

MASTER POWER PURCHASE AND SALE AGREEMENT

This *Master Power Purchase and Sale Agreement (Version 2.1, modified April 25, 2000)* (“*Master Agreement*”) is made as of the following date: December 23, 2002 (“*Effective Date*”). The *Master Agreement*, together with the exhibits, schedules and any written supplements hereto, the Party A Tariff, if any, the Party B Tariff, if any, any designated collateral, credit support or margin agreement or similar arrangement between the Parties and all Transactions (including any confirmations accepted in accordance with Section 2.3 hereto) shall be referred to as the “*Agreement*.” The Parties to this *Master Agreement* are the following:

Name: Calpine Energy Services, L.P. (“*Seller*” or “*Party A*”)

Name: **State of California Department of Water Resources** separate and apart from its powers and responsibilities with respect to the State Water Resources Development System (“*California Department of Water Resources*”, “*Buyer*” or “*Party B*”)

All Notices: Calpine Energy Services, L.P.
50 West San Fernando Street
San Jose, California 95113
Attn: General Counsel

All Notices: DWR/CERS
Attn: Executive Manager Power Systems

with a duplicate copy to:

Street: 700 Louisiana Avenue, Suite 2700

Street: 3310 El Camino Avenue, Suite 120

City: Houston, TX Zip: 77002

City/State: Sacramento, California 95821

Attn: Contract Administration

Attn: Executive Manager Power Systems

Phone: (713) 830-8608

Phone: (916) 574-0339

Facsimile: (713) 830-8740

Facsimile: (916) 574-2512

Duns:

Duns:

Federal Tax ID Number:

Federal Tax ID Number:

Invoices:

Attn: Power Accounting
Phone: (713) 830-2000
Facsimile: (713) 830-8740

Invoices:

Attn: Settlements Unit; Doreen Singh
Phone: (916) 574-0309
Facsimile: (916) 574-1239

Scheduling:

Attn: Scheduling
Phone: (713) 830-8642
Facsimile: (713) 830-8722

Scheduling:

Attn: Power Dispatcher
Phone: 916-574-0161
Facsimile: (916) 574-2569

Payments:

Attn: Power Accounting
Phone: (713) 830-2000
Facsimile: (713) 830-8740

Payments:

Attn: Cash Receipts Section
Phone: (916) 653-6892
Facsimile: (916) 654-9882

Wire Transfer:

BNK:
ABA:
ACCT:

Wire Transfer:

BNK:
ABA:
ACCT:

Credit and Collections:

Attn: Corporate Credit Manager
Phone: (408) 995-5115
Facsimile: (408) 995-0505

Credit and Collections:

Attn: Credit Manager
Phone: (916) 574-1297
Facsimile: (916) 574-2512

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

Attn: Risk Management Counsel
Phone: (713) 830-2000
Facsimile: (713) 830-8740

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

Attn: Financial Officer
Phone: (916) 574-1297
Facsimile: (916) 574-2512

with copy to:

Attn: General Counsel
Phone: (408) 995-5115
Facsimile: (408) 975-4648

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

Party A Tariff	Tariff N/A	Dated N/A	Docket Number N/A
Party B Tariff	Tariff N/A	Dated N/A	Docket Number N/A

Article Two

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

Article Four

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

Article Five

Events of Default; Remedies

Cross Default for Party A: Not Applicable

Party A: Cross Default Amount \$ _____

Other Entity: _____ Cross Default Amount \$ _____

Cross Default for Party B: Not Applicable

Party B: Cross Default Amount \$ _____

Other Entity: _____ Cross Default Amount \$ _____

5.6 Closeout Setoff

- Option A (Applicable if no other selection is made.)
- Option B- Affiliates shall have the meaning set forth in the Agreement unless otherwise specified as follows:
- Option C (No Setoff)

Article 8

Credit and Collateral Requirements

8.1 Party A Credit Protection:
(a) Financial Information:

Option A

Option B Specify: _____

■ Option C Specify: Annual audit, annual budget and all financial information sent to any seller under a power purchase agreement; Party B shall use reasonable commercial efforts to periodically prepare and make available to all sellers under power sales agreements, but not more frequently than quarterly, financial information reasonably intended to apprise all such sellers of the financial condition of the Fund.

(b) Credit Assurances:

■ Not Applicable

Applicable

(c) Collateral Threshold:

■ Not Applicable

Applicable

If applicable, complete the following:

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

Party B Independent Amount: \$ -0-

Party B Rounding Amount: \$ -0-

(d) Downgrade Event:

■ Not Applicable

Applicable

If applicable, complete the following:

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

Other:

Specify: _____

(e) Guarantor for Party B: Not Applicable

Guarantee Amount: _____

8.2 Party B Credit Protection:

Unrated counterparties will be required to (a) post collateral upon the occurrence of a Material Adverse Change (definition to be provided), or (b) provide a guarantee from an entity with a minimum S&P and Moody's ratings to be specified by DWR.

(a) Financial Information:

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

(b) Credit Assurances:

- Not Applicable
- Applicable

(c) Collateral Threshold:

- Not Applicable
- Applicable

If applicable, complete the following:

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

Party A Independent Amount: \$ -0-

Party A Rounding Amount: \$-0-

(d) Downgrade Event:

- Not Applicable
- Applicable

If applicable, complete the following:

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

- Other:
Specify: _____

(e) Guarantor for Party A: Not Applicable

Guarantee Amount: _____

Article 10

Confidentiality

- Confidentiality Applicable If not checked, inapplicable.

Schedule M

- Party A is a Governmental Entity or Public Power System
- Party B is a Governmental Entity or Public Power System
- Add Section 3.6 If not checked, inapplicable
- Add Section 8.4 [8.6] If not checked, inapplicable

Other Changes: Applicable

Specify, if any: See below

Part 1. GENERAL TERMS AND CONDITIONS.

(a) Definitions.

(1) Section 1.11 is amended by adding the following sentence at the end of the current definition: "The Non-Defaulting Party shall use commercially reasonable efforts to mitigate or eliminate these Costs."

(2) Section 1.51, "Replacement Price" shall be amended on the fifth line by deleting the phrase "at Buyer's option" and inserting the following phrase: "absent a purchase".

(3) Section 1.53, "Sales Price" shall be amended on the fifth line by deleting the phrase "at Seller's option" and inserting the following phrase: "absent a sale".

(4) Section 1.46 "Potential Event of Default" is deleted.

(5) Sections 1.6, 1.24, 1.28, 1.33, 1.34, 1.35, 1.36, 1.43, 1.44, 1.48 and 1.56 are amended by deleting the text in each of such sections and substituting therefor "[Intentionally omitted.]"

(6) Section 1.59 is amended by changing "Section 5.3" to "Section 5.2."

(7) Sections 1.62 through 1.70 are added to Article One as follows:

1.62 "Bonds" shall have the meaning set forth in the Rate Agreement.

1.63 "Fund" means the Department of Water Resources Electric Power Fund established by Section 80200 of the Water Code.

1.64 "Market Quotation Average Price" shall mean the average of the good faith quotations solicited from not less than three (3) Reference Market-makers; provided, however, that the Party soliciting such quotations shall use commercially reasonable efforts to obtain good faith quotations from at least five (5) Reference Market-makers and, if at least five (5) such quotations are obtained, the Market Quotation Average Price shall be determined disregarding the highest and lowest quotations.

1.65 "Market Value" shall have the meaning set forth in Section 5.3.

1.66 "Per Unit Market Price" means the applicable price per MWh determined in accordance with Section 5.3.

1.67 "Power Charges" shall have the meaning set forth in the Rate Agreement.

1.68 "Rate Agreement" means the Rate Agreement between Party B and State of California Public Utilities Commission ("CPUC") adopted by the CPUC on February 21, 2001 in Decision 02-02-051.

1.69 "Reference Market-maker" means any marketer, trader or seller of or dealer in firm energy products whose long-term unsecured senior debt is rated BBB or better by S&P, or its successor, and Baa2 or better by Moody's, or its successor.

1.70 "Replacement Contract" means a contract having a term, quantity, delivery rate, delivery point and product substantially similar to the remaining Term, quantity, delivery rate, Delivery Point and Product to be provided under this Agreement.

(b) Transactions. The Transaction shall be in writing and this agreement may not be orally amended or modified, including by Recording pursuant to Section 2.5.

(c) Governing Terms. Section 2.2 is amended by adding the following sentence at the end of the current section:

"Notwithstanding the foregoing, each Transaction hereunder or under any other agreement between the Parties shall be treated as a stand-alone Transaction and accordingly (a) provisions in the Master Agreement or any other agreement between the Parties referring to offsetting or netting multiple Transactions, and all other rights of setoff or similar rights under law, shall not be applicable, (b) an Event of Default or Potential Event of Default with respect to a Transaction shall not independently constitute an Event of Default or Potential Event of Default under any other Transaction, and (c) any event permitting suspension of performance with respect to a Transaction shall not permit suspension of performance under any other Transaction. No provision of any Confirmation entered into pursuant to Section 2.4 with respect to a Transaction shall affect any other Transaction."

(d) Events of Default. (1) Sections 5.1(c) is amended by deleting the text in such subsection and substituting therefor the following:

(c) the failure to perform any material covenant or obligation set forth in this Agreement (except to the extent constituting a separate Event of Default and except for such Party's obligations to deliver or receive the Product, the exclusive remedy for which is provided in the Confirmation with respect to a Transaction) if such failure is not remedied within three (3) Business Days after written notice;

(2) Section 5.1 shall be amended by adding the following after Section 5.1(h):

"(i) It shall be an Event of Default if (a) Party A shall use the CAISO uninstruced imbalance markets to effect delivery under any Transaction except (i) in the case where the unit providing the Product trips off line after the close of the CAISO hour-ahead scheduling window for such hour and Party A submits a schedule change as soon as possible upon the occurrence of any under-deliveries, or (ii) such use is the result of a CAISO direction, or (b) the intentional conduct of Party A, or a decision of Party A solely for economic reasons, results in the failure to schedule or the non-delivery of energy or the non-availability of capacity, unless (i) when the Product is to be supplied from one or more generating units, such unit(s) are not available to supply or able to deliver the Product, including as a result of a scheduled or forced outage or Force Majeure, or (ii) the Party A is required to make a third party sale or to curtail its generation pursuant to applicable law, regulation, order or decree of any state or federal governmental authority or quasi-governmental authority (such as the California Independent System Operator). Party A shall provide Party B with such information and data as Party B may reasonably request to verify compliance with this Section 5.1(i)"

(e) Declaration of an Early Termination Date and Calculation of Termination Payment

(1) Section 5.2 is replaced in its entirety by the following: "(a) If an Event of Default with respect to a Defaulting Party shall have occurred and be continuing, the other Party (the "Non-Defaulting Party") shall have the right (i) to designate a day, no earlier than the day such notice is effective and no later than 20 days after such notice is effective, as an early termination date ("Early Termination Date") to accelerate all amounts owing between the Parties and to liquidate and terminate this Agreement, (ii) withhold any payments due to the Defaulting Party under this Agreement and (iii) suspend performance. The Non-Defaulting Party shall be entitled to a payment upon termination of this Agreement as the result of an Event of Default (the "Termination Payment") which shall be the aggregate of the Market Value and Costs calculated in accordance with Section 5.3 which shall be paid no later than one hundred eighty (180) days after receipt of written notice of an Early Termination Date, together with interest on such Termination Payment from the date of such notice through the date of payment at an annual rate equal to the "Prime Rate" published in the *Wall Street Journal* under "Money Rates" (as such rate may be adjusted from time to time), but not in excess of the maximum rate permitted by law. Prior to receipt of such notice of termination by the Defaulting Party, the Non-Defaulting Party may exercise any remedies available to it at

law or otherwise, including, but not limited to, the right to seek injunctive relief to prevent irreparable injury to the Non-Defaulting Party.

(b) Notwithstanding the other provisions of this Agreement, if the Non-Defaulting Party has the right to liquidate or terminate all obligations arising under this Agreement under the provisions of this Article 5 because the Defaulting Party either (i) is the subject of a bankruptcy, insolvency, or similar proceeding, or (ii) applies for, seeks, consents to, or acquiesces in the appointment of a receiver, custodian, trustee, liquidator, or similar official for all or a substantial portion of its assets, then this Agreement and the Transaction shall automatically terminate, without notice, as if the Early Termination Date was the day immediately preceding the events listed in Section 5.1.

(3) Section 5.3 is replaced in its entirety by the following:

"5.3. Termination Payment Calculations. The Non-Defaulting Party shall calculate the Termination Payment as follows:

- (a) Market Value shall be (i) in the case Party B is the Non-Defaulting Party, the present value of the positive difference, if any, of (A) payments under a Replacement Contract based on the Per Unit Market Price, and (B) payments under this Agreement, or (ii) in the case Party A is the Non-Defaulting Party, the present value of the positive difference, if any, of (A) payments under this Agreement, and (B) payments under a Replacement Contract based on the Per Unit Market Price, in each case using the Present Value Rate as of the time of termination (to take account of the period between the time notice of termination was effective and when such amount would have otherwise been due pursuant to the relevant transaction). The "Present Value Rate" shall mean the sum of 0.50% plus the yield reported on page "USD" of the Bloomberg Financial Markets Services Screen (or, if not available, any other nationally recognized trading screen reporting on-line intraday trading in United States government securities) at 11:00 a.m. (New York City, New York time) for the United States government securities having a maturity that matches the average remaining term of this Agreement. It is expressly agreed that the Non-Defaulting Party shall not be required to enter into a Replacement Contract in order to determine the Termination Payment.
- (b) To ascertain the Per Unit Market Price of a Replacement Contract with a term of less than one year, the Non-Defaulting Party may consider, among other valuations, quotations from leading dealers in energy contracts, the settlement prices on established, actively traded power exchanges, other bona fide third party offers and other commercially reasonable market information.
- (c) To ascertain the Per Unit Market Price of a Replacement Contract with a term of one year or more, the Non-Defaulting Party shall use the Market Quotation Average Price; provided, however, that if there is an actively traded market for such Replacement Contract or if the Non-Defaulting Party is unable to obtain reliable quotations from at least three (3) Reference Market-makers, the Non-Defaulting Party shall use the methodology set forth in paragraph (b).
- (d) In no event, however, shall a party's Market Value or Costs include any penalties, ratcheted demand charges or similar charges imposed by the Non-Defaulting Party.

If the Defaulting Party disagrees with the calculation of the Termination Payment and the parties cannot otherwise resolve their differences, pending resolution of the dispute, the Defaulting Party shall pay the full amount of the Termination Payment calculated by the Non-Defaulting Party no later than one hundred eighty (180) days after receipt of written notice of an Early Termination Date."

(4) 5.4, 5.5, 5.6, 6.7 and 6.8 are amended by deleting the text in each of such sections and substituting therefor "[Intentionally omitted.]"

(f) Term of Master Agreement. (a) The first sentence of Section 10.1 shall be amended by deleting the phrase "terminated by either Party upon (thirty) 30 days prior written notice" and in its place the phrase

“the day following the last day of the Term or Delivery Period set forth in the Transaction, unless terminated sooner pursuant to the express provisions of this Agreement or as a result of an Event of Default”.

(b) The following sentence shall be added to Section 10.1:

"This Agreement shall immediately terminate on the earlier of (a) Business Day following the day that the long-term unsecured senior debt of Pacific Gas and Electric Company (“PG&E”) is rated BBB- or better by S&P and Baa3 or better by Moody's, or such earlier date as all conditions precedent to PG&E’s performance under the Master Power Purchase and Sale Agreement dated November 5, 2002 between Party A and PG&E and the two transactions dated November 14, 2002 issued thereunder have been satisfied or waived, and (b) January 1, 2004."

(g) Representations and Warranties. The following changes shall be made to the Section 10.2:

(1) Party B shall not be deemed to make the representations set forth in clauses (ix) and (xi) of Section 10.2.

(h) Indemnity. The phrase "To the extent permitted by law" is added at the beginning of the first two sentences of Section 10.4, and the following sentence is added to the end of Section 10.4: “To the extent that either Party is excused by law from the foregoing indemnity obligations, the other Party shall also be excused to the same extent.”

(i) Governing Law. In Section 10.6, "New York" shall be replaced with "California."

(j) General. The phrase "Except to the extent herein provided for," shall be deleted from the fourth sentence of Section 10.8, and the phrase "and this agreement may not be orally amended or modified, including by Recording pursuant to Section 2.5" shall be added to the end of such fourth sentence.

(k) Additional Provisions. New Sections 10.12 and 10.13 shall be added to Article 10 as follows:

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

"10.13 No Dedication of Facilities. Party A’s undertaking hereunder shall not constitute the dedication of the electric system or any portion thereof of Party A to the public or to the other Party, and it is understood and agreed that any undertaking under this Agreement by Party A shall cease upon the termination of Party A’s obligations under this Agreement.”

(l) Schedule M. Schedule M shall be amended as follows:

- (1) In Section A, "Act" will mean Sections 80000, 80002, 80002.5, 80003, 80004, 80010, 80012, 80014, 80016, 80100, 80102, 80104, 80106, 80108, 80110, 80112, 80116, 80120, 80122, 80130, 80132, 80134, 80200, 80250, 80260 and 80270 of the Water Code, as amended.
- (2) "Special Fund" will mean the Fund.
- (3) In Section A, the defined term "Governmental Entity or Public Power System" shall be replaced with the term "Governmental Entity" using the following definition "'Governmental Entity"' means the State of California Department of Water Resources separate and apart from its powers and responsibilities with respect to the State Water Resources Development System"; and all references to (A) "Governmental Entity or Public Power System" (and cognates) and (B) "Public Power System" (and cognates) in Schedule M shall be replaced with the new defined term "Governmental Entity" (using the applicable cognate).
- (4) Clause (v) Section C is amended by deleting the text in such clause and substituting therefor "[Intentionally omitted.]"

(5) In Section D, delete Sections 3.4 and 3.5 and replace it with the following:

"3.4 "[Intentionally omitted.]"

"3.5 No Immunity Claim. California law authorizes suits based on contract against the State or its agencies, and Party B agrees that it will not assert any immunity it may have as a state agency against such lawsuits filed in state court."

(5) In Section G, specify that the laws of the State of California will apply.

(6) Add a new Section H, which shall read as follows:

"3.7. Rate Covenant; No Impairment. In accordance with Section 80134 of the Water Code, Party B covenants that it will, at least annually, and more frequently as required, establish and revise revenue requirements sufficient, together with any moneys on deposit in the Fund, to provide for the timely payment of all obligations which it has incurred, including any payments required to be made by Party B pursuant to this Agreement. As provided in Section 80200 of the Water Code, while any obligations of Party B pursuant to this Agreement remain outstanding and not fully performed or discharged, the rights, powers, duties and existence of Party B and the Public Utilities Commission shall not be diminished or impaired in any manner that will affect adversely the interests and rights of the Seller under this Agreement."

(7) Add a new Section I, which shall read as follows:

"3.8. Sources of Payment; No Debt of State. Party B's obligation to make payments hereunder shall be limited solely to the Fund and shall be payable as an operating expense of the Fund solely from Power Charges subject and subordinate to each Priority Long Term Power Contract in accordance with the priorities and limitations established with respect to the Fund's operating expenses in any indenture providing for the issuance of Bonds and in the Rate Agreement and in the Priority Long Term Contracts. Any liability of Party B arising in connection with this Agreement or any claim based thereon or with respect thereto, including, but not limited to, any Termination Payment arising as the result of any breach or Potential Event of Default or Event of Default under this Agreement, and any other payment obligation or liability of or judgment against Party B hereunder, shall be satisfied solely from the Fund. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA ARE OR MAY BE PLEDGED FOR ANY PAYMENT UNDER THIS AGREEMENT. Revenues and assets of the State Water Resources Development System, and Bond Charges under the Rate Agreement, shall not be liable for or available to make any payments or satisfy any obligation arising under this Agreement."

(8) Add a new Section J, which shall read as follows:

"3.9. Application of Government Code and the Public Contracts Code. Party A has stated that, because of the administrative burden and delays associated with such requirements, it would not enter into this Agreement if the provisions of the Government Code and the Public Contracts Code applicable to state contracts, including, but not limited to, advertising and competitive bidding requirements and prompt payment requirements would apply to or be required to be incorporated in this Agreement. Accordingly, pursuant to Section 80014(b) of the Water Code, Party B has determined that it would be detrimental to accomplishing the purposes of Division 27 (commencing with Section 80000) of the Water Code to make such provisions applicable to this Agreement and that the provisions of the Government Code and the Public Contracts Code applicable to state contracts are therefore not applicable to or incorporated in this Agreement."

(9) Add a new Section K, which shall read as follows:

"3.10. Termination Without Recourse. In addition to any other termination rights herein, a Party shall have the right, but not the obligation, to terminate the Agreement without

recourse against the other Party for any Termination Payment or other costs and without any further obligation or liability of either Party, as follows:

(i) Party A may terminate if Party B fails to maintain an underlying rating on the Bonds (without regard to credit enhancement) of Baa3 or better by Moody's or BBB- or better by S&P and such failure continues for 30 or more consecutive days,

(ii) a Party not claiming the Force Majeure event may terminate if a Force Majeure event continues uninterrupted for more than 180 days. Party A shall not be entitled to receive capacity payments during a Party A declared Force Majeure event.

(10) Add a new Section L, which shall read as follows

“Section 3.11. Party B's Right to Terminate without Recourse for Challenge to Revenue Requirement. Party A acknowledges that Party B's ability to perform under this Agreement is subject to Party B deriving revenue attributable to each revenue requirement. Accordingly, in addition to any other termination rights herein, and notwithstanding any other provision of this Agreement to the contrary, Party B shall have the right, but not the obligation, in its sole discretion, to terminate this Agreement at any time without recourse against Party B for any Termination Payment or other costs and without any further obligation or liability of either Party, if Pacific Gas and Electric Company or any Affiliate initiates any administrative or judicial action or proceeding, or prosecutes or fails to withdraw from or dismiss any existing or pending action or proceeding, which Party B determines, in its sole discretion, could result in any reduction in amounts derived by Party B under any revenue requirement. Party A acknowledges that a judicial proceeding has been filed by Pacific Gas and Electric Company with respect to Party B's current revenue requirement and that the execution of this Agreement by Party B does not constitute a waiver of the provisions of this Section 3.11 with respect to that proceeding and that unless and until such proceeding is withdrawn Party B may exercise its rights hereunder at any time.”

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

<p>Party A – CALPINE ENERGY SERVICES, L.P.</p>	<p>Party B – DEPARTMENT OF WATER RESOURCES with respect to the Department of Water Resources Electric Power Fund separate and apart from its powers and responsibilities with respect to the State Water Resources Development System</p>
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By: _____
 Name: _____
 Title: _____

By: _____
 Name: _____
 Title: _____

DISCLAIMER: This Master Power Purchase and Sale Agreement was prepared by a committee of representatives of Edison Electric Institute ("EEI") and National Energy Marketers Association ("NEM") member companies to facilitate orderly trading in and development of wholesale power markets. Neither EEI nor NEM nor any member company nor any of their agents, representatives or attorneys shall be responsible for its use, or any damages resulting therefrom. By providing this Agreement EEI and NEM do not offer legal advice and all users are urged to consult their own legal counsel to ensure that their commercial objectives will be achieved and their legal interests are adequately protected.

December 23, 2002

**Confirmation Letter for: CPN/PG&E/DWR – Unit-Firm Renewable Product
Geysers Unit 13 (GEYS13 7 Unit 13)**

When fully executed, this letter (this “Confirmation”) confirms the agreement by Calpine Energy Services, L.P. (“Seller”), to provide to the California Department of Water Resources with respect to the Electric Power Fund separate and apart from its powers and responsibilities with respect to the State Water Resources Development System (“DWR”), the “Buyer,” the right to dispatch the unit identified below for all electrical products as specified herein. Pacific Gas and Electric Company (“PG&E”) has also entered into an EEI Master Power Purchase and Sale Agreement and confirmation (the “PG&E Agreement”) with respect to the right to dispatch such unit for all such electrical products.

“Master Agreement” means the Master Power Purchase & Sale Agreement, Version 2.1 (modified 4/25/00), including the Cover Sheet and exhibits thereto, prepared by the Edison Electric Institute and the National Energy Marketers Association, and entered into by Seller and Buyer, dated as of December 23, 2002, as modified by the applicable Schedule A.

“CAISO” means the California Independent System Operator or any successor entity performing the same function.

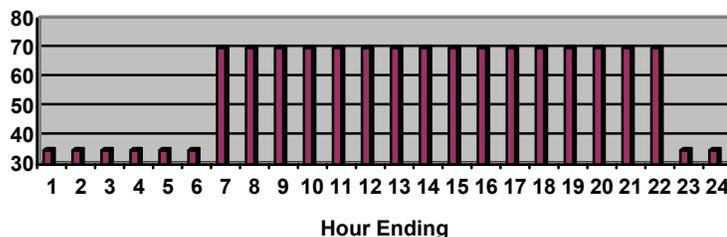
Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Master Agreement.

1. Seller: Calpine Energy Services, L.P. (“Seller”)
2. Buyer: DWR. On the next following Business Day after the date on which PG&E receives a credit rating of at least BBB- or better by S&P and Baa3 or better by Moody's, or on such earlier date as all conditions precedent to PG&E's performance under the PG&E Agreement have been satisfied or waived, the DWR Agreement shall terminate and be superseded automatically by the PG&E Agreement, PG&E shall automatically supersede DWR as the Buyer under the PG&E Agreement and DWR shall be relieved of all future liability with respect to the transactions set forth in this Agreement and in the PG&E Agreement.
3. Unit:
 - a. Seller shall supply all electrical products under this Confirmation from the following resource(s): Geysers Unit 13 (GEYS13 7 Unit13) (“Unit(s)"). To the extent the Product will be delivered from more than one Unit, all output from such Units must be delivered through a single meter and that meter must be dedicated exclusively to those units described herein. This/these Unit(s) employ(s) the following renewable technology/ies: Geothermal. To be eligible,

Unit(s) must qualify as an “eligible renewable energy resource” as defined in the new Section 399.12, added to the California Public Utilities Code by SB 1078. All Environmental Attributes associated with generation from the Unit(s) must be provided for an offer to be accepted and shall be conveyed to Buyer as included in the delivery of the Product.

- b. Environmental Attributes shall have the meaning set forth in Attachment A - “Environmental Attributes,” attached hereto and incorporated herein by this reference. Seller represents that Seller holds the rights to all Environmental Attributes associated with the Unit(s), and Seller agrees to convey and hereby conveys all such Environmental Attributes to Buyer as included in the delivery of the Product from the Unit(s).
 - c. To the extent permitted pursuant to new Section 399.15 added to the California Public Utilities Code by SB 1078, Seller agrees to dedicate all output from the Unit certified as “incremental geothermal production” by the California Energy Commission, up to 70 MW in all On-peak Hours (as defined in section 4), and 35 MW in all Off-peak Hours (as defined in section 4), for sale to Buyer on terms set forth in this Confirmation.
 - d. Seller shall comply with all California Energy Commission requirements necessary to demonstrate that the Unit qualifies as an "eligible renewable energy resource," but shall not be obligated to comply with any California Energy Commission requirements necessary to obtain production incentives or supplemental energy payments.
4. Product: The Product is Unit Firm energy having Environmental Attributes, including scheduling rights as provided hereunder, scheduled in accordance with then current CAISO tariffs in a scheduling coordinator to scheduling coordinator transaction. Seller to specify an hourly profile. Seller to provide all energy from the Unit(s) to the extent necessary to meet the hourly profile. The hourly profile for this resource is 70 MW in all On-peak Hours, and 35 MW in all Off-peak Hours. “On-peak Hours” are hour ending 0700 through 2200 on Monday through Saturday, excluding those days designated as holidays by the NERC. “Off-peak Hours” are hour ending 2300, 2400, and 0100 through 0600 on Monday through Saturday, all hours Sundays and those days designated as holidays by the NERC. All ramping shall be in accordance with CAISO tariff ramping requirements.

Geysers Unit 13 Hourly Profile



5. Quantity:

- a. Maximum Capacity: 70 MW.
- b. Seller can specify below additional dispatchability and/or ancillary services it wishes to offer in addition to the hourly profile indicated above. [Seller must list these services here, along with the amounts for each service]: Decremental Energy: up to 15 MW with no less than three hours notice by telephone to Seller's realtime dispatch desk for any whole delivery hour, at an additional payment to seller of \$10/MWh of calculated decremented energy, however, there shall be no decrement payment for up to 500 total hours per calendar year of decremented energy, except that no more than 250 of such free decrement hours per calendar year may be Off-peak Hours. All Off-peak decrements shall be limited to four (4) hour minimum duration blocks. Example: If Buyer notifies Seller to decrease generation 15 MW below the amount provided according to section 12 below, Buyer shall pay for delivered generation in that hour plus an additional payment of \$150 (15 MW * \$10/MWh).
- c. [INTENTIONALLY OMITTED]
- d. Testing: (A) The audit rights under Section 10.9 of the Master Agreement shall include such inspections and testing of meters as is reasonably necessary to confirm their accuracy consistent with CAISO practices and procedures in effect at the time. The Party requesting any such inspections and testing shall bear the cost of the foregoing in the event the meters are accurate within applicable CAISO or successor metering requirements. The other Party shall bear these costs if the meters are not accurate within applicable CAISO or successor metering requirements. (B) In addition, such audit rights shall include inspections and testing as is reasonably necessary to confirm the accuracy of any notice delivered by Seller to Buyer respecting the availability or operation of the Unit(s) within the parameters set forth in section 4. If Buyer requests that a Unit be tested, Seller shall have the right to a prompt retest of such Unit. Seller shall also have the right to request a test of a Unit at any time, and Buyer shall have the right to a prompt retest of such Unit. The Party requesting that a Unit be tested shall bear the costs of such test. (C) Seller hereby consents to Buyer obtaining from the CAISO the CAISO meter data applicable to the Unit(s).
- e. Allowance for Planned Maintenance: 0 days per calendar year.
- f. Forced Outage Allowance: 0 hours per calendar year.
- g. Prolonged Outage: 0 hours per calendar year
- h. Duty of Care: Seller agrees (1) to use the best industry practices in the maintenance and operation of the Unit(s), so that there is not a material change in the operating characteristics of the Unit(s) over the term of this Agreement and (2) to use all commercially reasonable efforts to obtain and maintain all regulatory approvals needed to operate and maintain the Unit(s), so that there is no delay in the commencement of service hereunder and no break in service

attributable to regulatory action.

6. Delivery Point: (a) Unit's bus bar, if unit(s) is located in CAISO zone North of Path 15 as currently defined ("NP15"), or (b) an agreed-upon bus bar in NP15 if unit(s) located outside the CAISO NP15 zone and Seller has firm transmission rights to the specified bus bar for the full term of this agreement, or (c) any other point subject to Buyer's agreement.
7. Term: From the date of the execution of the Agreement to the earlier of (a) the Business Day following the day that the long-term unsecured senior debt of PG & E is rated BBB- or better by S&P and Baa3 or better by Moody's, or such earlier date as all conditions precedent to PG&E's performance under the PG&E Agreement have been satisfied or waived, and (b) 12:01 A.M. on January 1, 2004.
8. Capacity Price: Buyer shall pay Seller a capacity payment of \$250/kw-year, allocated in accordance with the monthly Capacity Payment Schedule attached hereto as Attachment B. The capacity payment shall be calculated based on the Maximum Capacity specified in section 5.a.
9. Energy Price: Energy shall be measured in MWh at the CAISO revenue meter for the Unit(s) to determine the amount of energy delivered at the Delivery Point, which amount shall then be multiplied by the applicable generation meter multiplier (or any successor method to account for losses established by the CAISO) for each Unit, to determine the amount of energy delivered at the Delivery Point. Buyer shall pay for only the net amount delivered after station use needs are subtracted. Buyer will pay Seller for each MWh delivered by Seller from the Unit and received by Buyer at a rate equal to \$17.12/MWh.
10. [INTENTIONALLY OMITTED].
11. Electric Dispatch: Seller shall be the scheduling coordinator for the Unit(s).
12. Schedule of Deliveries: Seller shall provide Buyer with a copy of its annual outage plan, and any quarterly updates thereto that Seller provides to the CAISO for the Unit(s) to comply with the CAISO tariff and/or outage coordination plan. Seller will also provide Buyer each Thursday a preschedule of planned energy deliveries hereunder for the following week (similar to those provided for its existing standard offer facilities). Such preschedule will include any anticipated outage(s) for the Unit(s). Seller will also timely notify Buyer of any CAISO approved outage request for the Unit(s). Buyer and Seller shall timely modify schedules with the CAISO in the event of an outage or curtailment.
13. Transmission: The risk of transmission outages is allocated to each of the parties as follows: Seller is responsible for electric transmission to the Delivery Point and bears all risks and costs associated therewith. Buyer is responsible for electric transmission from the Delivery Point and bears all risks and costs associated therewith. The failure of electric transmission service shall not be an excuse from performance hereunder.
14. Remedies:
 - a. If in any month Seller fails to provide the electrical services from the Unit(s) as

dispatched by Buyer and such failure to deliver is not excused hereunder, then (i) no energy payment shall be due for the energy not actually delivered from the Unit(s), and (ii) the capacity payment for that month shall be reduced pro rata according to the total megawatt hours not provided from the Unit(s) as a ratio of the total megawatt hours dispatched by Buyer for that month, taking into consideration the outage allowances provided for in sections 5.e, 5.f, and 5.g, and (iii) if Seller and Buyer agree that Buyer shall become the scheduling coordinator with respect to the Transaction described in this Confirmation, Seller shall reimburse Buyer, by set-off against payments due hereunder (but not under any other contract between the Parties) if Buyer so elects, for any energy imbalance costs and penalties incurred by Buyer for any hour during which Seller fails to deliver the full amount of energy scheduled by Buyer, excluding only hours during which the Unit(s) is unavailable because of an allowable outage, an emergency dispatch by the CAISO, or a Force Majeure condition; provided that, (A) the burden is the Seller's to demonstrate that one of these excuses applies to any particular instance of nonperformance by the Unit(s) and (B) the energy provided to the CAISO by the Unit(s) shall be deemed delivered hereunder, and (C) any revenue received by Seller from the CAISO for such dispatch shall be remitted to Buyer. If Seller is scheduling coordinator and the Unit(s) is unavailable due to any circumstance described in the definition of Product hereunder, Buyer will pay the Energy Price hereunder for energy scheduled up to a maximum duration of three (3) hours for the period beginning when such Unit(s) becomes unavailable until a new schedule has been submitted to and implemented by the CAISO.

- b. If Buyer fails to pay the undisputed amount of any invoice that is complete, properly formatted, and delivered to the correct address within the prescribed period, Seller may, without penalty, (i) suspend the provision of services under this Confirmation and (ii) the capacity payments under section 7 shall continue to accrue during the suspension period, and (iii) make sales to third parties from the Unit(s) until such payment, including applicable accrued interest, is received by Seller. Upon receipt by Seller of Buyer's payment, Buyer's rights hereunder shall be fully restored.
- c. The Parties confirm that in addition to the remedies set forth herein Article 4 of the Master Agreement also applies to the failure by either Party to schedule, deliver or receive, as applicable, the Product under circumstances described therein. Late payment of undisputed amounts by Buyer and the failure by either Party to make required payments hereunder shall not constitute an Event of Default provided that payment is received no more than sixty (60) calendar days after an invoice for the underlying charges has been delivered to the Party required to make such payment. The Parties agree that an outage or curtailment for scheduled or unscheduled maintenance will not be considered a failure to schedule or deliver for purposes of Article 4 of the Master Agreement but may be subject to section 14.a.
- d. The Unit(s) have not been designated as a Reliability Must Run resource by the

CAISO for calendar year 2003.

- e. For purposes of the Master Agreement, including Article 4 thereof, the “Contract Price” for any hour shall be the energy price hereunder plus the pro rata portion of the Capacity Payment for the month in question, based on the Capacity Payment schedule attached hereto as Attachment B, prorated over the total number of hours in such month.
15. Non-performance:
- a. In the event that the Unit(s) specified in Section 3 of this Confirmation is not commercially operable and delivering to Buyer on or before December 31, 2003 as a result of the Unit(s) not being commercially operational or Seller’s inability to deliver the energy provided for in this Confirmation, , Buyer may at its sole discretion terminate this Confirmation and Seller shall pay Buyer damages in the form of \$15,000.00 (fifteen thousand dollars) times the MW specified under this Confirmation; provided, however, that the foregoing termination right shall terminate and be of no further force and effect as soon as Seller begins deliveries of energy to Buyer hereunder. Seller and Buyer agree that such damages are a reasonable approximation of the damages that Buyer will incur and shall be construed as liquidated damages and not as a penalty. Such liquidated damages shall apply solely to a termination of this agreement by Buyer for the reasons stated in this Section 15.
- b. Within thirty (30) days of acceptance of this Confirmation by Buyer, Seller shall provide to Buyer, as security for the payment of liquidated damages in accordance with paragraph 15.a above, (i) a letter of credit or surety bond issued for the benefit of Buyer, either in the form attached to PG&E’s Request For Offers or in a substantially similar form, but issued for the benefit of both Buyer and PG&E, and drawable only by the beneficiary that is then purchasing the Product from Seller hereunder or under the PG&E Agreement, as applicable, or (ii) other security acceptable to Buyer. Within five (5) Business Days after the termination of Buyer’s right to terminate this Confirmation pursuant to Section 15.a, Buyer shall return such letter of credit or surety bond to Seller.

This confirmation letter is being provided pursuant to and in accordance with the Master Agreement and constitutes part of and is subject to the terms and provisions of such Master Agreement. Terms used but not defined herein shall have the meanings ascribed to them in the Master Agreement.

DEPARTMENT OF WATER RESOURCES
separate and apart from its powers and
responsibilities with respect to the State Water
Resources Development System

CALPINE ENERGY SERVICES, L.P.

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: December __, 2002

Date: December 23, 2002

Attachment A
Environmental Attributes

“Environmental Attributes” means any and all credits, benefits, emissions reductions, offsets, and allowances, howsoever entitled, attributable from the facility. Environmental Attributes include but are not limited to: (1) any avoided emissions of pollutants to the air, soil or water such (subject to the foregoing) sulfur oxides (SO_x), nitrogen oxides (NO_x), carbon monoxide (CO) and other pollutants; (2) any avoided emissions of carbon dioxide (CO₂), methane (CH₄) and other greenhouse gases (GHGs) that have been determined by the United Nations Intergovernmental Panel on Climate Change to contribute to the actual or potential threat of altering the Earth’s climate by trapping heat in the atmosphere; and (3) the reporting rights such as Green Tag Reporting Rights to these avoided emissions. Green Tag Reporting Rights are the right of a Green Tag Purchaser to report the ownership of accumulated Green Tags in compliance with Federal or state law, if applicable, and to a Federal or state agency or any other party at the Green Tag Purchaser’s discretion, and include without limitation those accruing under Section 1605(b) of The Energy Policy Act of 1992 and any present or future federal, state, or local law, regulation or bill, and international or foreign emissions trading program. Green Tags are accumulated on kWh basis and one Green Tag represents the Environmental Attributes associated with one (1) MWh of energy. Environmental Attributes do not include any energy, capacity, reliability or other power attributes from the project nor production tax credits or certain other financial incentives existing now or in the future associated with the construction or operation of the energy projects.”

Attachment B
Capacity Payment Schedule

January.....	10.0%
February.....	2.8%
March.....	2.8%
April.....	2.8%
May.....	2.8%
June.....	12.0%
July	15.0%
August.....	15.0%
September.....	12.0%
October	12.0%
November	2.8%
December.....	10.0%

December 23, 2002

**Confirmation Letter for: CPN/ PG&E/DWR – Unit-Firm Renewable Product
Geysers Unit 20 (GEYS20 7 Unit20)**

When fully executed, this letter (this “Confirmation”) confirms the agreement by Calpine Energy Services, L.P. (“Seller”), to provide to the California Department of Water Resources with respect to the Electric Power Fund separate and apart from its powers and responsibilities with respect to the State Water Resources Development System (“DWR”), the “Buyer,” the right to dispatch the unit identified below for all electrical products as specified herein. Pacific Gas and Electric Company (“PG&E”) has also entered into an EEI Master Power Purchase and Sale Agreement and confirmation (the “PG&E Agreement”) with respect to the right to dispatch such unit for all such electrical products.

“Master Agreement” means the Master Power Purchase & Sale Agreement, Version 2.1 (modified 4/25/00), including the Cover Sheet and exhibits thereto, prepared by the Edison Electric Institute and the National Energy Marketers Association, and entered into by Seller and Buyer, dated as of December 23, 2002, as modified by the applicable Schedule A.

“CAISO” means the California Independent System Operator or any successor entity performing the same function.

Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Master Agreement.

1. Seller: Calpine Energy Services, L.P. (“Seller”),
2. Buyer: DWR. On the next following Business Day after the date on which PG&E receives a credit rating of at least BBB- or better by S&P and Baa3 or better by Moody's, or on such earlier date as all conditions precedent to PG&E's performance under the PG&E Agreement have been satisfied or waived, the DWR Agreement shall terminate and be superseded automatically by the PG&E Agreement, PG&E shall automatically supersede DWR as the Buyer under the PG&E Agreement and DWR shall be relieved of all future liability with respect to the transactions set forth in this Agreement and in the PG&E Agreement.
3. Unit:
 - a. Seller shall supply all electrical products under this Confirmation from the following resource(s): Geysers Unit 20 (GEYS20 7 Unit20) (“Unit(s)"). To the extent the Product will be delivered from more than one Unit, all output from such Units must be delivered through a single meter and that meter must be dedicated exclusively to those units described herein. This/these Unit(s)

- employ(s) the following renewable technology/ies: Geothermal. To be eligible, a Unit(s) must qualify as an “eligible renewable energy resource” as defined in the new Section 399.12, added to the California Public Utilities Code by SB 1078. All Environmental Attributes associated with generation from the Unit(s) must be provided for an offer to be accepted and shall be conveyed to Buyer as included in the delivery of the Product.
- b. Environmental Attributes shall have the meaning set forth in Attachment A - “Environmental Attributes,” attached hereto and incorporated herein by this reference. Seller represents that Seller holds the rights to all Environmental Attributes associated with the Unit(s), and Seller agrees to convey and hereby conveys all such Environmental Attributes to Buyer as included in the delivery of the Product from the Unit(s).
 - c. To the extent permitted pursuant to new Section 399.15 added to the California Public Utilities Code by SB 1078, Seller agrees to dedicate all energy output from the Unit certified as “incremental geothermal production” by the California Energy Commission, up to 40 MW in all On-peak Hours (as defined in section 4), and 20 MW in all Off-peak Hours (as defined in section 4), for sale to Buyer on terms set forth in this Confirmation.
 - d. Seller shall comply with all California Energy Commission requirements necessary to demonstrate that the Unit qualifies as an "eligible renewable energy resource," but shall not be obligated to comply with any California Energy Commission requirements necessary to obtain production incentives or supplemental energy payments.
4. Product: The Product is Unit Firm energy having Environmental Attributes, including scheduling rights as provided hereunder, scheduled in accordance with then current CAISO tariffs in a scheduling coordinator to scheduling coordinator transaction. Seller to specify an hourly profile. Seller to provide all energy from the Unit(s) to the extent necessary to meet the hourly profile. The hourly profile for this resource is 40 MW in all On-peak Hours, and 20 MW in all Off-peak Hours. “On-peak Hours” are hour ending 0700 through 2200 on Monday through Saturday, excluding those days designated as holidays by the NERC. “Off-peak Hours” are hour ending 2300, 2400, and 0100 through 0600 on Monday through Saturday, all hours Sundays and those days designated as holidays by the NERC. All ramping shall be in accordance with CAISO tariff ramping requirements.

Geysers Unit 20 Hourly Profile

5. Quantity:
- a. Maximum Capacity: 40 MW.
 - b. Seller can specify below additional dispatchability and/or ancillary services it wishes to offer in addition to the hourly profile indicated above. [Seller must list these services here, along with the amounts for each service]:
Decremental Energy: up to 10 MW with no less than three hours notice by telephone to Seller's realtime dispatch desk for any whole delivery hour, at an additional payment to seller of \$10/MWh of calculated decremented energy, however, there shall be no decrement payment for up to 500 total hours per calendar year of decremented energy, except that no more than 250 of such free decrement hours per calendar year may be Off-peak Hours. All Off-peak decrements shall be limited to four (4) hour minimum duration blocks. Example: If Buyer notifies Seller to decrease generation 10 MW below the amount provided according to section 12 below, Buyer shall pay for delivered generation in that hour plus an additional payment of \$100 (10 MW * \$10/MWh).
 - c. [INTENTIONALLY OMITTED]
 - d. Testing: (A) The audit rights under Section 10.9 of the Master Agreement shall include such inspections and testing of meters as is reasonably necessary to confirm their accuracy consistent with CAISO practices and procedures in effect at the time. The Party requesting any such inspections and testing shall bear the cost of the foregoing in the event the meters are accurate within applicable CAISO or successor metering requirements. The other Party shall bear these costs if the meters are not accurate within applicable CAISO or successor metering requirements. (B) In addition, such audit rights shall include inspections and testing as is reasonably necessary to confirm the accuracy of any notice delivered by Seller to Buyer respecting the availability or operation of the Unit(s) within the parameters set forth in section 4. If Buyer requests that a Unit be tested, Seller shall have the right to a prompt retest of such Unit. Seller shall also have the right to request a test of a Unit at any time, and Buyer shall have the right to a prompt retest of such Unit. The Party requesting that a Unit be tested shall bear the costs of such test. (C) Seller hereby consents to Buyer obtaining from the CAISO the CAISO meter data applicable to the Unit(s).
 - e. Allowance for Planned Maintenance: 0 days per calendar year.

- f. Forced Outage Allowance: 0 hours per calendar year.
 - g. Prolonged Outage: 0 hours per calendar year.
 - h. Duty of Care: Seller agrees (1) to use the best industry practices in the maintenance and operation of the Unit(s), so that there is not a material change in the operating characteristics of the Unit(s) over the term of this Agreement and (2) to use all commercially reasonable efforts to obtain and maintain all regulatory approvals needed to operate and maintain the Unit(s), so that there is no delay in the commencement of service hereunder and no break in service attributable to regulatory action.
6. Delivery Point: (a) Unit's bus bar, if unit(s) is located in CAISO zone North of Path 15 as currently defined ("NP15"), or (b) an agreed-upon bus bar in NP15 if unit(s) located outside the CAISO NP15 zone and Seller has firm transmission rights to the specified bus bar for the full term of this agreement, or (c) any other point subject to Buyer's agreement.
 7. Term: From the date of the execution of the Agreement to the earlier of (a) the Business Day following the day that the long-term unsecured senior debt of PG &E is rated BBB- or better by S&P and Baa3 or better by Moody's, or such earlier date as all conditions precedent to PG&E's performance under the PG&E Agreement have been satisfied or waived, and (b) 12:01 A.M. on January 1, 2004."
 8. Capacity Price: Buyer shall pay Seller a capacity payment of \$250/kw-year, allocated in accordance with the monthly Capacity Payment Schedule attached hereto as Attachment B. The capacity payment shall be calculated based on the Maximum Capacity specified in section 5.a.
 9. Energy Price: Energy shall be measured in MWh at the CAISO revenue meter for the Unit(s) to determine the amount of energy delivered at the Delivery Point, which amount shall then be multiplied by the applicable generation meter multiplier (or any successor method to account for losses established by the CAISO) for each Unit, to determine the amount of energy delivered at the Delivery Point. Buyer shall pay for only the net amount delivered after station use needs are subtracted. Buyer will pay Seller for each MWh delivered by Seller from the Unit and received by Buyer at a rate equal to \$17.12/MWh.
 10. [INTENTIONALLY OMITTED].
 11. Electric Dispatch: Seller shall be the scheduling coordinator for the Unit(s).
 12. Schedule of Deliveries: Seller shall provide Buyer with a copy of its annual outage plan, and any quarterly updates thereto that Seller provides to the CAISO for the Unit(s) to comply with the CAISO tariff and/or outage coordination plan. Seller will also provide Buyer each Thursday a preschedule of planned energy deliveries hereunder for the following week (similar to those provided for its existing standard offer facilities). Such preschedule will include any anticipated outage(s) for the Unit(s). Seller will also timely notify Buyer of any CAISO approved outage request for the Unit(s). Buyer and Seller shall timely modify schedules with the CAISO in the event of an outage or curtailment.

13. Transmission: The risk of transmission outages is allocated to each of the parties as follows: Seller is responsible for electric transmission to the Delivery Point and bears all risks and costs associated therewith. Buyer is responsible for electric transmission from the Delivery Point and bears all risks and costs associated therewith. The failure of electric transmission service shall not be an excuse from performance hereunder.
14. Remedies:
- a. If in any month Seller fails to provide the electrical services from the Unit(s) as dispatched by Buyer and such failure to deliver is not excused hereunder, then (i) no energy payment shall be due for the energy not actually delivered from the Unit(s), and (ii) the capacity payment for that month shall be reduced pro rata according to the total megawatt hours not provided from the Unit(s) as a ratio of the total megawatt hours dispatched by Buyer for that month, taking into consideration the outage allowances provided for in sections 5.e, 5.f, and 5.g, and (iii) if Seller and Buyer agree that Buyer shall become the scheduling coordinator with respect to the Transaction described in this Confirmation, Seller shall reimburse Buyer, by set-off against payments due hereunder (but not under any other contract between the Parties) if Buyer so elects, for any energy imbalance costs and penalties incurred by Buyer for any hour during which Seller fails to deliver the full amount of energy scheduled by Buyer, excluding only hours during which the Unit(s) is unavailable because of an allowable outage, a Reliability Must Run (“RMR”) dispatch by the CAISO, an emergency dispatch by the CAISO, or a Force Majeure condition; provided that, (A) the burden is the Seller’s to demonstrate that one of these excuses applies to any particular instance of nonperformance by the Unit(s) and (B) the energy provided to the CAISO by the Unit(s) shall be deemed delivered hereunder, and (C) any revenue received by Seller from the CAISO for such dispatch shall be remitted to Buyer. If Seller is scheduling coordinator and the Unit(s) is unavailable due to any circumstance described in the definition of Product hereunder, Buyer will pay the Energy Price hereunder for energy scheduled up to a maximum duration of three (3) hours for the period beginning when such Unit(s) becomes unavailable until a new schedule has been submitted to and implemented by the CAISO.
 - b. If Buyer fails to pay the undisputed amount of any invoice that is complete, properly formatted, and delivered to the correct address within the prescribed period, Seller may, without penalty, (i) suspend the provision of services under this Confirmation and (ii) the capacity payments under section 7 shall continue to accrue during the suspension period, and (iii) make sales to third parties from the Unit(s) until such payment, including applicable accrued interest, is received by Seller. Upon receipt by Seller of Buyer’s payment, Buyer’s rights hereunder shall be fully restored.
 - c. The Parties confirm that that in addition to the remedies set forth herein Article 4 of the Master Agreement also applies to the failure by either Party to schedule, deliver or receive, as applicable, the Product under circumstances described therein. Late payment of undisputed amounts by Buyer and the failure by either Party to make required payments hereunder shall not constitute an Event of

Default provided that payment is received no more than sixty (60) calendar days after an invoice for the underlying charges has been delivered to the Party required to make such payment. The Parties agree that an outage or curtailment for scheduled or unscheduled maintenance will not be considered a failure to schedule or deliver for purposes of Article 4 of the Master Agreement but may be subject to section 14.a.

- d. The Unit(s) have not been designated as a Reliability Must Run resource by the CAISO for calendar year 2003.
 - e. For purposes of the Master Agreement, including Article 4 thereof, the “Contract Price” for any hour shall be the energy price hereunder plus the pro rata portion of the Capacity Payment for the month in question, based on the Capacity Payment schedule attached hereto as Attachment B, prorated over the total number of hours in such month.
15. Non-performance:
- a. In the event that the Unit(s) specified in Section 3 of this Confirmation is not commercially operable and delivering to Buyer on or before December 31, 2003 as a result of the Unit(s) not being commercially operational or Seller’s inability to deliver the energy provided for in this Confirmation, Buyer may at its sole discretion terminate this Confirmation and Seller shall pay Buyer damages in the form of \$15,000.00 (fifteen thousand dollars) times the MW specified under this Confirmation; provided, however, that the foregoing termination right shall terminate and be of no further force and effect as soon as Seller begins deliveries of energy to Buyer hereunder. Seller and Buyer agree that such damages are a reasonable approximation of the damages that Buyer will incur and shall be construed as liquidated damages and not as a penalty. Such liquidated damages shall apply solely to a termination of this agreement by Buyer for the reasons stated in this Section 15.
 - b. Within thirty (30) days of acceptance of this Confirmation by Buyer, Seller shall provide to Buyer, as security for the payment of liquidated damages in accordance with paragraph 15.a above, (i) a letter of credit or surety bond issued for the benefit of Buyer, either in the form attached to PG&E’s Request For Offers or in a substantially similar form, but issued for the benefit of both Buyer and PG&E, and drawable only by the beneficiary that is then purchasing the Product from Seller hereunder or under the PG&E Agreement, as applicable, or (ii) other security acceptable to Buyer. Within five (5) Business Days after the termination of Buyer’s right to terminate this Confirmation pursuant to Section 15.a, Buyer shall return such letter of credit or surety bond to Seller.

This confirmation letter is being provided pursuant to and in accordance with the Master Agreement and constitutes part of and is subject to the terms and provisions of such Master Agreement. Terms used but not defined herein shall have the meanings ascribed to them in the Master Agreement.

DEPARTMENT OF WATER RESOURCES
separate and apart from its powers and
responsibilities with respect to the State Water
Resources Development System

CALPINE ENERGY SERVICES, L.P.

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: December __, 2002

Date: December 23, 2002

Attachment A
Environmental Attributes

“Environmental Attributes” means any and all credits, benefits, emissions reductions, offsets, and allowances, howsoever entitled, attributable from the facility. Environmental Attributes include but are not limited to: (1) any avoided emissions of pollutants to the air, soil or water such (subject to the foregoing) sulfur oxides (SOx), nitrogen oxides (NOx), carbon monoxide (CO) and other pollutants; (2) any avoided emissions of carbon dioxide (CO₂), methane (CH₄) and other greenhouse gases (GHGs) that have been determined by the United Nations Intergovernmental Panel on Climate Change to contribute to the actual or potential threat of altering the Earth’s climate by trapping heat in the atmosphere; and (3) the reporting rights such as Green Tag Reporting Rights to these avoided emissions. Green Tag Reporting Rights are the right of a Green Tag Purchaser to report the ownership of accumulated Green Tags in compliance with Federal or state law, if applicable, and to a Federal or state agency or any other party at the Green Tag Purchaser’s discretion, and include without limitation those accruing under Section 1605(b) of The Energy Policy Act of 1992 and any present or future federal, state, or local law, regulation or bill, and international or foreign emissions trading program. Green Tags are accumulated on kWh basis and one Green Tag represents the Environmental Attributes associated with one (1) MWh of energy. Environmental Attributes do not include any energy, capacity, reliability or other power attributes from the project nor production tax credits or certain other financial incentives existing now or in the future associated with the construction or operation of the energy projects.”

Attachment B
Capacity Payment Schedule

January.....	10.0%
February.....	2.8%
March.....	2.8%
April.....	2.8%
May.....	2.8%
June.....	12.0%
July.....	15.0%
August.....	15.0%
September.....	12.0%
October.....	12.0%
November.....	2.8%
December.....	10.0%