

GUARANTEE AGREEMENT

This GUARANTEE AGREEMENT dated as of May 1, 2002 (this "Guarantee"), is entered into by and between Calpine Corporation, a Delaware corporation ("Calpine"), and State of California Department of Water Resources separate and apart from its powers and responsibilities with respect to the State Water Resources Development System ("CDWR"), in reference to the following facts and circumstances:

RECITALS

A. CDWR and Calpine Energy Services, L.P., a Delaware limited partnership ("CES"), which is an indirect wholly-owned subsidiary of Calpine, have entered into that certain Amended and Restated Confirmation Letter agreed to on April 22, 2002 and effective May 1, 2002, which is commonly referred to by Calpine and CDWR as "Contract No. 1" and which is identified on CDWR's website as "CalPine 1" (the "Confirmation"), the Confirmation being one of four (4) Confirmations entered into between CDWR and CES pursuant to that certain Master Power Purchase and Sale Agreement between CDWR and CES, as modified by that certain Amended and Restated Cover Sheet between CDWR and CES dated April 22, 2002 and effective May 1, 2002 (the "Cover Sheet"; such Master Power Purchase and Sale Agreement as modified by the Cover Sheet being hereinafter referred to as the "Master Agreement"). The Confirmation, together with the terms and conditions of the Master Agreement applicable thereto, is hereinafter referred to as the "Contract". Capitalized terms used herein and not otherwise defined have the meanings provided therefor in the Contract.

B. This Guarantee is required to be delivered to CDWR pursuant to paragraph (t) of the "Other Changes" section of the Cover Sheet.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Calpine and CDWR agree as follows:

1. Guarantee. Subject to the terms and conditions of this Guarantee, Calpine irrevocably and unconditionally guarantees to CDWR the prompt and complete payment when due, by acceleration or otherwise, of all amounts payable by CES under the Contract (collectively, the "Obligations"). This is a guarantee of payment and not of collection. If CES fails to pay any Obligation for any reason, then, following CDWR's written demand upon CES for payment of same, Calpine will pay or cause to be paid such Obligation directly for CDWR's benefit promptly within five (5) business days upon CDWR's written demand therefor, it being understood that Calpine shall be entitled to the benefit of any defenses to payment available to CES under the Contract or applicable law. Any such demand for payment by Calpine shall include a statement describing the amount payable together with a description, in reasonable detail, of the basis of calculation of such amount. Calpine is liable for, and hereby indemnifies CDWR for, CDWR's

reasonable costs and expenses, including but not limited to reasonable attorneys' fees and reasonable costs and disbursements, incurred in any effort to collect or enforce any of the obligations under this Guarantee that are not paid within five (5) business days following a demand made by CDWR for payment by Calpine hereunder in accordance with the terms and conditions hereof, whether or not any lawsuit is filed. This Guarantee shall continue to be effective or reinstated, as the case may be, if at any time payment of the Obligations, or any part thereof, is rescinded or must otherwise be returned by CDWR upon the insolvency, bankruptcy or reorganization of CES or otherwise, all as though the payment of such Obligations had not been made.

2. Calpine's Obligations. Subject to the terms and conditions of this Guarantee, Calpine's obligations under this Guarantee are absolute and unconditional, shall remain in force and shall not be released or discharged for any reason whatsoever prior to the indefeasible payment in full of the Obligations to CDWR or a Permitted CDWR Assignee, as defined in Section 6 hereof, including without limitation:

- (i) the extension of time for payment or performance of any Obligation or the amendment, extension or renewal of the Contract or any Obligation, except that (A) without Calpine's prior written consent, no such extension, amendment or renewal shall enlarge Calpine's obligations under this Guarantee and (B) Calpine shall have the benefit of any such extension, amendment or renewal to the same extent as CES (e.g., if CES's time for payment of an Obligation has been extended, Calpine shall have no obligation under this Guarantee to make payment of such Obligation until such time as CES is required under the extension to make payment);
- (ii) any transfer, assignment or mortgaging by CDWR of any interest in the Contract or this Guarantee;
- (iii) the voluntary or involuntary liquidation, dissolution, sale or other disposition of all or substantially all the assets and liabilities, or the voluntary or involuntary receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization or other similar proceeding affecting CES, or the disaffirmance of the Contract in any such proceeding;
- (iv) any merger, consolidation or other reorganization to which CES, Calpine or any related entity is a party, or any direct or indirect sale or disposition of Calpine's or CES's assets or Calpine's direct or indirect ownership interest in CES; or
- (v) the existence, validity, enforceability, perfection, release, or extent of any collateral for such Obligations. CDWR shall not be obligated to file any claim relating to the Obligations owing to it in the event that CES becomes subject to a bankruptcy, reorganization, or a similar proceeding, and the

failure of CDWR to so file shall not affect Calpine's obligations hereunder.

3. Limitation of Liability. Notwithstanding anything in this Guarantee to the contrary, Calpine and CDWR agree that the aggregate liability of Calpine under this Guarantee shall in no event exceed Twelve Million Five Hundred Thousand Dollars (\$12,500,000) (the "Liability Limit Amount"). As contemplated by paragraph (t) of the "Other Changes" section of the Cover Sheet, the Liability Limit Amount may be increased (and thereafter decreased) from time to time by way of supplements to this Guarantee (specifically referencing this Section 3) executed and delivered from time to time by Calpine and CDWR ("Supplements").

4. Waivers by Calpine. Calpine waives notice of demand or presentment for payment to CES or the making of any protest, notice of the amount of the Obligations outstanding at any time, notice of failure to perform on the part of CES, notice of any amendment, modification or waiver of or under the Contract, and all other notices or demands not specified hereunder.

5. Representations and Warranties. Calpine hereby represents and warrants that (i) it has all necessary and appropriate powers and authority to execute, deliver and perform its obligations under this Guarantee (including any Supplements hereto), (ii) this Guarantee (including any Supplements hereto) constitutes its legal, valid and binding obligations enforceable against it in accordance with its terms (except as enforceability may be limited by bankruptcy, insolvency, moratorium and other similar laws affecting enforcement of creditors' rights and general principles of equity), and (iii) the execution, delivery and performance of its obligations under this Guarantee (including any Supplements hereto) do not violate, conflict with, result in a breach of, constitute a default under (with or without due notice or lapse of time or both) or require any consent or approval (except those already obtained and in full force and effect) pursuant to any law, rule, regulation or order or decree of any court or other governmental authority applicable to Calpine or any agreement, lease, indenture, mortgage or other contract or commitment to which Calpine is a party or by which any of its properties or assets is bound.

6. Assignment.

(a) In the event CDWR assigns and transfers the Contract to, or effects a novation in respect of the Contract with, any third party in accordance with the terms and conditions of the Contract (such third party being a "Permitted CDWR Assignee") (including a Qualified Electric Corporation in connection with a novation entered into in accordance with paragraph (k) of the "Other Changes" section of the Cover Sheet), CDWR may assign and transfer this Guarantee to such Permitted CDWR Assignee and, upon such Permitted CDWR Assignee's execution of an instrument acknowledging its acceptance of this Guarantee: (i) such Permitted Assignee shall succeed to all of CDWR's rights and interest in this Guarantee and (ii) all references to "CDWR" herein (and to "DWR" or "Party B" in the Contract) shall refer to such Permitted CDWR Assignee instead of CDWR. Otherwise, CDWR shall not assign this Guarantee without the prior written consent of Calpine, such consent not to be unreasonably withheld or delayed.

(b) In the event CES assigns and transfers the Contract to, or effects a novation

in respect of the Contract with, any third party in accordance with the terms and conditions of the Contract (except a pledgee or collateral assignee in connection with a financing transaction entered into in accordance with Section 10.5(i) of the Master Agreement unless and until such pledgee or assignee succeeds to CES's right, title and interest in the Contract through foreclosure or otherwise) (such third party being a "Permitted CES Assignee"), Calpine may assign its rights and delegate its duties under this Guarantee to a Permitted Guarantor and, upon such Permitted Guarantor's execution of an instrument acknowledging its assumption of this Guarantee: (i) Calpine shall be released from this Guarantee, and all references herein and in the Contract to the Guarantee shall refer to this Guarantee as assigned, (ii) all references to "Calpine" herein (and to "Guarantor," "Calpine" or "Corporation" in the Contract) shall refer to such Permitted Guarantor instead of Calpine, and (iii) all references to "CES" herein (and to "CES" and "Party A" in the Contract) shall refer to such Permitted CES Assignee instead of CES. Otherwise, Calpine shall not assign this Guarantee without the prior written consent of CDWR, such consent not to be unreasonably withheld or delayed. As used herein, "Permitted Guarantor" means an entity whose senior long term unsecured debt is rated the greater of (x) BBB by Standard & Poor's and Baa2 by Moody's Investors Services or (y) the rating of CDWR's bonds issued pursuant to the Act (excluding credit enhancement).

7. No Setoff or Reduction. All payments hereunder shall be made without reduction, whether by offset, payment in escrow, or otherwise. Calpine and CDWR: (a) recognize that, pursuant to the Master Agreement, the Contract is to be treated as a stand-alone transaction and CDWR and CES have each waived any right of setoff that either may have against the other, except for any right of setoff specifically provided for in the Contract (if any) and (b) accordingly hereby waive any right of setoff that either Calpine or CDWR may have against the other in connection with the Contract by virtue of the existence of this Guarantee, whether arising by contract or under applicable law, except for any right of setoff specifically provided for in the Contract (if any) insofar as the same would be exercisable by CES or CDWR, as the case may be, under the Contract.

8. Notices. Notices under this Guarantee shall be deemed received if sent to the address specified below: (a) on the day received if served by overnight express delivery, (b) on the next business day if served by facsimile transmission when sender has machine confirmation that facsimile was transmitted to the correct fax number listed below, and (c) four business days after mailing if sent by certified, first class mail, return receipt requested. Any party may change its address to which notice is given hereunder by providing notice of same in accordance with this Section 8.

To CDWR: California Department of Water Resources/CERS
3310 El Camino Avenue, Suite 120
Sacramento, California 95821
Attn: Deputy Director
Tel: (916) 574-0339
Fax: (916) 574-2152

To Calpine: Calpine Corporation
50 W. San Fernando Street
San Jose, California 95113
Attn: Treasury
Tel: (408) 995-5115
Fax: (408) 995-0505

9. Miscellaneous. No provision of this Guarantee may be amended or waived except by a written instrument executed by Calpine and CDWR. This Guarantee shall not be deemed to benefit any person except CES and CDWR (and their respective Permitted Assignees). This Guarantee shall be governed by the laws of the State of California.

IN WITNESS WHEREOF, Calpine has executed this Guarantee as of the date first above written.

CALPINE CORPORATION

By: 
Name: Michael P. Thomas
Title: Senior Vice President and Treasurer

ACKNOWLEDGED AND AGREED:

STATE OF CALIFORNIA DEPARTMENT
OF WATER RESOURCES SEPARATE AND APART
FROM ITS POWERS AND RESPONSIBILITIES
WITH RESPECT TO THE STATE WATER RESOURCES
DEVELOPMENT SYSTEM

By: 
Name: Peter S. Gareis
Title: Deputy Director
Date: Dec. 27, 2002

GUARANTEE AGREEMENT

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RECITALS

A. CDWR and Calpine Energy Services, L.P., a Delaware limited partnership ("CES"), which is an indirect wholly-owned subsidiary of Calpine, have entered into that certain Amended and Restated Confirmation Letter agreed to on April 22, 2002 and effective May 1, 2002, which is commonly referred to by Calpine and CDWR as "Contract No. 2" and which is identified on CDWR's website as "CalPine 2" (the "Confirmation"), the Confirmation being one of four (4) Confirmations entered into between CDWR and CES pursuant to that certain Master Power Purchase and Sale Agreement between CDWR and CES, as modified by that certain Amended and Restated Cover Sheet between CDWR and CES dated April 22, 2002 and effective May 1, 2002 (the "Cover Sheet"; such Master Power Purchase and Sale Agreement as modified by the Cover Sheet being hereinafter referred to as the "Master Agreement"). The Confirmation, together with the terms and conditions of the Master Agreement applicable thereto, is hereinafter referred to as the "Contract". Capitalized terms used herein and not otherwise defined have the meanings provided therefor in the Contract.

B. This Guarantee is required to be delivered to CDWR pursuant to paragraph (t) of the "Other Changes" section of the Cover Sheet.

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reasonable costs and expenses, including but not limited to reasonable attorneys' fees and reasonable costs and disbursements, incurred in any effort to collect or enforce any of the obligations under this Guarantee that are not paid within five (5) business days following a demand made by CDWR for payment by Calpine hereunder in accordance with the terms and conditions hereof, whether or not any lawsuit is filed. This Guarantee shall continue to be effective or reinstated, as the case may be, if at any time payment of the Obligations, or any part thereof, is rescinded or must otherwise be returned by CDWR upon the insolvency, bankruptcy or reorganization of CES or otherwise, all as though the payment of such Obligations had not been made.

2. Calpine's Obligations. Subject to the terms and conditions of this Guarantee, Calpine's obligations under this Guarantee are absolute and unconditional, shall remain in force and shall not be released or discharged for any reason whatsoever prior to the indefeasible payment in full of the Obligations to CDWR or a Permitted CDWR Assignee, as defined in Section 6 hereof, including without limitation:

- (i) the extension of time for payment or performance of any Obligation or the amendment, extension or renewal of the Contract or any Obligation, except that (A) without Calpine's prior written consent, no such extension, amendment or renewal shall enlarge Calpine's obligations under this Guarantee and (B) Calpine shall have the benefit of any such extension, amendment or renewal to the same extent as CES (e.g., if CES's time for payment of an Obligation has been extended, Calpine shall have no obligation under this Guarantee to make payment of such Obligation until such time as CES is required under the extension to make payment);
- (ii) any transfer, assignment or mortgaging by CDWR of any interest in the Contract or this Guarantee;
- (iii) the voluntary or involuntary liquidation, dissolution, sale or other disposition of all or substantially all the assets and liabilities, or the voluntary or involuntary receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization or other similar proceeding affecting CES, or the disaffirmance of the Contract in any such proceeding;
- (iv) any merger, consolidation or other reorganization to which CES, Calpine or any related entity is a party, or any direct or indirect sale or disposition of Calpine's or CES's assets or Calpine's direct or indirect ownership interest in CES; or
- (v) the existence, validity, enforceability, perfection, release, or extent of any collateral for such Obligations. CDWR shall not be obligated to file any claim relating to the Obligations owing to it in the event that CES becomes subject to a bankruptcy, reorganization, or a similar proceeding, and the

failure of CDWR to so file shall not affect Calpine's obligations hereunder.

3. Limitation of Liability. Notwithstanding anything in this Guarantee to the contrary, Calpine and CDWR agree that the aggregate liability of Calpine under this Guarantee shall in no event exceed Twelve Million Five Hundred Thousand Dollars (\$12,500,000) (the "Liability Limit Amount"). As contemplated by paragraph (t) of the "Other Changes" section of the Cover Sheet, the Liability Limit Amount may be increased (and thereafter decreased) from time to time by way of supplements to this Guarantee (specifically referencing this Section 3) executed and delivered from time to time by Calpine and CDWR ("Supplements").

4. Waivers by Calpine. Calpine waives notice of demand or presentment for payment to CES or the making of any protest, notice of the amount of the Obligations outstanding at any time, notice of failure to perform on the part of CES, notice of any amendment, modification or waiver of or under the Contract, and all other notices or demands not specified hereunder.

5. Representations and Warranties. Calpine hereby represents and warrants that (i) it has all necessary and appropriate powers and authority to execute, deliver and perform its obligations under this Guarantee (including any Supplements hereto), (ii) this Guarantee (including any Supplements hereto) constitutes its legal, valid and binding obligations enforceable against it in accordance with its terms (except as enforceability may be limited by bankruptcy, insolvency, moratorium and other similar laws affecting enforcement of creditors' rights and general principles of equity), and (iii) the execution, delivery and performance of its obligations under this Guarantee (including any Supplements hereto) do not violate, conflict with, result in a breach of, constitute a default under (with or without due notice or lapse of time or both) or require any consent or approval (except those already obtained and in full force and effect) pursuant to any law, rule, regulation or order or decree of any court or other governmental authority applicable to Calpine or any agreement, lease, indenture, mortgage or other contract or commitment to which Calpine is a party or by which any of its properties or assets is bound.

6. Assignment.

(a) In the event CDWR assigns and transfers the Contract to, or effects a novation in respect of the Contract with, any third party in accordance with the terms and conditions of the Contract (such third party being a "Permitted CDWR Assignee") (including a Qualified Electric Corporation in connection with a novation entered into in accordance with paragraph (k) of the "Other Changes" section of the Cover Sheet), CDWR may assign and transfer this Guarantee to such Permitted CDWR Assignee and, upon such Permitted CDWR Assignee's execution of an instrument acknowledging its acceptance of this Guarantee: (i) such Permitted Assignee shall succeed to all of CDWR's rights and interest in this Guarantee and (ii) all references to "CDWR" herein (and to "DWR" or "Party B" in the Contract) shall refer to such Permitted CDWR Assignee instead of CDWR. Otherwise, CDWR shall not assign this Guarantee without the prior written consent of Calpine, such consent not to be unreasonably withheld or delayed.

(b) In the event CES assigns and transfers the Contract to, or effects a novation

in respect of the Contract with, any third party in accordance with the terms and conditions of the Contract (except a pledgee or collateral assignee in connection with a financing transaction entered into in accordance with Section 10.5(i) of the Master Agreement unless and until such pledgee or assignee succeeds to CES's right, title and interest in the Contract through foreclosure or otherwise) (such third party being a "Permitted CES Assignee"), Calpine may assign its rights and delegate its duties under this Guarantee to a Permitted Guarantor and, upon such Permitted Guarantor's execution of an instrument acknowledging its assumption of this Guarantee: (i) Calpine shall be released from this Guarantee, and all references herein and in the Contract to the Guarantee shall refer to this Guarantee as assigned, (ii) all references to "Calpine" herein (and to "Guarantor," "Calpine" or "Corporation" in the Contract) shall refer to such Permitted Guarantor instead of Calpine, and (iii) all references to "CES" herein (and to "CES" and "Party A" in the Contract) shall refer to such Permitted CES Assignee instead of CES. Otherwise, Calpine shall not assign this Guarantee without the prior written consent of CDWR, such consent not to be unreasonably withheld or delayed. As used herein, "Permitted Guarantor" means an entity whose senior long term unsecured debt is rated the greater of (x) BBB by Standard & Poor's and Baa2 by Moody's Investors Services or (y) the rating of CDWR's bonds issued pursuant to the Act (excluding credit enhancement).

7. No Setoff or Reduction. All payments hereunder shall be made without reduction, whether by offset, payment in escrow, or otherwise. Calpine and CDWR: (a) recognize that, pursuant to the Master Agreement, the Contract is to be treated as a stand-alone transaction and CDWR and CES have each waived any right of setoff that either may have against the other, except for any right of setoff specifically provided for in the Contract (if any) and (b) accordingly hereby waive any right of setoff that either Calpine or CDWR may have against the other in connection with the Contract by virtue of the existence of this Guarantee, whether arising by contract or under applicable law, except for any right of setoff specifically provided for in the Contract (if any) insofar as the same would be exercisable by CES or CDWR, as the case may be, under the Contract.

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Fax: (916) 574-2152

To Calpine: Calpine Corporation
50 W. San Fernando Street
San Jose, California 95113
Attn: Treasury
Tel: (408) 995-5115
Fax: (408) 995-0505

9. Miscellaneous. No provision of this Guarantee may be amended or waived except by a written instrument executed by Calpine and CDWR. This Guarantee shall not be deemed to benefit any person except CES and CDWR (and their respective Permitted Assignees). This Guarantee shall be governed by the laws of the State of California.

IN WITNESS WHEREOF, Calpine has executed this Guarantee as of the date first above written.

CALPINE CORPORATION

By: Michael P. Thomas
Name: Michael P. Thomas
Title: Senior Vice President and Treasurer

ACKNOWLEDGED AND AGREED:

STATE OF CALIFORNIA DEPARTMENT
OF WATER RESOURCES SEPARATE AND APART
FROM ITS POWERS AND RESPONSIBILITIES
WITH RESPECT TO THE STATE WATER RESOURCES
DEVELOPMENT SYSTEM

By: Peter S. Garris
Name: Peter S. GARRIS
Title: Deputy Director
Date: Dec 27, 2002

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This GUARANTEE AGREEMENT dated as of May 1, 2002 (this "Guarantee"), is entered into by and between Calpine Corporation, a Delaware corporation ("Calpine"), and State of California Department of Water Resources separate and apart from its powers and responsibilities with respect to the State Water Resources Development System ("CDWR"), in reference to the following facts and circumstances:

RECITALS

A. CDWR and Calpine Energy Services, L.P., a Delaware limited partnership ("CES"), which is an indirect wholly-owned subsidiary of Calpine, have entered into that certain Amended and Restated Confirmation Letter agreed to on April 22, 2002 and effective May 1, 2002, which is commonly referred to by Calpine and CDWR as "Contract No. 3" and which is identified on CDWR's website as "CalPine 3" (the "Confirmation"), the Confirmation being one of four (4) Confirmations entered into between CDWR and CES pursuant to that certain Master Power Purchase and Sale Agreement between CDWR and CES, as modified by that certain Amended and Restated Cover Sheet between CDWR and CES dated April 22, 2002 and effective May 1, 2002 (the "Cover Sheet"; such Master Power Purchase and Sale Agreement as modified by the Cover Sheet being hereinafter referred to as the "Master Agreement"). The Confirmation, together with the terms and conditions of the Master Agreement applicable thereto, is hereinafter referred to as the "Contract". Capitalized terms used herein and not otherwise defined have the meanings provided therefor in the Contract.

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AGREEMENT

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reasonable costs and disbursements, incurred in any effort to collect or enforce any of the obligations under this Guarantee that are not paid within five (5) business days following a demand made by CDWR for payment by Calpine hereunder in accordance with the terms and conditions hereof, whether or not any lawsuit is filed. This Guarantee shall continue to be effective or reinstated, as the case may be, if at any time payment of the Obligations, or any part thereof, is rescinded or must otherwise be returned by CDWR upon the insolvency, bankruptcy or reorganization of CES or otherwise, all as though the payment of such Obligations had not been made.

2. Calpine's Obligations. Subject to the terms and conditions of this Guarantee, Calpine's obligations under this Guarantee are absolute and unconditional, shall remain in force and shall not be released or discharged for any reason whatsoever prior to the indefeasible payment in full of the Obligations to CDWR or a Permitted CDWR Assignee, as defined in Section 6 hereof, including without limitation:

- (i) the extension of time for payment or performance of any Obligation or the amendment, extension or renewal of the Contract or any Obligation, except that (A) without Calpine's prior written consent, no such extension, amendment or renewal shall enlarge Calpine's obligations under this Guarantee and (B) Calpine shall have the benefit of any such extension, amendment or renewal to the same extent as CES (e.g., if CES's time for payment of an Obligation has been extended, Calpine shall have no obligation under this Guarantee to make payment of such Obligation until such time as CES is required under the extension to make payment);
- (ii) any transfer, assignment or mortgaging by CDWR of any interest in the Contract or this Guarantee;
- (iii) the voluntary or involuntary liquidation, dissolution, sale or other disposition of all or substantially all the assets and liabilities, or the voluntary or involuntary receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization or other similar proceeding affecting CES, or the disaffirmance of the Contract in any such proceeding;
- (iv) any merger, consolidation or other reorganization to which CES, Calpine or any related entity is a party, or any direct or indirect sale or disposition of Calpine's or CES's assets or Calpine's direct or indirect ownership interest in CES; or
- (v) the existence, validity, enforceability, perfection, release, or extent of any collateral for such Obligations. CDWR shall not be obligated to file any claim relating to the Obligations owing to it in the event that CES becomes subject to a bankruptcy, reorganization, or a similar proceeding, and the failure of CDWR to so file shall not affect Calpine's obligations hereunder.

3. Limitation of Liability. Notwithstanding anything in this Guarantee to the contrary, Calpine and CDWR agree that the aggregate liability of Calpine under this Guarantee shall in no event exceed the amount of any unearned capacity payment that has been paid by CDWR to CES in advance pursuant to the Contract (the "Liability Limit Amount"), it being agreed and understood that under no circumstances can the Liability Limit Amount exceed the sum of Ninety Million Dollars (\$90,000,000). As contemplated by paragraph (t) of the "Other Changes" section of the Cover Sheet, the Liability Limit Amount may be increased (and thereafter decreased) from time to time by way of supplements to this Guarantee (specifically referencing this Section 3) executed and delivered from time to time by Calpine and CDWR ("Supplements").

4. Waivers by Calpine. Calpine waives notice of demand or presentment for payment to CES or the making of any protest, notice of the amount of the Obligations outstanding at any time, notice of failure to perform on the part of CES, notice of any amendment, modification or waiver of or under the Contract, and all other notices or demands not specified hereunder.

5. Representations and Warranties. Calpine hereby represents and warrants that (i) it has all necessary and appropriate powers and authority to execute, deliver and perform its obligations under this Guarantee (including any Supplements hereto), (ii) this Guarantee (including any Supplements hereto) constitutes its legal, valid and binding obligations enforceable against it in accordance with its terms (except as enforceability may be limited by bankruptcy, insolvency, moratorium and other similar laws affecting enforcement of creditors' rights and general principles of equity), and (iii) the execution, delivery and performance of its obligations under this Guarantee (including any Supplements hereto) do not violate, conflict with, result in a breach of, constitute a default under (with or without due notice or lapse of time or both) or require any consent or approval (except those already obtained and in full force and effect) pursuant to any law, rule, regulation or order or decree of any court or other governmental authority applicable to Calpine or any agreement, lease, indenture, mortgage or other contract or commitment to which Calpine is a party or by which any of its properties or assets is bound.

6. Assignment.

(a) In the event CDWR assigns and transfers the Contract to, or effects a novation in respect of the Contract with, any third party in accordance with the terms and conditions of the Contract (such third party being a "Permitted CDWR Assignee") (including a Qualified Electric Corporation in connection with a novation entered into in accordance with paragraph (k) of the "Other Changes" section of the Cover Sheet), CDWR may assign and transfer this Guarantee to such Permitted CDWR Assignee and, upon such Permitted CDWR Assignee's execution of an instrument acknowledging its acceptance of this Guarantee: (i) such Permitted Assignee shall succeed to all of CDWR's rights and interest in this Guarantee and (ii) all references to "CDWR" herein (and to "DWR" or "Party B" in the Contract) shall refer to such Permitted CDWR Assignee instead of CDWR. Otherwise, CDWR shall not assign this Guarantee without the prior written consent of Calpine, such consent not to be unreasonably withheld or delayed.

(b) In the event CES assigns and transfers the Contract to, or effects a novation in respect of the Contract with, any third party in accordance with the terms and conditions of the Contract (except a pledgee or collateral assignee in connection with a financing transaction entered into in accordance with Section 10.5(i) of the Master Agreement unless and until such pledgee or assignee succeeds to CES's right, title and interest in the Contract through foreclosure or otherwise) (such third party being a "Permitted CES Assignee"), Calpine may assign its rights and delegate its duties under this Guarantee to a Permitted Guarantor and, upon such Permitted Guarantor's execution of an instrument acknowledging its assumption of this Guarantee: (i) Calpine shall be released from this Guarantee, and all references herein and in the Contract to the Guarantee shall refer to this Guarantee as assigned, (ii) all references to "Calpine" herein (and to "Guarantor," "Calpine" or "Corporation" in the Contract) shall refer to such Permitted Guarantor instead of Calpine, and (iii) all references to "CES" herein (and to "CES" and "Party A" in the Contract) shall refer to such Permitted CES Assignee instead of CES. Otherwise, Calpine shall not assign this Guarantee without the prior written consent of CDWR, such consent not to be unreasonably withheld or delayed. As used herein, "Permitted Guarantor" means an entity whose senior long term unsecured debt is rated the greater of (x) BBB by Standard & Poor's and Baa2 by Moody's Investors Services or (y) the rating of CDWR's bonds issued pursuant to the Act (excluding credit enhancement).

7. **No Setoff or Reduction.** All payments hereunder shall be made without reduction, whether by offset, payment in escrow, or otherwise. Calpine and CDWR: (a) recognize that, pursuant to the Master Agreement, the Contract is to be treated as a stand-alone transaction and CDWR and CES have each waived any right of setoff that either may have against the other, except for any right of setoff specifically provided for in the Contract (if any) and (b) accordingly hereby waive any right of setoff that either Calpine or CDWR may have against the other in connection with the Contract by virtue of the existence of this Guarantee, whether arising by contract or under applicable law, except for any right of setoff specifically provided for in the Contract (if any) insofar as the same would be exercisable by CES or CDWR, as the case may be, under the Contract.

8. **Notices.** Notices under this Guarantee shall be deemed received if sent to the address specified below: (a) on the day received if served by overnight express delivery, (b) on the next business day if served by facsimile transmission when sender has machine confirmation that facsimile was transmitted to the correct fax number listed below, and (c) four business days after mailing if sent by certified, first class mail, return receipt requested. Any party may change its address to which notice is given hereunder by providing notice of same in accordance with this Section 8.

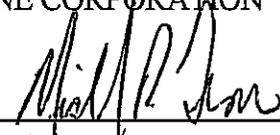
To CDWR: California Department of Water Resources/CERS
3310 El Camino Avenue, Suite 120
Sacramento, California 95821
Attn: Deputy Director
Tel: (916) 574-0339
Fax: (916) 574-2152

To Calpine: Calpine Corporation
50 W. San Fernando Street
San Jose, California 95113
Attn: Treasury
Tel: (408) 995-5115
Fax: (408) 995-0505

9. Miscellaneous. No provision of this Guarantee may be amended or waived except by a written instrument executed by Calpine and CDWR. This Guarantee shall not be deemed to benefit any person except CES and CDWR (and their respective Permitted Assignees). This Guarantee shall be governed by the laws of the State of California.

IN WITNESS WHEREOF, Calpine has executed this Guarantee as of the date first above written.

CALPINE CORPORATION

By: 
Name: Michael P. Thomas
Title: Senior Vice President and Treasurer

ACKNOWLEDGED AND AGREED:

STATE OF CALIFORNIA DEPARTMENT
OF WATER RESOURCES SEPARATE AND APART
FROM ITS POWERS AND RESPONSIBILITIES
WITH RESPECT TO THE STATE WATER RESOURCES
DEVELOPMENT SYSTEM

By: 
Name: Peter S. GARRIS
Title: Deputy Director
Date: Dec. 27, 2002

GUARANTEE AGREEMENT

This GUARANTEE AGREEMENT dated as of May 1, 2002 (this "Guarantee"), is entered into by and between Calpine Corporation, a Delaware corporation ("Calpine"), and State of California Department of Water Resources separate and apart from its powers and responsibilities with respect to the State Water Resources Development System ("CDWR"), in reference to the following facts and circumstances:

RECITALS

A. CDWR and Calpine Energy Services, L.P., a Delaware limited partnership ("CES"), which is an indirect wholly-owned subsidiary of Calpine, have entered into that certain Amended and Restated Confirmation Letter agreed to on April 22, 2002 and effective May 1, 2002, which is commonly referred to by Calpine and CDWR as "Contract No. 4" and which is identified on CDWR's website as "CalPine 4" (the "Confirmation"), the Confirmation being one of four (4) Confirmations entered into between CDWR and CES pursuant to that certain Master Power Purchase and Sale Agreement between CDWR and CES, as modified by that certain Amended and Restated Cover Sheet between CDWR and CES dated April 22, 2002 and effective May 1, 2002 (the "Cover Sheet"; such Master Power Purchase and Sale Agreement as modified by the Cover Sheet being hereinafter referred to as the "Master Agreement"). The Confirmation, together with the terms and conditions of the Master Agreement applicable thereto, is hereinafter referred to as the "Contract". Capitalized terms used herein and not otherwise defined have the meanings provided therefor in the Contract.

B. This Guarantee is required to be delivered to CDWR pursuant to paragraph (t) of the "Other Changes" section of the Cover Sheet.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Calpine and CDWR agree as follows:

1. Guarantee. Subject to the terms and conditions of this Guarantee, Calpine irrevocably and unconditionally guarantees to CDWR the prompt and complete payment when due, by acceleration or otherwise, of all amounts payable by CES under the Contract (collectively, the "Obligations"). This is a guarantee of payment and not of collection. If CES fails to pay any Obligation for any reason, then, following CDWR's written demand upon CES for payment of same, Calpine will pay or cause to be paid such Obligation directly for CDWR's benefit promptly within five (5) business days upon CDWR's written demand therefor, it being understood that Calpine shall be entitled to the benefit of any defenses to payment available to CES under the Contract or applicable law. Any such demand for payment by Calpine shall include a statement describing the amount payable together with a description, in reasonable detail, of the basis of calculation of such amount. Calpine is liable for, and hereby indemnifies CDWR for, CDWR's

reasonable costs and expenses, including but not limited to reasonable attorneys' fees and reasonable costs and disbursements, incurred in any effort to collect or enforce any of the obligations under this Guarantee that are not paid within five (5) business days following a demand made by CDWR for payment by Calpine hereunder in accordance with the terms and conditions hereof, whether or not any lawsuit is filed. This Guarantee shall continue to be effective or reinstated, as the case may be, if at any time payment of the Obligations, or any part thereof, is rescinded or must otherwise be returned by CDWR upon the insolvency, bankruptcy or reorganization of CES or otherwise, all as though the payment of such Obligations had not been made.

2. Calpine's Obligations. Subject to the terms and conditions of this Guarantee, Calpine's obligations under this Guarantee are absolute and unconditional, shall remain in force and shall not be released or discharged for any reason whatsoever prior to the indefeasible payment in full of the Obligations to CDWR or a Permitted CDWR Assignee, as defined in Section 6 hereof, including without limitation:

- (i) the extension of time for payment or performance of any Obligation or the amendment, extension or renewal of the Contract or any Obligation, except that (A) without Calpine's prior written consent, no such extension, amendment or renewal shall enlarge Calpine's obligations under this Guarantee and (B) Calpine shall have the benefit of any such extension, amendment or renewal to the same extent as CES (e.g., if CES's time for payment of an Obligation has been extended, Calpine shall have no obligation under this Guarantee to make payment of such Obligation until such time as CES is required under the extension to make payment);
- (ii) any transfer, assignment or mortgaging by CDWR of any interest in the Contract or this Guarantee;
- (iii) the voluntary or involuntary liquidation, dissolution, sale or other disposition of all or substantially all the assets and liabilities, or the voluntary or involuntary receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization or other similar proceeding affecting CES, or the disaffirmance of the Contract in any such proceeding;
- (iv) any merger, consolidation or other reorganization to which CES, Calpine or any related entity is a party, or any direct or indirect sale or disposition of Calpine's or CES's assets or Calpine's direct or indirect ownership interest in CES; or
- (v) the existence, validity, enforceability, perfection, release, or extent of any collateral for such Obligations. CDWR shall not be obligated to file any claim relating to the Obligations owing to it in the event that CES becomes subject to a bankruptcy, reorganization, or a similar proceeding, and the

failure of CDWR to so file shall not affect Calpine's obligations hereunder.

3. Limitation of Liability. Notwithstanding anything in this Guarantee to the contrary, Calpine and CDWR agree that the aggregate liability of Calpine under this Guarantee shall in no event exceed Twelve Million Five Hundred Thousand Dollars (\$12,500,000) (the "Liability Limit Amount"). As contemplated by paragraph (t) of the "Other Changes" section of the Cover Sheet, the Liability Limit Amount may be increased (and thereafter decreased) from time to time by way of supplements to this Guarantee (specifically referencing this Section 3) executed and delivered from time to time by Calpine and CDWR ("Supplements").

4. Waivers by Calpine. Calpine waives notice of demand or presentment for payment to CES or the making of any protest, notice of the amount of the Obligations outstanding at any time, notice of failure to perform on the part of CES, notice of any amendment, modification or waiver of or under the Contract, and all other notices or demands not specified hereunder.

5. Representations and Warranties. Calpine hereby represents and warrants that (i) it has all necessary and appropriate powers and authority to execute, deliver and perform its obligations under this Guarantee (including any Supplements hereto), (ii) this Guarantee (including any Supplements hereto) constitutes its legal, valid and binding obligations enforceable against it in accordance with its terms (except as enforceability may be limited by bankruptcy, insolvency, moratorium and other similar laws affecting enforcement of creditors' rights and general principles of equity), and (iii) the execution, delivery and performance of its obligations under this Guarantee (including any Supplements hereto) do not violate, conflict with, result in a breach of, constitute a default under (with or without due notice or lapse of time or both) or require any consent or approval (except those already obtained and in full force and effect) pursuant to any law, rule, regulation or order or decree of any court or other governmental authority applicable to Calpine or any agreement, lease, indenture, mortgage or other contract or commitment to which Calpine is a party or by which any of its properties or assets is bound.

6. Assignment.

(a) In the event CDWR assigns and transfers the Contract to, or effects a novation in respect of the Contract with, any third party in accordance with the terms and conditions of the Contract (such third party being a "Permitted CDWR Assignee") (including a Qualified Electric Corporation in connection with a novation entered into in accordance with paragraph (k) of the "Other Changes" section of the Cover Sheet), CDWR may assign and transfer this Guarantee to such Permitted CDWR Assignee and, upon such Permitted CDWR Assignee's execution of an instrument acknowledging its acceptance of this Guarantee: (i) such Permitted Assignee shall succeed to all of CDWR's rights and interest in this Guarantee and (ii) all references to "CDWR" herein (and to "DWR" or "Party B" in the Contract) shall refer to such Permitted CDWR Assignee instead of CDWR. Otherwise, CDWR shall not assign this Guarantee without the prior written consent of Calpine, such consent not to be unreasonably withheld or delayed.

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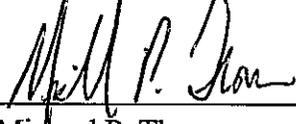
To CDWR: California Department of Water Resources/CERS
3310 El Camino Avenue, Suite 120
Sacramento, California 95821
Attn: Deputy Director
Tel: (916) 574-0339
Fax: (916) 574-2152

To Calpine: Calpine Corporation
50 W. San Fernando Street
San Jose, California 95113
Attn: Treasury
Tel: (408) 995-5115
Fax: (408) 995-0505

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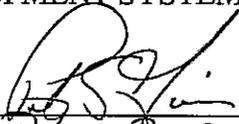
IN WITNESS WHEREOF, Calpine has executed this Guarantee as of the date first above written.

CALPINE CORPORATION

By: 
Name: Michael P. Thomas
Title: Senior Vice President and Treasurer

ACKNOWLEDGED AND AGREED:

STATE OF CALIFORNIA DEPARTMENT
OF WATER RESOURCES SEPARATE AND APART
FROM ITS POWERS AND RESPONSIBILITIES
WITH RESPECT TO THE STATE WATER RESOURCES
DEVELOPMENT SYSTEM

By: 
Name: Peter S. GARRIS
Title: Deputy DIRECTOR
Date: DEC 27, 2002