemed to be references to PEF.

8. Except as specifically modified by this Amendment, the Agreement shall remain in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, the parties have executed this Amendment.

KERN WATER BANK AUTHORITY,

A joint powers authority

By: 
WILLIAM D. PHILLIMORE, Chairman

PASTORIA ENERGY FACILITY, L.L.C.

A Delaware limited liability company

By: _____

7. For the avoidance of doubt, and with effect from the date of execution of the Release Agreement, all references to Azurix in the Agreement, as amended by this Amendment, shall be deemed to be references to PEF.

8. Except as specifically modified by this Amendment, the Agreement shall remain in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, the parties have executed this Amendment.

KERN WATER BANK AUTHORITY,
A joint powers authority

PASTORIA ENERGY FACILITY, L.L.C.
A Delaware limited liability company

By: _____

By: Robert L. Lankin
Robert L. Lankin
Vice President

**Trust Agreement of
Pastoria Energy Facility Water Trust**

This Trust Agreement of Pastoria Energy Facility Water Trust ("Trust Agreement") is made and entered into as of August 6, 2001 by and between Kern Water Bank Authority, acting in its individual capacity and as settlor of the Trust created under this Trust Agreement (in such capacity, "*Settlor*"), and Kern Water Bank Authority, acting in its capacity as initial Trustee of the Trust created under this Trust Agreement.

Background

Pastoria Energy Facility L.L.C. ("*PEF*") is developing a gas-fired, combined cycle electric generating facility on land owned by Tejon Ranchcorp in Kern County, California. That facility is referred to in this Trust Agreement as the "*Project*." PEF initially retained Azurix Pastoria, Inc. (together with its successors and assigns under its agreements with PEF, "*Azurix*") to, among other things, manage the water supply for the Project and supply backup water to the Project when the Project's primary supply of water is not available.

In connection with the backup water supply, Azurix and Westside Mutual Water Company, LLC acting on its own behalf and not as an agent of Settlor ("*Westside*") entered into a binding letter agreement, dated June 30, 2000 (the "*Westside Letter Agreement*"), creating an option in Azurix to have Westside furnish a backup supply of water for the Project from the facilities which are owned and operated by Settlor and which are commonly known, and referred to in this Trust Agreement, as the "*Kern Water Bank*." Subsequently, Westside assigned all of its rights under the Westside Letter Agreement to Settlor, and Settlor and Azurix entered into that certain Option and Water Services Agreement, dated as of March 15, 2001, which is the definitive agreement called for by Paragraph 2 of the Westside Letter Agreement (as amended from time to time in accordance with its terms, including without limitation, that certain Amendment to Option and Water Service Agreement, dated August 6, 2001, the "*Water Services Agreement*"). The Water Services Agreement supersedes the Westside Letter Agreement in its entirety. Pursuant to that certain Transfer and General Release Agreement, dated March 30, 2001, by and among PEF, Enron North America Corp., Azurix and Azurix Corp. (the "*Release Agreement*"), Azurix assigned all of its rights and interests under the Water Services Agreement to PEF and PEF assumed all of the obligations of Azurix under the Water Services Agreement in accordance with the terms of the Release Agreement.

Prior to the date of this Agreement, PEF exercised the Option under the Water Services Agreement.

In this context, the parties agree as follows:

Section 1. Definitions.

Capitalized terms used in this Trust Agreement have the meanings specified in Section 9.7 or the provisions there referred to.

Section 2. Initial Funding of Trust; Future Transfer Agreement.

As required by Section 2.5 of the Water Services Agreement:

(a) Settlor has by separate instrument today transferred the Initial Trust Water to the Trust to be held and managed by the Trustee in trust as part of the Trust Estate in accordance with this Trust Agreement; and

(b) The Trustee on behalf of the Trust has today executed and delivered to Settlor an agreement in the form set forth in *Attachment 1* to this Trust Agreement (the "*Transfer Agreement*"). The Transfer Agreement obligates the Trust to make a one-time transfer of the entire Trust Estate to Settlor upon certain circumstances specified in the Water Services Agreement.

Section 3. The Trust.

3.1 Name. The name of the Trust is "Pastoria Energy Facility Water Trust."

3.2 Purpose of the Trust. The purpose of the Trust is to provide a source of backup water banked in the Kern Water Bank which can be utilized for the benefit of the Project in accordance with the Delivery Contract.

3.3 Irrevocable Trust. The Trust is irrevocable.

Section 4. The Beneficiary and Settlor.

4.1 Initial Beneficiary. PEF is the sole initial Beneficiary.

4.2 Assignments by Beneficiary or Settlor. The benefits and obligations of this Trust Agreement shall inure to and be binding upon the permitted successors and assigns of the parties hereto. The Beneficiary shall have the right to assign all of its rights under this Trust Agreement outright to Calpine Pastoria Holdings, LLC ("*Calpine Holdings*"), Calpine Corporation ("*Calpine*") or any other Person selected by the Beneficiary, Calpine Holdings or Calpine. The Beneficiary shall have the right to assign any or all of its rights under this Trust Agreement for purposes of collateral security to any Person providing financing of any kind for the Project. Upon any assignment outright by the Beneficiary and written notice thereof to the Trustee, the assignee shall become the Beneficiary. Settlor shall have the right to assign its right to the delivery of Trust Water under the Transfer Agreement either outright or for purposes of collateral security to any Person providing financing of any kind for the Kern Water Bank. Any assignment of this Trust Agreement as permitted herein or of the Water Services Agreement as permitted therein shall be made concurrently and to the same assignee as an assignment of the other agreement. Except as expressly permitted by the preceding provisions of this Section 4.2, any purported assignment or delegation by any party shall be void and of no force or effect.

Section 5. The Trustee.

5.1 Initial Trustee. Settlor hereby is appointed, and accepts its appointment as, the initial Trustee.

5.2 Resignation of Trustee. If the Trustee is Settlor or a member of Settlor, such Trustee may only resign as trustee if it is unable to lawfully act as trustee and has provided at least 15 days prior written notice of the resignation to the Beneficiary specifying in detail the reason(s) why the Trustee is unable to lawfully act as Trustee. Any other Trustee appointed hereunder may resign as trustee at any time by at least 15 days prior written notice to the Beneficiary. The resignation of any Trustee shall be effective only upon the acceptance of the successor Trustee.

5.3 Suspension and Removal of Trustee. A Trustee may be suspended or removed subject to the following:

(a) if at any time a Beneficiary Trustee Default exists, either Settlor or the Beneficiary may remove the Trustee by first giving ten (10) Business Days written notice of such removal to the Trustee;

(b) if at any time a Beneficiary Default exists, Settlor may remove the Trustee by first giving ten (10) Business Days written notice of such removal to the Trustee;

(c) if at any time a Settlor Trustee Default exists, the Beneficiary may suspend the Trustee and appoint an interim Trustee to serve during the remaining period of such Settlor Trustee Default by first giving ten (10) Business Days written notice of such suspension to the Trustee; provided, however, that if such Settlor Trustee Default shall cease to exist, such Trustee shall be reinstated as the acting trustee and shall replace the interim Trustee;

(d) if at any time a Settlor Default exists, which Settlor Default is an "Event of Default of KWBA" (as defined in the Water Services Agreement), the Beneficiary may remove the Trustee by first giving ten (10) Business Days written notice of such removal to the Trustee; or

(e) if at any time a Settlor Default exists, which Settlor Default is a "KWBA Default" (as defined in the Water Services Agreement) continued for more than 90 consecutive days, the Beneficiary may suspend the Trustee and appoint an interim Trustee to serve during the remaining period of such Settlor Default by first giving ten (10) Business Days written notice of such suspension to the Trustee; provided, however, that if such Settlor Default shall cease to exist, such Trustee shall be reinstated as the acting trustee and shall replace the interim Trustee.

5.4 Right To Appoint Successor Trustee. Whenever any vacancy in the office of the Trustee exists, the right to appoint a successor Trustee shall be subject to the following:

(a) if a Settlor Default or Settlor Trustee Default shall exist concurrently with the vacancy, the Beneficiary shall have the sole right to appoint a successor Trustee;

(b) if a Beneficiary Default shall exist concurrently with the vacancy, Settlor shall have the sole right to appoint a successor Trustee;

(c) if a Beneficiary Trustee Default shall exist concurrently with the vacancy, and no Settlor Default or Settlor Trustee Default exists at such time, Settlor shall have the sole right to appoint a successor Trustee;

(d) if both a Settlor Default and/or a Settlor Trustee Default and a Beneficiary Default and/or a Beneficiary Trustee Default exist concurrently with the vacancy, Settlor and the Beneficiary shall mutually agree upon a successor Trustee, and if the parties cannot agree, then the successor Trustee shall be appointed by the Court; or

(e) if neither a Settlor Default, a Settlor Trustee Default, a Beneficiary Default nor a Beneficiary Trustee Default exists concurrently with the vacancy, the last party to have appointed a Trustee shall have the sole right to appoint the Trustee; provided that Settlor is deemed to have been the last party to have appointed a Trustee as of the date of this Trust Agreement. Whichever party has the right pursuant to this Section 5.4 to appoint a successor Trustee shall first provide ten (10) Business Days written notice of the appointment of such successor Trustee to (i) the then acting Trustee, (ii) the successor Trustee and (iii) Settlor or the Beneficiary, as the case may be.

5.5 Qualifications of the Trustee. If Settlor has the right to appoint the successor Trustee under this Trust Agreement, then such successor Trustee shall be chosen from among Settlor or the members of Settlor who are then legally able and willing to act as Trustee. If neither Settlor nor any member of Settlor is willing or able to lawfully act as Trustee, then the successor Trustee shall be selected by the Court. If Beneficiary has the right to appoint the successor Trustee under this Trust Agreement, then such successor Trustee shall be a Person who or which is able to lawfully act as Trustee and who would not have been precluded from so acting by the joint powers agreement of Settlor in effect on February 15, 2001. If no Person meeting these qualifications and willing to serve as Trustee can be identified by Beneficiary, then the successor Trustee shall be selected by the Court. For purposes of Sections 5.4 and 5.5 hereof, the term "successor Trustee" shall be deemed to include an "interim trustee", as applicable.

5.6 Compensation of the Trustee. The Trustee will receive no compensation for acting as the Trustee nor any reimbursement for any expenses incurred by the Trustee on behalf of the Trust, except as may otherwise be agreed and be paid by Settlor's members or by the Beneficiary. The Trustee will not be relieved of any of its duties or obligations under or with respect to the Trust, whether imposed by law or this Agreement, in the event neither Settlor's members nor the Beneficiary agree to or pay any such compensation or reimbursement. The Beneficiary is free to refuse to agree to or pay any such compensation as it deems appropriate.

5.7 Acceptance of Appointment. A successor Trustee shall accept such appointment by responding to the notice provided pursuant to Section 5.5 herein in a writing which is signed by the successor Trustee and delivered to the predecessor Trustee, Settlor and the Beneficiary within five (5) Business Days of successor Trustee's receipt of such notice. Upon delivery of that writing, the successor Trustee, without further act, shall become vested with all the estates, properties, rights, powers, duties and trusts of the predecessor Trustee in the Trust, with like effect as if originally named as Trustee; but nevertheless upon the written request of the successor Trustee the predecessor Trustee shall execute and deliver an instrument transferring to the successor Trustee, upon the trust herein expressed, all the estates, properties, rights, powers and trusts of such predecessor Trustee, and such predecessor Trustee shall duly assign, transfer, deliver and pay over to such successor Trustee any property then held by such predecessor Trustee upon the trust herein expressed.

Section 6. Powers of the Trustee.

The Trustee shall have all of the following powers:

- (a) The power to accept and hold the Trust Water and to release the Trust Water to Contractor as and when required in order for Contractor to perform its obligations under the Delivery Contract.
- (b) The power to distribute any assets of the Trust Estate, other than Trust Water, to the Beneficiary as and when any such assets are received by the Trustee provided the Trust Estate is not then required to be transferred to Settlor under Section 7(c).
- (c) The power to enter into the Transfer Agreement and the power to transfer the entire Trust Estate to Settlor if, when and as required under the Transfer Agreement. Neither the making of the Transfer Agreement nor any such permitted transfer under the Transfer Agreement shall constitute a breach of fiduciary or other obligation by the Trustee, regardless of the fact that the Trustee may be, or have an interest in, Settlor.
- (d) Such other powers as are allowed to the Trustee by Law. The Trustee shall recommend the exercise of those other powers to the Beneficiary when the Trustee deems that prudent or appropriate, but shall not exercise any of those powers without the consent of the Beneficiary. The Beneficiary shall be free to withhold its consent to any exercise so recommended by the Trustee as the Beneficiary deems appropriate. The Trustee shall not be liable to the Beneficiary for any failure to exercise any such other power because the Beneficiary has not consented thereto. The other powers, if any, necessary to exercise the powers set forth in Section 6(a), (b) or (c) above shall not be limited by this Section 6(d).

Section 7. Duties of the Trustee.

In addition to the duties imposed upon the Trustee by Law, the Trustee shall have the following duties:

- (a) The duty to accept and hold the Trust Water and to release the Trust Water to Contractor as and when required in order for Contractor to perform its obligations under the Delivery Contract.
- (b) The duty to distribute any assets of the Trust Estate, other than Trust Water, to the Beneficiary as and when any such assets are received by the Trustee provided the Trust Estate is not then required to be transferred to Settlor under Section 7(c).
- (c) The duty to transfer the entire Trust Estate to Settlor if, when and as required under the Transfer Agreement.
- (d) The duty to report and account to Settlor or the Beneficiary, or both, from time to time as either of them may reasonably request as to all assets of the Trust and all activities of the Trustee in connection with the Trust.

Section 8. Termination.

The Trust shall terminate when all of the Trust Water has been released in accordance with this Trust Agreement and there are no other assets of the Trust Estate remaining in the Trust. Notwithstanding anything to the contrary herein, unless the Trust terminates otherwise by its terms, the Trust shall terminate and the Trust Estate shall be distributed to Settlor on the fiftieth (50th) anniversary of the date of this Trust Agreement.

Section 9. Miscellaneous.

9.1 Severability. If and to the extent any term or provision of this Trust Agreement shall be held to be invalid or unenforceable in any jurisdiction for any reason, it is the intention of the parties that this Trust Agreement shall to such extent be construed and enforced as if such invalid or unenforceable term or provision had never been a part hereof and without invalidating the remaining terms and provisions hereof, and all of the terms and provisions of this Trust Agreement shall otherwise remain in full force and effect.

9.2 Communications. Whether expressly so stated or not, all notices, demands, requests and other communications required or permitted by or provided for in this Trust Agreement ("*Communications*") shall be given in writing to Settlor, the Trustee or the Beneficiary (as the case may be) at their respective addresses set forth below, or at such other address as any of them shall designate for itself in writing in accordance with this Section:

Beneficiary: Pastoria Energy Facility L.L.C.
c/o Calpine Corporation
6700 Koll Center Parkway, Suite 200
Pleasanton, California 94566
Attn: Project Manager
Voice: 925-600-2000
Fax: 925-600-0862

with a copy to: Calpine Pastoria Holdings, LLC
c/o Calpine Corporation
6700 Koll Center Parkway, Suite 200
Pleasanton, California 94566
Attn: Regional Counsel
Voice: 925-600-2000
Fax: 925-600-0862

Settlor, Trustee: Kern Water Bank Authority
P.O. Box 80607
33141 E. Lerdo Hwy.
Bakersfield, California 93380-0607
Attn: William Phillimore
Voice: 661-399-8735
Fax: 661-399-9751

with a copy to: Ernest Conant, Esq.
Law Offices of Young Wooldridge L.L.P.
1800 30th Street, 4th Floor
Bakersfield, CA 93301
Voice: 661-327-9661
Fax: 661-327-1087

Communications may be transmitted (i) by personal delivery, (ii) by delivery by messenger, express or air courier or similar courier, and (iii) by fax. Except as otherwise provided in this Trust Agreement, delivery or service of any Communication shall be deemed effective upon receipt; *provided*, that, except as otherwise provided in this Trust Agreement, any Communication received after 5:00 P.M. local time of place of receipt, or on a day other than a Business Day, shall be deemed received on the next succeeding Business Day.

9.3 Governing Law; Disputes. This Trust Agreement shall be governed by, and construed and enforced in accordance with, the Laws of the State of California. Any dispute relating to this Trust Agreement or to the interpretation or enforcement hereof shall be determined by the Court.

9.4 References. The Section headings in this Trust Agreement are provided for convenience only, and shall not be considered in the interpretation hereof. References in this Trust Agreement to Sections refer, unless otherwise specified, to the designated Section of this Trust Agreement. Terms such as "herein," "hereto" and "hereof" refer to this Trust Agreement as a whole.

9.5 Counterparts. This Trust Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original instrument, but all of which together shall constitute one and the same instrument.

9.6 Waivers. The failure of any party to enforce any of the covenants, terms or conditions of this Trust Agreement shall not be deemed a waiver thereof, unless such waiver shall have been made in writing.

9.7 Glossary.

Beneficiary - the beneficiary of the Trust, including the initial Beneficiary and any assignee of the initial Beneficiary or any subsequent Beneficiary.

Beneficiary Default - an "Event of Default of Azurix," as defined in the Water Services Agreement.

Beneficiary Trustee Default - any default in the observance or performance of any of the Trustee's obligations under this Trust Agreement by any Person appointed by the Beneficiary as Trustee, which default has continued for more than ninety (90) consecutive days or for such lesser period as may be elected by the Beneficiary; provided, however, that such period may not be shortened if Settlor or any member of Settlor is the Trustee.

Business Day - a day which is not a Saturday, Sunday or bank holiday under the laws of the United States.

Calpine - Section 4.2

Calpine Holdings - Section 4.2

Communications - Section 9.2.

Contractor - the Person who is obligated to deliver Trust Water under the Delivery Contract.

Court - the Superior Court of the County of Sacramento, State of California.

deems appropriate - when used with respect to any decision, action or inaction by any Person, means that the decision, action or inaction may be made or taken for any or no reason deemed appropriate in the sole discretion of the Person and considering only its own interests and not the interests of any other Person, subject only to any express requirements of this Trust Agreement.

Delivery Contract - Except when PEF is permitted under the Water Services Agreement to make arrangements outside the Water Services Agreement for the delivery of Trust Water, the "Delivery Contract" is the Water Services Agreement. When PEF is permitted under the Water Services Agreement to make arrangements outside the Water Services Agreement for the delivery of Trust Water, the "Delivery Contract" is the contract the beneficiary may designate as such by notice to the Trustee from time to time.

Initial Trust Water - the water which has been transferred by Settlor to the Trust on the date of this Trust Agreement under Section 2.5 of the Water Services Agreement.

Kern Water Bank - background paragraphs.

Law - applicable law, rule or regulation.

Option - Section 2.1 of the Water Services Agreement.

PEF - background paragraphs.

Person - any individual, entity or institution of any kind, including any Governmental Body.

Proceeds - has the same meaning when used with respect to the Trust Water as when defined with respect to collateral in Section 9102 of the California Uniform Commercial Code.

Project - background paragraphs.

Release Agreement - background paragraphs.

Settlor - first sentence.

Settlor Default - a "KWBA Default," as defined in the Water Services Agreement, which default has continued for more than ninety (90) consecutive days or an "Event of Default of KWBA," as defined in the Water Services Agreement.

Settlor Trustee Default - any default in the observance or performance of any of the Trustee's obligations under this Trust Agreement by Settlor when it is acting as Trustee or by any other Person appointed by Settlor as Trustee, which default has continued for more than ninety (90) consecutive days or for such lesser period as may be elected by Settlor; provided, however, that such period may not be shortened if Settlor or any member of Settlor is the Trustee.

Transfer Agreement - Section 2(b).

Trust - the trust formed under this Trust Agreement.

Trustee - the trustee of Trust.

Trust Agreement - first sentence.

Trust Estate - the Trust Water and any Proceeds thereof or of the Trust Estate.

Trust Water - Section 18.17 of the Water Services Agreement.

Water Services Agreement - background paragraphs.

Westside - background paragraphs.

Westside Letter Agreement - background paragraphs.

IN WITNESS WHEREOF, Settlor and the initial Trustee have executed this Trust Agreement effective the date first written above.

Kern Water Bank Authority,
as Settlor

Kern Water Bank Authority,
as initial Trustee

By 
WILLIAM D. PHILLIMORE,
Chairman

By 
WILLIAM D. PHILLIMORE,
Chairman

Attachment 1**Form of Transfer Agreement**

The undersigned Pastoria Energy Facility Water Trust, formed under that certain Trust Agreement of Pastoria Energy Facility Water Trust, dated as of [] 2001 (the "Trust") agrees as follows for the benefit of Kern Water Bank Authority ("KWBA"). Capitalized terms used in this Agreement without definition have the meanings specified in that certain Option and Water Services Agreement, dated as of March 15, 2001 (as it may be amended from time to time in accordance with its terms, the "Water Services Agreement"), between KWBA and Azurix-Pastoria, Inc. ("Azurix"). Pursuant to that certain Transfer and General Release Agreement, dated March 30, 2001, by and among Pastoria Energy Facility L.L.C., Enron North America Corp., Azurix and Azurix Corp. (the "Transfer Agreement"), Azurix assigned all of its rights and interests under the Water Services Agreement to Pastoria Energy Facility L.L.C. and Pastoria Energy Facility L.L.C. assumed all of the obligations of Azurix under the Water Services Agreement in accordance with the terms of the Transfer Agreement.

Promptly upon any request of KWBA made when and as permitted under Section 4.3, Section 12.2(a), Section 12.3, Section 14.1, Section 14.3 or Section 17 of the Water Services Agreement, and subject to the satisfaction of the conditions set forth below, the trustee of the Trust will transfer all of the Trust Estate (as defined in the Trust) to KWBA, free and clear of any and all liens, encumbrances and rights and interests of others in the Trust. The conditions referenced in the immediately preceding sentence are as follows: (a) KWBA shall have delivered to Pastoria Energy Facility L.L.C. (together with its successors and assigns under the Water Services Agreement, "PEF") a notice of default with respect to PEF's default under the Water Services Agreement, but only if such notice is required to be delivered thereunder, (b) if such notice is required to be delivered, KWBA shall have provided the trustee of the Trust with a copy of such notice, as well as proof of receipt thereof by PEF, and (c) the applicable cure period, if any, under the Water Services Agreement shall have expired.

Pastoria Energy Facility Water Trust

By Kern Water Bank Authority, as Trustee

By _____

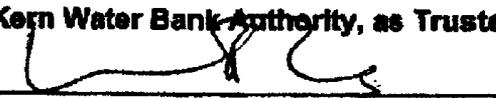
Transfer Agreement

The undersigned Pastoria Energy Facility Water Trust, formed under that certain Trust Agreement of Pastoria Energy Facility Water Trust, dated as of August 6, 2001 (the "**Trust**") agrees as follows for the benefit of Kern Water Bank Authority ("**KWBA**"). Capitalized terms used in this Agreement without definition have the meanings specified in that certain Option and Water Services Agreement, dated as of March 15, 2001 (as it may be amended from time to time in accordance with its terms, the "**Water Services Agreement**"), between KWBA and Azurix-Pastoria, Inc. ("**Azurix**"). Pursuant to that certain Transfer and General Release Agreement, dated March 30, 2001, by and among Pastoria Energy Facility L.L.C., Enron North America Corp., Azurix and Azurix Corp. (the "**Transfer Agreement**"), Azurix assigned all of its rights and interests under the Water Services Agreement to Pastoria Energy Facility L.L.C. and Pastoria Energy Facility L.L.C. assumed all of the obligations of Azurix under the Water Services Agreement in accordance with the terms of the Transfer Agreement.

Promptly upon any request of KWBA made when and as permitted under Section 4.3, Section 12.2(a), Section 12.3, Section 14.1, Section 14.3 or Section 17 of the Water Services Agreement, and subject to the satisfaction of the conditions set forth below, the trustee of the Trust will transfer all of the Trust Estate (as defined in the Trust) to KWBA, free and clear of any and all liens, encumbrances and rights and interests of others in the Trust. The conditions referenced in the immediately preceding sentence are as follows: (a) KWBA shall have delivered to Pastoria Energy Facility L.L.C. (*together with its successors and assigns under the Water Services Agreement, "PEF"*) a notice of default with respect to PEF's default under the Water Services Agreement, but only if such notice is required to be delivered thereunder, (b) if such notice is required to be delivered, KWBA shall have provided the trustee of the Trust with a copy of such notice, as well as proof of receipt thereof by PEF, and (c) the applicable cure period, if any, under the Water Services Agreement shall have expired.

Pastoria Energy Facility Water Trust

By Kern Water Bank Authority, as Trustee

By 

WILLIAM D. PHILLIMORE, CHAIRMAN

HP Fax K1220xi

Log for
Calpine - Pastoria Energy
661 328 6980
Aug 30 2001 11:43am

Last Transaction

Date	Time	Type	Identification	Duration	Pages	Result
Aug 30	11:34am	Received	925 931 1439	5:30	22	OK