THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS
ACTION AGENDA SUMMARY

DEPT: CHIEF EXECUTIVE OFFICE

BOARD AGENDA # B-9

Urgent ______ Routine ______

AGENDA DATE January 30, 2001

CEO Concurs with Recommendation YES ______ NO ______
(Information Attached)

4/5 Vote Required YES ____ NO ____

SUBJECT: STATUS REPORT ON STUDIES AND ACTIVITIES RELATED TO WASTE-TO-ENERGY FACILITY AND FINK ROAD LANDFILL

STAFF RECOMMENDATIONS:

1. ACCEPT THE STATUS REPORT.

2. PROVIDE STAFF DIRECTION ON THE FOLLOWING ACTIVITIES:

A. ENVIRONMENTAL ASSESSMENT AND EIR REQUIRED TO PURSUE PERMIT FOR BURNING MEDICAL WASTE.
B. A MARKET SURVEY TO DETERMINE POTENTIAL FOR SELLING EXCESS PLANT CAPACITY TO COMMUNITIES NEEDING RECYCLING CREDITS.
C. SEEK AFFIRMATION ON STANISLAUS COUNTY CONTINUING AS THE PROVIDER OF SOLID WASTE DISPOSAL FOR THE NINE CITIES OF THE COUNTY IN ACCORDANCE WITH EXISTING SOLID WASTE MANAGEMENT PLAN.

FISCAL IMPACT: There are multiple factors that affect the fiscal situation regarding the operation of the Waste-to-Energy facility and Fink Road Landfill. Depending on the direction of the Board and Modesto City Council as it relates to the Waste-to-Energy facility, outcome of State energy crisis resolution and changes in law, disposal rates for county residents can be lowered below the current recommendation of $34 per ton to something like $20 per ton. This would be a 50% reduction from the current tipping fee of $40.25 per ton. As you know, about one-third of people's garbage bill is the cost of disposal. Hopefully, these tipping fee reductions will result in lower garbage bills for all county residents.

BOARD ACTION No. 2001-72

On motion of Supervisor See Below, Seconded by Supervisor See Below,
and approved by the following vote,
Ayes: Supervisors:
Noes: Supervisors:
Excused or Absent: Supervisors: None
Abstaining: Supervisor: None
1) ______ Approved as recommended
2) ______ Denied
3) ______ Approved as amended
4) XXX **Approved in part, as amended:**

AMENDED ITEM TO TAKE TWO SEPARATE VOTES AS FOLLOWS: FIRST VOTE: S/C UNAN. OPPOSED AND OMITTED STAFF RECOMMENDATION #2A; AND, SECOND VOTE: S/M UNAN. APPROVED THE REMAINING STAFF RECOMMENDATIONS #1 AND #2B THROUGH #2E.

Christine Ferraro

File No.

ATTEST: REAGAN M. WILSON, Clerk By: Deputy

STAFF RECOMMENDATIONS:

D. AUTHORIZE OGDEN MARTIN WORKING WITH CITY AND COUNTY STAFF TO NEGOTIATE WITH P G & E, STATE OF CALIFORNIA OR OTHERS AS A RESULT OF STATE ENERGY CRISIS.

E. BASED ON INDEPENDENT APPRASIAL OF THE VALUE OF THE FINK ROAD LANDFILL AND RECOMMENDATIONS ON THE APPROPRIATE RENTAL RATE FOR THE SITE, SET THE RENT FOR FISCAL YEAR 2000-2001 AT $198,000

FISCAL IMPACT:

Prior to making final rate recommendations, we need to complete the rate review process with the three collection companies and the studies and activities related to the Waste-to-Energy facility and Fink Road Landfill. All rate review work should be completed and ready for Board consideration during the first part of June 2001

DISCUSSION:

The Waste-to-Energy facility has been in operation for more than twelve years. This joint project between the County, City of Modesto and Ogden Martin Systems is one of three waste-to-energy facilities in California. It is a true public/private partnership and has been strongly supported by the partners and the eight other cities in the county. Over the past 12 years, more than 3,500,000 tons of waste has been turned into more than 2,000,000,000 kwh's of power.

Two years ago, the Board and the Modesto City Council directed staff to pursue a refinancing of the $60,000,000 plus debt remaining on the facility because interest rates were more favorable than in 1990. In the early winter of 1999 a successful refinancing was done that would reduce the overall interest cost of the facility by $10,000,000 over the remaining 10 year life of the new bonds. At the time, we asked the Board and Council to forego any rate changes for a year while we had an opportunity to see how this new debt structure would fare in the market and to explore some other ways to reduce costs of the facility that would ultimately be reflected in lower tipping fees and garbage rates for all county residents.

Since then staff from the County and City along with assistance from experts in solid waste management have evaluated a variety of ways to further reduce tipping fees at the Waste-to-Energy facility. Also, during this time the County operating under the authority granted to it by the nine cities in the County Solid Waste Plan acquired additional land for future expansion of the Fink Road Landfill. The environmental and preliminary process for the landfill expansion was approved by the Board and is well underway. Other changes to operations and agreements have been evaluated but not yet approved by the Board for further work.

In addition to the above, one other major event has happened that will have an effect on the Waste-to-Energy facility. The California energy crisis can affect the operations of the plant in a variety of ways. The primary effects actual or potential are:

1. The rate we are paid for power will be higher (see Attachment 1, SRAC Rate Increases 1997 - 2000.)

2. The current power purchase agreement with P G & E could be amended. P G & E, the State and the PUC are looking to implement new 5-year agreements.

3. The proposed new agreement has some new risks associated with it that were not present prior to this crisis, primarily bankruptcy risk by P G & E.

4. A new regulatory environment (deregulation) has occurred and is already being subjected to potential change, which may affect how much and under what operating standards the facility will earn income.

5. The final outcome/solution to the energy crisis could be months if not years in the making. Its impact on the revenues from the waste-to-energy facility are as uncertain.

Because of these immediate issues, we believe it would be prudent to focus our time and resources on the energy related matters first. Additionally, we know we can reduce the tipping fee from $40.25 per ton to $34 per ton based on the reduction in debt service costs and lower costs of landfilling the ash from the burning process. Also, the Board now has an independent appraisal of the property done of the site and should consider lowering the annual rental charge to $198,000 per year. This is based on the recommendation of the MAI certified appraiser's estimate of the property valued at $1,985,000.

The attached status report and update reflect work completed to date, information regarding the energy crisis and descriptions of work to be done depending on Board direction.

POLICY ISSUE: Should the Board authorize processing medical waste, recycling credit waste, new contracts with P G & E or others and a modified service agreement with a Ogden Martin Systems?

STAFFING IMPACT: There are currently enough resources available to do the work required.

STANISLAUS COUNTY CONTRACTING COMMUNITIES
WTE ASSET OPTIMIZATION PLAN
(STATUS AND UPDATE - JANUARY 22, 2001)

A draft plan was prepared regarding the overall optimization of the Waste to Energy (WTE) facility in December of 2000. The purpose of that plan was to outline undertakings that would have the net impact of lowering the fees paid by the citizens of Stanislaus County for the disposal of garbage. The purpose of this summary is to revise that draft plan incorporating the status of the major components of such plan given certain recent events.

The draft optimization plan contained 4 major components which are as follows:

1. Optimizing the economics of the WTE facility by processing materials which command higher tipping fees thus increasing the revenues of the WTE facility.

2. Capitalizing on the unique nature of the WTE facility as it relates to its potential to provide recycling credits for wastes generated outside Stanislaus County and processed at the facility. This component of the plan results from the fact that the Stanislaus County's Fink Road Landfill (Landfill) is located adjacent to the WTE facility.

3. Capitalizing on the value of the electricity in the deregulated electricity market in California.

4. Renegotiations of the existing Service Agreement with OMS in order to effect other portions of the plan as well as provide for the ownership of the WTE facility by the Communities at the end of the term of the existing agreement.

MEDICAL AND ADDITIONAL WASTE

Originally, it was proposed that one large company could be in a position to supply both medical waste and other waste to the WTE facility in the form of "one stop shopping" to implement the strategy of introducing medical waste and recycling credit waste into the WTE facility. There was preliminary interest in providing both medical waste up to 30,000,000 pound of medical waste as well as up to 500 tons per day of refuse capable of receiving recycling credits (as defined by the California Integrated Waste Management Board). Under this scenario, waste from outside Stanislaus County would be processed by the facility at an assumed fee of $40.00 per ton, and wastes generated within the County which could not be processed at the WTE facility would be diverted to the Landfill. Given the generally fixed nature of the costs of operating the Landfill, combined with the fact that although permitted to process 1100 tons per day of normal refuse it nominally only handles 250 tons per day of ash for the WTE facility, the landfilling of additional refuse would involve only a small incremental cost. This would help to bring our landfill costs into line with others because it would improve the fixed cost to volume ratios substantially. As such the tipping fees provided by others to process refuse and receive a recycling credit would be incremental revenues to the Communities which could be used to lower fees to garbage bill payers within the County. Estimates of the required capacity which would need to be dedicated to the nine communities within the County as well as the unincorporated areas within the County in order to preserve the 10% recycling credit for those areas is estimated to be approximately 60,261 tons per year currently. Given a budgeted plant capacity of 275,000 tons per year, this would leave 214,739 tons per year of capacity which could be utilized by others seeking the 10% recycling credit. The level of 500 tons per day presumed for the initial analysis represents approximately 60% of that available capacity, leaving ample room available for growth within the County.

The medical waste component that was evaluated involved the construction of a dedicated receiving and handling facility. This facility would be designed to handle medical and special wastes and bulked prior to the introduction into the WTE facility. A subcontractor would operate this facility which would be owned by the Communities. The proposed tipping fees for such waste were estimated to be $100 per ton. Based on a first year volume of 15,000 tons per year, this would increase revenues of approximately $1.5 million per year or a potential net reduction in tipping fees of $2.72 per ton. However given the significant health and regulatory issues involved with this type of project the Board would need to authorize moving forward.

Although first presented as a combined approach of introducing both medical waste and recycling waste into the WTE energy facility, these two waste streams need not be inextricably combined. There is ample interest throughout northern California by communities who have not met their state mandated recycling goals and as such are under consent orders from the State of California regulatory agencies to do so. The implementation of this strategy could be done in the form of a partnership with one or more of the larger waste companies or with communities directly. At this stage we need to contact communities and others to see what their interest would be and at what price.

By increasing revenues generated by the WTE facility for the benefit of the Communities, the tipping fees required to be charged users of the WTE facility within the County could be reduced. The approximate tipping fee reductions (at the end of the first year) which could be realized at the levels assumed for both waste streams discussed above are as follows:

Medical Waste	\$750,000	\$2.72/ton
Recycling Waste	\$5,200,000	\$18.90/ton

It is estimated that the incremental costs of landfilling given the implementation the recycling waste scenario would be approximately \$150,000 per year (\$0.54/ton). As such the level by which the Communities tipping fee could be lower would be adjusted to \$18.35 per ton. All tipping fee calculations were based on 275,000 tons per year. However, as previously mentioned, we need Board authority to proceed with one or both of these initiatives.

ELECTRICITY SALES AND PG&E CONTRACT

Currently what is occurring in the electrical market in California is unprecedented in its scope and severity and can only be described as chaotic. The two largest utilities in California (PG&E and SoCal Edison) are on the brink of bankruptcy and no clear solutions have yet to be purposed. The Communities currently have a Power Purchase Agreement (PPA) with PG&E who is desperately trying to avoid bankruptcy. In that regard there is a move afoot to renegotiate current contracts such as the one Ogden has on behalf of the communities for the WTE facility.

Attached hereto is a brief memo authored in December that outlined the implications of the rise in Short Run Avoided Cost (SRAC) and PX pricing as they relate to the WTE facility (Exhibit 1). It has been clear for some time that in order to optimize the revenues for the electricity generated by the WTE facility that some form of modification of the PPA with PG&E should be considered. The form previously considered was the election within the current terms of the PPA to be paid on the basis of PX market pricing rather than the SRAC formulas. In addition, consideration was given to the alternative of terminating the current PPA, monetizing the fixed capacity payments made by PG&E under the contract, and then negotiating a new contract to receive energy payments more reflective of the market conditions.

However, conditions have changed dramatically since December. At present the PX is all but dismantled and PG&E is on the verge of bankruptcy. The primary culprit is the fact that PG&E, as well as SoCal Edison are restricted by the CPUC in passing on the high costs of wholesale electricity to the consumers. As such PG&E have been paying wholesale suppliers of electricity amounts up to $1.00/kilowatt hour for electricity which they pass on to the consumers for a capped rate of $0.055/kilowatt hour.

Proposals advanced recently by PG&E as well as the State of California involve fixing the rate of wholesale electricity for a period of approximately 5 years. In other words converting all variable rate contracts like the one for the Waste-to-Energy facility to fixed rate contracts. These major contract negotiations apply specifically to facilities like ours who all have PPA's with PG&E. These facilities collectively generate approximately one third of the current electric usage and is generally the only portion under a specific contract as opposed to the commodity arrangement under which most of the wholesale electricity is bought and sold.

Under the current terms of the PPA, and the service agreement with Ogden, the Communities receive 90% of the revenues received for electrical sales from the WTE facility. In the attached memo (Exhibit 2) one can see the dramatic rise in electric rates on both the PX as well as the SRAC basis. Under the terms of the PPA PG&E pays a fixed capacity payment of approximately $3,000,000 per year for capacity ($0.023/kwh) and SRAC for all electricity generated. The average output of the WTE facility is about 130,000,000 kwh/year. SRAC for December was $0.1655/kwh while January SRAC is $0.1755/kwh. These are unprecendently levels of SRAC. If you consider the tipping fee calculations used previously to project future electricity revenue of $0.025/kwh it is clear a much larger tipping fee adjustment is possible. Using average electrical production levels, the monies anticipated to be received by the Communities for the months of December 2000 and January 2001 were $487,499, while the now anticipated revenues is $3,324,749. The precise amount will not be know until the PG&E payments are made in accordance with the terms of the PPA. This means that for the months of December and January alone the monies due for electricity represents a possible tipping fee reduction of approximately $12.08/ton if such excess were applied to the current tipping fees for a one year period.

Although this electricity crisis is far from over, it is clearly a dynamic time and a renegotiations of the current PPA is eminent in some form. As such, PG&E has advanced a preliminary proposal to fix the energy rate at approximately $0.055/ kwh for a period of 5 years in exchange for a forbearance agreement which would allow the utility to pay each facility the sums due for the months of December through March all on April 1, 2001 (note the payments for February and March wouldn't have been received until April 1 or after in any event). Presently PG&E has stopped payments of any kind. It is viewed by the affected generating community that the renegotiations of the PPA's in this fashion will be a palatable fix for PG&E as well as the CPUC and the State of California and themselves. Fundamental to this proposal is a requirement that a credit facility in some form be provided to ensure that such payments due on April 1, 2001 can in fact be made. Such credit enhancement would likely come from the State of California. The success of this strategy will likely be determined by January 29, 2001. Provided in Exhibit 3 are the current versions of the Forbearance Agreements and proposed contract changes in the PG&E proposal.

The State of California is advancing similar notions to the larger wholesalers in an attempt to fix the prices for the majority of the wholesale electric market for a period of 5 years. The numbers suggested by the State of California are $0.055/kwh while the wholesalers are suggesting prices over $0.08/kwh.

In any event, the likely outcome is fixed price contracts for a period of probably 5 years. Under the terms of the PG&E proposal, combining the proposed electricity rate of $.055/kwh with the capacity payment of Approximately $0.023/ kwh would mean a combined rate of $0.078/kwh. This is in the range suggested even by the major electric wholesalers. The proposed fixed 5-year rate would provide certainty to the Communities for the purposes of setting tipping fees during that period. As indicated earlier, the current proposed tipping fee of $34 is predicated on energy revenues of $0.026/kwh. Under this new proposed fixed rate and assuming the conditions of the current tipping fee calculations remain the same, the tipping fees could be lower by $12.34/ton to $21.66/ton or $19.82 - $14.19 per ton.

It is essential that the Communities remain poised to act very quickly as developments unfold regarding this crisis and as contract negotiation opportunities present themselves. We believe a specific proposal will be presented shortly. The PG&E proposal is clearly in the ballpark with proposed solutions even with those proposed by the major wholesalers. The principal issues at hand are as follows:

1. How will monies currently owed be paid? (For us about $3.3 million currently)

2. What is the credit support for both monies owed as well the payment going forward given the financial condition of PG&E? Who is going to guarantee payment?

It is clear however, that the value of the electricity generated by the WTE facility will have a significantly higher level than seen in the last few years. Provided in Exhibit 3 attached hereto is a tabular and graphical presentation of the historical SRAC for the years 1997 through the present. Although the proposed new fixed SRAC numbers are lower than those seen during the last two months, they remain higher than those of the recent 4 years.

OMS CONTRACT RENEGOTIATIONS

In the draft optimization plan, renegotiations of the current Service Agreement with OMS were under consideration. In the event medical and special waste were to be introduced into the WTE facility, OMS would require certain contract modifications. In the event the Communities wish to pursue the option of owning the WTE facility at the end of the term of the existing Service Agreement, negotiations would need to proceed to reflect such an outcome. There has been no advancement of contract negotiations beyond preliminary discussion awaiting indications of the desires of the Communities. These two issues are not fixed together and the Board can direct staff as they desire.

TIPPING FEE REDUCTION POTENTIAL

To summarize the elements of the optimization plan and the respective impact to the tipping fees, the following summary is provided.

Proposed tipping fee	$34.00/ton
Reduction of tipping fee Resulting from 5 year fixed Pricing under proposed terms Of a revised PPA	$12.34/ton
Resulting Tipping Fee	**$21.66/ton**
Reduction of tipping fee Resulting from the processing Of outside waste for recycling Credit purposes	$18.50/ton
Resulting Tipping Fee	**$3.16/ton**
Reduction of the tipping fee Resulting from the incorporation of Medical waste (not including any additional Fees to OMS)	$2.72/ton
Resulting Tipping Fee	**$0.44/ton**

EXHIBIT 1

Analysis of Energy Revenues Related to the Contracting Communities/OMS WTE Facility December 2000

Analysis of Energy Revenues Related to the Contracting Communities/OMS Waste to Energy Facility (December 2000)

During the last year, some dramatic events have taken place in the electric energy market place in California which have had and will likely continue to have significant positive impacts to the financial success of the Contracting Communities ("CC")/OMS Waste to Energy Facility at Fink Road (the "Facility"). The purpose of this brief summary report is to review how the crisis in the unregulated electric market in California has effected revenues received from output from the Facility during the past 12 months, and review strategies going forward.

Presently, electric energy output from the Facility is sold to PG&E under a Power Purchase Agreement (the "PPA") in effect for over 10 years. This agreement was signed prior to the deregulation of the electric market in California, and is commonly referred to a PURPA contract. PURPA describes the Federal legislation, which in effect required utilities to purchase electric energy from Qualifying Facilities ("QF"s) and to pay for such electricity an amount equal to the avoided cost of such electricity. Under the PPA, OMS and the CC are paid a capacity payment in addition to all electricity delivered under a formula version of what is referred to as Short Run Avoided Cost ("SRAC"). This SRAC formula is basically based on the average gas price using various indices of gas entering California. A description of the formula is attached as Exhibit 1 hereto.

Presently wholesale electrical energy is sold in the California market under a number of pricing scenarios. In addition to SRAC, energy is sold in the PX exchange (which is tantamount to the market clearinghouse for energy in California) under day-ahead and hour-ahead prices and other alternate scenarios. These are referred to as PX day-ahead and PX hour-ahead pricing respectively. In essence, electric energy is being traded as a commodity in California (and in other states which have deregulated their electric markets) driven by supply and demand forces. What has happened in the California electric market during the past 6 months can best be described as chaos. Prices have reached all time highs in the PX market. The primary reason for such explosive prices is primarily the fact that California relies heavily on sources of electricity outside California since sufficient electricity is not generated within California to meet its demand. Further exacerbating the situation last summer was the fact that a large hydro facility in the

Northwest, which ordinarily supply California large quantities of electricity, was undergoing repairs and as such was not available (and is not scheduled to be available for another 2 years). Notwithstanding this particular shortage, the electric industry in general is becoming more dependent on natural gas facilities than ever before. Most new facilities being built in California, and elsewhere, are natural gas fueled. Since deregulation has taken place in California, as well as many locations in the United States, there has been new pressures put on the natural gas supplies in the United States. Traditionally electric loads tended to peak in the summer months while gas demand was highest in the winter. The gas industry is experiencing seasonal pricing trends which are being dramatically effected by these summer electric loads. Since the gas industry was deregulated in the early 1990's, it too is a function of supply and demand. As such, gas prices, nation wide and particularly in California, have reached unprecedented highs during the last 6 months and are currently reaching chaotic levels. Provided, as Exhibit 2 is the posted natural gas prices on a daily basis for the gas indices, which are the basis of the SRAC pricing formula. The gas price at the Southern California border has risen from $5.18/MMBTU on the first of November of this year to a price of $26.64/MMBTU as of December 5th. For perspective, the average natural gas price used for the SRAC calculation for November of last year was $3.03/MMBTU.

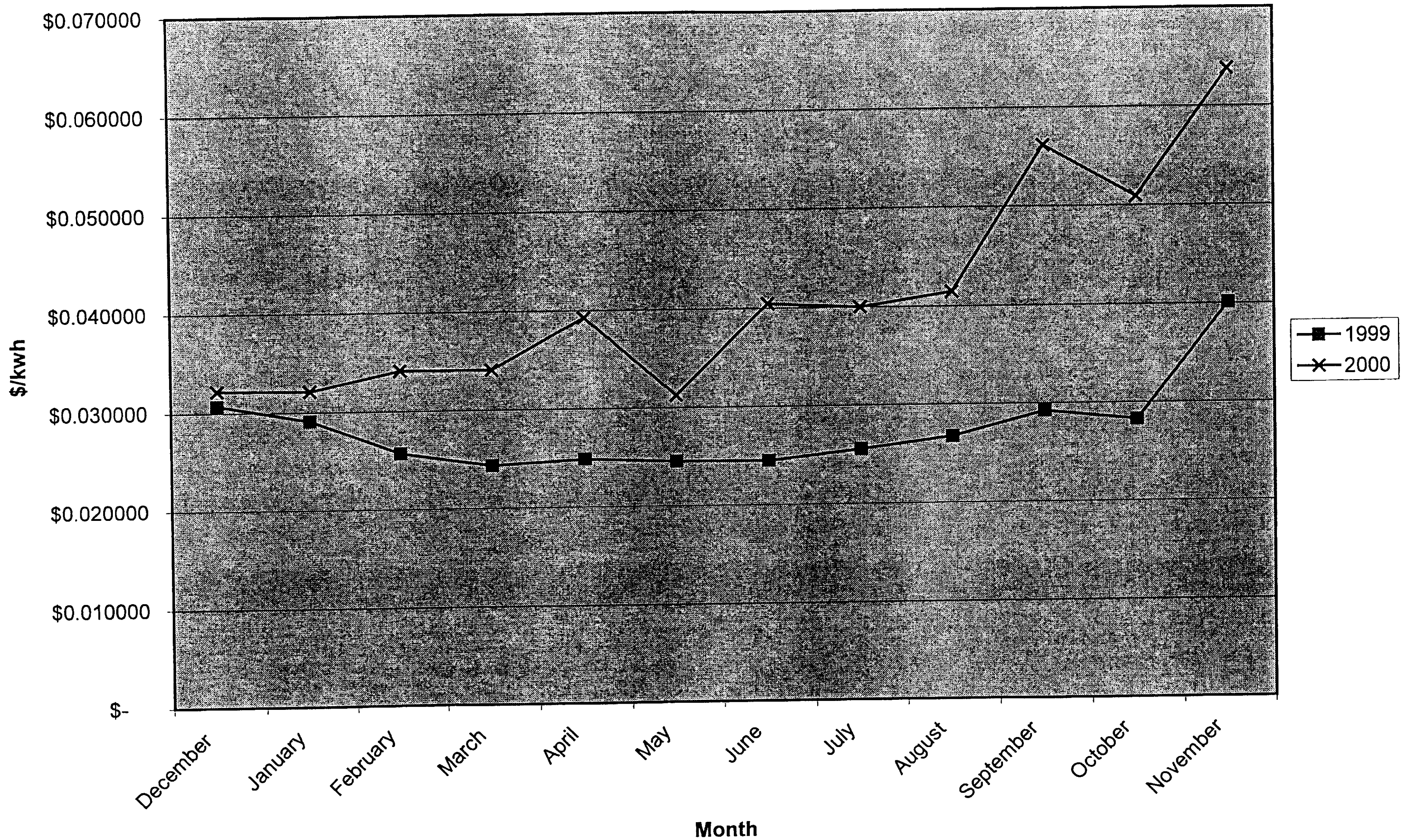
The impact of this market as it relates to the CC/OMS Facility is that the monies received for the sale of electricity have risen primarily due to the increases in the prices for natural gas. Since the monies received are based on SRAC pricing which is calculated on the basis of the prices of natural gas, the impact of the dramatic increase in the PX or market prices is only tangentially felt. Shown on Table 1 and Figure 1 is a tabulation and comparison of the SRAC rates for 12 months beginning in December of 1998 vs the SRAC rates for 12 months beginning in December of 1999. For illustration purposes the actual calculated SRAC rates for November 1999 and November 2000 are attached as Exhibit 3.

Shown on Table 2, is a tabulation of the actual revenues received for electricity generated by the Facility during the last 12 months. Also included in the tabulation is a calculation of the electric revenues, which would have been received at a rate of $0.03/kwh, which was the budgeted rate used in the calculation of the tipping fee for rate setting purposes. It is interesting to note that over half of the increase in revenues occurred during the months of October and November. Based on the existing clearing price for gas during

Comparison of Short Run Avoided Cost (SRAC)- TABLE 1
12 month segments 12/98-11/99 and 12/99-11/00

	1998/1999 ($/kwh)		1999/2000 ($/kwh)		Change	
December	$	0.030700	$	0.032200	$	0.001500
January	$	0.029090	$	0.032120	$	0.003030
February	$	0.025730	$	0.034110	$	0.008380
March	$	0.024340	$	0.034080	$	0.009740
April	$	0.024880	$	0.039200	$	0.014320
May	$	0.024560	$	0.031250	$	0.006690
June	$	0.024490	$	0.040430	$	0.015940
July	$	0.025570	$	0.040000	$	0.014430
August	$	0.026770	$	0.041400	$	0.014630
September	$	0.029260	$	0.056140	$	0.026880
October	$	0.028300	$	0.050870	$	0.022570
November	$	0.040080	$	0.063750	$	0.023670
Average	$	0.027814	$	0.041296	$	0.013482

Figure 1 SRAC Comparison 1999/2000



Stanislaus County Energy Rate Analysis- TABLE 2
Tipping Fee Budgeted Energy Rate vs Actual SRAC 2000

	Electricity Generation (kwh)	SRAC ($/kwh)	Revenues	Budgeted Rate ($/kwh)	Revenues	Differencial
Dec-99	11,736,000	$ 0.03220	$ 377,899	$ 0.03000	$ 352,080	$ 25,819
Jan-00	4,176,000	$ 0.03212	$ 134,133	$ 0.03000	$ 125,280	$ 8,853
Feb-00	11,556,000	$ 0.03411	$ 394,175	$ 0.03000	$ 346,680	$ 47,495
Mar-00	12,492,000	$ 0.03408	$ 425,727	$ 0.03000	$ 374,760	$ 50,967
Apr-00	11,844,000	$ 0.03920	$ 464,285	$ 0.03000	$ 355,320	$ 108,965
May-00	12,636,000	$ 0.03125	$ 394,875	$ 0.03000	$ 379,080	$ 15,795
Jun-00	12,816,000	$ 0.04043	$ 518,151	$ 0.03000	$ 384,480	$ 133,671
Jul-00	12,708,000	$ 0.04000	$ 508,320	$ 0.03000	$ 381,240	$ 127,080
Aug-00	12,888,000	$ 0.04140	$ 533,563	$ 0.03000	$ 386,640	$ 146,923
Sep-00	4,572,000	$ 0.05614	$ 256,672	$ 0.03000	$ 137,160	$ 119,512
Oct-00	10,004,000	$ 0.05087	$ 508,903	$ 0.03000	$ 300,120	$ 208,783
Nov-00	12,780,000	$ 0.06375	$ 814,725	$ 0.03000	$ 383,400	$ 431,325
Total	130,208,000		$ 5,331,429		$ 3,906,240	
Ave		$ 0.04130		$ 0.03000		

Additional Revenue Resulting from Higher SRAC	$ 1,425,189
Contracting Communities Share (@90%)	$ 1,282,670
Tipping Fee Impact @ 275,000 tons per year	$ 4.66

the first few days of December (see Exhibit 2) the December SRAC price and the subsequent revenues should be even higher for December. This SRAC price is generally set at the beginning of the Month, which means such price is largely reflective of the prior months gas pricing. As such, the SRAC pricing for January would be higher as well. Even though the electric revenues received for electricity generated by the Facility are under somewhat restrictive pricing presently there has been, and will likely continue to be, an increase in electric revenues above those budgeted.

Within the confines of the existing PPA, which requires that all electric output from the Facility be sold to PG&E under the SRAC pricing, the California Public Utilities Commission ("CPUC") has provided that any QF is entitled to a one time election to convert the pricing formula for electricity from SRAC to PX day-ahead. There have been a number of QF's in California make that election. This PX day-ahead pricing is the price the OMS and the CC would receive for electricity generated in the absence of the current PPA. To illustrate the impact of this PX day-ahead pricing, as it would relate to the Facility, tabulation is presented in Table 3 of the SRAC pricing vs the PX day-ahead pricing for the last 12 months. It is graphically illustrated on Figure 2.

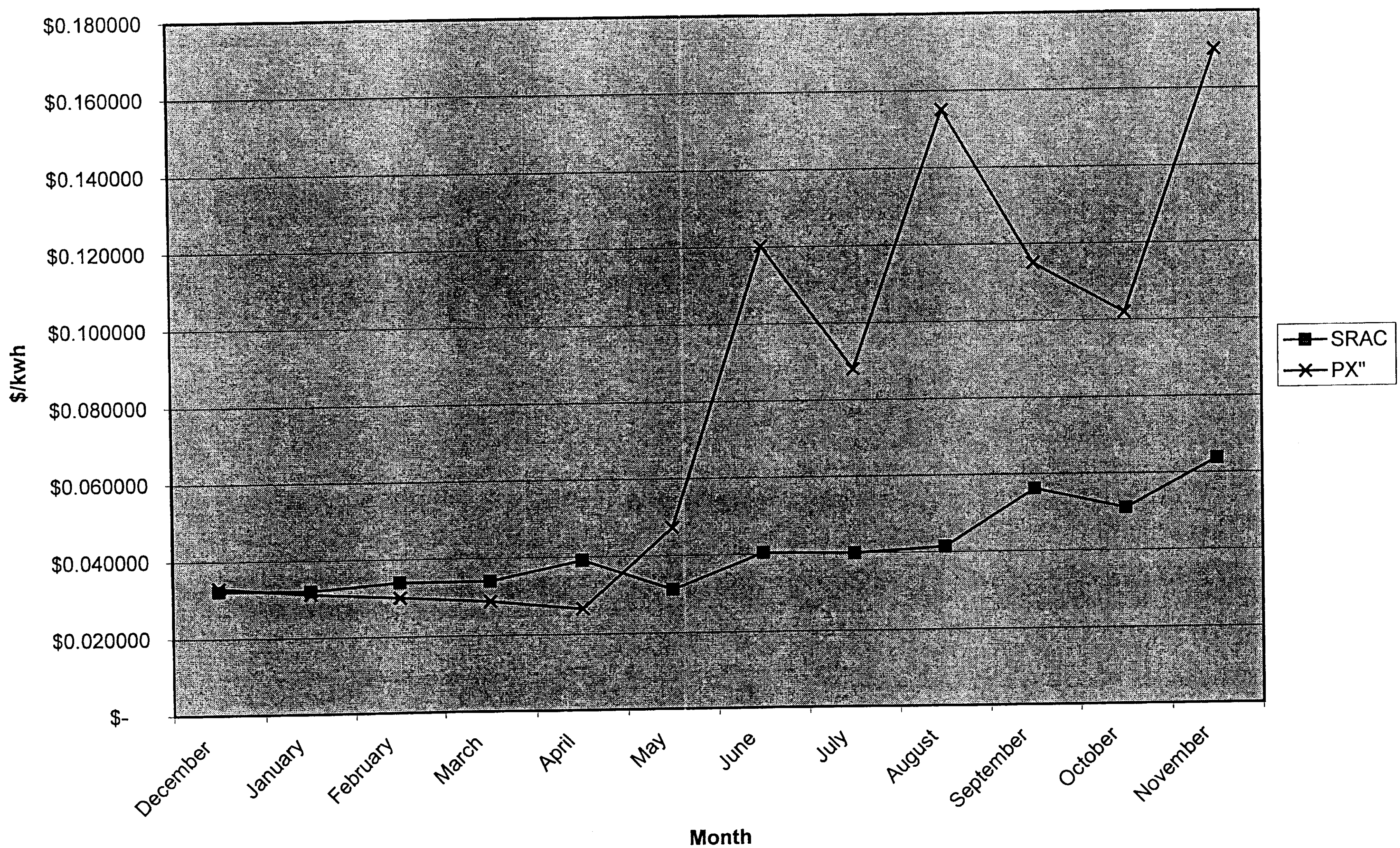
With respect to the potential impact to the electric revenue stream from the Facility, a tabulation is presented in Table 4. This Table compares the revenues received during the last 12 months under the current SRAC pricing vs the revenues which would have been received had the output from the Facility been sold under PX day-ahead pricing. As can be seen the increase in the CC's share of electric revenues above those actually received would have been $4,661,905 while the increase above the estimates used in the tipping calculations would have been $5,944,575. This translates to the tipping fee reductions of $16.95/ton or $21.62/ton respectively (based on 275,000 tons per year throughput), provided all of this increase was used to reduce the tipping fees.

With respect to the voluntary election of converting to PX day-ahead pricing, there is a potential risk that at some point the CPUC will rule that the PX pricing includes a component which could be defined as a capacity component. Since under the PPA the CC's and OMS receive both a capacity credit as well as an energy credit (which is approximately $3,000,000 per year), there is a risk that the capacity component could be clawed back in the future. Experts indicate it would quite difficult to determine such a

Comparison of SRAC and PX day ahead pricing - TABLE 3
12 month segments 12/98-11/99 and 12/99-11/00

	SRAC ($/kwh)		PX day-ahead ($/kwh)		Change	
December	$	0.032200	$	0.033010	$	0.000810
January	$	0.032120	$	0.031180	$	(0.000940)
February	$	0.034110	$	0.030080	$	(0.004030)
March	$	0.034080	$	0.028800	$	(0.005280)
April	$	0.039200	$	0.026560	$	(0.012640)
May	$	0.031250	$	0.047220	$	0.015970
June	$	0.040430	$	0.120200	$	0.079770
July	$	0.040000	$	0.087990	$	0.047990
August	$	0.041400	$	0.155000	$	0.113600
September	$	0.056140	$	0.115000	$	0.058860
October	$	0.050870	$	0.102000	$	0.051130
November	$	0.063750	$	0.170000	$	0.106250
December	$	0.165500				
Average	$	0.055088	$	0.078920	$	0.023833

Figure 2 PX vs SRAC



Stanislaus County Energy Rate Analysis-TABLE 4
SRAC vs PX (day-ahead) for Last 12 Months

	Electricity Generation	SRAC	Revenues	PX	Revenues
Dec-99	11,736,000	$ 0.03220	$ 377,899	$ 0.03301	$ 387,405
Jan-00	4,176,000	$ 0.03212	$ 134,133	$ 0.03118	$ 130,208
Feb-00	11,556,000	$ 0.03411	$ 394,175	$ 0.03008	$ 347,604
Mar-00	12,492,000	$ 0.03408	$ 425,727	$ 0.02880	$ 359,770
Apr-00	11,844,000	$ 0.03920	$ 464,285	$ 0.02656	$ 314,577
May-00	12,636,000	$ 0.03125	$ 394,875	$ 0.04722	$ 596,672
Jun-00	12,816,000	$ 0.04043	$ 518,151	$ 0.12020	$ 1,540,483
Jul-00	12,708,000	$ 0.04000	$ 508,320	$ 0.08799	$ 1,118,177
Aug-00	12,888,000	$ 0.04140	$ 533,563	$ 0.15500	$ 1,997,640
Sep-00	4,572,000	$ 0.05614	$ 256,672	$ 0.11500	$ 525,780
Oct-00	10,004,000	$ 0.05088	$ 508,984	$ 0.10200	$ 1,020,408
Nov-00	12,780,000	$ 0.06375	$ 814,725	$ 0.17000	$ 2,172,600
Total	130,208,000		$ 5,331,509		$ 10,511,324

Price differencial for PX pricing vs SRAC during 12 months	$ 5,179,814
Contracting Communtities Share (@90%)	$ 4,661,833
Budgeted Electric Revenues @ $.03/kwh	$ 3,906,240
Additional Revenues Which Would Have Resulted From PX Pricing (CC share)	$ 5,944,575

component exists definitively. Given the situation which has occurred during the last 12 months, even if the $3,000,000 capacity component were to be clawed back, the net impact of the PX election would be reduced from $5,179,895 to $2,179,895 provided the entire capacity component was reduced, which is very unlikely.

Given the situation which has and continues to occur in the deregulated electric market in California, is seems prudent to consider available options which the CC and OMS has regarding the potential to increase electric energy revenues which could impact the tipping fees for the Facility dramatically.

EXHIBIT 2

POSTED NATURAL GAS CLEARING PRICES
NOVEMBER AND DECEMBER

November-00
NATURAL GAS PRICE TRACKING

		Malin Cash Price $/MMBTU	SoCal Border Cash Price $/MMBTU	Implied PG&E Index $/MMBTU	Implied SCE Index $/MMBTU	Implied weighted average PG&E SRAC Cents/kWh	Implied weighted average SCE SRAC	NYMEX Henry Hub June Futures Settle Price
01-Nov-00	Wednesday	5.10	5.18	5.14	5.18	6.43	6.06	4.69
02-Nov-00	Thursday	5.14	5.26	5.20	5.26	6.50	6.15	4.76
03-Nov-00	Friday	5.37	5.42	5.40	5.42	6.72	6.31	4.93
06-Nov-00	Monday	5.38	5.43	5.41	5.43	6.73	6.32	4.85
07-Nov-00	Tuesday	5.49	5.57	5.53	5.57	6.88	6.47	5.08
08-Nov-00	Wednesday	5.88	5.89	5.89	5.89	7.29	6.81	5.34
09-Nov-00	Thursday	6.74	6.82	6.78	6.82	8.32	7.79	5.45
10-Nov-00	Friday	6.54	6.74	6.64	6.74	8.15	7.70	5.46
13-Nov-00	Monday	7.18	7.35	7.27	7.35	8.87	8.34	5.70
14-Nov-00	Tuesday	8.25	8.24	8.25	8.24	10.00	9.28	6.02
15-Nov-00	Wednesday	8.21	8.20	8.21	8.20	9.96	9.24	6.27
16-Nov-00	Thursday	8.04	8.09	8.07	8.09	9.80	9.12	5.80
17-Nov-00	Friday	8.44	9.54	8.99	9.54	10.86	10.65	6.10
20-Nov-00	Monday	13.1	13.62	13.36	13.62	15.89	14.94	6.25
21-Nov-00	Tuesday	16.03	16.91	16.47	16.91	19.47	18.40	6.41
22-Nov-00	Wednesday	15.91	16.76	16.34	16.76	19.32	18.25	6.58
23-Nov-00	Thursday	15.91	16.76	16.34	16.76	19.32	18.25	6.58
24-Nov-00	Friday	15.91	16.76	16.34	16.76	19.32	18.25	6.58
27-Nov-00	Monday	14.12	15.45	14.79	15.45	17.53	16.87	6.37
28-Nov-00	Tuesday	14.59	15.48	15.04	15.48	17.82	16.90	6.02
29-Nov-00	Wednesday	16.48	18.07	17.28	18.07	20.40	19.62	6.18
30-Nov-00	Thursday	16.75	18.47	17.61	18.47	20.79	20.05	6.59
01-Dec-00	Friday	16.35	18.40	17.38	18.40	20.52	19.97	6.67

December-00
NATURAL GAS PRICE TRACKING

		Malin Cash Price $/MMBTU	SoCal Border Cash Price $/MMBTU	Implied PG&E Index $/MMBTU	Implied SCE Index $/MMBTU	Implied weighted average PG&E SRAC Cents/kWh	Implied weighted average SCE SRAC	NYMEX Henry Hub June Futures Settle Price
01-Dec-00	Friday	16.35	18.40	17.38	18.40	20.52	19.97	6.67
04-Dec-00	Monday	19.68	21.51	20.60	21.51	24.22	23.24	7.43
05-Dec-00	Tuesday	26.02	26.64	26.33	26.64	30.83	28.64	7.38
06-Dec-00	Wednesday							
07-Dec-00	Thursday							
08-Dec-00	Friday							
11-Dec-00	Monday							
12-Dec-00	Tuesday							
13-Dec-00	Wednesday							
14-Dec-00	Thursday							
15-Dec-00	Friday							
18-Dec-00	Monday							
19-Dec-00	Tuesday							
20-Dec-00	Wednesday							
21-Dec-00	Thursday							
22-Dec-00	Friday							
25-Dec-00	Monday							
26-Dec-00	Tuesday							
27-Dec-00	Wednesday							
28-Dec-00	Thursday							
29-Dec-00	Friday							
01-Jan-01	Monday							

EXHIBIT 2

Propose Forbearance and Pricing Term Agreements
Proposed by PG&E
January 19, 2001

FORBEARANCE AGREEMENT

(1/19/01, 4:00 p.m. Draft)

This Forbearance Agreement (this "Agreement"), is entered into as of January 28, 2001 (the "Effective Date"), between and among Pacific Gas and Electric Company ("PG&E") and the Qualifying Facility Owners who are signatories hereto (individually, a "QF" and collectively, the "QFs").

RECITALS

WHEREAS, the QFs supply electricity (energy and capacity) to PG&E pursuant to the power purchase agreements described in Exhibit A hereto (each, a "PPA," and collectively, the "PPAs");

WHEREAS, PG&E is indebted to each of the QFs as of the date hereof for electricity (energy and capacity) delivered to PG&E in December, 2000 and January 2001 under the PPAs, and anticipates incurring additional indebtedness under the PPAs for electricity (energy and capacity) from the Effective Date through the end of January, 2001 under the PPAs (for each applicable QF, the "Forbearance Amount" and for all of the QFs, the "Forbearance Amounts");

WHEREAS, the Forbearance Amounts include payments which are due and payable to the QFs on February 1, 2001 and March 1, 2001 (the "Due Dates"); and

WHEREAS, PG&E has requested that QFs permit PG&E to pay the entire Forbearance Amounts on April 1, 2001, rather than on the Due Dates, and the QFs are willing to postpone payment of the Forbearance Amounts until April 1, 2001, on the terms and conditions set forth herein.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Definitions. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth below:

"Bankruptcy" shall mean the occurrence of any of the following events with respect to PG&E, conditions or circumstances: (a) PG&E shall file a voluntary petition in bankruptcy or shall be adjudicated a bankrupt or insolvent, or shall file any petition or answer or consent seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief for itself under the Bankruptcy Code, or shall seek or consent to or acquiesce in the appointment of any trustee, receiver, conservator or liquidator of PG&E or of all or any substantial part of its properties; (b) an involuntary case or other proceeding shall be commenced against PG&E seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief with respect to PG&E or its debts under the Bankruptcy Code, or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, (c) a court of competent jurisdiction shall enter an order, judgment or decree approving a petition filed against PG&E seeking a reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under the Bankruptcy Code; (d) PG&E shall make an assignment for the benefit of creditors; or (e) PG&E shall take any corporate action for the purpose of effecting any of the foregoing.

"<u>Bankruptcy Code</u>" shall mean Title 11 of the United States Code.

"<u>Forbearance Period</u>" shall mean the period from January 28, 2001, through March 31, 2001.

"<u>Governmental Approval</u>" shall mean the approval of the California Public Utilities Commission.

2. <u>Forbearance Period; Force Majeure</u>. Subject to the provisions of Sections 5 and 6 below, each QF agrees that it will not take any action to enforce its rights or remedies in respect of payment of the Forbearance Amounts from the date of execution of this Agreement through and including March 31, 2001 (the "Forbearance Period"). PG&E hereby waives its right to assert a Force Majeure under the PPAs as an excuse from or defense to peformance of its obligations to pay the Forbearance Amount and all amounts owed by PG&E to the QFs under the PPAs for electricity (energy and capacity) delivered to PG&E during the Forbearance Period effective on [April 1, 2001].

3. <u>Payment of Forbearance Amount</u>. On or before April 1, 2001, PG&E shall pay to each QF the Forbearance Amount owed to such QF, plus interest thereon at the 30-day Commercial Paper Rate (as published in the Wall Street Journal) in effect on February 1, 2001, compounded monthly, from the date such amount was due under the applicable PPAs until the date of payment. In addition, on April 1, 2001, PG&E shall pay to each QF all other amounts due to such QFs on such date under the PPAs, including any payment due for electricity (energy and capacity) delivered during the Forbearance Period.

4. Payment of "True-up Obligations. "True-up" obligations of QFs, if any, ordered by the California Public Utilities Commission ("CPUC") pursuant to a decision following Decision 99-11-025 shall not be due and payable during the Forbearance Period. The inclusion of this Section 4 is not an admission by any QF that any such "True-up" obligation is owed or will at any time be owing to PG&E.

5. Conditions Precedent. The obligations of any QF to forbear under Section 2 above shall conditioned upon the occurrence of each of the following events:

(a) The owners of qualifying facilities representing 75% of the MWhr of expected qualifying facility generation to be delivered to PG&E during the Forbearance Period shall have executed and delivered a counterpart of this Agreement.

(b) Such QF and PG&E shall have executed definitive written PPA amendments (the "PPA Amendments") implementing long term pricing arrangements and, if desired by such parties, other non-price terms governing their respective relationships, unless the PPA pricing terms of such QF have previously been amended to the satisfaction of such QF and PG&E.

(c) Legislation, a final order of the CPUC, or any other governmental action shall have been issued or enacted, [that has the effect of raising PG&E's credit position to investment grade (BBB- or better rating by Standard & Poor's or an equivalent credit rating agency)] [that enhances PG&E's creditworthiness to the reasonable satisfaction of such QF] *(PG&E is concerned about the feasibility of actually obtaining an investment grade credit rating by January 28).*

(d) PG&E shall have received Governmental Approval with respect to this Agreement and the PPA Amendments.

(e) No Bankruptcy shall have occurred with respect to PG&E.

(f) *(The QFs have raised the issue of the necessity of credit support for the Forbearance Amounts and payment for deliveries during the Forbearance Period. PG&E is unable to offer a specific agreement concerning credit support at this time.)*

6. Termination. The obligation of each QF to forbear pursuant to Section 2 hereof shall terminate as follows:

(a) At the option of such QF, upon the issuance by the CPUC of the pending draft decision of Commissioner Wood regarding energy pricing terms for qualifying facilities, or any modification or alternative thereto, unless (i) such decision contains an exception with respect to the QFs party to this Agreement; or (ii) such QF and PG&E in good faith agree that such modification or alternative is consistent with this Agreement and the PPA Amendments described in Section 5(b) above.

(b) At the option of such QF, if any party to a material contract or agreement of such QF shall deny or withold its consent to this Agreement or the PPA Amendment, if such consent is required by the terms of such contract or agreement.

(c) Immediately upon the fifth business day following a Bankruptcy of PG&E, unless this Forbearance Agreement and such QF's PPA, including its PPA Amendment, are assumed by PG&E with the approval of the bankruptcy court, or unless otherwise agreed by PG&E and such QF; or

(d) At the option of such QF, if during the Forbearance Period, any payment by PG&E is made to any qualifying facility under a power purchase agreement in excess of $10,000 in any month.

7. QFs to Honor PPAs. During the Forbearance Period, and provided that the obligations of the QFs to forbear have not terminated pursuant to Section 5 or 6 hereof, each QF will continue to honor its PPA terms, including delivery of energy and capacity thereunder.

8. Miscellaneous.

(a) The terms and provisions of the PPAs shall remain in full force and effect, except as otherwise provided herein and in the PPA Amendments.

(b) This Agreement shall be governed by, and construed in accordance with, the laws of the State of California.

(c) This Agreement and the PPA Amendments constitute the entire agreement between the parties hereto with respect to the subject matter hereof and thereof, and supersede all prior negotiations, communications, discussions and correspondence concerning the forbearance described herein.

(d) If any provision of this Agreement shall for any reason be determined by a court of competent jurisdiction to be unenforceable in any respect, such unenforceability shall not affect any other provision hereof, and this Agreement shall be construed as if such unenforceable provision had not been contained herein.

(e) This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument.

(f) If any legal action is brought for the enforcement of this Agreement, or because of an alleged dispute, breach, default hereunder, the successful or prevailing party shall be entitled to recover reasonable attorneys fees and other costs incurred in that action, in addition to any other relief to which it may be entitled.

(g) All notices and other communications hereunder shall be in writing and shall be mailed, sent or delivered at or to the address or facsimile number of the respective party or parties set forth on the signature pages hereof, or at such other address or facsimile number as such party or parties shall have designated in a written notice to the other party or parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first written above.

PACIFIC GAS AND ELECTRIC COMPANY

By________________________
Its________________________

[address and facsimile number]

[QF SIGNATURE BLOCKS]

[addresses and facsimile numbers]

EXHIBIT A

DESCRIPTION OF PPAs

1/19/01 DRAFT

Washington DC Summit on California Energy Crisis

PG&E and QF Parties Blueprint for Restructuring of Energy Pricing

Beginning on January 11, 2001

1. Objective – QFs represent fully one third of the generation serving California load. Accordingly, the treatment of the QF issues require balanced assessments and measured progress toward a solution that will both provide lower prices from QFs and secure the stability of supply from these critical California generation resources. There are three objectives of these principles: first, to secure the stability of California rates at reasonable levels; second, to assure the commercial and operational viability of California's existing QF generating resources in order to sustain delivery of generation from existing generating facilities; and third, to facilitate the restoration of the financial health of PG&E.

2. Forbearance Issues

    a. Subject to the following provisions, individual QF parties shall negotiate in good faith an agreement to allow PG&E to forego payment of invoices for power delivered to PG&E in December, 2000 and January 2001 until March 31, 2001, provided that such payments are timely made on April 1, 2001, plus interest at the 30 day commercial paper rate compounded monthly from the date due until the date of payment. In exchange for a substantial portion of the QF parties foregoing payments, PG&E and the individual QF parties shall undertake all reasonable efforts to advocate that the Commission hold until its February 8, 2001 decision conference the pending draft decision of Commissioner Wood regarding QF energy pricing terms.

    b. In the event the pending draft decision or any alternate thereto is issued, there shall be no further requirement on any QF party to negotiate forbearance of payments, unless the alternate decision is consistent with these principles.

    c. The true-up issue for parties that have switched to PX pricing will be addressed as part of the new pricing agreement. Any true-up obligation for QFs who have flipped to the PX based SRAC price shall not be due and payable until after the forbearance period.

    d. The following milestones shall apply to the process of securing a forbearance agreement:

        i. A written forbearance agreement must be executed by January 28, 2001 between a substantial portion of the QF parties (individually or collectively) and PG&E.

ii. At close of business on January 16, 2001, January 19, 2001, January 22, 2001 and January 23, 2001, the QF parties shall provide to PG&E an update of the individual QFs and associated capacity that expect to forbear.

iii. A form of forbearance agreement, long term pricing arrangements and non-price terms acceptable to both PG&E and the QF parties shall be developed by January 22, 2001.

iv. Legislation that secures PG&E's credit position for the payment of outstanding obligations shall be proposed by January 17, 2001 and enacted by January 28, 2001.

v. Contractual provisions implementing the energy pricing and non-price provisions shall be executed by January 28, 2001.

3. Pricing Issues for Gas-Fired Generators

a. Contract capacity provisions in existing contracts shall not be modified.

b. Prices for energy provided by gas-fired QFs will be linked to the long-term cost of burner tip gas supplies for full requirements firm service. California state entities or other entities may secure gas supplies for QF resources and provide gas pursuant to bilateral contracts.

c. Prices for energy provided by gas-fired QFs, including switching QFs, shall be determined by the PG&E pricing formula for energy payments to QFs (as established by Section 390(b) and implemented in the D.96-12-028, as that statute and decision existed on January 1, 2001), modified by using a five year border gas price in lieu of the formula's GP_n border gas price. This method yields a reasonable energy price for gas-fired QFs. After the five year or applicable period, energy prices for gas-fired QFs, including switching QFs, will be set equal to the price established by Section 390(b) and implemented in D.96-12-028 as that statute and decision existed on January 1, 2001.

d. Establishment of the long-term border gas price shall be implemented so as to minimize the impact on the long-term gas market and not unreasonably increase market gas prices.

e. Current time-of-delivery and seasonal payment allocation factors shall continue to apply.

f. Energy line loss factors shall be set at 1.0. Capacity loss adjustment factors (CLAFs) shall remain unchanged.

g. QF gas-fired generation with non-standard energy pricing terms, such as price or heat rate floors, shall continue to be honored, provided that the contract parties shall negotiate in good faith the possibility of entering into new pricing and non-pricing terms and conditions consistent with these principles.

h. The parties shall support legislative initiatives for enhancing the creditworthiness of the revised contracts.

4. Non-Price Issues for Gas-fired QFs

   a. PG&E and the QF parties shall take all good faith actions to assure that these principles are fully adopted and supported by all state and federal regulatory, legislative and executive entities.
   b. These principles shall be implemented through a bilateral contract amendment between PG&E and the individual QF parties, which shall be subject to CPUC approval.
   c. PG&E shall continue to actively oppose positions currently before FERC, seeking to impose or allocate grid management charges on utility and QF interests for behind the meter loads.
   d. Provisions shall be sought to assure contractual, legislative and regulatory conditions that guarantee the payment from the buyer of the long term commitments made under the pricing principles, perhaps including conditions to secure the full faith and credit of the state.
   e. The ability of QFs to “flip” to the PX market price is suspended.

5. Pricing Issues for Non Gas-Fired Generators

   a. Contract capacity provisions in existing contracts shall not be modified.
   b. Subject to Sections 5c, 5d and 5f below, prices for energy, including energy from all switching QFs, shall be pursuant to bilateral contract modifications resulting in a five-year fixed-price contract with an energy price not to exceed [5.5] cents /kwh (nominal $). California state entities or other entities may secure the credit worthiness and/or assume the power purchase rights and payment responsibilities pursuant to such contracts.
   c. Subject to Section 5d, below, prices for QF energy, including energy from all switching QFs, may be pursuant to alternative bilateral contract modifications at levels below the level specified in Section 5b, above in consideration of alternate currencies and other factors of mutual value (such as, but not limited to: reduced energy prices in the first years of the term of the contract; elimination of FERC-mandated QF operating and efficiency standards, alternative time of use periods; raising of contractual physical energy purchase limits; consolidation of multiple projects owned/managed by the same QF owners; PG&E dispatchability; resolution/ incorporation of one-time switch true-up obligations; et. al.) relevant to specific QFs and their contracts.
   d. Prices for energy made pursuant to the bilateral and alternative contract modifications described in Sections 5b and 5c, above, on average shall not exceed [5.25] cents/kwh (average nominal $, on a portfolio basis).
   e. Prices for energy, including energy from all switching QFs, shall be in lieu of the PG&E pricing formula for energy payments to QFs as established by Section 390(b) and implemented in the D.96-12-028, for term of the

bilateral or alternative bilateral contract modification. This in-lieu of energy price yields a reasonable energy price. After the five year or applicable contract term period, energy prices for non gas-fired QFs, including switching QFs, will be set equal to the price established by Section 390(b) and implemented in D.96-12-028, or their successors.

f. QFs which have not entered into a bilateral or alternative bilateral contract modifications pursuant to this Section 5, shall receive prices for energy at the level set by the CPUC from time to time pursuant to its authority under PURPA and FERC regulations and as provided in the contract.

g. Unless otherwise agreed to, current time-of-delivery and seasonal payment allocation factors shall continue to apply.

h. Energy line loss factors shall be set at 1.0. Capacity loss adjustment factors (CLAFs) shall remain unchanged.

i. Non gas-fired QF generation with non-standard energy pricing terms, such as price or heat rate floors, shall continue to be honored, provided that the contract parties shall negotiate in good faith the possibility of entering into new pricing and non-pricing terms and conditions consistent with these principles.

j. The parties shall support legislative initiatives for enhancing the creditworthiness of the revised contracts.

6. Non-Price Issues for Non Gas-fired QFs

a. PG&E and the QF parties shall take all good faith actions to assure that these principles are fully adopted and supported by all state and federal regulatory, legislative and executive entities.

b. These principles shall be implemented through a bilateral contract amendment between PG&E and the individual QF parties, which shall be subject to CPUC approval.

c. PG&E shall continue to actively oppose positions currently before FERC, seeking to impose or allocate grid management charges on utility and QF interests for behind the meter loads.

d. Provisions shall be sought to assure contractual, legislative and regulatory conditions that guarantee the payment from the buyer of the long term commitments made under the pricing principles, perhaps including conditions to secure the full faith and credit of the state.

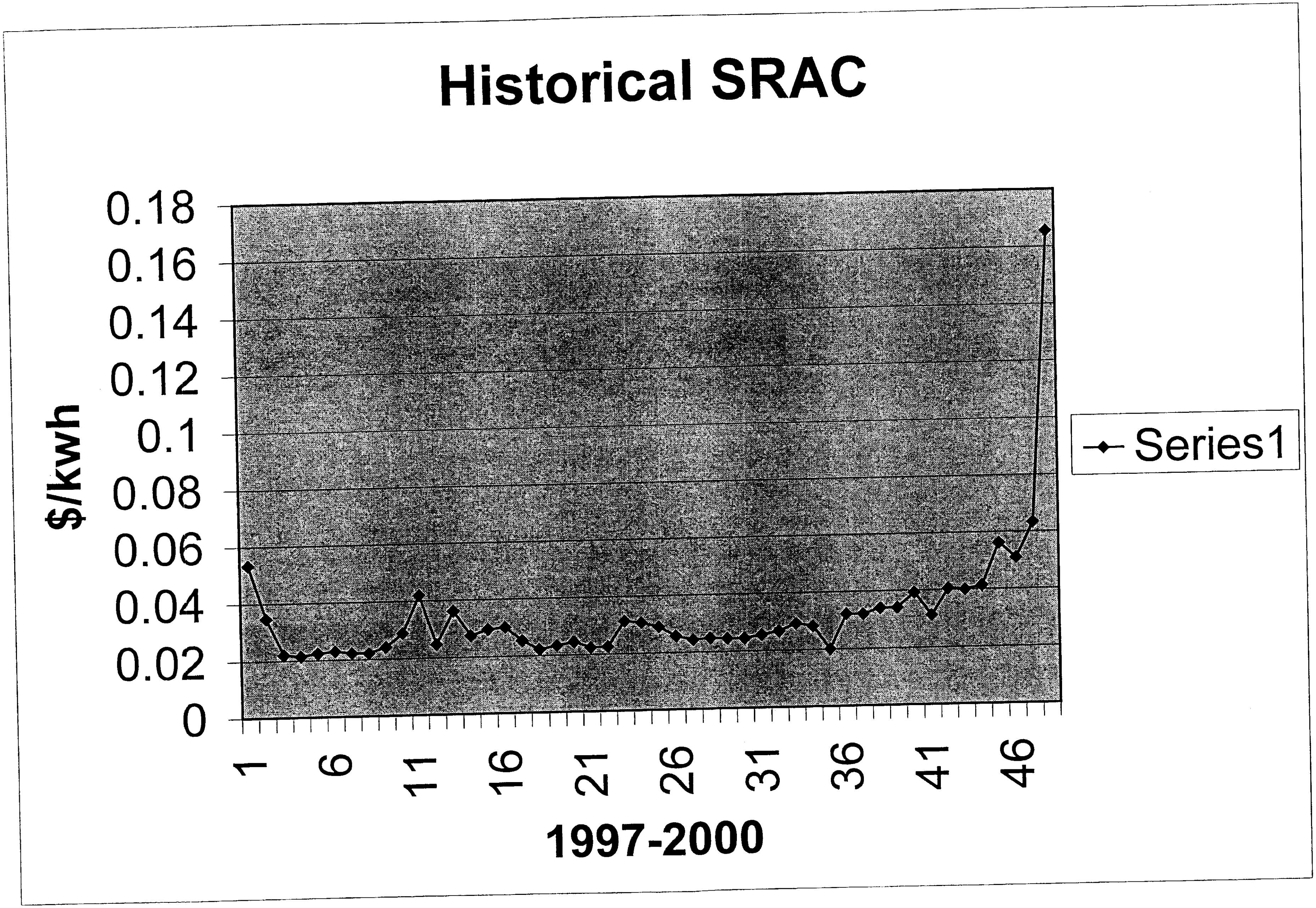
e. The ability of QFs to “flip” to the PX market price is suspended.

EXHIBIT 3

Historical SRAC Pricing
January 1997 through December 2000

HISTORICAL SRAC PRICES - JANUARY 1997 THROUGH DECEMBER 2000

		SRAC $/KWH		
1997	JAN	0.05333		
	FEB	0.03473		
	MAR	0.02202		
	APR	0.0215		
	MAY	0.0224		
	JUN	0.02296		
	JUL	0.02224		
	AUG	0.02221		
	SEP	0.02411		
	OCT	0.02876		
	NOV	0.04189		
	DEC	0.0247	Average 1997	0.028404
1998	JAN	0.03614		
	FEB	0.02738		
	MAR	0.02951		
	APR	0.03018		
	MAY	0.0253		
	JUN	0.02221		
	JUL	0.02339		
	AUG	0.02454		
	SEP	0.0224		
	OCT	0.02259		
	NOV	0.03133		
	DEC	0.0307	Average 1996	0.027139
1999	JAN	0.02909		
	FEB	0.02573		
	MAR	0.02434		
	APR	0.02488		
	MAY	0.02456		
	JUN	0.02449		
	JUL	0.02557		
	AUG	0.02677		
	SEP	0.02926		
	OCT	0.0283		
	NOV	0.02008		
	DEC	0.0322	Average 1999	0.026273
2000	JAN	0.032126		
	FEB	0.03411		
	MAR	0.03408		
	APR	0.0392		
	MAY	0.03125		
	JUN	0.04043		
	JUL	0.04		
	AUG	0.0414		
	SEP	0.05614		
	OCT	0.05087		
	NOV	0.06325		
	DEC	0.1655	Average 2000	0.052363



Historical SRAC
0.18
0.16
0.14
0.12
0.1
0.08
0.06
0.04
0.02
0
$/kwh
Series1
1
6
11
16
21
26
31
36
41
46
1997-2000

Because of personal
information that is included,
petitions for this Item
are available from the clerk.