

KINGS RIVER CONSERVATION DISTRICT
DEPARTMENT OF WATER RESOURCES
LETTER AGREEMENT
With Respect To
CERTAIN COSTS, FUNDS AND CAPS
AND INTERPRETATIONS OF CERTAIN SECTIONS
OF THE AMENDED AND RESTATED POWER PURCHASE AGREEMENT

September 21, 2004

Pursuant to Section 3.09 of the Amended And Restated Power Purchase Agreement (the "Power Purchase Agreement") entered into as of August 18, 2004 by and between the Department and the Seller, the Parties enter into this Letter Agreement setting forth certain dollar costs, fund amounts and caps, and agreed interpretations of certain sections of the Power Purchase Agreement as identified below, which, upon acceptance by the Department, will be binding upon the Parties subject to the terms and conditions stated in the Power Purchase Agreement. All capitalized terms of special meaning used and not otherwise defined herein shall have the meaning ascribed to such terms in or pursuant to the Power Purchase Agreement.

1. Fixed O&M. Pursuant to Section 2.02(a) of the Agreement, the Fixed O&M component of the Capacity Price for the first full Operating Year (12 month period) shall be one million seven hundred twenty three thousand eight hundred eighty one dollars (\$1,723,881).
2. Variable O&M Payment. Pursuant to Section 2.02(b) of the Agreement, the Variable O&M Payment for the first full Operating Year (12 month period) shall be thirty three cents per MWh (\$0.33/MWh), which rate excludes the costs of backfeed electricity, water, water treatment regeneration and LTSA variable charges which shall be paid based on actual costs incurred by the Seller.
3. Major Maintenance Fund. Pursuant to Section 2.02(d) of the Agreement, (1) the total amount to be funded; (2) the amount of the initial deposit, to be made prior to the beginning of the first Operating Year, to the Major Maintenance Fund and (3) the amount of annual payments to be made by the Department during the Term of the Agreement, for deposit to the Major Maintenance Fund shall be as shown in Appendix A to this Letter Agreement. Required deposits in 2011 to the Major Maintenance Fund specified in Appendix A are based on the assumption that actual fired hours will exceed 16,000 in 2011. In the event that actual fired hours do not reach 16,000 by 2011, the Department shall not be required to make such deposit in that year, and will instead be required to make the deposit in the year in which 16,000 actual fired hours is reached. Required deposits in 2015 to the Major Maintenance Fund specified in Appendix A are based on the assumption that actual fired hours will exceed 25,000 in 2015. In the event that actual fired hours do not reach 25,000 by

Letter Agreement With Respect To The Amended And Restated Power Purchase Agreement

2015, the Department shall not be required to make such deposit in that year, and will instead be required to make the deposit in the year in which 25,000 actual fired hours is reached.

4. Sellers Administrative Cost. Pursuant to Section 2.02(e) of the Agreement, the SAC to be funded for the first Operating Year shall be as set forth in Appendix B to this Letter Agreement, shown as a statement that itemizes and sets forth in detail the individual costs that comprise the SAC.
5. Department Compensation Payment. Pursuant to Section 3.08 of the Agreement, the Department Compensation Payment shall be as set forth in Appendix C to this Letter Agreement, provided however, that minor adjustments may be made to the Capacity Payment Credit amounts shown due to changes in sizing of the debt service reserve account and that such minor adjustments will be communicated to the Department in writing not less than one hour prior to the Bond Sale Time.
6. Annual and Term Performance Damages Caps. Pursuant to Section 4.06(g)(2) of the Agreement, the Annual Performance Damages Cap shall be two million five hundred thousand dollars (\$2,500,000) and the Term Performance Damages Cap shall be ten million dollars (\$10,000,000). With respect to Item 6 above, the amounts shown are based on the following clarifications and interpretations of certain sections of the Power Purchase Agreement:

(a) Initial Minimum Rated Capacity. Notwithstanding any other provisions of the Power Purchase Agreement, the Parties agree that Commercial Operation of Facility shall occur only after each Unit has achieved a Rated Capacity of at least forty (40) MWs as provided by the testing procedures set forth in Appendix C of the Power Purchase Agreement.

(b) Target Rated Capacity. For the purposes of clarifying Section 2.03 and the definition of Target Rated Capacity, the Parties acknowledge that the Target Rated Capacity for the initial test of the Facility shall be the greater of (i) the Rated Capacity established at the initial test or (ii) the capacity guaranteed by General Electric as adjusted by the value of auxiliary loads guaranteed under the EPC Contract. For subsequent years, the Target Rated Capacity shall be the initial Target Rated Capacity (as established pursuant to the preceding sentence) that is corrected to a curve of capacity versus operating hours (capacity degradation curve) certified by the original equipment manufacturer/architect/engineer/vendor of the Facility, with aggregate operating hours for each Unit at the time of the Rated Capacity Test each year. The Parties agree that any damages payable by GE, or by the EPC Contractor as a result of failure to achieve the capacity guaranteed by General Electric as adjusted by the value of auxiliary loads guaranteed under the EPC Contract shall be deposited by the Seller in a separate fund which fund shall be applied annually (without deferral pursuant to Section 4.06) only to payment to the Department of Rated Capacity Damages which may become payable by the Seller pursuant to Section 4.06 in any year over the term of the Agreement; provided, however, that subject to the written approval of the Department, such funds may be

Letter Agreement With Respect To The Amended And Restated Power Purchase Agreement

applied to the repair of the Facility to achieve the capacity guaranteed by General Electric as adjusted by the value of auxiliary loads guaranteed under the EPC Contract. The Parties acknowledge that moneys described in the preceding sentence shall not be pledged under, or available for payment of, the Bonds.

(c) Heat Rate Damages. For the purposes of clarifying Section 2.03, the Parties agree that any damages payable by GE, or by the EPC Contractor as a result of failure to achieve the Guaranteed Heat Rate during the initial test shall be deposited by the Seller in a separate fund which fund shall be applied annually (without deferral pursuant to Section 4.06) only to payment to the Department of Heat Rate Damages which may become payable by the Seller pursuant to Section 4.06 in any year over the term of the Agreement; provided, however, that subject to the written approval of the Department, such funds may be applied to the repair of the Facility to achieve the Guaranteed Heat Rate. The Parties acknowledge that moneys described in the preceding sentence shall not be pledged under, or available for payment of, the Bonds.

Furthermore, the Parties agree that degradation shall be applied to the Test Heat Rate in subsequent annual performance tests to be consistent with treatment of Rated Capacity and with accepted industry standards for measurement of heat rate over time.

7. For purposes of clarifying Section 3.07(f) of the Agreement, the Parties agree that any amounts attributable to Fixed O&M Contingency will be treated in the same manner as amounts in the Operating Account for purposes of Section 3.07(f).
8. For purposes of clarifying Section 4.06(f)(1) of the Agreement, the Parties agree that the first line of such section should refer to Section 3.07(b), and not 3.07(e).
9. The District shall not agree to any amendments to the Installment Purchase Agreement or Trust Agreement, which would abridge the rights of the Department under the Power Purchase Agreement without their consent.

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

Original signed by

By: _____

Name: Peter Garris

Title: Deputy Director

KINGS RIVER CONSERVATION DISTRICT

Original signed by

By: _____

Name: David Orth

Title: General Manager

Appendix AMajor Maintenance Fund Detail

1.	Total Amount to be Funded:	
		\$ 1,454,113
2.	Amount of Initial Deposit:	
		\$ 0
3.	Amount of Annual Payments to be Deposited to the Major Maintenance Fund:	
	2005	\$0
	2006	\$0
	2007	\$0
	2008	\$0
	2009	\$0
	2010	\$0
	2011	\$1,159,693 ¹
	2012	\$0
	2013	\$0
	2014	\$0
	2015	\$294,419 ²

¹ Assuming 16,000 actual fired hours is reached in this year.

² Assuming 25,000 actual fired hours is reached in this year.

Letter Agreement With Respect To The Amended And Restated Power Purchase Agreement

Appendix BSellers Administrative Cost (SAC) Detail
For the 2005 Operating Year (\$)*Escalated Annually at CPI Index

District Labor		
	Salary and Wages	\$76,440
	Payroll Burden	\$37,456
	Administrative Overhead	\$53,508
Communications	Telephone	\$348
License and Permit Fees	Title V Base Fee	\$1,200
	Vessel Inspection Fees	\$1,200
Legal Services	Legal Counsel	\$4,800
Accounting, Audit Fees	Auditor	\$12,000
Professional and Special Services	Trustee	\$5,000
	Testing (Output/Heat Rate Test)	\$36,000
Utilities	PG&E Reservation and Customer Charge	\$9,507
	MCWD Fire Service	\$1,178
	MCWD Water - Demand	\$2,259
	MCWD Sewer	\$163
Sub-Total		<u>\$241,059</u>

Passed Through to Department at Actual Cost

PG&E GSFA Charge	\$66,997
CT and Generators Annual Inspection	
Annual Cost Under LTSA**	\$60,000
Capital Additions, Improvements	\$50,000
Insurance	
Operational Property incl. Business Interruption	\$302,700
Terrorism	\$30,043
Offsite Demineralizer Regeneration	
Rental Charge	\$214,500
Scheduling Coordinator	
Service Charge	\$120,000
Sub-Total	<u>\$844,240</u>
Total	<u>\$1,085,299</u>

*Costs shown assuming 12 months of operation in 2005

** Will be less in years where a Generator Minor Inspection not required

Appendix C

DEPARTMENT COMPENSATION PAYMENT SCHEDULE

Year	Turbine Value	Reserve Accounts		Total Department Compensation Payment
		Capacity Payment Credit	Operating Reserve	
2006	\$10,740,000	\$568,450	\$200,000	\$11,508,450
2007	\$9,940,000	\$1,136,900	\$400,000	\$11,476,900
2008	\$9,130,000	\$1,705,350	\$600,000	\$11,435,350
2009	\$8,330,000	\$2,273,800	\$800,000	\$11,403,800
2010	\$7,520,000	\$2,842,250	\$1,000,000	\$11,362,250
2011	\$6,720,000	\$3,410,700	\$1,200,000	\$11,330,700
2012	\$5,910,000	\$3,979,150	\$1,400,000	\$11,289,150
2013	\$5,110,000	\$4,547,600	\$1,600,000	\$11,257,600
2014	\$4,300,000	\$5,116,050	\$1,800,000	\$11,216,050
2015 and thereafter	\$3,500,000	***	\$2,000,000	\$5,500,000

*** Debt Service Reserve applied to the debt service component of the Department's capacity payment.