

REIMBURSEMENT AGREEMENT

This Reimbursement Agreement ("Agreement") is entered into and effective as of _____, 2011, by the Lancaster Power Authority ("LPA"), a Municipal Utility and Pittsburg Power Company ("PPC"), a Municipal Utility. LPA and PPC may be referred to individually as a "Party," and together as "Parties."

This Agreement is based upon the following facts:

A. The construction of an electric transmission project in the Antelope Valley in northern Los Angeles County and southern Kern County has been proposed to both LPA and PPC ("Project"), for consideration and possible participation by Parties or one of its subordinate entities, or a combination of such entities (collectively, "Subordinate Entities").

B. It is anticipated that PPC and/or its Subordinate Entities will incur certain expenses in reviewing applications for evaluating its potential participation in and providing assistance with possible actions to implement the Project. LPA and PPC wish to establish a framework to reimburse PPC for its expenses, as provided herein.

C. LPA anticipates entering into a Development Agreement (as defined in Section 1.4) for said Project within sixty (60) days of execution of Agreement.

NOW, THEREFORE, the Parties agree as follows:

1. **DEFINITIONS:** As used in this Agreement, the following terms shall have the stated meanings:

1.1. "Advisors" mean the attorneys, consultants, technical advisors, financial advisors and any other third-party professional person or entity engaged by PPC to assist LPA or its Subordinate Entities in providing assistance to or evaluating participation in the Project.

1.2. "Approved Budget" means a Budget both Parties have approved in writing.

1.3. "Budget" means a document prepared collectively by Parties for review and approval of Parties that describes each proposed Advisor and appropriate staff whose time reimbursement is sought and provides an estimate of each Reimbursable Expense, on a monthly basis, for a three (3) month period. A Budget shall include a proposed scope of work and a not-to-exceed amount for each Advisor, for each month. A Budget shall also include a description of the responsibilities under the Development Agreement to be carried out by each Party's staff, and a not-to-exceed amount for PPC's department, for each month. Neither PPC nor its Subordinate Entities shall incur any cost or expense for which PPC intend to seek reimbursement that is not described in an Approved Budget, without both Parties prior written consent.

1.4. "Development Agreement" means the Development Agreement, dated within sixty (60) days as of the date hereof, between LPA and Critical Path Transmission, LLC.

1.5. "Excluded Expense" means an expense related to the Project that is not identified on an Approved Budget, and which shall be payable by PPC on its own account and without contribution by LPA. An Excluded Expense includes, without limitation: (i) an expense incurred by Parties before the effective date of the this Agreement, except as set forth in Section 1.6 below; (ii) an expense incurred by Parties in resolving or litigating a dispute including the dispute resolution procedures set forth in Section 7 below; (iii) an expense incurred by Parties in negotiating and documenting this Agreement and the Confidentiality Agreement concerning the Project; and (iv) an expense incurred by Parties in documenting, exercising and realizing the benefit of any Party's Ancillary Benefit (as defined in the Ancillary Agreement).

1.6. "Reimbursable Expense" means a verifiable expense of PPC or one of its Subordinate Entities that is (a) incurred by PPC in negotiating the Development Agreement from the date of execution of this Agreement; (b) incurred by PPC in performance of its respective obligations under the Development Agreement; and (c) included in an Approved Budget, or approved by Parties in writing in advance of having been incurred, either through an amended Approved Budget (as described in Section 2 below) or a separate writing; and that is (c) not an Excluded Expense.

2. SUBMISSION AND APPROVAL OF BUDGET: Parties shall collectively prepare a proposed Budget and submit it for each Party's approval, which shall not be unreasonably withheld. Parties shall submit a proposed Budget no later than the tenth (10th) day of the month proceeding the three (3) month period covered by such Budget. Parties shall prepare and submit the first Budget after LPA approval of the Development Agreement. Parties shall approve or reject a proposed Budget within ten (10) days after receipt. Parties shall submit budgets monthly, so that each Party may review and reasonably anticipate expenses for the then upcoming three (3) month period on a rolling forward basis. Parties may request the other Party to approve an amendment to an Approved Budget based upon unforeseen circumstances arising after approval of an Approved Budget and before the usual time for submitting a new Budget. If Party rejects a Budget or a request to amend an Approved Budget, then the matter may be referred for resolution as described in Section 7 below. The Parties shall use all reasonable efforts to limit expenses to be reimbursed hereunder in the same manner as if the Parties were incurring such expenses for its own account and will coordinate the timing of the incurrence of expenses to as much as reasonably practicable follow the progress of the Project's development. As part of the approval process, Parties may request that each Party assign specific individuals to work on the Project. Parties will take such requests under advisement, but retains sole authority to assign individuals to work on the Project.

3. INVOICING: PPC shall submit an invoice to LPA for Reimbursable Expenses incurred under an Approved Budget no more than once monthly, as to Reimbursable Expenses incurred during the preceding month. Each Reimbursable Expense included on an invoice shall identify the relevant Advisor or PPC's personnel and month for which reimbursement is requested, and shall correlate such Reimbursable Expense to a specific line item in an Approved Budget. Each invoice shall include PPC's written certification that each amount sought is a Reimbursable Expense within an Approved Budget. PPC shall require its Advisors to submit billings in a manner that facilitates ease in determining conformance with the Approved Budget, and specified not-to-exceed amounts included therein, and that separately identifies Excluded Expenses. Copies of Advisor invoices shall be attached to PPC's invoice (redacted to exclude information that constitutes attorney work product or that is protected from disclosure by the attorney-client privilege).

4. **PAYMENT:** LPA shall reimburse PPC for each Reimbursable Expense incurred under an Approved Budget within thirty (30) days after receipt of PPC's invoice therefore unless, in good faith, a reasonable objection to a Reimbursable Expense is raised by LPA, in which case LPA shall reimburse all undisputed Reimbursable Expenses and disputed Reimbursable Expenses shall be referred for resolution as described in Section 7. Objections based upon the total dollar amount of Reimbursable Expenses for a given month are not reasonable if such amount is within ten percent (10%) of the aggregate of all not-to-exceed amounts as shown in the Approved Budget or amended Approved Budget for that month. LPA shall have no obligation to reimburse PPC for an Excluded Expense.

5. **RECORDS AND REVIEW:** Parties shall maintain full and complete books and records of any and all costs and expenses covered by an invoice as described in Section 3 for a period of three (3) years after termination or expiration of this Agreement. Parties shall have the right to access, review and audit any amounts or records related to a particular invoice, excluding any confidential communication between a Party and its legal counsel. In the event no material variance between the amount billed and the amount to which the Party was entitled is discovered, the other Party shall reimburse Party for all verifiable costs and expenses reasonably incurred, including employee expense, in cooperating with any such access, review and audit.

6. **ENVIRONMENTAL REVIEW AND CITY APPROVALS:** The Parties anticipate that Project will require certain City of Lancaster ("City") approvals in connection with the Project (for example only, and without limitation, land use approvals; a franchise agreement for use of City rights-of-way; and certification of an environmental document under the California Environmental Quality Act (Public Resources Code Sections 21000, *et seq.*) and, if necessary, the National Environmental Policy Act (Title 42 United States Code Sections 4321, *et seq.*). City is expected to engage Advisors, including PPC, and incur internal staff time as it considers Project's applications. The Parties recognize that City's Municipal Code ("Code") and other governing ordinances describe the expenses for which LPA is to be reimbursed by a developer for processing an application for development approvals and permits. Those Code and ordinance provisions shall be applicable to the Project to the same degree and extent as to any other project for which such approvals might be sought. This Agreement is not intended to vary any requirements described in City's Code or ordinances in effect as of the effective date of this Agreement, or as subsequently amended or adopted to apply equally to all development projects seeking City approval. However, in order to provide predictability of expenses incurred on behalf of the Project, the Parties agree that all such expenses shall be described in an Approved Budget and subject to the terms of this Agreement. Party's staff time preparing a budget under this Section shall be subject to reimbursement in the manner provided in this Agreement.

7. **DISPUTE RESOLUTION:**

7.1 If there is a dispute between the Parties arising out of or related to this Agreement, the disputing a Party shall make written request to the other Party, specifically identifying the nature of the dispute in sufficient detail to allow for immediate evaluation and resolution. The Parties shall first use their best, good faith efforts to consider all reasonable approaches in attempting to resolve a dispute through negotiation.

7.2 If a dispute is not resolved within ten (10) days after receipt of the written request by the responding Party, the Parties shall seek expeditious mediation by a neutral third-party agreed upon by the Parties.

7.3 If mediation does not resolve the dispute within thirty (30) days after the commencement of such mediation, the Parties agree that such dispute shall be resolved exclusively by arbitration to be conducted in the County of Los Angeles in accordance with the rules of JAMS (“JAMS”) applying the laws of the State of California. Disputes shall not be resolved in any other forum or venue. The arbitration shall be conducted by an arbitrator agreed upon by the Parties. Discovery shall not be permitted, except as required by the rules of JAMS. The arbitration award shall not include factual findings or conclusions of law, and no punitive damages shall be awarded. The Parties understand that their right to appeal or to seek modification of any ruling or award of the arbitrator is severely limited. Any award rendered by the arbitrator shall be final and binding, and judgment may be entered on it in any court of competent jurisdiction. Notwithstanding the foregoing, any Party may seek an injunction in any court of competent jurisdiction to the limited extent necessary to preserve the status quo during the pendency of the final resolution of any dispute arising out of or related to this Agreement in accordance with this Section 7; provided, however, that, with respect to the foregoing, (i) any such proceeding shall be brought exclusively in the state courts in the State of California located in Los Angeles County or in the federal courts located in the State of California; and (ii) each Party consents to personal jurisdiction in such proceeding in any such court (and of the appropriate appellate courts there from) and irrevocably waives, to the fullest extent permitted by law, any objection that such Party may now have to the laying of the venue of any such proceeding in any such court or that any such proceeding brought in any such court has been brought in an inconvenient forum.

8. EXECUTION AND TERM: This Agreement shall become effective as of _____, 2011, and shall terminate on the earliest of (i) three (3) years from the effective date of this Agreement; (ii) the date that either Party formally exercises a right to terminate pursuant to the terms of the Memorandum of Understanding; (iii) upon exercise by Parties of any option to purchase the Project pursuant to the terms of the Development Agreement; or (iv) such other date as may be agreed upon by the Parties in writing.

9. SUCCESSORS AND ASSIGNS: This Agreement inures to the benefit of and binds the Parties and their respective representatives, successors and permitted assigns. No Party may assign its rights or obligations hereunder without the prior written consent of the other Party; provided, however, that, notwithstanding the foregoing, Parties may, with prior written notice to the other Party, assign this Agreement, and its rights and obligations hereunder, to an affiliate of the Party, with the exception that this Agreement may be assigned to the High Desert Power Authority (“HDP A”) for purposes of advancing the Project. Parties hereby expressly agree to the assignment of this Agreement to the HDP A at any time prior to December 31, 2011. After December 31, 2011, such assignment to HDP A may be done pursuant to the terms of this Section.

10. INTEGRATION: This Agreement constitutes the entire Agreement between the Parties regarding reimbursement of each Party's expenses related to the Project.

11. MODIFICATION: Any modification of this Agreement shall be in writing and executed by each Party.

12. **GOVERNING LAW:** The Parties agree that the laws of the State of California shall govern the construction and implementation of this Agreement. This Agreement shall be deemed to have been entered into, and obligations hereunder to have been incurred and performed, in Lancaster, California. Each Party specifically stipulates to venue in the City of Lancaster, and County of Los Angeles.

13. **NOTIFICATION:** Notices provided under the terms of this Agreement shall be in writing and transmitted by mail, overnight mail service, or facsimile. Notices to LPA shall be addressed to:

Mark V. Bozigian, Executive Director
Lancaster Power Authority
44933 Fern Avenue
Lancaster, California 93534
Phone: (661) 723-6007
Fax: (661) 723-6141

with a copy to:

Legal Counsel
Lancaster Power Authority
44933 Fern Avenue
Lancaster, California 93534
Phone: (661) 723-6012
Fax: (661) 723-6141

Notices to PPC shall be addressed to:

Joe Sbranti, Executive Director
Pittsburg Power Company
65 Civic Drive
Pittsburg, California 94565
Phone: (925) 252-4850
Fax: (925) 252-4959

with a copy to:

Legal Counsel
Pittsburg Power Company
65 Civic Drive
Pittsburg, California 94565
Phone: (925) 252-4850
Fax: (925) 252-4851

Notice provided to a Party under this Section 14 shall be effective when first received by a receiving Party's representative as identified above.

14. **SEVERABILITY:** If any provision of this Agreement is held by a court of competent jurisdiction to be illegal, unenforceable, or invalid in whole or in part for any reason, the validity and enforceability of the remaining provisions, or portions of them, shall not be affected.

15. **AMBIGUITIES:** Each Party and its counsel have participated fully in the review and revision of this Agreement. Any rule of construction to the effect that ambiguities are to be resolved against the drafting Party shall not apply in interpreting this Agreement.

16. **WAIVER:** No waiver of a breach, failure of any condition, or any right or remedy contained in or granted by the provisions of this Agreement shall be effective unless it is in writing and signed by the Party waiving the breach, failure, right or remedy. No waiver of any breach, failure, right or remedy shall be deemed a waiver of any other breach, failure, right or remedy, whether or not similar, nor shall any waiver constitute a continuing waiver unless the writing so specifies.

17. **HEADINGS:** The headings in this Agreement are included for convenience only and shall not affect the construction or interpretation of any provision in this Agreement or any of the rights or obligations of the Parties.

18. **EFFECT ON PROJECT:** Neither this Agreement nor any communications of the Parties shall be deemed to create any obligation nor liability for any Party to proceed with the Project unless and until the Parties so agree in writing. No joint venture, partnership, or other fiduciary relationship shall be deemed to exist or arise with respect to the Project because of this Agreement.

WHEREFORE, the Parties have executed this Agreement below, further agreeing that execution may be in multiple counterparts, each executed copy of which shall constitute an original of the same instrument. Each Party represents and warrants that each individual executing this Agreement on such Party's behalf has the legal power, right and actual authority to do so.

PITTSBURG POWER COMPANY

By: _____
Joe Sbranti, Executive Director

ATTEST:

By: _____
Alice Evenson, Secretary

APPROVED AS TO FORM:

By _____
Ruthann G. Ziegler, Pittsburg Legal Counsel

LANCASTER POWER AUTHORITY

By: _____
Mark V. Bozigian, Executive Director

ATTEST:

By: _____
Geri K. Bryan, Secretary

APPROVED AS TO FORM:

By: _____
David McEwen, Lancaster Legal Counsel