

SETTLEMENT AGREEMENT

This Settlement Agreement (“Settlement Agreement”) is made and entered into as of July 2, 2004, (the “Effective Date”) by and between the California Department of Water Resources (“CDWR”), acting solely under the authority and powers created by AB1-X, codified as Sections 80000 through 80270 of the California Water Code (the “Act”), and not under its powers and responsibilities with respect to the State Water Resources Development System, and Clearwood Electric Company, LLC, a limited liability company organized under the laws of the State of Nevada (“Clearwood”). CDWR and Clearwood each may be individually referred to hereinafter as a “Party” and collectively as the “Parties.” The Parties agree that neither the definition of “Party” nor “Parties” as they are used in this Settlement Agreement shall include any agency, division, subdivision, or other governmental entity of the State of California, other than CDWR. All capitalized terms used in this Settlement Agreement, but not otherwise defined herein, shall have the same meaning given to them in the Amended Agreement (defined below).

RECITALS

WHEREAS, the Parties entered into that certain Firm Energy Purchase Agreement dated June 22, 2001, as amended and restated by the Amended and Restated Firm Energy Purchase Agreement dated as of November 20, 2002 (the “Agreement”); and

WHEREAS, on July 7, 2003 Clearwood informed CDWR that the Lake County Board of Supervisors was considering revising Lake County’s zoning ordinance with respect to geothermal well drilling, plant construction and transmission lines and that such events have prevented Clearwood from obtaining the necessary authorizations and approvals required to proceed with the Facility located in Clear Lake, Lake County, California (the “California Facility”); and

WHEREAS, in its letter to CDWR dated July 7, 2003, Clearwood has claimed that the permitting delays caused by Lake County constitute an Uncontrollable Force under the Agreement; and

WHEREAS, CDWR does not agree that such events constitute an Uncontrollable Force within the meaning of the Agreement; and

WHEREAS, the Agreement contemplates an Initial Delivery Date of July 1, 2005 and as of the date of this Settlement Agreement, Clearwood has represented to CDWR that it will be unable to achieve an Initial Delivery Date of July 1, 2005; and

WHEREAS, Clearwood has proposed that until the California Facility achieves its Initial Delivery Date, the Facility from which the Firm Energy will be delivered to the Buyer shall be a 30 MW geothermal facility constructed on a site near Fallon, Nevada approximately 50 miles from the border of California which is not interconnected directly with the CAISO grid but is instead interconnected to the Western Energy Coordinating

Council's grid through Sierra Pacific Power Company (SPPC) (the "Nevada Facility"); and

WHEREAS, the parties disagree about whether such a change is permitted by the Agreement; and

WHEREAS, the Parties desire to resolve the disputed issues and to avoid future claims relating to them as provided in this Settlement Agreement; and

WHEREAS, in connection with the resolution of the disputed issues, as set forth in this Settlement Agreement, the parties are entering into an Amended and Restated Unit Contingent Energy Purchase Agreement (the "Amended Agreement") attached hereto as Schedule A, which Amended Agreement is intended to replace the Agreement, and which will be executed by the parties contemporaneously with this Settlement Agreement;

NOW, THEREFORE, in consideration of the mutual covenants contained herein, and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto agree as follows:

1. The Amended Agreement, attached hereto as Schedule A, amends and restates that Firm Energy Purchase Agreement dated June 22, 2001, as amended and restated by the Amended and Restated Firm Energy Purchase Agreement dated November 20, 2002, and shall become effective with and upon the execution by the parties of this Settlement Agreement.

2. Clearwood hereby agrees that the events alleged to constitute an Uncontrollable Force in Clearwood's letters to CDWR dated July 7, 2003 and September 12, 2003 are not and shall not be construed as an Uncontrollable Force under Section 5.01(a) of the Agreement. Clearwood hereby agrees to release, acquit and forever discharge any and all claims it ever had, now has, or hereafter may have based on an Uncontrollable Force arising out of, in whole or in part, the events alleged to constitute an Uncontrollable Force in Clearwood's letters to CDWR dated July 7, 2003 and September 12, 2003.

3. No breach of any duty or obligation of a Party hereunder shall entitle the other Party to rescind or terminate this Settlement Agreement. In any action to enforce the provisions of this Settlement Agreement, the prevailing party shall recover its reasonable attorney's fees and costs.

4. In entering and making this Settlement Agreement, the Parties assume the risk of any mistake of fact or law. If the Parties, or either of them, should later discover that any fact they relied upon in entering this Settlement Agreement is not true, or that their understanding of the facts or law was incorrect, such Party shall not be entitled to seek rescission of this Settlement Agreement by reason thereof. This Settlement Agreement is intended to be final and binding upon the Parties regardless of any mistake of fact or law.

5. This Settlement Agreement shall be binding upon, and inure to the benefit of any of the Parties and their respective successors and assigns. Nothing in this Settlement Agreement shall be construed or interpreted to impart any rights or obligations to any third party (other than a permitted successor or assignee bound to this Settlement Agreement).

6. Each Party represents and warrants to the other Party the following: (1) it has been represented by competent counsel with respect to this Settlement Agreement and all matters covered by it and (2) it has been fully advised by said counsel with respect to its rights and obligations and with respect to the execution of this Settlement Agreement.

7. Each Party warrants to the other that no promise, inducement or agreement not expressed herein has been made in connection with this Settlement Agreement. This Settlement Agreement constitutes the entire agreement between the Parties and supercedes and replaces, except for the Amended Agreement, all prior negotiations or proposed agreements, written or oral with respect to the subject matter hereof.

8. The language of this Settlement Agreement may not be altered, amended, modified or otherwise changed in any respect whatsoever except by a writing duly executed by an authorized representative of each of the Parties.

9. The language of this Settlement Agreement shall be construed as a whole, according to its fair meaning and intent, and not strictly for or against either Party, regardless of who drafted or was principally responsible for drafting this Settlement Agreement or any specific terms or conditions hereof. This Settlement Agreement shall be construed as having been drafted by both Parties, and neither Party shall claim otherwise.

10. The headings in this Settlement Agreement are for convenience only. They in no way limit, alter or affect the meaning of this Settlement Agreement.

11. This Settlement Agreement shall be construed and enforced pursuant to the laws of the State of California. The Parties agree that any dispute between them concerning their performance under this Settlement Agreement shall be addressed in accordance with Article VIII of the Amended Agreement, which is incorporated by reference. Should disposition of any dispute require litigation, the Parties further agree that any action shall be brought in accordance with Article X, Sections 10.02 et seq. of the Amended Agreement, also incorporated by reference.

12. Should any provision of this Settlement Agreement be held illegal, such illegality shall not invalidate the whole of this Settlement Agreement; instead, the Parties shall use their best efforts to reform the Settlement Agreement in order to give effect to the original intention of the Parties in all material respects.

13. This Settlement Agreement may be executed in multiple original and/or facsimile counterparts, each of which shall be equally admissible in evidence and shall be

deemed to be one and the same instrument. Any signature page of this Settlement Agreement may be detached from any counterpart of this Settlement Agreement without impairing the legal effect of any signatures thereon, and may be attached to another counterpart of this Settlement Agreement identical in form hereto but having attached to it one or more signature pages. This Settlement Agreement shall not take effect until each Party has signed a counterpart, and the Amended Agreement has been executed by both Parties.

14. Clearwood covenants that neither Clearwood itself, nor its lenders, investors, advisors, consultants, contractors or vendors shall make any public statement regarding the settlement, the negotiation of the settlement between the Parties or the Amended Agreement without CDWR's prior approval and consent. Clearwood shall promptly notify CDWR as soon as it becomes aware of any such statement required by law and facilitate the development of language mutually acceptable to CDWR and the entity issuing such public statement.

15. Each Party represents and warrants that it has the full power and authority to enter into this Settlement Agreement and to perform the transactions, and its respective duties and obligations herein set forth. Each signatory to this Settlement Agreement who signs on behalf of a Party represents and warrants that he or she has the authority to sign on behalf of such Party.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Parties have caused this Settlement Agreement to be executed by their duly authorized representatives as of the Effective Date.

CALIFORNIA DEPARTMENT OF WATER RESOURCES acting solely under the authority and powers created by AB1-X, codified as Sections 80000 through 80270 of the Act, and not under its powers and responsibilities with respect to the State Water Resources Development System

CLEARWOOD ELECTRIC COMPANY, LLC

By: _____
Name: Peter S. Garris
Title: Deputy Director

By: _____
Name:
Title:

Schedule A

Amended and Restated Unit Contingent Energy Purchase Agreement