Y-PC

Declassified
950110-EI

The Bank of Tokyo Trust Company Bayerische Vereinsbank AG

November 17, 1994

CONFIDENTIAL

Mr. James D. Wright
Vice President & Chief Financial Officer
Panda Energy Corporation
4100 Spring Valley
Suite 1001
Dallas, Texas 75244

Re: Panda Kathleen, Limited Partnership (the "Project")

Dear Pete:

Based upon our recent discussions in connection with the above-referenced Project and your Confidential Memorandum dated September, 1994, the undersigned banks (the "Banks") are pleased to present this Indication of Interest (the "Indication") to seek to provide a credit facility (the "Credit Facility") for the Project.

Attached as Exhibit A are indicative terms regarding the proposed Credit Facility. Exhibit A presents one possible credit facility structure for the Project. At the request of Panda Energy Corporation ("Panda"), the Banks would be willing to discuss alternative credit facility structures which might also satisfy Panda's financing requirements.

This Indication should not be construed as either a commitment to provide a credit facility or a comprehensive statement of the terms and conditions under which the Banks would commit to provide a credit facility. Rather, the Indication should be used by Panda and the Banks to facilitate further discussions with respect to the terms and conditions of such a facility. A commitment to provide a credit facility would be subject to the completion of the Banks' necessary due diligence and the receipt of individual bank credit committee approvals.

The Banks acknowledge Panda's concern that time is of the essence and will negotiate in good faith in an attempt to be responsive to deadlines dictated by project agreements and participants.

Please be advised that the contents of the Indication are confidential and may not be released to a third party without the prior written consent of the Banks.

PLAINTIFF'S ~~DEPOSITION~~ EXHIBIT 143 2-7-96 PENGAD-Bayonne, N.J.



BK TOKYO 00 00437 BB

If the terms and conditions contained in this letter are acceptable to you, please countersign all three originals on the appropriate line below and return two executed originals to The Bank of Tokyo Trust Company by no later than December 1, 1994. Upon receipt of this executed proposal, the Banks will proceed with their due diligence activities.

By countersigning this document, you agree to reimburse the Banks for all their costs and expenses incurred in connection with the transaction *(such expenses are understood to be reasonable 'out-of-pocket" disbursements and fees owed to third-party consultants and advisors)* contemplated hereby whether or not such a transaction is consummated and whether or not the Banks request or receive credit approval from their respective organizations.

Sincerely,

**The Bank of Tokyo Trust Company**

Kirk H. Edelman

**Kirk H. Edelman**
**Vice President**

**Bayerische Vereinsbank AG**

Mary Power

**Mary Power**
**Vice President**

*Acknowledged and accepted by:*

**Panda Energy Corporation**

By: James D. Wright
Name: JAMES D. WRIGHT
Title: VICE PRESIDENT/C.F.O.
Date: NOVEMBER 21, 1994

attach.

## Exhibit A

# Indication of Interest for a Credit Facility *

*for*

# Panda-Kathleen, L.P.

*: *The following document is a non-binding, indication of interest of what terms and conditions might be contained in a definitive credit agreement. It is not a commitment to provide a credit facility and should not be relied upon as such. Such a commitment would be subject to due diligence and credit committee approval.*

| | |
|---|---|
| **THE PROJECT** | A 115 Megawatt ("MW"), gas-fired, combined-cycle cogeneration plant ("Kathleen" or the "Project") to be located in Polk County, near Lakeland, Florida. Kathleen will supply electrical power to Florida Power Corporation ("FPC") and thermal energy to a distilled water plant owned by a subsidiary of Panda. |
| **THE PARTICIPANTS** | |
| **Borrower:** | Panda-Kathleen, L.P., a Delaware Limited Partnership having its principal place of business in Dallas, Texas, as well as the entity, which owns the distilled water plant, on a joint and several basis. The identity of the Borrower will be in large part contingent upon both the ownership structure of the Project and the distilled water plant as well as the manner in which the construction of the distilled water plant is financed. |
| **Banks:** | A bank group initially consisting of The Bank of Tokyo Trust Company ("BOTT") and Bayerische Vereinsbank AG ("BV"), (collectively the "Banks") will underwrite the Facility. After financial closing, additional financial institutions may join this group at the discretion of the existing Banks. Such additional financial institutions must be reasonably acceptable to the Borrower. |
| **Equity Investors:** | To be arranged by Panda with a party or parties and on terms in all respects acceptable to the Banks. |
| **Administrative Agent:** | BOTT |

| | |
|---|---|
| **Construction Contractor:** | Walsh/Commonwealth, a joint venture between Walsh Construction Company and Gilbert Commonwealth (or some other qualified EPC contractor which must be acceptable to the Banks), pursuant to a fixed-price, date-certain, turnkey construction contract with performance guarantees, liquidated damage provisions, warranties and other provisions usual and customary for this type of agreement and in all respects satisfactory to the Banks.<br><br>The construction contract shall provide for aggregate liquidated damages with a cap acceptable to the Banks.<br><br>The Construction Contractor's obligations will be supported by guaranties or other forms of assurance from parties and with terms and conditions in all respects acceptable to the Banks. |
| **Operator:** | To be arranged by Panda with an experienced, third-party, power plant operator and on terms in all respects acceptable to the Banks. The operations and maintenance agreement shall be for a term and shall contain performance guarantees, bonus/penalty provisions, budgetary devices/controls, credit supports if necessary and other provisions in all respects satisfactory to the Banks. |
| **Power Purchaser:** | Florida Power Corporation ("FPC") will purchase electricity from the Project pursuant to a 30-year power purchase agreement with terms and conditions in all respects satisfactory to the Banks. |
| **Fuel Suppliers:** | The Project's supply of natural gas and back-up fuel oil shall be arranged by Panda with a party or parties and on terms in all respects acceptable to the Banks.<br><br>Panda shall structure the Project's fuel supply agreements to provide a hedge against fluctuations in the revenue stream from the sale of electric power pursuant to the power purchase agreement with FPC. Such a hedge structure shall be acceptable to the Banks. |
| **Fuel Transporter:** | Florida Gas Transmission ("FGT") pursuant to a combination of firm and interruptible transportation service agreements with terms and conditions in all respects acceptable to the Banks. |

**Thermal Energy Purchaser:**

A distilled water facility to be owned and operated by a subsidiary of Panda. The Thermal Energy Purchaser will purchase the Project's thermal output pursuant to a steam purchase agreement on terms and conditions in all respects satisfactory to the Banks.

Prior to financial closing, the Banks shall have reviewed the regulatory status of the Project, including its relationship to, and the presumptively useful nature of, the Thermal Energy Purchaser. The Project's relationship with the Thermal Energy Purchaser shall allow it to maintain its Qualifying Facility ("QF") status in a manner which shall be in all respects acceptable to the Banks.

**THE CREDIT FACILITY**

A construction/term loan facility, in an amount not to exceed $94 million.

**Use of Proceeds:**

Proceeds of the Credit Facility shall be used to finance the costs associated with the Project including, without duplication (i) the design, site acquisition, manufacture, permitting, construction, installation, testing, start-up and initial operation, (but in an amount not exceeding the turnkey cost plus additional costs authorized by change orders under the construction contract plus such additional amounts that may be agreed to by the Banks); (ii) financing fees, developer fees and all other fees, expenses and costs associated with the Project and the cost of interest rate protection arrangements as budgeted in the construction budget; (iii) debt service on the outstanding construction loan until the conversion date; and (iv) funding of the reserve accounts and working capital account, required by, and agreed to by the Banks.

**Arrangement Fee:**

1% to 1-1/2% of the Credit Facility amount, payable to the Banks upon financial closing.

**Administrative Fee:**

$100,000 per annum payable to the Administrative Agent yearly in advance; the Administrative Fee will be adjusted annually in accordance with the increase or decrease in the Consumer Price Index

**Commitment Fee:**

3/8% per annum of the unutilized Credit Facility commitment, payable to the Banks quarterly in arrears.

**Interest Rates:**

Principal outstanding under the Credit Facility will bear interest at a margin above LIBOR ranging from 1-1/4% to 1-1/2%. Such interest rate provisions may incorporate periodic changes within the aforementioned range as will be set forth in the definitive credit agreement.

Borrowings will have interest periods of one, two, three, six and if available, nine or twelve months, as the Borrower may select. Interest shall be paid in arrears at the end of the relevant interest period and will be calculated on the basis of actual number of days elapsed in a year of 365 or 366 days, as the case may be. Base rate or prime rate options will also be made available.

**Term:**

The loan shall convert to term on the earliest of the following: (a) the conversion date, (b) in an event of default or (c) a predetermined commitment termination date.

Following conversion, the term loan shall be payable quarterly based upon a schedule providing for 13 to 15 year, mortgage-style, full amortization. The outstanding balance of the loan shall be due in full two years following the conversion date.

**Interest Rate Risk Protection:**

The Banks may require that the Borrower executes Interest Rate Risk Protection agreements with the Banks, which shall in all respects be satisfactory to the Banks, at some future date should LIBOR exceed some predetermined level (the "Trigger Rate").

The Banks shall make interest rate protection agreements available to the Borrower during the term of the Credit Facility with pricing and terms and conditions which are competitive with similar arrangements available in the market. Prior to LIBOR exceeding the Trigger Rate, the Borrower will have the option of entering into such arrangements at any time.

**Debt Coverage Ratio Provisions:**

The Credit Facility will contain debt coverage ratio ("DCR") provisions usual and customary for this type of facility and satisfactory to the Banks.

These provisions will require that a portion of the Project's excess cash flow be used to either repay debt or fund the debt service reserve account based upon the following calculated actual debt coverage ratio schedule (such ratios to be calculated prior to required contributions to reserve accounts):

| DCR | Excess Cash Restricted |
|---|---|
| > 1.25 | 0% |
| ≤ 1.25 & ≥ 1.15 | 50% |
| < 1.15 | 100% |

The mechanism for calculating debt coverage ratios shall be usual and customary but in all respects be acceptable to the Banks.

**Additional Collateral Account:** The Additional Collateral Account shall be established as a restricted cash account. Project cash which is restricted as a result of the provisions of the Credit Facility shall be deposited in this account.

Funds held in the Additional Collateral Account may be released to the Project with the consent of the Banks once the Project's financial performance has satisfied certain performance standards (such performance standards to be linked to the Project's capacity to generate DCR's in excess of 1.25X) which shall in all respects be satisfactory to the Banks.

**Reserve Accounts:** Reserve accounts including, but not limited to, debt service, maintenance and additional collateral may be required by the Banks upon terms and conditions usual and customary for transactions of this type.

**Representations and Warranties:** Usual and customary for such facilities.

**Borrower's Covenants:** Usual and customary for such facilities.

**Events of Default and Remedies:** Usual and customary for such facilities.

**Indemnities:** Usual and customary for such facilities, including but not limited to, environmental indemnities which shall be in all respects satisfactory to the Banks.

**Equity Funding:**

The Borrower shall be required to provide Equity of no less than 15% of the total Project cost, funded in a manner acceptable to the Banks.

The Borrower shall provide an irrevocable and unconditional commitment by the equity investors to provide the Equity Funding with adequate credit support in form and substance in all respects acceptable to the Banks.

**Conditions Precedent to Closing:**

In addition to those which are stated in this Indication, the definitive credit agreement will contain conditions precedent to closing which are deemed appropriate in the context of the proposed transaction. These conditions will include, but not be limited to, the Banks' review of Project documents, satisfaction with the legal and regulatory status of the Project and receipt of the necessary credit committee approvals.

**Optional Prepayment:**

Upon providing 90 days written notice, the Borrower may prepay the outstanding balance of the Credit Facility, in whole or in part together with accrued interest thereon plus if applicable, any swap breakage or break LIBOR funding costs associated with the Credit Facility, without penalty.

**Mandatory Prepayment:**

The Borrower may be required to make mandatory prepayments with proceeds from liquidated damages, warranty and insurance claims (other than business interruption and certain liability insurance and indemnity payments to be agreed to by the Borrower and the Banks) and condemnation awards.

**Security:**

The Credit Facility will be secured by all of the assets of the Borrower which shall include, but not be limited to:

- a first lien and security interest in the Project's assets, including all accounts;
- a pledge of general and limited partnership interests;

- a collateral assignment of the Project's agreements including: the construction contract, power purchase agreement, steam sale contract, O&M contract, any interest rate protection agreement, equity contribution agreement and all other relevant agreements which are required to operate the Project;
- Project permits and all manufacturer and contractor warranties; and
- assignment of proceeds of the insurance coverage for the project facilities through a loss payee clause endorsement.

The total security package shall be in all respects satisfactory to the Banks.

**Other Credit Facilities:** The Banks shall consider providing other ancillary credit facilities, such as performance letters of credit, as may be required by third parties to guaranty the performance of the Project. Such Other Credit Facilities shall be provided on terms and conditions in all respects acceptable to the Banks.

**Assignments and Participations:** The Banks may assign their rights and obligations under the credit agreements or grant participations therein to other banks. Each assignee will become a party to the credit agreements and will relieve the selling Bank of its obligations with respect to the assigned portion of its commitment.

**Project Budget:** The Project's construction budget, disbursement schedule and projected financial statements shall be subject to review by, and be satisfactory in all respect to, the Banks.

Fees payable to Panda and other Project sponsors shall be subject to the review by the Banks and their advisors. The Banks will not unreasonably withhold their consent to the payment of said fees to the extent that they are market-based and do not impose an unreasonable economic burden on the Project.

The Banks will allow Panda to be paid a development fee equal to 3% of the Project Budget. Said development fee will be payable in two installments. The first installment, equal to 1.5% of the Project Budget, will be paid at the financial closing of the Credit Facility. If funds are available upon construction completion, a second installment, equal to 1.5% of the Project Budget, will be paid at conversion. The funds to be used to pay Panda the second installment of the development fee shall be treated as contingency funds during the construction of the Project.

The Banks will allow Panda to be reimbursed at financial closing for reasonable out-of-pocket expenses incurred, and security deposits provided, during the development of the Project. Reimbursable expenses incurred, and security deposits provided, prior to the financial closing of the Credit Facility shall be subject to the review by, and be acceptable to, the Banks.

**Bank Consultants:** The Banks may retain the services of consultants, as required in their sole discretion, to advise them on matters relating to the proposed Credit Facility. Such entities may include, but not be limited to, insurance and fuel supply consultants, independent engineers and outside legal counsels.

**Transaction Expenses:** All costs and expenses incurred by the Banks in connection with the negotiation, review, documentation, closing, syndication and administration of the proposed transaction, including the fees and expenses of the Banks' Consultants and the Banks' reasonable out-of-pocket expenses, shall be paid by the Borrower, whether or not the proposed transaction is consummated.

The Banks shall provide the Borrower with: (1) an estimate of the fees to be charged, and (2) an outline of the work to be performed, by the Banks' outside counsel in connection with the proposed transaction. Prior to financial closing, the Banks shall also provide the Borrower with monthly reports of the fees and expenses incurred to date by their outside counsel which are to be reimbursed by the Borrower. The Banks' outside counsel shall also agree to promptly alert the Banks when it is requested to perform tasks which fall outside the scope of work upon which its original estimate was based.

| | |
|---|---|
| **Documentation:** | All documentation executed in connection with this transaction, including all project agreements and financial models, shall be satisfactory in all respects to the Banks.<br><br>The Credit Facility documentation shall be drafted by the Banks' counsel and shall be governed by New York law. |
| **Duration of Proposal:** | The Banks reserve the right to withdraw or amend the Indication after December 1, 1994. |

CASE No. 88,280
Docket No. 950110-EI

TELEFAX TRANSMITTAL SHEET

FROM: Bayerische Vereinsbank AG, New York Branch
Structured Finance Group
335 Madison Avenue / 19th Floor
New York, NY 10017

Sender: Mary Power Phone: (212)210-0325

DATE: 1/5/95

TIME SENT: P.M.

FAX NUMBER SENT TO: ______

TO: BK of Tokyo

ATTN.: KIRK EDELMAN

SUBJECT: Thermal Hosts

PAGES: 5 (INCLUDING THIS COVER PAGE)

Kirk

COMMENTS:

I thought the attached ALSO might interest you

Best wishes
from Mary

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 950110-EI EXHIBIT NO. 34
COMPANY/
WITNESS:
DATE: 1/19/96

~~PLAINTIFF'S DEPOSITION~~
EXHIBIT
144
2-7-94 AP



2K

MUDGE ROSE GUTHRIE ALEXANDER & FERDON

[illegible]
NEW YORK, N.Y. [illegible]
[illegible]

SUITE 2020
[illegible] SOUTH GRAND AVENUE
LOS ANGELES, CALIF. [illegible]
[illegible]

2121 K STREET, N.W.
WASHINGTON, D.C. 20037
202-429-9355

CABLE ADDRESS
[illegible]
ITT TELEX: [illegible]
TELECOPIER [illegible]

SUITE [illegible]
[illegible] NORTH FLAGLER DRIVE
WEST PALM BEACH, FL. [illegible]
[illegible]

[illegible] RUE DE LA [illegible]
[illegible] PARIS, FRANCE
[illegible]

May 25, 1993

**Advisory Memorandum on New Developments in Energy Regulation**

TO: Mudge Rose Energy Group

FROM: Isaac D. Benkin III

RE: <u>Arroyo Energy, L.P., 63 FERC ¶ 61,198, FERC Order Denying Rehearing issued May 17, 1993.</u>

PURPA

A ban on "PURPA machines" was one of the fundamental principles behind enactment of the Public Utility Regulatory Policies Act of 1978 and the FERC regulations that implement that statute. [redacted] Section 201 of PURPA defines a cogeneration facility as a facility which produces both electric energy and "steam or forms of useful energy (such as heat) which are used for industrial, commercial, heating, or cooling purposes." 16 U.S.C. § 796(18). Similarly, FERC's regulations define "useful thermal energy output" of a cogeneration facility (18 C.F.R. § 292.202(h)) and require that, for a topping cycle cogeneration facility, [redacted]

In an order issued March 17, 1993 (Arroyo Energy, L.P., 62 FERC ¶ 61,257 (1993)), the Commission granted an application for QF certification of topping-cycle facility located in Escondido, California over the objections of the local public utility, San Diego Gas & Electric Co. (SDG&E).[1] The project's sponsors claimed that the thermal output of the facility would be used in absorption refrigeration equipment to make ice for an ice skating rink adjacent to the power plant. [redacted]

[1] We reported on the order in my memorandum of April 24, 1993.

would result from devoting of five percent of the project's thermal output to ice-making. The Commission rejected the utility's complaint, ruling that the only issue before it was whether the technical application of the steam output (i.e., in absorption refrigeration equipment) was a common, proven technology.

In its petition for rehearing, SDG&E produced estimates and calculations tending to demonstrate that the ice skating rink could not be economically justified without subsidies from avoided cost sales of the facility's electrical output. Thus, said the utility, the proposed cogeneration project was simply a "PURPA machine".

The Commission once again rejected SDG&E's attack on the usefulness of the project's thermal output. In refusing to conduct a hearing on the bona fides of the cogeneration proposal, FERC said:

> When an applicant submits a cogeneration proposal which uses thermal energy in an established technology or produces a common product, the Commission does not perform an economic analysis. A contrary approach would act to discourage the development of the cogeneration industry. As we explained in Polk Power Partners, L.P., et al., 61 FERC ¶ 61,300 at 62,128 (1992), the Commission is not inclined to second-guess the business judgment of the applicant: "We think it better, once a thermal process has been found to be common, to refrain from second-guessing the decision to use cogenerated thermal energy in a particular process and in a particular manner."

So the Federal Energy Regulatory Commission remains loath to police the use of thermal output for applications that may seem uneconomic (or even frivolous), thereby running the risk of certifying as QFs a number of "PURPA machines".

It is also interesting to note that the Commission still believes it bears a responsibility not to discourage the development of the cogeneration industry.

TO: Tom Hendricks
Gary Hoover
Mike Lebens
Mike Lawler
Dan O'Brien

DATE: July 23, 1993

FROM: Jim Harrington

NEED: F. Y. I.

RE: Qualifying Facilities - "Useful" Criteria

I want to comment on the May 25th memo from Mudge, Rose on QF requirements and "PURPA machines." And outline the Commission's decision process in determining when an output is "useful." The memo notes that in the Arroyo Energy L. P. decision the FERC refused to look at the economics of the steam host, an ice skating rink. The Commission based their decision on the consideration that the thermal energy from the facility would be used in absorption refrigeration equipment to provide refrigeration for the ice skating rink. The Commission noted that absorption refrigeration is a common proven technology and passed the test of "useful thermal energy." (Earlier decisions approved absorption refrigeration used for cold storage, freezing and ice making.) This reasoning follows the LaJet Energy Company decision of 1988 in which the Commission spelled out the decision process to determine "useful thermal energy." I've summarized the decision process from LaJet below.

[redacted]

If, on the other hand, the use of thermal output involves the application of a new technology or a use not previously proven to be economically justified, then the inquiry turns to whether it is to be used by the cogenerator or whether it is to be used by a non-affiliate. In the case of a non-affiliate user the Commission stated that plausible evidence of an arms-length market for the thermal output, or an end product produced with the aid of that output, will suffice for a showing of prima facie usefulness.

If, however, the thermal output is to be used by an affiliate of the cogenerator, or the cogenerator itself, then the Commission will require quantitative evidence of economic justification.

This decision process has significantly reduced the number of economic analyses that the Commission has required in recent years. In addition, as the Commission has become more comfortable with a number of thermal applications and technologies it has broaden its scope of "common." The Commission now includes $CO_2$ production, greenhouses, absorption refrigeration among its list of proven technologies.

A Qualifying Facility must still meet the 5% thermal load criteria and the 45% efficiency criteria of the regulations. The 5% criteria sets the size of the thermal load and the minimum size of the steam host operation. This can have a significant influence on the economics of the steam host of a large cogeneration plant.

If you have questions or comments, let me know.

CASE No. 88,280
Docket No. 950110-EI

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[ X ] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934 for the quarter ended **September 30, 1994**

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1993 For the transition period from ______________ to ______________

Commission File Number: 033-73160

# CALPINE CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| California | 77-0031605 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

50 West San Fernando
San Jose, California 95113
(Address of principal executive offices and zip code)
Telephone: 408-995-5115
(Registrant's telephone number, including area code)

Indicated by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [ X ] No [ ]

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date: 2,000,000

This report on Form 10-Q contains 180 pages.

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 950110-EI EXHIBIT NO. 35
COMPANY/
WITNESS:
DATE: 1/29/96

PENGAD-Bayonne, N.J.
~~PLAINTIFF'S DEPOSITION~~
EXHIBIT
153
2-7-96 AP



BK TOKYO 00 02594

## CALPINE CORPORATION AND SUBSIDIARIES
## For the Quarter Ended September 30, 1994

## INDEX

# PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CALPINE CORPORATION AND SUBSIDIARIES

### CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

| | September 30, 1994 (Unaudited) | December 31, 1993 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 8,508 | $ 6,166 |
| Accounts receivable | 15,867 | 12,009 |
| Note receivable | — | 218 |
| Other current assets | 3,450 | 3,988 |
| Total current assets | 27,825 | 22,381 |
| Property, plant and equipment, net | 338,189 | 251,070 |
| Investments in power projects | 13,367 | 15,454 |
| Notes receivable from related party | 16,397 | 1,716 |
| Restricted cash | 12,343 | 9,912 |
| Deferred charges | 5,148 | 1,550 |
| Other assets | 91 | 173 |
| Total assets | $ 413,360 | $ 302,256 |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | |
| Current liabilities: | | |
| Note payable to shareholder | $ — | $ 1,200 |
| Current portion of long-term project financing | 17,400 | 16,000 |
| Accounts payable | 2,931 | 2,252 |
| Accrued payroll and related expenses | 1,767 | 1,958 |
| Accrued interest payable | 1,859 | 585 |
| Other accrued expenses | 4,861 | 1,669 |
| Total current liabilities | 28,818 | 23,664 |
| Long-term line of credit | — | 52,595 |
| Non-recourse long-term project financing, less current portion | 202,621 | 157,940 |
| Non-recourse notes payable - FMRP | — | 36,806 |
| Note payable | 5,192 | — |
| Senior Notes Due 2004 | 105,000 | — |
| Deferred income taxes | 50,286 | 9,147 |
| Deferred revenue | 3,949 | 8,675 |
| Total liabilities | 395,866 | 288,827 |
| Shareholder's equity: | | |
| Common stock, $.01 par value | 20 | 20 |
| Additional paid-in capital | 6,204 | 6,204 |
| Retained earnings | 11,270 | 7,205 |
| Total shareholder's equity | 17,494 | 13,429 |
| Total liabilities and shareholder's equity | $ 413,360 | $ 302,256 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

# CALPINE CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 1994 | 1993 | 1994 | 1993 |
| Revenue: | | | | |
| Electricity and steam sales | $ 23,057 | $ 20,584 | $ 64,311 | $ 34,110 |
| Service contract revenue from related parties | 1,856 | 1,707 | 5,229 | 14,891 |
| Income (loss) from unconsolidated investments in power projects | (598) | (141) | (2,381) | 677 |
| Total revenue | 24,315 | 22,150 | 67,159 | 49,678 |
| Cost of revenue: | | | | |
| Plant operating expenses, depreciation and production royalties | 12,322 | 10,200 | 32,670 | 17,672 |
| Service contract expenses and other | 1,559 | 1,509 | 4,235 | 12,970 |
| Total cost of revenue | 13,881 | 11,709 | 36,905 | 30,642 |
| Gross profit | 10,434 | 10,441 | 30,254 | 19,036 |
| Project development expenses | 1,203 | 369 | 2,435 | 959 |
| General and administrative expenses | 2,060 | 1,727 | 4,781 | 4,086 |
| Income from operations | 7,171 | 8,345 | 23,038 | 13,991 |
| Other (income) expense: | | | | |
| Interest expense | 6,223 | 5,307 | 17,125 | 9,216 |
| Other income, net | (301) | (498) | (989) | (740) |
| Income before provision for income taxes and cumulative effect of change in accounting principle | 1,249 | 3,536 | 6,902 | 5,515 |
| Provision for income taxes | 466 | 2,154 | 2,840 | 2,991 |
| Income before cumulative effect of change in accounting principle | 783 | 1,382 | 4,062 | 2,524 |
| Cumulative effect of adoption of SFAS No. 109 | — | — | — | (413) |
| Net income | $ 783 | $ 1,382 | $ 4,062 | $ 2,111 |
| Weighted average number of shares outstanding | 2,175 | 2,175 | 2,175 | 2,159 |
| Earnings per share: | | | | |
| Income before cumulative effect of change in accounting principle | $ 0.36 | $ 0.64 | $ 1.87 | $ 1.17 |
| Cumulative effect of adoption of SFAS No. 109 | — | — | — | (.19) |
| Net income per share | $ 0.36 | $ 0.64 | $ 1.87 | $ .98 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

# CALPINE CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

| | Nine Months Ended September 30, 1994 | Nine Months Ended September 30, 1993 |
|---|---|---|
| Net cash provided by operating activities | $ 23,224 | $ 15,034 |
| Cash flows from investing activities: | | |
| Acquisition of property, plant and equipment | (3,663) | (5,933) |
| Investments in power projects | ( 1,447) | (21,419) |
| Acquisition of TPC, net of cash received | (58,148) | — |
| Increase in notes receivable from related party | (13,556) | — |
| Restricted cash | (2,430) | 1,763 |
| Other, net | 82 | (727) |
| Net cash used in investing activities | (79,162) | (26,316) |
| Cash flows from financing activities: | | |
| Repayment of note payable to shareholder | (1,200) | — |
| Borrowings under line of credit | — | 23,000 |
| Repayment of borrowings under line of credit | (52,595) | (5,500) |
| Borrowings of non-recourse project financing | 60,000 | — |
| Repayment of non-recourse project financing | (12,700) | (5,500) |
| Borrowings on working capital loan | — | 3,500 |
| Repayment of notes payable - FMRP | (36,806) | — |
| Net proceeds from issuance of Senior Notes Due 2004 | 101,581 | — |
| Net cash provided by financing activities | 58,280 | 15,500 |
| Net increase in cash and cash equivalents | 2,342 | 4,218 |
| Cash and cash equivalents, beginning of period | 6,166 | 2,160 |
| Cash and cash equivalents, end of period | $ 8,508 | $ 6,378 |
| Supplementary information: | | |
| Cash paid during the period for: | | |
| Interest | $ 16,007 | $ 13,031 |
| Income taxes | $ 183 | $ 13 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

## Note 1. Organization and Operation of the Company

Calpine Corporation and subsidiaries (the "Company" or "Calpine") is engaged in the development, acquisition, ownership and operation of power generation facilities in the United States. Calpine has ownership interests in and operates geothermal power generation facilities and steam fields and natural gas-fired cogeneration facilities. Founded in 1984, the Company is wholly-owned by Electrowatt Services, Inc., which is wholly-owned by Electrowatt Ltd ("Electrowatt"), a Swiss company. The Company has expertise in the areas of engineering, finance, construction and plant operation and maintenance.

## Note 2. Summary of Significant Accounting Policies

*Interim Financial Statements*

The accompanying interim condensed consolidated financial statements of the Company have been prepared by the Company, without audit by independent public accountants, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the condensed consolidated financial statements include all normal recurring adjustments necessary to present fairly the information required to be set forth therein. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted from these statements pursuant to such rules and regulations and, accordingly, should be read in conjunction with the audited consolidated financial statements of the Company included in the Company's special financial report on Form 10-K for the year ended December 31, 1993. The results for interim periods are not necessarily indicative of the results for the entire year.

*Accounting for Jointly-Owned Geothermal Properties*

The Company uses the proportionate consolidation method to account for Thermal Power Company's 25 percent interest in jointly-owned geothermal properties. Thermal Power Company ("TPC") has a steam sales agreement with PG&E pursuant to which the steam derived from its interest in the properties is sold. See Note 9 for further discussion regarding the acquisition of TPC.

*Earnings Per Share*

Earnings per share are calculated using the weighted average number of shares outstanding during each period and the net additional number of shares which would be issuable upon the exercise of outstanding stock options, assuming that the Company used the proceeds received to purchase additional shares at the estimated fair market value, as determined by the Board of Directors, based in part on the most recent appraisal.

*Reclassifications*

Certain reclassifications have been made to amounts in the 1993 financial statements to conform to the current period presentation.

Note 3. **Senior Notes Due 2004**

On February 17, 1994, the Company completed a $105.0 million public debt offering of 9¼% Senior Notes Due 2004 ("Senior Notes"). The net proceeds of $100.9 million were used to repay all of the indebtedness outstanding under the Company's existing line of credit, and to repay the non-recourse notes payable to Freeport-McMoRan Resource Partners, L.P. ("FMRP") plus accrued interest. The remaining proceeds were used for general corporate purposes, including the loan referred to in Note 7. The transaction costs of $4.1 million incurred in connection with the public debt offering have been recorded as a deferred charge and are amortized over the ten year life of the notes using the interest method.

The Senior Notes will mature on February 1, 2004 and bear interest at 9.25 percent payable semiannually on February 1 and August 1 of each year, commencing August 1, 1994, to holders of record.

Under provisions of the indenture applicable to the Senior Notes, the Company may, under certain circumstances, be limited in its ability to make restricted payments, as defined, which include dividends and certain purchases and investments, incur additional indebtedness and engage in certain transactions.

Note 4. **Calpine Geysers Company, L.P.**

On April 19, 1993, the Company purchased the remaining interest in Calpine Geysers Company, L.P. ("CGC") for $23.0 million in cash and non-recourse notes payable to FMRP in the amount of $36.8 million. At the time of the acquisition, the Company held an equity investment in CGC. On April 19, 1993, the Company began consolidating the results of CGC.

The acquisition was accounted for as a purchase. The portion of the assets and liabilities representing the Company's original investment has been reflected at historical amounts and was not subjected to purchase accounting. The purchase price has been allocated to the acquired assets and liabilities. This allocation was adjusted to reflect the following event.

In May 1994, the Company reversed approximately $5.9 million of its deferred revenue liability that it had recorded in connection with a future period when it was forecast that steam would have been delivered to a certain customer at no charge. Based on current estimates and an analysis performed by the Company, the Company no longer expects



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that it will be required to make these deliveries. This reversal resulted in a $4.0 million increase in revenue while the remaining $1.9 million of this reversal was recorded as a purchase price adjustment with a reduction to property, plant and equipment.

Note 5. **Accounts Receivable**

The Company has both billed and unbilled receivables. The components of accounts receivable as of September 30, 1994 and December 31, 1993 are as follows (in thousands):

| | September 30, 1994 (Unaudited) | December 31, 1993 |
|---|---|---|
| Projects: | | |
| Billed | $ 15,196 | $ 10,950 |
| Unbilled | 678 | 1,059 |
| Other | (7) | — |
| | $ 15,867 | $ 12,009 |

Accounts receivable from related parties as of September 30, 1994 and December 31, 1993 are comprised of the following (in thousands):

| | September 30, 1994 (Unaudited) | December 31, 1993 |
|---|---|---|
| O.L.S. Energy-Agnews, Inc. | $ 457 | $ 861 |
| Geothermal Energy Partners, Ltd. | 619 | 549 |
| Sumas Cogeneration Company, L.P. | 312 | 358 |
| Electrowatt and subsidiaries | 5 | 5 |
| | $ 1,393 | $ 1,773 |

## Note 6. Investments in Power Projects

The Company has investments in power projects which are accounted for under the equity method. Unaudited financial information for the nine months ended September 30, 1994 and 1993 related to these investments is as follows (in thousands):

| | 1994 | | | 1993 | | | |
|---|---|---|---|---|---|---|---|
| | Sumas Cogeneration Company, L.P. | O.L.S. Energy-Agnews, Inc. | Geothermal Energy Partners, Ltd. | Sumas Cogeneration Company, L.P. | Calpine Geysers Company, L.P. | O.L.S. Energy-Agnews, Inc. | Geothermal Energy Partners, Ltd. |
| Revenue | $ 22,977 | $ 9,507 | $ 16,314 | $ 13,851 | $ 20,759 | $ 9,865 | $ 13,418 |
| Operating expenses | 20,533 | 7,567 | 7,459 | 12,365 | 13,984 | 7,508 | 8,526 |
| Income from operations | 2,444 | 1,940 | 8,855 | 1,486 | 6,775 | 2,357 | 4,892 |
| Other expenses, net | 7,425 | 2,145 | 4,632 | 4,044 | 4,602 | 2,346 | 4,741 |
| Net income (loss) | $ (4,981) | $ (205) | $ 4,223 | $ (2,558) | $ 2,173 | $ 11 | $ 151 |
| Company's share of net income (loss) | $ (2,491) | $ (101) | $ 211 | $ (1,245) | $ 1,961 | $ (43) | $ 4 |

## Note 7. Note Receivable

On March 15, 1994, the Company completed a $10.0 million loan to the sole shareholder of Sumas Energy, Inc., the Company's partner in Sumas Cogeneration Company, L.P. ("SCC"), which owns the 125 megawatt Sumas Gas-Fired Cogeneration Facility. The loan matures in 10 years and bears interest at 16.25 percent. The loan is secured by a pledge to Calpine of the partner's interest in SCC. In order to provide for the payment of principal and interest on the loan, an additional 25 percent of the cash flow generated by SCC, estimated to begin in 1996, has been assigned to Calpine. The Company is deferring the recognition of interest income from this note until the actual receipt of cash generated from the income of SCC.

## Note 8. Legal Proceedings

The Company, together with over 100 other parties, was named as a defendant in the second amended complaint in an action brought in July 1993 by the bankruptcy trustee for Bonneville Pacific Corporation ("Bonneville"), captioned *Roger G. Segal, as the Chapter 11 Trustee for Bonneville Pacific Corporation v. Portland General Corporation, et al.*, in the United States District Court for the District of Utah. The action was dismissed by the court as to all defendants without prejudice in December 1993, and the third amended complaint was refiled by the trustee on January 13, 1994. After several hearings the court asked the trustee to further clarify the issues, and the fourth amended complaint was filed on September 7, 1994. The complaint alleges that the Company engaged in conspiracy, fraud, misrepresentation, breach of fiduciary duty and breach of contract. The company has answered each version of the complaint by denying all claims.

Although the case involves over 25 separate financial transactions entered into by Bonneville, the action concerns the Company in respect of only one of these transactions. In 1988, the Company invested $2,000,000 in a partnership formed with Bonneville to develop four hydroelectric projects in the State of Hawaii. The projects were not successfully developed by the partnership, and, subsequent to Bonneville's Chapter 11 filing, the Company filed a claim as a creditor against Bonneville's bankruptcy estate.

The Company's motion to sever and request for a separate trial has been granted. The Company has further requested that the court grant the Company an accelerated deposition and trial schedule as it would be unfair to require the Company to participate in the main case. The Company believes the claims against it are without merit and will defend the action vigorously. The Company believes that the suit will not have a material adverse effect on its business, financial position or results of operations.

The Company is involved in various other claims and other legal actions arising out of the normal course of business. Management does not expect that the outcome of these cases will have a material effect on the Company's financial position or results of operations.

Note 9. Thermal Power Company

On September 9, 1994, the Company completed the purchase of TPC, a former subsidiary of Maxus Energy Corporation of Dallas, Texas, for $60.0 million in cash and a non-interest bearing promissory note for $6.5 million, which has been discounted to yield 8.0 percent per annum, due September 9, 1997. As a result of this transaction, Calpine acquired a 25 percent interest in certain geothermal steam fields located in The Geysers area of northern California. The non-interest bearing promissory note has been reflected as a non-cash transaction in the accompanying condensed statements of cash flows.

The acquisition was accounted for as a purchase and the purchase price has been allocated to the acquired assets and liabilities based on the estimated fair values of the acquired assets and liabilities. The allocation may be adjusted as additional information becomes available.

Additional information and financial statements regarding the acquisition of TPC have been included in the Company's Form 8-K, filed with the Securities and Exchange Commission on September 26, 1994.

Pro forma results as if the acquisition had been consummated on January 1, 1994 and January 1, 1993, respectively, are as follows (in thousands):

| | Nine Months Ended September 30, 1994 | | Nine Months Ended September 30, 1993 | |
|---|---|---|---|---|
| Revenue | $ | 80,029 | $ | 77,047 |
| Net income | $ | 5,539 | $ | 2,045 |
| Earnings per share | $ | 2.55 | $ | .95 |

The Pro forma information does not purport to be indicative of results that actually would have occurred had the acquisition been made on the dates indicated or of results which may occur in the future.

Note 10. Calpine Siskiyou Geothermal Partners, L.P.

On August 24, 1994, the Company formed a partnership with Trans-Pacific Geothermal Glass Mountain, Ltd., an affiliate of Trans-Pacific Geothermal Corporation of Oakland, California to build a 30 mw geothermal power generation facility and sell electricity to Bonneville Power Administration (BPA) and Springfield Utility Board of Oregon. The power facility will be located at Glass Mountain in northern California near the Oregon border and is scheduled to enter operation in 1998. The power purchasers hold options for an additional 100 mw.

On August 25, 1994, the Company entered into a loan agreement providing for loans up to $4.8 million to Trans-Pacific Geothermal Glass Mountain, Ltd. The loan bears interest at 10.0 percent and has a maturity date which is based on certain future events. Based on current forecasts, the maturity date will be in the year 2022. The loan is secured by a pledge to Calpine of the partner's interest in the project. The Company is deferring the recognition of income from this note until the actual receipt of cash generated from the income of the project. As of September 30, 1994, $3.6 million was outstanding.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

Calpine is a leading independent power generation company engaged in the development, acquisition, ownership and operation of natural gas-fired and geothermal facilities and steam fields consisting of three geothermal power generation facilities, two gas-fired cogeneration facilities and twelve geothermal steam fields. Each of the power generation facilities produces electricity for sale to utilities. Thermal energy produced by the gas-fired cogeneration facilities is sold to governmental and industrial users, and steam produced by the geothermal steam fields is sold to utility-owned power plants. The electricity, thermal energy and steam generated by these facilities are typically sold pursuant to long-term take-and-pay power or steam sales agreements generally having original terms of 20 to 30 years.

### Results of Operations

*Three and Nine Months Ended September 30, 1994 Compared to Three and Nine Months Ended September 30, 1993*

*Revenue.* The Company's total revenue increased to $24.3 million and $67.2 million for the three and nine months ended September 30, 1994 compared to $22.2 million and $49.7 million for the comparable periods in 1993. The increase for the nine months ended September 30, 1994 as compared to 1993 is primarily the result of the Company's acquisition of the remaining interest in CGC from FMRP in April 1993. Effective with this acquisition, the revenues of CGC are consolidated and are included in the Company's revenue for the three and nine months ended September 30, 1994. Prior to such acquisition, the Company recognized its share of the net income of CGC under the equity method of accounting. In May 1994, the Company reversed approximately $5.9 million of its deferred revenue liability that it had recorded in connection with a future period when it was expected that steam would have been delivered to a certain customer at no charge. Based on current estimates and analyses performed by the Company, the Company no longer expects that it will be required to make these deliveries. This reversal resulted in a $4.0 million increase in revenue while the remaining $1.9 million of this reversal was treated as a purchase price adjustment with a reduction to property, plant and equipment.

*Electricity and steam sales* revenue was $23.1 million and $64.3 million for the three and nine months ended September 30, 1994 compared to $20.6 million and $34.1 million for the comparable periods in 1993. The primary reasons for the increase in revenues during the three months ended September 30, 1994 as compared to 1993 are the lack of hydro curtailment, the increase in fixed energy prices and the discontinuance of the partial revenue deferral at CGC along with the revenue associated with the acquisition of TPC beginning September 9, 1994. The increase in revenues for the nine months ended September 30, 1994 is primarily the result of the Company's acquisition of the remaining interest in CGC as well as the factors noted above. These factors were partially offset by a reduction of steam sales due to an extended overhaul during the second quarter of 1994 at the SMUDGEO #1 geothermal power plant to which the Company sells steam.

*Service contract revenue from related parties* was \$1.9 million and \$5.2 million for the three and nine months ended September 30, 1994 compared to \$1.7 million and \$14.9 million for the comparable periods in 1993. The increase during the three month period ended September 30, 1994 resulted from additional revenue generated from the operations of the Aidlin facility. The decline for the nine month period primarily reflects the elimination of intercompany revenue for services provided to the power generation facilities and steam fields owned by CGC after the acquisition in April 1993. In addition, the decline also resulted from higher revenue recognized in 1993 on services associated with the Aidlin facility overhaul, maintenance at the Agnews facility, the start-up of the Sumas facility, plus the completion of the Sumas construction management project.

*Income (loss) from unconsolidated investments in power projects* decreased to a loss of \$598,000 and \$2.4 million for the three and nine months ended September 30, 1994 from a loss of \$141,000 and income of \$677,000 during the three and nine months ended September 30, 1993, respectively. For the three months ended September 30, 1994, the decrease resulted from higher expenses incurred at the Sumas facility including interest expense, depreciation and additional general and administrative costs. For the nine months ended September 30, 1994, the decrease results primarily from the \$2.0 million of equity income from CGC recognized prior to the April 1993 acquisition under the equity method of accounting in addition to a full nine months of operating loss recognized from the Sumas project.

*Cost of revenue* increased to \$13.9 million and \$36.9 million for the three and nine months ended September 30, 1994, compared to \$11.7 million and \$30.6 million for the comparable periods in 1993.

*Plant operating, depreciation and production royalties expenses* increased by \$2.1 million and \$15.0 million for the three and nine months ended September 30, 1994, from the same periods in 1993. The increase during the three month period ended September 30, 1994 resulted from higher royalty payments and depreciation expense due to increased production at CGC, along with the expenses of TPC beginning September 9, 1994. The increase during the nine months ended September 30, 1994 was primarily due to the acquisition of CGC as well as to the factors noted above.

*Service contract expenses and other* increased by \$50,000 for the three months ended September 30, 1994 due to costs incurred at the Aidlin facility. For the nine months ended September 30, 1994, expenses decreased by \$8.7 million due primarily to the elimination of \$6.1 million of operation expenses incurred at CGC as well as higher costs in 1993 incurred on the Aidlin facility overhaul, maintenance expenses at the Agnews facility and the start-up of the Sumas facility.

*Project development expenses* increased to \$1.2 million and \$2.4 million for the three and nine months ended September 30, 1994 compared to \$369,000 and \$959,000 for the same periods in 1993. These increases are the result of reserves established for capitalized project costs totaling \$800,000 and \$1.0 million for the three and nine months ended September 30, 1994, respectively, as well as additional expenses that are attributable to the addition of personnel necessary for new project development activities.

*General and administrative expenses* increased to $2.1 million and $4.8 million for the three and nine months ended September 30, 1994 from $1.7 million and $4.1 million in the comparable periods in 1993. The increase is the result of an allowance for uncollectible accounts established in September 1994 plus the addition of personnel and related expenses necessary to support the Company's operations.

*Interest expense* increased to $6.2 million and $17.1 million for the three and nine months ended September 30, 1994 from $5.3 million and $9.2 million in the comparable periods in 1993. The increase for the three months ended September 30, 1994 is the result of increased borrowing associated with the TPC acquisition and the Senior Notes offering, as well as higher interest rates. The increase for the nine months ended September 30, 1994 compared to the same period in 1993 is the result of the consolidation of CGC in April 1993 as well as the reasons noted above.

*Other income, net* decreased to $301,000 for the three months ended September 30, 1994 compared to $498,000 for the comparable period in 1993, primarily as a result of an insurance refund of $163,000 received in 1993. For the nine months ended September 30, 1994, other income, net increased to $989,000 as a result of the consolidation of CGC, higher interest rates on cash deposits and the refund noted above.

*Provision for income taxes* was calculated based on an effective rate of approximately 37.3 percent and 60.9 percent for the three months ended September 30, 1994 and 1993, and 41.1 percent and 54.2 percent for the nine months ended September 30, 1994 and 1993. The effective rates for the three and nine months ended September 30, 1994 are based on the statutory rates reduced by a depletion in excess of basis benefit at TPC. The effective rates for the three and nine months ended September 30, 1993 includes an allowance of approximately $700,000 as a result of the change in California State Tax regulations on the treatment of net operating loss carryforwards in 1993.

## Liquidity and Capital Resources

To date, the Company has obtained cash from its operations, borrowings under the Company's Credit Facility ("Credit Facility") and its working capital line, equity contributions from Electrowatt, proceeds from non-recourse project financings and from the Company's public debt offering in February 1994. On February 17, 1994, the Company completed a $105.0 million public debt offering of the Senior Notes. The net proceeds of $100.9 million were used to repay all of the indebtedness outstanding under the Company's Credit Facility, and to repay the non-recourse notes payable to FMRP plus accrued interest. The remaining proceeds were used for general corporate purposes, including the $10.0 million loan made on March 15, 1994. See Note 7 to the financial statements for further discussion. The Senior Notes will mature on February 1, 2004 and bear interest at 9.25 percent payable semiannually on February 1 and August 1 of each year, commencing August 1, 1994, to holders of record.

*Operating activities* provided $23.2 million of cash for the nine months ended September 30, 1994 as a result of approximately $4.1 million of net income from operations, $13.6 million of depreciation and amortization, $2.7 million of deferred income taxes and $2.4 million in loss from unconsolidated investments in power plants.

*Investing activities* used cash of \$79.2 million during the nine months ended September 30, 1994. This includes \$58.1 million to acquire TPC, \$13.6 million of cash used for the loans to related parties, \$3.7 million of cash used to acquire property, plant and equipment, \$1.4 million of cash used for capitalized costs, and a \$2.4 million increase in restricted cash related to the TPC transaction and debt service reserve requirements at CGC.

*Financing activities* during the nine months ended September 30, 1994 used net cash totaling approximately \$58.3 million. Net proceeds from the Senior Notes totaled approximately \$101.6 million, of which approximately \$390,000 of transaction costs remain unpaid, offset by the use of the proceeds to repay the balances outstanding under the Credit Facility and notes payable to FMRP totaling \$89.4 million. In addition, \$11.2 million was used to reduce the balance outstanding under non-recourse project financing and \$1.2 million was used to repay the note payable to the Company's shareholder. In September 1994, the Company borrowed \$60.0 million (of which \$1.5 million was subsequently repaid) to finance the acquisition of TPC.

As a developer, owner and operator of power generation projects, the Company may be required to make long-term commitments and investments of substantial capital for its projects. The Company has historically financed these capital requirements with borrowings under the Credit Facility. The Credit Facility, which has been provided to the Company by Credit Suisse, was arranged by Electrowatt. Under the Credit Facility, as of December 31, 1993, the Company had borrowings outstanding of \$52.6 million, all of which were repaid with a portion of the proceeds from the Senior Notes. The Company is currently renegotiating the terms of the Credit Facility that will provide for borrowings by the Company of up to \$50.0 million on substantially the same terms as the current terms of the Credit Facility. As of September 30, 1994, the Company had no borrowings outstanding under this Credit Facility. The Company also maintains a \$1.2 million working capital line with a commercial lender that may be used to fund short-term working capital commitments and letters of credit. At September 30, 1994, the current amount available to the Company under this working capital line is \$740,000.

Non-recourse construction and term financing for new projects is generally arranged for a substantial portion of such projects' total capital costs. The Company intends to continue to seek the use of non-recourse project financing for new projects. The debt agreements of the Company's subsidiaries and other affiliates governing the non-recourse project financing generally restrict their ability to pay dividends, make distributions or otherwise transfer funds to the Company. The dividend restrictions in such agreements generally require that, prior to the payment of dividends, distributions or other transfers, the subsidiary or other affiliate must provide for the payment of other obligations, including operating expenses, debt service and reserves. However, the Company does not believe that such restrictions will adversely affect its ability to meet its debt obligations.

As of September 30, 1994, the Company had \$220.0 million of the non-recourse project financing associated with the power generating facilities and steam fields owned by CGC and the recently acquired steam fields owned by TPC.

As of September 30, 1994, \$161.5 million of the non-recourse project financing related to the power generating facilities and steam fields owned by CGC with a syndicate led by Deutsche Bank AG, which currently includes Union Bank of Switzerland, National Westminster Bank and The Prudential Insurance Company of America. This outstanding debt consists of a \$136.8 million senior term loan that amortizes through September 2002, a \$20.0 million junior term loan that amortizes from July 2002 through September 2005 and a premium on the senior term note of $4.7 million as a result of the acquisition of the remaining interest of CGC. This indebtedness is secured by substantially all of the property, plant, equipment, power and steam sales agreements and other assets of CGC. Of the $136.8 million of senior term loan, $116.8 million bears interest at a rate of 9.93 percent pursuant to interest rate swap agreements, and the balance bears interest at a variable rate currently based on LIBOR plus .75 percent. The junior portion of $20.0 million bears interest at a variable rate currently based on LIBOR plus 2.0 percent. The annual principal maturities for the CGC indebtedness are $4.8 million for the remainder of 1994, $18.0 million in 1995, $21.0 million in 1996, $22.0 million in 1997, $23.0 million in 1998 and $68.0 million thereafter. Interest and principal on the indebtedness are payable quarterly, are prepayable at CGC's option and require prepayment of a predetermined percentage of excess cash flow amounts, as defined, if CGC's project debt service coverage ratio falls to 1.3:1 or below, or if Pacific Gas & Electric Company ("PG&E") takes certain action against CGC in connection with a breach of the steam sales agreement with PG&E. Pursuant to this indebtedness, CGC is required to establish certain debt service and other reserves and to meet certain funding requirements in respect of such reserves prior to making any cash distributions. As of September 30, 1994, all such reserves were fully funded.

CGC also maintains a $5.0 million working capital loan facility with Deutsche Bank AG that expires in June 1995. This facility, which is used to fund working capital, capital expenditures and letter of credit requirements of the facilities and steam fields owned by CGC, bears interest at a variable rate and is repaid annually. As of September 30, 1994, CGC had no working capital borrowings under this facility. CGC is currently utilizing this facility to support letters of credit totaling $433,000.

On September 9, 1994, TPC entered into a two-year agreement with The Bank of Nova Scotia to finance the acquisition of TPC. As of September 30, 1994, TPC had $58.5 million of non-recourse project financing outstanding under this agreement. This indebtedness is secured by TPC's interest in The Geysers steam field assets. The entire outstanding balance bears interest at a variable rate currently based on LIBOR plus 1 percent. Interest is paid at the end of the LIBOR based loan. No stated principal amortization exists for this indebtedness. TPC may elect to repay principal at any time. All principal is due and payable on September 9, 1996. It is the Company's intention to refinance this debt with long-term financing prior to the maturity date.

Also in connection with the acquisition of TPC, the Company issued a non-interest bearing promissory note in the amount of $6.5 million representing a portion of the purchase price. This note is payable to Natomas Energy Company, a wholly-owned subsidiary of Maxus Energy Company and has a maturity date of September 9, 1997.

The Company had commitments for capital expenditures as of September 30, 1994 totaling $10.6 million related to its geothermal facilities and steam fields. Significant capital expenditures are also required for the ongoing operation and development of the Company's power generation facilities, especially at its geothermal power facilities and steam fields. Capital expenditures for the nine months ended September 30, 1994 were $3.6 million. As in the past, the Company intends to fund these capital expenditures through the operating cash flow of the facilities.

The Company continues to pursue the development of geothermal resources and new power generation projects. The Company expects to commit equity capital of approximately $1.0 million during the remainder of 1994 and significant additional amounts in future years for the development of these projects.

The Company believes that it will have sufficient liquidity from cash flow from operations and borrowings available under the Credit Facility and working capital line to satisfy all obligations under outstanding indebtedness, finance anticipated capital expenditures, fund working capital requirements and repay the principal and interest of the Senior Notes.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The Company, together with over 100 other parties, was named as a defendant in the second amended complaint in an action brought in July 1993 by the bankruptcy trustee for Bonneville Pacific Corporation ("Bonneville"), captioned *Roger G. Segal, as the Chapter 11 Trustee for Bonneville Pacific Corporation v. Portland General Corporation, et al.*, in the United States District Court for the District of Utah. The action was dismissed by the court as to all defendants without prejudice in December 1993, and the third amended complaint was refiled by the trustee on January 13, 1994. After several hearings the court asked the trustee to further clarify the issues, and the fourth amended complaint was filed on September 7, 1994. The complaint alleges that the Company engaged in conspiracy, fraud, misrepresentation, breach of fiduciary duty and breach of contract. The company has answered each version of the complaint by denying all claims.

Although the case involves over 25 separate financial transactions entered into by Bonneville, the action concerns the Company in respect of only one of these transactions. In 1988, the Company invested $2,000,000 in a partnership formed with Bonneville to develop four hydroelectric projects in the State of Hawaii. The projects were not successfully developed by the partnership, and, subsequent to Bonneville's Chapter 11 filing, the Company filed a claim as a creditor against Bonneville's bankruptcy estate.

The Company's motion to sever and request for a separate trial has been granted. The Company has further requested that the court grant the Company an accelerated deposition and trial schedule as it would be unfair to require the Company to participate in the main case. The Company believes the claims against it are without merit and will defend the action vigorously. The Company believes that the suit will not have a material adverse effect on its business, financial position or results of operations.

### ITEM 2. CHANGE IN SECURITIES

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

## ITEM 5. OTHER INFORMATION

None.

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

| Exhibit Number | Description |
|---|---|
| 4.1* | Indenture dated as of February 17, 1994 between the Company and Shawmut Bank of Connecticut, National Association, as Trustee, including Form of Senior Notes. |
| 10.1 | *Financing Agreements* |
| 10.1.1* | Term and Working Capital Loan Agreement, dated as of June 1, 1990, between Calpine Geysers Company, L.P. (formerly Santa Rosa Geothermal Company, L.P.), and Deutsche Bank AG, New York Branch. |
| 10.1.2* | First Amendment to Term and Working Capital Loan Agreement, dated as of June 29, 1990, between Calpine Geysers Company, L.P. (formerly Santa Rosa Geothermal Company, L.P.), and Deutsche Bank AG, New York Branch. |
| 10.1.3* | Second Amendment to Term and Working Capital Loan Agreement, dated as of December 1, 1990, between Calpine Geysers Company, L.P. (formerly Santa Rosa Geothermal Company, L.P.), and Deutsche Bank AG, New York Branch. |
| 10.1.4* | Third Amendment to Term and Working Capital Loan Agreement, dated as of June 26, 1992, between Calpine Geysers Company, L.P. (formerly Santa Rosa Geothermal Company, L.P.), Deutsche Bank AG, New York Branch, National Westminster Bank PLC, Union Bank of Switzerland, New York Branch, and The Prudential Insurance Company of America. |
| 10.1.5* | Fourth Amendment to Term and Working Capital Loan Agreement, dated as of April 1, 1993, between Calpine Geysers Company, L.P. (formerly Santa Rosa Geothermal Company, L.P.), Deutsche Bank AG, New York Branch, National Westminster Bank PLC, Union Bank of Switzerland, New York Branch, and The Prudential Insurance Company of America. |
| 10.1.6* | Construction and Term Loan Agreement, dated as of January 30, 1992, between Sumas Cogeneration Company, L.P., The Prudential Insurance Company of America, and Credit Suisse, New York Branch. |
| 10.1.7* | Amendment No. 1 to Construction and Term Loan Agreement, dated as of May 24, 1993, between Sumas Cogeneration Company, L.P., The Prudential Insurance Company of America, and Credit Suisse, New York Branch. |
| 10.1.8* | Credit Agreement-Construction Loan and Term Loan Facility, dated as of January 10, 1990, between Credit Suisse and O.L.S. Energy-Agnews. |
| 10.1.9* | Amendment No. 1 to Credit Agreement-Construction Loan and Term Loan Facility, dated as of December 5, 1990, between Credit Suisse and O.L.S. Energy-Agnews. |

10.1.10* Participation Agreement, dated as of December 1, 1990, between O.L.S. Energy-Agnews, Nynex Credit Company, Credit Suisse, Meridian Trust Company of California, and GATX Capital Corporation.

10.1.11* Facility Lease Agreement, dated as of December 1, 1990, between Meridian Trust Company of California and O.L.S. Energy-Agnews.

10.1.12* Project Revenues Agreement, dated as of December 1, 1990, between O.L.S. Energy-Agnews, Meridian Trust Company of California and Credit Suisse.

10.1.13** Credit Agreement, dated as of September 9, 1994, between Calpine Thermal Power, Inc., Thermal Power Company and The Bank of Nova Scotia.

10.2 *Purchase Agreement*

10.2.1* Purchase Agreement, dated as of April 1, 1993, between Sonoma Geothermal Partners, L.P., Healdsburg Energy Company, L.P., and Freeport-McMoRan Resource Partners, Limited Partnership.

10.2.2** Stock Purchase Agreement, dated as of June 27, 1994, between Maxus International Energy Company, Natomas Energy Company, Calpine Corporation and Calpine Thermal Power, Inc. and amendment thereto dated July 28, 1994.

10.3 *Power Sales Agreements*

10.3.1* Long-Term Energy and Capacity Power Purchase Agreement relating to the Bear Canyon Facility, dated November 30, 1984, between Pacific Gas & Electric and Calpine Geysers Company, L.P. (formerly Santa Rosa Geothermal Company, L.P.), Amendment dated October 17, 1985, Second Amendment dated October 19, 1988, and related documents.

10.3.2* Long-Term Energy and Capacity Power Purchase Agreement relating to the Bear Canyon Facility, dated November 29, 1984, between Pacific Gas & Electric and Calpine Geysers Company, L.P. (formerly Santa Rosa Geothermal Company, L.P.), and Modification dated November 29, 1984, Amendment dated October 17, 1985, Second Amendment dated October 19, 1988, and related documents.

10.3.3* Long-Term Energy and Capacity Power Purchase Agreement relating to the West Ford Flat Facility, dated November 13, 1984, between Pacific Gas & Electric and Calpine Geysers Company, L.P. (formerly Santa Rosa Geothermal Company, L.P.), and amendments dated May 18, 1987, June 22, 1987, July 3, 1987 and January 21, 1988, and related documents.

10.3.4* Agreement for Firm Power Purchase, dated as of February 24, 1989, between Puget Sound Power & Light Company and Sumas Energy, Inc. and amendment thereto dated September 30, 1991.

10.3.5* Long-Term Energy and Capacity Power Purchase Agreement, dated April 16, 1985, between O.L.S. Energy-Agnews and Pacific Gas & Electric Company and amendment thereto dated February 24, 1989.

10.3.6* Long-Term Energy and Capacity Power Purchase Agreement, dated November 15, 1984, between Geothermal Energy Partners, Ltd., and Pacific Gas & Electric Company and related documents.

| | |
|---|---|
| 10.3.7* | Long-Term Energy and Capacity Power Purchase Agreement, dated November 15, 1984, between Geothermal Energy Partners, Ltd., and Pacific Gas & Electric Company (see Exhibit 10.3.6 for related documents). |
| 10.4 | *Steam Sales Agreements* |
| 10.4.1* | Geothermal Steam Sales Agreement, dated July 19, 1979, between Calpine Geysers Company, L.P. (formerly Santa Rosa Geothermal Company, L.P.), and Sacramento Municipal Utility District and related documents. |
| 10.4.2* | Agreement for the Sale and Purchase of Geothermal Steam, dated March 23, 1973, between Calpine Geysers Company, L.P. (formerly Santa Rosa Geothermal Company, L.P.), and Pacific Gas & Electric Company and related letter dated May 18, 1987. |
| 10.4.3* | Thermal Energy and Kiln Lease Agreement, dated as of January 16, 1992, between Sumas Cogeneration Company, L.P., and Socco, Inc. and amendment thereto dated May 24, 1993. |
| 10.4.4* | Amended and Restated Energy Service Agreement, dated as of December 1, 1990, between the State of California and O.L.S. Energy-Agnews. |
| 10.4.5 | Agreement for the Sale of Geothermal Steam, dated as of July 28, 1992, between Thermal Power Company, and Pacific Gas & Electric Company. |
| 10.5 | *Service Agreements* |
| 10.5.1* | Operation and Maintenance Agreement, dated as of April 5, 1990, between Calpine Operating Plant Services, Inc. (formerly Calpine-Geysers Plant Services, Inc.), and Calpine Geysers Company, L.P. (formerly Santa Rosa Geothermal Company, L.P.). |
| 10.5.2* | Amended and Restated Operating and Maintenance Agreement, dated as of January 24, 1992, between Calpine Operating Plant Services, Inc. and Sumas Cogeneration Company, L.P. |
| 10.5.3* | Amended and Restated Operation and Maintenance Agreement, dated as of December 31, 1990, between O.L.S. Energy-Agnews and Calpine Operating Plant Services, Inc. (formerly Calpine Cogen-Agnews, Inc.). |
| 10.5.4* | Operating and Maintenance Agreement, dated as of June 26, 1989, between Calpine Operating Plant Services, Inc. and Geothermal Energy Partners, Ltd. |
| 10.6 | *Gas Supply Agreements* |
| 10.6.1* | Gas Sale and Purchase Agreement, dated as of December 23, 1991, between ENCO Gas, Ltd. and Sumas Cogeneration Company, L.P. |
| 10.6.2* | Gas Management Agreement, dated as of December 23, 1991, between Canadian Hydrocarbons Marketing Inc., Enco Gas, Ltd. and Sumas Cogeneration Company, L.P. |
| 10.6.3* | Gas Supply Agreement, dated as of December 23, 1991, between Canadian Hydrocarbons Marketing Inc. and Sumas Cogeneration Company, L.P. |
| 10.6.4* | Natural Gas Sales Agreement, dated as of November 1, 1993, between O.L.S. Energy-Agnews, Inc. and Amoco Energy Trading Corporation. |

| | |
|---|---|
| 10.6.5* | Natural Gas Service Agreement, dated November 1, 1993, between Pacific Gas & Electric Company and O.L.S. Energy-Agnews, Inc. |
| 10.7 | *Agreements Regarding Real Property* |
| 10.7.1* | Office Lease, dated March 15, 1991, between 50 West San Fernando Associates, L.P., and Calpine Corporation. |
| 10.7.2* | First Amendment to Lease, dated April 30, 1992, between 50 West San Fernando Associates, L.P., and Calpine Corporation. |
| 10.7.3* | Geothermal Resources Lease CA 1862, dated July 25, 1974, between the United States Bureau of Land Management and Calpine Geysers Company, L.P. (formerly Santa Rosa Geothermal Company, L.P.). |
| 10.7.4* | Geothermal Resources Lease PRC 5206.2, dated December 14, 1976, between the State of California and Calpine Geysers Company, L.P. (formerly Santa Rosa Geothermal Company, L.P.). |
| 10.7.5* | First Amendment to Geothermal Resources Lease PRC 5206.2, dated April 20,1994, between the State of California and Calpine Geysers Company, L.P. (formerly Santa Rosa Geothermal Company, L.P.). |
| 10.7.6* | Industrial Park Lease Agreement, dated December 18, 1990, between Port of Bellingham and Sumas Energy, Inc. |
| 10.7.7* | First Amendment to Industrial Park Lease Agreement, dated as of July 16, 1991, between Port of Bellingham, Sumas Energy, Inc., and Sumas Cogeneration Company, L.P. |
| 10.7.8* | Second Amendment to Industrial Park Lease Agreement, dated as of December 17, 1991 between Port of Bellingham and Sumas Cogeneration Company, L.P. |
| 10.7.9* | Amended and Restated Cogeneration Lease, dated as of December 1, 1990, between the State of California and O.L.S. Energy-Agnews. |
| 10.8 | *General* |
| 10.8.1* | Limited Partnership Agreement of Sumas Cogeneration Company, L.P., dated as of August 28, 1991, between Sumas Energy, Inc. and Whatcom Cogeneration Partners, L.P. |
| 10.8.2* | First Amendment to Limited Partnership Agreement of Sumas Cogeneration Company, L.P., dated as of January 30, 1992, between Whatcom Cogeneration Partners, L.P., and Sumas Energy, Inc. |
| 10.8.3* | Second Amendment to Limited Partnership Agreement of Sumas Cogeneration Company, L.P., dated as of May 24, 1993, between Whatcom Cogeneration Partners, L.P., and Sumas Energy, Inc. |
| 10.8.4* | Second Amended and Restated Shareholders' Agreement, dated as of October 22, 1993, among GATX Capital Corporation, Calpine Agnews, Inc., JGS-Agnews, Inc., and GATX/Calpine-Agnews, Inc. |

10.8.5* Amended and Restated Reimbursement Agreement, dated October 22, 1993, between GATX Capital Corporation, Calpine Agnews, Inc., JGS-Agnews, Inc., GATX/Calpine-Agnews, Inc., and O.L.S. Energy-Agnews, Inc.

10.8.6* Amended and Restated Limited Partnership Agreement of Geothermal Energy Partners Ltd., L.P., dated as of May 19, 1989, between Western Geothermal Company, L.P., Sonoma Geothermal Company, L.P., and Cloverdale Geothermal Partners, L.P.

10.8.7* Assignment and Security Agreement, dated as of January 10, 1990, between O.L.S. Energy-Agnews and Credit Suisse.

10.8.8* Pledge Agreement, dated as of January 10, 1990, between GATX/Calpine-Agnews, Inc., and Credit Suisse.

10.8.9* Equity Support Agreement, dated as of January 10, 1990, between Calpine Corporation and Credit Suisse.

10.8.10* Assignment and Security Agreement, dated as of December 1, 1990, between O.L.S. Energy-Agnews and Meridian Trust Company of California.

10.8.11* Calpine Subordination Agreement, dated as of April 1, 1993, between Freeport-McMoRan Resource Partners, L.P., Calpine Corporation, Sonoma Geothermal Partners, L.P., Calpine Sonoma, Inc., Healdsburg Energy Company, L.P., and Calpine Geysers Company, L.P. (formerly Santa Rosa Energy Company, L.P.).

10.8.12* First Amended and Restated Limited Partner Pledge and Security Agreement, dated as of April 1, 1993, between Sonoma Geothermal Partners, L.P., Healdsburg Energy Company, L.P., Calpine Geysers Company, L.P. (formerly Santa Rosa Geothermal Company, L.P.), Freeport-McMoRan Resource Partners, L.P., and Meridian Trust Company of California.

10.8.13* Management Services Agreement, dated January 1, 1992, between Calpine Corporation and Electrowatt Ltd.

10.8.14* Credit Facility Letter Agreement, dated September 28, 1990, between Calpine Corporation and Credit Suisse.

10.8.15* Letter regarding Credit Facility, dated April 7, 1993, from Electrowatt Ltd to Credit Suisse.

10.8.16* Promissory Grid Note, dated April 26, 1993, between Calpine Corporation and Credit Suisse.

10.8.17* Guarantee Fee Agreement, dated January 1, 1992, between Calpine Corporation and Electrowatt Ltd.

10.8.18 Amended and Restated Operating Agreement for the Geysers, dated as of December 1, 1993, by and between Magma-Thermal Power Project, a joint venture composed of NEC Acquisition Company and Thermal Power Company, and Union Oil Company of California.

10.9* Calpine Corporation Stock Option Program and forms of agreements thereunder.

10.10* Employment Agreement, effective as of January 1, 1991, between Calpine Corporation and Mr. Peter Cartwright.

10.11* Form of Indemnification Agreement for directors.

10.12* Form of Indemnification Agreement for executive officers.

(b) Reports on Form 8-K

A Form 8-K, dated September 9, 1994, was filed on September 26, 1994.

---

* Incorporated by reference to Registrant's Registration Statement on Form S-1 (Registration Statement No. 33-73160).

** Incorporated by reference to Registrant's Current Report on Form 8-K dated September 9, 1994 and filed on September 26, 1994.

## SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**CALPINE CORPORATION**

Date: November 14, 1994

By: /s/ Ann B. Curtis

Ann B. Curtis
Senior Vice President
(Principal Financial Officer)

By: /s/ Richard D. Barraza

Richard D. Barraza
Director of Corporate Accounting
(Chief Accounting Officer)

CASE No. 88,280
Docket No. 950110-EI

EXHIBIT NO. (______________)

WITNESS: SHANKER

DOCKET NO. 950110-EI

DESCRIPTION: CAPACITY PAYMENTS FOR TERM OF FPC/PANDA STANDARD OFFER CONTRACT

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 950110-EI EXHIBIT NO. 37
COMPANY/WITNESS: PSC/Shanker
DATE: 1/19/96

23

# ATTACHMENT A.

## Panda-Kathleen, L.P.
## Capacity Payment Analysis
## Base Case Scenario

**Inputs:**

| | |
|---|---|
| K Factor (mid-year) | 1.5259 |
| In (total cost, direct & afudc - 1991 $'s) | $398.88 |
| Ip (annual escalation rate) | 5.10% |
| r (utility discount rate) | 9.96% |
| L (expected life - years) | 20 |
| On (O&M expense - 1991$/kw/yr) | $6.18 |

**Results:**

| | |
|---|---|
| PV (20 Years @ 9.96%) = | $70.88 |
| PV (30 Years @ 9.96%) = | $88.42 |

### Normal Payment Option

| Contract Year | Calendar Year | In (annual) | O&M ($/kw-mth) | Capital ($/kw-mth) | Total (1) ($/kw-mth) |
|---|---|---|---|---|---|
| | 1991 | $398.88 | $0.53 | $3.77 | $4.30 |
| | 1992 | $419.22 | $0.56 | $3.96 | $4.51 |
| | 1993 | $440.60 | $0.58 | $4.16 | $4.74 |
| | 1994 | $463.07 | $0.61 | $4.37 | $4.99 |
| | 1995 | $486.69 | $0.64 | $4.60 | $5.24 |
| | 1996 | $511.51 | $0.68 | $4.83 | $5.51 |
| 1 | 1997 | $537.60 | $0.71 | $5.08 | $5.79 |
| 2 | 1998 | $565.02 | $0.75 | $5.34 | $6.08 |
| 3 | 1999 | $593.83 | $0.79 | $5.61 | $6.39 |
| 4 | 2000 | $624.12 | $0.83 | $5.89 | $6.72 |
| 5 | 2001 | $655.95 | $0.87 | $6.19 | $7.06 |
| 6 | 2002 | $689.40 | $0.91 | $6.51 | $7.42 |
| 7 | 2003 | $724.56 | $0.96 | $6.84 | $7.80 |
| 8 | 2004 | $761.51 | $1.01 | $7.19 | $8.20 |
| 9 | 2005 | $800.35 | $1.06 | $7.56 | $8.62 |
| 10 | 2006 | $841.17 | $1.11 | $7.94 | $9.06 |
| 11 | 2007 | $884.07 | $1.17 | $8.35 | $9.52 |
| 12 | 2008 | $929.16 | $1.23 | $8.78 | $10.01 |
| 13 | 2009 | $976.54 | $1.29 | $9.22 | $10.52 |
| 14 | 2010 | $1,026.35 | $1.36 | $9.69 | $11.05 |
| 15 | 2011 | $1,078.69 | $1.43 | $10.19 | $11.62 |
| 16 | 2012 | $1,133.70 | $1.50 | $10.71 | $12.21 |
| 17 | 2013 | $1,191.52 | $1.58 | $11.25 | $12.83 |
| 18 | 2014 | $1,252.29 | $1.66 | $11.83 | $13.48 |
| 19 | 2015 | $1,316.16 | $1.74 | $12.43 | $14.17 |
| 20 | 2016 | $1,383.28 | $1.83 | $13.06 | $14.90 |
| 21 | 2017 | $1,453.83 | $1.92 | $13.73 | $15.66 |
| 22 | 2018 | $1,527.97 | $2.02 | $14.43 | $16.45 |
| 23 | 2019 | $1,605.90 | $2.13 | $15.17 | $17.29 |
| 24 | 2020 | $1,687.80 | $2.23 | $15.94 | $18.17 |
| 25 | 2021 | $1,773.88 | $2.35 | $16.75 | $19.10 |
| 26 | 2022 | $1,864.35 | $2.47 | $17.61 | $20.08 |
| 27 | 2023 | $1,959.43 | $2.59 | $18.51 | $21.10 |
| 28 | 2024 | $2,059.36 | $2.73 | $19.45 | $22.18 |
| 29 | 2025 | $2,164.39 | $2.87 | $20.44 | $23.31 |
| 30 | 2026 | $2,274.77 | $3.01 | $21.48 | $24.50 |

(1) The total capacity payment amount may differ from the amounts in the PPA by +/- $0.01 because of rounding.

---

Formula:

$$VACm = 1/12 \left( K \cdot I_n \left\{ \frac{\left[ 1 - \frac{(1+i_p)}{(1+r)} \right]}{\left[ 1 - \frac{(1+i_p)^L}{(1+r)^L} \right]} \right\} + O_n \right)$$

Where:

- $VAC_m$ = utility's monthly value of avoided capacity for each month of year n
- K = PV (mid year) of carrying charges for $1.00 over L years
- $I_n$ = total direct & indirect cost + afudc, mid yr $ per kilowatt, indexed by 5.1% per year
- $O_n$ = total fixed O& M expense per kilowatt, indexed by 5.1% per year
- $i_p$ = annual escalation rate for plant construction and fixed O&M cost
- r = annual discount rate reflecting the utility's after-tax cost of capital
- L = expected life of avoided unit
- n = year for which the avoided unit is deferred

CASE No. 88,280
Docket No. 950110-EI

FPSC DOCKET NO. 950010-EI
EXHIBIT NO. __________ RK-1

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET
NO. 950110-EI EXHIBIT NO 38
COMPANY/
WITNESS: Killian
DATE: 2/5/96

DOCUMENT NUMBER-DATE
00867 JAN 24 96
FPSC-RECORDS/REPORTING

PANDA-KATHLEEN L.P.
A Panda Company

June 23, 1994

Mr. David Gammon, P.E.
Senior Cogeneration Engineer
Florida Power Corporation
3201 34th Street South
St. Petersburg, FL 33711

Dear David:

As we discussed in our meeting on June 22, 1994, Panda-Kathleen, L.P. is permitting two equipment configurations- a GE 7EA and an ABBIIN for its Lakeland project. These machines are the most economical units that allow Panda-Kathleen, L.P. to supply the committed capacity of 74.9 MW at all times. The net output of the selected turbine will be 100-115 MW under certain conditions.

A prospective lender has raised the question as to the price that Panda-Kathleen, L.P. would be paid for power in excess of 74.9 MW. The contract provides for payment of the as-available energy prices at times when the avoided unit would not have otherwise run. When the avoided unit would have run, two options exist. FPC would pay either (1) the as-available energy rate or (2) the avoided unit rate. FPC agrees that Panda-Kathleen L.P. shall be paid the "avoided unit rate" under the contract for all energy above 74.9MW during times when the "avoided unit" would have been dispatched, since Panda-Kathleen, L.P. did not elect the "Performance Adjustment" specified in Section 9.1.3 of the contract.

In order to clarify this question and maintain our development schedule, please signify your concurrence on this interpretation in the space provided below on or before July 8, 1994.

Yours truly,

Ted Hollon

Ted Hollon
Vice President
Project Management and Construction

Accepted and Agreed to as of ________, 1994

FLORIDA POWER CORPORATION

By:________________________

Title:________________________

Docket 95-0110-EI
**RALPH KILLIAN**
Exhibit No. RK-1
Sheet 1 of 1

4100 Spring Valley, Suite 1001 · Dallas, Texas · 75244 · 214/980-7159 · Fax 980-6815

P-K001334

305 579 5415

FPSC DOCKET NO. 950010-EI
EXHIBIT NO. __________ RK-2

PANDA ENERGY CORPORATION
The Independent Power Company

**PANDA'S FAX:** (214) 980-6815 **DATE:** 8-8-94

**NUMBER OF PAGES (INCLUDING COVER):**

**TO:** David Gammon

**COMPANY:** Florida Power Corporation

**FAX NUMBER:** (813) 866-4994

**FROM:** Ralph Killian

**SUBJECT:**

Docket 95-0110-EI
RALPH KILLIAN
Exhibit No. RK-2
Sheet 1 of 5

4100 Spring Valley, Suite 1001 Dallas, Texas 75244
214/980-7159 FAX 214/980-6815

P-K001366

305 579 5415

PANDA
ENERGY CORPORATION
The Independent Power Company

August 8, 1994

Mr. David Gammon, P. E.
Senior Cogeneration Engineer
Florida Power Corporation
3201 34th Street South
St. Petersburg, Florida 33711

RE: Standard Offer Contract For the Purchase Of Firm Capacity and Energy From A Qualifying Facility Less Than 75 MW Or A Solid Waste Facility Between Panda-Kathleen L.P. and Florida Power Corporation (the "Agreement").

Dear David:

Please find attached a letter of clarification reflecting the changes per our recent discussion. Panda has signed the letter. Please fax a copy of the letter to us upon FPC's execution thereof.

Thank you for your cooperation.

Sincerely,

Ralph T. Killian

Ralph T. Killian
Senior Vice President

RTK/lc

enclosure

Docket 95-0110-EI
RALPH KILLIAN
Exhibit No. RK-2
Sheet 2 of 5

4100 Spring Valley, Suite 1001 Dallas, Texas 75244
214/980-7159 FAX 214/980-6815



305 579 5415

PANDA-KATHLEEN L.P.
A Panda Company

August 8, 1994

Mr. Robert D. Dolan, P. E.
Manager, Cogeneration Contracts
Florida Power Corporation
3201 34th Street South
St. Petersburg, FL 33711

RE: Standard Offer Contract For The Purchase Of Firm Capacity And Energy From A Qualifying Facility Less Than 75 MW Or A Solid Waste Facility Between Panda-Kathleen L. P. and Florida Power Corporation (the "Agreement")

Dear Mr. Dolan:

The purpose of this letter is to clarify issues relating to the Agreement. Panda is installing either a GE Frame 7EA or an ABB 11 N for the Lakeland cogeneration facility since they are the only gas turbines commercially available which can produce at least 74.9 MW each day over the life of the 30 year contract term, taking into account degradation and site weather conditions. The cogeneration facility may produce more than 74.9 MW of energy from time to time depending on the degree of site weather conditions and the effects of performance degradation.

Panda will submit this letter to the Florida Public Service Commission (FPSC) to determine whether or not FPSC approval is required with respect to Panda's intention to install such equipment.

Florida Power Corporation (FPC) and Panda-Kathleen L.P. (Panda ) agree as follows:

1. Nothing in this letter shall prevent or preclude FPC from taking any position in or intervening in any such proceeding before the FPSC.

Assuming that the FPSC determines that its approval is not required, then the terms of the Agreement shall apply to such Facility including but not limited to 2, 3, and 4 below.

2. Under no circumstances is FPC required to pay for more than 74.9 MW of capacity.

3. FPC will purchase the energy produced above 74.9 MW, if any, at all times when available except when system operating conditions will not permit such; i.e. at minimum load conditions as reasonably defined by FPC.

Docket 95-0110-EI
RALPH KILLIAN
Exhibit No. RK-2
Sheet 3 of 5

P-K001368

4100 Spring Valley. Suite 1001 • Dallas, Texas • 75244 • 214/980-7159 • Fax 980-6815

4. FPC will pay Panda for energy produced above 74.9 MW at FPC's as-available energy price.

Subject to any determination of the FPSC, this letter does not in any way modify, amend or otherwise change the Agreement. In the event of any conflict between the Agreement and this letter, the Agreement shall prevail.

The parties acknowledge this clarification by signature below.

**PANDA-KATHLEEN L. P.**

**By:** Panda-Kathleen Corporation

**By:** Ralph T. Killian

**Title:** Senior Vice President

**Date:** August 8, 1994

**Accepted and Agreed to as of August ______, 1994**

**FLORIDA POWER CORPORATION**

**By:**______________________________

**Title:**____________________________

Docket 95-0110-EI
**RALPH KILLIAN**
Exhibit No. RK-2
Sheet 4 of 5

P-K001369

305 579 5415

P.01

TRANSACTION REPORT

AUG-08-94 MON 11:16

| DATE | START | RECEIVER | TX TIME | PAGES | TYPE | NOTE | M# |
|---|---|---|---|---|---|---|---|
| AUG-08 | 11:14 | 18138664994810 | 1'49" | 4 | SEND | OK | |

P-K001365

Docket 95-0110-EI
**RALPH KILLIAN**
Exhibit No. RK-2
Sheet 5 of 5