

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(X) QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1999

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

for the transition period from _____ to _____

For Quarter Ended	Commission File Number
June 30, 1999	1-7183
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TEJON RANCH CO.

(Exact name of Registrant as specified in its charter)

Delaware	77-0196136
-----	-----
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

P.O. Box 1000, Lebec, California	93243
-----	-----
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code...(661) 248-3000

Indicate 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 No

Total Shares of Common Stock issued and outstanding on June 30, 1999, were 12,691,253.

TEJON RANCH CO.

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PART I FINANCIAL INFORMATION

TEJON RANCH CO. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS-----
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	1999	1998	1999	1998
Revenues:				
Livestock	\$4,180	\$ 6,382	\$13,381	\$13,493
Farming	7	6	283	271
Resource Management	1,159	772	1,744	1,212
Real Estate	1,186	177	3,151	409
Interest Income	180	244	331	517
	-----	-----	-----	-----
	6,712	7,581	18,890	15,902
Costs and Expenses:				
Livestock	4,178	6,561	13,214	13,895
Farming	335	231	700	621
Resource Management	542	550	897	886
Real Estate	1,536	786	2,501	1,563
Corporate Expense	782	670	1,488	1,213
Interest Expense	266	302	421	504
	-----	-----	-----	-----
	7,639	9,100	19,221	18,682
Operating Loss	(927)	(1,519)	(331)	(2,780)
Benefit for Income Tax	(352)	(576)	(125)	(1,056)
Net Loss	----- \$ (575)	----- \$ (943)	----- \$ (206)	----- \$ (1,724)
Net Loss Per Share, diluted	=====	=====	=====	=====
Net Loss Per Share, diluted	\$ (0.05)	\$ (0.07)	\$ (0.02)	\$ (0.14)
Cash Dividends Paid	\$0.025	\$ 0.025	\$ 0.025	\$ 0.025

See Notes to Consolidated Condensed Financial Statements.

TEJON RANCH CO. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

(In Thousands)

	June 30, 1999	December 31, 1998*
	----- (Unaudited)	-----
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 343	\$ 743
Cash in Escrow	---	4,200
Marketable Securities	11,567	13,294
Accounts & Notes Receivable	6,619	7,359
Inventories:		
Cattle	18,770	16,577
Farming	2,816	326
Other	286	513
Prepaid Expenses and Other	682	996
	-----	-----
Total Current Assets	41,083	44,008
PROPERTY AND EQUIPMENT - NET	44,768	27,553
OTHER ASSETS	1,368	1,453
	-----	-----
TOTAL ASSETS	\$87,219	\$73,014
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade Accounts Payable	\$ 5,908	\$ 3,235
Other Accrued Liabilities	33	502
Short-term Borrowings	28,396	20,249
Other Current Liabilities	220	254
	-----	-----
Total Current Liabilities	34,557	24,240
LONG-TERM DEBT	6,601	1,875
DEFERRED INCOME TAXES	4,030	4,194
	-----	-----
Total Liabilities	45,188	30,309
STOCKHOLDERS' EQUITY		
Common Stock	6,346	6,346
Additional Paid-In Capital	382	382
Retained Earnings	35,633	36,156
Accumulated Other Comprehensive Income	(330)	(179)
	-----	-----
Total Stockholders' Equity	42,031	42,705
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$87,219	\$73,014
	=====	=====

See Notes to Consolidated Condensed Financial Statements.

* The Balance Sheet at December 31, 1998 has been derived from the audited financial statements at that date.

TEJON RANCH CO. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(In Thousands)
(Unaudited)

	Six Months Ended June 30	
	1999	1998
	-----	-----
OPERATING ACTIVITIES		
Net Loss	\$ (206)	\$(1,724)
Items Not Affecting Cash:		
Depreciation and Amortization	1,185	953
Deferred Income Taxes	(164)	15
Changes in Operating Assets and Liabilities:		
Receivables, Inventories and other Assets, Net	(3,402)	(1,999)
Current liabilities, Net	2,170	(1,589)
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	(417)	(4,344)
INVESTING ACTIVITIES		
Cash in Escrow	4,200	---
Maturities of Marketable Securities	6,190	2,453
Funds Invested in Marketable Securities	(4,614)	(1,259)
Property and Equipment Expenditures	(18,400)	(2,253)
Change in Breeding Herds	(260)	(203)
Other	345	(317)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(12,539)	(1,579)
	-----	-----
FINANCING ACTIVITIES		
Proceeds From Revolving Line of Credit	22,483	11,081
Payments of Revolving Line of Credit	(14,336)	(5,496)
Payments of Long-term Debt	(74)	(63)
Borrowing of Long-term Debt	4,800	---
Cash Dividend Paid	(317)	(317)
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	12,556	5,205
	-----	-----
DECREASE IN CASH AND CASH EQUIVALENTS	(400)	(718)
Cash and Cash Equivalents at Beginning of Year	743	976
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 343	\$ 258
	=====	=====

See Notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY

(In Thousands)
(Unaudited)

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance January 1, 1998	\$6,343	\$385	\$ 109	\$33,651	\$40,488
Net Income	---	---	---	3,139	3,139
Defined Benefit Plan					
Funding Adjustments, Net of taxes of \$133,000	---	---	(216)	---	(216)
Changes in Unrealized					
Losses on Available-For-Sale Securities, net of taxes of \$49,000	---	---	(72)	---	(72)
Comprehensive Income	---	---	---	---	2,851
Exercise of Stock Options	3	(3)	---	---	---
Cash Dividends Paid-- \$.05 per share	---	---	---	(634)	(634)
Balance, December 31, 1998	\$6,346	\$382	\$(179)	\$36,156	\$42,705
Net Loss First Six Months 1999				(206)	(206)
Changes in Unrealized					
Losses on Available-For-Sale Securities, net of taxes of \$85			(151)		(151)
Comprehensive Loss					(357)
Cash Dividends Paid-- \$.025 per share	---	---	---	(317)	(317)
Balance, June 30, 1999	\$6,346	\$382	\$(330)	\$35,633	\$42,031

TEJON RANCH CO. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

June 30, 1999

NOTE A - BASIS OF PRESENTATION

The summarized information furnished by Registrant pursuant to the instructions to part I of Form 10-Q is unaudited and reflects all adjustments which are, in the opinion of Registrant's management, necessary for a fair statement of the results for the interim period. All such adjustments are of a normal recurring nature.

The results of the period reported herein are not indicative of the results to be expected for the full year due to the seasonal nature of Registrant's agricultural activities. Historically, the largest percentages of revenues are recognized during the third and fourth quarters.

For further information, refer to the Consolidated Financial Statements and footnotes thereto included in Registrant's Annual Report on Form 10-K for the year ended December 31, 1998.

NOTE B - NET INCOME PER SHARE

Basic net income per share is based upon the weighted average number of shares of common stock outstanding during the year, which at June 30, 1999 was 12,691,253 and at June 30, 1998 was 12,685,994. Diluted net income per share is based upon the weighted average number of shares of common stock outstanding, and the weighted average number of shares outstanding assuming the issuance of common stock for stock options using the treasury stock method. Basic and diluted common shares outstanding are the same for the periods shown because the calculation for determining diluted common shares outstanding resulted in antidilution.

NOTE C - MARKETABLE SECURITIES

Statement of Financial Accounting Standard ("SFAS") No. 115, Accounting for Certain Investments in Debt and Equity Securities, requires that an enterprise classify all debt securities as either held-to-maturity, trading, or available-for-sale. The Registrant has elected to classify its securities as available-for-sale and therefore is required to adjust securities to fair value at each reporting date.

The following is a summary of available-for-sale securities at June 30, 1999 and December 31, 1998:

	June 30, 1999		December 31, 1998	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value

Marketable Securities: (in thousands)				
U.S. Treasury and agency notes	\$ 6,268	\$ 6,148	\$ 6,905	\$ 6,961
Corporate notes	5,490	5,419	6,328	6,333
	-----	-----	-----	-----
	\$11,758	\$11,567	\$13,233	\$13,294
	=====	=====	=====	=====

As of June 30, 1999, the fair value adjustment is a \$191,000 unrealized loss. The cumulative fair value adjustment to stockholders' equity, net of a deferred tax of \$77,000, is an unrealized loss of \$114,000. Registrant's gross unrealized holding gains equal \$13,000, while gross unrealized holding losses equal \$204,000. On June 30, 1999, the average maturity of U.S. Treasury and agency securities was 1.5 years and corporate notes was 1.8 years. Currently, Registrant has no securities with a remaining term to maturity of greater than five years.

Market value equals quoted market price, if available. If a quoted market price is not available, market value is estimated using quoted market prices for similar securities. Registrant's investments in corporate notes are with companies with a credit rating of A or better.

NOTE D - COMMODITY CONTRACTS USED TO MANAGE RISK

Registrant uses commodity derivatives to manage its exposure to price fluctuations on its purchased stocker cattle and its cattle feed costs. The objective is to protect or create a future price for stocker cattle that will protect a profit or minimize a loss once the cattle are sold and all costs are deducted and protect the Registrant against a disastrous cattle market decline or feed cost increase. To help achieve this objective the Registrant used both the futures commodity markets and options commodity markets. A futures contract is an obligation to make or take delivery at a specific future time of a specifically defined, standardized unit of a commodity at a price determined when the contract is executed. Options are contracts that give their owners the right, but not the obligation, to buy or sell a specified item at a set price on or before a specified date.

Registrant continually monitors any open futures and options contracts to determine the appropriate risk exposure based on market movement of the underlying asset. The options and futures contracts used typically expire on a quarterly or semi-annual basis and are structured to expire close to or during the month the stocker cattle and feed are scheduled to be sold or purchased. The risk associated with hedging for the Registrant is that hedging limits or caps the potential profits if cattle or feed prices begin to increase dramatically or can add additional costs if cattle or grain prices fall dramatically.

Realized gains, losses, and costs associated with both open and closed contracts are recognized in costs of sales expense. At June 30, 1999 there were \$135,000 of gains associated with futures and option contracts included in cost of sales expense.

The following table identifies the cattle futures contract amounts outstanding at June 30, 1999 (in thousands, except number of contracts) and sets forth the purchase or sale price of the cattle under the contracts, the estimated fair market value of the cattle at June 30, 1999 and the estimated gain or loss on the contracts as of that date:

Cattle Future / Option Description	No. Contracts	Original Contract (Bought) Sold	Estimated Fair Value	Estimated Gain (Loss)
Cattle futures sold, 40,000 lbs. per contract	695	\$18,172	\$17,747	\$425
Cattle futures bought, 50,000 lbs. per contract	40	\$(1,516)	\$ 1,491	\$(25)
Cattle futures sold, 50,000 lbs. per contract	40	\$ 1,519	\$ 1,508	\$ 11

The June 30, 1999 futures contracts and options expire between August 1999 and February 2000. Estimated fair value at settlement is based upon quoted market prices at June 30, 1999.

NOTE E - CONTINGENCIES

Registrant leases land to National Cement Company of California, Inc. (National) for the purpose of manufacturing portland cement from limestone deposits on the leased acreage. National, Lafarge Corporation (the parent company of the previous operator) and Registrant have been ordered to cleanup and abate an old industrial waste landfill site and the cement kiln dust piles on the leased premises. Lafarge has undertaken the investigation and remediation of landfills and has completed the removal of contaminated soils above the groundwater level from the landfills. Lafarge has also completed a substantial amount of the site investigation with respect to chlorinated hydrocarbons. The plume of chlorinated hydrocarbons covers an extensive area and has migrated off of the leased premises in one direction. Lafarge is undertaking additional investigation work as directed by the Regional Water Board and is developing a feasibility study evaluating different remediation options. The cleanup order for the kiln dust piles now requires only site stabilization measures of the sort previously undertaken by National and does not call for transporting the large piles off-site. Under both orders, Registrant is secondarily liable and will be called upon to perform work only if National and Lafarge fail to do so. Under the lease agreements with National and Lafarge, both companies are required to indemnify Registrant for any costs and liabilities incurred in connection with the cleanup order. Due to the reported financial strength of National and Lafarge, Registrant believes that a material effect on the company is remote at this time.

For further discussion refer to Registrant's 1998 Form 10-K, Part I, Item 3, - "Legal Proceedings". There have been no significant changes since the filing of the 1998 Form 10-K.

NOTE F - NEW ACCOUNTING PRONOUNCEMENTS

Effective October 1, 1998 Registrant adopted the provisions of Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities (SFAS 133)". SFAS 133 standardizes accounting for all derivative contracts and requires that all derivative contracts be reported in the consolidated balance sheet at fair value. Derivatives meeting certain specific requirements can be designated as hedges and the special accounting of SFAS 133 applied. Registrant has elected to recognize all derivative gains and losses whether or not the derivatives are classified as hedges in the statement of operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

Results on Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes forward-looking statements that are subject to many uncertainties that could cause the actual results to differ materially from those in the forward-looking statements. The forward-looking statements include comments on future cattle prices and demand, crop yields and demands, the effect of pending environmental proceedings, the source and adequacy of Registrant's future cash resources and financial market and commodity risks. These forward-looking statements are subject to factors beyond the control of Registrant (such as weather and market forces), the outcome of pending administrative proceedings and the fulfillment of mitigation obligations of third parties with regard to environmental matters and the availability of financing. No assurance can be given that any such forward-looking statements will turn out to be accurate.

Total revenues, including interest income for the first six months of 1999 were \$18,890,000 compared to \$15,902,000 for the same period in 1998. The growth in revenues during the first six months of 1999 is primarily attributable to increases in resource management division revenues of \$532,000 and real estate division revenues of \$2,742,000. The increase in real estate revenues when compared to 1998 is primarily attributed to the sale of a fiber optic communications easement for \$1,750,000. Additionally, Registrant entered into an option with Enron Capital & Trade Resources Corp. (see discussion in Item 5) for a land lease for the construction and operation of a power plant. Revenues received pursuant to this agreement total \$600,000 as of June 30, 1999. Finally, Registrant purchased three industrial and commercial buildings in Phoenix, Arizona and one building in Rancho Santa Fe, California (see discussion below under "Liquidity and Capital Resources") which increased revenue approximately \$350,000 in 1999. The improvement in resource management revenues is due primarily to the increase in hunting program sales and increased royalties from sand and rock aggregate production and cement production.

Operating activities during the first six months of 1999 resulted in a net loss of \$206,000 or \$0.02 per share diluted, compared to a net loss of \$1,724,000, or \$0.14 per share diluted for the same period of 1998. The improvement in operating results for the first six months of 1999 are due to the increases in revenues described above, but these increases were offset by higher real estate division expenses (\$938,000) and general and administrative costs (\$275,000). The increase in real estate expenses were attributable to additional costs related to the planning and development of Registrant's land holding. These costs included increases in professional service fees, staffing costs, and advertising costs. In

addition to these real estate operating costs, Registrant recognized its portion (60%) of the start-up, training, and pre-opening costs related to the June 30, 1999 opening of the Petro Travel Plaza, which were approximately \$345,000. General and Administrative costs were higher primarily due to higher professional service fees and staffing costs.

Cattle prices during 1999 strengthened when compared to 1998 due to lower supplies of cattle in feedlots during the first quarter of 1999. This improvement in cattle prices may not continue as cattle feeders have placed additional cattle on feed in response to the improved market. However, prices are still below what they may have been due to the continuing impact of the Asian economic crisis on the beef market. Of the United States' trading partners, Asia is the largest importer of U.S. beef, which means that any reduction in purchasing power within that region can hold down prices within the beef market. California statewide estimates for almond and grape crop yields for 1999 are greater than the 1998 crop yields. If crop yields are higher in 1999 than 1998, crop prices may decline. In particular, the almond crop may be one of the largest ever in the state, which may reduce prices to levels significantly below the levels of the last three years. Almond prices over the last three years have ranged from \$1.54 to \$2.26 per pound.

Total revenues for the second quarter of 1999, including interest income, were \$6,712,000 compared to \$7,581,000 for the second quarter of 1998. The decrease is due primarily to the timing of cattle sales from the feedlot to third parties. This decrease was partially offset by increased revenues in both the real estate and resource management divisions of \$1,009,000 and \$387,000, respectively. The increase in resource management revenues is primarily the result of an increase in the sales of hunting memberships, \$267,000 in the second quarter of 1999 compared to \$28,000 for the same period in 1998. Additionally, resource management had increased royalties from sand and rock aggregate production and cement production.

During the second quarter of 1999 Registrant had a net loss of \$575,000, or \$0.05 per share, compared to a loss of \$943,000, or \$0.07 per share for the same period of 1998. The improvement in operations compared to the second quarter of 1998 is due to a decrease in cost of sales on cattle as a result of the timing of sales as described above, which was partially offset by the net decrease in revenues described above.

Registrant continues to be involved in various environmental proceedings related to leased acreage. For a further discussion, refer to Note E - Contingencies.

Prices received by Registrant for many of its products are dependent upon prevailing market conditions and commodity prices. Therefore, Registrant is unable to accurately predict revenue, just as it cannot pass on any cost increases caused by general inflation, except to the extent reflected in market conditions and commodity prices. The operations of the Registrant are seasonal and results of operations cannot be predicted based on quarterly results.

Liquidity and Capital Resources

Registrant's cash, cash equivalents and short-term investments totaled approximately \$11,910,000 at June 30, 1999, compared to \$18,237,000 on December 31, 1998 a decrease of 36%. Working capital as of June 30, 1999 was \$6,526,000 compared to \$19,768,000 on December 31, 1998. The decrease in working capital during the first six months of 1999 is due primarily to capital expenditures related to real estate infrastructure and farming developments and the purchase of revenue producing properties in Phoenix, Arizona and Rancho Santa Fe, California. Also working capital decreased due to an increase in the use of short-term debt financing. During February 1999 Registrant completed the purchase of three industrial and commercial buildings in Phoenix, Arizona having aggregate rentable square feet of 101,482. The Phoenix property is a cluster of three buildings in a master planned industrial park located near Sky Harbor International Airport and adjacent to the Interstate 10 Freeway. Annualized rentals under the leases currently aggregate \$845,000. The leases provide for built in rental escalations which approximate current inflation factors based on the CPI index. During April 1999, Registrant completed the purchase of a building in Rancho Santa Fe, California for \$1,750,000. Annualized rents under lease of all space currently total \$126,000. The buildings were acquired to complete a tax deferred exchange of real property in which \$6,000,000 in proceeds from the sale of land in December 1998 and easements in 1999 were used together with \$4,800,000 borrowed from a bank, with the loan secured by the property acquired. The use of short-term credit has grown when compared to 1998 due to the funding of the inventories attributed to the growth of Registrant's core business lines and to the short-term financing of real estate infrastructure costs associated with Registrant's development of an industrial complex in the Southern San Joaquin Valley.

Registrant has a revolving line of credit of \$25,000,000 that as of June 30, 1999 had a balance outstanding of \$24,752,000 at an interest rate of 7.25%. Registrant also maintains a short-term line of credit for its feedlot operations of \$4,000,000. The outstanding balance at June 30, 1999 was \$3,644,000 with the interest rate approximating the bank's prime lending rate of 6.75%. The outstanding line of credit balances will change throughout the year based on the timing of proceeds from cattle and crop sales. The revolving lines of credit are used as a short-term cash management tool.

The accurate forecasting of cash flows by Registrant is made difficult due to the fact that commodity markets set the prices for the majority of Registrant's products and the fact that the cost of water changes significantly from year-to-year as a result of changes in its availability.

Registrant is currently evaluating the possibility of new farming developments, continued expansion of the cattle herd, and additional commercial development along the Interstate 5 corridor. These potential new projects would be funded from current cash resources, from additional borrowings, and possibly funds provided by joint venture partners involved in particular projects.

Registrant has traditionally funded its growth and capital additions from internally generated funds and from its excess borrowing capacity. Management believes that the combination of net earnings, short-term investments and borrowing capacity will be sufficient for its near term operations.

Impact of Year 2000

Many older computer hardware, software and imbedded micro controllers are designed to read and store dates using only the last two digits of the year. As a result they cannot correctly interpret dates beyond the year 1999. If not corrected, this problem could cause processing errors or computer system failures that materially adversely affect Registrant.

During early 1997 Registrant initiated a review of all its financial and accounting systems and implemented a conversion plan involving the acquisition of new hardware and software that read and store dates in four digits. This conversion was completed in 1997 at a cost of approximately \$200,000, of which approximately \$90,000 was for the purchase of new software and consulting services relating to the conversion. These expenditures were capitalized and are being depreciated over a three year useful life. The funds were provided by operations, including use of Registrant's short-term line of credit. Registrant has conducted limited testing of the new system and believes that it will function effectively when the dates beyond the year 1999 are processed.

Registrant has communicated with and is communicating with all significant suppliers, customers, financial institutions, utilities, and other third parties upon which it is dependent to determine the extent to which Registrant's business operations are vulnerable the failure of those parties to correct their own Year 2000 problems. Although all responses received to date have been satisfactory, Registrant has not completed this phase of its Year 2000 readiness program. Registrant is currently in the process of verifying which third parties have corrected their Year 2000 problems.

Registrant also intends to develop contingency plans to handle its most likely worst case scenarios with respect to the Year 2000 problem. Registrant intends to complete its determination of worst case scenarios after it has received and analyzed responses to substantially all of the inquiries made of third parties. The contingency plans are expected to include methods of dealing with third parties that are not dependent upon computer or micro controller technology. The Registrant estimates that it will complete its inquiry of third parties and development of contingency plans well in advance of the end of 1999.

Registrant believes that substantially all of the costs of completing its efforts to be Year 2000 ready will consist of the compensation expense allocable to employees who work on the project. Registrant does not separately track these costs related to the year 2000 project but does not expect them to be material.

All statements in this Report regarding the Year 2000 problem involve forward-looking information as to which there is a great uncertainty. The actual results of the Registrant's program to deal with the Year 2000 problem could differ materially from what Registrant plans and anticipates because of the lack of experience of Registrant and others with problems of this kind, the extent to which computer and other systems of business and other entities are inter-related and the lack of control over, and access to, information of third parties upon whom Registrant's business is dependent. The failure of the Registrant to correctly analyze and anticipate Year 2000 problems in its own operations or those of third parties or the failure or inability to develop effective contingency plans could have a material adverse effect on the Registrant's business.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact the financial position, results of operations, or cash flows of Registrant due to adverse changes in financial or commodity market prices or rates. Registrant is exposed to market risk in the areas of interest rates and commodity prices.

Financial Market Risks

Registrant is exposed to financial market risks, including changes to interest rates and credit risk related to marketable securities, interest rates related to its own outstanding indebtedness and trade receivables.

The primary objective of Registrant's investment activities is to preserve principal while at the same time maximizing yields consistent with prudently managing risk. To achieve this objective and limit interest rate exposure, Registrant limits its investments to securities with a maturity of less than five years to limit interest rate exposure and with an investment grade of A or better from Moody's or Standard and Poors to minimize risk. In addition, market value changes due to interest rate changes are reduced because a large portion of the portfolio has interest rates that float and are reset on a quarterly basis. See Note C, Marketable Securities.

Registrant is exposed to interest rate exposure on its short-term working capital line of credit and the long-term debt currently outstanding. The short-term line of credit interest rate is tied to the lending bank's prime interest rate and changes when that rate changes. The long-term debt has a fixed interest rate, and the fair value of the long-term debt will change based on interest rate movements in the market. Registrant typically does not attempt to reduce or eliminate its exposure on this debt through the use of any financial instrument derivatives. Registrant manages its interest rate exposure through negotiation of terms.

Registrant's credit and market risk related to its inventories and receivables ultimately depends on the value of the cattle, almonds, grapes, pistachios, and walnuts at the time of payment or sale. Based on historical experience with current customers and periodic credit evaluations of its customers' financial condition, Registrant believes its credit risk is minimal. Market risk is discussed below in commodity price exposure.

The following table provides information about Registrant's financial instruments that are sensitive to changes in interest rates. The table presents Registrant's marketable securities, debt obligations, principal cash flows and related weighted-average interest rates by expected maturity dates as of June 30, 1999 and December 1998.

Interest Rate Sensitivity Financial Market Risks
Principal Amount by Expected Maturity
At June 30, 1999
(Dollars in thousands)

	1999	2000	2001	2002	2003	There -after	Total ----- Weighted Average	Fair Value 06/30/99
Assets:								
Marketable Securities	\$ 2,400	\$3,084	\$2,310	\$1,742	\$2,227	---	\$11,763	\$ 11,567
Average Interest Rate	6.62%	6.10%	5.50%	6.20%	5.80%		6.12%	
Liabilities:								
Short-term Debt	\$28,396	---	---	---	---	---	\$28,396	\$ 28,396
Average Interest Rate	7.19%	---	---	---	---	---	7.19%	
Long-term Debt	\$ 245	\$ 490	\$ 490	\$ 490	\$1,365	\$3,521	\$ 6,601	\$ 6,601
Average Interest Rate	7.88%	7.88%	7.88%	7.88%	7.88%	7.88%	7.88%	

Interest Rate Sensitivity Financial Market Risks
Principal Amount by Expected Maturity
At December 31, 1998
(Dollars in thousands)

	1999	2000	2001	2002	2003	There -after	Total ----- Weighted Average	Fair Value 12/31/98
Assets:								
Marketable Securities	\$ 5,885	\$2,939	\$2,662	\$1,747	---	---	\$13,233	\$ 13,294
Average Interest Rate	6.92%	5.93%	5.81%	6.40%			6.41%	
Liabilities:								
Short-term Debt	\$19,999	---	---	---	---	---	\$19,999	\$ 19,999
Average Interest Rate	7.38%	---	---	---	---	---	7.38%	
Long-term Debt	\$ 250	\$ 250	\$ 250	\$ 250	\$1,125	---	\$ 2,125	\$ 2,125
Average Interest Rate	8.57%	8.57%	8.57%	8.57%	8.57%	---	8.57%	

In comparison to the prior year Registrant's risks in regard to fluctuations in interest rates has increased overall due to the growth in the use of short-term lines of credit that fluctuate with the bank's prime lending rate.

Commodity Price Exposure

Registrant has exposure to adverse price fluctuations associated with certain inventories, gross margins, accounts receivable and certain anticipated transactions in its Livestock and Farming Divisions. Commodities such as corn and cattle are purchased and sold at market prices that are subject to volatility. In order to manage the risk of market price fluctuations, Registrant enters into various exchange-traded futures and option contracts. Registrant closely monitors and manages its exposure to market price risk on a daily basis in accordance with formal policies established for this activity. These policies limit the duration to maturity of contracts entered into as well as the level of exposure to be hedged.

Registrant's goal in managing its cattle and feed costs is to protect or create a range of selling prices and feed prices that allow the company to recognize a profit or minimize a loss on the sale of cattle once all costs are deducted. See Note D, Commodity Contracts Used to Manage Risk. Gains on future contracts and options as of June 30, 1999 were \$135,000 as compared to gains on future contracts and options as of December 31, 1998 of \$485,000. The gains thus far in 1999 are due to the volatility of the cattle prices during the second quarter of 1999.

Inventories consist primarily of cattle for sale, and price fluctuations are managed with futures and options contracts. See table below for contracts outstanding at quarter-end. Registrant is at risk with respect to changes in market prices with respect to cattle held for sale that are not protected by futures and options contracts. At June 30, 1999 approximately 22% of the cattle held in inventory or 10,217 head of cattle were not protected by futures and options for price movement. This compares to 9,639 head of cattle at June 30, 1998. The 1999 number of head of cattle equates to approximately 10.2 million pounds of beef. For each \$.10 per pound change in price, Registrant has a potential exposure or benefit of \$1,020,000 in future value. Although the prices at which the cattle will ultimately be sold is unknown, over the last three years the market price has ranged from \$.50 per pound to \$.68 per pound and the current market price is \$.66 per pound.

With respect to accounts receivable, the amount at risk relates to almonds and pistachios. These receivables are recorded at estimates of the prices that ultimately will be received for the crops. The final price will not be known until the third or fourth quarter of 1999. Of the accounts receivable outstanding at June 30, 1999, \$944,000 is at risk to changing prices of almonds and \$116,000 is at risk to changing prices of pistachios. The comparable amounts of accounts receivable at December 31, 1998 were \$1,236,000 and \$122,000, respectively. The price estimated for recording accounts receivable at June 30, 1999 was \$1.85 per pound for almonds. For every \$.25 change in the price of almonds Registrant's receivable for almonds increases or decreases by \$350,000. Although the final price of almonds (and therefore the extent of the risk) is not presently known, over the last three years the final prices have ranged from \$1.54 to \$2.26. With respect to pistachios, the price estimated for recording the receivable was \$1.17 per pound, each \$.15 change in the price increases or decreases the receivable by \$120,000 and the range of final prices over the last three years has been \$.92 to \$1.17.

The following tables identify the future contract amounts and options contract costs outstanding at June 30, 1999 and December 31, 1998.

June 30, 1999 Commodity Future / Option Description	No. Contracts	Original Contract/Cost (Bought) Sold	Estimated Fair Value	Estimated Gain (Loss)
Cattle futures sold, 40,000 lbs. per contract	695	\$18,172	\$17,747	\$425
Cattle futures bought, 50,000 lbs. per contract	40	\$(1,516)	\$ 1,491	\$(25)
Cattle futures sold, 50,000 lbs. per contract	40	\$ 1,519	\$ 1,508	\$ 11

December 31, 1998 Commodity Future / Option Description	No. Contracts	Original Contract/Cost (Bought) Sold	Estimated Fair Value	Estimated Gain (Loss)
Cattle futures bought 50,000 lbs. per contract	20	\$(710,000)	\$694,000	\$(16)
Cattle options bought, 40,000 lbs. per contract	130	\$ (72,000)	\$ 89,000	\$ 17
Cattle options sold 40,000 lbs. per contract	130	\$ 42,000	\$ (6,000)	\$ 36

The June 30, 1999 futures contracts and options expire between August 1999 and February 2000. Estimated fair value at settlement is based upon quoted market prices at June 30, 1999.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

Item 2. Changes in Securities

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

- (a) The Annual Meeting of Shareholders was held on May 4, 1999.
- (b) The only matter submitted to a vote of security holders was for the election of directors. Each of the persons named in the Proxy Statement as a nominee for director was elected. Following are the voting results on each of the nominees for director:

Election of Directors	Votes For	Votes Withheld
John L. Goolsby.....	11,105,682	31,024
Norman Metcalfe.....	11,107,945	28,761
Kent G. Snyder.....	11,106,443	30,263
Martin J. Whitman.....	11,108,454	28,252

Item 5. Other Information

Effective April 30, 1999 Registrant entered into an option with Enron Capital & Trade Resources Corp., a wholly-owned subsidiary of Enron Corporation, and an affiliated company (collectively "Enron") to lease to Enron up to 35 acres of undeveloped land at the southern end of the San Joaquin Valley for the construction and operation of a power plant having a capacity anticipated to be between 750 and 1,000 megawatts of electricity. The project would be powered by natural gas turbines and would be subject to environmental requirements. The transaction is subject to a number of contingencies, and Enron has the right to terminate the arrangement unilaterally at any time before the lease becomes effective.

The amounts payable to Registrant under the arrangement are subject to a number of contingencies, but scheduled payments would aggregate \$1,450,000 in 1999 (of which \$600,000 has been paid to Registrant as of June 30, 1999) if the arrangement is not terminated by Enron. Thereafter, \$100,000 would be payable monthly until rental under the lease commences or the payments reach an agreed maximum amount, although such payments could be significantly higher and could be paid earlier under certain circumstances. If Enron exercises its right to terminate the arrangement, Registrant would be entitled to retain the payments made to the date of termination, but Enron would have no obligation to make any further payments. Payments under the lease, which include both rent and compensation for significant easement rights over other Registrant land, would be \$2,600,000 per year (subject to certain adjustments which could be material), would commence when the plant becomes operational or earlier under certain circumstances and would be subject to escalation based upon changes in a designated consumer price index. Registrant would also be entitled to receive additional rent after commercial operation of the plant begins, based upon production output at the plant and energy prices. The term of the lease would be 25 years from the date the plant becomes operational (or earlier under certain circumstances), and Enron would have three five-year options to extend the term.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits -

3.1	Restated Certificate of Incorporation	*
3.2	Bylaws	**
10.12	Transaction and Option Agreement with Enron Capital & Trade Resources Corp.	19
10.13	Option Agreement with Enron Capital & Trade Resources Corp.	55
27.1	Financial Data Schedule (Edgar), June 30, 1999	56

(b) Reports - on Form 8-K

On March 12, 1999, Registrant filed a Current Report on Form 8-K (Item 2), announcing the purchase of commercial industrial buildings in Phoenix, Arizona.

On May 11, 1999, Registrant filed a Current Report on Form 8-K/A (Item 2), amending the Current Report on Form 8-K filed on March 12, 1999 which reported the acquisition of buildings. This filing includes the Statement of Revenue and Certain Expenses for the properties purchased and pro forma financial statements and related notes.

* This document, filed with the Securities Exchange Commission in Washington, D.C. (file number 1-7183) under Item 14 to Registrant's Annual report on Form 10-K for year ended December 31, 1987, is incorporated herein by reference.

** This document, filed with the Securities Exchange Commission in Washington, D.C. (file number 1-7183) under Item 14 to Registrant's Annual report on Form 10-K for year ended December 31, 1994, is incorporated herein by reference.

SIGNATURES

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

TEJON RANCH CO.

(Registrant)

DATE

BY _____

Allen E. Lyda
Vice President, Finance
& Treasurer

TRANSACTION AGREEMENT

TEJON INTERESTS

AND

DEVELOPER INTERESTS

April 30, 1999

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This Transaction Agreement is made and entered into in Los Angeles, California as of April 30, 1999 by and between the following parties:

- o Enron Capital & Trade Resources Corp., a Delaware corporation ("ECT");
- o Pastoria Energy Facility, LLC, a Delaware limited liability company of which ECT currently is the sole member ("PEF");
- o Tejon Ranch Co., a Delaware corporation ("RanchCo");
- o Tejon Ranchcorp, a California corporation of which RanchCo is currently the sole shareholder ("Ranchcorp"); and
- o Pastoria Power Project LLC, a California limited liability company of which RanchCo and Ranchcorp currently are the sole members ("PPP LLC").

ECT and PEF are sometimes collectively referred to in this Agreement as the "Developer Interests." RanchCo, Ranchcorp and PPP LLC are sometimes collectively referred to in this Agreement as the "Tejon Interests". Other capitalized terms used in this Agreement have the meanings stated in Section 15 or the provisions there referred to.

RECITALS

A. PPP LLC is a special purpose entity which was formed by RanchCo and Ranchcorp to pursue the development of a merchant power plant to be located on a site (the "Project Site"), and utilizing easements on land, owned by Ranchcorp in Kern County, California (the "Project").

B. On March 17, 1999, the California Energy Commission ("CEC") granted the application of PPP LLC to be excused from the requirement to file a notice of intention with respect to the Project under Section 25502 of the California Public Resources Code (the "NOI Exemption"), thereby authorizing PPP LLC to proceed directly with the filing of an application for certification of the Project (the "Project AFC") pursuant to Section 25523 of the California Public Resources Code.

C. PEF and Ranchcorp have entered into an Option Agreement of even date herewith providing for (among other things) an Option in favor of PEF to lease the Project Site pursuant to the Ground Lease to be executed and delivered by PEF and Ranchcorp under the Option Agreement in the event the Option is exercised by PEF (the "Lease"). In addition to providing for the Lease, the Option Agreement also provides an Option in favor of PEF to obtain certain easements, including easements for gas, water and transmission lines and other utilities, necessary for the Project under the terms of the Easement Deed and Agreement to be executed and delivered by the parties under the Option Agreement in the event the Option is exercised by PEF (the "Easement Agreement").

D. This Agreement is being entered into by the parties to provide for or clarify certain rights and obligations in addition to those set forth in the Option Agreement, the Lease and the

Easement Agreement (which, together with this Agreement, are sometimes collectively referred to in this Agreement as the "Project Agreements").

NOW THEREFORE, for valuable consideration the receipt and sufficiency of which are acknowledged, the parties agree as follows:

Section 1. Project Period

The "Project Period" is the period which begins on the date of this Agreement and ends (i) in the event the Option is not exercised by PEF, on the Option Termination Date, or (ii) in the event the Option is exercised by PEF, on the last day of the Lease Term.

Section 2. Obligations of the Developer Interests

2.1 Preparation of the Project AFC. From and after the date of this Agreement, PEF will proceed in good faith with the preparation of the Project AFC in accordance with the schedule and budget ("AFC Schedule/Budget") set forth in Schedule 2.1. In the event the Option Period terminates prior to the filing of the Project AFC and in the event that, at that date, the Project AFC has not reached the stage of completion set forth for the month of termination in the AFC Schedule/Budget, then promptly after such termination PEF will pay PPP LLC an amount equal to the excess (if any) of (x) the cumulative budgeted amounts scheduled to be expended on the Project AFC through the month of termination as set forth in the AFC Schedule Budget, over (y) the actual amounts expended or committed on the Project AFC through the month of termination. The right of PPP LLC set forth in the preceding sentence is the sole right and remedy of the Tejon Interests for any breach of any obligation of either of the Developer Interests with respect to the Project AFC. Except as expressly set forth in this Section 2.1, neither of the Developer Interests makes any representation, warranty or promise of any kind with regard to the Project AFC, including its sufficiency or suitability for any purpose.

2.2 ECT Guarantee of Certain Obligations of PEF. ECT guarantees the full and timely performance when due of the following obligations of PEF:

- (i) PEF's obligations under Section 2.1 of this Agreement;
- (ii) PEF's obligations under Section 7.2(a) of this Agreement;
- (iii) PEF's obligations under Section 8.2 of this Agreement first required to be paid or performed prior to Financial Closing;
- (iv) PEF's obligations under Section 2 of the Option Agreement;
- (v) PEF's obligations under Section 7.4 of the Option Agreement first required to be paid or performed prior to the Financial Closing Date;
- (vi) PEF's Obligations under Sections 3.2 and 3.3 of the Lease first required to be paid or performed prior to the earlier of the Financial Closing Date and the Commercial Operation Date;
- (vii) PEF's obligations under Section 13.1 of the Lease first required to be paid or performed prior to the Financial Closing Date; and

(viii) PEF's obligations under Section 14 of the Lease with respect to liens arising prior to the Commercial Operation Date.

2.3 Nature of Obligations. The obligations of the Developer Interests under this Agreement are several and not joint. Except as expressly set forth in Section 2.2, neither of the Developer Interests shall have any liability or obligation of any kind (and no matter what the theory) for any obligation of the other Developer Interest under this Agreement or any of the other Project Agreements; provided, nothing in this Section 2.3 relieves any party or other Person from any liability which the party or other Person would otherwise have under any applicable law pertaining to fraudulent conveyances or preferences.

Section 3. Obligations of the Tejon Interests.

The "Project Development Period" is the period which begins on the date of this Agreement and ends (i) in the event the Option is not exercised by PEF, on the Option Termination Date, or (ii) in the event the Option is exercised by PEF, on the Commercial Operation Date.

3.1 Political Support. During the Project Development Period, as reasonably requested by PEF and if PEF agrees in advance to pay the Tejon Interests' reasonable out-of-pocket costs incurred in connection therewith, the Tejon Interests will support the Project in appropriate political and regulatory forums, including, but not limited to, appearing before the CEC and the Kern County Board of Supervisors and assisting PEF in obtaining an FWS incidental take permit, provided the permits and agreements as structured by PEF are reasonable, are consistent with the Tejon Interests' reputations as the Tejon Interests may determine, and are not inconsistent with the terms of this Agreement or any of the other Project Agreements. The Tejon Interests acknowledge and agree that the construction and operation of a gas-fired electric generation plant approved by the CEC is and will continue to be consistent with their reputations for purposes of the preceding sentence. From and after the Commercial Operation Date and for the balance of the Project Period, none of the Tejon Interests will take any public position in opposition to the existence, operation or maintenance of the Project in accordance with the Final Project Decision, but shall have the right to oppose any modification of the Final Project Decision which is inconsistent therewith. Nothing in this Agreement shall prevent any of the Tejon Interests from opposing in any lawful manner the location of new transmission towers across the mountains on the Tejon Ranch south of the Project Site or the enlargement of the existing transmission towers (other than adding additional conductors/wires and associated hardware) in such location.

3.2 Third-Party Real Estate Support. During the Option Period, as reasonably requested by PEF and if PEF agrees in advance to pay the Tejon Interests' reasonable out-of-pocket costs incurred in connection therewith, the Tejon Interests will assist PEF in securing easements, rights of way, encroachment permits, franchise agreements and other rights relating to real property owned by or leased to third parties as required for construction, operation and maintenance of the Project. After the Option Period, the Tejon Interests will provide such assistance if PEF agrees in advance to pay the Tejon Interests' reasonable out-of-pocket costs incurred in connection therewith and reasonable compensation to the Tejon Interests for such assistance.

3.3 Marketing Support. During the Option Period, as reasonably requested by PEF and if PEF agrees in advance to pay the Tejon Interests' reasonable out-of-pocket costs incurred in connection therewith, the Tejon Interests will assist PEF in marketing direct service

by the Project to the Wheeler Ridge-Maricopa Water Storage District ("WRM") and California Department of Water Resources ("DWR") electric loads. After the Option Period the Tejon Interests will provide such assistance if PEF agrees in advance to pay the Tejon Interests' reasonable out-of-pocket costs incurred in connection therewith and reasonable compensation to the Tejon Interests for such assistance. The Developer Interests acknowledge that Ranchcorp employees participate on the Board of Directors of WRM and that the foregoing assistance shall not require that the Tejon Interests or their employees breach any fiduciary duty owed to WRM or violate any conflict of interest restrictions. In the event such marketing efforts succeed, the Tejon Interests will facilitate the direct service, but will not be obligated to incur any unreimbursed costs related thereto. To the extent such facilitation requires conveyance by Ranchcorp to PEF, DWR, or WRM of easements (additional to those initially included in the Easement Agreement), Ranchcorp will convey the required easements, and PEF will compensate Ranchcorp for the additional easements at the rate of \$2.00 per foot per year, payable in advance annually. If DWR or WRM place lines for direct service within and along the California Aqueduct right of way, PEF will compensate Ranchcorp, or cause Ranchcorp to be compensated, at the rate of \$0.50 per foot per year, payable in advance annually. PEF may prepay compensation at the applicable rate for the entire term of the easement, reduced to present value using the prevailing interest rate at the date of prepayment for 30-year U.S. Treasury bonds as the discount rate.

3.4 Transaction Agreement Modifications. Prior to exercising the Option, PEF may propose modifications of this Agreement or the Lease or both. The parties agree to consider and negotiate in good faith mutually acceptable modifications which are reasonably required to facilitate the financing of the Project (including, without limitation, any required protection of a leasehold mortgagee's interest) under Outside Financing Agreements or as reasonably may be required to accommodate amendments, modifications or supplements to the Project AFC.

3.5 RanchCo and Ranchcorp Guarantee of Certain Obligations. RanchCo and Ranchcorp each guarantee the full and timely performance when due of the obligations of each other, and of PPC LLC, under Section 8.4 of this Agreement.

3.6 Nature of Obligations. The obligations of the Tejon Interests under this Agreement are several and not joint. Except as expressly set forth in Section 3.5, none of the Tejon Interests shall have any liability or obligation of any kind (and no matter what the theory) for any obligation of any other Tejon Interest under this Agreement or any of the other Project Agreements; provided, nothing in this Section 3.6 relieves any party or other Person from any liability which the party or other Person would otherwise have under any applicable law pertaining to fraudulent conveyances or preferences.

Section 4. Joint Obligations of the Parties During the Project Development Period

4.1 Labor Issues. Commencing no later than June 1, 1999, the parties will work jointly to obtain reasonable assurances that the Project will not be opposed by organized labor. PEF will reimburse the Tejon Interests for their reasonable out-of-pocket costs agreed by PEF in advance and incurred in such efforts.

4.2 Monthly Meetings. The parties will meet at least monthly. At these meetings, PEF will report on the status of the development of the Project, its progress toward completion of the Project AFC including results of biological, archaeological, and geotechnical studies, and the

parties will coordinate their respective efforts in connection with the Project under this Agreement.

4.3 Public Disclosure Obligations. The parties acknowledge the disclosure obligations of public companies under the federal securities laws. Upon execution of this Agreement and the other Project Agreements and from time to time thereafter, the Tejon Interests will issue press releases which will not state amounts paid or due to be paid to the Tejon Interests. Prior to issuance of each press release, the Tejon Interest issuing the same will provide PEF an opportunity to review and comment upon the release. With respect to disclosures required by securities laws or that may be required by stock exchange rules, the Tejon Interests will disclose the minimum information required to be disclosed under those laws and rules in the view of the Tejon Interests' auditors and counsel. Prior to each such disclosure, PEF will have an opportunity to review and comment upon the disclosure.

4.4 Legal Opinions. Concurrently with the execution and delivery of this Agreement and each of the other Project Agreements:

- (i) The Tejon Interests will furnish the Developer Interests with an opinion of legal counsel acceptable to the Developer Interests substantially in the form of Schedule 4.4(i) with respect to the agreement(s) then being executed and delivered by any of the Tejon Interests; provided, the opinion to be furnished upon execution and delivery of the Lease and the Easement Agreement shall also extend to the matters covered in Sections 8.3(c) and (d) and may be subject to such additional assumptions and qualifications as are generally acceptable at the time for legal opinions in comparable commercial transactions in the State of California;
- (ii) The Developer Interests will furnish the Tejon Interests with an opinion of legal counsel acceptable to the Tejon Interests substantially in the form of Schedule 4.4(ii) with respect to the agreement(s) then being executed and delivered by either of the Developer Interests; provided, the opinion to be furnished upon execution and delivery of the Lease shall also extend to the matters covered in Sections 8.1(c) and (d) and may be subject to such additional assumptions and qualifications as are generally acceptable at the time for legal opinions in comparable commercial transactions in the State of California.

Section 5. Rights of the Developer Interests

5.1 Exclusivity.

(a) Other Projects. The term "Other Project" means any project other than the Project, wherever located, to generate electric energy for resale.

(b) Other Facilities. The term "Other Facilities" means electric transmission lines or gas or water pipelines serving any Other Project, excluding any such electric transmission lines or gas or water pipelines whose owners and operations are regulated as public utilities by the PUC or which serve significant uses in addition to the Other Project. An Other Project is deemed served by an Other Facility if the Other Facility serves the Other Project directly or indirectly via interconnected facilities.

(c) Obligations of Tejon Interests. Until the earliest of (x) the first anniversary of the Commercial Operation Date, (y) April 30, 2005, and (z) the Option Termination Date, none of the Tejon Interests will solicit, negotiate for, or commit to any agreement of any kind with respect to, or otherwise assist or participate in any way (whether as a supplier of rights in real property, as an equity participant or lender, or as a codeveloper or otherwise) in any Other Project or Other Facilities located or to be located on the Tejon Ranch.

5.2 Control of Project Activities. Throughout the Project Period, PEF will have the exclusive right to pursue and control the development, licensing, financing, construction, supply, management and operation of the Project and the sale of its output and services (collectively, the "Project Activities"), all as PEF deems appropriate subject only to the express requirements of this Agreement and the other Project Agreements. Except as otherwise expressly provided in this Agreement or any of the other Project Agreements:

- (i) None of the Tejon Interests shall have any right of consultation, review or approval with respect to the Project or any of the Project Activities or any action taken or omitted, or proposed to be taken or omitted, by either of the Developer Interests in connection with any thereof;
- (ii) PEF may deal and contract with ECT and its Affiliates freely and without limitation or restriction of any kind and on such terms and conditions as PEF and ECT and such Affiliates deem appropriate; and
- (iii) Each of the Developer Interests may take or omit to take any action in connection with the Project or any of the Project Activities for any or no reason as it deems appropriate.

The phrase "deem(s) appropriate," when used in this Agreement or any of the other Project Agreements with respect to any decision, action or inaction by either of the Developer Interests or any of the Tejon Interests, means that the decision, action or inaction may be made or taken for any or no reason deemed appropriate in the sole discretion of the applicable Developer Interest or Tejon Interest and considering only its own interests and not the interests of any other Person (including, but not limited to, in the case of the Developer Interests, any of the Tejon Interests, and in the case of the Tejon Interests, any of the Developer Interests), subject only to any express requirements of this Agreement and any of the other Project Agreements.

The provisions of Sections 5.3 through 5.7 are illustrative of the rights of the Developer Interests set forth in this Section 5.2, but shall not be deemed to limit the generality of this Section 5.3 in any manner.

5.3 CEC Proceedings. Throughout the Project Period, PEF shall have exclusive control of all proceedings before or involving the CEC with respect to the NOI Exemption, the Project AFC and otherwise in connection with the Project. From and after the date of this Agreement, each of the Tejon Interests will take such steps as reasonably may be requested by PEF to confirm these rights to the CEC.

5.4 Contracts, Permits, Etc. Throughout the Project Period and subject only to PEF's obligations with respect to the Project AFC under Section 2.1, PEF will have the exclusive right to structure, negotiate and execute all applications, permits, letters of intent, agreements and other documents relating to the Project and any of the Project Activities with such parties and on such terms as PEF deems appropriate and, except in the case of letters of intent, agreements

and other documents to which any of the Tejon Interests is party, with no right of consultation, review or approval in favor of any of the Tejon Interests.

5.5 Scheduling; Deployment and Marketing. During the Project Period, PEF will have exclusive control over the production, scheduling and marketing of energy, capacity and ancillary services available from the Project, and may market any or all of these items on such schedule and terms and to any Person (including ECT or its Affiliates) as PEF deems appropriate. Without limiting the generality of the foregoing, it is understood PEF is not obligated to operate the Project on any particular schedule or at all.

5.6 Changes. Throughout the Project Period, PEF may from time to time and at any time defer, accelerate, temporarily terminate or permanently abandon any or all of the Project Activities in each case for any or no reason as PEF deems appropriate, subject only to the obligations of the Developer Interests under the Project Agreements.

5.7 Project Financing. Unless ECT otherwise elects (which it may determine not to do for any or no reason as ECT deems appropriate: (i) the Project will be financed (if at all) only through project financing, and (ii) no such financing, nor any other financing relating in any way to the Project, will be supported in any way by the credit of ECT or any of its Affiliates (other than PEF). Nothing in this Section 5.7 nullifies, diminishes or affects the obligations of ECT set forth in Section 2.2 of this Agreement.

Section 6. Transfer of Tejon Project Assets

6.1 Tejon Project Assets. Effective as of the date of this Agreement, each of the Tejon Interests hereby assigns and transfers all of the following assets (the "Tejon Project Assets") to PEF to the extent transferable under applicable law and regulation:

- (i) All right, title and interest of any of the Tejon Interests in and to the NOI Exemption; and
- (ii) All right, title and interest of any of the Tejon Interests in and to all applications, permits, studies, analyses, plans, designs, correspondence and other materials pertaining to the development or licensing of the Project in whatever form or stage of completion which have been applied for or issued to any of the Tejon Interests or which are in the custody or control of any of them excluding those items which are described in Schedule 6.1(ii).

THE TEJON INTERESTS MAKE NO REPRESENTATIONS OR WARRANTIES (AND DISCLAIM ALL REPRESENTATIONS AND WARRANTIES WHICH MIGHT OTHERWISE BE IMPLIED BY LAW OR OTHERWISE) WITH RESPECT TO ANY OF THE TEJON PROJECT ASSETS (INCLUDING BUT NOT LIMITED TO THEIR SUFFICIENCY OR SUITABILITY FOR ANY PURPOSE), EXCEPT THAT COPIES OF EACH OF THE TEJON PROJECT ASSETS WHICH HAVE BEEN FILED WITH ANY GOVERNMENTAL AUTHORITY OR AGENCY HAVE BEEN PROVIDED TO THE DEVELOPER INTERESTS PRIOR TO THE DATE OF THIS AGREEMENT. Copies of all of the Tejon Project Assets not provided to the Developer Interests prior to the date of this Agreement will be so provided within 10 days after the date of this Agreement. From and after the date of this Agreement, the Tejon Interests will answer questions about and discuss the Tejon Project Assets as may reasonably be requested from time to time by either of the Developer Interests.

Section 7. Rights of the Tejon Interests Upon Option Termination

7.1 Reversion of Development Rights.

(a) Option Termination Date. The "Option Termination Date" is the day on which the Option Period terminates without the Option being exercised.

(b) Subsequent Development. From and after the Option Termination Date, the Developer Interests will be deemed to have abandoned all rights to develop the Project, and the Tejon Interests will have an unfettered right to pursue development of the Project or any other project on the Tejon Ranch in any manner they deem appropriate and without any further obligation to ECT or PEF except for (i) their obligations under this Section 7 and the assumption agreement to be entered into by them pursuant to Section 7.2(c), and (ii) any obligations of the Tejon Interests under this Agreement or any of the other Project Agreements which are required to be paid or performed after the Option Termination Date. From and after the Option Termination Date, ECT will take such steps as reasonably may be requested by any of the Tejon Interests to confirm the rights of the Tejon Interests under this Section 7.1(b) to the CEC.

7.2 Transfer of PEF's Project Assets.

(a) To Ranchcorp. Within 30 days after the Option Termination Date and upon payment of the amounts (if any) payable by the Tejon Interests under Section 7.2(d) and delivery by the Tejon Interests of the assumption agreement referred to in Section 7.2(c), PEF will transfer to Ranchcorp or its designee any of the assets of PEF which are described in Section 7.2(b) and which the Tejon Interests have theretofore requested be transferred to Ranchcorp or its designee ("PEF Project Assets"). This transfer will be without representation, warranty, indemnity, covenant or other obligation of any kind, except as follows: (A) ECT and PEF will warrant (i) that PEF is the owner of the PEF Project Assets, and (ii) that the PEF Project Assets are free and clear of liens and encumbrances created by PEF or ECT. EXCEPT FOR THE WARRANTIES MADE PURSUANT TO THE PRECEDING SENTENCE, THE DEVELOPER INTERESTS MAKE NO REPRESENTATIONS OR WARRANTIES (AND DISCLAIM ALL REPRESENTATIONS AND WARRANTIES WHICH MIGHT OTHERWISE BE IMPLIED BY LAW OR OTHERWISE) WITH RESPECT TO THE PEF PROJECT ASSETS (INCLUDING BUT NOT LIMITED TO THE SUFFICIENCY OR SUITABILITY OF ANY PEF PROJECT ASSET FOR ANY PURPOSE).

(b) PEF Project Assets. The Tejon Interests may select for transfer pursuant to Section 7.2(a) any of the following assets of PEF:

- (i) any emission reduction credits ("ERCs") (A) which the Tejon Interests request that PEF transfer pursuant to this Section 7.2(b), and (B) which, under applicable law and regulation and the terms of the ERCs, may be transferred to Ranchcorp ("ERCs");
- (ii) any option rights to acquire any ERCs (A) which the Tejon Interests request that PEF transfer pursuant to this Section 7.2(b), and (B) which, under applicable law and regulation and the terms of the option agreement, may be transferred to Ranchcorp ("Option Rights");
- (iii) PEF's rights in the Project AFC (if theretofore filed) and the Final Project Decision (if theretofore rendered) to the extent (if any) the terms thereof and

applicable law and regulation permit those rights to be transferred to Ranchcorp ("CEC Assets"); and

- (iv) PEF's rights in and copies of any applications, permits, studies, analyses, plans, designs, correspondence and other materials (other than contracts and contract rights) pertaining to the development or licensing of the Project in whatever form or stage of completion which have been applied for or issued to PEF or which are in PEF's custody or control to the extent applicable law and regulation and any applicable contract obligations permit those rights to be transferred to Ranchcorp, excluding those items which are described in Schedule 7.2(b)(iv) ("Miscellaneous Rights").

(c) Assumption of Obligations. On the date the PEF Project Assets are transferred to Ranchcorp or its designee ("Project Asset Transfer Date") and concurrently with the transfer of the PEF Project Assets, Ranchcorp will assume (under an assumption agreement in form reasonably acceptable to the parties) all obligations of PEF arising on or prior to the Project Asset Transfer Date pertaining to the PEF Project Assets, except for payments of amounts included in the Recognized Cost of the PEF Project Assets.

(d) Payment by the Tejon Interests. On the Project Asset Transfer Date and concurrently with the transfer of the PEF Project Assets, the Tejon Interests will pay PEF an amount equal to the aggregate Recognized Cost of any ERCs and Option Rights included in the PEF Project Assets or such lesser amount (if any) as PEF in its sole discretion may elect to accept under this Section 7.2(d). The term "Recognized Cost," when used with respect to any PEF Project Asset, means all direct and indirect costs, expenses and liabilities of either ECT or PEF which were incurred to acquire the asset and which GAAP requires PEF or ECT to recognize for financial accounting purposes. In the event any of the Tejon Interests sells or otherwise transfers any ERCs or Option Rights included in the PEF Project Assets for cash or non-cash consideration in excess of the purchase price thereof as determined under this Section 7.2(d), the Tejon Interests shall promptly upon such transfer pay an amount equal to the excess to PEF.

7.3 Subsequent Payment by the Tejon Interests. In the event that any of the Tejon Interests or any of their Affiliates should, at any time after the Option Termination Date, participate directly or indirectly in any way (whether as a supplier of interests in real property, as an equity participant or lender, or as a codeveloper or otherwise) in the development of a gas fired electric generation facility of 250 MW or more in the Central Valley watershed on Tejon Ranch land, and within a period of seven years from the Option Termination Date, the Tejon Interests will, upon closing of construction financing for that project, pay the Follow On Payment to PEF. The "Follow On Payment" is an amount equal to the aggregate Recognized Cost of all PEF Project Assets other than any ERCs or Option Rights included in the PEF Project Assets, plus interest on that amount at 10 percent per annum (without compounding) from the Option Termination Date to the date of payment of the Follow On Payment under this Section 7.3. The Tejon Interests will keep PEF apprised of the progress of their efforts in connection with any project in connection with which payment of the Follow On Payment may be required under this Section 7.3 as may reasonably be requested by PEF to determine the Tejon Interests' compliance with this Section 7.3.

7.4 Acknowledgment. The parties acknowledge that their rights and obligations under this Section 7 arise only upon the Option Termination Date (if any) and not upon the occurrence

of any other event (including but not limited to any prior sale or assignment of the Project or any interest therein).

Section 8. Representations and Warranties.

8.1 Developer Interests. Each of the Developer Interests represents and warrants as to itself alone and not jointly with or as to the other that the following facts and circumstances are true and correct at the date of this Agreement:

(a) Organization. The Developer Interest is a corporation or limited liability company duly organized, validly existing and in good standing under the laws of its respective state of incorporation or organization.

(b) Authority. The Developer Interest has all necessary power and authority to enter into this Agreement and (in the case of PEF) the Option Agreement and to perform its obligations hereunder and thereunder; and all action required to be taken on its part to approve the execution and delivery of this Agreement and (in the case of PEF) the Option Agreement and the performance of its obligations hereunder and thereunder has been duly taken; provided, PEF is not authorized to exercise the Option without approval from ECT. ECT has not given this approval and may refuse to give it for any or no reason as ECT deems appropriate. However, PEF will obtain the approval before it exercises the Option.

(c) No Violation. The execution and delivery of this Agreement and (in the case of PEF) the Option Agreement by the Developer Interest, and the performance of its obligations hereunder and thereunder, do not and will not (i) violate, or conflict with its obligations under, any contract to which it is a party or by which it is bound, or (ii) violate (and none of such obligations is void or voidable under) any law, regulation, order, arbitration award, judgment or decree to which it is a party or to which it is subject;

(d) Authorizations and Consents. No authorization, consent or approval of, or notice to, any federal, state, county, local or foreign government, regulatory body or official not already obtained or given is required to be obtained or given in connection with the execution and delivery of this Agreement or (in the case of PEF) the Option Agreement by the Developer Interest or the performance of any of its obligations hereunder or thereunder.

(e) Litigation and Claims. To the knowledge of the Developer Interest, there is no suit, action, arbitration, or legal, administrative, or other proceeding, or governmental investigation pending or threatened against or affecting any of the transactions contemplated by this Agreement or any of the other Project Agreements.

8.2 Indemnity. Each of the Developer Interests will indemnify the Tejon Interests, and each of them, against all claims and losses which are incurred or suffered by any of the Tejon Interests directly or indirectly as a result of any inaccuracy in any representation or warranty of such Developer Interest in this Agreement or any of the other Project Agreements.

8.3 Tejon Interests. Each of the Tejon Interests represents and warrants as to itself alone and not jointly with or as to the other that the following facts and circumstances are true and correct at the date of this Agreement:

(a) Organization. The Tejon Interest is a corporation or limited liability company duly organized, validly existing and in good standing under the laws of its respective state of incorporation or organization.

(b) Authority. The Tejon Interest has all necessary power and authority to enter into this Agreement and (in the case of Ranchcorp) the Option Agreement and to perform its obligations hereunder and thereunder; and all action required to be taken on its part to approve the execution and delivery of this Agreement and the performance of its Obligations hereunder and thereunder has been duly taken.

(c) No Violation. The execution and delivery of this Agreement and (in the case of Ranchcorp) the Option Agreement by the Tejon Interest, and the performance of its obligations hereunder and thereunder, do not and will not (i) violate, or conflict with its obligations under, any contract to which it is a party or by which it is bound, or (ii) violate (and none of such obligations is void or voidable under) any law, regulation, order, arbitration award, judgment or decree to which it is a party or to which it is subject.

(d) Authorizations and Consents. No authorization, consent or approval of, or notice to, any federal, state, county, local or foreign government, regulatory body or official not already obtained or given is required to be obtained or given in connection with the execution and delivery of this Agreement or (in the case of Ranchcorp) the Option Agreement by the Tejon Interest or the performance of any of its obligations hereunder or thereunder.

(e) Litigation and Claims. To the knowledge of the Tejon Interest, there is no suit, action, arbitration, or legal, administrative, or other proceeding, or governmental investigation pending or threatened against or affecting any of the transactions contemplated by this Agreement or any of the other Project Agreements.

8.4 Indemnity. Each of the Tejon Interests will indemnify the Developer Interests, and each of them, against all claims and losses which are incurred or suffered by any of the Developer Interests directly or indirectly as a result of any inaccuracy in any representation or warranty of such Tejon Interest in this Agreement or any of the other Project Agreements.

Section 9. Confidentiality

The Confidentiality Agreement dated November 11, 1998, between ECT and Ranchcorp is amended and restated to read as set forth in Schedule 9 to this Agreement.

Section 10. Force Majeure

10.1 Suspension of Performance. In the event that any of the parties shall be prevented from rendering substantial performance of any of its obligations under this Agreement or any of the other Project Agreements by reason of an Excepted Cause, then that party shall have the right to suspend the performance of those obligations to the extent (but only to the extent) the party has been prevented from substantially performing its obligations by such cause; provided, no party shall ever be entitled under this Section 10.1 to suspend its obligation to make any payment due to, or accruing in favor of, any other party; provided further, a party asserting a right to suspend performance by reason of an Excepted Cause must provide notice thereof to the other parties within fifteen (15) days of the commencement of the Excepted

Cause and if it fails to deliver timely notice, the date of the commencement of the Excepted Cause shall be deemed to have occurred no earlier than fifteen (15) days prior to the date notice is delivered.

Section 11. Assignment

11.1 Outright Assignments by the Tejon Interests. Upon notice to the Developer Interests, any of the Tejon Interests may at any time and from time to time assign any or all of its Project Agreement Rights (i) outright to any Affiliate of any of the Tejon Interests, and (ii) outright to any purchaser of the Tejon Ranch or any portion of the Tejon Ranch that includes the Project Site. Any assignment outright by any of the Tejon Interests of any interest in any of the Project Agreements shall be accompanied by an assignment to the assignee of an equal interest in each of the Project Agreements.

11.2 Assignments by the Tejon Interests for Purposes of Collateral Security. Any of the Tejon Interests may at any time and from time to time assign any or all of its Project Agreement Rights for purposes of securing performance of any of its obligations. Any such assignment shall be subject to the rights of the Developer Interests under each of the Project Agreements. Any assignment for purposes of security by any of the Tejon Interests of any interest in any of the Project Agreements shall be accompanied by an assignment to the assignee of an equal interest in each of the Project Agreements.

11.3 Outright Assignments by the Developer Interests.

(a) In General. Subject to Sections 11.3(b) and (c), upon notice to the Tejon Interests, either of the Developer Interests may assign any or all of its Project Agreement Rights or any or all of its rights and interests in the Project and any improvements or personal property on the Leased Premises, and any member of PEF may assign or transfer any of its membership interest in PEF, outright to any Person. Notice of any such assignment or transfer shall be given to Ranchcorp at least 15 days prior to its consummation and shall include documentation that the assignment or transfer is not in violation of this Section 11.3.

(b) Project Agreements. Any assignment outright by either of the Developer Interests of any interest in any of the Project Agreements shall be accompanied by an assignment to the assignee of an equal interest in each of the Project Agreements.

(c) Qualified Persons. At least a 25 percent interest in the Project must at all times be owned by a Person who or which is Qualified; provided, any Person taking title to any interest in the Project or PEF from a Project Financing Entity shall not be subject to this restriction. A Person shall be deemed to be "Qualified" at the date of the assignment if at that date (i) the Person is an Affiliate of ECT or any other Person in which ECT or any of its Affiliates holds an equity interest of no less than 25 percent, or (ii) the Person is a Project Financing Entity, or (iii) the Person is a Qualified Developer, or (iv) in the case of assignments made after exercise of the Option, the Person is a Qualified Owner.

11.4 Assignments by the Developer Interests for Purposes of Collateral Security. Subject to and in accordance with the provisions of Schedule 11.4, either of the Developer Interests may at any time and from time to time assign any or all of its Project Agreement Rights and any or all of its rights and interests in the Project and any improvements or personal property on the Leased Premises for purposes of securing performance of any of its obligations to a Project Financing Entity. The rights and obligations of the parties, and of any secured party or parties, in connection with any such assignment, are specified in Schedule 11.4. Any

assignment for purposes of security by either of the Developer Interests of any interest in any of the Project Agreements shall be accompanied by an assignment to the assignee of an equal interest in each of the Project Agreements.

11.5 Related Definitions. As employed in this Agreement, the term:

"Equity Owner," when used with respect to any Person, means any Person who owns or holds directly, or indirectly through one or more intermediaries, at least a 25 percent equity interest in the Person.

"Project Agreement Rights" means any right or interest of any Person under this Agreement or any of the other Project Agreements, including but not limited to the leasehold estate and easement rights created in favor of PEF by the Lease and Easement Agreements.

"Project Financing Agreements" means any documents or instruments relating to or evidencing or securing any Project Financing.

"Project Financing Entity" means (a) any bank, financial institution or other Person at any time providing or participating (as lender, lessor, equity participant or otherwise) in any Project Financing, (b) any lender's special purpose foreclosure entity that is a holder of any right or interest under any Project Financing Agreement, and (c) any Person acting as trustee or agent for any such bank, financial institution or other Person in connection with any Project Financing.

"Project Financing" means construction, long-term or other financing or refinancing (whether by publicly or privately placed debt or by lease or other mechanism) of all or any portion of the Project.

"Qualified Developer," when used with respect to any Person means that at the date the Person first acquires an interest in the Project or PEF (a) the Person or one or more of its Affiliates, Equity Owners or General Partners has the expert, professional and technical capability required to arrange for (i) necessary government approvals for the Project, and (ii) the financing, construction, operation and maintenance of the Project, (b) the Person or one or more of its Affiliates, Equity Owners or General Partners has experience in developing, operating and maintaining or arranging for the operation and maintenance of, and arranging for financing for, gas-fired electrical generating projects with an aggregate capacity of three hundred (300) Mw or more, including at least one gas-fired electrical generating project with a capacity of at least one hundred ten (110) Mw, and (c) the Person and its Affiliates, Equity Owners and General Partners have a combined net worth in excess of \$250 million.

"Qualified Owner," when used with respect to any Person means that at the date the Person first acquires an interest in the Project or PEF (a) the Person or one or more of its Affiliates, Equity Owners or General Partners has the expert, professional and technical capability reasonably required to arrange for the construction, operation and maintenance of the Project, (b) that the Person or one or more of its Affiliates, Equity Owners or General Partners has experience in operating and maintaining or arranging for the operation and maintenance of gas-fired electrical generating projects with an aggregate capacity of three hundred (300) Mw or more, including at least one gas-fired electrical generating project with a capacity of at least one hundred ten (110) Mw, and (c) that the Person and its Affiliates, Equity Owners and General Partners have a combined net worth in excess of \$100 million.

11.6 Effect of Assignments. Any assignment of any Project Agreement Rights not expressly permitted by this Agreement or any of the other Project Agreements is prohibited. No assignment by any party of any of its Project Agreement Rights shall relieve the party from any of its obligations under this Agreement or any of the other Project Agreements. Any assignment by any party of any Project Agreement Rights other than an assignment under Sections 11.2 or 11.4 shall be accompanied by an unconditional assumption in writing by the assignee of all obligations of the assignor under the agreement under which the rights being assigned arise. Any purported assignment in violation of any of the provisions of this Section 11 shall be null and void and a material breach of this Agreement and the Lease.

Section 12. Dispute Resolution

12.1 Mediation of Disputes. If a dispute arises out of this Agreement or any of the other Project Agreements, or the breach thereof, and if the dispute cannot be settled through negotiation, the parties agree first to try in good faith to settle the dispute by mediation administered by the American Arbitration Association under its Commercial Mediation Rules, before resorting to arbitration or litigation as provided in this Agreement.

12.2 Limited Rights to Resolve Certain Disputes by Arbitration.

- (a) Subject to the conditions specified in Section 12.2(c), a party may, upon its election, and after completion of mediation under Section 12.1 of this Agreement, require that disputes arising only out of the sections of this Agreement or other Project Agreements specified in Section 12.2(b), be settled by arbitration administered by the American Arbitration Association under its Arbitration Rules for the Real Estate Industry (or the Commercial Arbitration Rules of the American Arbitration Association if the American Arbitration Association determines that the dispute would more appropriately be decided by a commercial arbitration panel than by a real estate panel), excluding the Expedited Procedures set forth in such Rules except as provided in Section 12.4. The locale for arbitration under this Section shall be Los Angeles.
- (b) The parties agree to arbitrate no disputes except the following (subject to the conditions specified in Section 12.2(c)):
 - (i) Disputes arising at any time arising out of Sections 3.1; 3.2; 3.3; 5; 6; 7.2; 7.3; or 11 of this Agreement.
 - (ii) Disputes arising at any time out of Sections 4; 6; 7; 8.2; 8.3; or 11.3 of the Option Agreement
 - (iii) Disputes arising at any time out of Sections 3.4(f); 5; 8; 9; 11; 12 or 22.8 of the Lease
 - (iv) Disputes arising at any time out of Sections 10 or 20 of the Easement Agreement.
 - (v) Disputes arising before the Commercial Operation Date arising out of Section 6 of the Lease.

- (vi) Disputes arising before the Commercial Operation Date arising out of Sections 1; 5; 7; 8; 9; 11; or 12 of the Easement Agreement.
- (c) Conditions to arbitration: With respect to the disputes referred to in Section 12.2(b)(i) through and including (vi) (but not disputes subject to arbitration under Section 12.3), no party shall be entitled to make more than five demands for arbitration during the first five years following execution of the Project Agreement or during any succeeding five-year period. A party that does not elect to arbitrate a dispute under Section 12.2 shall have the right to commence an action in court consistent with Section 12.7 of this Agreement and in such event the dispute shall not be subject to arbitration unless prior to the filing of a pleading or motion responding to the complaint, and consistent with the limits upon arbitration imposed under Section 12.2, another party demands arbitration of the same dispute.

12.3 Limited Rights to Resolve Certain Monetary Disputes by Arbitration. Without regard to the limitation stated in Section 12.2(c) on the number of arbitration demands, any dispute arising under this Agreement or any of the other Project Agreements in which the sole relief sought is a monetary award in an amount less than one million dollars (\$1,000,000.00), shall be settled by arbitration administered by the American Arbitration Association under its Real Estate Arbitration Rules (or the Commercial Arbitration Rules of the American Arbitration Association if the American Arbitration Association determines that the dispute would more appropriately be decided by a commercial arbitration panel than by a real estate panel), excluding the Expedited Procedures set forth in such Rules except as provided in Section 12.4, provided, that claims for Rent under and as defined in the Lease are not subject to settlement by arbitration. The locale for arbitration under this Section shall be Los Angeles.

12.4 Additional Provisions Concerning Arbitration. Arbitration conducted under Section 12.2 or Section 12.3 shall be subject to the following additional provisions: (a) The arbitration panel shall consist of three arbitrators who have not previously been employed or engaged by any party, and do not have a direct or indirect interest in any party or the subject matter of the arbitration. (b) Arbitrators shall be selected pursuant to the Expedited Procedures of the Real Estate Arbitration Rules (or the Commercial Arbitration Rules of the American Arbitration Association if the American Arbitration Association determines that the dispute would more appropriately be decided by a commercial arbitration panel than by a real estate panel). (c) The hearing shall be conducted on a confidential basis without continuance or adjournment. (d) Any offer made or the details of any negotiation of the dispute subject to arbitration shall not be admissible. (e) Each party shall be entitled to all rights and privileges granted by the arbitrators to the other party. (f) Each party shall be entitled to compel the attendance of witnesses or production of documents, and for this purpose, the arbitrators shall have the power to issue subpoenas in accordance with the law of the State of California. (g) Each party shall have the right (upon leave of the arbitrators) to take depositions and obtain other discovery of the scope and in the manner which the arbitrators deem reasonably necessary to the preparation and presentation of the party's case. (h) The arbitrators shall have the power to impose on any party such terms, conditions, consequences, liabilities, sanctions and penalties as they deem necessary or appropriate (which shall be as conclusive, final and enforceable as their award on the merits) to compel or induce compliance with discovery and the appearance of, or production of documents in the custody of, any officer, director, agent or employee of a party or its independent contractors or subcontractors or any party which controls, is controlled by or is under common control with a party or its independent contractors or subcontractors. (i) The arbitrators are authorized to award reasonable attorneys' fees and costs, and the costs of

arbitration including the fees charged by the arbitrators and by the American Arbitration Association, to any substantially prevailing party unless the arbitrators determine and state in their decision that they have determined that such an award is inappropriate. (j) The arbitrators are authorized to grant remedies and relief in accordance with the contract, subject to the provisions concerning remedies contained in Section 12.8 of this Agreement.

12.5 Arbitral Awards. Judgment on the award rendered by the arbitrators may be entered in any court of competent jurisdiction and is final and binding upon the parties except to the extent it may be challenged under law.

12.6 Arbitration of Disputes. NOTICE: BY INITIALING IN THE SPACE BELOW YOU ARE AGREEING TO HAVE ANY DISPUTE ARISING OUT OF THE MATTERS SPECIFIED IN SECTIONS 12.2 AND 12.3 DECIDED BY NEUTRAL ARBITRATION AS PROVIDED BY CALIFORNIA LAW AND YOU ARE GIVING UP ANY RIGHTS YOU MIGHT POSSESS TO HAVE THE DISPUTE LITIGATED IN A COURT OR JURY TRIAL. BY INITIALING IN THE SPACE BELOW, YOU ARE GIVING UP YOUR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL, UNLESS THOSE RIGHTS ARE SPECIFICALLY INCLUDED IN THIS SECTION 12. IF YOU REFUSE TO SUBMIT TO ARBITRATION AFTER AGREEING TO THIS PROVISION, YOU MAY BE COMPELLED TO ARBITRATE UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. YOUR AGREEMENT TO THIS ARBITRATION PROVISION IS VOLUNTARY.

WE HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THE MATTERS INCLUDED IN THIS SECTION 12 TO NEUTRAL ARBITRATION.

INITIALS: PEF: -----
 ECT: -----
 RanchCo: -----
 Ranchcorp: -----
 PPP LLC: -----

12.7 Other Disputes; Venue. All controversies and claims other than those that may be settled by mediation under Section 12.1 or by arbitration under Sections 12.2 or 12.3 shall be resolved in Los Angeles County Superior Court or the federal district court for the Central District of California. All parties hereby affirmatively submit to and agree not to challenge such venue or the personal jurisdiction of such courts.

12.8 Remedies. Specific performance is within the scope of the agreement of the parties and is among the remedies that may be granted, as determined by the arbitrators in an arbitral proceeding or the court in any judicial proceeding, to be appropriate. In an arbitral proceeding the arbitrators are not empowered to award, and in a judicial proceeding or arbitral proceeding the parties expressly waive any rights they may have to seek and obtain, any exemplary, punitive, special, and consequential damages. This Section 12.8 shall not limit a party's rights of indemnity in respect of claims by Persons who are not Affiliates of that party.

Section 13. Acknowledgments of the Parties

13.1 Acknowledgments of the Developer Interests. The Developer Interests hereby expressly acknowledge and agree as follows:

(a) No Reliance. The Developer Interests have reviewed and had access to all documents, records and information which they have desired to review in connection with their decision to enter into this Agreement and the other Project Agreements, and to consummate the transactions contemplated hereby and thereby. The Developer Interests have not relied upon any representation, warranty, statement, advice, document, projection or other information of any type provided by any of the Tejon Interests or any of their representatives, except for those expressly set forth in or identified in this Agreement or any of the other Project Agreements. None of the Tejon Interests nor any of their representatives has made, or is making, any representation or warranty, written or oral, concerning any matter whatsoever, except as expressly set forth in this Agreement and the other Project Agreements. In deciding to enter into this Agreement and the other Project Agreements, and to consummate the transactions contemplated hereby and thereby, the Developer Interests have relied solely upon their own knowledge, investigation and analysis (and that of their representatives) and not on any disclosure made by, or any duty (asserted or unasserted) to disclose on the part of, any of the Tejon Interests or any of their representatives.

(b) Limited Duties. Any and all duties and obligations which any of the Tejon Interests may have to any of the Developer Interests are limited to those expressly stated in this Agreement and the other Project Agreements. Neither the duties nor obligations of any of the Tejon Interests, nor the rights of the Developer Interests, shall be expanded beyond the express terms of this Agreement and the other Project Agreements on the basis of any legal or equitable principle or on any other basis whatsoever. Neither any equitable nor legal principle nor any implied obligation of good faith or fair dealing nor any other matter requires any of the Tejon Interests to incur, suffer or perform any act, condition or obligation contrary to the express terms of this Agreement and the other Project Agreements, which define the outer limit of what may be expected or required from the Tejon Interests under any and all circumstances, whether existing or not and whether foreseeable or unforeseeable. The Developer Interests acknowledge that it would be very unfair to increase any of the obligations of any of the Tejon Interests under this Agreement or any of the other Project Agreements on the basis of any implied obligation or otherwise.

(c) No Such Relationships. Without in any manner limiting the generality of Section 13.1(b) or any other provision of this Agreement or any of the other Project Agreements, none of the Developer Interests or Tejon Interests is or shall be deemed to be in a relationship of partners or joint venturers with each other by virtue of this Agreement or any of the other Project Agreements or otherwise; nor shall any of them be an agent, representative, trustee or fiduciary of, or have any fiduciary obligations to, any of the other of them.

13.2 Acknowledgments of the Tejon Interests. The Tejon Interests hereby expressly acknowledge and agree as follows:

(a) No Reliance. The Tejon Interests have reviewed and had access to all documents, records and information which they have desired to review in connection with their decision to enter into this Agreement and the other Project Agreements, and to consummate the transactions contemplated hereby and thereby. The Tejon Interests have not relied upon any representation, warranty, statement, advice, document, projection or other information of any

type provided by any of the Developer Interests or any of their representatives, except for those expressly set forth in or identified in this Agreement or any of the other Project Agreements. None of the Developer Interests nor any of their representatives has made, or is making, any representation or warranty, written or oral, concerning any matter whatsoever, except as expressly set forth in this Agreement and the other Project Agreements. In deciding to enter into this Agreement and the other Project Agreements, and to consummate the transactions contemplated hereby and thereby, the Tejon Interests have relied solely upon their own knowledge, investigation and analysis (and that of their representatives) and not on any disclosure made by, or any duty (asserted or unasserted) to disclose on the part of, any of the Developer Interests or any of their representatives.

(b) Limited Duties. Any and all duties and obligations which any of the Developer Interests may have to any of the Tejon Interests are limited to those expressly stated in this Agreement and the other Project Agreements. Neither the duties nor obligations of any of the Developer Interests, nor the rights of the Tejon Interests, shall be expanded beyond the express terms of this Agreement and the other Project Agreements on the basis of any legal or equitable principle or on any other basis whatsoever. Neither any equitable nor legal principle nor any implied obligation of good faith or fair dealing nor any other matter requires any of the Developer Interests to incur, suffer or perform any act, condition or obligation contrary to the express terms of this Agreement and the other Project Agreements, which define the outer limit of what may be expected or required from the Developer Interests under any and all circumstances, whether existing or not and whether foreseeable or unforeseeable. The Tejon Interests acknowledge that it would be very unfair to increase any of the obligations of any of the Developer Interests under this Agreement or any of the other Project Agreements on the basis of any implied obligation or otherwise.

(c) No Such Relationships. Without in any manner limiting the generality of Section 13.2(b) or any other provision of this Agreement or any of the other Project Agreements, none of the Developer Interests or the Tejon Interests is or shall be deemed to be in a relationship of partners or joint venturers with each other by virtue of this Agreement or any of the other Project Agreements or otherwise; nor shall any of them be an agent, representative, trustee or fiduciary of, or have any fiduciary obligations to, any of the other of them.

Section 14. Miscellaneous

14.1 No Brokers, Finders, Etc. Except as disclosed in Schedule 14.1, none of the parties has engaged any agent, broker, finder or investment or commercial banker in connection with the negotiation, execution or performance of this Agreement or any of the other Project Agreements or the transactions contemplated hereby or thereby. The Developer Interests shall indemnify the Tejon Interests and hold them harmless against and in respect of any claim for brokerage fees, commissions or other compensation incurred or owing due to any such engagement or alleged engagement by the Developer Interests. The Tejon Interests shall indemnify the Developer Interests and hold them harmless against and in respect of any claim for brokerage fees, commissions or other compensation incurred or owing due to any such engagement or alleged engagement by the Tejon Interests.

14.2 Expenses. Whether or not the transactions contemplated by this Agreement are consummated, each of the parties shall pay their own fees and expenses incident to the negotiation, preparation, execution, delivery and performance of this Agreement and the other Project Agreements.

14.3 Complete Agreement; Waiver and Modification, Etc. This Agreement and the other Project Agreements constitute the entire agreement between the parties hereto and thereto pertaining to the subject matter hereof and thereof and supersede all prior and contemporaneous agreements and understandings of the parties. There are no representations, warranties, covenants or conditions by or benefiting any party except those expressly stated or provided for in this Agreement and the other Project Agreements, any implied representations, warranties, covenants or conditions being hereby expressly disclaimed. Except as expressly provided in this Agreement, no Persons other than the parties to this Agreement have any rights or remedies under or in connection with this Agreement, except rights or remedies validly assigned hereunder. No amendment, supplement or termination of or to this Agreement, and no waiver of any of the provisions hereof, shall require the consent of any Person other than the parties hereto, nor shall any such amendment, supplement, termination or waiver be binding on a party to this Agreement unless made in a writing signed by such party. Except as expressly provided in this Agreement, no Persons other than the parties to any other Project Agreement have any rights or remedies under or in connection with that other Project Agreement, except rights or remedies validly assigned thereunder. No amendment, supplement or termination of or to any other Project Agreement, and no waiver of any of the provisions thereof, shall require the consent of any Person other than the parties to that other Project Agreement, nor shall any such amendment, supplement, termination or waiver be binding on a party to that other Project Agreement unless made in a writing signed by such party.

14.4 Setoff. Each party shall be entitled to setoff against any payment which would otherwise be due and payable to any other party under this Agreement or any of the other Project Agreements, any amount due and payable to the party by the other party under any final judgment obtained by the party against the other party. No other setoffs are permitted.

14.5 Communications. Whether expressly so stated or not, all notices, demands, requests and other communications required or permitted by or provided for in this Agreement or any of the other Project Agreements ("Communications") shall be given in writing to the parties at their respective addresses set forth below, or at such other address as a party shall designate for itself in writing in accordance with this Section:

Developer Enron Capital & Trade Resources Corp.
Interests: 101 California Street, Suite 1950
 San Francisco, CA 94111
 Attn: David Parquet

With a copy to: Enron Capital & Trade Resources Corp.
 1400 Smith Street, EB 3879
 Houston, Texas 77002
 Attn: Sheila Tweed

Tejon Interests: Tejon Ranchcorp
 4436 Lebec Road
 Lebec, CA 93243
 Attn: General Counsel

With a copy to: Arnold B. Podgorsky
Michael Thompson
Wright & Talisman, PC
1200 G Street, N.W., Suite 600
Washington, D.C. 20005-3802

Communications may be transmitted (i) by personal delivery, (ii) by delivery by messenger, express or air courier or similar courier, and (iii) by delivery by United States first class certified or registered mail, postage prepaid. Except as otherwise provided in this Agreement, delivery or service of any Communication shall be deemed effective only upon receipt, and receipt shall be deemed to have occurred when the Communication was delivered to the specified address without regard to whether or not a representative of the addressee was present to receive the Communication; provided, any Communication delivered after 5:00 P.M. local time of place of receipt, or on a day other than a Business Day, shall be deemed received on the next succeeding Business Day.

14.6 Law Governing. This Agreement and the other Project Agreements shall be interpreted in accordance with and governed by the laws of the State of California, without regard to principles of conflicts of laws. This Agreement and the other Project Agreements shall each be given a fair and reasonable construction in accordance with the intention of the parties and without regard to, or aid of, Section 1654 of the California Civil Code.

14.7 Headings; References; "Hereof," Etc. The Section headings and tables of contents in this Agreement and the other Project Agreements are provided for convenience only, and shall not be considered in the interpretation hereof or thereof. References in this Agreement to Sections or Schedules refer, unless otherwise specified, to the designated Section of or Schedule to this Agreement. Terms such as "herein," "hereto" and "hereof" refer to this Agreement as a whole.

14.8 Successors and Assigns. This Agreement and the other Project Agreements shall inure to the benefit of and be binding upon the heirs, executors, administrators, successors and permitted assigns of the parties hereto and thereto.

14.9 Severability. If for any reason any provision of this Agreement or any of the other Project Agreements shall be held invalid, illegal or unenforceable in whole or in part in any jurisdiction, then that provision shall be ineffective only to the extent of that invalidity, illegality or unenforceability and in that jurisdiction only, without in any manner affecting the validity, legality or enforceability of the unaffected portion and the remaining provisions in that jurisdiction or any provision of this Agreement in any other jurisdiction.

14.10 Survival of Representations and Warranties. Except as otherwise expressly provided in this Agreement or any of the other Project Agreements, all representations, warranties, covenants and agreements of the parties contained in this Agreement and the other Project Agreements shall be considered material and shall be effective and survive the execution and delivery of this Agreement and the other Project Agreements and the consummation of the transactions contemplated hereby and thereby notwithstanding any investigation of the matters covered thereby by or on behalf of any party benefited by any such representation, warranty, covenant or agreement or any knowledge (actual or constructive) on the part of any party benefited by any such representation, warranty, covenant or agreement as to the truth or accuracy (or falseness or inaccuracy) thereof.

14.11 Further Assurances. From time to time and at any time after the execution and delivery hereof, each of the parties, at their own expense, shall execute, acknowledge and deliver any further instruments, documents and other assurances reasonably requested by another party, and shall take any other action consistent with the terms of this Agreement and the other Project Agreements that may reasonably be requested by another party to evidence or carry out the intent of or to implement this Agreement or any of the other Project Agreements.

14.12 Statutory Filings. The Tejon Interests shall cooperate with the Developer Interests in preparing and filing on such schedule as shall reasonably be specified by the Developer Interests all information and documents deemed necessary or desirable by the Developer Interests under any statutes or governmental rules or regulations pertaining to the transactions contemplated by this Agreement, including but not limited to the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the rules promulgated thereunder.

14.13 Counterparts; Separate Signature Pages. This Agreement and each of the other Project Agreements may be executed in any number of counterparts, or using separate signature pages. Each such executed counterpart and each counterpart to which such signature pages are attached shall be deemed to be an original instrument, but all such counterparts together shall constitute one and the same instrument.

14.14 Guarantee Provisions. In the event any obligation of a party under this Agreement shall be or be construed to be a guarantee of any obligation of any other Person, the provisions of Schedule 14.14 shall apply to such obligation.

Section 15. Glossary

AFC Schedule/Budget - Section 2.1.

Affiliate - a Person who directly or indirectly controls, is controlled by or is under common control with another Person, or who directly or indirectly owns 25% or more of the voting power in such other Person, or of whose voting power such other Person (or a Person holding 25% or more of the voting power in such other Person) owns 25% or more. For purposes of this definition, "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

Agreement - this Transaction Agreement, including the Schedules hereto, as originally executed and as modified thereafter from time to time in accordance with its terms.

CEC - Recital B.

CEC Assets - Section 7.2(b)(iii).

Commercial Operation Date - Section 2.1 of the Lease.

Communications - Section 14.4.

deems appropriate - Section 5.2.

Developer Interests - introductory paragraphs.

DWR - Section 3.3.

Easement Agreement - Recital C.

ECT - introductory paragraphs.

Equity Owner - Section 11.5.

ERC Option Rights- Section 7.2(b)(ii).

ERCs - Section 7.2(b)(i).

Event of Default - any event of default under this Agreement or any of the other Project Agreements.

Excepted Cause - (i) the expropriation, confiscation or requisitioning of any facility or other property; (ii) the imposition of generally applicable restrictions or generally applicable regulations by any government or governmental agency or by any court, not resulting in whole or in part from any action or activity in support of the adoption thereof by the party seeking to establish the same as an Excepted Cause; (iii) rationing or allocation imposed by law; (iv) executive or administrative orders or acts of either general or particular application of any de jure or de facto government or of any Person purporting to act under the authority of any such government; (v) illegality, by reason of the enactment of any applicable law or regulation at any time after the date of this Agreement, of any obligation of the party seeking to establish such event as an "Excepted Cause" and not resulting in whole or in part from any action or activity in support of the enactment thereof by the party seeking to establish the same as an Excepted Cause; (vi) war or preparation for war; (vii) acts of God (including ordinary storms and inclement conditions to the extent they cause delay in the safe and prudent performance of any obligation), earthquakes, hurricanes, typhoons, and floods, landslides, mudslides and lightning; (viii) strikes, lockouts or other labor disturbances; (ix) unavailability of power; (x) riots, insurrection, sabotage, blockades, embargoes and epidemics; (xi) such explosions, fires and vandalism as are the result of causes which are reasonably beyond the control of the party seeking to establish the same as an Excepted Cause; (xii) acts and omissions of the party not seeking to establish such event as an "Excepted Cause" (other than such acts and omissions, if any, as this Agreement or any of the other Project Agreements permits to be taken by that party in exercising any or all of its rights or duties under this Agreement or any of the other Project Agreements); (xiii) the short or late delivery to a party of services or materials required for the party's performance, where it is determined that the party's contracting for such items was expeditious and prudent, that the party has exercised due diligence in the performance of any acts required of the party with respect to such items, that the party has exercised due diligence in monitoring the acts and circumstances of the vendors of such items and that the party has exercised due diligence in expediting deliveries under the party's purchase contract or procuring equivalent substitute performance with respect to such items; (xiv) default in performance owed to a party under a subcontract where it is determined that the party's choice of the subcontractor was reasonable and prudent, that the party has exercised due diligence in the performance of any acts required of the party with respect to such subcontract, that the party has exercised due diligence in monitoring the acts and circumstances of such subcontractor, and that the party has exercised due diligence in expediting performance, avoiding such default or procuring equivalent substitute performance; and (xv) delays and nonperformance of carriers by land, sea or air where it is determined that the party's contracting for such services was expeditious and prudent, that the party has exercised due diligence in the performance of any acts required of the party with respect to such services, that the party has exercised due diligence in monitoring the acts and circumstances of such carriers, and that the party has exercised due diligence in

procuring equivalent substitute performance; and (xvi) other causes similarly outside the reasonable control of a party.

Excluded Miscellaneous Rights - Section 7.2(b)(iv).

Final Project Decision - the CEC's final decision with respect to the Project AFC.

Financial Closing - shall be deemed to have occurred when (i) PEF has entered into a contract for construction of the Project, and (ii) the first draw has occurred under any Outside Financing Agreement. The Financial Closing Date is the date on which these two conditions first are satisfied.

Follow On Payment - Section 7.3.

FWS - the U.S. Fish & Wildlife Service.

GAAP - generally accepted accounting principles applied on a consistent basis, as set forth in authoritative pronouncements which are applicable to the circumstances as of the date in question. The requirement that such principles be applied on a "consistent basis" means that accounting principles observed in the period in question are comparable in all material respects to those applied in the preceding periods, except as change is permitted or required under or pursuant to such accounting principles.

General Partner - any Person who is a general partner of another Person.

Lease - Recital C.

Lease Term - the initial term and any extended term of the Lease.

Leased Premises - the real property which is subject to the Lease or any of the Easement Agreements.

NOI Exemption - Recital B.

Option - Section 1.3 of the Option Agreement.

Option Agreement - that certain Option Agreement, dated as of the date of this Agreement, between Ranchcorp and PEF, as originally executed and as amended from time to time thereafter in accordance with its terms.

Option Period - the Option Period as defined in Section 3 of the Option Agreement.

Option Rights - Section 7.2(b)(ii).

Option Termination Date - Section 7.1(a).

Outside Financing Agreements - agreements by one or more Persons who are not Affiliates of ECT to provide debt or equity financing for at least one third of the funds PEF estimates will be required to finance the engineering and construction of the Project and associated procurement and payment of PEF's expenses prior to the Commercial Operation Date.

PEF - introductory paragraphs.

PEF Project Assets - Section 7.2(a).

Person - an individual, or a corporation, partnership, limited liability company, trust, association or other entity of any nature, or a governmental agency.

PPP LLC - introductory paragraphs.

Project - Recital A.

Project Activities - Section 5.2.

Project AFC - Recital B.

Project Agreement Rights - Section 11.5.

Project Agreements - Recital D.

Project Asset Transfer Date - Section 7.2(c).

Project Development Period - Section 3.

Project Financing - Section 11.5.

Project Financing Agreements - Section 11.5.

Project Financing Entity - Section 11.5.

Project Period - Section 1.

Project Site - Recital A.

PUC - the California Public Utilities Commission.

Qualified - Section 11.3(c).

Qualified Developer - Section 11.5.

Qualified Owner - Section 11.5.

RanchCo - introductory paragraphs.

Ranchcorp - introductory paragraphs.

Recognized Cost - Section 7.2(d).

Tejon Interests - introductory paragraphs.

Tejon Project Assets - Section 6.1.

Tejon Ranch - the approximately 270,000 acres of real property in Kern and Los Angeles counties currently owned by Ranchcorp and known as The Tejon Ranch.

Transaction Agreement Modifications - Section 3.4.

WRM - Section 3.3.

IN WITNESS WHEREOF, the parties have executed this Agreement.

ECT: ENRON CAPITAL & TRADE RESOURCES CORP.

By: _____
David Parquet
Vice President

PEF: PASTORIA ENERGY FACILITY LLC,
a Delaware limited liability company

By: Enron Capital & Trade Resources Corp.,
its sole member

By: _____
David Parquet
Vice President

PPP LLC: PASTORIA POWER PROJECT, LLC

By: TEJON RANHCORP,
its manager and member

By: _____
Dennis Mullins
Vice President

RANHCORP: TEJON RANHCORP,
a California corporation

By: _____
Dennis Mullins
Vice President

RANHCO: TEJON RANCH CO.

By: _____
Dennis Mullins
Vice President

Schedule 2.1

AFC Schedule/Budget

Schedule 4.4(i)

Form of Tejon Legal Opinion

Schedule 4.4(ii)

Form of ECT Legal Opinion

Schedule 6.1(ii)

Items Which Are Not Tejon Project Assets

Schedule 7.2(b)(iv)

Items Which Are Not PEF Project Assets

1. Any matter protected by the attorney-client privilege or the attorney work product doctrine.
2. Any material to, from or providing information about the activities (actual or proposed) of ECT or any of its Affiliates other than the Project or arrangements (actual or proposed) between ECT and any of its Affiliates in connection with the Project.
3. Rights pertaining to proprietary models of ECT or any of its Affiliates pertaining to energy project evaluation, energy or natural gas price curves or projections and other economic predictive models.

Schedule 9

Amended and Restated Confidentiality Agreement

[to come]

Schedule 11.4

Collateral Assignments by Developer Interests
And Rights of their Lenders

Schedule 14.1
Brokers, Finders, Etc.

The Developer Interests have engaged Joe Path and Allan Thompson.

Schedule 14.14
Guarantor Waivers, Etc.

[to come]

OPTION AGREEMENT

TEJON RANCHCORP

AND

PASTORIA ENERGY FACILITY, LLC

APRIL 30, 1999

This Option Agreement is made and entered into in Los Angeles, California as of April 30, 1999 between Tejon Ranchcorp, a California corporation ("Ranchcorp"), and Pastoria Energy Facility, LLC, a Delaware limited liability company ("PEF"). Capitalized terms used in this Agreement have the meanings stated in Section 12 of this Agreement or the provisions there referred to.

RECITALS

Ranchcorp is the owner of the Tejon Ranch. PEF is a special purpose entity created for the purpose of developing a merchant power plant to be located on a portion of the Tejon Ranch. (This merchant power plant together with the associated improvements serving it as described in the Easement Agreement are collectively referred to in this Agreement as the "Project"). Ranchcorp and PEF and certain of their Affiliates have agreed to work together toward development of the Project pursuant to a Transaction Agreement of even date herewith between the Tejon Interests and the Developer Interests (the "Transaction Agreement").

IN THIS CONTEXT, the parties agree as follows:

Section 1. Grant of Option and Easements.

1.1 Project Site. Ranchcorp hereby grants to PEF an option, subject to all of the terms and conditions of this Agreement and on the terms and conditions set forth in the Lease, to lease up to 35 contiguous acres of unimproved land (the "Project Site") within the area described in Schedule 1.1 (the "Site Selection Area"). Notwithstanding the foregoing, the Project Site does not include, and Ranchcorp expressly reserves to itself, all water, water rights and water stock (other than the right to use ground water from a well drilled for the purpose of providing basic water service to the Project only for drinking, bathrooms, kitchens, landscape irrigation and other comparable uses), minerals and mineral rights belonging to the Project Site; provided that Ranchcorp shall have no surface rights related to any minerals or mineral rights, and shall not, in the exercise of any mineral rights, disturb the surface of the Project Site or drill at a depth which is less than five hundred (500) feet below the surface of the Project Site.

1.2 Easement Rights. Ranchcorp hereby grants to PEF an option to obtain from Ranchcorp certain easements (the "Easement Rights") within the areas described in Schedule 1.2 (the "Easement Selection Areas") (which include the Site Selection Area but which do not include any land owned in fee by the California Department of Water Resources), along the routes generally set forth therein, subject to all of the terms and conditions of this Agreement and on the terms and conditions set forth in the Easement Agreement. PEF shall have the right to exercise such option to obtain the easements described in the Easement Agreement within all or any portion of the Easement Selection Area, subject only to Section 3.2(d) of the Lease. The real property subject to the Easement Rights as located pursuant to Section 1.4 is referred to in this Agreement as the "Easement Parcels."

1.3 Option; Option Property. The options described in Sections 1.1 and 1.2 are collectively referred to in this Agreement as the "Option." The Project Site and the Easement Parcels are collectively referred to in this Agreement as the "Property."

1.4 Location of Project Site and Easement Rights. On or before the earlier of (i) the exercise of the Option under Section 4.1, and (ii) October 1, 2000, PEF shall fix the location of (a) the Project Site by designating no more than 35 contiguous acres in the Site Selection Area identified by legal description in a notice to Ranchcorp, and (b) the Easement Rights by providing a legal description of the easement centerlines which shall be within the Easement Selection Area and along the routes generally set forth in Schedule 1.2. Failure to locate the Project Site and Easement Rights by October 1, 2000, shall entitle Ranchcorp to fix such location by notice to PEF.

1.5 Ranchcorp's Representations and Warranties.

(a) Now and Until Selection Date. Ranchcorp represents and warrants that the following facts and circumstances are now true and correct, and will continue to be true and correct until the date (the "Selection Date") on which the locations of the Project Site and the Easement Rights have been fixed pursuant to Section 1.4:

(i) Ranchcorp is now and will on the Closing Date be the owner of fee simple title to the Site Selection Area. The Site Selection Area includes at least 35 contiguous acres (a) which are free and clear of Material Title Defects, except for those (if any) set forth in Schedule 1.5(a)(i)), and (b) which are not affected by any Material Environmental Condition.

(ii) Ranchcorp is now and will on the Closing Date be the owner of fee simple title to the Easement Selection Areas; provided Ranchcorp may sell or otherwise convey fee title to all or any portion of the Easement Selection Areas (other than the Site Selection Area) so long as prior to doing so, the Easement Agreement is duly executed and recorded as to the portion of the Easement Selection Areas sold or conveyed (after appropriate modification of the Easement Agreement and the Lease to reflect the fact that the Easement Agreement and Lease will not be executed concurrently, as is contemplated at the date of this Agreement), or other arrangements reasonably satisfactory to PEF are made which will enable Ranchcorp to grant the Easement Rights over that portion of the Easement Selection Areas on the Closing Date. The Easement Selection Areas include (along the routes generally set forth in Schedule 1.2) linear routes (a) which are free and clear of Material Title Defects except for those (if any) set forth in Schedule 1.5(a)(ii), (b) which are not affected by any Material Environmental Condition, and (c) which will provide PEF with uninterrupted linear access (except for land contiguous to the California Aqueduct owned by the California Department of Water Resources ("DWR") in fee) from the Project Site to each of the Identified Facilities. The "Identified Facilities" are (i) the Pastoria substation, (ii) the Edmonston Pumping Station, (iii) the natural gas pipeline jointly owned by Kern River Gas Transmission Company and Mojave Pipeline Company, (iv) the California Aqueduct right-of-way in the vicinity of the Project Site, (v) the water pipelines of Wheeler Ridge Maricopa Water Storage District ("WRM") in the vicinity of the Project Site, (vi) the proposed location of a water bank facility which may be constructed in the vicinity of the Project Site by WRM or a joint powers authority of which it is a member, and (vii) the wells operated by Drilling and Production Company in the vicinity of the Project Site, proposed for use as injection wells, and (viii) the Edmonston Pumping Plant Road.

A "Title Condition" is any lien, lease, encumbrance, restriction or other title matter affecting the Property. A "Material Title Defect" is any Title Condition that would materially affect the construction, operation or maintenance of the Project or enforcement of creditors' rights by any lender who provides financing for the Project. A Title Condition will not be considered a Material Title Defect if (i) it creates an obstacle to construction or requires other corrective work not materially greater than customarily found in the pipeline industry, the electricity transmission

industry or in the construction of power plants comparable to the Project, or (ii) it results in additional construction costs associated solely with the expense of crossing an existing non-exclusive easement located on the Selection Areas.

(b) Nature and Survival. Each representation and warranty contained in this Section 1.5 shall be considered material and be effective notwithstanding any investigation of the matters covered thereby by or on behalf of either of the Developer Interests or any knowledge (actual or constructive) on the part of either of the Developer Interests as to the truth or accuracy (or falseness or inaccuracy) thereof. The warranties regarding ownership of the Selection Areas set forth in the first sentences of Sections 1.5(a)(i) and 1.5(a)(ii) shall be remade as of the Closing Date and shall survive the Closing Date, but as of the Closing Date shall apply only to the Project Site and the Easement Parcels respectively. However, the other warranties set forth in this Section 1.5 shall not survive the Selection Date.

(c) Breach; Other. In the event any material breach of any of the representations and warranties of Ranchcorp set forth in Section 1.5(a) shall exist or occur prior to the Selection Date, then Ranchcorp shall, upon demand made by PEF prior to the Selection Date, refund to PEF all payments made by PEF under Section 2 prior to the date of its demand, together with interest thereon at the rate of 10 percent per annum without compounding from the date of payment thereof by PEF to the date of refund by Ranchcorp, whereupon this Agreement and the Transaction Agreement shall terminate. PEF's remedies under the preceding sentence shall be its sole and exclusive remedies against Ranchcorp on account of any breach of Ranchcorp's representations and warranties set forth in this Section 1.5, except that a breach of any of the representations and warranties set forth in the first sentences of Sections 1.5(a)(i) and 1.5(a)(ii) shall entitle PEF to the remedies set forth in Section 10 and those remedies shall survive the termination of this Agreement.

1.6 Memorandum of Option. Concurrently with the execution of this Agreement Ranchcorp shall execute and acknowledge a memorandum of option in the form attached as Schedule 1.6 (the "Option Memorandum"). In the event the Developer Interests record the Option Memorandum in the Official Records of Kern County, the Developer Interests shall be responsible for payment of all fees and taxes associated with such recording.

Section 2. Initial Obligation

2.1 Payments by PEF. In consideration of Ranchcorp entering into this Agreement and of the Tejon Interests entering into the Transaction Agreement, PEF agrees, subject to Section 2.2, to pay \$5 million to Ranchcorp (the "Initial Obligation"). The unpaid principal portion of the Initial Obligation will bear interest at 10 percent per annum without compounding from the date of this Agreement until the date (if any) of payment in full, and be payable, subject to Section 2.2, as follows:

Payment Date	Payment Amount
April 30, 1999	\$500,000
June 1, 1999 and Monthly Thereafter Until Financial Closing	\$100,000

Payment Date	Payment Amount
December 30, 1999	\$250,000
Earlier of (x) October 1, 2000, and (y) the Data/Water Adequacy Date	\$1 million
Date of Financial Closing	The unpaid balance (if any) of the Initial Obligation, together with all accrued unpaid interest

The "Data/Water Adequacy Date" is the first date on which each of the following conditions is satisfied: (i) the CEC shall have determined that the Project AFC is complete and data adequate within the meaning and for purposes of 20 CCR Section 1709 and (ii) PEF shall have entered into a contract for the supply of cooling water to the Project which is satisfactory to PEF or the Project AFC shall specify air cooling as the primary cooling solution. PEF shall notify Ranchcorp when a satisfactory water contract has been entered into, and shall update Ranchcorp periodically on the status of its efforts to enter into such a water contract.

PEF may prepay any or all of the Initial Obligation at any time and for any or no reason as PEF deems appropriate, without premium or penalty.

2.2 Termination of Initial Obligation. By notice to Ranchcorp, PEF may terminate the Initial Obligation and its obligation to make any payments under Section 2.1 after the date of the notice. Any such notice may be given at any time and for any or no reason as PEF deems appropriate. Upon any such termination, the Option Period will end. Ranchcorp will have no obligation to repay any payment made under Section 2.1 prior to the date of termination. If Ranchcorp receives neither a termination notice nor full payment on or before the date a payment is due under Section 2.1, then, on or after ten (10) days after delivery of a notice of such non-receipt to PEF and failure of PEF to deliver a termination notice or full payment within such 10-day time period, Ranchcorp may terminate the Option, the Initial Obligation and the Transaction Agreement.

The parties acknowledge that the Initial Obligation will not accelerate upon its termination pursuant to this Section 2.2. For example, if PEF were to terminate the Initial Obligation on July 15, 1999, PEF would have paid \$700,000 to Ranchcorp prior to that date (\$500,000 on April 30, 1999 and \$100,000 on each of June 1 and July 1, 1999.) Upon and following such termination, PEF would not be obligated for any payments called for by Section 2.1 due subsequent to July 15, 1999, and would not be obligated for any interest. Ranchcorp would have no obligation to refund to PEF any of the \$700,000 that PEF had previously paid to Ranchcorp under Section 2.1. Termination of the Initial Obligation will not negate PEF's obligation to make any payment due prior to termination but not paid prior to termination.

This Section 2.2 is not intended to and does not in any way limit or affect any of the rights or remedies available to PEF in the event Ranchcorp defaults in the due and timely performance of any of its obligations, or is in breach of any of its representations and warranties, under this Agreement or any other agreement.

Section 3. Option Period

PEF's right to exercise the Option shall commence on the date of this Agreement and shall continue until the earliest of (i) the date PEF exercises the Option by delivering notice to Ranchcorp of PEF's exercise of the Option pursuant to Section 4, (ii) 6 years after the date of this Agreement, and (iii) the date PEF or Ranchcorp terminates the Initial Obligation pursuant to Section 2.2 (the "Option Period").

Section 4. Exercise of Option

4.1 Exercise Notice. PEF shall exercise the Option (if at all) by delivering to Ranchcorp a written notice of exercise signed by PEF in the form attached as Schedule 4.1. Ranchcorp expressly acknowledges that PEF may decline to exercise the Option for any or no reason as PEF deems appropriate.

4.2 Closing. No later than 15 days after PEF's exercise of the Option, the parties shall meet at the office of McCutchen, Doyle, Brown & Enersen in Los Angeles, California to consummate the lease and easement transactions contemplated by this Agreement (the "Closing Date"). No later than the Closing Date, all Initial Obligation payments shall have been paid in full. At or concurrently with this meeting:

(a) Ground Lease and Deed of Easement. Ranchcorp and PEF shall execute and deliver the Lease and the Easement Agreement. The "Lease" is the ground lease set forth in Schedule 4.2(a).1, as modified (if at all) prior to the Closing pursuant to Section 3.4 of the Transaction Agreement or otherwise. The "Easement Agreement" is the Easement Deed and Agreement set forth in Schedule 4.2(a).2, as modified (if at all) prior to the Closing pursuant to Section 3.4 of the Transaction Agreement or otherwise.

(b) Memorandum of Lease. The parties shall execute, acknowledge and deliver a memorandum of the Lease in the form attached to the Lease (the "Lease Memorandum").

(c) Ranchcorp's Deliveries. Ranchcorp shall deliver to PEF: (i) a certificate of Ranchcorp remaking the representations and warranties of Ranchcorp as required under Sections 1.5(b) and 9.2, (ii) such additional documents including, but not limited to, state, county and local transfer and transaction tax forms, as applicable, as may be necessary or desirable for consummation of the transactions contemplated by this Agreement; and (iii) an opinion of Ranchcorp's counsel as provided in Section 4.4 of the Transaction Agreement.

(d) PEF's Deliveries. PEF shall deliver to Ranchcorp: (i) such additional documents including, but not limited to, state, county and local transfer and transaction tax forms, as applicable, as may be necessary or desirable for consummation of the transactions contemplated by this Agreement; and (ii) an opinion of PEF's counsel as provided in Section 4.4 of the Transaction Agreement.

(e) Security. PEF shall deliver to Ranchcorp a guarantee, surety bond or other form of security acceptable to Ranchcorp securing performance of PEF's obligations under Section 8.14 of the Lease (the "Decommissioning Security"). The Decommissioning Security will be issued by (i) Enron Capital & Trade Resources Corp., or (ii) Bank of America or another bank, insurer or other Person having at least the same financial capability of performing under the Decommissioning Security, or (iii) each owner of an equity interest in PEF (or if such owner is not financially capable of performing its obligations under the Decommissioning Security, by an

Affiliate thereof which is so financially capable), who shall be severally liable under the Decommissioning Security for that portion of any payment required to be paid under the Decommissioning Security which is equal to such owner's percentage ownership of the equity interest in PEF. The Decommissioning Security shall be in the amount of \$10 million. If the Decommissioning Security provides for a date of expiration earlier than the date on which PEF shall have performed its obligations under Section 8.13 of the Lease in full, the Decommissioning Security shall provide it can be drawn upon if not replaced with other Decommissioning Security no less than 30 days prior to the date of expiration. PEF shall ensure that Decommissioning Security is in place until the date on which PEF shall have performed its obligations under Section 8.13 of the Lease in full."

(f) Recording. PEF shall cause the Lease Memorandum and Easement Agreement to be recorded in the Official Records of Kern County, California, and shall pay all amounts required to be paid to effect such recording, including any documentary transfer tax associated with the Lease. Ranchcorp will cooperate with PEF in any efforts by PEF to obtain a Leasehold Title Policy. PEF shall pay for any title insurance and endorsements it obtains.

Section 5. Failure to Exercise the Option

If PEF fails to exercise the Option by the end of the Option Period, or if the Option is terminated as provided in Section 2.2, then (a) Ranchcorp shall have no obligation to refund to PEF any payments theretofore made on account of the Initial Obligation; (b) PEF shall deliver to Ranchcorp a fully executed and acknowledged quitclaim deed to the Site Selection Areas; (c) this Agreement shall immediately terminate; and (d) the parties shall have no further obligations to each other except as otherwise specifically provided in this Agreement and the Transaction Agreement. This Section 5 is not intended to and does not in any way limit or affect any of the rights or remedies available to PEF in the event Ranchcorp defaults in the due and timely performance of any of its obligations, or is in breach of any of its representations and warranties, under this Agreement or any other agreement.

Section 6. Condition of Title

Ranchcorp represents, warrants and covenants as follows:

6.1 Title -- Easements. On the Closing Date, the Easement Rights shall be conveyed by Ranchcorp to PEF, and Ranchcorp's title to the Easement Parcels shall be, free and clear of Material Title Defects except for those (if any) which existed of record with respect to the Easement Parcels at the Selection Date, or (ii) which otherwise have been consented to in writing by PEF since the Selection Date. If, on the Closing Date, the Easement Rights or Ranchcorp's title to the Easement Parcels is subject to any Material Title Defect not permitted by the preceding sentence, then PEF, at its election, may proceed or not with the transactions contemplated by this Agreement. In either case, PEF shall not be deemed to have waived any of its rights or remedies against Ranchcorp on account of Ranchcorp's default under this Section 6.1 (or any other provision of this Agreement), and PEF shall be free, subject only to Section 12.8 of the Transaction Agreement, to thereafter pursue all such rights and remedies.

6.2 Title -- Leasehold. On the Closing Date, the leasehold interest in the Project Site shall be conveyed by Ranchcorp to PEF, and Ranchcorp's title to the Project Site shall be, free and clear of Material Title Defects except for those (if any) (i) which existed of record with respect to the Project Site at the Selection Date, or (ii) which have been consented to in writing by PEF since the Selection Date. If, on the Closing Date, the leasehold interest in the Project

Site or Ranchcorp's title to the Project Site is subject to any Material Title Defect not permitted by the preceding sentence, then PEF, at its election, may proceed or not with the transactions contemplated by this Agreement. In either case, PEF shall not be deemed to have waived any of its rights or remedies against Ranchcorp on account of Ranchcorp's default under this Section 6.1 (or any other provision of this Agreement), and PEF shall be free, subject only to Section 12.8 of the Transaction Agreement, to thereafter pursue all such rights and remedies.

Section 7. Rights of Entry and Inspection

7.1 Environmental Studies and Feasibility Study. At any time and from time to time during the Option Period, PEF and its agents, employees, independent contractors and representatives shall have the right to enter upon all portions of the Site Selection Area and the Easement Selection Areas (collectively, the "Selection Areas") and, to the extent reasonably requested by PEF, other adjacent portions of the Tejon Ranch for purposes of inspecting the Selection Areas, conducting due diligence activities, tests and studies, preparing maps and surveys and all other purposes reasonably related to the leasing of the Property and the development of the Project (collectively, the "Feasibility Study"). Without limiting the foregoing, PEF shall have the right to perform a complete environmental audit of the Selection Areas and soils tests on any portion of any of the Selection Areas and, to the extent reasonably requested by PEF, other adjacent portions of the Tejon Ranch, and any other technical studies which may in PEF's sole discretion be helpful in deciding whether to exercise the Option (collectively, the "Environmental Studies"). Notwithstanding the foregoing, PEF shall obtain Ranchcorp's prior written consent, not to be unreasonably withheld, prior to the commencement of any surface-disturbing activities on any of the Selection Areas and further provided that PEF's contractors and consultants shall execute and deliver to Ranchcorp an agreement in the form attached as Schedule 7.1 prior to entry upon any of the Selection Areas or other portions of the Tejon Ranch.

7.2 Scope of Studies. The Environmental Studies and Feasibility Study may include environmental assessments, environmental impact reports, weather monitoring, traffic studies, noise studies, water quality and availability studies, archeological and paleontological studies, seismic and slope stability studies and other studies which may be necessary or appropriate in PEF's sole discretion for PEF to completely evaluate the condition and suitability for PEF's purposes of any part of any of the Selection Areas. All studies shall be done at PEF's sole cost and at no cost or expense to Ranchcorp. Except as set forth in Schedule 7.2, PEF shall not alter the grade of any portion of any of the Selection Areas or erect any improvements prior to execution of the Lease and Easement Agreement.

7.3 Insurance. During the Option Period, PEF shall maintain in effect in respect of its activities and operations (and furnish Ranchcorp with evidence that PEF does this) a comprehensive liability insurance policy (including owned and non-owned autos) with combined single limit coverage of \$1,000,000, naming Ranchcorp as an additional insured, issued by a responsible licensed insurer. The policy shall include an endorsement that the policy shall not be canceled or subject to reduction or other modification except after 30 days prior written notice to Ranchcorp by the insurer.

7.4 Indemnity.

Subject to Section 12.8 of the Transaction Agreement:

(a) With respect to claims by PEF or by any of PEF's Agents or by third parties (other than any of the Tejon Interests) arising or claimed to arise out of the presence or activities of PEF or any of PEF's Agents on the Tejon Ranch, and to claims by PEF or by any of PEF's Agents for work performed on the Project or for materials supplied to the Project, PEF will defend, indemnify and hold Ranchcorp harmless from all actual losses, damages, liabilities, claims, expenses, causes of action, judgments and liens filed against any of the Selection Areas or against any other land or land rights owned by Ranchcorp in Kern County, California, arising directly from the actions of PEF or any of PEF's Agents, except to the extent arising (i) from active negligence, recklessness, willful misconduct or breach of contract or law by Ranchcorp or any of Ranchcorp's Agents, (ii) as a consequence of strict liability imposed upon Ranchcorp or any of Ranchcorp's Agents as a matter of law, or (iii) from the discovery or disclosure of any Hazardous Substance or other substance in, under or about the Tejon Ranch unless the presence thereof is due to any act or omission of PEF or any of PEF's Agents.

(b) With respect to claims by Ranchcorp for physical damage to its property or for personal injury to Ranchcorp or Ranchcorp's Agents arising out of the presence of PEF or any of PEF's Agents on the Tejon Ranch, PEF will defend, indemnify and hold Ranchcorp harmless from all actual losses, damages, liens, liabilities, claims, expenses, causes of action and judgments arising directly from the actions of PEF or any of PEF's Agents, except to the extent arising (i) from negligence, recklessness, willful misconduct or breach of contract or law by Ranchcorp or any of Ranchcorp's Agents, (ii) as a consequence of strict liability imposed upon Ranchcorp or any of Ranchcorp's Agents as a matter of law, or (iii) from the discovery or disclosure of any Hazardous Substance or other substance in, under or about the Tejon Ranch unless the presence thereof is due to any act or omission of PEF or any of PEF's Agents.

Section 8. Ranchcorp's Covenants

8.1 Delivery of Documents. Prior to the execution of this Agreement, Ranchcorp has delivered to PEF, at Ranchcorp's expense, all of the documents regarding the Site Selection Area which are to Ranchcorp's Knowledge in Ranchcorp's possession or control, and which are described in the remaining subsections of this Section 8.1 and have not previously been delivered to PEF (collectively, the "Disclosure Documents"). The Disclosure Documents do not include materials regarding the Easement Selection Areas. Ranchcorp shall respond to the extent reasonably possible to inquiries made by PEF from time to time during the Option Period, and shall make its employees available to PEF to answer questions from time to time as reasonably requested by PEF, regarding all Selection Areas.

(a) Soils Reports. Any soils or boring reports.

(b) Engineer's Reports. Any hydrological, environmental, geological or other similar reports.

(c) Licenses, Etc. Copies of any licenses, permits, certificates, including, without limitation, environmental permits, licenses and approvals.

(d) Access Agreements. Copies of all license and access agreements permitting any party access to the Site Selection Area for any reason, including, without limitation, for environmental remediation or testing.

(e) Environmental Reports. Copies of all records, reports, data surveys, maps, assessments and other documentation concerning the environmental condition of, or the presence of any Hazardous Substance on or under or in the Site Selection Area or any adjacent portions of the Tejon Ranch or any Hazardous Substance in the ambient air surrounding the Site Selection Area, or any claims by any party relating thereto.

(f) Agreements. Copies of written, and written descriptions of oral agreements, easements, covenants, restrictions, agreements, contracts and other documents, whether existing or, to the Knowledge of Ranchcorp, proposed as of the date of this Agreement, which (i) will affect the Site Selection Area after the Closing Date, and (ii) are not recorded in the Official Records of Los Angeles or Kern Counties.

(g) Other Documents. All data, correspondence, documents, agreements, waivers, notices, applications and other records with respect to any of the Site Selection Area and relating to transactions with taxing authorities, governmental agencies, utilities, vendors, tenants and others with whom PEF may be dealing from and after the Closing Date.

(h) Requested Information. Such other documents and information as PEF may reasonably request.

8.2 Subdivision of Project Site. Promptly after the date the Selection Date, PEF, at its expense, may take all actions necessary to secure the legal subdivision of the Project Site from the remainder of the Tejon Ranch. Ranchcorp, at PEF's expense, agrees to provide support and assistance as reasonably requested by PEF in securing such subdivision.

8.3 Operation and Maintenance. During the Option Period, Ranchcorp shall operate and maintain the Selection Areas in substantially the manner in which they are currently operated and maintained; provided, Ranchcorp may make lawful changes in its use of the Selection Areas that will not materially affect PEF's ability to construct, operate, maintain or finance the Project. Apart from routine operation and maintenance and use, Ranchcorp shall not take any action or enter into any contract affecting any of the Selection Areas without PEF's consent, which consent PEF shall not unreasonably withhold or delay; provided, Ranchcorp may take actions or enter into contracts affecting the Selection Areas that will not materially affect PEF's ability to construct, operate, maintain or finance the Project. The foregoing notwithstanding, after the Selection Date, the obligations of Ranchcorp under this Section shall apply only to the Project Site and the Easement Parcels.

Section 9. As Is; Representations and Warranties

9.1 In General. Except as otherwise provided in Sections 1.5, 6 and 9.2, any information or documents furnished to PEF by Ranchcorp relating to any of the Selection Areas including, without limitation, maps, surveys, studies, pro formas, reports and other information shall be deemed furnished as a courtesy to PEF but without warranty from Ranchcorp, and without representation or warranty (express or implied) as to the completeness, accuracy, or reliability thereof, or of the absence of material omissions or defects therein. With the sole exception of those representations and warranties actually set forth in Sections 1.5, 6 and 9.2, PEF has not relied and will not rely upon any representations or warranties, express or implied, affirmative or negative, concerning the Property made by Ranchcorp, Ranchcorp's employees, agents, or any other person acting on behalf of Ranchcorp. WITH THE SOLE EXCEPTION OF THOSE REPRESENTATIONS AND WARRANTIES ACTUALLY SET FORTH IN SECTIONS 1.5, 6 AND 9.2, RANCHCORP MAKES NO REPRESENTATIONS OR WARRANTIES AND

EXPRESSLY DISCLAIMS ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, CONCERNING ANY OF THE SELECTION AREAS, THEIR PHYSICAL CONDITION AND THEIR SUITABILITY FOR PEF'S INTENDED USE.

9.2 Representations and Warranties of Ranchcorp. Ranchcorp makes the following representations and warranties for the benefit of PEF as of the date of this Agreement, and (subject to Section 9.3) agrees to remake the same representations and warranties as of the Closing Date, except that when so remade the representations and warranties which concern the Selection Areas shall be deemed limited to the Property:

(a) Transaction Agreement. All of the representations and warranties of Ranchcorp in the Transaction Agreement.

(b) Documents. To Ranchcorp's Knowledge, the Disclosure Documents delivered pursuant to Section 8.1, except as otherwise apparent from the face of the document or as otherwise disclosed in writing, (i) are true, correct and complete copies of what they purport to be; (ii) fairly represent the factual matters stated in the documents; (iii) in the case of Disclosure Documents creating rights in favor of, or obligations binding on, Ranchcorp or the Site Selection Area, are in full force and effect; and (iv) have not been modified. Ranchcorp has not, with Knowledge, failed to deliver to PEF any Disclosure Document required to be delivered to PEF under Section 8.1.

(c) Disclosure Schedule. To Ranchcorp's Knowledge, the narrative statements contained in Schedule 9.2(c) (the "Disclosure Schedule") fairly represent the factual matters in the statements and do not omit any material fact necessary to make the statements not misleading.

(d) Condemnation. To Ranchcorp's Knowledge, there are no presently pending or contemplated proceedings to condemn or declare a nuisance any part of any of the Selection Areas.

(e) No Options. Except as otherwise permitted under Sections 1.5 and 6, no Person holds any option or other right to lease (other than oil and gas leases which will not materially affect the construction, operation or maintenance of the Project or the enforcement of creditors' rights by any lender who provides financing for the Project) or purchase all or any part of any of the Selection Areas or any interest in any of the Selection Areas.

(f) No Knowledge. Except as disclosed in the Disclosure Schedule, to Ranchcorp's Knowledge, there is no geotechnical reason or other reason pertaining to the characteristics of any part of any of the Selection Areas why, to Ranchcorp's Knowledge, a project such as the Project cannot be built, maintained and operated on the Selection Areas.

(g) Actions and Defaults. Except as disclosed in the Disclosure Documents and the Disclosure Schedule, to Ranchcorp's Knowledge there are no existing actions, suits, proceedings, judgments, orders, decrees, arbitration awards, defaults, delinquencies or deficiencies pending, outstanding or threatened against Ranchcorp respecting any of the Selection Areas. To Ranchcorp's Knowledge, Ranchcorp has not received written notice that any part of any of the Selection Areas or its operation is not in compliance with all applicable laws, ordinances, codes, resolutions, rules, regulations, judgments, orders, covenants, conditions, restrictions, whether federal, state, local, foreign, public or private.

(h) Agreements With Governmental Authorities. To Ranchcorp's Knowledge, there are no agreements with governmental authorities, agencies, utilities or quasi-governmental entities which affect any of the Selection Areas, other than those set forth in Schedule 1.5(a)(i) and Schedule 1.5(a)(ii) and those recorded in the official records of Kern County, California. As to the Easement Selection Areas only, the foregoing representation shall be limited to material agreements, meaning those agreements that would materially affect the construction, operation or maintenance of the Project or enforcement of creditors' rights by any lender who provides financing for the Project.

(i) Hazardous Substances. Except as disclosed in the Disclosure Documents or the Disclosure Schedule, to Ranchcorp's Knowledge: (i) the Selection Areas are in compliance with all Environmental Laws, and neither Ranchcorp nor any other present or former owner, tenant, occupant or user of any part of any of the Selection Areas has received any notice of violation issued pursuant to any Environmental Law with respect to any part of any of the Selection Areas; (ii) neither Ranchcorp, nor any other present or former owner, tenant, occupant or user of any part of any of the Selection Areas has used, handled, generated, produced, manufactured, treated, stored, transported or Released any Hazardous Substance on, under or from any part of any of the Selection Areas, with the exception of agricultural chemicals used in connection with agricultural activities on the Selection Areas and the possible past presence in the Site Selection Area of an asphalt batch plant as indicated on the map attached hereto as Schedule 9.2(i), and (iii) there are no Hazardous Substances stored on any part of any of the Selection Areas, no Hazardous Substance has been Released on, beneath or from or in the surface or ground water associated with any part of any of the Selection Areas, and no Release of Hazardous Substances has occurred on, beneath or from any part of any of the Selection Areas at any time in the past, with the exception of agricultural chemicals used in connection with agricultural activities on the Selection Areas and the possible past presence in any of the Site Selection Area of an asphalt batch plant as indicated on the map attached hereto as Schedule 9.2(i).

(j) Taxes. Ranchcorp has filed all required federal, state, county and municipal tax returns and has paid all taxes owed and payable to date, to the extent that any failure to do so would or could create a lien or encumbrance on any part of any of the Selection Areas.

(k) Additional Assessments. To Ranchcorp's Knowledge, there is no basis for any additional assessment of ad valorem real or personal property taxes for time periods prior to the Closing Date with respect to any part of any of the Selection Areas, nor of any pending or proposed reassessment of any part of any of the Selection Areas.

9.3 Changed Circumstances. In the event that Ranchcorp becomes aware of facts or circumstances after the date of this Agreement that might result in any of the representations or warranties set forth in Section 9.2 not being true as of the Closing Date, Ranchcorp shall give prompt written notice to PEF of such facts or circumstances, and upon doing so the representations and warranties as remade as of the Closing Date shall be subject to such facts or circumstances. Notwithstanding the foregoing, the representations and warranties set forth in subsections (a), (e) and (j) above are not subject to changed facts or circumstances and must be remade as of the Closing Date without exception or qualification.

9.4 Survival. Each representation and warranty as remade pursuant to Sections 1.5(b) or 9.2 shall be considered material and survive the Closing Date notwithstanding any investigation of the matters covered thereby by or on behalf of either of the Developer Interests

or any knowledge (actual or constructive) on the part of either of the Developer Interests as to the truth or accuracy (or falseness or inaccuracy) thereof.

9.5 Reliance By Environmental Insurers. Any insurer insuring PEF against risks associated with preexisting or other Material Environmental Conditions affecting the Property shall be a third party beneficiary of and may rely on Ranchcorp's representations and warranties set forth in this Section 9 and in Section 6. However, no such insurer shall have any greater recourse against Ranchcorp for any breach of any such representation or warranty than would PEF.

Section 10. Default Remedies

Subject to Section 12.8 of the Transaction Agreement and Sections 1.5 and 11.3(c) of this Agreement, if Ranchcorp defaults in the performance of any of its covenants or obligations under this Agreement, or breaches any of its representations or warranties contained in, referred to or remade pursuant to this Agreement, PEF shall be entitled to specific performance and any and all other rights and remedies available to it at law or in equity; provided, in the case of any default or breach which can be cured, PEF shall not exercise any such right or remedy unless Ranchcorp has failed to cure the default or breach within 30 days after PEF has given notice to Ranchcorp demanding the cure thereof, unless the nature of the default is such that it cannot reasonably be cured within the 30-day period, in which case Ranchcorp shall not be in default if it commences the cure within 30 days and thereafter diligently prosecutes the cure to completion.

Section 11. Risk of Loss; Eminent Domain; Substitute Property

11.1 Risk of Loss. This Agreement contemplates the lease of the Project Site without consideration to any improvements currently located on the Project Site. In the event of any loss, damage, or destruction of any improvements, or taking of any of improvements by condemnation or eminent domain, the loss, damage, destruction or taking shall not in any way affect any rights or obligations of the parties.

11.2 Eminent Domain. If at any time prior to the exercise of the Option any portion of the Property is Taken, or any Taking proceedings are instituted or threatened, and PEF exercises the Option without requiring Ranchcorp to provide an alternative Project Site or alternative Easement Rights pursuant to Section 11.3, PEF shall be obligated to consummate the lease of the Property without abatement or reduction of the rent to be paid pursuant to the Lease and Ranchcorp shall as of the Closing Date assign to PEF all of Ranchcorp's right, title and interest in the condemnation award payable for the Taking of PEF's interest in that portion of the Property.

11.3 Substitute Property.

(a) Ranchcorp to Provide. In the event that prior to the Selection Date PEF discovers a Title Condition affecting any of the Property, or after the Selection Date but prior to exercise of the Option:

- (i) PEF discovers (a) an environmental condition affecting the Property which will materially affect the construction, operation or maintenance of the Project or the ability of PEF to finance the Project (a "Material Environmental Condition"), or (b)

another physical condition which will materially affect the construction, operation or maintenance of the Project or the ability of PEF to finance the Project; or

- (ii) in the event any Taking proceedings are instituted or threatened against any material part of the Property;

(any such condition or event described in the preceding clause (i) or (ii) being referred to in this Agreement as a "Material Condition"), Ranchcorp shall within 30 days after request therefor by PEF identify an alternative Project Site and/or alternative Easement Parcels which are suitable for the development of the Project, from which access to the WRM and DWR electric loads is as feasible physically and economically as the preferred site, and which are not affected by that Material Condition or any other Material Condition (the "Alternative Property"). If PEF approves the Alternative Property, this Agreement shall be amended to substitute the Alternative Property for the Property and a new Option Memorandum shall be recorded and/or the applicable Easement Agreement shall be amended and re-recorded to substitute the alternative Easement Rights.

- (b) Limitation. Notwithstanding Section 11.3(a), in the event:

- (i) a Material Environmental Condition discovered after the Selection Date shall affect the Property; and
- (ii) it is not reasonably feasible for PEF to utilize Alternative Property to avoid the Material Environmental Condition; and
- (iii) a governmental authority requires cleanup or remediation of the Material Environmental Condition;

then Ranchcorp will at its option either (A) clean up or remediate the Material Environmental Condition when and to the extent required by the governmental authority, or (B) reimburse PEF for its costs incurred in cleaning up or remediating the Material Environmental Condition when and to the extent required by the governmental authority.

(c) Limitation of Damages. In the event a Material Condition constitutes a breach of any of Ranchcorp's representations and warranties under Section 9 (which may or may not be the case), PEF shall not be entitled to damages or indemnity in respect of any loss which could be avoided by the exercise of PEF's rights under Section 11.3(a) promptly after Ranchcorp notifies PEF of the Material Environmental Condition or that Material Condition first becomes known to an officer of PEF. Ranchcorp shall not be entitled to the benefit of this Section 11.3(c) in the event it breaches any of its obligations under Section 11.3(a). Ranchcorp acknowledges that the provision of Alternative Property under Section 11.3(a) upon discovery of a Material Condition which constitutes a breach of any of Ranchcorp's representations and warranties under Section 9 may not avoid any loss suffered by PEF by reason of that Material Condition. Among other things, relocation of the Project Site or any Easement Right may require PEF to abandon substantial development work previously performed. PEF's claims in respect of any breach of any of Ranchcorp's representations and warranties under Section 9 shall be subject to Section 12.8 of the Transaction Agreement.

(d) No Impairment. PEF's rights under this Section 11.3 shall not be impaired by its failure to exercise any of its rights under Section 1.5(c).

Section 12. Glossary

Affiliate - a Person who controls, is controlled by or is under common control with another Person, or who directly or indirectly owns 25% or more of the voting power in such other Person, or of whose voting power such other Person (or a Person holding 25% or more of the voting power in such other Person) owns 25% or more. For purposes of this definition, "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

Agreement - the Option Agreement.

Alternative Property - Section 11.3(a).

CEC - the California Energy Commission.

Closing Date - Section 4.2.

Data/Water Adequacy Date - Section 2.1.

Decommissioning Security - Section 4.2(e).

Developer Interests - Enron Capital & Trade Resources Corp. and PEF.

Disclosure Documents - Section 8.1.

Disclosure Schedule - Section 9.2(d).

DWR - Section 1.5(a)(ii).

Easement Agreement - Section 4.2(a).

Easement Exceptions - Section 6.1.

Easement Parcels - Section 1.2.

Easement Rights - Section 1.2.

Easement Selection Areas - Section 1.2.

Environmental Laws - all present and future federal, state and local laws, statutes, ordinances, regulations, rules, judicial and administrative orders and decrees, permits, licenses, approvals, authorizations and similar requirements pertaining to the protection of human health and safety or the environment.

Environmental Studies - Section 7.1.

Feasibility Study - Section 7.1.

Financial Closing - Section 15 of the Transaction Agreement.

Hazardous Substance - any chemical, substance, medical or other waste, living organism or combination thereof which is or may be hazardous to the environment or human or animal health or safety due to its radioactivity, ignitability, corrosivity, reactivity, explosivity, toxicity, carcinogenicity, mutagenicity, phytotoxicity, infectiousness or other harmful or potentially harmful properties or effects. "Hazardous Substances" shall include, without limitation, petroleum hydrocarbons, including crude oil or any fraction thereof, asbestos, radon, polychlorinated biphenyls (PCBs), methane and all substances which now or in the future may be defined as "hazardous substances," "hazardous wastes," "extremely hazardous wastes," "Hazardous Substance," "toxic substances," "infectious wastes," "biohazardous wastes," "medical wastes," "radioactive wastes" or which are otherwise listed, defined or regulated in any manner pursuant to any Environmental Laws.

Identified Facilities - Section 1.5(a).

Initial Obligation - Section 2.1.

Knowledge - the knowledge, after due inquiry, of officers and employees of Ranchcorp engaged in the management and operation of any part of any of the Selection Areas, which are limited to the Senior Vice President - Livestock, Vice President - Farming, Director of Resource Management, and General Counsel; provided, however, that none of these Persons shall have any personal liability as a result of being used as the measure of Ranchcorp's knowledge in the making of Ranchcorp's representations and warranties.

Lease - Section 4.2(a).

Lease Memorandum - Section 4.2(b).

Lease Term - the initial term and any extended term of the Lease.

Material Condition - Section 11.3.

Material Environmental Condition - Section 11.3(a)(i)(a).

Material Title Defects - Section 1.5(a).

Option - Section 1.1.

Option Memorandum - Section 1.5.

Option Period - Section 3.

PEF - introductory paragraph.

PEF's Agents - any Affiliate of either of the Developer Interests and any contractor, consultant, agent, employee, invitee or other Person acting at the request and for the benefit of any of the Developer Interests or any of their Affiliates.

Persons - an individual, or a corporation, partnership, limited liability company, trust, association or other entity of any nature, or a governmental agency.

Project - introductory paragraph.

Project AFC - application for certification of the Project by the CEC.

Project Site - Section 1.1.

Project Site - Section 1.1.

Property - Section 1.3.

Ranchcorp - introductory paragraph.

Ranchcorp's Agents - any Affiliate of the any of the Tejon Interests and any contractor, consultant, agent, employee, invitee or other Person acting at the request and for the benefit of any of the Tejon Interests or any of their Affiliates.

Release - any accidental or intentional spilling, leaking, pumping, pouring, emitting, emptying, discharging, injection, escaping, leaching, migrating, dumping or disposing into the air, land, surface water, ground water or the environment.

Selection Areas - Section 7.1.

Selection Date - Section 1.5.

Site Selection Area - Section 1.1.

Taken or Taking - an acquisition and/or damaging, including severance damage, by eminent domain, or by inverse condemnation, or by deed or transfer in contemplation of a taking, or for any public or quasi-public use under any statute or law as described in Section 11.2.

Tejon Interests - Ranchcorp, Tejon Ranch Co. and Pastoria Power Project LLC.

Tejon Ranch - the approximately 270,000 acres of real property in Kern and Los Angeles counties currently owned by Ranchcorp and known as The Tejon Ranch.

Title Condition - Section 1.5(a).

Transaction Agreement - introductory paragraph

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date of this Agreement.

PASTORIA ENERGY FACILITY LLC,
a Delaware limited liability company

TEJON RANCHCORP,
a California corporation

By: Enron Capital & Trade Resources Corp.,
its sole member

By: _____
Dennis Mullins
Vice President

By: _____
David Parquet
Vice President

SCHEDULES

- 1.1 Description of Site Selection Area
- 1.2 Description of Easement Selection Areas
- 1.5(a)(i) Permitted Exceptions - Site Selection Area
- 1.5(a)(ii) Permitted Exceptions - Easement Selection Areas
- 1.6 Memorandum of Option
- 4.1 Exercise Notice
- 4.2(a).1 Ground Lease
- 4.2(a).2 Easement Agreement
- 7.1 Access Agreement
- 7.2 Exceptions Regarding Grading or Improvements
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- 9.2(i) Asphalt Plant

GROUND LEASE
TEJON RANCHCORP
AND
PASTORIA ENERGY FACILITY, LLC

This Lease is entered into in Los Angeles, California as of _____, _____ between Tejon Ranchcorp, a California corporation ("Ranchcorp"), and Pastoria Energy Facility, LLC, a Delaware limited liability company ("PEF"). Capitalized terms used in this Lease have the meanings stated in Section 23 or the provisions there referred to.

RECITALS

Ranchcorp is the owner of the Tejon Ranch. PEF is a special purpose entity created for the purpose of developing a combined-cycle, natural gas-fired combustion turbine merchant electric power plant to be located on a portion of the Tejon Ranch (the "Project"). Ranchcorp and PEF and certain of their Affiliates have agreed to work together toward development of the Project pursuant to a Transaction Agreement dated April 30, 1999, between the Tejon Interests and the Developer Interests (as originally executed and as thereafter amended (if at all) in accordance with its terms, the "Transaction Agreement"). Ranchcorp and PEF also are party to an Option Agreement dated April 30, 1999 (as originally executed and as thereafter amended (if at all) in accordance with its terms, the "Option Agreement"). This Lease is being entered into following PEF's exercise of the option contained in the Option Agreement.

IN THIS CONTEXT, the parties agree as follows:

Section 1. Premises

Ranchcorp leases to PEF, and PEF leases from Ranchcorp, that certain real property which is legally described in the attached Schedule 1 (the "Premises"). Notwithstanding the foregoing, the leasehold hereby conveyed does not include, and Ranchcorp expressly reserves to itself, all water, water rights and water stock (other than the right to use ground water from a well drilled for the purpose of providing basic water service to the Project only for drinking, bathrooms, kitchens, landscape irrigation and other comparable uses), minerals and mineral rights belonging to the Premises; provided that Ranchcorp shall have no surface rights related to any minerals or mineral rights, and shall not, in the exercise of any mineral rights, disturb the surface of the Premises, interfere with or disturb the occupancy or operations of PEF on the Premises, or drill at a depth which is less than five hundred (500) feet below the surface of the Premises.

Section 2. Term

2.1 Initial Term. The initial term of this Lease (the "Initial Term") shall commence upon the date of this Lease, and shall continue until the last day of the month containing the twenty-fifth (25th) anniversary of the Commencement Date, unless sooner terminated pursuant to the terms and conditions of this Lease. The "Commencement Date" is the earlier of (x) the Commercial Operation Date, and (y) the Nominal COD. The "Commercial Operation Date" is the date on which PEF, following completion of customary commissioning and testing of the Project, formally accepts the Project from its construction contractor as available for commercial operation for the purpose of producing electric energy and/or of providing Ancillary Services for sale to wholesale, retail or other purchasers on a continuous basis. The "Nominal COD" is the third anniversary of the date of this Lease; provided, if construction, commissioning or testing of the Project shall be delayed for any number of days by any Excepted Cause(s), the Nominal COD shall be extended by the same number of days. In that event, PEF must provide notice thereof to Ranchcorp within fifteen (15) days of the commencement of the Excepted Cause and if it fails to deliver timely notice, the date of the commencement of the Excepted Cause shall be

deemed to have occurred no earlier than fifteen (15) days prior to the date notice is delivered. PEF also shall notify Ranchcorp in writing when the Commercial Operation Date has occurred, which notice shall also identify the date of expiration of the Initial Term.

2.2 Option to Extend. Ranchcorp grants to PEF an option to extend the Initial Term for three additional five (5) year periods (each an "Extended Term"). This option to extend shall be exercised by PEF by giving Ranchcorp written notice of its intent to extend this Lease not less than twelve (12) months, nor more than twenty-four (24) months, prior to the expiration of the preceding Term. Each Extended Term shall be on the same terms, covenants and conditions as provided in this Lease. As used in this Lease, the word "Term" means the Initial Term and, after exercise of any option to extend pursuant to this Section 2.2, includes any Extended Term.

2.3 Possession. Possession of the Premises shall be delivered to PEF on the date of this Lease.

Section 3. Rent

3.1 Fixed and Variable Rent. PEF shall pay rent to Ranchcorp during the Term in a fixed component and a variable component. The fixed component, as described in Section 3.2 (the "Fixed Rent"), shall be paid monthly in advance on or before the first day of each month for which it is payable. The variable component is described in Section 3.4 (the "Variable Rent"), and shall be payable as set forth in that Section. All sums due under this Lease, whether payable to Ranchcorp or to third parties, shall be defined as "Rent" for the purposes of enforcement of this Lease.

3.2 Fixed Rent After Commercial Operation.

(a) PEF shall pay Fixed Rent in the amount of \$216,666.66 per month for the month in which the Commencement Date occurs and for each month thereafter during the Term until PEF completes decommissioning of the Project under Section 8.13, provided, however, that Fixed Rent shall be fully abated from the date on which PEF commences decommissioning the Project and for each month thereafter until the earlier of (x) completion of decommissioning or (y) twelve (12) months after PEF commences decommissioning. PEF shall be deemed to have commenced decommissioning on the day it permanently ceases operation of the Project to produce electric energy or to provide Ancillary Services. Completion of decommissioning means that all Improvements and personal property have been removed from the Premises to the extent required by Section 8.13 and the Premises have been restored to their pre-construction condition. Fixed Rent for any partial month at the beginning or end of the Term shall be prorated based on a 30-day month.

(b) The Fixed Rent shall be escalated on each anniversary of the first day of the month in which the Commencement Date occurs by an amount reflecting the annual percentage increase (if any) in the Consumer Price Index for All Urban Consumers, Los Angeles-Anaheim-Riverside Area, All Items (Base Year 1982-1984 = 100), published by the United States Department of Labor, Bureau of Labor Statistics (the "CPI"), during the twelve-month period from the date that is fifteen (15) months prior to the date of the escalation to the date that is three (3) months prior to the date of the escalation. In the event the CPI is ever discontinued, the parties shall substitute any generally recognized successor or substitute index published by a governmental agency and reflecting changes in consumer prices in the greater Los Angeles area.

(c) Notwithstanding the foregoing, in the event "C" (as defined in Section 3.4(c)) is less or more than 750 megawatts ("MW"), the monthly Fixed Rent payable under Section 3.2(a) will be adjusted as follows:

(i) In the event C exceeds 750 MW, the monthly Fixed Rent payable under Section 3.2(a) (as adjusted if at all under Section 3.2(b)) shall be increased by that percentage which is equal to:

$$(x - 750)/750$$

where "x" is equal to the lesser of C and 1000 MW.

(ii) In the event C is less than 750 MW, the monthly Fixed Rent payable under Section 3.2(a) (as adjusted if at all under Section 3.2(b)) shall be decreased by that percentage which is equal to:

$$(750 - y)/750$$

where "y" is equal to the greater of C and 600 MW.

(d) The monthly Fixed Rent payable under Section 3.2(a) shall be increased by \$0.1667 per foot for every linear foot of easements which PEF obtains pursuant to the Option Agreement in the "Sebastian Road Area" marked on Schedule 1.2 to the Option Agreement.

(e) In the event the Project does not utilize air cooled condensers as either its primary or backup cooling source, the monthly Fixed Rent payable under Section 3.2(a) shall be increased by \$1,666.67 per acre for every acre by which the Project Site exceeds 30 acres.

3.3 Advances Against Fixed Rent. Commencing on the first day of the month next succeeding the month in which this Lease is executed and continuing on the first day of each month thereafter until the earlier of the Commercial Operation Date and the date on which \$2.4 million has been advanced by PEF under this Section 3.3, PEF will advance the sum of \$100,000 per month to Ranchcorp. All portions of such advances that Ranchcorp has not previously repaid, plus interest thereon at the rate of 10 percent per annum without compounding from the date of advance until the date of repayment, shall be credited against the Fixed Rent payments (if any) required from PEF under Section 3.2, in equal monthly amounts calculated to repay all such advances, plus the prescribed interest, to PEF over the first four years after PEF begins paying Fixed Rent under Section 3.2. In the event that this Lease is terminated before all advances have been repaid, Ranchcorp shall be entitled to retain, and shall have no obligation to repay any portion of, any advances it received from PEF pursuant to this Section prior to termination of this Lease.

3.4 Variable Rent.

(a) Payable After Commercial Operation. The Variable Rent payable under this Section 3.4 is payable for the calendar month in which the Commercial Operation Date occurs and for each calendar month thereafter through and including the calendar month in which this Lease terminates. The Variable Rent payable under this Section 3.4 for any calendar month shall be due and payable within 20 days after the end of that calendar month. Each payment of Variable Rent under this Section 3.4 shall be accompanied by PEF's detailed calculation of the amount due and shall include the statement required from PEF under Section 3.4(e).

(b) Basic Calculation. The Variable Rent payable for a calendar month under this Section 3.4 will be an amount equal to 1 percent (1%) of the Spark Spread for that calendar month.

(c) Spark Spread. The "Spark Spread" for any calendar month is an amount equal to:

$$H \times [(C \times PX) - (HR \times C \times GP)]$$

where:

"H" is equal to the aggregate number of Revenue Hours occurring during the calendar month; and

"C" is equal to the maximum electrical output of the Project (expressed in MW) which is guaranteed to PEF by its contractor for construction of the Project.

"PX" is equal to the quotient of (x) the sum of the PX Prices for each Revenue Hour occurring during the calendar month, divided by (y) the aggregate number of Revenue Hours occurring during the calendar month; and

"HR" is equal to 7.250; and

"GP" is equal to the quotient of (x) the sum of the Daily Gas Prices for each Revenue Day during the calendar month, divided by (y) the aggregate number of Revenue Days occurring during the calendar month.

(d) Other Defined Terms.

Ancillary Services -- has the meaning specified in the ISO Tariff.

Daily Gas Price - for any Revenue Day is the daily price (expressed in \$/MMBTU) of natural gas at the California-Arizona border, as published by Gas Daily for the Revenue Day under the "Others" table, under the heading titled "SoCal gas, large packages (deliveries at Topock, Daggett, Blythe, Needles, Ehrenberg)."

Gas Daily - Pasha Publications' Gas Daily, and any successor thereto.

ISO -- the California Independent System Operator Corporation, a California non-profit corporation, and any successor thereto

ISO Controlled Grid - the transmission lines and associated facilities controlled by the ISO.

ISO Tariff -- the California Independent System Operator Agreement and Tariff dated March 31, 1997, as modified through the date of this Agreement.

ISO Zone - the ISO zone in which the Pastoria substation may from time to time be located. The Pastoria Substation currently is located in (and the ISO Zone therefore currently is at the date of the Transaction Agreement) the ISO zone known as SP 15.

Pastoria Substation - the electrical substation through which the Project delivers electrical energy to the ISO Controlled Grid, planned at the date of the Option Agreement to be

the substation located in the vicinity of hypothetical Section 19, Township 10 North, Range 18 West, SBBM, in Rancho El Tejon, Kern County, California.

PX - the California Power Exchange Corporation, a California non-profit corporation, and any successor thereto.

PX Price -- for any Revenue Hour is the Day Ahead Zonal Price (Constrained) for that Revenue Hour for the ISO Zone as published by the PX.

Revenue Day -- any calendar day during which a Revenue Hour occurs.

Revenue Hour -- any hour for which the Project is paid to produce electric energy or to provide Ancillary Services.

(e) Audit Rights. PEF shall provide to Ranchcorp monthly with PEF's payment of the Variable Rent provided for in this Section 3.4 a statement of the total Revenue Hours which occurred during the month for which the Variable Rent is payable. No more frequently than once each year, PEF shall, upon Ranchcorp's request, afford Tejon access to PEF's books and records during normal business hours for the purpose of verifying (and to the extent necessary to verify) the accuracy of PEF's statements as to the Revenue Hours occurring during any period not previously audited by Ranchcorp or previously reported on by a Big 6 Firm pursuant to this Section 3.4(e). In lieu of such access, PEF may instead elect to provide such access to a Big 6 Firm which Ranchcorp selects and to cause such firm to report, based on its examination of PEF's books and records, as to the number of Revenue Hours which occurred during such period. Any such report shall be conclusive as the subject thereof. All information to which Tejon or a Big 6 Firm is afforded access or which Tejon otherwise learns pursuant to this Section 3.4(e) shall be deemed "Confidential Information" for purposes of the Confidentiality Agreement referred to in Section 9 of the Transaction Agreement. "Big 6 Firm" means as of any given date of determination any of the six largest national accounting firms as of the determination date.

(f) Changes. In the event of any change in the tariffs, practices or operations of the PX, the ISO or Gas Daily subsequent to the date of the Transaction Agreement which results in any of the following:

- (i) The PX Price not being published by the PX as necessary to permit the calculation of Variable Rent payable under this Section 3.4;
- (ii) The PX Price being materially less representative than on the date of the Transaction Agreement of the day ahead wholesale market price of electric energy delivered to the ISO Zone; or
- (iii) GP not being published by Gas Daily as necessary to permit the calculation of Variable Rent payable under this Section 3.4; or
- (iv) GP being materially less representative than on the date of the Transaction Agreement of the wholesale price of natural gas delivered at the Arizona/California Border (Topock, Daggett, Blythe, Needles, Ehrenberg) in volumes of 5,000 MMBTU or more per day;

then, promptly upon request by either Ranchcorp or PEF, the parties will meet and attempt to agree on one or more amendments to this Lease which will permit the Spark Spread to be calculated, as near as practicable, on the same basis and with the same results as it was calculated prior to the change. In the event the parties are unable to agree on any such amendment thought by either party to be necessary, the matter shall be settled by binding arbitration under Section 12 of the Transaction Agreement.

3.5 Late Charge. For any payment of Fixed Rent or Variable Rent not paid within ten (10) days after the date it is due, PEF shall pay Ranchcorp, as additional Rent, a late charge equal to one percent (1%) of the amount past due as compensation to Ranchcorp for the extra costs incurred as a result of the late payment. With any Fixed Rent or Variable Rent Payment that PEF makes more than 30 days after it was due, PEF shall also pay interest on the overdue amount calculated at the lesser of 18 percent per annum or the maximum rate allowed by law, without compounding, from the day after the payment was due until the date such Rent is paid in full. For any other Rent payment not paid within ten (10) days after the date it is due, PEF shall pay Ranchcorp, as additional Rent, a late charge equal to three percent (3%) of the amount past due as compensation to Ranchcorp for the extra costs incurred as a result of the late payment. With any other Rent payment that PEF makes more than 30 days after it was due, PEF also shall pay interest on the overdue amount calculated at the lesser of 10% per annum or the maximum rate allowed by law, without compounding, from the day after the payment was due until the date such Rent is paid in full. The parties agree that the late charge and the interest prescribed by this section represent fair and reasonable estimates of the detriment that Ranchcorp will suffer by reason of late payment of Rent by PEF.

3.6 Real Estate Taxes and Assessments. As additional rent ("Additional Rent") payable under this Lease, PEF shall pay before delinquency all real and personal property taxes, general and special assessments, levies and other governmental charges of every description (the "Property Taxes") which are levied, assessed, charged or imposed upon or against the Premises or the Project (the Project and all other improvements to the Premises and all alterations, additions or improvements to any thereof are referred to in this Lease as the "Improvements"), or against any legal or equitable interest of Ranchcorp in the Premises, or against any of PEF's personal property now or hereafter located on the Premises, for or attributable to any portion of the Term. Ranchcorp shall cause the Premises to be separately assessed from any other real property owned by Ranchcorp. All Property Taxes required to be paid by PEF shall be prorated for the first year of the Term and for the year in which the Lease expires or terminates. If the law permits the payment of the Property Tax in installments (whether or not interest accrues on the unpaid balance) PEF may elect to pay the tax before delinquency in installments.

Ranchcorp will promptly notify PEF of all notices, levies and assessments of Property Taxes received in connection with the Premises, and PEF shall pay them prior to delinquency, provided, however, PEF may, at its expense, contest in all desirable proceedings the validity of, amount of, or assessment of any Property Tax agreed to be paid by PEF, provided, however, that PEF at all times shall keep the Premises free from any delinquent tax lien. Any penalty, interest or delinquency charge that may result from the contest shall be the obligation of PEF. Ranchcorp shall not be required to join in any proceeding or contest brought by PEF unless the provisions of any law require that the proceeding or contest be brought by or in the name of the fee owner of the Premises. In that case, Ranchcorp shall join in the proceeding or contest or permit it to be brought in Ranchcorp's name and all costs, including Ranchcorp's attorneys' fees, shall be borne by PEF. Ranchcorp agrees to execute any documents necessary to perfect PEF's right of contest as provided for in this Section.

3.7 Apportionment of Property Taxes. In the event that the Premises are included in the same tax parcel as other real or personal property owned by Ranchcorp, Ranchcorp and PEF agree to cooperate in requesting that the Premises be separately assessed from other property owned by Ranchcorp. In the event that the Premises are included in a tax bill with other property owned by Ranchcorp, Ranchcorp shall pay the property tax bill before delinquency and PEF shall reimburse Ranchcorp for the portion of the tax bill attributable to the land and Improvements comprising the Premises, based on the actual assessed value of the land and Improvements comprising the Project. Any dispute between the parties regarding the amount of PEF's property tax obligation under this section shall be resolved by arbitration as provided by Section 12 of the Transaction Agreement.

3.8 Other Taxes. Property Taxes shall not include and PEF shall not be required to pay the following: water district assessments and liens, business, income or profit taxes levied or assessed against Ranchcorp by federal, state, county, municipal or other governmental agencies, estate, succession, or inheritance tax, or capital levy of Ranchcorp; or corporation, franchise or other profit taxes imposed on Ranchcorp; any net income, profits or excess profits taxes, or any tax which may, at any time during the Term, be required to be paid on any gift or demise, deed, mortgage, descent or other alienation of any part or all of the estate of Ranchcorp in and to the Premises or the Improvements, provided, however, that PEF shall pay any recording costs or documentary transfer taxes or fees arising from execution of this Lease or from recording a memorandum of this Lease.

3.9 Deferral. PEF shall have the right to allow any assessment or any other charge PEF is required to pay as Additional Rent to go to bond or otherwise defer payment thereon, other than through voluntary delinquency, for the maximum lawful period, provided that PEF shall not permit any liens for delinquent taxes or other assessments to be placed on the Premises. Regardless of whether any such obligation is so deferred, PEF shall be liable for any portion of the obligation, plus any applicable interest, which applies or is attributable to any portion of the Term.

3.10 No Abatement. Except as otherwise expressly provided in this Lease, this Lease shall continue in full force and effect, and the obligations of PEF hereunder shall not be released, discharged or otherwise affected, by reason, of: (a) any damage to or destruction of the Premises or any portion thereof or any Improvements thereon, or any Taking thereof in eminent domain; (b) any restriction or prevention of or interference with any use of the Premises or the Improvements or any part thereof; (c) any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation or other proceeding relating to Ranchcorp, PEF, or any subtenant, licensee or concessionaire or any action taken with respect to this Lease by a trustee or receiver, or by any court, in any proceeding; (d) any claim that PEF or any other person has or might have against Ranchcorp; (e) any failure on the part of Ranchcorp to perform or comply with any of the terms of this Lease or of any other agreement with Ranchcorp; (f) any failure on the part of any sublessee, licensee, concessionaire, or other person to perform or comply with any of the terms of any sublease or other agreement between Ranchcorp and any such person; (g) any termination of any sublease, license or concession, whether voluntary or by operation of law; or (h) any other occurrence whatsoever, whether similar or dissimilar to the foregoing. The obligations of PEF under this Lease shall be separate and independent covenants and agreements. PEF hereby waives, to the full extent permitted by applicable law, all rights now or hereafter conferred by statute, including without limitation the provisions of California Civil Code Sections 1932, 1933, 1941 or 1942 or any similar law, to quit, terminate or surrender this Lease or the Premises or any part thereof, or to any abatement,

suspension, deferment, diminution or reduction of any Rent, unless otherwise expressly provided in this Lease.

3.11 Effect on Ranchcorp's Rights. Ranchcorp's rights pursuant to this Section 3, including without limitation, Ranchcorp's rights to collect Rent, Additional Rent and other charges due under this Lease for any period during which this Lease is in effect, shall survive any termination of the Lease, regardless of the provision under which termination is effected. Notwithstanding anything to the contrary contained herein, Ranchcorp shall have no obligation or duty to mitigate or attempt to offset any damages which are or may be suffered by Ranchcorp as a result of any default of PEF under this Lease; provided that PEF shall retain its rights under Sections 18.1 (b) and (c) to submit proof as to the rental loss that Ranchcorp could avoid by such mitigation. Any payment by PEF of a sum of money less than the entire amount due Ranchcorp at the time of such payment shall be applied to the obligations of PEF then furthest in arrears. No endorsement or statement on any check or accompanying any payment shall be deemed an accord and satisfaction and any payment accepted by Ranchcorp shall be without prejudice to Ranchcorp's right to obtain the balance due or to pursue any other remedy available to Ranchcorp under this Lease or in law or equity for any default still outstanding.

Section 4. Priority

PEF shall not be required to subordinate the leasehold estate created by this Lease to any lien or encumbrance whatsoever. Except to the extent provided in Section 11.4 or Schedule 11.4 of the Transaction Agreement (as the same may be modified, if at all, pursuant to Section 3.4 of the Transaction Agreement), Ranchcorp shall have no obligation to subordinate its interest in this Lease, or in the rents deriving from it, or its fee interest in the Premises to any liens or encumbrances related to any leasehold or project financing arranged by or on behalf of PEF.

Section 5. Quiet Enjoyment.

Upon the payment by PEF of Rent and upon the performance of all covenants, terms and conditions on PEF's part required to be observed and performed, PEF shall peaceably and quietly hold and enjoy the Premises without hindrance or interruption by Ranchcorp or any other Person lawfully or equitably claiming by, through, or under Ranchcorp.

Ranchcorp agrees that during the Term:

- (i) Neither Ranchcorp nor any of Ranchcorp's Agents will commit or permit waste or create a nuisance that affects the Premises.
- (ii) Neither Ranchcorp nor any of Ranchcorp's Agents will unlawfully Release a Hazardous Substance on, about or beneath any portion of the Tejon Ranch which affects surface water or groundwater, or the surface or subsurface environment, of the Premises. In the event any unlawful Release of a Hazardous Substance to the environment occurs on or about or beneath any portion of the Tejon Ranch which affects the Premises as a result of any act or omission of Ranchcorp or Ranchcorp's Agents, Ranchcorp shall promptly undertake reasonable measures to abate the unlawful Release at Ranchcorp's sole cost, and to remediate to the extent required by and in accordance with applicable Environmental Laws and at Ranchcorp's sole cost any portion of such Release that affects the Premises. Ranchcorp shall indemnify, defend, protect and hold PEF harmless from and against any and all claims, losses, damages, liabilities

and costs, including without limitation reasonable consultants' and attorneys' fees and costs, arising out of or relating to the presence of Hazardous Substances on or about the Premises as a result of any act or omission of Ranchcorp or Ranchcorp's Agents.

- (iii) Neither Ranchcorp nor any of Ranchcorp's Agents will use any portion of the Tejon Ranch within one mile of the Premises for a purpose which could be reasonably anticipated to interfere materially with, or to be incompatible with, PEF's permitted use of the Premises, provided that PEF acknowledges that the gravel quarry and permanent crops, and operations related to those uses, as conducted at the date of the Option Agreement in such portions of the Tejon Ranch are compatible with PEF's use of the Premises and do not contravene this Section 5.

Except as otherwise expressly provided in this Section 5, nothing in this Lease shall limit or restrict in any way Ranchcorp's rights to develop or use any portion of the Tejon Ranch as it deems appropriate in its sole and absolute discretion.

Section 6. Use; Operation of the Project.

6.1 Use.

(a) PEF shall have the right to use the Premises for the purposes of (i) constructing, maintaining and decommissioning the Project, (ii) operating the Project for the purpose of producing and selling electric energy and providing Ancillary Services, and (iii) undertaking other lawful uses incidental to the production of electricity and the provision of the Ancillary Services, all such purposes to be in accordance with all present and future zoning laws, rules and regulations of governmental authorities having jurisdiction over the Premises.

(b) PEF (i) shall not undertake or permit any subsurface drilling on the Premises other than that required for constructing and maintaining foundations for structures, for installing well(s) for the production of basic water service to the Project only for drinking, bathrooms, kitchens, landscape irrigation and other comparable uses and for installing pipelines and other underground facilities that are integral parts of the Project; and (ii) shall refrain from entering into any transactions or agreements, and from providing any services in a manner, that would cause PEF or the Project to become a public utility subject to the regulatory jurisdiction of the Public Utilities Commission of the State of California.

(c) All uses of the Premises other than the permitted uses described in this Section 6 are prohibited.

6.2 Operation of the Project. At all times after the Commercial Operation Date, the Project shall be operated, maintained and managed (either directly by PEF or its permitted successors and assigns through its or their own employees or those of its or their Affiliates or indirectly through independent contractors employed by it or them) by persons experienced in operating gas-fired electric power generation facilities of at least 300 MW in the aggregate, including at least one gas-fired facility of at least 110 MW.

6.3 Compliance With Law. PEF, at PEF's cost and expense, shall comply with all Applicable Laws. Any work or installations made or performed by or on behalf of PEF or any person or entity claiming through or under PEF in order to conform the Premises to Applicable

Laws shall be subject to and performed in compliance with the provisions of Section 9. PEF shall promptly notify Ranchcorp of, and shall promptly rectify, any violation of Applicable Laws.

6.4 No Waste or Nuisance. PEF shall not commit or permit waste or create or permit a nuisance upon the Premises or create same upon any other land or waters owned by Ranchcorp.

Section 7. Utilities

PEF shall pay for all water, sewer, gas, heat, light, power, steam, communications, waste removal and other utilities and services supplied to the Premises and the Improvements.

Section 8. Improvements, Alterations and Personal Property.

8.1 Construction of the Project. PEF hereby is granted permission, at PEF's sole cost and expense and if PEF elects, to design, develop, construct operate and maintain the Project in such manner as PEF deems appropriate, subject always however to the requirements of this Lease, and the Final Project Decision. PEF is under no obligation to develop, construct, operate or maintain the Project, and may decline to do so for any or no reason PEF deems appropriate.

8.2 Additional Improvements; Alterations. PEF shall have the right to construct additional improvements and alterations to the Project on the Premises ("Alterations") without the consent of Ranchcorp provided all such Alterations are permitted uses under Section 6.1. Any Alterations shall be at PEF's sole cost and expense, and shall be subject to the terms of this Section 8.

8.3 Permits and Approvals. PEF shall be solely responsible for obtaining, at its sole cost and expense, any approval or other governmental action necessary to permit the development, construction, operation and decommissioning of the Project and any Alterations in accordance with this Lease; provided Ranchcorp shall support PEF's activities as provided in the Transaction Agreement.

8.4 Prerequisites to Commencement of Construction.

- (a) In addition to all other requirements set forth in this Section 8, before commencing the construction of the Project or any Alterations and before any building materials have been delivered to the Premises by PEF or under PEF's authority, PEF shall obtain and maintain, or cause to be obtained and maintained, at its own expense, the following insurance coverage in full force and effect to cover all activities contemplated herein throughout the term of this Lease, unless otherwise specified:
- (i) Broad form comprehensive or commercial general liability insurance, including products, completed operations, and contractual liability coverage in limits of not less than \$25 million per occurrence combined single limit for bodily injury and property damage.
 - (ii) Statutory workers' compensation insurance and employers' liability insurance in legally required limits.

- (iii) Pollution liability insurance, including liability and site remediation coverage for both sudden and accidental and non-sudden occurrences with limits of the greater of \$5 million per occurrence combined single limit for bodily injury and property damage with \$5 million annual aggregate, or such limits as may be required according to applicable CFR Codes or the State of California.
 - (iv) Comprehensive automobile liability insurance covering all owned and non-owned and hired vehicles in limits of not less than \$1 million per occurrence combined single limit for bodily injury and property damage, including all statutory coverage for all states of operation.
 - (v) "All-risk" property insurance insuring all real and personal property at full replacement cost value, together with rent coverage/business interruption insurance in an amount necessary to satisfy PEF's rent obligations under this Lease.
 - (vi) "Builders' risk" coverage in limits of not less than \$25 million per occurrence for bodily injury and property damage resulting from PEF's design and construction of the Project.
- (b) The coverages obtained by PEF pursuant to this Section shall be with insurance companies authorized to do business in the State of California and subject to the review and approval of Ranchcorp. Subsequent coverages shall be substantially in accord with initial coverages but do not require prior review and approval by Ranchcorp.
- (c) PEF shall ensure that each subcontractor shall procure and maintain at all times during the period of its performance of work with respect to the Project such insurance as shall be reasonable and in accordance with industry practices in relation to the work being performed or services provided and as is customary for companies of similar size engaged in similar businesses. Despite any conflicting provision in PEF's or any subcontractor's insurance policies to the contrary, any comparable insurance carried by Ranchcorp which may be applicable shall be deemed to be excess insurance. All insurance required pursuant to this Section shall be primary for all purposes under this Agreement and all of the insurance to be carried by PEF or any subcontractor pursuant to this Section shall so provide.
- (d) All liability insurance coverage required under this Lease (except for professional, workers' compensation and employer's liability coverages) shall, to the extent available and on reasonable commercial terms, include Ranchcorp and its directors, officers, agents and employees as additional insureds and provide coverage on an occurrence basis or another basis substantially equivalent to that. All such policies shall contain "cross-liability" or "severability of interest" clauses or endorsements. Notwithstanding any other provision of such policies, the insurance afforded shall apply separately to each insured, named insured, or additional insured with respect to any claim, suit, or judgment made or brought by or for any other insured, named insured, or additional insured as though a separate policy had been issued to each, except the insurer's liability shall not be increased beyond the amount or amounts for which the insurer would have been liable had only one insured been named. Ranchcorp shall not, by reason of its inclusion under any of these policies, incur liability to the insurance carrier for the payment of any premium.

- (e) PEF and Ranchcorp shall require their insurance carriers, with respect to all insurance policies to be carried with respect to the Project, to waive all rights of subrogation against each other and, in the case of PEF, such waivers shall include Ranchcorp and Ranchcorp's directors, officers, agents and employees. PEF agrees to exercise its reasonable efforts to obtain from any subcontractor waivers of subrogation against Ranchcorp and Ranchcorp's directors, officers, agents and employees.
- (f) Any insurance required to be obtained and maintained by PEF shall be subject to a deductible no more than \$100,000 per policy period.
- (g) In the event any insurance hereby required to be maintained by PEF, other than insurance required by law to be maintained, shall not be available and commercially feasible in the commercial insurance market, Ranchcorp shall not unreasonably withhold its agreement to waive such requirement to the extent maintenance thereof is not so available; provided, however, that (i) PEF shall first request any such waiver in writing, which request shall be accompanied by a written report prepared by an independent insurance advisor of recognized national standing certifying that such insurance is not reasonably available and commercially feasible in the commercial insurance market for electric generating plants of similar type and capacity as the Project and explaining in detail the basis for such conclusions, such insurance advisor and the form and substance of such reports to be reasonably acceptable to Ranchcorp; (ii) at any time after the granting of any such waiver, Ranchcorp may request, and PEF shall furnish to Ranchcorp within thirty (30) days after such request, supplemental reports reasonably acceptable to Ranchcorp from such insurance advisor updating its prior report and reaffirming such conclusion; and (iii) any such waiver shall be effective only so long as such insurance shall not be available and commercially feasible in the commercial insurance market, it being understood that failure of PEF to timely furnish any requested supplemental report shall be conclusive evidence that such waiver is no longer effective because such condition no longer exists, but that such failure is not the only way to establish such nonexistence. Failure at any time to satisfy the conditions to any waiver of an insurance requirement set forth in the proviso to the preceding sentence shall not impair or be construed as a relinquishment of PEF's ability to obtain a waiver of an insurance requirement pursuant to the preceding sentence at any other time upon satisfaction of such conditions.
- (h) PEF shall furnish Ranchcorp with certificates of insurance on forms acceptable to Ranchcorp to evidence that policies providing the required coverage and limits of insurance for PEF are in full force and effect. The certificates shall provide that any company issuing an insurance policy under this Agreement shall provide not less than thirty (30) days' advance notice in writing to Ranchcorp prior to cancellation, termination, or material change of any policy of insurance. In addition, PEF shall immediately provide written notice to Ranchcorp upon receipt of notice of cancellation of an insurance policy or decision to terminate or alter an insurance policy. All certificates of insurance shall clearly state that all applicable requirements of this Section have been satisfied. Certificates of insurance for insurance to be furnished by PEF pursuant to this Section and notices of any cancellations, terminations, or alterations of such policies shall be mailed to Ranchcorp at the address set forth for notices to Ranchcorp in this Lease.
- (i) The coverage requirements set forth in this Section shall be adjusted annually by an amount reflecting the annual percentage increase (if any) in the CPI, during the twelve-

month period from the date that is fifteen (15) months prior to the date of the escalation to the date that is three (3) months prior to the date of the escalation. In the event the CPI is ever discontinued, the parties shall substitute any generally recognized successor or substitute index published by a governmental agency and reflecting changes in consumer prices in the greater Los Angeles area.

8.5 General Construction Requirements.

(a) PEF shall construct the Project and any Alterations in strict accordance with all Applicable Laws, and with all other provisions of this Lease.

(b) Prior to the commencement of construction, Ranchcorp shall have the right to post in a conspicuous location on the Premises as well as to record in the Official Records of Kern and Los Angeles Counties, a Notice of Ranchcorp's Nonresponsibility. PEF covenants and agrees to give Ranchcorp at least ten (20) days prior written notice of the commencement of any construction.

(c) PEF shall take all necessary safety precautions during any construction.

8.6 Construction Completion Procedures.

(a) On completion of the construction of the Project or any Alterations during the Term, PEF shall file for recordation, or cause to be filed for recordation, a notice of completion. PEF hereby appoints Ranchcorp as PEF's attorney-in-fact to file the notice of completion on PEF's failure to do so after the work of improvement has been substantially completed.

(b) On completion of construction of the Project or any Alterations, PEF shall deliver to Ranchcorp evidence satisfactory to Ranchcorp of payment of all costs, expenses, liabilities and liens arising out of or in any way connected with such construction (except for liens that are contested in the manner provided in this Lease).

8.7 Mitigation Measures. PEF will incorporate into the design, construction and operation of the Project the environmental mitigation measures and pollution and waste (including waste water and/or solid waste) control technologies described in Schedule 8.7.

8.8 Laydown License Area. During the construction of the Project, Ranchcorp shall allow PEF an exclusive license to enter upon and use such adjacent property belonging to Ranchcorp in the Site Selection Area as shall be reasonably needed (currently thought to be 75 contiguous acres) for the storage of equipment and materials for the Project, for staging of construction work on the Project, and for construction of the Project (the "Laydown License Area").

8.9 Permits. Ranchcorp shall, upon written request of PEF, execute and deliver all applications for permits, licenses or other authorizations relating to the construction, use and occupancy of the Premises and the Improvements required by any municipal, county, state or federal authorities, or required in connection with any repair or Alteration of the Improvements, provided that such permits, licenses or other authorizations are consistent with the terms of this Lease and the other Project Agreements.

8.10 Personal Property. All equipment, furniture and other personal property installed by PEF on the Premises shall remain the property of PEF. At any time during the Term, PEF

may remove any and all such equipment, furniture and personal property. Any removal shall be performed in a good and workmanlike manner and PEF shall repair any damage or injury to the Premises resulting from the removal. PEF shall be entitled to all depreciation or amortization deductions attributable to all such equipment, furniture and personal property.

8.11 Easements. Upon request by PEF, Ranchcorp shall grant to public entities and public utilities, for the sole purpose of providing operating utilities to the Project, rights of way or easements on, in or over the Premises for poles or conduits or both for telephone, electricity, water, sanitary sewers and storm sewers and for other utility, municipal and district services reasonably required for the Project or any Alterations, in locations and on alignments subject to Ranchcorp's reasonable review and approval. Ranchcorp agrees to execute and acknowledge all required documentation to create the required easements or rights of way. This Section 8.11 shall not apply to any easement or right of way that is included in the Easement Deed and Agreement between the parties of even date with this Lease.

8.12 Ownership of Improvements. The Improvements shall be owned in fee by PEF or a permitted sublessee of the Premises. At any time during the Term, PEF may remove any and all of the Improvements. Any removal shall be performed in a good and workmanlike manner consistent with the requirements of this Section 8. PEF shall repair any damage or injury to the Premises resulting from the removal. PEF shall be entitled to all depreciation or amortization deductions attributable to the Improvements.

8.13 Surrender. Before the end of the Term, PEF shall decommission the Project by removing all buildings, equipment, and personal property from the Premises and shall return the Premises to their pre-construction condition. For purposes of this section and Section 8.14, the "Project" refers to the original generating plant, as well as any Alterations, subsequent expansions, re-powering, or other modifications thereof, and any then-existing above-ground power lines. PEF may abandon buried pipelines in place after decommissioning them in accordance with applicable state and/or federal regulations.

8.14 Decommissioning Security. Concurrently with the execution of this Lease, PEF has furnished Ranchcorp with security for its obligations under Section 8.13 in the form required under Section 4.2(e) of the Option Agreement.

8.15 Material Environmental Conditions. In the event that during construction of the Project PEF discovers any Hazardous Substance on the Property which will prevent or materially interfere with or make materially more costly the construction, operation or financing of the Project, Ranchcorp shall within 25 days after request therefor by PEF identify alternative property adjacent to or in the vicinity of the Project site which will enable PEF to avoid the Hazardous Substance (and any other Hazardous Substance) without making access to the WRM and DWR electric loads less feasible physically or economically than the property affected by the Hazardous Substance and which is not affected by any Hazardous Substance but is otherwise generally as suitable for the Project as the property affected by the Hazardous Substance (the "Alternative Property"). If PEF approves the Alternative Property (which approval shall not be unreasonably withheld or delayed), this Agreement shall be amended to substitute the Alternative Property for the portion of the Property affected by the Hazardous Substance and this Lease shall be amended, and the memorandum hereof recorded to reflect the substitution. Notwithstanding the foregoing, in the event no Alternative Property is or can be supplied and a governmental authority requires cleanup of the Hazardous Substance, then Ranchcorp will at its option either (A) clean up or remediate the Hazardous Substance when and to the extent required by the governmental authority, or (B) reimburse PEF for its costs

incurred in cleaning up or remediating the Hazardous Substance when and to the extent required by the governmental authority. PEF's rights under this Section shall not be impaired by its failure to exercise any of its rights under Section 1.5(c) or 11.3 of the Option Agreement.

Section 9. Maintenance; Repairs; Reconstruction.

9.1 Maintenance. PEF shall keep the Premises and the Improvements in good order, condition and repair, including without limitation, all repairs to the exterior or interior of the Improvements and all repairs of a structural nature. All repairs shall be at the expense of PEF, except repairs caused by the negligence or willful conduct of Ranchcorp or Ranchcorp's agents. Ranchcorp shall not be obligated to make any repairs, replacements or renewals of any kind, nature or description whatsoever (including but not limited to repairs or restoration) required due to flooding of Pastoria Creek, and PEF hereby expressly waives any right to terminate this Lease and any right to make repairs at Ranchcorp's expense under Sections 1932, 1933, 1941 and/or 1942 of the California Civil Code, or any amendments thereof or any similar law, statute or ordinance now or hereafter in effect on account of any such flooding or any failure to make any such repairs.

9.2 Obligation to Repair. PEF shall have the right to contest by appropriate judicial or administrative proceedings, without cost or expense to Ranchcorp, the validity or application of any Applicable Law or other requirement that PEF repair, maintain, alter or replace the Improvements in whole or in part or that would affect PEF's use of the Premises or the Improvements. In the event that any such contest is finally determined in a manner adverse to PEF, PEF shall either undertake the required repairs, maintenance, alterations or replacements to the Premises and the Improvements, or modify its use of the Premises and the Improvements so that no repair, maintenance, alteration or replacement is required.

9.3 Damage or Destruction. If the Improvements are totally or partially destroyed or damaged at any time, PEF may repair or reconstruct the Improvements.

Section 10. Hazardous Substances

PEF shall provide to Ranchcorp prior to commencing construction of the Project, and shall thereafter periodically update, a list of Hazardous Substances that PEF requires on the Premises for the construction, operation, maintenance and/or decommissioning of the Project or any Alterations. PEF shall not cause or permit possession or storage on the Premises of any Hazardous Substance other than those named on the then-most recent list of Hazardous Substances provided to Ranchcorp. PEF shall not cause or permit to occur during the Term any unlawful Release of a Hazardous Substance on, about or beneath the Premises, whether affecting surface water or groundwater, air, the surface or subsurface environment. In the event any unlawful Release of a Hazardous Substance to the environment occurs on or about or beneath the Premises during the Term as a result of any act or omission of PEF or any of PEF's Agents, PEF shall promptly undertake all remedial measures required to clean up and abate or otherwise respond to the unlawful Release in accordance with applicable Environmental Laws at PEF's sole cost, and PEF shall, subject to Section 12.8 of the Transaction Agreement, indemnify, defend, protect and hold Ranchcorp harmless from and against any and all claims, losses, first and third party damages, liabilities and costs, including without limitation reasonable consultants' and attorneys' fees and costs, arising out of or relating to the presence of Hazardous Substances on or about the Premises as a result of any act or omission of PEF or PEF's Agents. If any unlawful Release of a Hazardous Substance which is used on the Premises by PEF or any of PEF's Agents comes to be located on or beneath the Premises or

within 50 feet of the property line of the Premises, unless the source of such release is readily identifiable at the time the Release becomes known, such release shall be presumed (subject to the following sentence) to be the result of an act or omission of PEF or PEF's Agents and shall trigger PEF's remedial and indemnity obligations under this section. Those obligations shall continue in effect until and unless a different source of the Release is identified with a reasonable degree of certainty, as evidenced either by Ranchcorp's written concurrence with identification of a different source or a decision concurring with identification of a different source by an arbitrator engaged pursuant to the following sentence. Any dispute between the parties regarding the source of a Release shall be resolved by arbitration as provided under Section 12 of the Transaction Agreement. Nothing in this Lease is intended to release any party from any liability it may have under the Comprehensive Environmental Response Compensation and Liability Act. The prior sentence is not intended to modify any indemnity or other undertaking of any party under any of the Project Agreements.

Section 11. Sublease.

PEF shall have the right from time to time or at any time to sublet the Premises (a) to any Project Financing Entity as may be necessary or convenient in connection with any financing of the Project, and (b) to any Person who or which is a Qualified Person at the date of the sublease; provided that any subtenant must be an owner of the Project and must have assumed PEF's obligations under the Transaction Agreement and the Easement Agreement. Upon the execution of any permitted sublease of the Premises by PEF, Ranchcorp shall execute a non-disturbance agreement in form satisfactory to both Ranchcorp and PEF in their reasonable discretion. Any such sublease shall be subject in all respects to this Lease.

Section 12. Assignments and Pledges of Collateral.

Subject to and only in accordance with the terms of Section 11 and Schedule 11.4 of the Transaction Agreement, PEF shall have the right, at any time and from time to time, to enter into any leasehold mortgage or other security agreement regarding, or to assign all or portions of, its rights and interests under this Lease. All other assignments, pledges, mortgages, or other transfers of PEF's rights or interests under this Lease, except for those permitted under Section 11 and Schedule 11.4 of the Transaction Agreement, are prohibited.

Section 13. Indemnity.

13.1 Indemnity.

Subject to Section 12.8 of the Transaction Agreement:

(a) With respect to claims by PEF or by any of PEF's Agents or by third parties (other than any of the Tejon Interests) arising or claimed to arise out of the presence or activities of PEF or any of PEF's Agents on the Tejon Ranch, and to claims by PEF or by any of PEF's Agents for work performed on the Project or for materials supplied to the Project, PEF will defend, indemnify and hold Ranchcorp harmless from all actual losses, damages, liabilities, claims, expenses, causes of action, judgments and liens filed against the Premises or against any other land or land rights owned by Ranchcorp in Kern County, California, arising directly from the actions of PEF or any of PEF's Agents, except to the extent arising (i) from active negligence, recklessness, willful misconduct or breach of contract or law by Ranchcorp or any of Ranchcorp's Agents, (ii) as a consequence of strict liability imposed upon Ranchcorp or any of Ranchcorp's Agents as a matter of law, or (iii) from the discovery or disclosure of any

Hazardous Substance or other substance in, under or about the Tejon Ranch unless the presence thereof is due to any act or omission of PEF or any of PEF's Agents.

(b) With respect to claims by Ranchcorp for physical damage to its property or for personal injury to Ranchcorp or Ranchcorp's Agents arising out of the presence of PEF or any of PEF's Agents on the Tejon Ranch, PEF will defend, indemnify and hold Ranchcorp harmless from all actual losses, damages, liens, liabilities, claims, expenses, causes of action and judgments arising directly from the actions of PEF or any of PEF's Agents, except to the extent arising (i) from negligence, recklessness, willful misconduct or breach of contract or law by Ranchcorp or any of Ranchcorp's Agents, (ii) as a consequence of strict liability imposed upon Ranchcorp or any of Ranchcorp's Agents as a matter of law, or (iii) from the discovery or disclosure of any Hazardous Substance or other substance in, under or about the Tejon Ranch unless the presence thereof is due to any act or omission of PEF or any of PEF's Agents.

Section 14. Mechanics and Other Liens.

PEF shall keep the Premises free and clear of all mechanics', materialmen's and other liens for work done, services performed or materials used in or about the Premises or the Improvements or in connection with any operations of PEF ("Mechanics' Liens"). PEF shall have the right to contest the amount or validity of any Mechanics' Lien by giving Ranchcorp written notice of PEF's intention to do so within twenty (20) days after the recording of a Mechanics' Lien. During the period of the contest, provided that PEF properly records the bond permitted, in the amount provided, by California Civil Code Section 3143, Ranchcorp shall not satisfy and discharge the Mechanics' Lien and PEF shall not be in default so long as such bond remains valid and effective. PEF shall satisfy and discharge any Mechanics' Lien within twenty (20) days after the final determination of its amount or validity to the extent held valid and all penalties, interest and costs related to the Lien; provided, however, that the satisfaction and discharge of the Mechanics' Lien shall not, in any case, be delayed until execution is levied upon any judgment. PEF shall indemnify and hold Ranchcorp harmless against all loss, cost, expense and damage (including reasonable attorneys' fees) arising out of the contest. Ranchcorp shall not be required to join in any proceeding to contest the amount or validity of any Mechanics' Lien, except that if any law shall require that the proceeding be brought by Ranchcorp, Ranchcorp agrees to join in the proceeding, or permit it to be brought in its name. Ranchcorp shall cooperate with PEF in any contest. PEF's obligations under this Section with regard to Mechanic's Liens arising prior to the Commercial Operation Date are guaranteed by Enron Capital & Trade Resources Corp. under Section 2.2 of the Transaction Agreement.

Section 15. Eminent Domain.

15.1 Taking of Premises. If at any time during the Term, all or any portion of the Project or the Premises are taken as a result of the exercise of the right of eminent domain, the rights of Ranchcorp and PEF to the compensation for the taking shall be determined in accordance with this Section 15. The terms "taken" or "taking" shall mean an acquisition and/or damaging, including severance damage, by eminent domain, or by inverse condemnation, or by voluntary deed or transfer in contemplation of a taking or under threat of a taking, or for any public or quasi-public use under any statute or law. The "date of taking" shall be the earliest of (a) the date actual physical possession is taken by the condemnor; (b) the date on which the right to compensation and damages accrues under Applicable Laws; or (c) the date on which title vests in the condemnor. "Entire Taking" means a taking as the result of which operating the Project, even at reduced capacity, to produce electric energy and/or to

provide Ancillary Services is not, and is not reasonably likely to become again, commercially viable. "Partial Taking" means a taking other than an Entire Taking.

15.2 Effect on Rent. In the event of a Partial Taking as a result of which the capacity of the Project is reduced, this Lease shall continue in full force and effect for the remainder of the Term and : (a) Fixed Rent shall be adjusted as set forth in the same manner as for changes in "C" under Section 3.2(c), and (b) Variable Rent shall be adjusted by adjusting the factor "C" in the formula stated in Section 3.4(c) for calculating the Spark Spread to conform with the reduced capacity of the Project. During any period of a temporary taking, or during any period after the date of a Partial Taking, during which the Project necessarily ceases to operate, no portion of Rent shall be abated.

15.3 Notice. The party receiving any notice of an intended taking, service of legal process relating to a taking, notice regarding any proceedings or negotiations with respect to a taking, or notice of intent to negotiate a transfer in lieu of a taking shall promptly give the other party notice of the receipt, contents and date of the notice received. PEF shall provide any Project Financing Entity with a copy of any notice of any threatened or pending taking.

15.4 Compensation. The rights of Ranchcorp and PEF to any award, compensation or damages for a taking shall be separately determined by the condemning authority or the court having jurisdiction over any proceedings as follows:

(a) Entire Taking. In the event of an Entire Taking, this Lease shall terminate on the date of taking and each party shall have the right to make its own claim for any and all awards, compensation and damages for the taking. The parties agree that an element of Ranchcorp's claim will be the present value of its rental stream under this Lease.

(b) Partial Taking. In the event of a Partial Taking, all awards, compensation and damages shall first be used for replacement and restoration of the Project and the Premises, and then the remainder shall be allocated between Ranchcorp and PEF as provided in Section 15.4(a).

(c) Temporary Taking. If the Project or the Premises are temporarily taken, PEF shall receive the entire amount of any awards, compensation and damages for the temporary taking, and Ranchcorp hereby assigns such awards, compensation and damages to PEF to the extent that the taking does not extend beyond the expiration of the Term.

15.5 Representation in Proceedings or Negotiations. Subject to the allocation provisions of Section 15.4, Ranchcorp, PEF and any Project Finance Entities shall have the right to participate as their interests may appear in any proceeding, negotiation or settlement of awards, compensation and damages and may contest and appeal any awards, compensation and damages. Neither Ranchcorp nor PEF shall enter into any agreement or settlement with or sale or transfer to the condemning authority without the consent of the other. Ranchcorp and PEF each agree to execute and deliver to the other any instruments which may be required to effectuate or facilitate the provisions of this Section 15. In the event the condemning authority or court having jurisdiction over any takings proceedings does not make the allocation and distribution of the award, compensation and damages in accordance with this Section 15, and the parties cannot mutually agree upon the appropriate allocation, the allocation shall be determined pursuant to the dispute resolution provisions set forth in Section 12 of the Transaction Agreement.

Section 16. Ranchcorp's Right of Inspection.

Ranchcorp may, at reasonable times during the Term and upon reasonable prior written notice to PEF, enter upon the Premises during regular business hours for the purpose of inspecting the Premises and the Improvements and for such other purposes as the reasonable protection of its interests requires, subject, however, to PEF's reasonable requirements regarding security on the Premises and the confidentiality of its business affairs, which shall not bar Ranchcorp's right to make reasonable inspections.

Section 17. Default.

The occurrence of any one of the following shall constitute a default and breach of this Lease by PEF. Notices given under this Section 17 shall specify the alleged default and the applicable Lease provisions, and shall demand that PEF perform the provisions of this Lease or pay the rent that is in arrears, as the case may be, within the applicable time period. Ranchcorp need not elect its remedy or remedies for an uncured default at the time it gives notice of a default.

17.1 Failure to Pay Rent. Any failure of PEF to pay Rent or any other required payments, where the failure continues for a period of ten (10) days after written notice from Ranchcorp to PEF. Such notice shall not be deemed to be the notice required under California Code of Civil Procedure Section 1161; Ranchcorp must separately provide such Section 1161 notice.

17.2 Failure to Observe Other Provisions. Any failure by PEF to observe or perform any other provision of this Lease to be observed or performed by PEF, where the failure continues for thirty (30) days after written notice by Ranchcorp to PEF. Such notice shall not be deemed to be the notice required under California Code of Civil Procedure Section 1161; Ranchcorp must separately provide such Section 1161 notice. However, if the nature of PEF's default is such that it cannot reasonably be cured within the thirty (30) day period, PEF shall not be in default if PEF commences the cure within the thirty (30) day period and thereafter diligently prosecutes the cure to completion.

17.3 Abandonment. The abandonment of the Premises.

17.4 Insolvency. Should PEF admit in writing its inability to pay its debts generally as they become due, file a petition in bankruptcy, insolvency, reorganization, readjustment of debt, dissolution or liquidation under any law or statute of any government or any subdivision thereof either now or hereafter in effect, make an assignment for the benefit of its creditors, consent to or acquiesce in the appointment of a receiver of itself or of the whole or any substantial part of the Premises.

17.5 Receivership. Should a court of competent jurisdiction enter an order, judgment or decree appointing a receiver of PEF or of the whole or any substantial part of the Premises or of the Project and should such order, judgment or decree not be vacated, set aside or stayed within ninety (90) days after the date of entry of such order, judgment, or decree, or should a stay thereof be thereafter set aside.

17.6 Involuntary Bankruptcy. Should a court of competent jurisdiction enter an order, judgment or decree approving a petition filed against PEF under any bankruptcy, insolvency, reorganization, readjustment of debt, dissolution or liquidation law or statute of the federal

government or any state government or any subdivision of either now or hereafter in effect, and should such order, judgment or decree not be vacated, set aside or stayed within sixty (60) days from the date of entry of such order, judgment or decree, or should a stay thereof be thereafter set aside.

Section 18. Remedies.

In the event of a default by PEF, Ranchcorp shall have the following remedies. These remedies are not exclusive; they are cumulative and are in addition to any other right or remedy available to Ranchcorp at law or in equity. Ranchcorp may initiate an action for damages or injunctive relief without terminating this Lease or PEF's right to possession.

18.1 Termination of Right to Possession. If the default is in the observance or performance of any material obligation of PEF under this Lease, Ranchcorp may terminate PEF's right to possession of Premises. The parties agree that a "material obligation" shall be any obligation of PEF which is material to the realization by Ranchcorp of any of the material benefits intended to be conferred on Ranchcorp by this Lease and includes without limitation any default under Section 17.1. No act by Ranchcorp, other than giving specific notice of termination to PEF, shall terminate this Lease. Acts of maintenance, or efforts to relet the Premises, shall not constitute a termination of PEF's right to possession. On termination, Ranchcorp has the right to recover from PEF: (a) the worth, at the time of the award, of the unpaid Rent that had been earned at the time of termination of this Lease; (b) the worth, at the time of the award, of the amount by which the unpaid Rent that would have been earned after the date of termination of this Lease until the time of the award exceeds the amount of loss of rent that PEF proves could have reasonably been avoided; and (c) the worth, at the time of the award, of the amount by which the unpaid Rent for the balance of the Term after the time of the award exceeds the amount of the loss of Rent that PEF proves could have been reasonably avoided;

"The worth, at the time of the award," as used in (a) and (b) of this Section 18.1 is to be computed by allowing interest at the rate of 10% per annum. "The worth, at the time of the award," as referred to in (c) of this Section 18.1, is to be computed by discounting the amount by the discount rate of the Federal Reserve Bank of San Francisco at the time of the award, plus 1%.

18.2 Civil Code Section 1951.4. Ranchcorp shall have the remedy described in California Civil Code Section 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has right to sublet or assign, subject only to reasonable limitations).

18.3 Self-Cure; Costs Thereof. In the event of a default arising from PEF's failure to perform work required to be performed by PEF under this Lease within the time required by the Lease and/or by Ranchcorp's related notice of default, unless Ranchcorp is expressly prohibited from performing such work by this Lease, Ranchcorp may elect, but shall not be required, to perform such work after delivery of thirty (30) days prior written notice to PEF of such election (except that no such prior notice shall be required in the event of an emergency). If Ranchcorp so elects, PEF shall pay all of Ranchcorp's costs and expenses of such work, plus an overhead and management fee of ten percent (10%) of such costs and expenses, within twenty (20) days after PEF receives Ranchcorp's itemized invoice for such work. If PEF does not pay such an invoice within such 20-day period, (i) the obligation shall accrue interest at the rate of 10% per

annum without compounding from the twentieth day after PEF received the invoice until it is fully paid, and (ii) without further notice to PEF, shall constitute a default under Section 17.1.

Section 19. Waiver.

No waiver of any default under this Lease shall constitute or operate as a waiver of any subsequent default, and no delay, failure or omission in exercising or enforcing any right, privilege, or option under this Lease shall constitute waiver, abandonment or relinquishment of, or prohibit or prevent any election under or enforcement or exercise of, any right, privilege or option under this Lease. Any waiver of any provisions of this Lease by Ranchcorp or PEF must be in writing and signed by the party against whom it is sought to be enforced. The receipt by Ranchcorp of Rent with knowledge of any default under this Lease, or after having provided notice of a default, or after having commenced an action to enforce this Lease shall not constitute or operate as a waiver of the default, unless the payment of such Rent cures the monetary default.

Section 20. No Merger.

There shall be no merger of the leasehold estate created by this Lease with the fee estate in the Premises by reason of the fact that the same person may own or hold (i) the leasehold estate created by this Lease or any interest in the leasehold estate and (ii) the fee estate in the Premises or any interest in the fee estate unless and until Ranchcorp shall execute, acknowledge and record a written instrument effecting the merger. Termination of this Lease shall not, unless Ranchcorp elects, cause a merger of the estates of Ranchcorp and PEF. Termination shall, at the option of Ranchcorp, either cause a termination of any sublease in effect or act as an assignment to Ranchcorp of PEF's interest in any sublease.

Section 21. Reserved

Section 22. General Provisions.

22.1 Covenants Running With the Land. The agreements, covenants and conditions contained in this Lease are and shall be deemed to be covenants running with the land and the reversion and shall be binding upon and shall inure to the benefit of Ranchcorp and PEF and their respective permitted successors and assigns. All references in this Lease to "PEF" or "Ranchcorp" shall be deemed to refer to and include permitted successors and assigns of PEF or Ranchcorp, respectively, without specific mention of such successors or assigns.

22.2 Estoppel Certificates. PEF or Ranchcorp, as the case may be, shall execute, acknowledge and deliver to the other or any Person specified by the other, promptly upon request, its certificate certifying: (a) that this Lease is unmodified and in full force and effect (or, if there have been modifications, that this Lease is in full force and effect, as modified, and stating the modifications); (b) the dates, if any, to which all Rent has been paid; (c) whether there are then existing charges, offsets or defenses against the enforcement by Ranchcorp of any agreement, covenant or condition on the part of PEF (and, if so, specifying the same); and (d) whether there are then existing any defaults by PEF under the Lease and whether any notice has been given to PEF of any default which has not been cured (and, if so, specifying the same). Any certificate may be relied upon by the Person to whom the certificate is delivered.

22.3 Holding Over. This Lease shall terminate without further notice upon the expiration of the Term, and any holding over by PEF after the expiration of the Term shall not

constitute a renewal or give PEF any rights to the Premises. PEF shall pay Rent as provided under Section 3 of this Lease during any holdover period. If PEF holds over with the consent of Ranchcorp, PEF shall be a tenant from month-to-month during the holdover period. If PEF holds over without Ranchcorp's consent, PEF shall be a tenant at sufferance during the holdover period.

22.4 Miscellaneous.

(a) Time is of the essence in each of the provisions of this Lease.

(b) All Exhibits referred to are attached to this Lease and incorporated by reference.

(c) Contemporaneously with the execution of this Lease, Ranchcorp and PEF will execute, acknowledge and record in the Official Records of Kern County a memorandum of lease in the form of attached Schedule 22.4(c).

(d) The provisions of Section 14 of the Transaction Agreement apply to this Lease.

22.5 Authority of PEF. PEF warrants to Ranchcorp that PEF is a validly existing limited liability company under the laws of the State of Delaware, that it is duly qualified to do business in the State of California, that its entry into and performance of this Lease has been duly authorized, that the officer(s), director(s), or employee(s), as applicable, executing this Lease on PEF's behalf are duly authorized to do so, and that this Lease is binding upon PEF.

22.6 Authority of Ranchcorp. Ranchcorp warrants to PEF that Ranchcorp is a validly existing corporation under the laws of the State of California, that its entry into and performance of this Lease has been duly authorized, that the officer(s), director(s), or employee(s), as applicable, executing this Lease on Ranchcorp's behalf are duly authorized to do so, and that this Lease is binding upon Ranchcorp.

22.7 Labor Issues. The parties will consult with one another, and consider each other's views, regarding labor issues of concern to either party

22.8 Consent. Without prejudice to its other rights and remedies under this Lease and the other Project Agreements, either party shall have the right to institute an arbitration for declaratory relief under Section 12 of the Transaction Agreement to determine whether any proposed withholding or delay of any consent or approval by the party would be unreasonable.

Section 23. Glossary.

Additional Rent - Section 3.6.

Affiliate - Section 15 of the Transaction Agreement.

Alterations - Section 8.2.

Ancillary Services -- Section 3.4(d).

Applicable Laws - all applicable laws, codes, ordinances, orders, rules, regulations and requirements, including, without limitation, all Environmental Laws, of all federal, state, county, municipal and other governmental authorities and the departments, commissions, boards, bureaus, instrumentalities, and officers relating to or affecting the Premises, the Improvements or the use, operation or occupancy of the Premises, whether now existing or hereafter enacted.

C - Section 3.4(c).

Commencement Date - Section 2.1.

Commercial Operation Date - Section 2.1.

Daily Gas Price - Section 3.4(d).

Developer Interests - Enron Capital & Trade Resources Corp. and PEF.

Entire Taking - Section 15.1.

Environmental Laws - all present and future federal, state and local laws, statutes, ordinances, regulations, rules, judicial and administrative orders and decrees, permits, licenses, approvals, authorizations and similar requirements pertaining to the protection of human health and safety or the environment.

Excepted Cause - Section 15 of the Transaction Agreement.

Extended Term - Section 2.2.

Final Project Decision - the CEC's final decision with respect to the Project AFC.

Fixed Rent - Section 3.1.

Gas Daily - Section 3.4(d).

GP -- Section 3.4(c).

Hazardous Substance - any chemical, substance, medical or other waste, living organism or combination thereof which is or may be hazardous to the environment or human or animal health or safety due to its radioactivity, ignitability, corrosivity, reactivity, explosivity, toxicity, carcinogenicity, mutagenicity, phytotoxicity, infectiousness or other harmful or potentially harmful properties or effects. "Hazardous Substances" shall include, without limitation, petroleum hydrocarbons, including crude oil or any fraction thereof, asbestos, radon, polychlorinated biphenyls (PCBs), methane and all substances which now or in the future may be defined as "hazardous substances," "hazardous wastes," "extremely hazardous wastes," "Hazardous Substance," "toxic substances," "infectious wastes," "biohazardous wastes," "medical wastes," "radioactive wastes" or which are otherwise listed, defined or regulated in any manner pursuant to any Environmental Laws.

HR -- Section 3.4(c).

Improvements - Section 3.6.

Initial Term - Section 2.1.

ISO -- Section 3.4(d).

ISO Controlled Grid - Section 3.4(d).

ISO Tariff -- Section 3.4(d).

Laydown License Area - Section 8.8.

Mechanics' Liens - Section 14.

Nominal COD - Section 2.1

Option Agreement - Recitals.

Partial Taking - Section 15.

Pastoria Substation - Section 3.4(d).

PEF - introductory paragraph.

PEF's Agents - any Affiliate of either of the Developer Interests and any contractor, consultant, agent, employee, invitee or other Person acting at the request and for the benefit of any of the Developer Interests or any of their Affiliates.

Premises - Section 1.

Project - Recitals.

Project Financing Agreements - Section 11.5 of the Transaction Agreement.

Project Financing Entity - Section 11.5 of the Transaction Agreement.

Project Financing -- Section 11.5 of the Transaction Agreement.

Property Taxes - Section 3.6.

PX - Section 3.4(d).

PX Price -- Section 3.4(d).

Qualified - Section 11.3(c) of the Transaction Agreement.

Ranchcorp - introductory paragraph.

Ranchcorp's Agents - any Affiliate of any of the Tejon Interests and any contractor, consultant, agent, employee, invitee or other Person acting at the request and for the benefit of any of the Tejon Interests or any of their Affiliates.

Release - any accidental or intentional spilling, leaking, pumping, pouring, emitting, emptying, discharging, injection, escaping, leaching, migrating, dumping or disposing into the air, land, surface water, ground water or the environment.

Rent - Section 3.1.

Revenue Day -- Section 3.4(d).

Revenue Hour -- Section 3.4(d).

Security Agreement - Section 1 of Schedule 11.4 of the Transaction Agreement.

Site Selection Area - Section 1.1 of the Option Agreement.

Spark Spread - Section 3.4(c).

Taken or Taking - Section 15.1.

Tejon Interests - Ranchcorp, Tejon Ranch Co. and Pastoria Power Project LLC.

Tejon Ranch - the approximately 270,000 acres of real property in Kern and Los Angeles counties currently owned by Ranchcorp and known as The Tejon Ranch.

Term - Section 2.2.

Transaction Agreement - Recitals.

Variable Rent - Section 3.1.

TEJON RANCHCORP,
a California corporation

PASTORIA ENERGY FACILITY LLC,
a Delaware limited liability company

By: Enron Capital & Trade Resources Corp.,
its sole member

By: _____
Dennis Mullins
Vice President

By: _____
David Parquet
Vice President

RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

Pastoria Energy Facility LLC

EASEMENT DEED AND AGREEMENT

BETWEEN

TEJON RANCHCORP

AND

PASTORIA ENERGY FACILITY LLC

Executed as of: _____, _____

EASEMENT DEED AND AGREEMENT

THIS EASEMENT DEED AND AGREEMENT (this "Agreement") is entered into in Los Angeles, California as of this ____ day of _____, ____, [the date it is executed and delivered] by and between Tejon Ranchcorp, a California corporation, as grantor ("Tejon") and Pastoria Energy Facility LLC, a Delaware limited liability company, as grantee ("Grantee").

RECITALS

A. Tejon is the owner of the Tejon Ranch. Grantee is a special purpose entity created for the purpose of developing a merchant power plant (the "Project") to be located on a portion of the Tejon Ranch (the "Project Site").

B. Tejon and Grantee and certain of their respective affiliates have agreed to work together toward development of the Project pursuant to a Transaction Agreement dated April 30, 1999 (the "Transaction Agreement").

C. Grantee has exercised its option to lease the Project Site pursuant to an Option Agreement dated April 30, 1999, by and between Tejon and Grantee (the "Option Agreement").

D. Concurrently with the execution of this Agreement, Tejon and Grantee are entering into a lease of the Project Site pursuant to a Ground Lease of even date herewith (the "Lease Agreement").

E. The Transaction Agreement, the Option Agreement, the Lease Agreement and this Agreement are sometimes collectively referred to in this Agreement as the "Project Agreements". Capitalized terms used in this Agreement have the meanings stated in Section 24 or the provisions there referred to.

IN CONSIDERATION OF the mutual covenants, conditions, representations and warranties herein contained, and the payments, covenants and representations contained in the other Project Agreements, the parties agree as follows:

1. Grant of Easements.

(A) Gas Easement. Tejon hereby grants to Grantee, under the terms and

conditions hereinafter set forth, a nonexclusive right-of-way easement appurtenant to the Project Site over, through, under, and along the strip of land (hereinafter called "Parcel A") located in Kern County, California, the width and centerline of which parcel is set forth on Exhibit A, attached hereto and made a part hereof, for the term set forth in Section 2 below, and for the purposes set forth in Section 7(A) below, which include constructing and operating in conformance with this Agreement certain facilities (the "Gas Facilities") as defined and further described in Section 7(A) below (the "Gas Easement"). The parties expressly agree that the Gas Facilities shall be owned by Grantee or by any subeasement holder permitted under this Agreement. The Gas Easement shall have a temporary width as reasonably necessary to construct and install the Gas Facilities, but not to exceed fifty feet (50'). The width shall revert to the permanent width set forth on Exhibit A upon the completion of said construction and installation; provided, however, that Grantee shall have a continuing license to use the full 50' width for on-going maintenance activities as necessary during the Term.

(B) Water Easement. Tejon hereby grants to Grantee, under the terms and

conditions hereinafter set forth, a nonexclusive right-of-way easement appurtenant to the Project Site over,

through, under, and along the strip of land (hereinafter called "Parcel B") located in Kern County, California, the width and centerline of which parcel is set forth on Exhibit B, attached hereto and made a part hereof, for the term set forth in Section 2 below, and for the purposes set forth in Section 7(B) below, which include constructing and operating in conformance with this Agreement certain facilities (the "Water Facilities") as defined and further described in Section 7(B) below (the "Water Easement"). The parties expressly agree that the Water Facilities shall be owned by Grantee or by any subeasement holder permitted under this Agreement. The Water Easement shall have a temporary width as reasonably necessary to construct and install the Water Facilities, but not to exceed seventy-five feet (75'). The width shall revert to the permanent width set forth on Exhibit B upon the completion of said construction and installation.

(C) Electric Easement. Tejon hereby grants to Grantee, under the terms and

conditions hereinafter set forth, a nonexclusive right-of-way easement appurtenant to the Project Site over, through, under, and along the strip of land (hereinafter called "Parcel C") located in Kern County, California, the width and centerline of which parcel is set forth on Exhibit C, attached hereto and made a part hereof, for the term set forth in Section 2 below, and for the purposes set forth in Section 7(C) below, which include constructing and operating in conformance with this Agreement certain facilities (the "Electric Facilities") as defined and further described in Section 7(C) below (the "Electric Easement"). The parties expressly agree that the Electric Facilities shall be owned by Grantee or by any subeasement holder permitted under this Agreement. The Electric Easement shall have a temporary width as reasonably necessary to construct and install the Electric Facilities, but not to exceed one hundred forty feet (140'). The width shall revert to the permanent width set forth on Exhibit C upon the completion of said construction and installation.

(D) Wastewater Easement. Tejon hereby grants to Grantee, under the terms

and conditions hereinafter set forth, a nonexclusive right-of-way easement appurtenant to the Project Site over, through, under, and along the strip of land (hereinafter called "Parcel D") located in Kern County, California, the width and centerline of which parcel is set forth on Exhibit D, attached hereto and made a part hereof, for the term set forth in Section 2 below, and for the purposes set forth in Section 7(D) below, which include constructing and operating in conformance with this Agreement certain facilities (the "Wastewater Facilities") as defined and further described in Section 7(D) below (the "Wastewater Easement"). The parties expressly agree that the Wastewater Facilities shall be owned by Grantee. The Wastewater Easement shall have a temporary width as reasonably necessary to construct and install the Wastewater Facilities, but not to exceed seventy-five feet (75'). The width shall revert to the permanent width set forth on Exhibit D upon the completion of said construction and installation.

(E) Access Easement. Tejon hereby grants to Grantee, under the terms and

conditions hereinafter set forth, a nonexclusive right-of-way easement appurtenant to the Project Site over, through, under, and along the strip of land (hereinafter called "Parcel E") located in Kern County, California, the width and centerline of which parcel is set forth on Exhibit E, attached hereto and made a part hereof, for the term set forth in Section 2 below, and for the purposes set forth in Section 7(E) below, which include constructing and maintaining in conformance with this Agreement an access road to the Project (the "Access Road") as defined and further described in Section 7(E) below (the "Access Easement"). The parties expressly agree that the Access Easement shall be owned by Grantee. The Access Easement shall have a temporary width as reasonably necessary to construct and install the Access Road, but not to exceed eighty feet (80'). The width shall revert to the permanent width set forth on Exhibit E upon the completion of said construction and installation.

(F) Project Easements. The Gas Easement, the Water Easement, the Electric

Easement, the Wastewater Easement and the Access Easement are collectively referred to in this Agreement as the

"Project Easements". The Gas Facilities, the Water Facilities, the Electric Facilities, the Wastewater Facilities and the Access Road are collectively referred to in this Agreement as the "Project Facilities". Parcel A, Parcel B, Parcel C, Parcel D and Parcel E are collectively referred to in this Agreement as the "Easement Parcels".

2. Term.

The term of each of the Project Easements (the "Term") shall be coterminous with the Lease Agreement unless earlier terminated pursuant to the provisions of Section 21 below, or unless Grantee voluntarily surrenders any Easement Parcel by giving written notice of such surrender to Tejon and by complying with the provisions of Section 19 below.

3. Acceptance of Premises.

By execution of this Agreement, and unless otherwise specifically provided in this Agreement, Tejon grants and Grantee accepts the Easement Parcels in their present condition, subject to the lien of taxes and assessments not yet due, to all matters recorded against the Easement Parcels in the Official Records of Kern County, California as of the date of this Agreement, and to existing uses by Tejon of its property which were open and obvious as of the date of the Option Agreement and occurring on a continuous basis. Tejon shall have no obligation or liability whatsoever to make any improvements, alterations, or repairs to the Easement Parcels or the Project Facilities, or to pay or reimburse Grantee for any part of the cost thereof.

4. Consideration.

Consideration for the Project Easements is provided by the Lease Agreement.

5. Governmental Approvals and Permits.

Grantee shall be responsible for obtaining and maintaining all necessary approvals from governmental authorities having jurisdiction over the activities and operations to be conducted hereunder, including, but not limited to, permits, incidental take authority, franchises, licenses, parcel maps, zoning, conditional use permits, variances, and building permits. Grantee shall bear all costs related to the foregoing items. Tejon shall cooperate in Grantee's efforts to secure any such licenses, permits, and approvals as and to the extent provided in the other Project Agreements.

6. Markers and Location of Facilities.

Except as waived by Tejon in writing, Grantee shall install and maintain markers showing the location of underground Project Facilities within the Easement Parcels. Subject to the requirements of applicable regulations, said markers shall be made of materials and designed in a manner approved by Tejon in writing (which approval will not be unreasonably withheld or delayed) and shall be placed and maintained at all angle points of said underground Project Facilities, at fence and roadway crossings, and otherwise at locations not more than 500 feet apart along the pertinent Easement Parcels. Said markers shall identify Grantee as the user of the Project Facilities and shall provide a telephone number to call for assistance in locating Project Facilities. When requested by Tejon and permitted by applicable regulations, the markers shall be installed and maintained flush with the ground surface, similar to survey markers. In order to minimize possible future interferences with underground Project Facilities, Grantee shall, upon written request from Tejon, find and mark the location of underground Project Facilities within a reasonable period of time after receipt of such request.

7. Uses by Grantee.

(A) Gas Easement. The physical structures and improvements described below

in this Section 7(A) are individually and collectively called the "Gas Facilities". Grantee shall use the Gas Easement, consistent with the terms of this Section 7(A), solely to construct, reconstruct, maintain, operate, inspect, repair and replace underground pipelines for the transportation and delivery of natural gas to the Project, together with such markers, valves, fittings, meters, corrosion control devices and similar appurtenances as may be necessary or convenient to the operation of such gas pipeline. Grantee shall use the Gas Facilities only for the transportation of natural gas to, and for use by, the Project and for no other purpose whatsoever.

(B) Water Easement. The physical structures and improvements described

below in this Section 7(B) are individually and collectively called the "Water Facilities". Grantee shall use the Water Easement, consistent with the terms of this Section 7(B), solely to construct, reconstruct, maintain, operate, inspect, repair and replace underground pipelines for the transportation of water used by the Project, together with such markers, valves, fittings, meters, corrosion control devices and similar appurtenances as may be necessary or convenient to the operation of the water pipelines. Grantee shall use the Water Facilities only for the transportation to and from the Project of water used, or to be used, by the Project and for no other purpose whatsoever.

(C) Electric Easement. The physical structures and improvements described

below in this Section 7(C) are individually and collectively called the "Electric Facilities". Grantee shall use the Electric Easement, consistent with the terms of this Section 7(C), solely to construct, reconstruct, maintain, operate, inspect, repair and replace (i) a high voltage electric power transmission line from the Project to the existing Pastoria Substation owned by Southern California Edison Company, and (ii) a high voltage electric power transmission line from the Pastoria Substation to the Edmonston Pumping Station owned by the California Department of Water Resources (if elected by Grantee and subject to the payment of additional consideration), for the transmission of electric energy produced by the Project together with such poles, markers, fittings, meters, and similar appurtenances as may be necessary or convenient to the operation of the transmission line, and to erect, repair, maintain, remove and operate other devices reasonably required for safe operation of the Electric Facilities.

(D) Wastewater Easement. The physical structures and improvements

described below in this Section 7(D) are individually and collectively called the "Wastewater Facilities". Grantee shall use the Wastewater Easement, consistent with the terms of this Section 7(D), solely to construct, reconstruct, maintain, operate, inspect, repair and replace an underground pipeline, wells and other facilities for the discharge of wastewater from the Project to injection wells which are owned by a third party on Tejon property, together with such markers, valves, fittings, meters, corrosion control devices and similar appurtenances as may be necessary or convenient to the operation of such pipeline. Grantee shall use the Wastewater Facilities only for the transportation of wastewater from the Project and for no other purpose whatsoever.

(E) Access Easement. The physical structures and improvements described

below in this Section 7(E) are individually and collectively called the "Access Road". Grantee shall use the Access Road, consistent with the terms of this Section 7(E), solely to construct, reconstruct, maintain, operate, inspect, repair and replace a private roadway for ingress to and egress from the Project. Grantee shall use the Access Road only for pedestrian and vehicular transportation to and from the Project and for no other purpose whatsoever.

(F) Communications Cables and Equipment. Grantee shall use any fiber optic

cable and/or other communications cable or equipment (including any associated conduit for communications

cables) that it may install, or cause to be installed, in any of the Easement Parcels only for the purpose of monitoring the integrity of, and communicating data respecting, the Project and the Project Facilities (both internally and to third parties). If Grantee installs any such communications cable and/or conduit, Grantee shall not use or permit its use (i) for transmitting other data not related to the Project or the Project Facilities, (ii) or by any other party, unless related to the operation of the Project or the Project Facilities, or (iii) on a basis that produces any compensation or credit of any kind to or for the benefit of Grantee or its owners or their affiliates. If Grantee installs any cable conduit, Grantee shall not use or permit its use to hold any fiber optic cable or other communications facility of or for any party other than Grantee, except to the extent necessary to the conduct of Grantee's business at the Project as described in this subsection.

(G) Prohibited Uses. Any use of any Project Facilities or of any of the

Easement Parcels other than as specifically permitted in this Section 7 is beyond the scope of the rights of the Project Easements granted hereby and is prohibited. Any commercial use of the Project Facilities other than in connection with and for the benefit of the Project shall be a breach of the provisions of this Agreement. All gross proceeds or credits received by or for the benefit of Grantee, its owners and/or their affiliates arising from such prohibited use during the period thereof (excluding revenues and earnings attributable to power sales) shall be held in constructive trust for Tejon and will be delivered to Tejon on demand, with interest thereon from the date of receipt by any such person at a rate of ten percent (10%) per annum (the "Default Rate"). Tejon shall make such demand in writing to Grantee within ninety (90) days after Tejon learns of any alleged default under this Section; failure to demand payment within such 90-day period shall be deemed a waiver of Tejon's right to any gross proceeds or credits received after the end of such 90-day period and before the date such notice is actually delivered.

8. Uses by Tejon.

(A) Reservation of Rights. Tejon shall not materially interfere with the

rights granted to Grantee hereunder, with the free flow of any pipelines or transmission lines, or with access to the Project Facilities. Subject to the foregoing, Tejon shall have the right to use and enjoy the Easement Parcels in any manner whatsoever, including the right to grant other easements over all or part of any or all of the Easement Parcels. Grantee and its Project Facilities shall not interfere in any way with the use and enjoyment of senior interests and facilities existing on the date hereof and of which Grantee has actual or constructive notice.

(B) Assumption of Risk. Grantee assumes all risks and releases Tejon from

liability for damage to the Project Facilities associated with Tejon's construction, use, repair, and maintenance of roads, landscaping, and other improvements in the general areas of the Project Easements, except for damage caused by the negligence, recklessness, willful misconduct or breach of contract by Tejon or its officers, employees, agents, contractors, subcontractors, suppliers or consultants.

9. Hazardous Substances.

(A) In the event that during construction of the Project Facilities PEF discovers any Hazardous Substance on the Easement Parcels which will materially interfere with or make materially more costly the construction, operation or financing of the Project, Ranchcorp shall within 25 days after request therefor by PEF identify alternative property adjacent to or in the vicinity of the affected Project Facilities which will enable PEF to avoid the Hazardous Substance (and any other Hazardous Substance) and (a) which is suitable for the development of the Project Facilities without making access to the WRM and DWR electric loads less feasible physically or economically than the property affected by the Hazardous Substance, (b) which is not affected by any Hazardous Substance but is

otherwise generally as suitable for the Project Facilities as the property affected by the Hazardous Substance, (c) which shall not materially increase the length of any Easement Parcel, and (d) which shall be provided without the payment of additional consideration (the "Alternative Easement Parcel"). If PEF approves the Alternative Easement Parcel (which approval shall not be unreasonably withheld or delayed), this Agreement shall be amended to substitute the Alternative Easement Parcel for that portion of the Easement Parcel affected by the Hazardous Substance. Notwithstanding the foregoing, in the event no Alternative Easement Parcel is or can be supplied and a governmental authority requires cleanup of the Hazardous Substance, then Tejon will at its option either (i) clean up or remediate the Hazardous Substance when and to the extent required by the governmental authority, or (ii) reimburse PEF for its costs incurred in cleaning up or remediating the Hazardous Substance when and to the extent required by the governmental authority. PEF's rights under this Section shall not be impaired by its failure to exercise any of its rights under Section 1.5(c) or 11.3 of the Option Agreement.

(B) Grantee's Obligations. The rights and obligations of the parties with

respect to Hazardous Substances which are on, about or beneath the Project Easements or on Tejon property in the vicinity of the Project Easements either prior to or during the Term shall be governed by the provisions of the other Project Agreements.

10. Relocation of Project Facilities.

(A) Adjustments by Grantee. In the event that Grantee reasonably requires

adjustments to the Project Easements to accommodate field conditions discovered during the course of development and construction of the Project Facilities, or due to title matters which are contrary to Tejon's representation as set forth in the Option Agreement, Grantee shall so notify Tejon in writing and Tejon shall convey to Grantee without further charge a new right of way easement over the new location, which new right of way shall not materially increase the length of any Easement Parcel, shall have the same terminal points as the original, and shall be subject to the same terms and conditions as are set forth in this Agreement. Promptly upon completion of any such adjustment hereunder, Grantee shall grant back to Tejon that portion of the relevant Project Easement no longer required by reason of such relocation.

(B) Relocation by Tejon. Tejon reserves the right to require the Gas

Facilities, the Water Facilities, the Wastewater Facilities and the Access Road within each of the Easement Parcels, or any portions thereof, to be relocated under the conditions hereinafter described. Grantee shall not be required, however, to relocate or reconstruct the same portion of such Project Facilities at the request of Tejon more than once. Whenever, in the reasonable opinion of Tejon, any portion of such Project Facilities interferes with the proper development and/or legitimate business use of Tejon's property, Grantee shall commence, within ninety (90) days after written request therefor by Tejon, to relocate and/or reconstruct that portion of such Project Facilities along the route specified in Tejon's request, shall diligently and continuously pursue such work, shall complete such relocation and reconstruction within a reasonable time thereafter, and shall restore the premises as near as possible to the same state and condition as they were in immediately prior to such relocation or reconstruction, unless otherwise directed in writing by Tejon. Subject to Section 10(C), Tejon and Grantee shall each bear one-half of all costs of such relocation and restoration. Tejon shall convey to Grantee without further charge a new right of way easement over the new substitute location, which new right of way shall not materially increase the length of any Easement Parcel, shall have the same terminal points as the original, and shall be subject to the same terms and conditions as are set forth in this Agreement. Promptly upon completion of any relocation hereunder, Grantee shall grant back to Tejon that portion of the relevant Project Easement no longer required by reason of such relocation. In the event the relocation of any Project Facilities required by Tejon results in a disruption of operations at the Project

that could not have been reasonably avoided by Grantee (including by scheduling the interruption during a period the Project is not producing electricity or providing Ancillary Services), Tejon shall reimburse Grantee upon demand for all damages resulting from such disruption, including without limitation lost profits which would otherwise have been earned from Project operations.

(C) Material Extensions. In the event of any relocation due to a

pre-existing environmental condition as described in Section 9(A), or due to exercise of Tejon's rights pursuant to Section 10(B), if the relocation materially increases the length of any Easement Parcel, Tejon shall bear the entire cost of the increased length of such relocation (i.e. the parties shall share the cost of the relocation for that portion which is equivalent to the length of the easement being relocated, and Tejon shall bear the entire cost of any additional length).

11. Access Route.

Grantee shall have a nonexclusive right of access from the Project Site to each of the Easement Parcels for the exercise of the rights herein granted, subject to the following conditions:

(A) Existing Routes. Access shall be permitted over a road or roads in

existence from time to time and over the route or routes Tejon shall specify in writing from time to time to the extent Tejon owns land subject to the access right.

(B) New Routes. Grantee shall not extend any existing road or trail and/or

construct or create a new road or trail except with the prior written approval of Tejon as to location and manner of construction and maintenance of the same, which shall not be unreasonably withheld, conditioned or delayed, but the costs of constructing and maintaining any such extension or new road or trail shall be borne by Grantee.

(C) No Vested Right. Grantee shall not have a vested right in any

particular route or routes of access between the Project Site and any of the Easement Parcels, but reasonable access to each Easement Parcel over land owned by Tejon, as specified by Tejon, shall be available to Grantee at all times.

(D) Dedication. Tejon shall have the right, at its election, at any future

time or times to dedicate any such access route or routes, or any portion or portions thereof, for public road purposes in a manner provided for by applicable law.

12. Access Conditions.

(A) Rules and Regulations. Grantee shall use its best efforts to cause its

officers, employees, agents, contractors, subcontractors, suppliers, and others claiming right of access by reason of their relationship to Grantee and a reasonable business purpose necessitating travel to and along the Easement Parcels (collectively, "Authorized Personnel") to comply with the following rules and regulations for access across Tejon's land:

(1) Stops. No stops shall be made between the Project Site and the

destination within an Easement Parcel, except to pass through gates or for emergency reasons.

(2) Gates. All gates which are passed through shall be left open or

closed as encountered.

(3) Firearms; Animals. No firearms, explosives, alcohol, illegal

drugs, dogs, or other animals shall be brought upon Tejon's land.

(4) Identification. Authorized Personnel using Tejon land access

routes other than the Access Road shall carry identification cards issued by Grantee (or by a third party employer). Such personal identification shall be displayed to Tejon's representatives upon request. Prior to construction and from time to time thereafter, Grantee shall furnish to Tejon lists identifying its regular vendors and all Authorized Personnel who may use the access routes.

(5) Marked Vehicles. Only Grantee's company-marked vehicles or other

vehicles bearing a clearly recognizable standardized identification marker of third-party vendors which have been previously identified pursuant to subsection (4) above shall be used for access on routes other than the Access Road.

(6) Access Denial. Tejon shall have the right to deny access to any

particular individual who, in its reasonable opinion, does not carry the proper identification or who has violated the standards of conduct contained in this Agreement.

(7) Trespass. Persons found on Tejon's land outside the Easement

Parcels and not on an authorized access route shall be subject to prosecution for trespass and may be banned from future access.

(8) Speed Limits. Reasonable speed limits established by Tejon shall

be observed. During construction, Grantee shall post and maintain signs along access routes respecting such speed limits. Tejon shall have the right to ban from future access any individual it reasonably deems to be have acted in an unsafe manner despite a prior warning.

(9) Vehicle Inspection. The contents of any vehicle may be inspected

at any time by Tejon's representatives on Tejon's land and/or by any state game warden for the purpose of ensuring security and/or verifying compliance with the provisions of this Agreement and/or with California game laws.

(10) Fire Precautions. Due care shall be exercised to avoid grass,

brush, and forest fires. Each vehicle used off of paved roads upon Tejon's land shall have an exhaust system free from defect that might create a fire hazard, shall be periodically inspected by the Kern County Fire Department to verify its proper operating condition, and shall carry a shovel and other appropriate firefighting equipment. No smoking shall occur while traveling in vehicles or present upon Tejon's land. Tejon shall have the right to ban from future access any individual it reasonably deems to have acted in an unsafe manner despite a prior warning.

(B) Indemnity. Subject to the waiver set forth in Section 12.8 of the

Transaction Agreement, Grantee shall defend, indemnify, and hold Tejon, its directors, officers, employees, agents and affiliates harmless from any and all losses, damages, liabilities, claims, and expenses (including court costs and reasonable attorneys' fees) arising directly or indirectly from the breach of the foregoing rules and regulations by Grantee or any Authorized Personnel. The foregoing indemnity shall apply whether or not Grantee has used best efforts to cause the Authorized Personnel to comply with the foregoing rules and regulations, but indemnification shall be Tejon's only remedy in the event of a breach of any rule or regulation. Tejon acknowledges that this Agreement shall not be terminable due to a breach of any rule or regulation, but Tejon shall have the right to seek declaratory or injunctive relief in order to prevent or stop a breach of any rule or regulation.

13. Access Maintenance.

(A) Repairs and Replacement. Grantee shall promptly repair to their prior

condition and at its sole expense any damage to the access roadways, fences, gates, cattle guards, and other improvements as may be caused by Grantee or its Authorized Personnel. Tejon may require Grantee to replace, with equivalent facilities and at Grantee's expense, any seriously damaged gates and cattle guards.

(B) Road Repair. Upon completion of installation and testing of the

Project Facilities and related appurtenances, Grantee, at its sole expense, shall repair, rehabilitate, blade, refill, and smooth to their prior condition the Edmonston Pump Plant Road and all dirt roads on Tejon's land which Grantee used during the construction and testing period.

(C) Road Repair Contributions. From time to time, Grantee shall contribute

to the cost of repair and maintenance of access routes used in connection with its Project Facilities in proportion to usage thereof by all the users of such access routes, as reasonably determined by Tejon.

(D) Clean and Safe Conditions. Grantee shall maintain the Easement Parcels

and related access routes in a clean, safe, and attractive condition and free from litter, refuse, and waste materials resulting from the use of the Easement Parcels and the related access routes by Grantee and its agents, employees, contractors, subcontractors and suppliers provided that Grantee's obligation with respect to the access routes shall extend only to the litter, refuse and waste actually deposited by Grantee or its Authorized Personnel, and shall not be deemed to be a general maintenance obligation over the access routes.

14. Project Facilities.

No camps, tents, trailers, buildings, or other facilities whatsoever for housing persons shall be established or maintained upon any of the Project Easements granted hereby, except with the prior written consent of Tejon, which may be withheld for any reason or no reason.

15. Fences and Gates.

(A) Installation or Modification. Grantee shall not fence any Easement

Parcel or any part thereof, take down any fence, or install any gate or cattle guard, without Tejon's prior written consent, which shall not be unreasonably withheld or delayed.

(B) Tejon Fencing. Tejon reserves the right to maintain any existing

fences and to construct or cause to be constructed additional or replacement fences along and/or across any Easement Parcel or portion thereof; provided that Grantee's access to or use of such Easement Parcel is not unreasonably impaired.

(C) Tejon's Directions. All fence, gate, and cattle guard construction,

installation, removal, modification, and replacement performed on any Easement Parcel shall be done according to the directions and to the satisfaction of Tejon, and consistent with the access routes to the Easement Parcels designated by Tejon pursuant to Section 11.

(D) Gate Locks. All gates which are installed by Grantee on any Easement

Parcel shall be locked with Grantee's locks; provided, however, if Tejon so desires, such locks shall be locked with Tejon's locks in such manner that either party can lock or unlock said gates. All gates which are now or hereafter may be installed and locked by Tejon on any Easement Parcel or access routes which

are used by Grantee shall be locked also by Grantee's locks so that either party can lock or unlock said gates.

(E) Grantee Locks. Each lock belonging to Grantee shall be stamped with

identifying letters or symbols approved by Tejon in writing. Grantee shall furnish to Tejon a duplicate key to each lock that may be installed by Grantee on Easement Parcel gates as provided herein.

16. Construction and Operation Practices.

The Project Facilities shall be constructed solely at Grantee's expense, in compliance with regulatory requirements, and in conformance with the representations and statements contained in any final environmental impact report (or equivalent environmental analysis) for the construction of the Project and with Grantee's application for Project approval submitted to the California Energy Commission. Grantee shall perform its construction, reconstruction, operation, maintenance, and removal practices respecting the Project Facilities according to the highest standards respecting management, nuisance prevention, safety and respect for the land associated with the pipeline and electric industries, including, but not limited to, the following terms and conditions:

(A) Depth of Pipelines. Grantee shall install underground pipelines with

the uppermost parts at a minimum depth of forty-eight inches (48") below the surface of the ground existing at the time of installation; provided, however, that to the extent consistent with good engineering practices, Grantee may install such pipelines at shallower depths due to specific field conditions with the prior written consent of Tejon, not to be unreasonably withheld or delayed.

(B) Construction Alignment. Prior to commencement of construction,

reconstruction, or replacement which occurs outside the boundaries of any Easement Parcel or which involves above-ground Project Facilities in an Easement Parcel, Grantee shall furnish construction alignment drawings and plans and specifications to Tejon. Before the commencement of any such work, Tejon shall have the right to approve the location of such construction, the plans and specifications for the work, the manner and schedule of any installation work that will involve utilization of land other than an Easement Parcel, or above-ground Project Facilities, or which will affect any Tejon facilities, and the manner of restoration of the ground disturbed by such construction, reconstruction, or replacement; provided, however, such approval shall not be unreasonably withheld or delayed.

(C) As-Built Drawings. Within three hundred sixty-five (365) days after

completion of construction or reconstruction of any Project Facilities, Grantee shall furnish to Tejon as-built drawings of such Project Facilities, as-built maps of their locations and an aerial map with the alignments and locations of the Project Facilities depicted thereon. In the event of any subsequent relocation of Project Facilities, corrected as-built drawings and maps shall be furnished to Tejon to show such relocation.

(D) Grantee's Representative. Grantee shall designate one or more

individuals to act as its representative(s) in respect to emergencies or to any construction, reconstruction or replacement work performed on any Easement Parcel or any other portion of Tejon land. Such representative(s) shall be available at the work site or by telephone on a round-the-clock basis during the continuance of the emergency or work. Such representative(s) shall have the authority and responsibility to receive complaints, verify construction violations and/or unsafe conditions, to contact construction personnel, suppliers, and other agents and contractors of Grantee, and to promptly formulate and carry out appropriate corrective actions so as to minimize damages.

(E) Curative Work. Grantee shall promptly repair or replace to prior

condition and at its sole expense all damages to roads, fences, gates, cattle guards, water lines, or other improvements on Tejon's land arising from Grantee's work on any Easement Parcel.

(F) Litter Control. During the progress of the work, Grantee shall not

allow trash, debris, and other waste material to accumulate in the construction sites and shall collect and remove the same upon a daily basis from the construction sites and the access routes thereto.

(G) Safeguards and Crossings. Grantee shall exercise due care to avoid

injury to persons or damage to property during Grantee's work. Grantee shall erect and maintain such barriers, signs, and other accident prevention devices as are reasonably necessary to give adequate warning of construction conditions and/or to prevent injury to livestock. Grantee shall conduct its construction activities in such manner as to minimize impediments to drainage and reasonable access by traffic crossing the right of way or using roads overlying the right of way. Pipeline construction under paved roads shall be performed as quickly as possible and the schedule and proposed traffic blockages shall be approved in advance by Tejon.

(H) Incurred Losses and Expenses. Damages, losses, and expenses incurred

by Tejon as a result of the activities of Grantee or its Authorized Personnel (subject to the waiver set forth in Section 12.8 of the Transaction Agreement) shall be compensated by Grantee upon presentation of reasonable documentation itemizing and substantiating such damages, losses and expenses. Claims for such losses submitted in writing by Tejon to Grantee's representative shall be paid by Grantee within twenty (20) calendar days after submission of any claim and supporting documentation arising during the initial construction and testing of the pertinent Project Facilities or within thirty (30) days after submission of any claims arising thereafter. Claims not paid within such period shall bear interest from the due date until paid at the Default Rate.

(I) Maintenance. Grantee shall maintain the Project Facilities and the

Easement Parcels in accordance with good engineering practice so as to avoid injury or death to persons or damage to property.

(J) Surface Reclamation. After completion of construction, repair,

reconstruction, removal or cleanup of the Project Facilities, all excavations, ruts, tracks, holes, swales, and other depressions made by Grantee shall be backfilled and compacted to restore the surface of the ground to substantially the same condition it was in before the excavation was made. Grantee shall restore and maintain the surface of the ground disturbed by the installation, construction, replacement, or removal of the Project Facilities as nearly as reasonably possible to the same state and condition it was in prior to the commencement of such activities. Care shall be taken by Grantee so as to avoid erosion and subsidence, and Grantee shall have an ongoing responsibility to correct any such erosion and subsidence that may result from Grantee's activities, including but not limited to construction, repair, or operation of the Project Facilities. Grantee shall reseed all areas in which the natural vegetation (including prevalent non-native grasses) has been disturbed or removed, using for that purpose seed approved by Tejon, combined with an appropriate mulch of straw and fertilizer. Such reseeded shall be repeated annually after the construction or reconstruction until the scarred area is covered.

(K) Repairs/Reconstruction. Once the Project Facilities have been

constructed and are in place, Grantee shall not reconstruct, alter, replace or repair (except for emergency repair) the Project Facilities except in accordance with the requirements of this Section.

(L) Removal of Obstructions. Grantee shall have the right to cut and

remove all trees and brush from the Easement Parcels and shall have the right thereafter to keep the Easement Parcels

free from trees and brush whenever necessary and proper for the enjoyment of the rights hereby granted and conveyed; provided, however, that oak trees shall be cut down only if essential to the construction or maintenance of the Project Facilities. All trees, roots, and brush cut by Grantee in clearing obstructions to the installation, repair, maintenance, replacement, or removal of Project Facilities in any Easement Parcel and the resultant debris shall be promptly disposed of by Grantee at a county landfill or other permitted offsite disposal facility, and Grantee shall not leave any trash or debris upon or adjacent to its rights of way; provided, however, that if in the reasonable opinion of Grantee any trees or wood so cut are valuable for firewood, Grantee shall so notify Tejon and if within ten (10) days after receipt of such notice Tejon so requests, Grantee shall cut the wood in stackable lengths and deliver it to Tejon's Ft. Tejon storage yard.

(M) Appearance of Aboveground Structures. If at any time the character of

the neighborhood or vicinity within which there is located any aboveground Project Facilities (other than the electric power transmission towers) shall become predominantly residential, commercial, or recreational, or Tejon is constructing such a development in the vicinity of such Project Facilities, then, upon written request by Tejon, Grantee shall, at its expense, install and maintain such screening improvements and landscape plantings as are approved by Tejon and are reasonably designed so as to cause the external appearance of such aboveground Project Facilities to attractively conform and harmonize with other uses being made or planned to be made in the surrounding area.

17. Liens.

(A) Mechanics' Liens. Grantee shall keep all Easement Parcels and access

routes thereto and all improvements thereon free and clear from liens or claims for work performed, materials furnished, or obligations incurred by Grantee, and Grantee shall indemnify, defend, and hold Tejon harmless therefrom and from all court costs and reasonable attorneys' fees incurred in connection therewith. Grantee shall have the right to contest the amount or validity of any such lien in accordance with Section 14 of the Ground Lease. The indemnity provisions of Section 14 of the Ground Lease shall apply to any liens on the Easement Parcels and access routes.

(B) Project Financing. Grantee may pledge its rights and interests under

this Agreement as collateral to any Project Financing Entity pursuant to Section 11 of the Transaction Agreement.

(C) Notices of Nonresponsibility. Grantee shall notify Tejon at least

twenty (20) days prior to the commencement of construction of the Project Facilities and ten (10) days prior to the commencement of any other work of improvement on any Easement Parcel and/or the access routes so that Tejon can post or record notices of nonresponsibility.

18. Indemnification and Insurance.

The indemnity provisions of Section 13 of the Ground Lease and the insurance provisions of Section 8.4 of the Ground Lease shall also apply to the Project Easements.

19. Surrender and Removal of Project Facilities.

(A) Removal. Grantee shall have the right with respect to all Project

Facilities, and shall be obligated with respect to above-ground Project Facilities, to remove all such Project Facilities from any area where a Project Easement is terminated for any reason. Upon such termination, Grantee may abandon buried pipelines in place after decommissioning them in accordance with applicable state and/or federal regulations. All Project Facilities not required to be removed as provided above shall be deemed abandoned in place by Grantee and thereupon, at Tejon's option, shall become the

property of Tejon for no additional consideration. In that event, Grantee shall execute and deliver to Tejon, within sixty (60) days after receipt of a written demand therefor, a good and sufficient quitclaim bill of sale or other appropriate instrument conveying to Tejon all of Grantee's interest in the abandoned property. After removal of any Project Facilities, Grantee shall return the real property from which such Project Facilities have been removed to its pre-existing condition.

(B) Quitclaim. Upon any termination of the Project Easements by surrender,

default or expiration of the Term, Grantee shall execute and deliver to Tejon, within sixty (60) days after receipt of a written demand therefor, a good and sufficient quitclaim deed to the rights so terminated. Should Grantee fail or refuse to deliver such quitclaim deed, a written notice by Tejon reciting the failure or refusal of Grantee to execute and deliver such quitclaim deed shall, after ten (10) days from the date or recordation of said notice, be conclusive evidence of the termination of such rights against Grantee and all persons claiming under Grantee. In the event Grantee fails to deliver such quitclaim deed as required, Tejon may proceed to remove the cloud upon Tejon's title by appropriate legal proceedings, and may recover reasonable attorneys' fees and other expenses incidental to quieting title as provided in California Civil Code Section 3306a and/or other applicable law. Acceptance of a deed by Tejon shall not release Grantee from its obligations under this Agreement that have accrued, but which have not been performed.

20. Assignment.

Grantee's right to assign its interest in the Easement Parcels shall be governed by Section 11 of the Transaction Agreement, it being the intention of the parties and the requirement of this Agreement that the assignment of its interest in the Easement Parcels shall occur only in conjunction with an assignment of the Ground Lease and shall be assigned only to the assignee under the Ground Lease. Grantee may also grant subeasements of the Easement Parcels, either in connection with a sublease permitted under Section 11 of the Ground Lease or to third parties providing services to the Project or receiving services from the Project; provided that such subeasements shall be only for the purposes of the Project and not for other commercial purposes which are prohibited pursuant to Section 7(G) above.

21. Default and Remedies.

(A) Ground Lease Termination. This Agreement will terminate in the event

of a termination of the Ground Lease pursuant to Section 18.1 of the Ground Lease due to a default described in Section 17 of the Ground Lease. Such termination shall occur only upon voluntary surrender of the leasehold interest in the Project Site or upon judgment for Tejon in any unlawful detainer or ejectment action.

(B) Performance by Tejon. In the event Grantee fails to observe or perform

any obligation of this Agreement to be performed by Grantee under this Agreement within the time required by this Agreement and/or by Tejon's related notice of default, then unless Tejon is expressly prohibited from performing such work by this Agreement, Tejon may elect, but shall not be required, to perform such work after delivery of thirty (30) days prior written notice to Grantee of such election (except in an emergency no notice is required). If Tejon so elects, Grantee shall pay all of Tejon's costs and expenses of such work, plus an overhead and management fee of ten percent (10%) of such costs and expenses, within twenty (20) days after Grantee's receipt of itemized statements for such work. If Grantee does not pay such statements within such twenty (20) day period, (a) the obligation shall accrue interest after the twentieth day until paid at the Default Rate, and (b) without further notice to Grantee, Grantee shall be in default under this Agreement.

(C) Notice and Cure. In the event Grantee fails to observe or perform any

obligation of Grantee under this Agreement, Tejon shall give written notice of such failure setting forth the obligation with specificity. Grantee shall cure a failure to perform any obligation within thirty (30) days after receipt of notice, unless the nature of the obligation is such that it cannot reasonably be cured within the 30-day period, in which case Grantee shall not be in default if it commences the cure within thirty (30) days and thereafter diligently prosecutes the cure to completion.

(D) Remedies. Tejon may terminate this Agreement only as provided in

subsection (A) above or in the event of a breach of a "material obligation" of Grantee under this Agreement which is not cured within the notice and cure period described in subsection (C) above. The parties agree that a "material obligation" shall be defined as any obligation of Grantee which is material to the realization by Tejon of any of the material benefits intended to be conferred on Tejon by this Agreement. The breach of any non-material obligation of Grantee under this Agreement after the notice and cure period described in subsection (C) above shall entitle Tejon to any remedy at law or equity other than (i) as otherwise waived pursuant to Section 12.8 of the Transaction Agreement, or (ii) termination of this Agreement; provided, however, that breaches under Sections 7(G) and 12(B) shall be governed exclusively by those Sections.

22. Recordation.

Upon execution and delivery, this Agreement shall be recorded in the Official Records of Kern County.

23. Miscellaneous.

The provisions of Section 14 of the Transaction Agreement are incorporated herein by this reference.

24. Glossary.

Agreement - introductory paragraph
Access Easement - Section 1(E)
Access Road - Section 1(E)
Authorized Personnel - Section 12(A)
Default Rate - Section 7(G)
Easement Parcels - Section 1(F)
Electric Easement - Section 1(C)
Electric Facilities - Section 1(C)
Gas Easement - Section 1(A)
Gas Facilities - Section 1(A)
Grantee - introductory paragraph

Lease Agreement - Recital D
material obligation - Section 21(D)
Option Agreement - Recital C
Parcel A - Section 1(A)
Parcel B - Section 1(B)
Parcel C - Section 1(C)
Parcel D - Section 1(D)
Parcel E - Section 1(E)
Project - Recital A
Project Agreements - Recital E
Project Easements - Section 1(F)
Project Facilities - Section 1(F)
Project Site - Recital A
Transaction Agreement - Recital B
Tejon - introductory paragraph
Term - Section 2
Wastewater Easement - Section 1(D)
Wastewater Facilities - Section 1(D)
Water Easement - Section 1(B)
Water Facilities - Section 1(B)

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first hereinabove written.

TEJON RANCHCORP,
a California corporation

By: _____
Dennis Mullins
Vice President

PASTORIA ENERGY FACILITY LLC,
a Delaware limited liability company

By: Enron Capital & Trade Resources Corp.,
its sole member

By: _____
David Parquet
Vice President

EXHIBIT A

PARCEL A

A strip of land located in Kern County, California, which strip of land is
___ feet (___') in width [which shall be no wider than the construction width]
and the centerline of which strip is described as follows:

[This easement may extend beyond Sebastian Road upon payment of \$2.00 per
linear foot per year as provided in Section 3.2(d) of the Lease. Included in the
fixed rent is approximately 9 miles of easement from the Project to Sebastian
Road.]

EXHIBIT B

PARCEL B

A strip of land located in Kern County, California, which strip of land is
___ feet (___') in width [which shall be no wider than the construction width]
and the centerline of which strip is described as follows:

[This easement may include easements from the Project to the California
Aqueduct right of way, from the Project to the water bank facility, and from the
Aqueduct right of way to the water bank facility. Tejon will grant any of these
easements or all of them at no additional cost beyond the fixed rent already
established.]

EXHIBIT C

PARCEL C

A strip of land located in Kern County, California, which strip of land is
___ feet (___') in width [which shall be no wider than the construction width]
and the centerline of which strip is described as follows:

EXHIBIT D

PARCEL D

A strip of land located in Kern County, California, which strip of land is
___ feet (___') in width [which shall be no wider than the construction width]
and the centerline of which strip is described as follows:

EXHIBIT E

PARCEL E

A strip of land located in Kern County, California, which strip of land is
___ feet (___') in width [which shall be no wider than the construction width]
and the centerline of which strip is described as follows:

This schedule contains summary financial information extracted from the balance sheet, income statement, and footnotes and is qualified in its entirety by reference to such financial statements.

6-MOS		
	DEC-31-1999	
	JAN-01-1999	
	JUN-30-1999	353
		11,567
		6,619
		0
		21,872
	41,083	63,556
	(18,788)	
	87,219	
34,557		0
0		0
		6,346
		35,685
87,219		18,890
	18,890	17,312
		17,312
		1,488
		0
		421
		(331)
		(125)
(206)		0
		0
		0
		(206)
		(.02)
		(.02)