

**AMENDMENT NO. 2 TO THE
POWER PURCHASE AGREEMENT BETWEEN
ORANGE COUNTY SANITATION DISTRICT AND
SOUTHERN CALIFORNIA EDISON COMPANY**

QFID 1098

1. PARTIES

Southern California Edison Company, a California corporation ("Edison") and Orange County Sanitation District (formerly known as County Sanitation Districts of Orange County), a special district organized and existing under the County Sanitation District Act, Health and Safety Code Section 4700 et seq. ("Seller") hereby enter into this Amendment No. 2 ("Amendment") to the power purchase agreement between them dated September 9, 1991 ("Agreement"). Edison and Seller are sometimes referred to herein individually as a "Party" and jointly as the "Parties."

2. RECITALS

This Amendment is made with reference to the following facts, among others:

- 2.1 On September 9, 1991, Edison and Seller executed the Agreement, which provides for the sale to Edison of electrical power from Seller's Generating Facility (as that term is defined in the Agreement).
- 2.2 On August 22, 2001, Edison and Seller executed Amendment No. 1 to the Agreement ("Amendment No. 1") which, among other things, modified the methodology for calculating energy payments under the Agreement until June 30, 2006 or the last day of the Agreement term, whichever is earlier, as set forth in Section 3.1.1 of Amendment No. 1. Amendment No. 1 was approved by the California Public Utilities Commission ("CPUC") on April 3, 2003 in Decision 03-04-001.
- 2.3 The Parties wish to enter into this Amendment to: (i) change the designation of the Generating Facility in the Agreement from a small power production facility to a cogeneration facility; and (ii) change the amounts paid for energy and As-Available Capacity under the Agreement.

3. AMENDMENT

In consideration of the promises and mutual covenants and agreements hereinafter set forth, and subject to the condition precedent described in Section 4.2 below, the Parties agree as follows:

- 3.1 Section 1.1(d) of the Agreement shall be deleted in its entirety and replaced with the following:

"(d) Type: (Check One)

- Cogeneration facility
- Digester Gas (primary energy source)

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_____ Small power production facility
_____ (primary energy source)"

3.2 A new Section 2.23 shall be added to the Agreement, as follows:

"2.23 Amendment No. 1: On August 22, 2001, Edison and Seller executed Amendment No. 1 to this Agreement."

3.3 A new Section 2.24 shall be added to the Agreement, as follows:

"2.24 Section 3.31 of Amendment No. 1: Section 3.1.1 of Amendment No. 1 modified the methodology for calculating energy payments under this Agreement until June 30, 2006 or the last day of the Agreement term, whichever is earlier."

3.4 A new Section 2.25 shall be added to the Agreement, as follows:

"2.25 Interim Gas Adjustment Price Provisions: Section 3.1.1 of Amendment No. 1 provides that, subject to Sections 3.1.3 and 3.1.4 of Amendment No. 1, for the period from and including March 27, 2001 and extending to and including June 30, 2006 or the last day of the Agreement term, whichever is earlier, the energy payment provisions in Section 13.2 of this Agreement shall be substituted with the energy payments provisions in a new Section 13.2 set forth in Section 3.1.1 of Amendment No. 1. The energy payment provisions in this new Section 13.2 set forth in Section 3.1.1 of Amendment No. 1 shall be known as the Interim Gas Adjustment Pricing Provisions."

3.5 A new Section 2.26 shall be added to the Agreement, as follows:

"2.26 Monthly Baseline Level: The Monthly Baseline Level is measured in kWhs per monthly time of delivery period and is derived from Seller's average electricity deliveries to Edison during the corresponding seasonal month and time of delivery periods in calendar years 1999, 2000, and 2001. The time of delivery periods used are the same time periods used in Sections 13.3 and 14.3 of this Agreement. A separate Monthly Baseline Level is calculated for each time of delivery period during each summer and winter month. Seller's Monthly Baseline Levels are as set forth in Appendix G, attached to Amendment No. 2 to this Agreement and to this Agreement, and made a part hereof."

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3.6 A new Section 6.3(j) shall be added to the Agreement, as follows:

“6.3(j) Within thirty (30) business days following the end of each calendar year, and within thirty (30) business days following the end of the Agreement term, Seller shall provide Edison a calculation, with supporting data, which demonstrates the compliance of the Generating Facility with cogeneration Qualifying Facility operating and efficiency standards set forth in 18 Code of Federal Regulations Section 292.205 “Criteria for Qualifying Cogeneration Facilities” or any other operating and efficiency standards applicable to facilities operating in the State of California under California Public Utilities Code Section 218.5.”

3.7 Section 13.1 of the Agreement shall be deleted in its entirety and replaced with the following:

“13.1 Subject to the terms and conditions of this Agreement, Seller shall sell and deliver, at the Point of Delivery, and Edison shall purchase and accept delivery of, at the Point of Delivery, energy produced by the Generating Facility as specified in Sections 1.6 and 7.”

3.8 Section 13.2 of the Agreement shall be deleted in its entirety and replaced with the following:

“13.2 For all electricity delivered by Seller at or below the applicable Monthly Baseline Level, Edison shall pay Seller for energy at prices equal to: (i) Edison’s Short-Run Avoided Operating Costs; or (ii) if Section 3.1.1 of Amendment No. 1 and the Interim Gas Adjustment Price Provisions would be applicable, the price derived using the Interim Gas Adjustment Price Provisions. For all electricity delivered by Seller in excess of the applicable Monthly Baseline Level, Edison shall pay Seller for energy at prices equal to 88% of: (i) Edison’s Short-Run Avoided Operating Costs; or (ii) if Section 3.1.1 of Amendment No. 1 and the Interim Gas Adjustment Price Provisions would be applicable, the price derived using the Interim Gas Adjustment Price Provisions.”

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- 3.9 Section 14.2 of the Agreement shall be deleted in its entirety and replaced with the following:

“14.2 For all electricity delivered by Seller at or below the applicable Monthly Baseline Level, Edison shall pay Seller for As-Available Capacity at prices authorized from time to time by the CPUC and which are derived from Edison's avoided costs as approved by the CPUC. For all electricity delivered by Seller in excess of the applicable Monthly Baseline Level, Edison shall pay Seller for As-Available Capacity at 88% of prices authorized from time to time by the CPUC and which are derived from Edison's avoided costs as approved by the CPUC.”

- 3.10 A new Section 31.1 shall be added to the Agreement, as follows:

“31.1 Seller shall electronically provide Edison with a rolling 30-day hourly forecast beginning within three (3) business days of the Effective Date of Amendment No. 2 to this Agreement. Seller shall prepare the electronic files in the format shown in Appendix H. Seller shall update the rolling 30-day hourly forecast weekly and send the electronic files to "esmstpoutage@sce.com" with a copy to "presched@sce.com" by 5:00 PM each Wednesday. To the extent known by Seller and not previously communicated by Seller to Edison, by 8:00 AM each day, Seller shall notify Edison of any change of two (2) MW or more to Seller's hourly forecasts for that day. Seller is also encouraged to include hourly forecast changes for subsequent days preceding the next weekly update of the rolling 30-day hourly forecast. Seller shall notify Edison of such changes by telephoning Edison's Real-Time Group or using a California Independent System Operator Corporation ("ISO") or Edison provided web client (the "Web Client") if it is available.”

- 3.11 A new Section 31.2 shall be added to the Agreement, as follows:

“31.2 If for any reason Seller believes that Seller's actual deliveries of energy to Edison (as measured by meter(s) installed pursuant to Section 11) will deviate from Seller's forecasted deliveries of energy to Edison by five (5) MW or more (over or under) on an hourly basis for two (2) hours or more (a "Forecast Deviation"), Seller shall report the Forecast Deviation to Edison (a "Forecast Deviation Report") within one (1) hour from the occurrence of the event that caused the Forecast Deviation, or earlier, if it is reasonably possible to provide an earlier Forecast Deviation Report.

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Seller shall provide the Forecast Deviation Report via the Web Client if it is available and accessible by Seller. If the Web Client is unavailable or not accessible by Seller, Seller shall provide the Forecast Deviation Report by telephoning Edison's Real-Time Group. The Forecast Deviation Report will include Seller's best available information regarding the following: (1) the effective date and time of the change in the most recently submitted forecast; (2) the change in the most recently submitted forecast; and (3) the duration of the change in the most recently submitted forecast. Seller shall provide an updated Forecast Deviation Report in the manner set forth above as soon as is reasonably practicable after Seller learns that any information provided in its initial Forecast Deviation Report is materially inaccurate."

3.12 A new Section 31.3 shall be added to the Agreement, as follows:

"31.3 Any payment adjustment protocol related to scheduling that is approved by the CPUC for application to Uniform Standard Offer No. 1 or Reformed Uniform Standard Offer No. 1 QF contracts after the Effective Date of Amendment No. 2 to this Agreement will be deemed incorporated into this Agreement; provided, however, that Edison will not enforce any such payment adjustment protocol against Seller so long as Seller materially complies with Sections 31.1 and 31.2 above."

3.13 Under the Agreement and this Amendment, Edison shall sometimes pay Seller for energy at prices equal to a percentage of Edison's Short-Run Avoided Operating Costs (as that term is defined in the Agreement) and Edison shall pay Seller for As-Available Capacity (as that term is defined in the Agreement) at a percentage of prices authorized from time to time by the CPUC and which are derived from Edison's avoided costs as approved by the CPUC. The pricing terms of the Agreement and this Amendment may change if the CPUC subsequently modifies its policy on QF pricing methodology.

4. EFFECTIVE DATE AND COMMISSION APPROVAL

4.1 This Amendment shall become effective as of the date the last Party signs it, subject to Section 4.2 below, (the "Effective Date").

4.2 Subject to Edison's waiver, as provided below, Sections 3.1 through 3.13 of this Amendment shall only become effective upon "Commission Approval," which means issuance by the CPUC of a final decision, no longer subject to appeal, approving this Amendment without condition or modification unacceptable to Edison, and containing

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findings that this Amendment and Edison's entry into this Amendment are reasonable and prudent for all purposes including recovery of all payments made pursuant hereto in rates, subject only to review with respect to the reasonableness of Edison's administration of the Agreement and this Amendment. Edison shall file an application or advice letter filing, if appropriate, requesting Commission Approval with the CPUC. Seller shall provide reasonable support and cooperation to Edison in connection with the filing and presentation of any such application or advice letter filing. Edison may, in its sole discretion, at any time, waive the condition of Commission Approval set forth in this Section 4.2 by giving notice of such waiver in writing to Seller, in which case, Sections 3.1 through 3.13 of this Amendment shall become effective immediately upon the giving of such notice. If Commission Approval is not obtained (or waived by Edison) by 7/1/06 (or by such date beyond _____ as the Parties may later agree in writing) (the "Termination Date"), then, as of such Termination Date, this Amendment shall terminate. Upon any such termination, the Agreement shall revert to the terms and conditions it would have contained in the absence of this Amendment.

5. OTHER TERMS AND CONDITIONS

- 5.1 Except as expressly amended hereby, all terms and conditions of the Agreement and Amendment No. 1 shall remain in full force and effect.
- 5.2 Capitalized and underlined terms used but not defined herein have the meaning set forth in the Agreement, as previously amended.
- 5.3 None of the provisions of this Amendment, including this paragraph, shall be considered waived by either Party except when such waiver is given in writing. The failure of either Party to insist in any one or more instances upon strict performance of any of the provisions of this Amendment or to take advantage of any of its rights hereunder shall not be construed as a waiver of any such provisions or the relinquishment of any such rights for the future, but the same shall continue and remain in full force and effect.
- 5.4 This Amendment shall not be amended except by a writing signed by both Parties.
- 5.5 This Amendment shall constitute the entire agreement of the Parties and supersede any and all prior or contemporaneous negotiations, correspondence, undertakings, and agreements between the Parties concerning the particular subject matter of this Amendment.

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- 5.6 This Amendment shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and assigns.
- 5.7 This Amendment is the result of negotiation and each Party has participated in the preparation of this Amendment. Accordingly, any rules of construction to the effect that any ambiguity shall be resolved against the drafting Party shall not be employed in the interpretation of this Amendment.
- 5.8 This Amendment shall be interpreted, governed, and construed under the laws of the State of California as if executed and to be performed wholly within the State of California (without giving effect to choice of laws provisions that might apply the laws of a different jurisdiction).
- 5.9 Each Party represents and warrants that it has not assigned or otherwise transferred, or purported to assign or otherwise transfer, to any party that is not a Party to this Amendment, directly or indirectly, voluntarily, involuntarily, or by operation of law, the Agreement or any rights, liabilities or claims arising thereunder or related thereto, or any rights, claims or causes of action with it may have against the other Party.
- 5.10 Each Party represents and warrants that the person who signs below on behalf of that Party has authority to execute this Amendment on behalf of that Party and that, subject to the condition precedent set forth in Section 4.2 above, all requisite approvals and consents to enter into and bind each Party to the terms of this Amendment have been obtained.
- 5.11 This Amendment may be executed in counterparts, each of which shall be deemed an original and which together shall constitute a single instrument.

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This Amendment is hereby executed as of the 16th day of JUNE 2006

**ORANGE COUNTY SANITATION
DISTRICT**

**SOUTHERN CALIFORNIA
EDISON COMPANY**

By: Steve Anderson

By: Stuart R. Heathill

Name: STEVE ANDERSON

Name: Stuart R. Heathill

Title: CHAIRMAN

Title: Director of QF Resources

Date: Sept. 28-05

Date: 6/16/06

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APPENDIX G

Monthly Baseline Level (kWh)

<u>Time Of Delivery</u>	<u>On-Peak</u>	<u>Mid-Peak</u>	<u>Off-Peak</u>	<u>Super Off-Peak</u>
Summer	90,365	167,383	262,750	N/A
Winter	N/A	202,375	159,494	108,540

Notes:

- 1) A separate Baseline Level is calculated for each Time of Delivery period, during each summer and winter month.**