

SECURITIES AND EXCHANGE COMMISSION

FORM SC 14D1/A

Tender offer statement. [amend]

Filing Date: **1994-12-27**
SEC Accession No. **0000950136-94-000242**

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SUBJECT COMPANY

MAGMA POWER CO /NV/

CIK: **355878** | IRS No.: **953694478** | State of Incorpor.: **NV** | Fiscal Year End: **1231**
Type: **SC 14D1/A** | Act: **34** | File No.: **005-33882** | Film No.: **94566286**
SIC: **4991** Cogeneration services & small power producers

Mailing Address

*4365 EXECUTIVE DR STE 900
SAN DIEGO CA 92121*

Business Address

*4365 EXECUTIVE DR STE 900
SAN DIEGO CA 92121
6196227800*

FILED BY

CALIFORNIA ENERGY CO INC

CIK: **720556** | IRS No.: **942213782** | State of Incorpor.: **DE** | Fiscal Year End: **1231**
Type: **SC 14D1/A**
SIC: **4961** Steam & air-conditioning supply

Mailing Address

*10831 OLD MILL ROAD
OMAHA NE 68154*

Business Address

*10831 OLD MILL RD STE 900
OMAHA NE 68194
4023308900*

=====

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14D-1
AMENDMENT NO. 1
(Tender Offer Statement Pursuant to Section 14(d)(1)
of the Securities Exchange Act of 1934)

MAGMA POWER COMPANY
(Name of Subject Company)

CE ACQUISITION COMPANY, INC.
CALIFORNIA ENERGY COMPANY, INC.
(Bidders)

COMMON STOCK, PAR VALUE \$0.10 PER SHARE
(Title of Class of Securities)

94-2213782
(CUSIP Number of Class of Securities)

STEVEN A. MCARTHUR, ESQ.
SENIOR VICE PRESIDENT, GENERAL COUNSEL AND SECRETARY
CALIFORNIA ENERGY COMPANY, INC.
10831 OLD MILL ROAD
OMAHA, NEBRASKA 68194
(402) 330-8900
(Name, Address and Telephone Number of Person Authorized
to Receive Notices and Communications on Behalf of Bidder)

Copies to:
PETER J. HANLON, ESQ.
MICHAEL A. SCHWARTZ, ESQ.
WILLKIE FARR & GALLAGHER
ONE CITICORP CENTER
153 EAST 53RD STREET
NEW YORK, NEW YORK 10022
(212) 821-8000
=====

California Energy Company, Inc., a Delaware corporation ("CECI"), and CE Acquisition Company, Inc., a Delaware corporation and a wholly owned subsidiary of CECI (the "Purchaser"), hereby amend and supplement their Statement on Schedule 14D-1 ("Schedule 14D-1") filed with the Securities and Exchange Commission (the "Commission") on December 9, 1994 with respect to the Purchaser's offer to purchase 12,400,000 shares of Common Stock, par value \$0.10 per share (the "Shares"), of Magma Power Company, a Nevada corporation (the "Company") upon the terms and subject to the conditions set forth in the Offer to Purchase dated December 9, 1994 (the "Offer to Purchase") and the related Letter of Transmittal (which together with the Offer to Purchase constitute the "Offer").

Unless otherwise indicated herein, each capitalized term used but not defined herein shall have the meaning assigned to such term in the Schedule 14D-1 or the Offer to Purchase.

Item 4. Source and Amount of Funds or Other Consideration.

The information set forth in Items 4(a)-(b) is hereby amended and supplemented by the following:

On December 21, 1994, CECI, the banks and other financial institutions party thereto, and Credit Suisse, New York Branch executed a Limited Recourse Credit Agreement (the "Tender Facility"), a copy of which is attached hereto as Exhibit (b)(2). The terms of the Tender Facility do not differ in any material respect from the description of such terms set forth in Section 13 of the Offer to Purchase.

Item 9. Financial Statements of Certain Bidders.

The information set forth in Item 9 is hereby supplemented by adding

thereto the following:

In considering the Offer, the holders of Shares may wish to consider the following selected historical and pro forma financial information.

SELECTED HISTORICAL AND PRO FORMA FINANCIAL INFORMATION

Selected Historical Consolidated Financial and Operating Data of CECI

The following table sets forth selected historical consolidated financial and operating data, which should be read in conjunction with CECI's consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" of CECI incorporated by reference to CECI's Annual Report on Form 10-K for the year ended December 31, 1993 and included in CECI's Quarterly Report on Form 10-Q for the quarters ended September 30, 1993 and 1994. The unaudited consolidated financial statements of CECI as of and for the nine months ended September 30, 1993 and 1994 reflect all adjustments necessary, in the opinion of management, (consisting only of normal recurring adjustments) for a fair presentation of such financial data. The selected consolidated data as of and for each of the five years in the period ended December 31, 1993 have been derived from the audited historical consolidated financial statements of CECI.

<TABLE>

<CAPTION>

	Year Ended December 31,					Nine Months Ended September 30,	
	1989	1990	1991	1992	1993	1993	1994
	(In thousands, except per share amounts)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Statement of Operations Data:							
Sales of electricity	\$43,010	\$89,026	\$104,155	\$115,087	\$129,861	\$99,398	\$115,357
Sales of steam	--	--	2,029	2,255	2,198	1,648	1,851
Interest and other income	5,386	7,787	9,379	10,187	17,194	12,294	21,980
Total revenue	48,396	96,813	115,563	127,529	149,253	113,340	139,188
Plant operations, general and administrative and royalties	13,615	37,412	41,506	45,183	46,794	34,019	41,321
Income before depreciation, amortization, interest, income taxes, extraordinary item and cumulative effect of change in accounting principle (1)	34,781	59,401	74,057	82,346	102,459	79,321	97,867
Depreciation and amortization	6,605	13,372	14,752	16,754	17,812	13,044	15,439
Interest expense, net of capitalized interest	15,125	30,464	24,439	14,860	23,389	17,171	36,962
Provision for income taxes	2,715	3,522	8,284	11,922	18,184	14,295	14,067
Income before extraordinary item and cumulative effect of change in accounting principle (1)	10,336	12,043	26,582	38,810	43,074	34,811	31,399
Extraordinary item-refinancing (2)	--	--	--	(4,991)	--	--	(2,007)
Cumulative effect of change in accounting principle (3)	--	--	--	--	4,100	4,100	--
Net income (1)	10,336	12,043	26,582	33,819	47,174	38,911	29,392
Preferred dividends (paid in kind)	--	--	--	4,275	4,630	3,429	3,711
Net income available to common stockholders	10,336	12,043	26,582	29,544	42,544	35,482	25,681
Income per share before extraordinary item and cumulative effect of change in accounting principle (1)							
Assuming no dilution	0.38	0.44	0.75	0.92	1.00	0.81	0.77
Assuming full dilution (4)	0.38	0.44	0.75	0.92	1.00	0.81	0.76
Extraordinary item per share (2)	--	--	--	(0.13)	--	--	(0.06)
Cumulative effect of change in accounting principle per share (3)	\$ --	\$ --	\$ --	\$ --	\$.11	\$.11	\$ --
Net income per share							
Assuming no dilution	0.38	0.44	0.75	0.79	1.11	0.92	0.71
Assuming full dilution (4)	0.38	0.44	0.75	0.79	1.11	0.92	0.70
Weighted average shares outstanding (5)	27,019	27,254	35,471	37,495	38,485	38,436	36,174
Capital expenditures	124,749	32,514	68,377	32,446	87,191	64,250	78,892

<CAPTION>

<S>	December 31,				September 30,		
	1989	1990	1991	1992	1993	1993	1994
<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance Sheet Data:							
Property-power plant, net	\$302,514	\$321,303	\$373,948	\$389,646	\$458,974	\$440,527	\$522,268
Total assets	349,282	393,853	517,994	580,550	715,984	710,659	1,087,064
Total debt	260,120	270,738	257,038	299,334	382,610	390,972	775,534
Preferred stock	--	4,705	54,705	54,350	58,800	57,650	62,350
Stockholders' equity	42,163	55,088	143,128	168,764	211,503	206,675	179,660

</TABLE>

- (1) The Navy I Plant commenced operation prior to 1989 and the BLM and Navy II Plants commenced commercial operation in February 1989 and January 1990, respectively. The Desert Peak, Nevada facility and the Roosevelt Hot Springs, Utah steam field were acquired in March and January 1991, respectively.
- (2) The refinancing of CECI's three largest domestic projects located at the Naval Air Weapons Station at China Lake, California (collectively, the "Coso Project") resulted in an extraordinary item in 1992 in the amount of \$5.0 million, after the tax effect of \$1.5 million. The defeasance of the Senior Notes resulted in an extraordinary item in 1994 in the amount of \$2.0 million, after the tax effect of \$1.0 million.
- (3) On January 1, 1993, CECI adopted Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes" ("SFAS 109"), which resulted in a cumulative adjustment to net income of \$4.1 million in 1993.
- (4) Fully diluted earnings per share reflects the dilutive effect of convertible subordinated debentures as if they were converted at the beginning of the reporting period.
- (5) The number of shares outstanding is calculated by using the treasury stock method.

Selected Historical Consolidated Financial and Operating Data of the Company

The following information concerning the Company is excerpted from the Company's Annual Report on Form 10-K for the year ended December 31, 1993 and Quarterly Report on Form 10-Q for the quarter ended September 30, 1994.

The selected financial data set forth below with respect to the Company's statements of operations for each of the five years in the period ended December 31, 1993 and the balance sheets of the Company as of December 31, 1989 through 1993 are derived from the consolidated financial statements of the Company that have been audited by Coopers & Lybrand, independent certified public accountants. The selected financial data set forth below with respect to the Company's statements of operations for the nine-month period ended September 30, 1994 and 1993 and, with respect to the balance sheet of the Company as of September 30, 1994, have been derived from the unaudited consolidated financial statements of the Company, which, in the opinion of management, reflect all adjustments necessary (consisting only of normal recurring adjustments) for a fair presentation of such financial data.

The selected financial data set forth below should be read in conjunction with the consolidated financial statements and related notes and other financial information included in the Company's Annual Report on Form 10-K for the year ended December 31, 1993 and Quarterly Report on Form 10-Q for the quarter ended September 30, 1994 incorporated herein by reference.

<TABLE>
<CAPTION>

<S>	Year Ended December 31,				Nine Months Ended September 30,		
	1989	1990	1991	1992	1993	1993	1994
<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Statement of Operations Data:							
Total revenues	\$63,103	\$ 85,599	\$94,891	\$108,966	\$167,138	\$124,781	\$146,104
Operating revenues(1)	56,743	76,893	84,135	100,313	162,943	121,146	142,238
Income from operations	26,892	36,694	41,204	49,667	74,913	57,957	67,915
Income before cumulative effect of accounting change	22,295	30,166	33,941	36,358	52,135	39,469	46,843
Cumulative effect of change in accounting for income taxes	--	--	--	17,833 (2)	--	--	--
Net income	22,295	30,166	33,941	54,191	52,135	39,469	46,843
Return on revenues	35.3%	35.2%	35.8%	33.4% (3)	31.2%	31.6%	32.1%

Capital expenditures	\$43,762	\$ 7,054	\$15,711	\$ 12,043	\$ 8,434	\$ 5,718	\$ 8,854
Return on average stockholders' equity	16.1%	17.6%	16.2%	14.3% (3)	16.4%	13.0%	12.5%
Weighted average shares outstanding	21,999	22,898	23,611	22,936	24,063	24,037	24,017
Income before cumulative effect of accounting change per common share							
Assuming no dilution	\$1.01	\$1.32	\$1.44	\$1.59	\$2.17	\$1.64	\$ 1.95
Assuming full dilution(4)	0.96	1.32	1.44	1.52	2.17	1.64	1.95
Income per common share							
Assuming no dilution	1.01	1.32	1.44	2.36 (2)	2.17	1.64	1.95
Assuming full dilution(4)	0.96	1.32	1.44	2.27 (2)	2.17	1.64	1.95

<CAPTION>

	1989	1990	December 31, 1991	1992	1993	September 30, 1994
	(In thousands)					
Balance Sheet Data:						
Property, plant and equipment, net	\$124,062 (5)	\$120,125	\$118,541	\$113,922	\$265,215	\$256,561
Exploration and development costs, net	46,681	44,782	48,644	52,001	107,069	104,271
Total assets	282,624	325,131	353,788	396,650	611,311	630,422
Long-term obligations(6)	98,212	99,297	89,808	87,339	200,509	164,313
Total debt(7)	100,517	102,842	97,541	96,126	226,008	188,969
Stockholders' equity	150,142	192,626	226,872	282,260	351,918	395,286

- (1) Excludes interest and other income.
- (2) The cumulative effect of the Company's adoption of SFAS 109 increased net income by \$17,833, or \$.77 per share. See Note 11, Provision for Income Taxes, accompanying the consolidated financial statements for the year ended December 31, 1992 for the Company incorporated by reference in its Annual Report on Form 10-K for the year ended December 31, 1993.
- (3) Excludes the impact of cumulative effect of change in accounting for income taxes.
- (4) Fully diluted earnings per share reflects the dilutive effect of stock options and warrants at the end of the reporting period.
- (5) Projects in progress reclassified to appropriate asset classification.
- (6) Consists of the noncurrent portion of long-term loans payable and other long-term liabilities.
- (7) Represents loans payable, including the current portion of long-term loans payable.

Pro Forma Unaudited Condensed Combined Financial Data

The following Pro Forma Unaudited Condensed Combined Balance Sheet as of September 30, 1994 and the Pro Forma Unaudited Condensed Combined Statements of Earnings for the year ended December 31, 1993 and the nine months ended September 30, 1994 combine the historical consolidated balance sheets of CECI and the Company as if the acquisition had been effective on September 30, 1994, and the historical statements of income as if the acquisition had been effective at the beginning of the period. The acquisition is reflected under the purchase method of accounting, after giving effect to the pro forma adjustments and assumptions described in the accompanying notes. Under this method of accounting, which is in accordance with generally accepted accounting principles, assets and liabilities of the Company are adjusted to their estimated fair value, and combined with the recorded values of the assets and liabilities of CECI. This pro forma combined financial data should be read in conjunction with the financial data appearing under "SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING DATA OF CECI," "SELECTED CONSOLIDATED FINANCIAL DATA OF THE COMPANY" and the consolidated financial statements, including the notes thereto, of CECI and the Company, incorporated herein by reference to their respective Annual Reports on Form 10-K for the year ended December 31, 1993 and Quarterly Reports on Form 10-Q for the quarter ended September 30, 1994.

CECI has not completed reviewing the Company's records in order to make its determination of the fair value of the Company's assets and liabilities. The fair value adjustments reflected in the accompanying pro forma combined financial data reflect, among other things, estimates of fair value made by CECI based on market quotations and assumptions it believes to be reasonable.

It should be noted, however, that the actual fair values will be determined on the basis of the financial condition of the Company at the time the the Company Shares are purchased.

The pro forma data do not reflect operating efficiencies and cost reductions which CECI anticipates are achievable. The savings would be largely attributable to the economies of scale obtained through the combination of CECI's operations with the Company's operations, and the resulting decrease in employment and occupancy costs, as well as general overhead expenses.

The pro forma combined financial data are not intended to present the results that would have actually occurred if the acquisition had been in effect on the assumed dates and for the assumed periods, and are not necessarily indicative of the results that may be obtained in the future.

Pro Forma Unaudited Condensed Combined Balance Sheet
CECI and the Company
As of September 30, 1994
(In thousands)

<TABLE>

<CAPTION>

<S>	CECI <C>	Company <C>	Pro Forma Adjustments <C>	Pro Forma Combined <C>
Assets				
Cash and short term investments	\$316,349	\$ 5,111	\$(210,944) (4C)	\$110,516
Marketable securities	--	43,609	--	43,609
Joint venture cash and short term investments	27,088	25,478	--	52,566
Restricted cash and short term investments	127,380	--	--	127,380
Accounts receivable-trade and other	33,901	54,204	--	88,105
Prepaid expenses and other assets	--	10,423	--	10,423
Due from joint ventures	1,639	--	--	1,639
Property and plant, net	522,268	395,560	340,000 (4B)	1,257,828
Equipment, net	4,699	--	--	4,699
Notes receivable-joint venture	12,255	--	--	12,255
Other investments	11,517	41,245	--	52,762
Power purchase contracts	--	21,313	60,000 (4B)	81,313
Deferred charges and other assets	29,968	24,480	6,948 (4B, 4C)	61,396
Goodwill	--	8,999	319,143 (4B)	328,142
	-----	-----	-----	-----
Total Assets	\$1,087,064	\$630,422	\$515,147	\$2,232,633
	-----	-----	-----	-----
	-----	-----	-----	-----
Liabilities and Stockholders' Equity				
Liabilities				
Accounts payable	\$ 1,021	\$ 7,832	\$ --	\$ 8,853
Other accrued liabilities	23,357	3,605	--	26,962
Income taxes payable	587	--	--	587
Construction loans	21,079	--	--	21,079
Project loans	233,080	188,969	--	422,049
Senior discount notes	421,375	--	--	421,375
Convertible subordinated debenture	100,000	--	--	100,000
Deferred income taxes	24,774	22,376	\$158,000 (4B)	205,150
Other long term liabilities	--	12,354	500,000 (4C)	512,354
	-----	-----	-----	-----
Total liabilities	825,273	235,136	658,000	1,718,409
Deferred income	19,781	--	--	19,781
Redeemable preferred stock	62,350	--	--	62,350
Commitments and contingencies	--	--	--	--
Stockholders' Equity				
Preferred stock				
Common Stock	2,407	2,401	(1,599) (4A)	3,209
Additional paid in capital	100,000	142,765	49,350 (4A)	292,115
Unrealized gain from marketable securities	--	(677)	677 (4A)	--
Retained earnings	136,769	250,797	(250,797) (4A)	136,769
Treasury stock	(59,516)	--	59,516 (4A)	--
	-----	-----	-----	-----
Total stockholders' equity	179,660	395,286	(142,853)	432,093
	-----	-----	-----	-----
Total liabilities and stockholders' equity	\$1,087,064	\$630,422	\$515,147	\$2,232,633

</TABLE>

The accompanying notes to the pro forma unaudited condensed combined financial statements are an integral part of these statements.

Pro Forma Unaudited Condensed Combined Statements of Earnings
CECI and the Company

For the Year Ended December 31, 1993 and the Nine Months Ended September 30, 1994

(In thousands, except per share data)

<TABLE>

<CAPTION>

	Year Ended December 31, 1993				Nine Months Ended September 30, 1994			
	CECI	Company	Pro Forma Adjustment (4D)	Pro Forma Combined	CECI	Company	Pro Forma Adjustment (4D)	Pro Forma Combined
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues								
Sales of electricity and steam .	\$132,059	\$137,882	\$--	\$269,941	\$117,208	\$124,086	\$--	\$241,294
Royalties	--	19,629	--	19,629	--	15,062	--	15,062
Interest and other income . .	17,194	4,195	(10,547)	10,842	21,980	3,866	(7,910)	17,936
Management services . .	--	5,432	--	5,432	--	3,090	--	3,090
Total Revenue	149,253	167,138	(10,547)	305,844	139,188	146,104	(7,910)	277,382
Costs and Expenses								
Plant operations	25,362	49,493	--	74,855	23,887	41,208	--	65,095
General and administrative	13,158	10,943	--	24,101	9,536	9,602	--	19,138
Royalties	8,274	--	--	8,274	7,898	--	--	7,898
Depreciation and amortization	17,812	21,692	18,254	57,758	15,439	17,737	13,690	46,866
Other non--plant costs . . .	--	471	--	471	--	380	--	380
Interest expense	30,205	9,626	45,000	84,831	44,480	9,262	33,750	87,492
Less interest capitalized	(6,816)	--	--	(6,816)	(7,518)	--	--	(7,518)
Total costs and expenses . .	87,995	92,225	63,254	243,474	93,722	78,189	47,440	219,351
Income before income taxes	61,258	74,913	(73,801)	62,370	45,466	67,915	(55,350)	58,031
Provision for income taxes	18,184	22,778	(26,056)	14,906	14,067	21,072	(19,542)	15,597
Income from continuing operations	43,074	52,135	(47,745)	47,464	31,399	46,843	(35,808)	42,434
Preferred dividends	4,630	--	--	4,630	3,711	--	--	3,711
Income available to common stockholders . .	\$38,444	\$52,135	\$(47,745)	\$42,834	\$27,688	\$46,843	\$(35,808)	\$38,723
Income per common and common equivalent share								
Assuming no dilution	\$1.00	\$2.17		\$0.80	\$0.77	\$1.95		\$0.75
Assuming full dilution	\$1.00	\$2.17		\$0.79	\$0.76	\$1.95		\$0.73
Weighted average common shares outstanding	38,485	24,063		53,784	36,174	24,017		51,473

The accompanying notes to the pro forma unaudited condensed combined financial statements are an integral part of these statements.

Notes To Pro Forma Unaudited Condensed Combined Financial Data
CECI and the Company
(In thousands, except per share data)

The Merger will be accounted for as a purchase. The resulting adjustments are based on the historical consolidated financial statements of CECI and the Company. The final adjustments will be based on the fair value of CECI's Common Stock and the fair value of the assets and liabilities of the Company at or near the closing. For purposes of the pro forma combined financial statements, it is assumed that one hundred percent of the Shares will be acquired and that the fair value of the CECI Common Stock will be \$16.50 (the mid-point of the "Average Closing Price" range limits stipulated in the Agreement and Plan of Merger).

The pro forma unaudited condensed combined financial statements are based on the following assumptions:

1. The Merger occurred as of September 30, 1994 for balance sheet purposes and at the beginning of the periods presented for statement of earnings purposes.
2. 24,043,000 Shares outstanding, net of 200,000 shares owned by CECI, will be purchased for \$39.00 per Share consisting of a package of, on a blended basis, approximately \$28.50 per share in cash and approximately \$10.50 in market value per share of CECI Common Stock (see "Merger Consideration").
3. The options outstanding will be retired for approximately \$8,500,000 in cash.
4. The pro forma adjustments to reflect the effect of the transaction are as follows:

A. The adjustments reflect the elimination of the Company's equity accounts and the issuance of CECI Common Stock.

B. The adjustments which have been made to the net assets of the Company and CECI to give effect to the Merger follow:

Assumed value of the		
CECI Common Stock and cash consideration		
plus estimated direct costs to be		
incurred in consummating the Merger . .	\$942,377	
Cost of retiring outstanding		
Company options	8,500	
Cost of Shares presently owned by CECI . .	5,552	
Net assets of the Company.	\$395,286	
Adjustment to eliminate goodwill		
of the Company.	(8,999)	386,287
Excess of purchase price over carrying		
value of net assets acquired.	570,142	
Allocated to:		
Property and plant.	(340,000)	
Power purchase contracts.	(60,000)	
Deferred income taxes on		
allocated costs	158,000	
Goodwill	\$328,142	

C. The additional cash which CECI will be required to pay in order to effect the Merger has been provided for in the pro forma adjustments as follows:

Reduce cash on hand	\$210,944
Increase long-term debt	500,000
	\$710,944
Represents:	
Payments to Company common stockholders. . .	\$677,444
Payments to Company stock option holders . .	8,500
Other direct acquisition costs	12,500
Finance costs.	12,500
	\$710,944

D. The pro forma adjustments to the pro forma combined statements of earnings include the following:

i. Record amortization of the excess of purchase price over net assets acquired over a 40-year period, eliminate the amortization of goodwill from the historical operating results of the Company and provide depreciation expense on costs allocated to property and plant. CECI's policy is to provide depreciation and amortization expense beginning upon the commencement of energy production over the estimated remaining useful life of plant and equipment or the contract period for costs applicable to power sales and development contracts. Costs of \$150 million have been allocated to power sales and development contracts and plant for which energy production is not expected to commence until 1996 or later. Accordingly, revenues, period operating costs and amortization of future costs to be incurred in the completion of such facilities together with amortization of this allocation of acquisition costs are not included in the pro forma combined statements of earnings.

ii. Increase interest expense relating to amortization of deferred financing costs over ten years and cash used to finance the merger, utilizing an 8.75 percent annual interest rate assumption applied to additional borrowings and a 5 percent annual interest rate assumption applicable to the reduction of cash on hand.

iii. Change income tax expense as a result of pro forma adjustments which affect taxable income.

The pro forma income per common share has been determined on the basis of weighted average outstanding shares which have been adjusted to include the number of shares of CECI Common Stock to be exchanged for the outstanding Shares.

5. The pro forma combined income from continuing operations available to common shareholders per share for the year ended December 31, 1993, and nine months ended September 30, 1994, would be \$0.82 and \$0.78, respectively, based upon the assumption that (1) 100% of the Shares are acquired by CECI and (2) the market value of CECI Common Stock issued to the present shareholders of the Company is \$18.73 per share. The pro forma combined book value per share at September 30, 1994, would be \$9.45 under the same assumptions.

6. The pro forma combined income from continuing operations available to common shareholders per share for the year ended December 31, 1993, and nine months ended September 30, 1994, would be \$0.76 and \$0.72, respectively, based upon the assumption that (1) 100% of the Shares are acquired by CECI and (2) the market value of CECI Common Stock issued to the present shareholders of the Company is \$14.27 per share. The pro forma combined book value per share at September 30, 1994, would be \$8.66 under the same assumptions.

Item 11. Material to be Filed as Exhibits.

(b) (2) Limited Recourse Credit Agreement, dated December 21, 1994, by and among California Energy Company, Inc., the banks and other financial institutions parties thereto and Credit Suisse, New York Branch.

(b) (3) Form of Borrower Pledge and Security Agreement to be made by California Energy Company, Inc. in favor of Credit Suisse, New York Branch.

(b) (4) Form of CE Acquisition Pledge Agreement to be made by CE Acquisition Company, Inc. in favor of Credit Suisse, New York Branch.

(b) (5) Form of Term Note.

Signatures

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: December 27, 1994

CE ACQUISITION COMPANY, INC.

By: /s/ Steven A. McArthur

Steven A. McArthur
Senior Vice President, General
Counsel and Secretary

CALIFORNIA ENERGY COMPANY, INC.

By: /s/ Steven A. McArthur

Steven A. McArthur
Senior Vice President, General
Counsel and Secretary

EXHIBIT INDEX

Exhibit No. -----	Description -----	Page No. -----
(b) (2) parties	Limited Recourse Credit Agreement, dated December 21, 1994, by and among California Energy Company, Inc., the banks and other financial institutions thereto and Credit Suisse, New York Branch.	
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(b) (5)	Form of Term Note.	

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LIMITED RECOURSE CREDIT AGREEMENT

by and among

CALIFORNIA ENERGY COMPANY, INC.,
as Borrower

THE BANKS AND OTHER FINANCIAL
INSTITUTIONS PARTIES HERETO,
as Banks

and

CREDIT SUISSE, NEW YORK BRANCH,
as Agent

=====

Dated as of December 21, 1994
Tender Offer Facility

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Exhibit I-1	- Opinion of Willkie Farr & Gallagher, New York Counsel
Exhibit I-2	- Opinion of Steven A. McArthur, General Counsel to Borrower

LIMITED RECOURSE CREDIT AGREEMENT

This LIMITED RECOURSE CREDIT AGREEMENT, dated as of December 21, 1994, is made by and among CALIFORNIA ENERGY COMPANY, INC., a Delaware corporation ("Borrower"), THE BANKS AND OTHER FINANCIAL INSTITUTIONS PARTIES HERETO ("Banks") and CREDIT SUISSE, NEW YORK BRANCH, as agent for the Banks (in such capacity, "Agent").

The parties hereto agree as follows:

ARTICLE I

Definitions and Interpretation

Section 1.1 Defined Terms. As used in this Agreement:

"Acquisition" means the acquisition by CE Acquisition of the Magma Shares in connection with the Tender Offer.

"Affiliate" means, as to any Person, any other Person directly or indirectly controlling or controlled by or under common control with such Person. For the purpose of Section 5.2(f), the term "Affiliate" shall include only Kiewit Energy and any entity owning 10% or more of the capital stock or other equity interest having the power to vote for the election of directors (or persons fulfilling similar responsibilities) of Kiewit Energy or Borrower.

"Agency Office" means the office of Agent designated on the Commitment Schedule, or such other office of Agent as Agent may from time to time designate by notice to Borrower and the Banks.

"Agent" means Credit Suisse in its capacity as agent for the Banks hereunder, and any successor thereto in such capacity.

"Alto Peak" means a prospective 72 gross megawatt Philippine geothermal project of Magma.

"Applicable Agent's Account" means the account of Agent maintained at the Agency Office, or such other account of Agent as may be hereafter from time to time designated by Agent upon notice to the Borrower and the Banks, as the account through which the Banks are to make Loans and the Borrower is to repay Loans and to pay the other sums due under this Agreement.

"Applicable Lending Office" means with respect to each Bank the office of such Bank designated on the Commitment Schedule, or in the Assignment and Acceptance Agreement pursuant to which it became a Bank, or such other office of such Bank as such Bank may from time to time designate by notice to Borrower and the Agent.

"Applicable Margin" means (a) with respect to any Base Rate Loan, 125 basis points (1.25%) per annum, and (b) with respect to any Eurodollar Rate Loan, 250 basis points (2.50%) per annum.

"Assignee" has the meaning ascribed thereto in Section 8.11.

"Assignment and Acceptance Agreement" means an assignment and acceptance agreement, in compliance with Section 8.11 and substantially in the form of Exhibit A hereto.

"Banks" means the banks and other financial institutions signatory hereto in their capacity as Banks, and any Assignees hereafter added as Banks under one or more Assignment and Acceptance Agreements pursuant to Section 8.11.

"Banking Day" means (a) a day on which banks are not required or authorized to close in the city in which the Agency Office or any Applicable Lending Office is located, and, in matters relating to the determination of a Eurodollar Rate or Interest Period, a day on which the London interbank market deals in Dollar deposits, and (b) with respect to a day on which a Notice of Borrowing is to be given to Agent at the Agency Office or on which notifications or other

documents are to be received by, or an action is required of Agent at the Agency Office pursuant to the provisions of this Agreement, a day on which banks are not required or authorized to close in the city in which the Agency Office is located.

"Bankruptcy Code" means Title 11 of the United States Code entitled "Bankruptcy," as amended from time to time, or any successor statute.

"Base Rate" means a fluctuating rate per annum which is at all times equal to the higher of (a) the rate per annum announced by Credit Suisse (New York Branch) from time to time as its base lending rate for commercial loans in

Dollars in the United States or (b) the rate quoted by Credit Suisse (New York Branch), at approximately 11:00 a.m. New York City time, to dealers in the New York federal funds market for overnight offering of Dollars by Credit Suisse (New York Branch) for deposit, plus a margin of 0.50 percentage points, the Base Rate to change as and when such rates change. The base lending rate is not the lowest rate of interest charged by Credit Suisse in connection with extensions of credit.

"Base Rate Loan" means any Loan bearing interest as provided in Section 2.3(a).

"Borrower Pledge Agreement" means the Pledge Agreement dated as of the Closing Date by Borrower in favor of Agent substantially in the form of Exhibit B hereto, as it may be amended or supplemented from time to time.

"Borrower Subsidiary" means any Subsidiary of Borrower other than Magma and its Subsidiaries.

"Borrower Tender Offer Documents" means the Offer to Purchase and all other documents filed by or on behalf of Borrower or its Affiliates with the SEC with respect to the Tender Offer.

"Cash Equivalent" means any of the following: (i) securities issued or directly and fully guaranteed or insured by the United States of America or any agency or instrumentality thereof (provided that the full faith and credit of the United States of America is pledged in support thereof) with a maturity date not more than six months from the date of acquisition, (ii) time deposits and certificates of deposit of any commercial bank organized in the United States of America having capital and surplus in excess of \$500,000,000 or any commercial bank organized under the laws of any other country having total assets in excess of \$500,000,000 with a maturity date not more than six months from the date of acquisition, (iii) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clauses (i) or (iv) that were entered into with any bank meeting the qualifications set forth in clause (ii) or another financial institution of national reputation acceptable to Agent, (iv) commercial paper issued by (a) the parent corporation of any commercial bank organized in the United States of America having capital and surplus in excess of \$500,000,000 or any commercial bank organized under the laws of any other country having total assets in excess of \$500,000,000, and (b) others having one of the two highest ratings obtainable from either S&P or Moody's (or, if at any time neither S&P nor Moody's may be

rating such obligations, then from another nationally recognized rating service acceptable to Agent) and in each case maturing within six months from the date of acquisition, (v) overnight bank deposits and bankers' acceptances at any commercial bank organized in the United States of America having capital and surplus in excess of \$500,000,000 or any commercial bank organized under the laws of any other country having total assets in excess of \$500,000,000, (vi) deposits available for withdrawal on demand with any commercial bank organized in the United States of America having capital and surplus in excess of \$500,000,000 or any commercial bank organized under the laws of any other country having total assets in excess of \$500,000,000, (vii) investments in money market funds substantially all of whose assets comprise securities of the types described in clauses (i) through (v) and (viii) money market preferred stock having one of the two highest ratings obtainable from either S&P or Moody's (or, if at any time neither S&P nor Moody's may be rating such obligations, then from another nationally recognized rating service acceptable to Agent).

"CE Acquisition" means CE Acquisition Company, Inc., a Delaware corporation and a wholly-owned subsidiary of Borrower.

"CE Acquisition Credit Agreement" means the credit agreement dated as of the Closing Date by and between CE Acquisition and Borrower in form and substance satisfactory to Agent.

"CE Acquisition Pledge Agreement" means the Pledge Agreement dated as of the Closing Date by CE Acquisition in favor of Borrower substantially in the form of Exhibit C hereto, as it may be amended or supplemented from time to time.

"CE Acquisition Secured Term Note" means the Secured Term Note made by CE Acquisition in favor of Borrower in a principal amount equal to the aggregate amount of the Loans made on the Closing Date, substantially in the form of Exhibit D hereto.

"Change of Control" means that (x) a Person (together with any affiliates of such Person or Persons otherwise associated with such person) or a "group" within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934 (the "1934 Act") is or becomes the beneficial owner (as defined under Rule 13(d) of the 1934 Act), directly

or indirectly, of shares of stock of Borrower entitling such person to exercise 25% or more of the total voting power of all classes of stock of Borrower entitled to vote in election of directors (a "Control Interest"), other than any Person or group or any of their Affiliates which on the date hereof holds a Control Interest and (y) Kiewit Energy does not own a Control Interest at least as large as that held by the Person or "group" described in clause (x) above.

"Closing Date" means the date on which the first Loan under any Commitment is made.

"Collateral" means, collectively: (i) all capital stock and other property pledged pursuant to the Security Documents, (ii) all "collateral" as defined in the Security Documents, (iii) all real property mortgaged pursuant to the Security Documents and (iv) any property or interest provided in addition to or in substitution for any of the foregoing.

"Commitment" means, as to any Bank, the amounts set forth opposite such Bank's name as its Commitment on the Commitment Schedule, subject to adjustment for the effect of any one or more Assignment and Acceptance Agreements to which such Bank may be a party.

"Commitment Schedule" means the schedule attached as Schedule 1 hereto.

"Compliance Certificate" means a certificate of, and duly executed by, a Responsible Officer of Borrower in the form of Exhibit E hereto.

"Consolidated Net Worth" means at any date of determination thereof, all amounts that would, in conformity with GAAP, be included as shareholders' equity on a consolidated balance sheet of Borrower and its Subsidiaries as of such date.

"Control" (including the terms "controlling," "controlled by" and "under common control with") means the possession, direct or indirect, 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.

"Credit Documents" means this Agreement, the Notes, the CE Acquisition Credit Agreement, the CE Acquisition Secured Term Note, any Assignment and Acceptance Agreements, the Security Documents, and any certificates, opinions, warranties and representations, and other documents required to be delivered pursuant to Section 3.1 or 5.1(h) or

delivered pursuant to or in connection with any one or more of the foregoing and expressly designated by Agent as a "Credit Document" at the time of delivery hereunder.

"Debt" means (i) indebtedness for borrowed money, (ii) obligations to pay the deferred purchase price of property or services, (iii) obligations as lessee under leases which shall have been or are required to be, in accordance with GAAP, recorded as capital leases, (iv) obligations evidenced by bonds, debentures, notes, or equivalent instruments, (v) reimbursement obligations in respect of drawings made or available under letters of credit, (vi) obligations under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, obligations of others of the kinds referred to in clauses (i) through (v) above (but excluding surety, bid, operating and performance guarantees or other similar instruments or obligations incurred in the ordinary course of business), (vii) withdrawal liability incurred by Borrower or any ERISA Affiliate under ERISA to any Multiemployer Plan which is required to be reserved for, reflected or disclosed in financial statements prepared in accordance with GAAP and (viii) without duplication of any of the foregoing, the items listed in the definition of "Debt" in Section 101 of the Indenture.

"Default" means any event, occurrence, condition,

act or omission which with the giving of notice, the passage of time or both would constitute an Event of Default.

"Directive" means any Law, and any directive, guideline or requirement of any governmental authority (whether or not having the force of law).

"Dollar" and "\$" means the lawful currency of the United States of America.

"Employee Benefit Plan" means any employee benefit plan (other than a Multiemployer Plan) within the meaning of Section 3(3) of ERISA which (i) is maintained for, or on behalf of, its current or former employees, officers or directors by Borrower or any ERISA Affiliate or (ii) has at any time within the preceding six years been maintained for, or on behalf of, its current or former employees, officers or directors by Borrower or any current or former ERISA Affiliate.

"Environmental Laws" means any Law imposing liability or standards of conduct concerning, or otherwise relating to, pollution, waste disposal, industrial hygiene, occupational health and safety, the manufacture, use, handling or release of Hazardous Materials or the protection of human health, plant life or animal life, natural resources or the environment.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA Affiliate" means, as applied to Borrower, any Person who is a member of a group which is under common control with Borrower, who together with Borrower is treated as a single employer within the meaning of Section 414(b), (c), (m) or (o) of the IRC or Section 4001(b) of ERISA.

"Eurocurrency Liabilities" has the meaning specified in Regulation D promulgated by the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Eurodollar Rate" means, for each Interest Period for each Eurodollar Rate Loan, the rate of interest per annum (based on a year of 360 days and calculated on actual days elapsed) equal at all times during such Interest Period to the quotient (rounded upward, if necessary, to the nearest one-sixteenth of one percent (0.0625%)) of (i) the rate of interest determined by Agent to be the arithmetic average (rounded upward, if necessary, to the next higher 1/100 of 1%) of the rates at which deposits in Dollars are offered by Reference Banks to prime banks in the London interbank market at 11:00 a.m. (London time) two Banking Days before the first day of such Interest Period for a period equal to such Interest Period and in an amount as to each Reference Bank substantially equal to the Eurodollar Rate Loan of such Reference Bank divided by (ii) a percentage equal to 100% minus the Eurodollar Rate Reserve Percentage (as defined below) for such Interest Period.

"Eurodollar Rate Loan" means any Loan bearing interest as provided in Section 2.3(b).

"Eurodollar Rate Reserve Percentage" for each Interest Period for each Eurodollar Rate Loan means the highest reserve percentage applicable during such Interest Period under regulations issued from time to time by the Board of Governors of the Federal Reserve System or any successor for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement), with respect to

liabilities or assets consisting of or including Eurocurrency Liabilities (as defined below) having a term equal to such Interest Period.

"Event of Default" has the meaning specified in Section 6.1.

"EWG" has the meaning ascribed thereto in Section 4.1(bb).

"Exchange Act" means the Securities and Exchange Act of 1934, as amended from time to time.

"Federal Funds Rate" means, for any day, the rate per annum (rounded upwards, if necessary, to the nearest one-hundredth (1/100th) of one percent (1%)), equal to the weighted average of the rates of overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers as published for such day (or if such day is not a Banking Day, for the next preceding Banking Day) by the Federal Reserve Bank of New York, or if such rate is not so published for any day which is a Banking Day, the average of the quotations for such day on such transactions received by Agent from three (3) federal funds brokers of recognized standing selected by Agent.

"Fees" has the meaning ascribed thereto in Section 2.5.

"FERC" means the Federal Energy Regulatory Commission or any successor thereto.

"Final Maturity Date" means (x) the first anniversary of the Closing Date or such later date to which such date may be extended pursuant to Section 2.8 or (y) the date of the consummation of the Merger, if earlier; provided, however, that if the outstanding principal amount of the Loans, interest thereon and other amounts payable hereunder shall be due and payable sooner pursuant to Section 6.1 or otherwise, then the Final Maturity Date shall be such earlier date that such amounts are due and payable.

"FPA" has the meaning ascribed thereto in Section 4.1(bb).

"GAAP" means United States generally accepted accounting principles.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Hazardous Materials" means any asbestos, flammables, volatile hydrocarbons, industrial solvents, explosive or radioactive materials, hazardous wastes, toxic substances or related materials including, without limitation, substances defined as "hazardous substances," "hazardous materials," "contaminants," "pollutants," "hazardous wastes" or "toxic substances" (A) in (i) the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act, 42 U.S.C. Section 9601 et seq., (ii) the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801 et seq., (iii) the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq., (iv) the Federal Water Pollution Control Act, as amended, 33 U.S.C. Section 1251 et seq., (v) the Clean Air Act, 33 U.S.C. Section 7401 et seq., (vi) the Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq., (vii) the Safe Drinking Water Act, 42 U.S.C. Section 300f et seq., (viii) applicable foreign, state or local law, or (ix) the rules, orders or regulations adopted or proposed or in the publications promulgated pursuant to said laws; or (B) in any reported decision of a foreign, state or federal court.

"Indenture" means the Indenture dated as of March 24, 1994 between Borrower and IBJ Schroder Bank & Trust Company, relating to Borrower's 10-1/4% Senior Discount Notes due 2004 in the aggregate amount of \$529,640,000, as in effect on the date hereof.

"Interest Period" means, for each Loan, the period commencing on the date of such Loan and ending on the last day of the period selected by Borrower with respect to Loans made to it pursuant to the provisions of Section 2.1. The duration of each such Interest Period shall be (i) in the case of a Eurodollar Rate Loan, 1, 2, 3 or 6 months (or such other period as may be requested by Borrower and which Agent reasonably determines is available), and (ii) in the case of a Base Rate Loan, any period that does not extend beyond the Final Maturity Date; provided, however, that:

(i) Borrower may not select any Interest Period which ends after the then existing Final Maturity Date;

(ii) whenever the last day of any Interest Period would otherwise occur on a day other than a Banking

Day, the last day of such Interest Period shall be extended to occur on the next succeeding Banking Day; provided, however, that, with respect to any Interest Period for a Eurodollar Rate Loan, if such extension would cause the last day of such Interest Period to occur in the next following month, the last day of such Interest Period shall occur on the next preceding Banking Day; and

(iii) whenever the first day of any Interest Period occurs on a day of an initial calendar month for which there is no numerically corresponding day in the calendar month that succeeds such initial calendar month by the number of months equal to the number of months in such Interest Period, such Interest Period shall end on the last Banking Day of such succeeding calendar month.

"Investment" in any Person means (i) any loan or advance to such Person, (ii) any purchase or other acquisition of any capital stock, warrants, rights, options, obligations or other securities of such Person, (iii) any capital contribution to such Person, (iv) any other investment in such Person or (v) without duplication of any

of the foregoing, any of the items listed in the definition of "Investment" in Section 101 of the Indenture.

"IRC" means the Internal Revenue Code of 1986, as amended from time to time.

"Kiewit Energy" means Kiewit Energy Company, a Delaware corporation, and any other Subsidiary or Affiliate of Peter Kiewit Sons' Inc., a Delaware corporation, Kiewit Construction Group Inc., a Delaware corporation, or Kiewit Diversified Group, Inc., a Delaware corporation.

"Laws" means all federal, state, local or foreign laws, rules, regulations and treaties, all judgments, awards, orders, writs, injunctions or decrees issued by any federal, state, local or foreign authority, court, tribunal, agency or other governmental authority, or by any arbitrator, all permits, licenses, approvals, franchises, notices, authorizations and similar filings, by or with any federal, state, local or foreign governmental authority and all consent decrees or regulatory agreements with any federal, state, local or foreign governmental authority.

"Liens" means any lien, mortgage, security interest, pledge, encumbrance, charge, conditional sale or other title retention arrangement, or any undertaking or

arrangement with respect to property or rights (including a "negative pledge") which has the practical effect of preventing the grant of a security interest or lien securing the Obligations.

"Loan" has the meaning ascribed thereto in Section 2.1(a) and includes Base Rate Loans or Eurodollar Rate Loans.

"Magma" means Magma Power Company, a Nevada corporation.

"Magma Litigation" means the proceedings and actions identified on Schedule 2.

"Magma Shares" means 12,400,000 shares of the Common Stock, par value \$0.10 per share, of Magma.

"Magma Tender Offer Documents" means all documents filed by or on behalf of Magma or its Affiliates with the SEC with respect to the Tender Offer.

"Majority Banks" means:

(a) As of any time before the Closing Date, Banks holding Commitments which collectively constitute more than 50% of the aggregate amount of all Commitments; and

(b) As of any time on or after the Closing Date, Banks whose total outstanding Loans exceed 50% of the total outstanding Loans of all Banks.

"Malitbog" means the 231 gross megawatt Philippine geothermal project of Magma currently under construction.

"Material Adverse Effect" means (a) subject to the proviso to this definition, any change or effect, when taken together with all other adverse changes and effects relating to Borrower and its Subsidiaries that is materially adverse to the business, operations, properties, condition (financial or otherwise), assets or liabilities (including, without limitation, contingent liabilities) of Borrower and its Subsidiaries, taken as a whole, or (b) subject to the proviso to this definition, any change or effect, when taken together with all other adverse changes and effects relating to CE Acquisition and its Subsidiaries that is materially adverse to the business, operations, properties, condition (financial or otherwise), assets or liabilities (including, without limitation, contingent liabilities) of CE Acquisition and its Subsidiaries, taken as a whole, or (c) the material impairment of the ability of Borrower to perform its obligations under any Credit Document to which it is a party

or the material impairment of the ability of Agent or any Bank to enforce or collect any of the Obligations, or (d) the material impairment of the ability of CE Acquisition to perform its obligations under the CE Acquisition Secured Term Note, or (e) the impairment of the perfection of the security interest in, or the ability of the Agent to realize upon, any part of the Collateral; provided, however, that for purpose of determining whether Borrower has satisfied the conditions set forth in Section 3.1, the occurrence of any or all of the following shall not constitute a "Material Adverse Effect" under clause (a) or (b) of this definition: (i) a failure to receive any contract or award for which Magma or any of its Subsidiaries has submitted or will submit a competitive bid, (ii) the loss of any contract or arrangement (whether by revocation, lapse or invalidity) with respect to a project that Magma or any of its Subsidiaries has under development, other than any such loss related to Malitbog, Fish Lake (as defined below) or Alto Peak and other than any such loss resulting from a breach by Magma of the representations and

warranties set forth in Sections 4.22 and 4.23 of the Merger Agreement, (iii) an unfavorable ruling by the California Public Utilities Commission with respect to Magma's California plants under the pending Biennial Resource Plan Update, (iv) a loss of, or unfavorable ruling in, Magma's pending litigation against Southern California Edison Company, but only insofar as such litigation seeks to increase the energy price payable for deliveries over nameplate capacity and not insofar as any unfavorable ruling affects the validity or enforceability of any contract subject thereto or the enforceability of any material term thereof, (v) a failure to close any public or private financing of any project in which Magma or any of its Subsidiaries owns a direct or indirect interest (other than as a result of a loss with respect to Malitbog or Fish Lake or as a result of a breach by Magma of the representations and warranties set forth in Section 4.22 or 4.23 of the Merger Agreement) or (vi) the termination of the employment of any employee, officer, director or consultant of Magma or any of its Subsidiaries. For purpose of this definition of "Material Adverse Effect" the term "Fish Lake" shall mean the capacity expansion of 36 megawatts at Magma's Salton Sea project in connection with a 16 megawatt Interim Standard Offer No. 4 contract originally assigned to Magma's geothermal resources at Fish Lake, Nevada, and in connection with a 20 megawatt expansion option under a negotiated contract that was acquired as part of Magma's acquisition of Union Oil Company of California's Salton Sea geothermal assets in March 1993.

"Material Subsidiary" means (i) Magma, (ii) CE Acquisition, (iii) each Project Owner and (iv) with respect to Borrower, any Person which is (x) a Subsidiary of Borrower which holds any material amount of capital stock of Borrower, or (y) a Subsidiary of Borrower which is a "significant subsidiary", with respect to Borrower as defined in Section 1-02(v) of Regulation S-X of the Securities and Exchange Commission (17 C.F.R. Section 210.1-02(v)) as the same may be from time to time amended or the equivalent definition under any successor or replacement regulation of the Securities and Exchange Commission; provided, however, that no Person which has at any time been a Material Subsidiary by reason of the foregoing shall cease to be such a Material Subsidiary for the purposes hereof unless Borrower has theretofore given Agent notice of such change in status.

"Maturity Date" means with respect to each Eurodollar Rate Loan, the last day of the Interest Period applicable to such Eurodollar Rate Loan.

"Maximum Loan Value" shall have the meaning assigned to such term in Section 221.8 of Regulation U.

"Merger" means the merger between CE Acquisition and Magma pursuant to the Merger Agreement.

"Merger Agreement" means the Merger Agreement dated as of December 5, 1994 among Borrower, CE Acquisition and Magma.

"Moody's" means Moody's Investors Services, Inc.

"Multiemployer Plan" means a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA to which Borrower or any ERISA Affiliate is making, or is obligated to make, contributions or has made, or has been obligated to make, contributions within the preceding six years.

"Note" shall mean any promissory note issued by Borrower pursuant to Section 2.4(i) hereof, substantially in the form annexed as Exhibit F hereto, appropriately completed in conformity herewith.

"Notice of Borrowing" means a request by Borrower for Loans on the Closing Date pursuant to Section 2.1 and in the form of Exhibit G hereto.

"Notice of Conversion or Continuation" means a request by Borrower for the conversion of one Type of Loan to another Type of Loan or the continuation of a Eurodollar Rate Loan pursuant to Section 2.1(g) and in the form of Exhibit H hereto.

"Obligations" means any and all obligations, indebtedness and liability of Borrower of every kind and character, owed to Agent or the Banks, arising directly or indirectly out of or in connection with the Credit Documents (including any modifications, amendments, extensions, restatements or renewals of, supplements to, or substitutions or replacements for, any one or more of the Credit Documents), and including all such obligations, indebtedness and liability, whether for principal, interest (including interest that, but for the filing of a petition in bankruptcy with respect to Borrower, would have accrued on the Obligations), reimbursement obligations, fees, costs, expenses, premiums, charges, attorneys' fees, indemnity, whether heretofore, now, or hereafter made, incurred or created, whether voluntarily or involuntarily and however arising, whether or not due, whether absolute or contingent,

liquidated or unliquidated, or determined or undetermined, and whether Borrower may be liable individually or jointly with others.

"Offer to Purchase" means the Offer to Purchase of Borrower and CE Acquisition dated December 9, 1994 relating to the Acquisition.

"Pension Plan" means any Employee Benefit Plan which is subject to the provisions of Title IV of ERISA or Section 412 of the IRC and which (a) is maintained for employees of Borrower or any of its ERISA Affiliates or (b) has at any time within the preceding six years been maintained for the employees of Borrower or any of its current or former ERISA Affiliates.

"Permitted Liens" means any Liens that (i) do not in any way affect or relate to the Collateral or the Agent's security interest in the Collateral and (ii) are:

(a) Liens for taxes, or other governmental levies and assessments that (x) do not arise under ERISA or Environmental Laws and (y) are not yet due or which are being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on the books of Borrower in accordance with GAAP;

(b) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business which are not overdue for a period of more than 60 days or which are being

contested in good faith and by appropriate proceedings;

(c) pledges or deposits in connection with workmen's compensation, unemployment insurance and other social security legislation;

(d) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(e) easements, rights-of-way, restrictions (including landmarking and zoning restrictions) and other similar encumbrances incurred or imposed in the ordinary course of business which are not of the nature of a Lien for security purposes and which, in the aggregate, do not require the expenditure of substantial sums, and which do not in any case materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the business of Borrower or any of its Subsidiaries;

(f) Liens incidental to the conduct of its business or the ownership of its property and assets which do not relate to Debt, do not arise under ERISA, the IRC or Environmental Laws and which do not materially detract from the value of its property or its assets or materially impair the use thereof in the operation of its business;

(g) zoning and landmarking restrictions;

(h) Liens arising under the Security Documents;

(i) Liens arising from judgments, provided that (1) the execution or other enforcement of such Lien is effectively stayed, (2) the judgment secured thereby is being actively appealed in good faith and by appropriate proceedings, (3) adequate book reserves shall have been established and maintained and shall exist with respect thereto, (4) such Lien shall have been in existence no more than sixty days from the date of its creation, and (5) the aggregate amount so secured shall not at any time exceed \$25,000,000;

(j) Purchase Money Liens, if, after giving effect thereto and any concurrent transactions: (1) each such Purchase Money Lien secures Debt in an amount not exceeding the lesser of (x) the cost of acquisition or construction of the property subject to such Lien or

(y) the fair market value of such property at the time of acquisition or construction, and (2) no Default or Event of Default would exist as a result of incurring the Debt secured by such Purchase Money Lien;

(k) Liens existing on property of an entity at the time such property is acquired by the Borrower or a Subsidiary, or at the time such entity becomes a Subsidiary, provided such Liens (x) are not created, incurred or assumed in contemplation of such acquisition or of such entity becoming a Subsidiary and (y) do not extend to any other property of Borrower or any of its

Subsidiaries; and

(l) Liens created in the ordinary course of business of Magma and its Subsidiaries in connection with the development, construction, operation, financing or refinancing of a Permitted Facility (as defined in the Indenture) and which are consistent with Section 1012(iii)(B), (vii), (viii), (ix)(D) or (ix)(E) of the Indenture.

"Person" means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture or other entity, or a government or any political subdivision or agency thereof.

"PBGC" means the Pension Benefit Guaranty Corporation or any successor thereto.

"Plants" has the meaning ascribed thereto in Section 4.1(bb).

"Project Owners" means, collectively, Del Ranch, Ltd., a California limited partnership, Elmore, L.P., a California limited partnership, Leathers, L.P., a California limited partnership, Vulcan/BN Geothermal Power Company, a Nevada general partnership, Salton Sea Power Company, a Nevada Corporation, Magma Operating Company, a Nevada corporation, Salton Sea Brine Processing, L.P., a California limited partnership, Salton Sea Power Generation, L.P., a California limited partnership and Visayas Geothermal Power Company, a Philippine general partnership.

"PUHCA" means the Public Utility Holding Company Act of 1935, as amended.

"Purchase Money Lien" means any Lien on property acquired or constructed by Borrower after the Closing Date, which Lien secures all or a portion of the related purchase price or construction costs of such property, provided that such Lien (1) is created within 180 days of such acquisition or construction, (2) encumbers only property purchased or constructed after the Closing Date and acquired or constructed with the proceeds of the Debt secured thereby, and (3) such Lien does not extend to any other property.

"QF" has the meaning ascribed thereto in Section 4.1(bb).

"Reference Banks" means the New York City office of Credit Suisse or any substitute Reference Bank for either of the foregoing from time to time selected by Agent with Borrower's written consent (which consent shall not be unreasonably withheld).

"Regulation G" means Regulation G of the Board of Governors of the Federal Reserve System, 12 C.F.R. Part 207, as amended from time to time.

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System, 12 C.F.R. Part 221, as amended from time to time.

"Reportable Event" has the meaning assigned to that term in Title IV of ERISA.

"Requirement of Law" means as to any Person, the Certificate of Incorporation and By-Laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation, or any award, order, judgment or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Responsible Officer" means, as to any Person, the president, chief executive officer, chief operating officer, chief financial officer, vice president, chief corporate officer, treasurer, or controller of such Person.

"Restricted Junior Payment" means: (a) any dividend or other distribution, direct or indirect, on account of any shares of any class of stock of Magma or any of its Subsidiaries now or hereafter outstanding, except a dividend payable solely in shares of that class of stock to the holders of that class which is pledged to Agent on behalf

of the Banks; (b) any redemption, conversion, exchange, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, of any shares of any class of stock of CE Acquisition or any of its Subsidiaries now or hereafter outstanding; (c) any voluntary prepayment of principal of, premium, if any, or interest on (however so affected, including by way of redemption, conversion, exchange, purchase, retirement, defeasance, sinking fund or similar payment with respect to), any subordinated Debt of CE Acquisition or any of its

Subsidiaries; and (d) any payment made to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire shares of any class of stock of CE Acquisition or any of its Subsidiaries now or hereafter outstanding.

"S&P" means Standard & Poor's Corporation.

"SEC" means the Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933, as amended from time to time.

"Security Documents" means the Borrower Pledge Agreement, the CE Acquisition Pledge Agreement and all financing statements, certificates, guaranties, assignments, security agreements, mortgages, deeds of trusts, instruments or documents executed and/or delivered pursuant thereto or in connection therewith.

"Small Power QF" has the meaning ascribed thereto in Section 4.1(bb).

"Solvent" and "Solvency" mean, with respect to any Person on a particular date, that on such date (a) the fair value of the property of such Person is greater than the total amount of liabilities, including, without limitation, contingent liabilities, of such Person, (b) the present fair salable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay as such debts and liabilities mature and (d) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's property would constitute an unreasonably small capital.

"Subsidiary" means (i) as to any Person, any now existing or hereafter organized corporation, partnership, limited liability company, unincorporated association, joint venture or other organization in which such Person, directly or indirectly, owns beneficially or of record equity securities (or securities currently convertible into equity securities) which give such Person directly or indirectly, upon conversion, exercise or otherwise, an interest of 50 percent or more of any of the profits, losses, capital or property of, or ordinary voting power in respect of, such corporation, partnership, joint venture or other organization and (ii) as to Borrower, any of the foregoing and, after the Closing Date, Magma.

"Tender Offer" means the offer by CE Acquisition to acquire the Magma Shares as described in the Offer to Purchase.

"Tender Offer Conditions" means the conditions to the Acquisition as set forth in the Offer to Purchase.

"Termination Date" means September 30, 1995.

"Termination Event" means: (a) a "Reportable Event" described in Section 4043 of ERISA and the regulations issued thereunder other than those events as to which the 30-day notice requirement has been waived under subsections 13, 14, 18, 19 or 20 of PBGC Regulation Section 2615 and the regulations issued thereunder; or (b) the withdrawal of Borrower or any ERISA Affiliate from a Pension Plan during a plan year in which it was a "substantial employer" as defined in Section 4001(a)(2) of ERISA; or (c) the termination of a Pension Plan, the filing of a notice of intent to terminate a Pension Plan or the treatment of a Pension Plan amendment as a termination under Section 4041 of ERISA; or (d) the institution of proceedings to terminate, or the appointment of a trustee with respect to, any Pension Plan by the PBGC; or (e) any other event or condition which would constitute grounds under Section 4042(a)(1), (2) or (3) of ERISA, and any other event or condition which has been identified to Borrower or any ERISA Affiliate by notice from the PBGC which would constitute grounds under Section 4042(a)(4) of ERISA, for the termination of, or the appointment of a trustee to administer, any Pension Plan; or (f) the partial or complete withdrawal of Borrower or any ERISA Affiliate from a Multiemployer Plan; or (g) the imposition of a Lien pursuant to Section 412 of the IRC or Section 302 of ERISA; or (h) any event or condition which results in the reorganization or insolvency of a Multiemployer Plan under Sections 4241 or 4245 of ERISA; or (i) any event or condition which results in

the termination of a Multiemployer Plan under Section 4041A of ERISA or the institution by the PBGC of proceedings to terminate a Multiemployer Plan under Section 4042 of ERISA.

"Type" means, with respect to any Loan, a Base Rate Loan or a Eurodollar Rate Loan.

"UCC" means the Uniform Commercial Code of the State of New York, as in effect from time to time.

Section 1.2 Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" mean "to but excluding."

Section 1.3 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP.

Section 1.4 No Presumption Against Any Party. Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against any Bank or Borrower, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by each of the parties and their counsel and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of all parties hereto.

Section 1.5 Use of Certain Terms. Unless the context of this Agreement requires otherwise, the plural includes the singular, the singular includes the plural, the part includes the whole, "including" is not limiting, and "or" has the inclusive meaning of the phrase "and/or." The words "hereof," "herein," "hereby," "hereunder," and other similar terms of this Agreement refer to this Agreement as a whole and not exclusively to any particular provision of this Agreement.

Section 1.6 Headings and References. Section and other headings are for reference only, and shall not affect the interpretation or meaning of any provision of this Agreement. Unless otherwise provided, references to Articles, Sections, Schedules, and Exhibits shall be deemed references to Articles, Sections, Schedules and Exhibits of this Agreement. References to this Agreement and any other Credit Document include this Agreement and other Credit

Documents as the same may be modified, amended, restated or supplemented from time to time pursuant to the provisions hereof or thereof. A reference to a Person includes the successors and assigns of such Person, but such successors and assigns shall have rights under this Agreement only to the extent permitted hereby.

Section 1.7 Independence of Provisions. All agreements and covenants hereunder and under the other Credit Documents shall be given independent effect such that if a particular action or condition is prohibited by the terms of any such agreement or covenant, the fact that such action or condition would be permitted within the limitations of another agreement or covenant shall not be construed as allowing such action to be taken or condition to exist.

ARTICLE II

Amounts and Terms of the Loans

Section 2.1 The Loans.

(a) The Loan Commitments. Each Bank severally agrees on the terms and conditions set forth in this Agreement (including those of Article III hereof), to make term loans (the "Loans") on the Closing Date at the Applicable Lending Office in an amount equal to the lesser of (i) its Commitment and (ii) its pro rata share of the Maximum Loan Value of the Collateral; provided that each Bank's commitment to make such Loans shall expire on the Termination Date unless the Closing Date shall have occurred prior to such date. Each Loan shall be made by the Banks ratably according to each Bank's Commitment. All Loans shall be funded in one drawing on the Closing Date and shall be made available to Borrower at the Agency Office. The Loans and any amount repaid may not be reborrowed.

(b) Borrowing Mechanics. Each Eurodollar Rate Loan made on the Closing Date shall be in an aggregate minimum amount of \$10,000,000 and integral multiples of \$1,000,000 in excess of such amount. The Loans shall be made on a Notice of Borrowing, given not later than 11:00 a.m. (local time in the city where the Agency Office is situated) on the third Banking Day prior to the date of the proposed Loans by Borrower to Agent at the Agency Office, and Agent shall give to each Bank prompt notice thereof by telex, cable or telefacsimile, but in any event, such notice shall be received by each Bank prior to 1:00 p.m. New York City time on the date Agent receives such Notice of Borrowing in compliance with this Section 2.1(b). Such Notice of Borrowing shall be by telex, cable, telefacsimile, or

telephone confirmed promptly in writing, but in no event shall such written confirmation be received by Agent later than 11:00 a.m. (local time in the city where the Agency Office is situated) on the Banking Day prior to the date the

Loans are to be made. Such Notice of Borrowing shall specify (i) the date of the Loans, (ii) the amount of each Loan, (iii) the requested interest rate option under Section 2.3(a) or (b) and (iv) the Interest Period in the case of Eurodollar Rate Loans. In the event Borrower fails to specify an Interest Period for any Eurodollar Rate Loan, such Interest Period shall be for one month. In the event Borrower fails to specify the interest rate option for any Loan, such Loan shall be deemed a Base Rate Loan. Each Bank shall, before 2:00 p.m. (local time in the city the Agency Office is situated) on the date the Loans are to be made, make available to Agent at the Agency Office in same day funds in Dollars for credit to the Applicable Agent's Account, such Bank's ratable portion of the Loans and, unless Agent has been notified by a Bank that the applicable conditions set forth in Article III have not been fulfilled, Agent will make such funds available to Borrower at the Agency Office on such date; provided, however, in no event shall a Bank be required to make funds available to Agent prior to 11:00 a.m. New York City time on the date the Loans are to be made.

(c) Notice of Borrowing Irrevocable. A Notice of Borrowing shall be irrevocable and binding on Borrower. Borrower shall indemnify each Bank against any loss, cost or expense incurred by such Bank as a result of any failure to fulfill on or before the date specified in the Notice of Borrowing, the applicable conditions set forth in Article III, including, without limitation, any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Bank to fund the Loans to be made by such Bank when the Loans, as a result of such failure, are not made on such date.

(d) Agent's Reliance on Bank Loans. Unless Agent shall have received notice from a Bank prior to the date of the Loans, that such Bank will not make available to Agent such Bank's ratable portion of the Loans, Agent may assume that such Bank has made such portion available to Agent on the date of the Loans in accordance with this Section 2.1, and Agent may, in reliance upon such assumption, make available to Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have so made such ratable portion available to Agent, such Bank and

Borrower severally agree to repay to Agent forthwith on demand such corresponding amount advanced to Borrower, together with interest thereon, for each day from the date such amount is made available to Borrower until the date such amount is repaid to Agent, at (i) in the case of Borrower, the interest rate applicable at the time to the Loans and (ii) in the case of such Bank, the Federal Funds Rate. If such Bank shall repay such amount to Agent, such repayment shall constitute such Bank's ratable portion of the Loans for purposes of this Agreement.

(e) Failure to Make Loan. The failure of any Bank to make the Loans to be made by it shall not relieve any other Bank of its obligation, if any, hereunder to make its Loan, on the date of the Loans, but no Bank shall be responsible for the failure of any other Bank to make the Loans to be made by such other Bank on the date of the Loans.

(f) Notice of Interest Rate and Interest Period. Agent shall give prompt notice to Borrower and the Banks of the applicable interest rate for such Loan determined by Agent pursuant to Section 2.3 hereof as soon as reasonably practicable after such rate is determined by Agent and in no event later than three Banking Days prior to making such Loan in the case of any Eurodollar Rate Loan. Such notice shall also provide the Interest Period for any Eurodollar Rate Loan.

(g) Voluntary Conversion or Continuation of Loans.

(i) Subject to the provisions of Sections 2.03(d) and (e), Borrower shall have the option to (1) convert at any time all or any part of Base Rate Loans equal to \$10,000,000 and integral multiples of \$1,000,000 in excess of that amount to Eurodollar Rate Loans, (2) convert at any time all or any part of Eurodollar Rate Loans to Base Rate Loans (so long as in the case of a partial conversion the remaining amount of the Eurodollar Rate Loan is in an aggregate minimum amount of \$10,000,000 and integral multiples of \$1,000,000 in excess of such amount), or (3) upon the expiration of any Interest Period applicable to a Eurodollar Rate Loan, to continue all or any portion of such Eurodollar Rate Loan equal to \$10,000,000 and integral multiples of \$1,000,000 in excess of that amount as a Eurodollar Rate Loan and the succeeding Interest Period(s) of such continued Eurodollar Rate Loan shall commence on the Maturity Date of the Eurodollar Rate Loan to be continued; provided that no outstanding Eurodollar Rate Loan may be continued or be converted when any Event of Default has occurred and is continuing or when there is an occurrence of any condition or event which, with notice or lapse of time or both, would constitute an Event of Default.

(ii) Borrower shall deliver a Notice of

Conversion/Continuation to the Agent no later than 1:00 p.m. (New York City time) at least three (3) Banking Days in advance of the proposed conversion/continuation date. A notice of Conversion/Continuation shall specify: (1) the proposed conversion/continuation date (which shall be a Banking Day); (2) the Type and amount of the Loan to be converted or continued; and (3) in the case of a conversion to, or a continuation of, a Eurodollar Rate Loan, the requested Interest Period.

(iii) A Notice of Conversion/Continuation, requesting a conversion to or continuation of a Eurodollar Rate Loan shall be irrevocable once given, and Borrower shall be bound to convert or continue, as applicable, in accordance therewith.

Section 2.2 Repayment.

(a) Scheduled Repayments. Borrower shall repay the principal amount of each Loan on the Final Maturity Date.

(b) Voluntary Prepayments. Upon at least one Banking Day's notice to Agent by Borrower with respect to Base Rate Loans, and three Banking Days' notice to Agent by Borrower with respect to Eurodollar Rate Loans, stating the proposed date and aggregate principal amount of the prepayment, Borrower may, and if such notice is given Borrower shall, prepay the outstanding principal amount of any Base Rate Loan or Eurodollar Rate Loan, as applicable, as identified by Borrower in such notice, in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid, as well as any additional amount owed by Borrower pursuant to Section 2.3(c), provided that each partial prepayment shall be in a minimum amount of \$1,000,000, and that if such prepayment is a prepayment of the entire outstanding amount of the Loans, such prepayment shall be accompanied by the prepayment of all other Obligations.

(c) Mandatory Prepayments. The Loans shall be prepaid in whole by Borrower, together with all accrued and unpaid interest through the date of prepayment and any additional amounts owed by Borrower pursuant to Section 2.3(c), immediately upon (i) the consummation of the Merger, (ii) the occurrence of any sale, transfer, assignment, pledge or other encumbrance or disposition by CE

Acquisition of any of the Magma Shares, except the pledge pursuant to the CE Acquisition Pledge Agreement and the Borrower Pledge Agreement or (iii) the imposition of a permanent injunction on the consummation of the Merger. The Loans shall also be prepaid by Borrower, together with all accrued and unpaid interest through the date of prepayment and any additional amounts owed by Borrower pursuant to Section 2.3(c), immediately upon the receipt by Borrower from CE Acquisition, or upon the receipt by CE Acquisition from Magma, of any dividends, loans, advances or other distributions, or, in the case of Borrower, any principal payments to Borrower under the CE Acquisition Secured Term Note, in an amount equal to 100% of the amount of such dividends, loans, advances or other distributions or principal payment under the CE Acquisition Secured Term Note. If any of such prepayment is a partial prepayment of the outstanding amount of the Loans, such prepayment shall be applied in accordance with Section 2.4(e), and if any such prepayment is a prepayment of the entire outstanding amount of the Loans, such prepayment shall be accompanied by the prepayment of all other Obligations.

Section 2.3 Interest on Loans.

(a) Base Rate Loans. (i) Except to the extent that Borrower shall have elected in the applicable Notice of Borrowing to pay interest on any Loan for an Interest Period pursuant to Section 2.3(b), or (ii) to the extent that Eurodollar Rate Loans shall have become unavailable or unlawful pursuant to Section 2.3(d) or (e), and (iii) in any case, from and after the Maturity Date of each Eurodollar Rate Loan that has not been continued pursuant to Section 2.1(g), Borrower shall pay interest on the unpaid principal amount of each Loan made to Borrower, from the date of such Loan until such principal amount is paid in full, at a fluctuating interest rate per annum equal to the Base Rate plus the Applicable Margin, together with, in each case, any additional interest rate margin as shall be applicable under Section 2.3(f).

(b) Eurodollar Rate Loans. Borrower may, if no Event of Default has occurred and is continuing and subject to the provisions of this Section 2.3 (as of the date the Notice of Borrowing is required to be given pursuant to Section 2.1(b) or as of the date a Loan may be converted to or continued as a Eurodollar Rate Loan pursuant to Section 2.1(g)), elect to pay interest on each Loan made to Borrower during the Interest Period selected therefor in the Notice of Borrowing or Notice of Conversion or Continuation at a rate per annum equal to the sum of the Eurodollar Rate

for such Interest Period plus the Applicable Margin, by selecting the same in the Notice of Borrowing or the Notice of Conversion or Continuation, as applicable, together with, in each case, any additional interest rate margin as shall be applicable under Section 2.3(f); provided that at no time shall there be more than six Interest Periods outstanding for all Eurodollar Rate Loans. From and after the Maturity Date of each Interest Period for any Eurodollar Rate Loan and until repaid, the unpaid principal balance thereof shall automatically become, and bear interest as, a Base Rate Loan (together with any additional interest rate margin as shall be applicable under Section 2.3(f)) unless such Eurodollar Rate Loan is continued pursuant to Section 2.1(g).

(c) Breakage Expenses. (i) Subject to clause (ii) of this Section 2.3(c), if for any reason and at any time or from time to time, including without limitation voluntary or mandatory prepayment of principal or payment of principal at any accelerated maturity, the outstanding principal balance of any Eurodollar Rate Loan is reduced in whole or in part prior to the Maturity Date of the applicable Interest Period by reason of the reduction of any Loan, then, in addition to accrued interest thereon, Borrower shall pay to the Applicable Agent's Account for credit to each Bank for the account of the Applicable Lending Office, on demand by such Bank, (x) the amount by which the interest which would have accrued on the amount of such principal reduction subject to such Interest Period until such Maturity Date had such principal reduction not been made, exceeds the interest obtained by such Bank in the reemployment of such principal reduction for the balance of such Interest Period and (y) any cancellation or similar fees incurred by or allocated to lenders of funds borrowed by such Bank to carry the unpaid principal sum thereof at the applicable Eurodollar Rate, and a certificate as to such excess and fees submitted by such Bank to Borrower shall, absent manifest error, be final and conclusive.

(ii) If Borrower elects to prepay a Eurodollar Rate Loan on a day other than on the Maturity Date of such Eurodollar Rate Loan, Borrower shall not be obligated for any amounts referred to in this Section 2.3(c) relating to such Eurodollar Rate Loan if (x) Borrower irrevocably deposits with Agent cash or securities issued by the United States or a combination thereof in amounts (including interest, but without consideration of any reinvestment of such interest) and with maturities sufficient to pay and discharge on such Maturity Date the principal of and interest on such Eurodollar Rate Loan, (y) Borrower delivers to Agent a

certificate from a nationally recognized firm of independent accountants expressing its opinion that such deposited cash and/or securities will provide cash at such times and in such amounts as will be sufficient to pay the principal of and interest on such Eurodollar Rate Loan due on such Maturity Date, and (z) on such Maturity Date such cash and/or securities have a value sufficient to pay in full the principal of and interest on such Eurodollar Rate Loan.

(d) Eurodollar Rate Loans Not Available. In the event that prior to the commencement of any Interest Period for any Eurodollar Rate Loan, (x) Agent notifies Borrower and each Bank that (1) adequate and fair means do not exist for Agent to ascertain the relevant Eurodollar Rate, or (2) in the case of a Eurodollar Rate Loan, one or more of the Reference Banks or Agent, as applicable, is not offering deposits in Dollars in the relevant interbank market in the amount, at the time, or for the Interest Period necessary fairly and adequately to determine the relevant Eurodollar Rate, or (y) Banks whose Loans will exceed 50% of all Loans at the commencement of such Interest Period, notify Agent (and Agent shall promptly notify all other Banks and Borrower) that the relevant Eurodollar Rate will not adequately reflect the cost to the Banks giving such notification of making or maintaining their Eurodollar Rate Loans for such Interest Period, then, and in each such event, (i) the obligation of the Banks to make such Eurodollar Rate Loans shall be suspended, and (ii) all Loans made on or after notice of such an event shall be Base Rate Loans for the balance of the applicable Interest Period, and, until Agent shall notify Borrower and the Banks that the circumstances specified in clause (x) or (y) above no longer continue, further Loans must be Base Rate Loans; provided that Agent shall make a good faith effort (and Borrower agrees to reimburse Agent for all expenses incurred in connection therewith) to identify possible assignees of any Bank described in clause (y) above, and Borrower shall have the right to designate such an assignee (which may be an Affiliate of Borrower) subject to the consent of Agent, which consent shall not be unreasonably withheld.

(e) Eurodollar Loans Unlawful. In the event that any Bank shall have determined (which determination, absent manifest error, shall be final and conclusive) that the continuation of any interest rate based on the Eurodollar Rate, has become unlawful (or impracticable by compliance by such Bank in good faith with any Directive) with respect to a

Commitment of such Bank, then, and in any such event,

effective upon notice by such Bank to Agent and Borrower and until such notice is rescinded, no such Type of Loan shall be available under such Commitment with respect to future Loans made by such Bank and any such existing Eurodollar Rate Loan shall from and after such notice, become a Base Rate Loan for the balance of the Interest Period, and Borrower shall pay to such Bank, upon demand, all amounts necessary to compensate such Bank in making such change in interest rates, including any interest (without duplication) or fees payable by such Bank to lenders of funds obtained by it in order to make or maintain such Loan, and a certificate of such Bank as to such interest, fees and other amounts to be conclusive absent manifest error; provided, however, that (i) to the extent it may lawfully do so without incurring any penalty or increased costs, such Bank shall continue the existing Eurodollar Rate Loan until the Maturity Date of the relevant Interest Period, and (ii) before such termination, such Bank shall use reasonable efforts (consistent with internal policies and applicable Directives) to designate a different Applicable Lending Office if the making of such designation would avoid such illegality and would not, in the sole judgment of such Bank, be otherwise to its disadvantage in any material respect; provided, further, that Agent shall make a good faith effort (and Borrower agrees to reimburse Agent for all expenses incurred in connection therewith) to identify possible assignees of any Bank prevented from making Eurodollar Rate Loans due to the foregoing provisions, and Borrower shall have the right to designate such an assignee (which may be an Affiliate of Borrower) subject to the consent of Agent, which consent shall not be unreasonably withheld.

(f) Default Interest Rate. If an Event of Default has occurred, then from and after the date of occurrence of such Event of Default, and so long as such Event of Default continues, the rate or rates of interest applicable to the then and any subsequent outstanding Loans shall in all cases be increased to (x) for Base Rate Loans, the Base Rate, plus the Applicable Margin, plus 200 basis points (2.0%) per annum, and (y) for Eurodollar Rate Loans, the rate of interest in effect thereon at the time of the Event of Default plus 200 basis points (2.0%) per annum until the end of the then current Interest Period therefor and thereafter the Base Rate, plus the Applicable Margin, plus 200 basis points (2.0%) per annum. Other amounts payable by the Borrower hereunder that are not paid when due (whether at stated maturity, by acceleration or otherwise) shall accrue interest at a rate per annum during the period commencing on the date due until such other amounts are paid in full equal to the Base Rate, plus the Applicable Margin, plus 200 basis points (2.0%) per annum.

(g) Interest Payment Dates. Borrower shall pay accrued interest on each Loan (without duplication), determined and calculated as herein provided, as follows: interest accruing on each Loan is payable on (i) the Maturity Date for an Interest Period for Eurodollar Rate Loans, (ii) the last Banking Day of each March, June, September and December, commencing with the first such Banking Day following the making of any Loan, in the case of any Base Rate Loan or Eurodollar Rate Loan, (iii) the date such Loan is Converted pursuant to Section 2.1(g), or (iv) the Final Maturity Date, if earlier; provided that interest accruing on and after the Final Maturity Date shall be due daily.

Section 2.4 Payments and Computations.

(a) Payments to Applicable Agent's Account. Except as provided in Section 2.7, Borrower shall pay all amounts due to Agent and Banks hereunder and under any other Credit Document to which it is a party, without condition or deduction for any counterclaim, defense, recoupment or setoff, in Dollars and in same day funds delivered to Agent not later than (i) 1:00 p.m. (local time in the city where the Agency Office is situated) on the day when due by deposit of such funds to the Applicable Agent's Account. Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal, interest, or fees ratably (other than amounts subject to Taxes pursuant to Section 2.7) to the Banks for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Bank to such Bank for the account of its Applicable Lending Office to be applied in accordance with, and subject to, the terms of this Agreement. Upon an Assignment and Acceptance Agreement becoming effective as provided in Section 8.11 and recording by Agent of the information contained therein in the register maintained for purposes of this Agreement by Agent at its Agency Office, from and after the effective date specified in such Assignment and Acceptance Agreement, Agent shall make all payments hereunder and under any other Credit Document in respect of the interest assigned thereby to the Assignee thereunder, and the parties to such Assignment and Acceptance Agreement shall make all appropriate adjustments in such payments for periods prior to such effective date directly

between themselves.

(b) Setoff. Subject to the provisions of Section 2.9, Borrower hereby authorizes each Bank, if and to

the extent payment owing to such Bank from Borrower is not made when due hereunder, to charge from time to time against any or all of Borrower's accounts with such Bank any amount so due.

(c) Interest Computations. (i) Computations of interest for the Eurodollar Rate, and the Federal Funds Rate, shall be made by Agent on the basis of a year of 360 days, (ii) computations of interest for the Base Rate and computation of Fees shall be made by Agent on the basis of a year of 365 or 366 days, as appropriate to reflect the actual number of days in such year, and (iii) all computations in every case shall be for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest or Fees are payable. Each determination by Agent of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(d) Agent's Reliance on Borrower Payments. Unless Agent shall have received notice from Borrower prior to the date on which any payment is due to a Bank hereunder that Borrower will not make such payment in full, Agent may assume that Borrower has made such payment in full to Agent on such date and Agent may, in reliance upon such assumption, cause to be distributed to the Banks on such due date an amount equal to the amount then due to such Banks. If and to the extent Borrower shall not have so made such payment in full to Agent, each Bank shall repay to Agent forthwith on demand such amount distributed to such Bank together with interest thereon, for each day from the date such amount is distributed to such Bank until the date such Bank repays such amount to Agent, at the Federal Funds Rate.

(e) Application of Payments. Amounts received by Agent for application to the principal of any Loans shall be applied (i) if received on or before the Final Maturity Date (if not specified by Borrower or if received after the occurrence and continuance of an Event of Default) first, to the ratable payment of the outstanding Base Rate Loans, second, subject to Section 2.3(c), to the ratable payment of the outstanding Eurodollar Rate Loans, and (ii) if received after the Final Maturity Date to the ratable payment of all the outstanding Loans, subject to Section 2.3(c).

(f) Payments on Non-Banking Days. Whenever any payment hereunder shall be stated to be due on a day other than a Banking Day, such payment shall be made on the next succeeding Banking Day (except as otherwise provided with respect to the determination of Interest Periods), and such extension of time shall in such case be included in the

computation of payment of interest or Fees, as the case may be.

(g) Adjustments. If any Bank shall obtain any payment whether voluntary, involuntary, through the exercise of any right of setoff, or otherwise with respect to principal, interest, or fees due under the Credit Documents, in excess of its ratable share of payments on account of principal, interest, or such fees, as the case may be, then due and owing to all Banks under the Credit Documents, such Bank shall forthwith purchase from such other Banks such participations in the principal, interest or such fees, as the case may be, owing to them as shall be necessary to cause such purchasing Bank to share the excess payment ratably with each of the Banks; provided, however, that if all or any portion of such excess payment is thereafter recovered from such Bank, such purchase from such other Banks shall be rescinded and each such other Bank shall repay to the purchasing Bank the purchase price to the extent of such recovery, without interest. Borrower agrees that any Bank purchasing a participation from another Bank pursuant to this Section may, to the fullest extent permitted by law and subject to the provisions of Section 2.9, exercise all its rights of payment (including the right of setoff) with respect to such participation as fully as if such Bank were the direct creditor of Borrower in the amount of such participation.

(h) Loan Register. The indebtedness of Borrower resulting from all Loans hereunder shall be evidenced by the entries made in a register maintained by Agent at the Agency Office; such register shall record (i) the date of and amount of each Loan, the Type of each Loan and the Interest Period applicable thereto from time to time, (ii) the terms of each Assignment and Acceptance Agreement delivered to and accepted by it, (iii) the amount of any principal or interest due and payable or to become due and payable from Borrower to each Bank, (iv) the amount of any sum received by Agent from Borrower under any Credit Document and each Bank's share thereof, and (v) the interest rate for such Loan. The entries made in such register shall be conclusive and binding

for all purposes, absent manifest error.

(i) The Notes. The obligation of Borrower to repay the aggregate unpaid principal amount of the Loans shall be evidenced by notes (the "Notes") in the form of Exhibit E annexed hereto, appropriately completed in conformity herewith, payable to the order of each Bank, duly

executed and delivered by Borrower to each Bank and bearing interest and maturing as provided herein.

Section 2.5 Fees. Borrower shall pay the fees (the "Fees") set forth in the fee letter dated October 25, 1994, as the same may be amended from time to time, between Borrower, CE Acquisition and Credit Suisse in accordance with the terms thereof.

Section 2.6 Increased Costs and Capital Requirements. In the event that at any time or from time to time after the date of this Agreement, any Directive, or a change in any existing or future Directive (including any change resulting from the operation of any transitional or phase-in requirements), or in the interpretation or application thereof by any governmental or judicial authority, or any action pursuant thereto, or compliance by Agent or any Bank with any request or Directive imposed or modified by any central bank or by any other financial, monetary or other governmental authority:

(a) shall (i) impose, increase, modify or apply any reserve (including basic, supplemental, marginal and emergency reserves, but excluding reserve requirements which are expressly included in the determination of any interest rate pursuant to the provisions hereof), special deposit, compulsory loan or similar requirement against assets held by, or deposits or other liabilities with or for the account of, or credit extended by, or any other acquisition of funds by, any office of Agent or any Bank; or (ii) impose on Agent or any Bank any fee, charge, tax (other than "Taxes," "Other Taxes," and "Excluded Taxes" subject to the provisions of Section 2.7), or condition with respect to this Agreement, any Commitment or any part thereof, or any sums outstanding or payable hereunder or thereunder; and the result of any of the foregoing is to increase the cost to Agent or any Bank of making or maintaining such Commitment, or any Loan or to reduce the amount of any sum received or receivable by Agent or such Bank, with respect to such Commitment, any Loan or any interest, fees or other sums payable hereunder,

then, subject to the last sentence of this Section 2.6, upon demand by Agent or such Bank, Borrower shall pay with respect to any affected Commitment (including Loans thereunder), promptly for the account of Agent or such Bank, such additional amount or amounts as Agent or such Bank, in good faith, certifies in writing to Borrower shall compensate Agent or such Bank for the amount of such increased cost or reduced amount receivable, such certification to be

conclusive and binding for all purposes hereof absent manifest error; or

(b) shall impose, modify or deem applicable any capital adequacy or similar requirement (including without limitation a request or requirement which affects the manner in which any Bank allocates capital resources to its commitments, including its obligations hereunder) and as a result thereof, in the sole opinion of such Bank, the rate of return on such Bank's capital as a consequence of its obligations hereunder is or will be reduced to a level below that which such Bank could have achieved but for such circumstances,

then and in each such case upon notice to Borrower through Agent, Borrower shall, subject to the last sentence of this Section 2.6, pay to such Bank such additional amount or amounts as shall compensate such Bank for such reduction in rate of return for (i) any Loans outstanding under any Interest Period commencing after such notification, (ii) any Loans bearing interest at the Base Rate with respect to the period after the end of the calendar month in which such notification was given and (iii) any portion of the affected Bank's Commitment outstanding with respect to the period after the end of the calendar month in which such notification was given.

If a Bank determines that it may be entitled to claim any additional amounts pursuant to this Section during the next succeeding Interest Period or month, as the case may be, it shall promptly notify, through Agent, Borrower and each other Bank of the event by reason of which it has become so entitled. A certificate as to any such additional amount or amounts submitted by a Bank, through Agent, to Borrower and the other Banks shall certify that similar demands have been made to other customers of such Bank which are subject to similar provisions and shall, in the absence of manifest error, be final and conclusive. In determining such amount,

a Bank may use any reasonable averaging and attribution methods. Notwithstanding the foregoing, Borrower shall only be obligated to compensate any Bank or Agent for any amount described in this Section 2.6 arising or occurring during (i) any time period commencing not more than 90 days prior to the date on which such Bank notifies Agent and Borrower that such Bank or Agent proposes to demand such compensation and (ii) any time period during which, because of the unannounced retroactive application of such statute, regulation or other bases, such Bank could not have known that such amount might

arise or accrue. Agent shall make a good faith effort (and Borrower agrees to reimburse Agent for all expenses incurred in connection therewith) to identify possible assignees of any Bank entitled to any additional amounts pursuant to this Section, and Borrower shall have the right to designate such an assignee (which may be an Affiliate of Borrower) subject to the consent of Agent, which consent shall not be unreasonably withheld.

Section 2.7 Taxes.

(a) Payments Free of Taxes. Any and all payments or reimbursements made hereunder or under any other Credit Document shall be made free and clear of and without deduction for any and all present and future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto ("Charges"), excluding (i) in the case of payments to each Bank (a) Charges imposed on, or measured by, its income or receipts (other than Charges imposed by the United States by means of withholding taxes), and franchise taxes imposed on it, by the jurisdiction under the laws of which such Bank is organized (or any political subdivision thereof), or by the jurisdiction of such Bank's Applicable Lending Office (or any political subdivision thereof) and (b) Charges imposed by the United States by means of withholding taxes if and to the extent that such withholding taxes shall be in effect and shall be applicable under current laws and regulations (including judicial and administrative interpretations thereof) to payments to be made for the account of such Bank's Applicable Lending Office on the Closing Date, or, in the case of an Assignee, on the effective date of the Assignment and Acceptance Agreement pursuant to which it became a Bank, or on the date the Bank changes its Applicable Lending Office, or, if such withholding taxes result therefrom, changes any other office from which such Bank makes or maintains any other extension of credit under this Agreement (other than any change pursuant to Section 2.7(e)); and (ii) in the case of payments to Agent, (a) Charges imposed on, or measured by, its income or receipts (other than Charges imposed by the United States by means of withholding taxes), and franchise taxes imposed on it, by the jurisdiction under the laws of which it is organized (or any political subdivision thereof) or by any jurisdiction in which Agent is doing business (other than where such circumstances would not exist but for a connection arising in respect of this Agreement) and (b) Charges imposed by the United States by means of withholding taxes if and to the extent that such withholding taxes shall be in effect and shall be applicable under current laws and regulations (including judicial and administrative interpretations thereof) to payments to Agent under any Credit Document on

the Closing Date (all Charges described in clauses (i) and (ii) being referred to as "Excluded Taxes" and all Charges not described in clauses (i) and (ii) being hereinafter referred to as "Taxes"). Subject to Section 2.7(h), Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any other Credit Document to any Bank or Agent, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) such Bank or Agent receives an amount equal to the sum it would have received had not such deductions been made, (ii) Borrower shall make such deductions, and (iii) Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law (and shall be entitled to any "Tax Credit" with respect to such payment pursuant to Section 2.7(g)).

(b) Other Taxes. In addition, Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies (but not any tax on any transfer or assignment of, or any participation in, the Loans or this Agreement) which arise from any payment made hereunder or under any other Credit Document or from the execution, delivery or registration or filing or recording of, or otherwise with respect to, this Agreement or any other Credit Document or document delivered hereunder or under any other Credit Document (hereinafter referred to as "Other Taxes").

(c) Tax Indemnity. Borrower will indemnify each Bank and Agent for the full amount of Taxes (but not any tax on any transfer or assignment of, or any participation in, the Loans or this Agreement) or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any

jurisdiction on amounts payable under this Section) paid by such Bank or Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. This indemnification payment shall be made within 30 days from the date such Bank or Agent (as the case may be) makes written demand therefor.

(d) Evidence of Tax Payments. Within 30 days after the date of any payment of Taxes with respect to any Bank or Agent, Borrower will (as to Taxes paid by it) furnish to Agent, at the Agency Office, the original or a certified

copy of a receipt or other evidence reasonably satisfactory to Agent of payment thereof.

(e) Change of Applicable Lending Office. Any Bank claiming any additional amounts payable pursuant to this Section shall use its reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to change the jurisdiction of its Applicable Lending Office or any other office from which such Bank makes or maintains any extension of credit under this Agreement, if the making of such a change would avoid the need for or reduce the amount of, any such additional amounts which may thereafter accrue and would not, in the sole judgment of such Bank, be otherwise disadvantageous to such Bank.

(f) Survival. Without prejudice to the survival of any other agreement of Borrower hereunder, the agreement and obligations of Borrower contained in this Section 2.7 shall survive the payment in full of the Obligations hereunder for a period expiring concurrently with the expiration of the statute of limitations applicable to claims made by the taxing authorities to collect Taxes or Other Taxes.

(g) Tax Credits. If any Bank or Agent shall receive a credit or refund from a taxing authority with respect to, and actually resulting from, an amount of Taxes or Other Taxes actually paid to or on behalf of such Bank or Agent by Borrower, which credit or refund would not arise but for such Taxes or Other Taxes (a "Tax Credit"), such Bank or Agent shall promptly notify Borrower of such Tax Credit. If such Tax Credit is received by such Bank or Agent in the form of cash, such Bank or Agent shall promptly pay to Borrower the amount so received with respect to the Tax Credit. If such Tax Credit is not received by such Bank or Agent in the form of cash, such Bank or Agent shall pay the amount of such Tax Credit not later than the time prescribed by applicable law for filing the return (including extensions of time) for such Bank's or Agent's taxable period which includes the period in which such Bank or Agent receives the economic benefit of such Tax Credit. In any event, the amount of any Tax Credit payable by a Bank or Agent to Borrower pursuant to this Section 2.7(g) shall not exceed the actual amount of cash refunded to, or credits received and usable by, such Bank or Agent from a taxing authority. In determining the amount of any Tax Credit, a Bank or Agent shall use such apportionment and attribution rules as such Bank or Agent customarily employs in allocating taxes among its various operations and income sources and such determination shall be conclusive absent manifest error. Borrower further agrees promptly to return to a Bank or Agent the amount paid to

Borrower with respect to a Tax Credit by such Bank or Agent if such Bank or Agent is required to repay, or is determined to be ineligible for, a Tax Credit for such amount.

(h) Foreign Banks. Each Bank organized under the laws of a jurisdiction outside the United States (a "Foreign Bank") as to which payments to be made under any Credit Document are exempt from (or are subject to a reduced rate of) United States withholding tax under an applicable statute or tax treaty shall provide to Borrower and Agent (1) a properly completed and executed Internal Revenue Service Form 4224 or Form 1001 or other applicable form, certificate or document prescribed by the Internal Revenue Service of the United States certifying as to such Foreign Bank's entitlement to such exemption (or reduced rate) with respect to payments to be made to such Foreign Bank under any Credit Document (a "Certificate of Exemption") or (2) a letter from any such Foreign Bank stating that it is not entitled to any such exemption (or reduced rate) (a "Letter of Non-Exemption"). Prior to becoming a Bank under this Agreement and within fifteen (15) days after a reasonable written request of Borrower or Agent from time to time thereafter, each Foreign Bank that becomes a Bank under this Agreement shall provide a Certificate of Exemption or a Letter of Non-Exemption to Borrower and Agent. If a Foreign Bank is entitled to an exemption (or reduced rate) with respect to payments to be made to such Foreign Bank under any Credit Document and does not provide a Certificate of Exemption to Borrower and Agent within the time periods set forth in the preceding sentence, Borrower shall withhold taxes from payments to such Foreign Bank at the applicable statutory rates and Borrower shall not be required to pay any

additional amounts as a result of such withholding; provided, however, that all such withholding shall cease (or be reduced, as appropriate) upon delivery by such Foreign Bank of a Certificate of Exemption to Borrower and Agent.

Section 2.8 Extension of Final Maturity Date. Not earlier than the date 90 days and not later than the date 60 days prior to the Final Maturity Date, Borrower may, by notice to Agent, request an extension of the Final Maturity Date then constituting the Final Maturity Date to the date that is one year after the then-effective Final Maturity Date; provided, that the Final Maturity Date as of the Closing Date may not be extended for more than two consecutive one year periods. Agent shall promptly notify each Bank of such request. If all of the Banks and Agent consent in writing to such extension, Agent shall, within

three Banking Days of its receipt of the last written consent, notify Borrower in writing that such request has been accepted and, upon the giving of such notice, the Final Maturity Date shall be so extended, effective as of the close of business on the date such notice is given. If Agent fails to give such notice of acceptance within such time or if all Banks and Agent fail to give such written consents, the request for extension shall be deemed rejected. If requested by any Bank, Agent shall, to the extent known by Agent, notify such Bank whether the other Banks have agreed to extend the Final Maturity Date. If the written consent of all Banks to any such request for extension has not been received by Agent on or before 60 days prior to the then-effective Final Maturity Date, Borrower may withdraw its request for such extension any time thereafter. The written consent of the Banks to any such request for extension shall be in form and substance satisfactory to Agent in its sole discretion. Each Bank may accept, reject or fail to act upon such request for extension in its sole and absolute discretion; provided, however, that if any Bank has failed to give its written consent to such extension to Agent prior to the later of (x) 30 days from the date such Bank receives from Agent notice of Borrower's request for an extension of the Final Maturity Date and (y) 30 days prior to the expiration of the then-effective Final Maturity Date, such Bank shall, at the request of Agent, within three Banking Days after receipt of notice from Agent requiring such assignment, assign such Bank's rights and obligations under this Agreement and the other Credit Documents to one or more Assignees (which may be one or more Banks, including Agent in its capacity as a Bank) designated by Agent, such assignment to be at par (based on the non-consenting Bank's outstanding Loans and accrued interest and fees on the effective date of such assignment) and to be made pursuant to Sections 8.11(a) through (d) under one or more Assignment and Acceptance Agreements, which shall be executed by such non-consenting Bank upon the execution thereof by such Assignee or Assignees. Nothing herein shall be deemed to impose any obligation on Agent to issue any such notice requiring assignment or to impose any obligation on any Bank (including Agent in its capacity as a Bank) to become assignees of such non-consenting Bank, provided that Agent shall make a good faith effort to identify possible assignees and Borrower shall have the right to designate such an assignee (which may be an Affiliate of Borrower) subject to the consent of Agent, which consent will not be unreasonably withheld. Borrower shall pay to any non-consenting Bank any amounts due pursuant to Section 2.3(c), in respect of any assignment of outstanding Eurodollar Rate Loans required to be made during any Interest Period.

Section 2.9 Limited Liability. Agent and each Bank agrees that the Loans made hereunder are being made on a non-recourse basis (as to principal) and that any claim against Borrower for the repayment of the principal amount of the Loans shall be made only against and shall be limited to the Collateral, and that no judgment, proceeding, whether legal or equitable, with respect to the principal amount of the Loans shall be obtained or enforced against Borrower's assets (other than the Collateral), for purpose of obtaining payment of the principal amount of the Loans. It is expressly agreed and understood that no recourse may be had to any officer, director, employee, agent, partner, joint venturer or stockholder of Borrower with respect to, and no such person shall have any liability with respect to, the obligations and liabilities of Borrower under any of the Credit Documents. Notwithstanding the foregoing, Borrower shall be liable for, and Agent and the Banks shall have recourse against Borrower with respect to, interest on the Loans, the Fees and the other Obligations (other than the principal amount of the Loans, it being understood that in no event shall Borrower be personally liable for the repayment of the principal amount of the Loans whether directly or indirectly through the application of the indemnification provisions of any of the Credit Documents).

Section 2.10 Election Under Section 1111(b) of the Bankruptcy Code. Agent and each Bank hereby irrevocably agree, to the maximum extent permitted by law, that, in any case in which Borrower is the debtor or one of the debtors

under the Bankruptcy Code, each of Agent and the Banks shall be deemed to have made a timely election pursuant to Section 1111(b)(1)(A)(i) of the Bankruptcy Code (or any substantially comparable provision which is the successor thereto) as to any claim for the payment of the principal of the Loans and (ii) if (A) Borrower becomes a debtor subject to the reorganization provisions of the Bankruptcy Code or any successor provisions or any other applicable bankruptcy or insolvency statutes, (B) pursuant to such provisions, Borrower is held to have recourse liability to Agent or the Banks directly or indirectly on account of any amount payable in respect of the principal of the Loans and (C) Agent or any Bank actually receives any payment which reflects any payment by Borrower on account of the matters referred to in clause (ii)(B) of this sentence, then Agent or such Bank, as the case may be, shall promptly refund to Borrower the Recourse Amount (as defined below). For purposes of this Section 2.10, "Recourse Amount" means the amount by which the portion of such payment by Borrower on account of the matters

referred to in clause (ii) (B) of the preceding sentence actually received by Agent or such Bank, as the case may be, exceeds the amount which would have been received by Agent or such Bank, as the case may be, if Borrower had not become subject to the recourse liability referred to in such clause (ii) (B) of the preceding sentence; provided, however, that Agent and each Bank shall be allowed to receive and retain all payments required pursuant to Section 1129(b) of the Bankruptcy Code (or any substantially comparable provision which is the successor thereto) as a result of having made the election pursuant to Section 1111(b) (1) (A) (i).

ARTICLE III

Conditions of Commitments

Section 3.1 Conditions Precedent to the Making of the Loans. The obligations of each Bank to make its ratable share of the Loans on the Closing Date is subject to the conditions precedent that Agent shall have received on or before the Closing Date, in form and substance satisfactory to Agent in its sole discretion:

(a) Certificate of Incorporation. A copy of the certificate of incorporation of Borrower, CE Acquisition and Magma, and each amendment thereto, certified by the Secretary of State of Delaware, with respect to the Certificates of Incorporation of Borrower and CE Acquisition, and the Secretary of State of Nevada, with respect to the Certificate of Incorporation of Magma, as being a true and correct copy thereof, such certificate to be dated a recent date prior to the Closing Date.

(b) Certificate of Good Standing. For Borrower and CE Acquisition, certificates of the Secretary of State of Delaware, and for Magma, a certificate from the Secretary of State of Nevada, listing the certificate of incorporation and each amendment thereto on file in his office and certifying that (i) such amendments are the only amendments to each such certificate of incorporation on file in his office, (ii) each of Borrower, CE Acquisition and Magma, as appropriate, has paid all franchise taxes to the date of such certificate and (iii) each of the Borrower, CE Acquisition and Magma, as appropriate, is duly incorporated and in good standing under the laws of such jurisdiction, such certificates to be dated a recent date prior to the Closing Date.

(c) Certificate of Qualification. Certificates or equivalent documents from all states in which the laws thereof require Borrower and CE Acquisition to be qualified and/or licensed to do business, certifying that Borrower or

CE Acquisition, as applicable, has duly qualified to do business in such jurisdiction as a foreign corporation and is in good standing under such qualification, such certificates or equivalent documents to be dated a recent date prior to the Closing Date.

(d) By-Laws and Resolutions. For each of Borrower and CE Acquisition, copies of its by-laws, the resolutions of its Board of Directors approving each Credit Document to which it is a party, and of all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to each such Credit Document, certified as of the Closing Date as true and correct in each case by a Responsible Officer of Borrower or CE Acquisition, as applicable.

(e) Incumbency Certificate. A certificate of a Responsible Officer of each of Borrower and CE Acquisition dated as of the Closing Date certifying the names and true signatures of the officers of each of Borrower and CE Acquisition authorized to sign, in the case of Borrower, each Credit Document to which it is a party and the other documents to be delivered by it pursuant to any Credit Document, and in the case of CE Acquisition, the CE Acquisition Secured Term Note.

(f) Opinions of Counsel. A favorable opinion of (a) Willkie Farr & Gallagher, as counsel to Borrower and CE Acquisition, substantially in the form of Exhibit I-1 hereto, and as to such other matters as Agent or Majority Banks may reasonably request, (b) Steven A. McArthur, as counsel to Borrower and CE Acquisition, substantially in the form of Exhibit I-2 hereto, and as to such other matters as Agent or Majority Banks may reasonably request and (c) Nevada counsel in form and substance satisfactory to Agent, in each case dated the Closing Date.

(g) Fees. Payment in full by Borrower of all fees and expenses which are to be paid on or before the Closing Date.

(h) Security Documents. Fully executed counterparts of all Security Documents requested by Agent, signed by all parties thereto (other than Agent), and UCC Financing Statements in a form satisfactory to Agent signed by Borrower.

(i) Magma Shares. Stock certificates representing

the Magma Shares registered in the name of CE Acquisition, together with irrevocable undated stock powers duly endorsed in blank (being delivered concurrently with the making of the Loans).

(j) Notes. Fully executed Notes completed, issued and delivered in conformity with this Agreement.

(k) Capital Contribution. Evidence satisfactory to Agent that not less than the principal amount of the Loans made on the Closing Date has been contributed, in cash, in the form of equity, to the capital of CE Acquisition by Borrower and such funds have been deposited into a depository account.

(l) Security Interest. Evidence satisfactory to Agent that it has, for the benefit of the Banks, a valid and perfected first priority security interest in the Collateral.

(m) CE Acquisition Secured Term Note and CE Acquisition Credit Agreement. The original CE Acquisition Secured Term Note, endorsed by Borrower to Agent. An executed copy of the CE Acquisition Credit Agreement.

(n) Notice of Borrowing. A Notice of Borrowing in accordance with Section 2.1(b).

(o) Officer's Certificate. A certificate executed by a Responsible Officer of Borrower, stating that: (a) on such date, and after giving effect to the funding of the Loans and the consummation of the Acquisition, no Default or Event of Default has occurred and is continuing; (b) no Material Adverse Effect has occurred since December 31, 1993; (c) the representations and warranties set forth in Article IV are true and correct in all material respects on and as of such date with the same effect as though made on and as of such date; (d) Borrower on such date is in compliance with all the terms and provisions set forth in this Agreement on its part to be observed and performed; (e) neither Borrower nor any of the Borrower Subsidiaries is in material default under any material agreement, indenture, credit agreement or other document to which it is a party; and (f) concurrently with the making of the Loans, CE Acquisition is acquiring the Magma Shares and that the Magma Shares represents not less than 50.1% of the outstanding shares of Common Stock of Magma.

(p) Confirmation of Agent for Service. Confirmation from CT Corporation System of its acceptance of its appointment as agent for service of process required under Section 8.13.

(q) Financial Statements. A copy of Borrower's and Magma's annual audited financial statements for the fiscal year ended December 31, 1993 and Borrower's unaudited interim financial statements for the nine month period ended September 30, 1994.

(r) Performance of Agreements. Borrower and CE Acquisition, as applicable, shall have performed all agreements which this Agreement and the Credit Documents provide shall be performed on or before the Closing Date.

(s) Government Approvals and Litigation. Evidence satisfactory to Agent that (a) all governmental approvals and filings and consents from third parties required in connection with the consummation of the Acquisition and the transactions contemplated hereby have been obtained and (b) there is no litigation arising from or relating to the transactions contemplated hereby or in connection with the Acquisition, other than the Magma Litigation. There shall not have occurred any development in any action, charge, claim, demand, suit, proceeding, petition, governmental investigation or arbitration to which Borrower or any of its

Subsidiaries is a party that, in the opinion of Agent, could reasonably be expected to have a Material Adverse Effect.

(t) Acquisition. Concurrently with the making of the Loans, the Acquisition shall have been consummated in accordance with the terms of the Offer to Purchase and as contemplated hereby.

(u) Liquidity. Evidence satisfactory to Agent that Borrower has available unrestricted and uncommitted cash, Cash Equivalents (marked to market) and/or an availability under a line of credit in an amount (or, with respect to Cash Equivalents, with a fair market value) equal to or greater than \$50,000,000 in the aggregate.

(v) Alto Peak and Malitbog. Evidence satisfactory to Agent that upon the consummation of the Merger, the remaining equity commitment for Alto Peak and Malitbog and the ownership interest therein shall be funded by Magma as may be required and as may be agreed to between Borrower and Agent.

(w) Tender Offer Conditions. Neither Borrower nor CE Acquisition shall have waived any of the Tender Offer Conditions that Agent deems material without the prior

written consent of Agent.

(x) Amendments to Offer to Purchase. All amendments or modifications to the Offer to Purchase shall be satisfactory to Agent.

(y) Material Adverse Effect. There shall not have occurred a Material Adverse Effect since December 31, 1993.

(z) Business Plan. Agent shall have received at least three Banking Days prior to the Closing Date a preliminary business plan for operating Magma and its Subsidiaries with an attached financial model reflecting all significant aspects of such business plan, in each case in form and substance satisfactory to Agent in its sole discretion.

(aa) Form U-1. Federal Reserve Form U-1, provided for in Regulation U, completed and executed by Borrower, the statements made in which shall be, in the opinion of Agent, such as to permit the transactions contemplated hereby in accordance with Regulation U.

(bb) Form G-3. To the extent applicable, Federal Reserve Form G-3, provided for in Regulation G, completed and executed by CE Acquisition, the statements made in which shall be, in the opinion of Agent, such as to permit the transactions contemplated hereby in accordance with Regulation G.

(cc) Form G-1. To the extent applicable, Federal Reserve Form G-1, provided for in Regulation G, completed and executed by Borrower, the statements made in which shall be, in the opinion of Agent, such as to permit the transactions contemplated hereby in accordance with Regulation G.

(dd) Indenture. Certified copy of the Indenture.

(ee) Merger Agreement. Certified copy of the Merger Agreement.

(ff) No Amendment to Merger Agreement. The Merger Agreement shall not have been amended without the prior written consent of Agent.

(gg) Salton Sea and Malitbog Obligations. Agent shall be satisfied with the arrangements made by Borrower to assume (a) Magma's obligations with respect to certain debt service reserve account and equity funding obligations under Magma's Salton Sea project financing agreements and (b) certain political risk, equity funding and project

completion obligations under the Malitbog project financing agreements.

(hh) Other Matters. Such other agreements, certificates, opinions, approvals, consents, instruments or documents as Agent or the Majority Banks may reasonably request, and all matters and proceedings shall be satisfactory to Agent, each Bank and counsel for Agent and each Bank.

ARTICLE IV

Representations and Warranties

Section 4.1 Representations and Warranties. In order to induce Agent and each Bank to enter into this Agreement and to induce each Bank to make the Loans hereunder, Borrower represents and warrants to Agent and each Bank that the following statements are and, after giving effect to the Acquisition, will be true, correct and

complete:

(a) Organization. Borrower and each Borrower Subsidiary and, to the best of Borrower's knowledge, Magma and its Subsidiaries, are duly organized and validly existing under the Laws of the jurisdiction of its formation, and is properly qualified to do business and in good standing in every jurisdiction where the failure to maintain such qualification or good standing could reasonably be expected to have a Material Adverse Effect.

(b) Authorization of Credit Documents. The execution, delivery and performance of each of the Credit Documents to which Borrower or CE Acquisition is a party are within its respective corporate powers and have been duly authorized. Each of the Credit Documents to which Borrower or CE Acquisition is a party has been validly executed and delivered by Borrower or CE Acquisition, as applicable.

(c) Consents. The execution, delivery and performance of each of the Credit Documents to which Borrower or CE Acquisition is a party and the consummation of the Acquisition do not and will not require any registration with, consent or approval of, or notice to, or other action to, with or by, any governmental authority, regulatory body or any other Person, except for filings required by federal or state securities laws (which filings have been made and true and complete copies of which have been delivered to

Agent) and other filings, authorizations, consents and approvals, all of which have been made or obtained or the absence of which would not have a Material Adverse Effect.

(d) No Conflicts. The execution, delivery and performance of the Credit Documents and the consummation of the Acquisition will not (i) violate (A) the certificate of incorporation or by-laws (or comparable documents) of Borrower or any Borrower Subsidiary, (B) any Law or (C) any provision of any material contract, agreement, indenture or instrument to which Borrower or any Borrower Subsidiary is a party or by which any of its respective properties is bound or (ii) be in conflict with, or result in a breach of or constitute a default under, any contract, agreement, indenture or instrument referred to in (d)(i)(C) above or (iii) result in the creation or imposition of any Lien, except Permitted Liens or (iv) give to any Person rights to cancel, terminate or suspend performance of their obligations to Borrower or any Borrower Subsidiary under, or accelerate payments of amounts owed by Borrower or any Borrower Subsidiary to others under, any of the foregoing. To the best of Borrower's knowledge, the execution, delivery and performance of the Credit Documents and the consummation of the Acquisition will not (i) violate (A) the certificate of incorporation or by-laws (or comparable documents) of Magma or any of its Subsidiaries, (B) any Law or (C) any provision of any contract, agreement, indenture or instrument to which Magma or any of its Subsidiaries is a party or by which any of its respective properties is bound or (ii) be in conflict with, or result in a breach of or constitute a default under, any contract, agreement, indenture or instrument referred to in (d)(i)(C) above or (iii) result in the creation or imposition of any Lien, except Permitted Liens or (iv) give to any Person rights to cancel, terminate or suspend performance of their obligations to Magma or any of its Subsidiaries under, or accelerate payments of amounts owed by Magma or any of its Subsidiaries to others under, any of the foregoing.

(e) Enforceability of Credit Documents. Each Credit Document to which Borrower or CE Acquisition is a party is a legal, valid and binding agreement of Borrower or CE Acquisition, as applicable, enforceable against Borrower or CE Acquisition, as applicable, in accordance with their respective terms, except for bankruptcy and similar laws affecting the enforcement of creditors' rights generally and for the application of general equitable principles.

(f) Title to Property. Borrower and each Borrower Subsidiary and, to the best of Borrower's knowledge, Magma and its Subsidiaries have good, valid and sufficient title to

their material properties and assets free and clear of all Liens, except for Permitted Liens.

(g) Compliance with Law. Borrower and each Borrower Subsidiary and, to the best of Borrower's knowledge, Magma and its Subsidiaries are in compliance with all applicable Laws, except where the failure to maintain such compliance could not reasonably be expected to have a Material Adverse Effect.

(h) No Litigation. There are no actions, suits, proceedings, claims or disputes pending or threatened, against or affecting Borrower or any Borrower Subsidiary or, to the best of Borrower's knowledge, Magma or any of its Subsidiaries or any of its respective properties or assets before any court or governmental department, commission, board, bureau, agency or instrumentality domestic or foreign

affecting any assets or properties of Borrower, any Borrower Subsidiary, Magma or any of Magma's Subsidiaries (other than the Magma Litigation), except for any thereof which would not, in the aggregate, have a Material Adverse Effect.

(i) Events of Default. No event has occurred or would result from the incurring of obligations under any Credit Document or the consummation of the Acquisition which is, or upon the lapse of time or notice or both would become, an Event of Default.

(j) Material Subsidiaries. All Material Subsidiaries of Borrower and the nature and extent of its ownership interest therein have been heretofore disclosed in writing to Agent and the Banks.

(k) Financial Condition. The consolidated balance sheet of Borrower and its Subsidiaries as at December 31, 1992 and December 31, 1993 and the related consolidated statements of operations and retained earnings and changes in financial position for the fiscal years ended on such dates, certified by Deloitte & Touche, copies of which have heretofore been furnished to Agent, with sufficient copies for each Bank, are complete and correct and present fairly the consolidated financial condition of Borrower and the Borrower Subsidiaries as at such dates, and the consolidated results of their operations and changes in financial position for the fiscal years then ended. Such financial statements, including the related schedules and notes thereto, have been prepared in accordance with GAAP applied consistently throughout the periods involved (except as approved by such

accountants and as disclosed therein). Borrower and the Borrower Subsidiaries, taken as a whole, are (and after giving effect to the transactions contemplated by the Credit Documents and the Acquisition will be) Solvent. To the best of Borrower's knowledge, the consolidated balance sheet of Magma and its Subsidiaries as at December 31, 1992 and December 31, 1993 and the related consolidated statements of operations and retained earnings and changes in financial position for the fiscal years ended on such dates, certified by Coopers & Lybrand, copies of which have heretofore been furnished to Agent, with sufficient copies for each Bank, are complete and correct and present fairly the consolidated financial condition of Magma and its Subsidiaries as at such dates, and the consolidated results of their operations and changes in financial position for the fiscal years then ended. To the best of Borrower's knowledge, such financial statements, including the related schedules and notes thereto, have been prepared in accordance with GAAP applied consistently throughout the periods involved (except as approved by such accountants and as disclosed therein).

(l) No Material Adverse Effect. Since December 31, 1993, there has been no Material Adverse Effect with respect to Borrower and the Borrower Subsidiaries taken as a whole. To the best of Borrower's knowledge, since December 31, 1993, there has been no Material Adverse Effect with respect to Magma and its Subsidiaries taken as a whole.

(m) Collateral. Borrower has good and marketable title to the CE Acquisition Secured Term Note free and clear of all Liens or rights of others, except for Liens in favor of Agent under the Security Documents. CE Acquisition has good and marketable title to the Magma Shares free and clear of all Liens or rights of others, except for Liens in favor of Borrower under the Security Documents. The first priority security interest in the Magma Shares granted by CE Acquisition to Borrower pursuant to the CE Acquisition Pledge Agreement has been duly and validly assigned by Borrower to Agent pursuant to the Borrower Pledge Agreement. Upon delivery by CE Acquisition of the Magma Shares to Borrower in accordance with the Security Documents, Borrower will have a valid, fully perfected, first-priority security interest in the Magma Shares. Upon delivery of the CE Acquisition Secured Term Note to Agent and the Magma Shares in accordance with the Security Documents, Agent will have, for the ratable benefit of the Banks, a valid, fully perfected, first-priority security interest in the CE Acquisition Secured Term Note and (by virtue of its interest in the CE Acquisition Pledge Agreement and the CE Acquisition Secured Term Note) the Magma Shares. Schedule 1 of the Borrower Pledge Agreement is a complete and accurate description of the CE

(n) No Default. Neither Borrower nor any Borrower Subsidiary and, to the best of Borrower's knowledge, neither Magma nor any of its Subsidiaries is in default under or with respect to any contractual obligation in any respect which could have a Material Adverse Effect. Neither Borrower nor any Borrower Subsidiary and, to the best of Borrower's knowledge, neither Magma nor any of its Subsidiaries is in default under any material order, award or decree of any court, arbitrator or Governmental Authority binding upon or affecting it or by which any of its properties or assets is bound or affected.

(o) No Burdensome Restrictions. No contractual obligation of Borrower or any Borrower Subsidiary or, to the best of Borrower's knowledge, Magma or any of its Subsidiaries, and no Requirement of Law has, or is reasonably expected to have, in light of all facts and circumstances of which Borrower has actual knowledge, a Material Adverse Effect, it being understood that the mere existence of traditional project finance contractual provisions which provide lenders the ability to restrict cash distributions would not constitute a burdensome restriction hereunder.

(p) Taxes. Borrower and each Borrower Subsidiary have filed or caused to be filed all tax returns which are required to be filed, and have paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its property and all other taxes, fees or other charges imposed on it or any of its property by any Governmental Authority (other than those the amount or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of Borrower or its applicable Borrower Subsidiary, as the case may be); and no tax Liens have been filed and, to the knowledge of Borrower, no claims are being asserted with respect to any such taxes, fees or other charges which are material either as to amount or potentially adverse effect when considered with respect to the financial and business condition of Borrower and its Subsidiaries taken as a whole. To the best of Borrower's knowledge, Magma and each of its Subsidiaries have filed or caused to be filed all tax returns which are required to be filed, and have paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its property and all other taxes, fees or other charges imposed on it or any of its property by

any Governmental Authority (other than those the amount or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of Magma or its applicable Subsidiary, as the case may be); and no tax Liens have been filed and, to the knowledge of Borrower, no claims are being asserted with respect to any such taxes, fees or other charges which are material either as to amount or potentially adverse effect when considered with respect to the financial and business condition of Magma and its Subsidiaries taken as a whole.

(q) ERISA and IRC Compliance and Liability.

Borrower and each ERISA Affiliate is in compliance with all applicable provisions of ERISA and the regulations and published interpretations thereunder with respect to all Employee Benefit Plans and, to the extent that such compliance is required of Borrower or such ERISA Affiliate with respect to all Multiemployer Plans, except where failure to comply would not be expected to have a Material Adverse Effect and except for any required amendments for which the remedial amendment period as defined in Section 401(b) of the IRC has not yet expired. Each Employee Benefit Plan and Multiemployer Plan that is intended to be qualified under Section 401(a) of the IRC has been determined by the Internal Revenue Service to be so qualified, and each trust related to such plan has been determined to be exempt under Section 501(a) of the IRC or an application for determination letter confirming such qualification and exemption is pending or will be filed prior to the expiration of the applicable remedial amendment period as defined in Section 401(b) of the IRC. No material liability has been incurred by Borrower or any ERISA Affiliate which remains unsatisfied for any taxes or penalties with respect to any Employee Benefit Plan or any Multiemployer Plan. Each representation set forth in this Section 4.1(q) with respect to Magma or any of its Subsidiaries or any Employee Benefit Plan, Pension Plan or Multiemployer Plan applicable thereto is being made to the best knowledge of Borrower.

(r) Funding. No Pension Plan has been terminated, nor has any accumulated funding deficiency (as defined in Section 412 of the IRC) been incurred (without regard to any waiver granted under Section 412 of the IRC), nor has any funding waiver from the IRS been received or requested with respect to any Pension Plan, nor has Borrower or any ERISA Affiliate failed to make any contributions or to pay any amounts due and owing as required by Section 412 of the IRC, Section 302 of ERISA or the terms of any Pension Plan prior to the due dates of such contributions under Section 412 of the IRC or Section 302 of ERISA, nor has there been any event

requiring any disclosure under Section 4041(c)(3)(C) or 4063(a) of ERISA with respect to any Pension Plan. Each representation set forth in this Section 4.1(r) with respect to Magma or any of its Subsidiaries or any Employee Benefit Plan or Pension Plan applicable thereto is being made to the best knowledge of Borrower.

(s) Prohibited Transactions and Payments. Neither the Borrower or any of its Subsidiaries nor, in the case of clauses (2) through (4) hereof, any ERISA Affiliate has: (1) engaged in a nonexempt prohibited transaction described in

Section 406 of ERISA or Section 4975 of the IRC; (2) incurred any liability to the PBGC which remains outstanding other than the payment of premiums and there are no premium payments which are due and unpaid; (3) failed to make a required contribution or payment to a Multiemployer Plan; or (4) failed to make a required installment or other required payment under Section 412 of the IRC, which in any such case in clauses (1) through (4), the occurrence of which results in or could reasonably be expected to result in a Material Adverse Effect. Each representation set forth in this Section 4.1(s) with respect to Magma or any of its Subsidiaries or any Employee Benefit Plan, Pension Plan or Multiemployer Plan applicable thereto is being made to the best knowledge of Borrower.

(t) No Termination Event. No Termination Event has occurred or is reasonably expected to occur which has or could reasonably be expected to have a Material Adverse Effect.

(u) ERISA Litigation. No proceeding, claim, lawsuit and/or investigation is existing or, to the knowledge of Borrower, threatened concerning or involving any (1) employee welfare benefit plan (as defined in Section 3(1) of ERISA) currently maintained or contributed to by Borrower or any of its Subsidiaries or any ERISA Affiliate to which Borrower or any of its Subsidiaries may have liability, (2) Pension Plan or (3), to the knowledge of Borrower, Multiemployer Plan which could reasonably be expected to have a Material Adverse Effect. Each representation set forth in this Section 4.1(u) with respect to Magma or any of its Subsidiaries or any Employee Benefit Plan, Pension Plan or Multiemployer Plan applicable thereto is being made to the best knowledge of Borrower.

(v) No Other Obligations. Except as set forth on Schedule 4.1(v), neither Borrower nor any of its Subsidiaries has any obligation to provide post-retirement welfare

benefits under any Employee Benefit Plan or other plan or agreement, except for benefits due (i) under employee pension benefit plans (as defined in Section 3(2) of ERISA), (ii) to its disabled employees, (iii) under 4980B of the IRC or Section 601 et seq. of ERISA, or (iv) as otherwise required by law. Each representation set forth in this Section 4.1(v) with respect to Magma or any of its Subsidiaries or any Employee Benefit Plan, Pension Plan or Multiemployer Plan applicable thereto shall be made to the best knowledge of Borrower.

(w) Margin Regulations. Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation G, T, U, or X of the Board of Governors of the Federal Reserve System) and no proceeds of any Loan will be used in a manner which would violate, or result in a violation of, such Regulation G, T, U, or X. Except as set forth in Schedule 3 hereto, no part of the proceeds of any Loan will be used for "buying" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U or for any purpose which violates, or which would be inconsistent with, the provisions of the Regulations of the Board of Governors of the Federal Reserve System. The principal amount of all Loans does not exceed the Maximum Loan Value of the Collateral.

(x) Investment Company Act. Neither Borrower nor any Borrower Subsidiary and, to the best of Borrower's knowledge, neither Magma nor any of its Subsidiaries is an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended. Neither Borrower nor any Borrower Subsidiary and, to the best of Borrower's knowledge, neither Magma nor any of its Subsidiaries is a "public utility holding company" or a "subsidiary company" of a "public utility holding company" as defined in PUHCA.

(y) Environmental Matters. (i) There are no claims, liabilities, investigations, litigation, administrative proceedings, judgments or orders, whether asserted, pending or threatened, relating to any liability under or to compliance with any applicable Environmental Law, against Borrower or any Borrower Subsidiary or, to the best of Borrower's knowledge, Magma or any of its Subsidiaries or relating to any real property currently or formerly owned, leased or operated by Borrower or any Borrower Subsidiary or, to the best of Borrower's knowledge, Magma or any of its Subsidiaries that could reasonably be expected to have a Material Adverse Effect.

(ii) Neither Borrower nor any Borrower subsidiary and, to the best of Borrower's knowledge, neither Magma nor any of its Subsidiaries has received any notices of violations or liabilities under any applicable Environmental Law that could be reasonably expected to have a Material Adverse Effect.

(iii) No Hazardous Materials have been or are

being spilled, discharged or released on or from real property currently or formerly owned, leased or operated by Borrower or any Borrower Subsidiary or, to the best of Borrower's knowledge, Magma or any of its Subsidiaries in any quantity or manner violating or resulting in liability under any applicable Environmental Law that could be reasonably expected to have a Material Adverse Effect.

(z) Disclosure. No representation or warranty of Borrower or CE Acquisition contained in any Credit Document, or any other document, certificate or written statement furnished to Agent or any Bank by or on behalf of any such Person for use in connection with the Credit Documents or the Acquisition contains any untrue statement of a material fact or omitted, omits or will omit to state a material fact necessary in order to make the statements contained herein or therein, when taken as a whole, not misleading in any material respect in light of the circumstances in which the same were made. There is no fact, event or condition known to Borrower that has had or can reasonably be expected to have a Material Adverse Effect and that has not been disclosed herein or in such other documents, certificates and statements furnished to Agent or each Bank for use in connection with the transactions contemplated hereby.

(aa) Insurance. Schedule 4.1(aa) hereto sets forth a complete and accurate description of all material policies of insurance that will be in effect as of the Closing Date for Borrower and each Borrower Subsidiary. Such policies are with responsible and reputable insurance companies or associations, and the coverages provided by such policies are in amounts and covers such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which Borrower or any Borrower Subsidiary operates. To the best of the Borrower's knowledge, Magma and each of its Subsidiaries maintain, with responsible and reputable insurance companies or associations, insurance in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general

areas in which Magma or any of its Subsidiaries operates.

(bb) Energy Regulatory Status. (i) Each of the operational electric generation facilities ("Plants") owned in whole or part, directly or indirectly by (A) Borrower or Magma or (B) any legal entity in which Borrower or Magma directly or indirectly owns more than 5% of the voting stock or other equity interest, including any partnership in which Borrower or Magma has an interest, is located in the United States of America and is a "qualifying cogeneration facility" ("QF") or a "qualifying small power production facility" ("Small Power QF"), as such terms are defined under the Federal Power Act, as amended ("FPA"), and the regulations thereunder, and has continuously been in compliance with the requirements for being a QF or Small Power QF since it commenced sales of electricity.

(ii) The owner or operator of each of the Plants under development by Borrower or any of its Subsidiaries or Magma or any of its Subsidiaries and located in the United States of America will, no later than the date operations commence, either qualify as a QF, Small Power QF or an "exempt wholesale generator" ("EWG"), as such terms are defined under the FPA, PUHCA and the regulations thereunder, and if an EWG, the rates for service therefrom will be on file with FERC.

(iii) The owner or operator of each of the Plants under development by Borrower or any of its Subsidiaries or Magma or any of its Subsidiaries and located outside the United States of America will, no later than the date operations commence, either (A) qualify as an EWG or (B) qualify as a "foreign utility company," as such term is defined under PUHCA and the regulations thereunder.

(iv) None of the entities identified in clause (A) or (B) of subparagraph (i) above owns or operates any electric distribution facilities or any electric transmission facilities other than electric transmission facilities that are part of a QF or Small Power QF.

(v) None of the entities identified in clause (A) or (B) of subparagraph (i) above is a "public utility holding company" or a "subsidiary company" of a "public utility holding company," as those terms are defined under PUHCA.

(vi) Each of the Plants obtained any necessary certificates or permits from state regulatory authorities for construction of each of the operational Plants and associated transmission equipment owned by the

owners of the Plant, and each other entity constructing, owning or operating any of the foregoing has obtained each required certificate or permit.

Each representation set forth in this Section 4.1(bb) with

respect to Magma and its Subsidiaries is being made to the best knowledge of Borrower.

(cc) Certain Energy Regulatory Filing. To take advantage of the Solar, Wind, Waste and Geothermal Power Production Incentives Act of 1990, a Notice of Qualifying Status pursuant to 18 C.F.R. Section 292.207 has been, or will be, filed with FERC on or before December 30, 1994 with respect to any Qualifying Small Power Production Facility (as defined in Section 3 of the FPA, as amended by PURPA) that has a capacity of more than (i) 30 megawatts, except in the case of geothermal facilities, or (ii) 80 megawatts, in the case of geothermal facilities, in each case considered alone or aggregated with any other facilities that are located within one mile of each other, use the same energy resource, and are under common ownership, treating Magma and Borrower and their respective Subsidiaries as a single company for this purpose, and taking into account any contemplated expansion of any such facilities, such filings to be made by Borrower on behalf of itself, Magma and their respective Subsidiaries.

(dd) Information in Magma Tender Offer Documents. To the best of Borrower's knowledge, none of the Magma Tender Offer Documents contains any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

(ee) SEC Filings of Magma. To the best of Borrower's knowledge, Magma has filed all forms, reports and documents required to be filed with the SEC since January 1, 1992, and Borrower has heretofore delivered to Agent, in the form filed with the SEC, (i) Magma's Annual Reports on Form 10-K for the fiscal years ended December 31, 1993 and December 31, 1992, respectively, (ii) all proxy statements relating to Magma's meetings of stockholders (whether annual or special) held since January 1, 1992, and (iii) all other reports or registration statements (other than Quarterly Reports on Form 10-Q) filed by Magma with the SEC since January 1, 1992 (collectively, the "Magma SEC Reports"). To the best of Borrower's knowledge, the Magma SEC Reports (i) were prepared in all material respects in accordance with the

requirements of the Securities Act, or the Exchange Act, as the case may be, and (ii) did not at the time they were filed contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. To the best of Borrower's knowledge, no Subsidiary of Magma is required to file any statements or reports with the SEC pursuant to Sections 13(a) or 15(d) of the Exchange Act.

(ff) SEC Filings of Borrower. Borrower has filed all forms, reports and documents required to be filed with the SEC since January 1, 1992, and has heretofore delivered to Agent, in the form filed with the SEC, its (i) Annual Reports on Form 10-K for the fiscal years ended December 31, 1993 and December 31, 1992, respectively, (ii) all proxy statements relating to Borrower's meetings of stockholders (whether annual or special) held since January 1, 1992, and (iii) all other reports or registration statements (other than Quarterly Reports on Form 10-Q) filed by Borrower with the SEC since January 1, 1992 (collectively, the "Borrower SEC Reports"). The Borrower SEC Reports (i) were prepared in all material respects in accordance with the requirements of the Securities Act or the Exchange Act, as the case may be, and (ii) did not at the time they were filed contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. No Subsidiary of Borrower (other than Magma) is required to file any statements or reports with the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act.

(gg) Information in Borrower Tender Offer Documents. None of the Borrower Tender Offer Documents contains any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

(hh) CE Acquisition. CE Acquisition was organized on September 22, 1994 for the purposes of (i) making the Tender Offer, (ii) acquiring and holding the Magma Shares acquired in connection therewith and (iii) entering into the Merger, and since such date has not carried on any activities other than those incident to its formation and the foregoing.

(ii) Labor Matters. There are no strikes or other labor disputes or grievances or charges or complaints with

respect to any employee or group of employees pending or threatened against Borrower or any Material Subsidiary which

could reasonably be expected to have a Material Adverse Effect.

(jj) Solvency. Each of Borrower and, to the best of Borrower's knowledge, Magma is Solvent.

ARTICLE V

Covenants of Borrower

Section 5.1 Affirmative Covenants. So long as any Obligations shall remain outstanding or any of the Commitments shall remain available hereunder, Borrower will, unless Majority Banks shall otherwise consent in writing:

(a) Payment of Taxes, Etc. Pay and discharge, and cause each of its Subsidiaries to pay and discharge, before the same shall become delinquent, (i) all taxes, assessments and governmental charges or levies imposed upon it or upon its property, and (ii) all lawful claims which, if unpaid, might by Law become a Lien upon its property; provided, however, that neither Borrower nor any of its Subsidiaries shall be required to pay or discharge any such tax, assessment, charge or claim which is being contested in good faith and by proper proceedings and as to which adequate reserves have been established.

(b) Maintenance of Insurance. Maintain, and cause each of its Subsidiaries to maintain, or cause to be maintained for each of its Subsidiaries, with responsible and reputable insurance companies or associations, insurance in such amounts and covering such risks (including, but not limited to, catastrophe perils insurance (i.e., hurricane, earthquake, flood, and storm) and business interruption insurance) as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which Borrower or any of its Subsidiaries operates (the "Industry Standard"), and, subject to the following provisos, in any event the insurance coverages shall not be less than the insurance coverages set forth on Schedule 4.1(aa); provided that if the Industry Standard is such that the insurance coverages then being maintained by Borrower and its Subsidiaries is below the Industry Standard, Borrower shall use its best efforts to obtain the necessary insurance coverages such that its and its Subsidiaries' insurance coverages equals or is greater than the Industry

Standard; provided, further, that if the Industry Standard is such that the insurance coverages then being maintained by Borrower and its Subsidiaries is in excess of the Industry Standard, then Borrower may conform its or its Subsidiaries' insurance coverages to the Industry Standard unless Agent determines that maintaining the Industry Standard would not be reasonable under the circumstances (and in making such determination Agent shall take into account the availability of such insurance coverages on commercially reasonable terms).

(c) Preservation of Corporate Existence, Etc.

Preserve and maintain, and cause each Material Subsidiary to preserve and maintain and keep in full force and effect, its corporate existence, rights (charter and statutory) and franchises.

(d) Compliance with Laws. Comply, and cause each of its Subsidiaries to comply, with the requirements of all applicable Laws noncompliance with which could have a Material Adverse Effect.

(e) Inspection Rights. At any reasonable time and from time to time upon reasonable notice, permit Agent or any agents or representatives thereof, to examine (at the location where normally kept) and make abstracts from the records and books of account of, and visit the properties of Borrower and its Subsidiaries and to, upon reasonable notice to Borrower, discuss the affairs, finances and accounts of Borrower and its Subsidiaries with any of their respective officers and discuss the affairs, finances and accounts of Borrower and its Subsidiaries with its independent certified public accountants (at which discussion, if Borrower so requests, a representative of Borrower shall be permitted to be present) and permit such accountants to disclose to Agent any and all financial statements and other reasonably requested information of any kind that they may have with respect to Borrower and its Subsidiaries.

(f) Keeping of Books. Keep, and cause each of its Subsidiaries to keep, proper books of record and account, in which full and correct entries shall be made of all financial transactions and the assets and business of Borrower and its Subsidiaries in a form, in the case of Borrower, such that Borrower may readily produce no less frequently than at the end of each of its fiscal quarters, financial statements in accordance with GAAP consistently applied.

(g) Maintenance of Properties, Etc. Maintain and preserve, and cause each of its Subsidiaries to maintain and

preserve, all of its properties which are used or useful in the conduct of its business in good working order and condition, ordinary wear and tear excepted (subject to any customary mandatory requirement of any contractual obligation imposed in respect of any Permitted Facility (as defined in the Indenture)); provided, however, that nothing in this Section 5.1(g) shall prevent Borrower or any of its Subsidiaries from discontinuing the operation or maintenance of any such properties or, if not prohibited under Section 1015 of the Indenture, disposing of any of them if such discontinuance or disposal is, as determined by Borrower in good faith, desirable in the conduct of its business or the business of any of its Subsidiaries and does not have a Material Adverse Effect.

(h) Reporting Requirements. Furnish to Agent and each Bank:

(i) Quarterly Financial Statements of Borrower and CE Acquisition. As soon as available to any Person (other than Borrower and CE Acquisition) and in any event within 45 days after the end of each of the first three fiscal quarters of each fiscal year of Borrower and CE Acquisition, consolidated and consolidating balance sheets of Borrower and its Subsidiaries and CE Acquisition and its Subsidiaries as of the end of such quarter and consolidated and consolidating statements of operations, stockholders' equity and cash flows of Borrower and its Subsidiaries and CE Acquisition and its Subsidiaries for the period commencing at the beginning of such fiscal year and ending with the end of such quarter, all in reasonable detail and duly certified (subject to year-end audit adjustments) by a Responsible Officer of Borrower or CE Acquisition, as applicable, as having been prepared in accordance with GAAP consistently applied, together with a Compliance Certificate as of the end of such fiscal quarter;

(ii) Annual Financial Statements of Borrower and CE Acquisition. As soon as available to any Person (other than Borrower and CE Acquisition) and in any event within 90 days after the end of each fiscal year of Borrower and CE Acquisition, the consolidated and consolidating balance sheets of Borrower and its Subsidiaries and CE Acquisition and its Subsidiaries as of the end of such fiscal year and the consolidated and consolidating statements of operations, stockholders' equity and cash flows of Borrower and its Subsidiaries and CE Acquisition and its Subsidiaries for such fiscal

year, in the case of such consolidated financial statements, certified, without material qualifications or limitations as to scope of the audit, by independent public accountants of recognized standing, as having been prepared in accordance with GAAP, consistently applied, together with a Compliance Certificate as of the end of such fiscal year for Borrower and CE Acquisition;

(iii) Accountants' Reports. Promptly upon receipt thereof, Borrower or CE Acquisition, as applicable, will deliver copies of all significant reports submitted to Borrower or CE Acquisition, as applicable, by independent public accountants in connection with each annual, interim or special audit of the financial statements of Borrower or CE Acquisition, as applicable, made by such accountants;

(iv) Notice of Defaults. As soon as possible and in any event within five days after the occurrence of each Event of Default and each event which, with the giving of notice or lapse of time, or both, would constitute an Event of Default, continuing on the date of such statement, a statement of a Responsible Officer of Borrower setting forth details of such Event of Default or event and the action which Borrower has taken and proposes to take with respect thereto;

(v) PBGC Notices. Promptly and in any event within ten Banking Days after receipt thereof by Borrower or any ERISA Affiliate from the PBGC, copies of each notice received by Borrower or any such ERISA Affiliate of the intention of the Pension Benefit Guaranty Corporation to terminate any Pension Plan or to have a trustee appointed to administer any Pension Plan;

(vi) Monthly Officer's Certificate. On the fifth Banking Day after the close of Borrower's books for each calendar month, a certificate signed by a Responsible Officer of Borrower, in form and substance reasonably satisfactory to Agent, (x) certifying (i) compliance with Section 5.3(a) and (ii) the absence of (A) a material adverse change in the financial condition or results of operations of Borrower and its Subsidiaries, taken as a whole, since the Closing Date and (B) a material adverse change in the financial condition or results of operations of CE Acquisition and

its Subsidiaries, taken as a whole, since the Closing

Date, in the case of clauses (A) and (B) which could reasonably be expected to materially impact the ability of Borrower to satisfy the Obligations or materially impact the ability of Agent or any of the Banks to exercise any of its rights or remedies under any Security Document and (y) setting forth a list, if applicable, of any and all uncured and unwaived payment defaults by Borrower or any of its subsidiaries aggregating more than \$1,000,000 on any Debt as of the last day of the prior calendar month;

(vii) SEC Filings and Press Releases. Promptly upon their becoming available, Borrower will deliver copies of: (1) all financial statements, reports, notices and proxy statements sent or made available by Borrower or any of its Subsidiaries to its respective public security holders; (2) all regular and periodic reports and all registration statements and prospectuses, if any, filed by Borrower or any of its Subsidiaries with any securities exchange or with the Securities and Exchange Commission; and (3) all press releases and other statements made available by Borrower or any of its Subsidiaries to the public concerning developments in the business of any such Person, other than any such press releases or statements issued in the ordinary course of business;

(viii) Employee Benefit Plans. With reasonable promptness, and in any event within thirty (30) days, Borrower will give notice of and/or deliver to Agent and each Bank copies of: (1) (a) the establishment of any new Pension Plan or Multiemployer Plan, (b) the commencement of contributions to any Pension Plan or Multiemployer Plan to which Borrower or any of its ERISA Affiliates was not previously contributing or becomes obligated to contribute or (c) any material increase in the benefits of any existing Pension Plan or Multiemployer Plan or (d) the establishment or amendment of any Employee Benefit Plan or other plan or agreement which creates or increases liability of Borrower or any of its Affiliates with respect to health or welfare benefits to retirees; (2) each funding waiver request filed with respect to any Employee Benefit Plan and all communications received or sent by Borrower or any ERISA Affiliate with respect to such request; and (3) the failure of Borrower or any ERISA Affiliate to make a required installment or payment under Section 302 of ERISA or Section 412 of the IRC by the due date; provided that such notice shall be required (I) with respect to Magma or any of its Subsidiaries or any Pension Plan, Multiemployer Plan or Employee Benefit

Plan applicable thereto and (II) with respect to any increase in benefits under any Multiemployer Plan only after Borrower has obtained knowledge or reason to know of the event described in (1), (2) or (3) hereof;

(ix) Termination Events. Promptly and in any event within ten (10) days of becoming aware of the occurrence of or forthcoming occurrence of any (1) Termination Event or (2) "prohibited transaction," as such term is defined in Section 406 of ERISA or Section 4975 of the IRC, in connection with any Pension Plan or any trust created thereunder, Borrower will deliver to Agent and each Bank a notice specifying the nature thereof, what action the applicable Borrower or ERISA Affiliate has taken, is taking or proposes to take with respect thereto and, when known, any action taken or threatened by the Internal Revenue Service, the Department of Labor or the PBGC with respect thereto;

(x) ERISA Notices. With reasonable promptness but in any event within ten (10) days for purposes of clauses (1), (2) and (3), Borrower will deliver to Agent and each Bank copies of: (1) any favorable or unfavorable determination letter from the Internal Revenue Service regarding the qualification of an Employee Benefit Plan or Multiemployer Plan under Section 401(a) of the IRC; (2) all notices received by Borrower or any ERISA Affiliate of the PBGC's intent to terminate any Pension Plan or to have a trustee appointed to administer any Pension Plan; (3) each Schedule B (Actuarial Information) to the annual report (Form 5500 Series) filed by Borrower or any ERISA Affiliate with the Internal Revenue Service with respect to each Pension Plan; and (4) all notices received by Borrower or any ERISA Affiliate from a Multiemployer Plan sponsor concerning the imposition or amount of withdrawal liability pursuant to Section 4202 of ERISA; provided, however, that such notice shall be required with respect to Magma or any of its Subsidiaries or any Pension Plan, Multiemployer Plan or Employee Benefit Plan applicable thereto only after Borrower has obtained knowledge or reason to know of the event described in (1), (2), (3) or (4) hereof. Borrower will notify Agent and each Bank in writing within two (2) Banking Days of

Borrower or any Borrower Subsidiary obtaining knowledge or reason to know that Borrower or any ERISA Affiliate has filed or intends to file a notice of intent to terminate any Pension Plan under a distress termination

within the meaning of Section 4041(c) of ERISA;

(xi) Additional Information. Such other information respecting the condition or operations, financial or otherwise, of Borrower or its Subsidiaries as any Bank through the Agent may from time to time reasonably request; and

(xii) Significant Events. Promptly upon Borrower's knowledge thereof, a written statement from a Responsible Officer of Borrower describing the details of:

(A) any substantial dispute which may exist between Borrower or any of its Subsidiaries and any governmental regulatory body or law enforcement authority that could reasonably be expected to have a Material Adverse Effect;

(B) any labor controversy resulting in or reasonably likely to result in a strike or work stoppage or slowdown against Borrower or any of its Subsidiaries that could reasonably be expected to have a Material Adverse Effect;

(C) CE Acquisition or any of its Subsidiaries that are Material Subsidiaries ceasing to be a Material Subsidiary and the reasons for such change in status;

(D) any Person becoming a Material Subsidiary of CE Acquisition and the reasons why such Person has become a Material Subsidiary; and

(E) any matter (including, without limitation, the commencement of any actions, suits or proceedings before any court or governmental department, commission, board, bureau, agency, or instrumentality domestic or foreign or any development in any such actions, suits or proceedings) which has resulted or might reasonably be expected to result in a Material Adverse Effect.

(i) Use of Proceeds. Use the proceeds of the Loans solely to advance funds to CE Acquisition under the CE Acquisition Secured Term Note, and to cause CE Acquisition to use such funds together with other funds contributed to CE Acquisition as capital to acquire the Magma Shares.

(j) Energy Regulatory Status. (i) Cause the owner or operator of each of the Plants under development by

Borrower or any of its Subsidiaries or Magma or any of its Subsidiaries and located in the United States of America to, no later than the date operations commence, either self certify or secure a FERC certification that the Plant is a QF or Small Power QF or secure a determination by FERC that the Plant is an EWG, and if an EWG, ensure that the rates for service therefrom are on file with FERC.

(ii) Cause the owner or operator of each of the Plants under development by Borrower or any of its Subsidiaries or Magma or any of its Subsidiaries and located outside the United States of America to, no later than the date operations commence, either secure a determination by FERC that the Plant is an EWG or qualify and have filed the requisite notice as a "foreign utility company," as such term is defined under PUHCA and the regulations thereunder.

(k) Establishment of Collection Account. If the Merger Agreement is terminated, establish promptly thereafter a collection account with Agent and cause all dividends and distributions from CE Acquisition to Borrower and from Subsidiaries of CE Acquisition to CE Acquisition to be deposited into such account and all funds deposited into such account shall be applied to the satisfaction of the Obligations.

Section 5.2 Negative Covenants. So long as any Obligations shall remain outstanding or any of the Commitments shall remain available hereunder, Borrower will not, without the written consent of Majority Banks:

(a) Negative Pledge and Liens. Sell, assign, transfer, pledge or otherwise encumber or dispose of any shares of capital stock or other equity securities in CE Acquisition or any of CE Acquisition's Subsidiaries, except pursuant to or as contemplated by the Security Documents, or create, incur, assume or suffer to exist any Lien, except Permitted Liens, upon or with respect to any assets or property of CE Acquisition or any Subsidiary of CE Acquisition, or permit any of its Subsidiaries so to do.

(b) Fundamental Changes. (i) Enter into any transaction of consolidation or merger with or into any other Person; wind up, liquidate or dissolve its affairs; sell, lease, transfer or otherwise dispose of directly or indirectly (or agree to any of the foregoing at any future time), all or any substantial portion of its property or assets or any of the Collateral; purchase or otherwise

acquire (in one or a series of related transactions) any material portion of the property or assets of any Person out of the ordinary course of business; or (ii) permit any Material Subsidiary so to do; provided that notwithstanding the foregoing, Borrower and any Borrower Subsidiary (other than CE Acquisition) may engage in any of the foregoing transactions which are between Borrower and any Borrower Subsidiary (other than CE Acquisition) or between Borrower Subsidiaries (other than CE Acquisition) (including dissolutions and liquidations).

(c) Nature of Business. (i) Engage in, or permit any Borrower Subsidiary (other than CE Acquisition) to engage in any business activity, except (A) the ownership, design, engineering, procurement, construction, development, acquisition, operation, servicing, management or disposition of Permitted Facilities (as defined in the Indenture), (B) the ownership, creation, development, acquisition, servicing, management or disposition of Restricted Subsidiaries (as defined in the Indenture) and Joint Ventures (as defined in the Indenture) that own, construct, develop, design, engineer, procure, acquire, operate, service, manage or dispose of Permitted Facilities, (C) obtaining, arranging or providing financing incident to any of the foregoing and (D) other related activities incident to any of the foregoing; or (ii) permit CE Acquisition, Magma or any of Magma's Subsidiaries to engage in any business activity other than the business activity it conducts on the date hereof and except as contemplated by the Merger.

(d) Fiscal Year. Change its fiscal year.

(e) Bankruptcy. Commence, or join with or solicit any other Person in commencing, any case or other proceeding seeking liquidation, reorganization or other relief with respect to Borrower or any Material Subsidiary or its debts, under any bankruptcy, insolvency or other similar Law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of Borrower or any Material Subsidiary, or permit any of its Subsidiaries so to do.

(f) Transactions with Affiliates. Enter into any transaction, or permit any of its Subsidiaries to do so, including, without limitation, the purchase, sale or exchange of property or the rendering of any service, with any Affiliate of Borrower or with any director, officer or employee of Borrower or any of its Subsidiaries, except in the ordinary course of and pursuant to the reasonable requirements of Borrower's or any of its Subsidiaries' business and upon fair and reasonable terms no less favorable

to Borrower or such Subsidiary than would be obtained in a comparable arm's length transaction with a Person not an Affiliate of Borrower.

(g) Restricted Junior Payments. Permit CE Acquisition or any of CE Acquisition's Subsidiaries to make any Restricted Junior Payment, except that (i) Subsidiaries of Magma may make Restricted Junior Payments and (ii) Magma may make Restricted Junior Payments so long as CE Acquisition receives 100% of the amount distributed by Magma in connection with any such Restricted Junior Payments.

(h) Limitation on Debt. Create, incur, assume or otherwise become or remain directly or indirectly liable with respect to any Debt, except as permitted by Section 1008 of the Indenture; or permit any Borrower Subsidiary (other than CE Acquisition) to create, incur, assume or otherwise become or remain directly or indirectly liable with respect to any Debt, except as permitted by Section 1009 of the Indenture; or permit CE Acquisition or any of CE Acquisition's Subsidiaries to create, incur, assume or otherwise become or remain directly or indirectly liable with respect to any Debt, except as contemplated by the CE Acquisition Secured Term Note and except for Debt incurred in the ordinary course of business of Magma and its Subsidiaries in order to fund and finance Alto Peak, Malitbog and its other Permitted Facilities (as defined in the Indenture) and the terms of which are consistent with past practices and otherwise permitted by Section 1009 of the Indenture.

(i) Investments. Make, or permit any Borrower Subsidiary (other than CE Acquisition) to make, any Investments, except as permitted by Section 1010 of the Indenture; or permit CE Acquisition or any of its Subsidiaries to make any Investments other than in the Magma Shares and other than Investments made in the ordinary course of business of Magma and its Subsidiaries and which (i) are consistent with past practices and otherwise permitted by

Section 1010 of the Indenture and (ii) do not impair the availability of funds necessary to fund the equity required to complete Magma's projects (which funds shall be deemed available if Borrower shall undertake to provide such funds and such undertaking is satisfactory to Agent).

(j) Agreements Restricting the Payment of Dividends. Enter into any agreement or contract restricting or prohibiting the declaration or making of any dividend payment or other distribution of assets, cash or securities

by CE Acquisition, Magma or any of their respective Subsidiaries on account of any shares of any class of its capital stock, or permit any of its Subsidiaries so to do, other than limitations existing in respect of Permitted Facilities (as defined in the Indenture) incurred in the ordinary course of business and which are consistent with past practices and otherwise permitted by Section 1010 of the Indenture.

(k) Changes to CE Acquisition Credit Documents. Change or amend the terms of the CE Acquisition Credit Agreement, the CE Acquisition Secured Term Note or the CE Acquisition Pledge Agreement, or permit any of its Subsidiaries so to do.

(l) Changes to Merger Agreement. Change or amend the terms of the Merger Agreement, or permit any of its Subsidiaries so to do.

(m) Compliance with ERISA.

(i) Permit the occurrence of any Termination Event; or

(ii) Permit the present value of all benefit liabilities (based on the then most recent actuarial assumptions) under all Pension Plans to exceed the current value of the assets of such Pension Plans; or

(iii) Permit any accumulated funding deficiency (as defined in Section 302 of ERISA and Section 412 of the IRC) with respect to any Pension Plan, whether or not waived; or

(iv) Fail to make any contribution or payment to any Multiemployer Plan which Borrower or ERISA Affiliate may be required to make under any agreement relating to such Multiemployer Plan, or any law pertaining thereto; or

(v) Engage, or permit any ERISA Affiliate to engage, in any prohibited transaction under Section 406 of ERISA or Section 4975 of the IRC for which a civil penalty pursuant to Section 502(i) of ERISA or a tax pursuant to Section 4975 of the IRC is imposed; or

(vi) Permit the establishment of any Employee Benefit Plan or other plan or agreement providing post-retirement welfare benefits, except as may be required pursuant to Section 4980B of the IRC or Section 601 et seq. of ERISA or as otherwise required by law or

establish or amend any Employee Benefit Plan which establishment or amendment could result in liability to Borrower or any of its Subsidiaries or increase the obligation of Borrower or any of its Subsidiaries, whether directly or indirectly through an ERISA Affiliate, to a Multiemployer Plan which liability or increase, is material to Borrower or any of its Subsidiaries; or

(vii) Fail to establish, maintain and operate each Employee Benefit Plan or permit any ERISA affiliate to fail to establish, maintain and operate each Pension Plan in compliance in all material respects with the provisions of ERISA, the IRC and all other applicable laws and the regulations and interpretations thereof;

which in any such case in (i) through (vii) results in or could reasonably be expected to result in a Material Adverse Effect.

Section 5.3 Financial Covenants. So long as any Obligations shall remain outstanding or any of the Commitments shall remain available hereunder, Borrower will, unless Majority Banks shall otherwise consent in writing:

(a) Liquidity. Maintain at all times unrestricted and uncommitted cash, Cash Equivalents (marked to market) and/or an availability under a line of credit in an amount (or, with respect to Cash Equivalents, with a fair market value) equal to or greater than \$50,000,000 in the aggregate.

(b) Consolidated Net Worth. Maintain at all times Consolidated Net Worth in an amount equal to or greater than 90% of Borrower's Consolidated Net Worth at the end of its prior fiscal year; provided that in calculating such amount,

the following amounts (not to exceed \$35,000,000 in the aggregate), shall be added back to Consolidated Net Worth for all periods during which such amounts were paid: (i) expenses incurred and paid by Borrower in connection with the Acquisition and the Merger and (ii) amounts expended by Borrower to redeem or purchase any of its capital stock.

(c) Solvency. Remain Solvent and cause CE Acquisition and Magma to do so.

ARTICLE VI

Events of Default

Section 6.1 Events of Default. If any of the following events ("Events of Default") shall occur and be continuing:

(a) Payments. Borrower shall fail to pay any principal of, or interest on, any of the Loans when the same becomes due and payable, or Borrower shall fail to pay any other sum due under this Agreement or any other Credit Documents within five Banking Days of the date when the same becomes due and payable; or

(b) Representations and Warranties. Any representation or warranty made or deemed to be made by Borrower or any of its Subsidiaries under or in connection with any Credit Document shall have been incorrect or misleading in any material respect when made or deemed to be made; or

(c) Particular Covenant Defaults. Borrower or any of its Subsidiaries shall fail to perform or observe any covenant contained in Sections 5.1(b) and (h) and Sections 5.2 and 5.3; or

(d) Taxes and Compliance with Laws Covenants. Borrower shall fail to perform or observe any covenant contained in Sections 5.1(a) and (d) and such failure shall remain unremedied for five Banking Days after the earlier of (i) such failure shall first become known to Borrower, (ii) Borrower could reasonably have been expected to have known of such failure or (iii) a written notice thereof shall have been given to Borrower by Agent or any Bank; or

(e) Other Covenants. Borrower or any of its Subsidiaries shall fail to perform or observe any term, covenant or agreement contained herein or in any other Credit Document on its part to be performed or observed (other than those referred to in Sections 6.1(a), (c) and (d) above and Section 6.1(s) below) and any such failure shall remain unremedied for 15 Banking Days after the earlier of (i) such failure shall first become known to Borrower, (ii) Borrower could reasonably have been expected to have known of such failure or (iii) a written notice thereof shall have been given to Borrower by Agent or any Bank; or

(f) Other Debts. Borrower shall fail to make any payment on any Debt (individually or in the aggregate) in excess of \$25,000,000 in the aggregate, or any interest or premium thereon, when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) and such failure shall continue after the applicable notice and

grace period, if any, specified in the agreement or instrument relating to such Debt; or any other default under any agreement or instrument relating to any such Debt, or any other event, shall occur and shall continue without remedy, cure or waiver for a period of 180 consecutive days, or if the effect of such default or event is to accelerate the maturity of such Debt; or any such Debt shall be declared to be due and payable prior to the stated maturity thereof; or

(g) **Subsidiary Debts.** Any of Borrower's Subsidiaries shall fail to make any payment of \$25,000,000 or more on any Debt (which Debt instrument has a face amount in excess of \$25,000,000) when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) and such failure shall continue after the applicable notice and grace period, if any, specified in the agreement or instrument relating to such Debt; or any other default under any agreement or instrument relating to any such Debt, or any other event, shall occur and shall continue after the applicable notice and grace period, if any, specified in such agreement or instrument, if the effect of such default or event is to accelerate the maturity of such Debt; or any such Debt shall be declared to be due and payable prior to the stated maturity thereof; provided, however, that the occurrence of one or more of the events described in this Section 6.1(g) shall not be deemed an Event of Default unless in the reasonable judgment of Agent the occurrence of such event materially impairs or is likely to materially impair Borrower's ability to perform its obligations under any Credit Document to which it is a party; or

(h) **Judgments and Orders.** Any judgment or order for the payment of money in excess of \$25,000,000 shall be rendered against Borrower or any Material Subsidiary and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of 60 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(i) **Insolvency or Voluntary Proceedings.** Borrower or any Material Subsidiary is generally not paying or admits in writing its inability to pay its debts as such debts become due, or files any petition or action for relief under any bankruptcy, reorganization, insolvency, or moratorium Law or any other Law for the relief of, or relating to, debtors, now or hereafter in effect, or makes any assignment for the

benefit of creditors, liquidates or dissolves, or takes any action in furtherance of any of the foregoing; or

(j) Involuntary Proceedings. An involuntary petition is filed against Borrower or any Material Subsidiary under any bankruptcy, reorganization, insolvency, or moratorium Law now or hereafter in effect, or a custodian, receiver, trustee, assignee for the benefit of creditors (or other similar official) is appointed to take possession, custody or control of any property of Borrower or any Material Subsidiary, and (i) such petition or appointment is not set aside or withdrawn or otherwise ceases to be in effect within 60 days from the date of said filing or appointment, or (ii) an order for relief is entered against Borrower or any Material Subsidiary with respect thereto, or (iii) Borrower or any Material Subsidiary shall take any action indicating its consent to, approval of, or acquiescence in, any such petition or appointment; or

(k) Collateral Impairment. Agent's Lien on the Collateral shall cease for any reason (other than the Agent's consent or release of Collateral in accordance with the terms of the Borrower Pledge Agreement) to be a fully perfected, first priority security interest in all such Collateral; any Lien is filed pursuant to Section 6321 of the IRC or any other applicable Law affecting the Collateral; or Borrower (or any trustee, receiver, custodian or other Person asserting rights on behalf of or derived from or through Borrower) shall so state in writing; or

(l) ERISA - Pension Plans. (1) Borrower or any ERISA Affiliate fails to make full payment when due of all amounts which, under the provisions of any Pension Plan or Section 412 of the IRC, Borrower or any ERISA Affiliate is required to pay as contributions thereto and such failure results in or could reasonably be expected to result in a Material Adverse Effect; or (2) an accumulated funding deficiency occurs or exists, whether or not waived, with respect to any Pension Plan which results in, or could reasonably be expected to result in, a Material Adverse Effect; or (3) a Termination Event occurs which results in or could reasonably be expected to result in a Material Adverse Effect; or

(m) ERISA - Multiemployer Plans. Borrower or any ERISA Affiliate as employers under one or more Multiemployer Plans makes a complete or partial withdrawal from such Multiemployer Plans and the plan sponsor of such Multiemployer Plans notifies such withdrawing employer that such employer has incurred a withdrawal liability requiring payments in an amount which results in or could reasonably be

expected to result in a Material Adverse Effect; or

(n) ERISA - General Liability. Borrower or any Borrower Subsidiary incurs liability under or relating to any Employee Benefit Plan or Multiemployer Plan resulting from a violation of ERISA, the IRC and/or any other applicable federal, state or local law which results in, or could reasonably be expected to result in, a Material Adverse Effect; or

(o) Credit Documents. Any provision of any Credit Document shall for any reason cease to be valid and binding on Borrower, or Borrower or any Governmental Authority shall so state in writing, and such is reasonably expected to have a Material Adverse Effect; or

(p) Injunction of Merger. Any court or Governmental Authority shall permanently enjoin the consummation of the Merger; or

(q) Change of Control. A Change of Control shall occur; or

(r) Loan to Collateral Value Ratio. The ratio of the aggregate principal amount of the Loans outstanding to the fair market value of the Magma Shares shall be greater than .78 to 1; or

(s) Default by CE Acquisition Under the CE

Acquisition Secured Term Note or the CE Acquisition Credit Agreement. CE Acquisition fails to pay when due any amounts under the CE Acquisition Secured Term Note or the CE Acquisition Credit Agreement;

then, (i) automatically upon the occurrence of any event specified in clauses (g) or (h) of this Section 6.1 and at the option of Majority Banks, by notice from Agent to Borrower, in any other event, (A) the obligation of each Bank hereunder or under any other Credit Documents to make any Loans, shall be immediately terminated, and (B) the total outstanding principal amount of all Loans, all interest thereon and all other amounts payable under this Agreement or under any other Credit Document shall be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by Borrower, and (ii) Agent shall upon the request, or may with the consent, of Majority Banks take such actions under and exercise such rights and remedies pursuant to the Credit

Documents, or any of them, as Agent may deem appropriate.

ARTICLE VII

Relationship of Agent and Banks

Section 7.1 Authorization and Action. Each Bank hereby appoints and authorizes Agent, as agent on behalf of such Bank, to take such action and to exercise such powers under the Credit Documents as are delegated to Agent by the terms thereof, together with such powers as are reasonably incidental thereto. As to any (x) matters requiring or permitting an approval, consent, waiver, election or other action by Majority Banks, (y) matters as to which, notwithstanding any delegation of authority to Agent, Agent has requested instructions from Majority Banks, and (z) matters not expressly provided for by the Credit Documents, Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting only (and shall be fully protected in so acting or refraining from acting) upon the instructions of Majority Banks, and such instructions shall be binding upon all Banks; provided, however, that Agent shall not be required to take any action which exposes Agent to personal liability or which is contrary to any Credit Document or applicable Law. Agent agrees to give to each Bank prompt notice of each notice given to it by Borrower pursuant to the terms of any Credit Document.

Section 7.2 Agent's Reliance, Etc. Neither Agent nor any of its directors, officers, agents, attorneys or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with any Credit Document, except for its or their own gross negligence or willful misconduct. Without limiting the generality of the foregoing, Agent: (i) may treat each Bank as the holder of the right to payment of its outstanding Loans until Agent receives and accepts (together with any required transfer fee) an Assignment and Acceptance Agreement signed by such Bank and its Assignee in form satisfactory to the Agent and otherwise in accordance with the provisions of this Agreement; (ii) may consult with legal counsel (including counsel for Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts if such counsel, accountants or other experts are selected without gross negligence or willful misconduct on the part of the Agent; (iii) makes no warranty or representation to any Bank and shall not be responsible to any Bank for any statements, warranties or representations

made in or in connection with any Credit Document; (iv) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of any Credit Document on the part of Borrower or to inspect the property (including the books and records) of Borrower; (v) shall not be responsible to any Bank for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of any Credit Document or any other instrument or document furnished pursuant thereto; and (vi) shall incur no liability under or in respect of any Credit Document by acting upon any notice, consent, certificate or other instrument or writing (which may be by telegram, cable or telex) believed by it to be genuine and signed or sent by the proper party or parties unless such action by the Agent constitutes gross negligence or willful misconduct on its part.

Section 7.3 Agent and Affiliates. With respect to its Commitments, the Loans made by it and the obligations of Borrower owed to it under the Credit Documents as a Bank thereunder, Agent shall have the same rights and powers under the Credit Documents as any other Bank and may exercise the same as though it were not the Agent; and the term "Bank" or "Banks" shall, unless otherwise expressly indicated, include Agent in its individual capacity. Agent and its Affiliates may accept deposits from, lend money to, act as trustee under

indentures of, and generally engage in any kind of business with, Borrower, any of its Affiliates and any Person who may do business with or own securities of Borrower or any such Affiliates, all as if Agent were not Agent and without any duty to account therefor to Banks.

Section 7.4 Bank Credit Decision. Each Bank acknowledges that (a) it has, independently and without reliance upon Agent or any other Bank and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement, (b) it will, independently and without reliance upon Agent or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the other Credit Documents, and (c) Agent has no duty or responsibility, either initially or on a continuing basis, to provide any Bank with any credit or other information (other than obtained under the provisions of this Agreement) with respect thereto, whether coming into its possession before the date hereof or at any time thereafter.

Section 7.5 Indemnification. Each Bank agrees to indemnify Agent (to the extent not reimbursed by Borrower), ratably according to the ratio of such Bank's Commitments to the Commitments of all Banks, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against Agent in any way relating to or arising out of the Credit Documents, or any of them, or any action taken or omitted by Agent under the Credit Documents, or any of them, provided that no Bank shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from Agent's gross negligence or willful misconduct. Without limiting the foregoing, each Bank agrees to reimburse Agent promptly upon demand for such Bank's ratable share (based on the proportion of all Commitments held by such Bank) of any out-of-pocket expenses (including counsel fees and allocated costs of in-house legal services) incurred by Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, the Credit Documents, or any of them, to the extent that Agent is not reimbursed for such expenses by Borrower.

Section 7.6 Successor Agent. Agent may resign at any time as Agent under the Credit Documents by giving 30 days' prior written notice thereof to Banks and Borrower and may be removed as Agent under the Credit Documents at any time with or without cause upon written notice to Agent and Borrower signed by Majority Banks. Upon any such resignation or removal, Majority Banks shall have the right to appoint a successor Agent thereunder. If no successor Agent shall have been so appointed by Majority Banks, and shall have accepted such appointment, within 30 days after the retiring Agent's giving of notice of resignation or Majority Bank's removal of the retiring Agent, then the retiring Agent may, on behalf of the Banks, appoint a successor Agent, which shall be a commercial bank organized under the laws of the United States of America or of a state thereof and having a combined capital and surplus of at least \$200,000,000. Unless and until a successor Agent shall have been appointed as above provided, the retiring Agent shall serve as a caretaker Agent unless dismissed by Majority Banks. Upon the acceptance of any appointment as Agent under the Credit Documents by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent

shall be discharged from all duties and obligations of the Agent arising thereafter under the Credit Documents. After any retiring Agent's resignation or removal as Agent under the Credit Documents, the provisions of this Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under the Credit Documents.

ARTICLE VIII

Miscellaneous

Section 8.1 Notices. Except as provided in Article II with respect to the matters therein specified, all notices, demands, instructions, requests, and other communications required or permitted to be given to, or made upon, any party hereto shall be in writing and (except for financial statements and other related informational documents to be furnished pursuant hereto which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by registered or certified mail, postage prepaid, return receipt requested, or by prepaid telex, TWX, telecopy, or telegram (with messenger delivery specified) and

shall be deemed to be given for purposes of this Agreement on the day that such writing is received by the Person to whom it is to be sent pursuant to the provisions of this Agreement. Unless otherwise specified in a notice sent or delivered in accordance with the foregoing provisions of this Section, notices, demands, requests, instructions, and other communications in writing shall be given to or made upon each party hereto at the address (or its telex, TWX, or telecopier numbers, if any) set forth for such party on the signature pages hereof or, in the case of any Assignee, set forth in the relevant Assignment and Acceptance Agreement.

Section 8.2 Successors and Assigns. This Agreement shall bind and inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that Borrower shall not assign this Agreement or any of the rights of Borrower hereunder without the prior written consent of all Banks and Agent (the giving of such consent to be in each Bank's and Agent's sole and absolute discretion), and any such purported assignment without such consent shall be absolutely void, and (b) no Bank shall assign this Agreement or any of the rights of such Bank hereunder except in accordance with Section 8.11.

Section 8.3 Amendments and Related Matters. No

amendment or waiver of any provision of any Credit Document, nor consent to any departure by Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by Majority Banks and Borrower and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver or consent with respect to any Credit Document shall, unless in writing and signed by all Banks, do any of the following: (a) waive, or have the effect of waiving, any of the conditions specified in Section 3.1, (b) increase the Commitments of any Banks or subject the Banks to any additional obligations, (c) reduce the principal of, or interest on, the Loans or fees or other amounts payable to Banks hereunder or under any other Credit Document, (d) postpone any date fixed for any payment of principal of, or interest on, the Loans or any fees or other amounts payable to Banks hereunder or under any other Credit Document, (e) change the relative percentage of the Commitments or of the aggregate unpaid principal amount of the Loans, or the number of Banks required for Banks or any of them to take any action hereunder, (f) release any guaranty of all or any part of the Obligations, (g) release any Collateral except in accordance with the terms of the Security Documents, (h) change the several nature of the obligations of the Banks hereunder or under the other Credit Documents, or (i) amend Section 2,6, 2.8, 8.2, this Section 8.3 or Section 8.4(b); and provided, further, that no amendment, waiver or consent with respect to any Credit Document shall, unless in writing and signed by Agent in addition to the Banks required above to take such action, affect the rights or duties of Agent under this Agreement or any other Credit Document.

Section 8.4 Costs and Expenses; Indemnification.

(a) Expenses. Borrower agrees to pay on demand, subject to the proviso set forth below, (i) all costs and expenses of Agent in connection with the syndication by Agent of the credit facility provided hereunder and in connection with the preparation, execution, delivery, administration, modification and amendment of the Credit Documents and the other documents to be delivered under the Credit Documents, including, without limitation, the reasonable fees and expenses of counsel (excluding allocated costs for in-house legal services) for Agent with respect thereto and with respect to advising Agent as to its rights and responsibilities under the Credit Documents, and (ii) all costs and expenses of Agent and each of the Banks, if any (including, without limitation, reasonable counsel fees and expenses, but limited to costs and expenses of one counsel and any one local counsel who shall act for Agent and the

Banks (excluding allocated costs for in-house legal services)), in connection with the enforcement (whether through negotiations, legal proceedings or otherwise), restructuring (whether or not in the nature of a "work-out"), and the administration of the Credit Documents and the other documents to be delivered under the Credit Documents; provided that Borrower shall only be liable for costs or expenses incurred in connection with the initial syndication of the credit facility provided hereunder to any Bank that is or becomes party to this Agreement on or prior to the Closing Date or within 90 days thereafter.

(b) Indemnification. Borrower agrees to indemnify Agent, each Bank and each officer, director, Affiliate, employee, agent or representative of Agent or Bank ("Bank Indemnitees") and hold each Bank Indemnitee harmless from and against any and all liabilities, losses, damages, costs, and expenses of any kind (including the reasonable fees and disbursements of counsel for any Bank Indemnitee (excluding allocated costs of in-house counsel)) in connection with any

investigative, administrative, or judicial proceeding, whether or not such Bank Indemnitee shall be designated a party thereto (but if not a party thereto, then only with respect to such proceedings where such Bank Indemnitee (i) is subject to legal process (whether by subpoena or otherwise) or other compulsion of law, (ii) believes in good faith that it may be so subject, or (iii) believes in good faith that it is necessary or appropriate for it to resist any legal process or other compulsion of law which is purported to be asserted against it), which may be incurred by any Bank Indemnitee, relating to or arising out of this Agreement or any of the other Credit Documents, any of the transactions contemplated hereby or thereby, or any actual or proposed use of proceeds of Loans hereunder; provided, however, that no Bank Indemnitee shall have the right to be indemnified hereunder for its own gross negligence or willful misconduct.

Section 8.5 Oral Communications. Agent may, but is not required (except as provided in Section 2.1(b)) to, accept and act upon oral communications from Borrower. Any oral communication from Borrower to Agent (including telephone communications) hereunder shall be immediately confirmed in writing by Borrower, but in the event of any conflict between any such oral communication and the written confirmation thereof, such oral communication shall control if Agent has acted thereon prior to actual receipt of written confirmation. Borrower shall indemnify Agent and hold Agent harmless from and against any and all liabilities,

obligations, losses, damages, penalties, claims, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever (including attorneys' fees and allocated costs for in-house legal services) which arise out of or are incurred in connection with the making of Loans or taking other action in reliance upon oral communications, except that Agent shall not be indemnified against its own gross negligence or willful misconduct.

Section 8.6 Entire Agreement. This Agreement and the other Credit Documents are intended by the parties hereto to be a final and complete expression of all terms and conditions of their agreement with respect to the subject matter thereof and supersede all oral negotiations and prior writings in respect to the subject matter hereof.

Section 8.7 Governing Law. THIS AGREEMENT AND EACH OTHER CREDIT DOCUMENT (EXCEPT TO THE EXTENT THE LAW OF ANOTHER JURISDICTION IS EXPRESSLY CHOSEN THEREIN) SHALL BE GOVERNED BY AND CONSTRUED UNDER THE INTERNAL LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

Section 8.8 Severability. The illegality or unenforceability of any provision of this Agreement or any other Credit Document shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Agreement or such Credit Document.

Section 8.9 Counterparts. This Agreement may be executed in as many counterparts as may be deemed necessary or convenient, and by the different parties hereto on separate counterparts, each of which, when so executed, shall be deemed an original but all such counterparts shall constitute but one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 8.10 Confidentiality. Unless otherwise required by any Directive, Agent and each Bank agree not to voluntarily disclose to an unrelated third party information which Borrower designates in writing as "Confidential" and which is provided to it pursuant to this Agreement or the other Credit Documents, except that there shall be no obligation of confidentiality in respect of (i) any information which may be generally available to the public or becomes available to the public through no fault of Agent or such Bank; (ii) communications with actual or prospective participants or Assignees which undertake in writing to be bound by this Section 8.10; or (iii) disclosures to Agent's

or any Bank's directors, officers, employees and other representatives and agents, and directors, officers, employees and other representatives and agents of its Affiliates, legal counsel, auditors and internal bank examiners, and to the extent necessary or advisable in its judgment, independent engineering consultants and other experts or consultants retained by it, if in the case of a person or entity other than a director, officer, employee, legal counsel, auditor or internal bank examiner, Agent or such Bank obtains from such person or entity an undertaking in writing as to confidentiality substantially identical to this undertaking and if, as to all other Persons, Agent or such Bank informs them of the obligations under this Section 8.10 and is responsible for any breach thereof.

Section 8.11 Assignments and Participations.

(a) Assignments. Each Bank may, upon at least five Banking Days' notice to Agent and Borrower, assign to one or more financial institutions (as "Assignee") all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitments, and the Loans); provided, however, that (i) each such assignment shall be of a constant, and not a varying, percentage of the assigning Bank's rights and obligations under this Agreement being assigned, and any assignment of such Bank's Commitment and Loans shall cover the same percentage of such Bank's Commitment and Loans, (ii) unless Agent and Borrower otherwise consent, the amount of the Commitment (such amount to be determined without reduction for utilization) of the assigning Bank being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance Agreement with respect to such assignment) shall not be less than \$5,000,000 or shall be an integral multiple of \$1,000,000 in excess thereof, and, unless such assigning Bank is assigning its entire Commitment, shall not reduce the amount of the Commitment retained by such Bank to less than \$5,000,000, (iii) each such assignment shall be to an institutional lender, (iv) the parties to each such assignment shall execute and deliver to Agent for recording an Assignment and Acceptance Agreement, together with a processing and recordation fee of \$3,500, and (v) Borrower and Agent shall consent to such assignment, which consent shall not be unreasonably withheld. Upon such execution, delivery, approval, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance Agreement, (x) the Assignee thereunder shall be a party hereto as a Bank and, to the extent that rights and

obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance Agreement, have the rights and obligations of a Bank hereunder and under the other Credit Documents and (y) the Bank assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance Agreement, relinquish its rights and be released from its obligations under this Agreement and under the other Credit Documents (and, in the case of an Assignment and Acceptance Agreement, covering all or the remaining portion of an assigning Bank's rights and obligations under this Agreement and under the other Credit Documents, such Bank shall cease to be a party hereto).

(b) Effect of Assignment. By executing and delivering an Assignment and Acceptance Agreement, a Bank assignor thereunder and the Assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as expressly provided in such Assignment and Acceptance Agreement, such assigning Bank makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with any Credit Document or the execution, legality, validity, enforceability, genuineness, sufficiency or value of any Credit Document or any other instrument or document furnished pursuant to any Credit Document; (ii) such assigning Bank makes no representation or warranty and assumes no responsibility with respect to the financial condition of Borrower or the performance or observance by Borrower of any of its obligations under any Credit Document or any other instrument or document furnished pursuant to any Credit Document or with respect to the taxability of payments to be made hereunder or under the other Credit Documents; (iii) such assignee confirms that it has received a copy of the Credit Documents, together with copies of the financial statements referred to in the Credit Documents and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance Agreement; (iv) such Assignee will, independently and without reliance upon Agent, such assigning Bank or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under any Credit Document; (v) such Assignee appoints and authorizes Agent to take such action as agent on its behalf and to exercise such powers under the Credit Documents as are delegated to Agent by the terms thereof, together with such powers as are reasonably incidental thereto; and (vi) such Assignee agrees that it will perform in accordance with their terms all of the obligations which

by the terms of any Credit Document are required to be performed by it as a Bank.

(c) Assignment Register. Agent shall maintain at its Agency Office a copy of each Assignment and Acceptance Agreement delivered to it and a register for the recordation of the names and addresses of the Banks and the Commitments of, and principal amount of the Loans owing to, each Bank from time to time. The entries in such register shall be conclusive and binding for all purposes, absent manifest error, and Borrower and Agent and Banks may treat each Person whose name is recorded in the register as a Bank hereunder for all purposes of this Agreement. The register shall be available for inspection by Borrower or any Bank at any

reasonable time and from time to time upon reasonable prior notice.

(d) Assignments Recorded. Upon its receipt of an Assignment and Acceptance Agreement executed by an assigning Bank and an Assignee, Agent shall, if such Assignment and Acceptance Agreement has been properly completed, and subject to Borrower's consent as above provided (i) record the information contained therein in the register maintained by Agent for this purpose and (ii) give prompt notice thereof to Borrower.

(e) Participations. Each Bank may sell participations to one or more Persons in all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitments, and the Loans owing to it); provided, however, that (i) such Bank's obligations under this Agreement (including, without limitation, its Commitments to Borrower hereunder) shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Bank shall remain the owner of such Loans for all purposes of this Agreement, and (iv) Borrower, Agent, and Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement; provided, further, to the extent of any such participation (unless otherwise stated therein and subject to the preceding proviso), the assignee or purchaser of such participation shall, to the fullest extent permitted by law, have the same rights and benefits hereunder as it would have if it were a Bank hereunder; and provided, further, that each such participation shall be granted pursuant to an agreement providing that the purchaser thereof shall not have the right

to consent or object to any action by the selling Bank (who shall retain such right) other than an action which would (i) reduce principal of or interest on any Loan or any fees due under any Credit Document in which such purchaser has an interest, or (ii) postpone any date fixed for payment of principal of or interest on any such Loan or such fees; provided, further, that notwithstanding anything to the contrary in this Section 8.11(e), the provisions of Sections 2.6, 2.7 and 2.9 shall apply to the purchasers of participations as if they were Banks, provided that no such purchaser shall be entitled to receive any greater amount pursuant to any such Sections than the Bank selling such participation would have been entitled to receive in respect of the participation transferred had no such transfer occurred.

(f) Assignment to Affiliates and Federal Reserve Bank. Anything herein to the contrary notwithstanding, each Bank shall have the right to assign or pledge from time to time any or all of its Commitments, Loans or other rights hereunder or under any of the other Credit Documents to any of its Affiliates or to any Federal Reserve Bank without the prior consent of Borrower.

Section 8.12 Waiver of Trial by Jury. BORROWER, BANKS, AND AGENT, TO THE MAXIMUM EXTENT THEY MAY LEGALLY DO SO, HEREBY EXPRESSLY WAIVE ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION, CAUSE OF ACTION, OR PROCEEDING ARISING UNDER OR WITH RESPECT TO THIS AGREEMENT, THE OTHER CREDIT DOCUMENTS, OR IN ANY WAY CONNECTED WITH, OR RELATED TO, OR INCIDENTAL TO, THE DEALINGS OF THE PARTIES HERETO WITH RESPECT TO THIS AGREEMENT, OR THE OTHER CREDIT DOCUMENTS, THE NEGOTIATION, ADMINISTRATION, PERFORMANCE, OR ENFORCEMENT HEREOF OR THEREOF, OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND IRRESPECTIVE OF WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE. TO THE EXTENT THEY MAY LEGALLY DO SO, BORROWER, BANKS AND AGENT HEREBY AGREE THAT ANY SUCH CLAIM, DEMAND, ACTION, CAUSE OF ACTION, OR PROCEEDING SHALL BE DECIDED BY A COURT TRIAL WITHOUT A JURY AND THAT ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION 8.12 WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE OTHER PARTY OR PARTIES HERETO TO WAIVER OF ITS OR THEIR RIGHT TO TRIAL BY JURY.

Section 8.13 Choice of Forum and Service of Process. To the maximum extent permitted by Law, Borrower agrees that all actions or proceedings arising in connection with the Credit Documents shall be tried and determined only in the state and federal courts located in the City of New York, State of New York, or, at the sole option of Agent, in

any other court in which Agent shall initiate legal or equitable proceedings and which has subject matter jurisdiction over the matter in controversy. Borrower waives any right it may have to assert the doctrine of forum non conveniens or to object to venue to the extent any proceeding is brought in accordance with this section. Borrower hereby irrevocably and unconditionally designates and appoints (a) CT Corporation System and (b) such other Person as may be selected by Borrower and irrevocably agreeing in writing to so serve, as its agent to receive on its behalf service of all process in any proceedings in any such court, such

service being hereby acknowledged by Borrower to be effective and binding service in every respect. A copy of any such process so served shall be mailed by registered mail to Borrower; provided, however, that unless otherwise provided by mandatory provisions of applicable law, any failure to mail such copy shall not affect the validity of service of process. If any agent appointed by Borrower refuses to accept service, Borrower hereby agrees that service upon it by mail shall constitute sufficient notice. Nothing herein shall affect the right to serve process in any other manner permitted by law.

Section 8.14 Remedies. The remedies provided to Agent and Banks in the Credit Documents are cumulative and are in addition to, and not in lieu of, any remedies provided by law. To the maximum extent permitted by law, remedies may be exercised by Agent or any Bank successively or concurrently, and the failure to exercise any remedy shall not constitute a waiver thereof, nor shall the single or partial exercise of any remedy preclude any other or further exercise of such remedy or any other right or remedy.

Section 8.15 Right of Set-Off. Subject to the provisions of Section 2.9, upon the occurrence and during the continuance of any Event of Default, each Bank is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set-off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Bank to or for the credit or the account of Borrower against an equivalent amount of the Obligations, irrespective of whether or not such Bank shall have made any demand under this Agreement and although such obligations may be unmaturred. Each Bank agrees promptly to notify Borrower and Agent after any such set-off and application is made by such Bank, provided that the failure to give such notice shall not affect the validity of such set-off and

application. The rights of each Bank under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) which such Bank may have.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

CALIFORNIA ENERGY COMPANY, INC.

By /s/ John G. Sylvia

Name: John G. Sylvia
Title: Senior Vice President and
Chief Financial Officer

Address for Notices:
10831 Old Mill Road
Omaha, Nebraska 68154
Attn: John G. Sylvia
Telecopier: (402) 334-3759

with a copy to:

10831 Old Mill Road
Omaha, Nebraska 68154
Attn: Steven A. McArthur
Telecopier: (402) 334-3746

CREDIT SUISSE, as Agent and Bank

By /s/ Scott E. Zoellner

Name: Scott E. Zoellner
Title: Associate

By /s/ Bruce W. Hurd

Name: Bruce W. Hurd
Title: Associate

Address for Notices:

Tower 49
12 East 49th Street
New York, New York 10017

Attn:
Telecopier:

Schedule 1

Commitment Schedule

A. Agency Office: Tower 49
12 East 49th Street
New York, New York 10017

B. Banks: (Listed Below)

Bank	Commitment	Lending Office
Credit Suisse	The lesser of \$250,000,000 and the Maximum Loan Value of the Collateral	Tower 49 12 East 49th Street New York, New York 10017

Schedule 2

Magma Litigation

All litigation referred to in Magma's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994 and all litigation referred to in Section 15 of the Offer to Purchase.

Schedule 3

Margin Stock

Proceeds of the Loans will be used to purchase shares of common stock of Magma in connection with the Tender Offer.

Schedule 4.1(v)

ERISA

Group health insurance coverage is provided for each Magma executive who has a Change in Control Agreement with Magma for a period of two years following termination of employment (or such lesser number of months up to the date of such executive's retirement), upon termination of employment other than for Cause, Retirement or Disability, or upon termination for Good Reason (as those terms are defined in such Agreements). This coverage is to be provided to such executive and his dependents on substantially the same basis as benefits are provided immediately prior to change in control of Magma.

Schedule 4.1(aa)

Insurance

Schedule of insurance maintained by the Borrower.

FORM OF BORROWER PLEDGE AND SECURITY AGREEMENT

This PLEDGE AND SECURITY AGREEMENT, dated as of January , 1995, made by CALIFORNIA ENERGY COMPANY, INC., a Delaware corporation ("Pledgor"), in favor of CREDIT SUISSE, NEW YORK BRANCH, as agent for the Banks under the Limited Recourse Credit Agreement referred to below ("Pledgee").

W I T N E S S E T H :

WHEREAS, pursuant to the Limited Recourse Credit Agreement dated as of December 21, 1994 (as amended, supplemented or otherwise modified from time to time, the "Limited Recourse Credit Agreement") by and among Pledgor, the Banks and Pledgee, as Agent for the Banks, the Banks have agreed to make the Loans to Pledgor upon the terms and subject to the conditions set forth therein;

WHEREAS, pursuant to the terms of the Credit Agreement dated as of December __, 1994 (as amended, supplemented or otherwise modified from time to time, the "CE Acquisition Credit Agreement") by and between Pledgor and CE Acquisition Company, Inc., a Delaware corporation and a wholly-owned subsidiary of Pledgor ("CE Acquisition"), the proceeds of the Loans together with the proceeds of an equity contribution by Pledgor will be used to acquire the Pledged Stock;

WHEREAS, pursuant to the terms of the Pledge Agreement of even date herewith (as amended, supplemented or otherwise modified from time to time, the "CE Acquisition Pledge Agreement") by CE Acquisition in favor of Pledgor, CE Acquisition has granted to Pledgor a first-priority security interest in the Pledged Stock to secure its obligations under the CE Acquisition Credit Agreement and the other Credit Documents to which it is a party;

WHEREAS, to secure its obligations under the Limited Recourse Credit Agreement and the other Credit Documents, Pledgor hereby grants to Pledgee a first-priority security interest in the Pledged Note and in its rights, title and interests (including its security interests) in, to and under the CE Acquisition Credit Agreement, the CE Acquisition Pledge Agreement and the Pledged Stock;

WHEREAS, it is a condition precedent to the obligation of the Banks to make the Loans under the Limited Recourse Credit Agreement that Pledgor shall have executed and delivered this Pledge Agreement to Pledgee; and

NOW, THEREFORE, in consideration of the premises and to induce the Banks to make the Loans under the Limited Recourse Credit Agreement, Pledgor hereby agrees with Pledgee for its benefit and the benefit of the Banks as follows:

1. Defined Terms. Unless otherwise defined herein, terms which are defined in the CE Acquisition Credit Agreement and used herein are so used as so defined, and the following terms shall have the following meanings:

"Assigned Interests" means all of Pledgor's rights, title and interest in, to and under the CE Acquisition Credit Agreement, the CE Acquisition Pledge Agreement and the Pledged Stock.

"Collateral" means the Assigned Interests, the Pledged Note and all Proceeds thereof.

"Issuer" means Magma Power Company, a Nevada corporation.

"Pledge Agreement" means this Pledge Agreement, as amended, supplemented or otherwise modified from time to time.

"Pledged Note" means the promissory note issued by CE Acquisition to Pledgor, as described on Schedule I hereto.

"Pledged Stock" means the shares of capital stock of the Issuer listed in Schedule I hereto, together with all stock certificates, options or rights of any nature whatsoever which may be issued or granted by the Issuer to CE Acquisition while this Pledge Agreement is in effect.

"Proceeds" means all "proceeds" as such term is defined in Section 9-306(1) of the UCC on the date

hereof and, in any event, shall include, without limitation, all dividends or other income from the Pledged Stock and the Pledged Note, collections thereon or distributions with respect thereto.

"UCC" means the Uniform Commercial Code from time to time in effect in the State of New York.

2. Pledge; Grant of Security Interest. Pledgor hereby delivers to Pledgee the Pledged Note and the Pledged Stock and hereby grants to Pledgee a first priority security interest in and lien on the Collateral as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations.

3. Stock Powers, Etc. Concurrently with the delivery to Pledgee of the Pledged Note and each certificate representing the Pledged Stock, Pledgor hereby delivers an undated bond power and stock power covering the Pledged Note and such certificate, respectively, duly executed in blank, and if Pledgee so requests, with signatures guaranteed.

4. Representations and Warranties. Pledgor represents and warrants to Pledgee that:

(a) the shares of Pledged Stock listed in Schedule I hereto constitute all the issued and outstanding shares of all classes of the capital stock of the Issuer owned by CE Acquisition;

(b) all the shares of the Pledged Stock have been duly and validly issued and are fully paid and nonassessable;

(c) Pledgor is the record and beneficial owner of, and has good, valid and marketable title to, the Pledged Note and the Assigned Interests, free and clear of all pledges, security interests, liens, charges, encumbrances, equities, claims or options of whatever nature, except the security interest and lien in favor of Pledgee created by this Pledge Agreement;

(d) upon delivery to Pledgee of the Pledged Note and the stock certificates evidencing the Pledged Stock, and assuming the continuous possession of the Pledged Note and such stock certificates by Pledgee, the security interest and lien granted pursuant to this Pledge Agreement will constitute a valid, perfected first priority security interest in and lien on the Pledged Note and the Pledged Stock, enforceable as such against all creditors of Pledgor and any Persons purporting to purchase any Collateral from Pledgor;

(e) this Pledge Agreement creates valid

security interests in the Collateral securing the payment of the Obligations, and all filings and other actions necessary or desirable to perfect and protect the security interests created hereby have been duly taken;

(f) the Pledged Note constitutes the legal and valid and binding obligation of CE Acquisition; there are no setoffs, counterclaims or disputes existing or asserted with respect to the Pledged Note and Pledgor has not made any agreement with CE Acquisition for any deduction therefrom; and there are no facts, events or occurrences which in any way impair the validity or enforceability of the Pledged Note or tend to reduce the amount payable other than pursuant to the terms thereof; and

(g) Pledgor has no knowledge of any fact or circumstance which would impair the collectibility of the amounts due under the Pledged Note.

5. Covenants. Pledgor covenants and agrees with Pledgee that, from and after the date of this Pledge Agreement until the Obligations are paid in full:

(a) If Pledgor shall, as a result of its rights under the CE Acquisition Pledge Agreement, become entitled to receive or shall receive any stock certificate (including, without limitation, any certificate representing a stock dividend or a distribution in connection with any reclassification, increase or reduction of capital and any certificate issued in connection with any reorganization), option or right, whether in addition to, in substitution of, as a conversion of, or in exchange for any shares of the Pledged Stock, or otherwise in respect thereof, Pledgor shall accept the same as Pledgee's agent, hold the same in trust for Pledgee and deliver the same forthwith to Pledgee in the exact form received, duly endorsed by Pledgor to Pledgee, if required, together with an undated stock power covering such certificate duly

executed in blank and, if Pledgee so requests, with signatures guaranteed, to be held by Pledgee hereunder as additional collateral security for the Obligations. Any sums paid upon or in respect of the Pledged Stock upon the liquidation or dissolution of the Issuer and received by Pledgor shall be forthwith paid over to Pledgee to be held by it hereunder as additional

collateral security for the Obligations, and in case any distribution of capital shall be made on or in respect of the Pledged Stock or any property shall be distributed upon or with respect to the Pledged Stock pursuant to the recapitalization or reclassification of the capital of the Issuer or pursuant to the reorganization thereof, the property so distributed and received by Pledgor shall be forthwith delivered to Pledgee to be held by it, subject to the terms hereof, as additional collateral security for the Obligations. If any sums of money or property so paid or distributed in respect of the Pledged Stock shall be received by Pledgor, Pledgor shall, until such money or property is paid or delivered to Pledgee, hold such money or property in trust for Pledgee, segregated from other funds of Pledgor, as additional collateral security for the Obligations.

(b) Without the prior written consent of Pledgee, Pledgor will not, to the extent it may do so, (i) vote to enable, or take any other action to permit, the Issuer to issue any stock or other equity securities of any nature or to issue any other securities convertible into or granting the right to purchase or exchange for any stock or other equity securities of the Issuer, (ii) sell, assign, transfer, exchange or otherwise dispose of, or grant any option with respect to, the Collateral or (iii) create, incur or permit to exist any Lien or option in favor of, or any claim of any Person with respect to, any of the Collateral (or any part thereof), or any interest therein, except for the security interests and liens provided for by this Pledge Agreement. Pledgor will defend the right, title and interest of Pledgee in and to the Collateral against the claims and demands of all Persons whomsoever, except for claims and demands that result from the gross negligence or willful misconduct of Pledgee.

(c) At any time and from time to time, upon the request of Pledgee, and at the sole expense of Pledgor, Pledgor will promptly and duly execute and deliver such further instruments and documents and take such further actions as Pledgee may reasonably request for the purposes of obtaining or preserving the full benefits of this Pledge Agreement and of the rights and powers herein granted. If any amount payable under or in connection with any of the Collateral shall be or become evidenced by any promissory note, other instrument or chattel paper, such note, instrument or chattel paper shall be immediately delivered to Pledgee, duly endorsed in a manner reasonably satisfactory to

Pledgee, to be held as additional collateral security for the Obligations.

(d) Pledgor agrees to comply with all covenants and agreements with respect to Pledgor set forth in the CE Acquisition Pledge Agreement and the CE Acquisition Credit Agreement.

6. Rights of Pledgee. If an Event of Default has occurred and is continuing, Pledgor hereby irrevocably authorizes and empowers Pledgee to assert, either directly or on behalf of Pledgor, any claims Pledgor may have, from time to time, against CE Acquisition under the Pledged Note, under the CE Acquisition Pledge Agreement or under the CE Acquisition Credit Agreement or to otherwise exercise any right or remedy of Pledgor thereunder (including, without limitation, the right to enforce directly against CE Acquisition all of Pledgor's rights thereunder, to make all demands and give all notices and to make all requests required or permitted to be made by Pledgor thereunder).

7. Pledgor Remains Liable. Anything herein to the contrary notwithstanding: (a) Pledgor shall remain liable under the CE Acquisition Credit Agreement and under the CE Acquisition Pledge Agreement to the extent set forth therein to perform all of its duties and obligations thereunder to the same extent as if this Pledge Agreement had not been executed; (b) the exercise by Agent or any Bank of any rights hereunder shall not release Pledgor from any of its duties or obligations under the CE Acquisition Credit Agreement or under the CE Acquisition Pledge Agreement; and (c) neither Agent nor any Bank shall have any obligation or liability under the CE Acquisition Credit Agreement or under the CE Acquisition Pledge Agreement, nor shall Agent be obligated to perform or fulfill any of the obligations or duties of Pledgor granted thereunder.

8. Rights of Pledgee. (a) If an Event of Default

shall have occurred and be continuing and Pledgee shall have given notice of its intent to exercise such rights to Pledgor: (i) Pledgee shall have the right to receive any and all payments of any character paid in respect of the Collateral and make application thereof to the Obligations (in the manner set forth in Section 9 hereof) and (ii) all Pledged Stock shall be registered in the name of Pledgee or its nominee, and Pledgee or its nominee may thereafter exercise (A) all voting, corporate and other rights pertaining to the Pledged Stock at any meeting of

shareholders of the Issuer or otherwise and (B) any and all rights of conversion, exchange, subscription and any other rights, privileges or options pertaining to the Pledged Stock as if it were the absolute owner thereof (including, without limitation, the right to exchange at its discretion any and all of the Pledged Stock upon the merger, consolidation, reorganization, recapitalization or other fundamental change in the corporate structure of the Issuer, or upon the exercise by Pledgor or Pledgee of any right, privilege or option pertaining to such shares of the Pledged Stock, and in connection therewith, the right to deposit and deliver any and all of the Pledged Stock with any committee, depository, transfer agent, registrar or other designated agency upon such terms and conditions as it may determine), all without liability except to account for property actually received by it, but Pledgee shall have no duty to exercise any such right, privilege or option and shall not be responsible for any failure to do so or delay in so doing.

(b) The rights of Pledgee hereunder shall not be conditioned or contingent upon the pursuit by Pledgee of any right or remedy against Pledgor, CE Acquisition or the Issuer or against any other Person which may be or become liable in respect of all or any part of the Obligations or against any other collateral security therefor, guaranty thereof or right of offset with respect thereto.

9. Remedies. If an Event of Default shall have occurred and shall be continuing, Pledgee may, subject to the last two sentences of this Section 9, exercise, in addition to all other rights and remedies granted in this Pledge Agreement and in any other instrument or agreement securing, evidencing or relating to the Obligations, including, without limitation, the Limited Recourse Credit Agreement, all rights and remedies of a secured party under the UCC or any other applicable law. Without limiting the generality of the foregoing, Pledgee, without demand of performance or other demand, defense, presentment, protest, advertisement or notice of any kind (except any notice required by law) to or upon Pledgor, the Issuer or any other Person (all and each of which demands, defenses, presentment, protest, advertisements and notices are hereby waived, except any notice required by law) may in such circumstances forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell, assign, give an option or options to purchase or otherwise dispose of and deliver the Collateral or any part thereof (or contract to do any of the foregoing), in one or more portions at public or private sale or sales, in the over-the-counter market, at any exchange, broker's board or office of Pledgee or elsewhere upon such terms and conditions and at such prices as it may deem

advisable, for cash or on credit or for future delivery without assumption of any credit risk. Pledgee shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption in Pledgor, which right or equity is hereby waived or released. Pledgee shall apply any Proceeds from time to time held by it and the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, after deducting all reasonable costs and expenses of every kind incurred therein or incidental to the care or safekeeping of any of the Collateral or in any way relating to the Collateral or the rights of Pledgee hereunder, including, without limitation, reasonable attorneys' fees and disbursements, to the payment in whole or in part of the Obligations in whatever order Pledgee may elect and only after such application and after the payment by Pledgee of any other amount required by any provision of law, including, without limitation, Section 9-504(1)(c) of the UCC, need Pledgee account for the surplus, if any, to Pledgor. Pledgor waives all claims, damages and demands it may acquire against Pledgee arising out of the exercise by Pledgee of any of its rights hereunder. If any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be deemed reasonable and proper if given at least 10 days before such sale or other disposition. Pledgee shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. Pledgee may postpone or adjourn any public or private sale of any Collateral from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so postponed or adjourned. Pursuant to the terms of the Limited Recourse Credit Agreement, the Loans made thereunder have been made on a non-recourse basis (as to

principal) and it is expressly agreed and understood that any claim against Pledgor for the repayment of the principal amount of the Loans or the performance of any of Pledgor's obligations under the Credit Documents (subject to the last sentence of this Section) shall be made only against and shall be limited to the Collateral, and no judgment or proceeding, whether legal or equitable, with respect to the principal amount of the Loans or the performance of any of Pledgor's obligations under the Credit Documents (subject to the last sentence of this Section) shall be obtained or enforced against Pledgor or Pledgor's assets (other than the Collateral), for purpose of obtaining payment of the principal amount of the Loans or the performance of any of

Pledgor's obligations under the Credit Documents (subject to the last sentence of this Section). It is expressly agreed and understood that no recourse may be had to any officer, director, employee, agent, partner, joint venturer or stockholder of Pledgor with respect to, and no such person shall have any liability with respect to, the obligations and liabilities of Pledgor under any of the Credit Documents. Notwithstanding the foregoing, Pledgor shall be liable for, and Pledgee and the Banks shall have recourse against Pledgor under the Limited Recourse Credit Agreement with respect to, interest on the Loans and the other Obligations expressly provided for in Section 2.9 of the Limited Recourse Credit Agreement.

10. Registration Rights; Private Sales.

(a) If Pledgee shall determine to exercise its right to sell any or all of the Pledged Stock pursuant to Section 9 hereof after the occurrence and during the continuance of an Event of Default, and if in the opinion of Pledgee it is necessary or advisable to have the Pledged Stock, or that portion thereof to be sold, registered under the provisions of the Securities Act of 1933, as amended (the "Securities Act"), Pledgor will use its best efforts to cause the Issuer to (i) execute and deliver, and cause the directors and officers of the Issuer to execute and deliver, all such instruments and documents, and do or cause to be done all such other acts as may be, in the opinion of Pledgee, necessary or advisable to register the Pledged Stock, or that portion thereof to be sold, under the provisions of the Securities Act, (ii) cause the registration statement relating thereto to become effective and to remain effective for a period of one year from the date of the first public offering of the Pledged Stock, or that portion thereof to be sold, and (iii) make all amendments thereto and/or to the related prospectus which, in the opinion of Pledgee, are necessary or advisable, all in conformity with the requirements of the Securities Act and the rules and regulations of the Securities and Exchange Commission applicable thereto. Pledgor agrees to use its best efforts to cause the Issuer to comply with the provisions of the securities or "Blue Sky" laws of any and all jurisdictions which Pledgee shall designate and to make available to its security holders as soon as practicable, an earnings statement (which need not be audited) which will satisfy the provisions of Section 11(a) of the Securities Act.

(b) Pledgor recognizes that Pledgee may be unable to effect a public sale of any or all of the Pledged Stock by reason of certain prohibitions contained in the Securities Act and applicable state securities laws

or otherwise, and may be compelled to resort to one or more private sales thereof to a restricted group of purchasers which will be obliged to agree, among other things, to acquire such securities for their own account for investment and not with a view to the distribution or resale thereof. Pledgor acknowledges and agrees that any such private sale may result in prices and other terms less favorable to Pledgee than if such sale were a public sale and agrees that such circumstances shall not, in and of themselves, result in a determination that such sale was not made in a commercially reasonable manner. Pledgee shall be under no obligation to delay a sale of any of the Pledged Stock for the period of time necessary to permit the Issuer to register such securities for public sale under the Securities Act, or under applicable state securities laws, even if the Issuer would agree to do so.

(c) Pledgor further agrees to do or cause to be done all such other acts as may be necessary to make any sale or sales of all or any portion of the Pledged Stock or the Pledged Note pursuant to this Pledge Agreement valid and binding and in compliance with any or all applicable Certificates of Incorporation and By-Laws or other organizational or governing documents of the Issuer or CE Acquisition, and all laws, treaties, rules or regulations or determinations of an arbitrator or a court or other governmental authority. Pledgor authorizes Pledgee to disclose information regarding the Issuer in Pledgee's possession to a potential buyer of the Pledged Stock in a foreclosure sale, provided that such buyer agrees to keep any non-public information confidential. Pledgor further agrees that a breach of any of the covenants contained in this

Section 10 will cause irreparable injury to Pledgee, that Pledgee has no adequate remedy at law in respect of such breach and, as a consequence, that each and every covenant contained in this Section 10 shall be specifically enforceable against Pledgor, and Pledgor hereby waives and agrees not to assert any defenses against an action for specific performance of such covenants except for a defense that no Event of Default has occurred and is continuing or prior payment or prior performance.

(d) Pledgor shall pay all expenses incurred in connection with any registration statement filed pursuant to this Section 10, including (i) all registration and filing fees, (ii) fees and expenses of compliance with securities or blue sky laws, (iii) printing expenses, (iv) the fees and expenses incurred in connection with the listing of the Pledged Securities, (v) fees

and disbursements of counsel for Pledgor and customary fees and expenses for independent certified public accountants retained by Pledgor (including the expenses relating to the preparation and delivery of any comfort letters requested by Pledgee) and (vi) reasonable fees and expenses of counsel for Pledgee.

(e) Pledgor will, and hereby does indemnify, to the extent permitted by applicable law, Pledgee, its officers and directors and each Person, if any, who controls such Pledgee within the meaning of Section 15 of the Securities Act, against all losses, claims, damages, liabilities (or proceedings in respect thereof) and expenses (under the Securities Act or common law or otherwise), joint or several, caused by any untrue statement or alleged untrue statement of a material fact contained in any registration statement filed pursuant to this Section 10 or any related prospectus (and as amended or supplemented if Pledgor shall have furnished any amendments or supplements thereto) or any preliminary prospectus or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities (or proceedings in respect thereof) or expenses are caused by any untrue statement or alleged untrue statement contained in or by any omission or alleged omission from information furnished in writing to Pledgor by such holder expressly for use therein.

(f) The grant of the registration rights in this Section 10 does not compel Pledgee to conduct a public sale of the Pledged Stock upon foreclosure.

11. Limitation on Duties Regarding Collateral. Pledgee's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession, under Section 9-207 of the UCC or otherwise, shall be to deal with it in the same manner as Pledgee deals with similar securities and property for its own account. Such duty shall not include any obligation to ascertain or to initiate any action with respect to, or to inform Pledgor of, maturity dates, conversion, call, exchange rights, offers to purchase the Pledged Stock or any similar matters, notwithstanding Pledgee's knowledge of these matters. Pledgee shall not have any duty to initiate any action to protect against the possibility of a decline in the market value of the Pledged Stock. Neither Pledgee nor any of its directors, officers, employees or agents shall be liable for failure to demand, collect or realize upon the Collateral, or any part thereof, or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of Pledgor, the Issuer, CE Acquisition or otherwise or to take any other action

whatsoever with regard to the Collateral or any part thereof.

12. Pledgee Appointed Attorney-in-Fact and Proxy. Pledgor hereby appoints Pledgee or Pledgee's designee as Pledgor's attorney-in-fact and proxy, with full authority and power in Pledgor's place and stead, and in Pledgor's name, from time to time in Pledgee's discretion from and after the occurrence and during the continuance of an Event of Default to take any action and to execute any instrument which Pledgee may deem necessary or advisable to perfect, protect or enforce any right or security interest hereunder or otherwise accomplish the purposes of this Pledge Agreement, including, without limitation, to execute and file alone any financing statement under the UCC and any document or instrument under any other applicable laws, and to receive, endorse and collect all instruments made payable to Pledgor representing any dividend or other distribution in respect of any of the Collateral and to give full discharge for the same. Pledgor ratifies and approves all such acts of such attorney and proxy. Neither Pledgee nor said attorney and proxy will be liable for any acts or omissions, nor for any error of judgment or mistake of fact or law, other than Pledgee's or said attorney's and proxy's gross negligence or willful misconduct as determined by a final non-appealable judgment of a court of competent jurisdiction. This power, being coupled with an interest, is irrevocable until all Obligations have been fully satisfied.

13. Powers Coupled with an Interest. All

authorizations and agencies herein contained with respect to the Collateral are irrevocable and powers coupled with an interest.

14. Severability. The invalidity, illegality or unenforceability in any jurisdiction of any provision in or obligation under this Pledge Agreement shall not affect or impair the validity, legality or enforceability of the remaining provisions or obligations under this Pledge Agreement or of such provision or obligation in any other jurisdiction.

15. Headings. All headings used in this Pledge Agreement are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

16. Failure or Indulgence Not Waiver; Cumulative Remedies. No failure or delay on the part of Pledgee in the

exercise of any power, right or privilege under this Pledge Agreement and no course of dealing with respect thereto shall impair such power, right or privilege or be construed to be a waiver of any default or acquiescence therein, nor shall any single or partial exercise of any such power, right or privilege preclude any other or further exercise thereof or any other right, power or privilege. The rights and remedies of Pledgee provided under this Pledge Agreement, the Limited Recourse Credit Agreement and the other Credit Documents are cumulative, may be exercised singly or concurrently and are cumulative to, and not exclusive of any rights or remedies provided by law or otherwise available.

17. Security Interest Absolute; Successors and Assigns; Governing Law; Compliance. All rights of Pledgee and security interests hereunder, and all obligations of Pledgor under this Pledge Agreement, shall be absolute and unconditional irrespective of (i) any lack of validity or enforceability of any Obligations or the Limited Recourse Credit Agreement or any other Credit Document; (ii) the absence of any attempt to collect Obligations from Pledgor or any other Person or of any other action to enforce the same; (iii) any change of the time, manner or place of payment, or any other term, of any Obligations; (iv) any exchange, release or non-perfection of any collateral securing payment of any Obligations; (v) any law, regulation or order of any jurisdiction affecting any term of any Obligations or Pledgee's rights with respect thereto; and (vi) any other circumstance which might otherwise constitute a defense available to, or a discharge of, Pledgor, any guarantor or any other Person. This Pledge Agreement shall be binding upon and inure to the benefit of the successors and permitted assigns of Pledgor and Pledgee, except that Pledgor may not assign its rights or obligations hereunder or under any other Credit Documents (or any portion hereof or thereof) without the written consent of the Banks. THIS PLEDGE AGREEMENT SHALL BE GOVERNED AND CONTROLLED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK (BUT WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICT OF LAWS) AS TO INTERPRETATION, ENFORCEMENT, VALIDITY, CONSTRUCTION, EFFECT AND IN ALL OTHER RESPECTS, BUT EXCLUDING PERFECTION, WHICH SHALL BE GOVERNED AND CONTROLLED BY THE LAWS OF THE RELEVANT JURISDICTION.

18. Notices. All notices, approvals, requests, demands and other communications required or permitted to be given hereunder shall be given (and shall be effective) in accordance with the notice provision of the Limited Recourse Credit Agreement.

19. Termination of Pledge Agreement; Release of

Collateral. This Pledge Agreement, and all obligations of Pledgor hereunder, shall terminate upon payment in full of all Obligations and all right, title and interest of Pledgee in and to the Collateral shall revert to Pledgor and its successors and assigns. Upon the termination of Pledgee's security interest and the release of the Collateral, Pledgee will, at the written request and expense of Pledgor, (a) promptly execute and deliver to Pledgor such documents as Pledgor shall reasonably request to evidence the termination of such security interest or the release of the Collateral, and (b) promptly deliver or cause to be delivered to Pledgor (without recourse and without any representation or warranty) all property of Pledgor then held by Pledgee or any agent or nominee of Pledgee pursuant to this Pledge Agreement. If, at any time, all or part of any payment of the Obligations theretofore made by Pledgor or any other Person is rescinded or otherwise must be returned by Pledgee or any Bank for any reason whatsoever (including, without limitation, the insolvency, bankruptcy or reorganization of Pledgor or any other Person), this Pledge Agreement shall continue to be effective or shall be reinstated, as the case may be, as to the Obligations which were satisfied by the payment to be rescinded or returned, all as though such payment had not been made.

20. Changes in Writing. No amendment,

modification, termination or waiver of any provision of this Pledge Agreement, or consent to any departure by Pledgor therefrom, shall in any event be effective unless the same shall be in writing and signed by Pledgee and Pledgor.

21. Counterparts. This Pledge Agreement and any amendments, waivers, consents or supplements hereto may be executed in any number of counterparts and by the different parties in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all of which counterparts together shall constitute one and the same instrument. This Pledge Agreement shall become effective upon the execution of a counterpart hereof by each of the parties hereto.

IN WITNESS WHEREOF, this Pledge Agreement has been duly executed as of the date and year first above written.

CALIFORNIA ENERGY COMPANY, INC.

By:

Name:
Title:

Agreed and Accepted as of this
day of January, 1995

CREDIT SUISSE, NEW YORK BRANCH,
as Agent

By: _____
Name:
Title:

DESCRIPTION OF PLEDGED STOCK

<TABLE>
<CAPTION>

Issuer -----	Class of Stock -----	Certificate No. -----	No. of Shares -----
<S> Magma Power Company	<C> Common, par value \$0.10 per share	<C>	<C> [12,400,000]

</TABLE>

DESCRIPTION OF PLEDGED NOTE

<TABLE>
<CAPTION>

Issuer -----	Principal Amount -----	Date ----	Payee -----
<S> CE Acquisition Company, Inc.	<C> \$	<C> January , 1995	<C> California Energy Company, Inc.

</TABLE>

FORM OF CE ACQUISITION PLEDGE AGREEMENT

This PLEDGE AGREEMENT, dated as of January __, 1995, made by CE ACQUISITION COMPANY, INC., a Delaware corporation ("Pledgor"), in favor of CALIFORNIA ENERGY COMPANY, INC., a Delaware corporation ("Pledgee").

W I T N E S S E T H :

WHEREAS, pursuant to the Limited Recourse Credit Agreement dated as of December 21, 1994 (as amended, supplemented or otherwise modified from time to time, the "Limited Recourse Credit Agreement") by and among Pledgee, the banks and other financial institutions parties thereto (the "Banks") and Credit Suisse, New York Branch, as agent for the Banks ("Agent"), the Banks have agreed to make certain loans (the "Loans") to Pledgee upon the terms and subject to the conditions set forth therein;

WHEREAS, pursuant to the Credit Agreement dated as of the date hereof (as amended, supplemented or otherwise modified from time to time, the "CE Acquisition Credit Agreement") between Pledgor and Pledgee, the proceeds of the Loans will be loaned by Pledgee to Pledgor and Pledgor will use such proceeds to consummate the Acquisition;

WHEREAS, Pledgor is executing this Pledge Agreement to secure its obligations under the CE Acquisition Credit Agreement and the Credit Documents to which it is a party;

WHEREAS, pursuant to the Pledge and Security Agreement of even date herewith (as amended, supplemented or otherwise modified from time to time, the "Pledge and Security Agreement") between Pledgee and Agent, Pledgee has pledged to Agent its rights, title and interest in, to and under this Pledge Agreement, the CE Acquisition Credit Agreement and the Pledged Stock (as hereinafter defined);

WHEREAS, Pledgor is the legal and beneficial owner of all of the Pledged Stock, which consists of all capital stock issued by Magma Power Company, a Nevada corporation (the "Issuer"), to Pledgor;

WHEREAS, it is a condition precedent to the obligation of the Banks to make the Loans that Pledgor shall have executed and delivered this Pledge Agreement to Pledgee;

NOW, THEREFORE, in consideration of the premises and to induce the Banks to make the Loans, Pledgor hereby agrees with Pledgee for its benefit as follows:

1. Defined Terms. Unless otherwise defined herein, terms which are defined in the CE Acquisition Credit Agreement and used herein are so used as so defined, and the following terms shall have the following meanings:

"Borrower Pledge and Security Agreement" means the Pledge and Security Agreement of even date herewith by Pledgee in favor of Agent, as amended, supplemented or otherwise modified from time to time.

"Collateral" means the Pledged Stock and all Proceeds thereof.

"Pledge Agreement" means this Pledge Agreement, as amended, supplemented or otherwise modified from time to time.

"Pledged Stock" means the shares of capital stock of the Issuer listed in Schedule I hereto, together with all stock certificates, options or rights of any nature whatsoever which may be issued or granted by the Issuer to Pledgor while this Pledge Agreement is in effect.

"Proceeds" means all "proceeds" as such term is defined in Section 9-306(1) of the UCC on the date hereof and, in any event, shall include, without limitation, all dividends or other income from the Pledged Stock, collections thereon or distributions with respect thereto.

"UCC" means the Uniform Commercial Code from time to time in effect in the State of New York.

2. Pledge; Grant of Security Interest. Pledgor

hereby delivers to Pledgee all the Pledged Stock and hereby grants to Pledgee a first priority security interest in and lien on the Collateral as collateral security for the prompt and complete payment and performance when due (whether at the

stated maturity, by acceleration or otherwise) of the Obligations.

3. Stock Powers, Etc. Concurrently with the delivery to Pledgee of each certificate representing any of the Pledged Stock, Pledgor hereby delivers an undated stock power covering such certificate duly executed in blank, and if Pledgee so requests, with signatures guaranteed.

4. Representations and Warranties. Pledgor represents and warrants to Pledgee that:

(a) the shares of Pledged Stock listed in Schedule I hereto constitute all the issued and outstanding shares of all classes of the capital stock of the Issuer owned by Pledgor and represents [51%] of the outstanding shares of Common Stock of the Issuer;

(b) all the shares of the Pledged Stock have been duly and validly issued and are fully paid and nonassessable;

(c) Pledgor is the record and beneficial owner of, and has good, valid and marketable title to, the Collateral listed in Schedule I, free and clear of all pledges, security interests, liens, charges, encumbrances, equities, claims or options of whatever nature, except the security interest and lien in favor of Pledgee created by this Pledge Agreement;

(d) upon delivery to Pledgee of the stock certificates evidencing the Pledged Stock, and assuming the continuous possession of such stock certificates by Pledgee, the security interest and lien granted pursuant to this Pledge Agreement will constitute a valid, perfected first priority security interest in and lien on the Collateral, enforceable as such against all creditors of Pledgor and any Persons purporting to purchase any Collateral from Pledgor.

5. Covenants. Pledgor covenants and agrees with Pledgee that, from and after the date of this Pledge Agreement until the Obligations are paid in full:

(a) If Pledgor shall, as a result of its ownership of the Pledged Stock, become

entitled to receive or shall receive any stock certificate (including, without limitation, any certificate representing a stock dividend or a distribution in connection with any reclassification, increase or reduction of capital and any certificate issued in connection with any reorganization), option or right, whether in addition to, in substitution of, as a conversion of, or in exchange for any shares of the Pledged Stock, or otherwise in respect thereof, Pledgor shall accept the same as Pledgee's agent, hold the same in trust for Pledgee and deliver the same forthwith to Pledgee in the exact form received, duly endorsed by Pledgor to Pledgee, if required, together with an undated stock power covering such certificate duly executed in blank and, if Pledgee so requests, with signatures guaranteed, to be held by Pledgee hereunder as additional collateral security for the Obligations. Any sums paid upon or in respect of the Pledged Stock upon the liquidation or dissolution of the Issuer shall be forthwith paid over to Agent to satisfy Pledgee's obligations under the Limited Recourse Credit Agreement and the other Credit Documents to which Pledgee is party, and in case any distribution of capital shall be made on or in respect of the Pledged Stock or any property shall be distributed upon or with respect to the Pledged Stock pursuant to the recapitalization or reclassification of the capital of the Issuer or pursuant to the reorganization thereof, the property so distributed shall be forthwith delivered to Agent to be held by it, subject to the terms of the Borrower Pledge and Security Agreement, as additional collateral security for Pledgee's obligation under the Limited Recourse Credit Agreement and the other Credit Documents to which Pledgee is party. If any sums of money

or property so paid or distributed in respect of the Pledged Stock shall be received by Pledgor, Pledgor shall, until such money or property is paid or delivered to Agent pursuant to the foregoing, hold such money or property in trust for Agent, segregated from other funds of Pledgor, as additional collateral security

for Pledgee's obligations under the Limited Recourse Credit Agreement and the other Credit Documents to which Pledgee is a party.

(b) Without the prior written consent of Pledgee, Pledgor will not (i) vote to enable, or take any other action to permit, the Issuer to issue any stock or other equity securities of any nature or to issue any other securities convertible into or granting the right to purchase or exchange for any stock or other equity securities of the Issuer, (ii) sell, assign, transfer, exchange or otherwise dispose of, or grant any option with respect to, the Collateral or (iii) create, incur or permit to exist any Lien or option in favor of, or any claim of any Person with respect to, any of the Collateral (or any part thereof), or any interest therein, except for the security interests and liens provided for by this Pledge Agreement and the Borrower Pledge and Security Agreement. Pledgor will defend the right, title and interest of Pledgee in and to the Collateral against the claims and demands of all Persons whomsoever, except for claims and demands that result from the gross negligence or willful misconduct of Pledgee.

(c) At any time and from time to time, upon the request of Pledgee, and at the sole expense of Pledgor, Pledgor will promptly and duly execute and deliver such further instruments and documents and take such further actions as Pledgee may reasonably request for the purposes of obtaining or preserving the full benefits of this Pledge Agreement and of the rights and powers herein granted. If any amount payable under or in connection with any of the Collateral shall be or become evidenced by any promissory note, other instrument or chattel paper, such note, instrument or chattel paper shall be immediately delivered to Agent, duly endorsed in a manner reasonably satisfactory to Agent, to be held as additional collateral security for Pledgee's obligations under the Limited Recourse Credit Agreement and the other Credit Documents to which Pledgee is a party.

(d) Pledgor agrees to comply with all covenants and agreements with respect to

the Pledgor set forth in the CE Acquisition Credit Agreement.

6. Cash Dividends; Voting Rights. Pledgee hereby authorizes Pledgor, and Pledgor hereby agrees, to forward to Agent any and all cash dividends of the Issuer received by Pledgor in respect of the Pledged Stock as payment of the Pledgee's obligations under the Limited Recourse Credit Agreement and the other Credit Documents to which Pledgee is a party. Unless an Event of Default shall have occurred and be continuing, and Pledgee shall have given notice to Pledgor of Pledgee's intent to exercise its corresponding rights pursuant to Section 8 below, Pledgor shall be permitted to exercise all voting and corporate rights with respect to the Pledged Stock; provided, however, that no vote shall be cast or corporate right exercised or other action taken which, in Pledgee's reasonable judgment, would impair the Collateral or result in any violation of any provision of this Pledge Agreement, the CE Acquisition Credit Agreement or any other Credit Document. Pledgee shall execute and deliver (or cause to be executed and delivered) to Pledgor (at Pledgor's expense) all such proxies and other instruments as Pledgor may reasonably request for the purpose of enabling it to exercise the voting and other rights that it is entitled to exercise and to receive the dividends it is entitled to receive pursuant to this Section 6.

7. Rights of Pledgee. (a) If an Event of Default shall have occurred and be continuing and Pledgee shall have given notice of its intent to exercise such rights to the Pledgor: (i) Pledgee shall have the right to receive any and all payments of any character paid in respect of the Collateral and shall apply such payments to the satisfaction of its obligations to Agent and the Banks under the Limited Recourse Credit Agreement and the other Credit Documents to which Pledgee is a party and (ii) all Pledged Stock shall be registered in the name of Agent or its nominee, and Agent or its nominee may thereafter exercise (A) all voting, corporate

and other rights pertaining to the Pledged Stock at any meeting of shareholders of the Issuer or otherwise and (B) any and all rights of conversion, exchange, subscription and any other rights, privileges or options pertaining to the Pledged Stock as if it were the absolute owner thereof (including, without limitation, the right to exchange at its discretion any and all of the Pledged Stock upon the merger, consolidation, reorganization, recapitalization or other fundamental change in the corporate structure of the Issuer, or upon the exercise by Pledgor or Agent of any right,

privilege or option pertaining to such shares of the Pledged Stock, and in connection therewith, the right to deposit and deliver any and all of the Pledged Stock with any committee, depositary, transfer agent, registrar or other designated agency upon such terms and conditions as it may determine), all without liability except to account for property actually received by it, but Pledgee shall have no duty to exercise any such right, privilege or option and shall not be responsible for any failure to do so or delay in so doing.

(b) The rights of Pledgee hereunder shall not be conditioned or contingent upon the pursuit by Pledgee of any right or remedy against Pledgor or the Issuer or against any other Person which may be or become liable in respect of all or any part of the Obligations or against any other collateral security therefor, guaranty thereof or right of offset with respect thereto.

8. Remedies. If an Event of Default shall have occurred and shall be continuing, Pledgee may exercise, in addition to all other rights and remedies granted in this Pledge Agreement and in any other instrument or agreement securing, evidencing or relating to the Obligations, including, without limitation, the CE Acquisition Credit Agreement, all rights and remedies of a secured party under the UCC or any other applicable law. Without limiting the generality of the foregoing, Pledgee, without demand of performance or other demand, defense, presentment, protest, advertisement or notice of any kind (except any notice required by law) to or upon Pledgor, the Issuer or any other Person (all and each of which demands, defenses, presentment, protest, advertisements and notices are hereby waived, except any notice required by law) may in such circumstances forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell, assign, give an option or options to purchase or otherwise dispose of and deliver the Collateral or any part thereof (or contract to do any of the foregoing), in one or more portions at public or private sale or sales, in the over-the-counter market, at any exchange, broker's board or office of Pledgee or elsewhere upon such terms and conditions and at such prices as it may deem advisable, for cash or on credit or for future delivery without assumption of any credit risk. Pledgee shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption in Pledgor, which right or equity is hereby waived or released. Pledgee shall apply any Proceeds from time to time held by it and the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, after deducting all

reasonable costs and expenses of every kind incurred therein or incidental to the care or safekeeping of any of the Collateral or in any way relating to the Collateral or the rights of Pledgee hereunder, including, without limitation, reasonable attorneys' fees and disbursements, to the payment in whole or in part of its obligations to Agent and the Banks under the Limited Recourse Credit Agreement and any other Credit Document to which Pledgee is a party only after such application and after the payment by Pledgee of any other amount required by any provision of law, including, without limitation, Section 9-504(1)(c) of the UCC, need Pledgee account for the surplus, if any, to Pledgor. Pledgor waives all claims, damages and demands it may acquire against Pledgee arising out of the exercise by Pledgee of any of its rights hereunder. If any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be deemed reasonable and proper if given at least 10 days before such sale or other disposition. Pledgee shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. Pledgee may postpone or adjourn any public or private sale of any Collateral from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so postponed or adjourned. Pledgor shall remain liable for any deficiency if the proceeds of any sale or other disposition of Collateral are insufficient to pay the Obligations and the fees and disbursements of any attorneys employed by Pledgee to collect such deficiency.

9. Registration Rights: Private Sales. (a) If Pledgee shall determine to exercise its right to sell any or all of the Pledged Stock pursuant to Section 8 hereof after the occurrence and during the continuance of an Event of Default, and if in the opinion of Pledgee it is necessary or advisable to have the Pledged Stock, or that portion thereof

to be sold, registered under the provisions of the Securities Act of 1933, as amended (the "Securities Act"), Pledgor will use its best efforts to cause the Issuer to (i) execute and deliver, and cause the directors and officers of the Issuer to execute and deliver, all such instruments and documents, and do or cause to be done all such other acts as may be, in the opinion of Pledgee, necessary or advisable to register the Pledged Stock, or that portion thereof to be sold, under the provisions of the Securities Act, (ii) cause the registration statement relating thereto to become effective and to remain effective for a period of one year from the date of the first public offering of the Pledged Stock, or that portion thereof to be sold, and (iii) make all amendments thereto and/or to

the related prospectus which, in the opinion of Pledgee, are necessary or advisable, all in conformity with the requirements of the Securities Act and the rules and regulations of the Securities and Exchange Commission applicable thereto. Pledgor agrees to use its best efforts to cause the Issuer to comply with the provisions of the securities or "Blue Sky" laws of any and all jurisdictions which Pledgee shall designate and to make available to its security holders as soon as practicable, an earnings statement (which need not be audited) which will satisfy the provisions of Section 11(a) of the Securities Act.

(b) Pledgor recognizes that Pledgee may be unable to effect a public sale of any or all of the Pledged Stock by reason of certain prohibitions contained in the Securities Act and applicable state securities laws or otherwise, and may be compelled to resort to one or more private sales thereof to a restricted group of purchasers which will be obliged to agree, among other things, to acquire such securities for their own account for investment and not with a view to the distribution or resale thereof. Pledgor acknowledges and agrees that any such private sale may result in prices and other terms less favorable to Pledgee than if such sale were a public sale and agrees that such circumstances shall not, in and of themselves, result in a determination that such sale was not made in a commercially reasonable manner. Pledgee shall be under no obligation to delay a sale of any of the Pledged Stock for the period of time necessary to permit the Issuer to register such securities for public sale under the Securities Act, or under applicable state securities laws, even if the Issuer would agree to do so.

(c) Pledgor further agrees to do or cause to be done all such other acts as may be necessary to make any sale or sales of all or any portion of the Pledged Stock pursuant to this Pledge Agreement valid and binding and in compliance with any or all applicable Certificates of Incorporation and By-Laws or other organizational or governing documents of the Issuer, and all laws, treaties, rules or regulations or determinations of an arbitrator or a court or other governmental authority. Pledgor authorizes Pledgee to disclose information regarding the Issuer in Pledgee's possession to a potential buyer of the Pledged Stock in a foreclosure sale, provided that such buyer agrees to keep any non-public information confidential. Pledgor further agrees that a breach of any of the covenants contained in this Section 9 will cause irreparable injury to Pledgee, that Pledgee has no adequate remedy at law in respect of such breach and, as a consequence, that each and every covenant contained in this Section 9 shall be specifically enforceable against Pledgor, and Pledgor hereby waives and agrees not to

assert any defenses against an action for specific performance of such covenants except for a defense that no Event of Default has occurred and is continuing or prior payment or prior performance.

(d) Pledgor shall pay all expenses incurred in connection with any registration statement filed pursuant to this Section 9, including (i) all registration and filing fees, (ii) fees and expenses of compliance with securities or blue sky laws, (iii) printing expenses, (iv) the fees and expenses incurred in connection with the listing of the Pledged Securities, (v) fees and disbursements of counsel for Pledgor and customary fees and expenses for independent certified public accountants retained by Pledgor (including the expenses relating to the preparation and delivery of any comfort letters requested by Pledgee) and (vi) reasonable fees and expenses of counsel for Pledgee.

(e) Pledgor will, and hereby does indemnify, to the extent permitted by applicable law, Pledgee, its officers and directors and each Person, if any, who controls such Pledgee within the meaning of Section 15 of the Securities Act, against all losses, claims, damages, liabilities (or proceedings in respect thereof) and expenses (under the Securities Act or common law or otherwise), joint or several, caused by any untrue statement or alleged untrue statement of a material fact contained in any registration statement filed pursuant to this Section 9 or any related prospectus (and as amended or supplemented if Pledgor shall have furnished any amendments or supplements thereto) or any preliminary prospectus or caused by any omission or alleged omission to state therein a material fact required to be stated therein or

necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities (or proceedings in respect thereof) or expenses are caused by any untrue statement or alleged untrue statement contained in or by any omission or alleged omission from information furnished in writing to Pledgor by such holder expressly for use therein.

(f) The grant of the registration rights in this Section 9 does not compel Pledgee to conduct a public sale of the Pledged Stock upon foreclosure.

10. Limitation on Duties Regarding Collateral.
Pledgee's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession, under Section 9-207 of the UCC or otherwise, shall be to deal

with it in the same manner as Pledgee deals with similar securities and property for its own account. Such duty shall not include any obligation to ascertain or to initiate any action with respect to, or to inform Pledgor of, maturity dates, conversion, call, exchange rights, offers to purchase the Pledged Stock or any similar matters, notwithstanding Pledgee's knowledge of these matters. Pledgee shall not have any duty to initiate any action to protect against the possibility of a decline in the market value of the Pledged Stock. Neither Pledgee nor any of its directors, officers, employees or agents shall be liable for failure to demand, collect or realize upon the Collateral, or any part thereof, or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of Pledgor, the Issuer or otherwise or to take any other action whatsoever with regard to the Collateral or any part thereof.

11. Pledgee Appointed Attorney-in-Fact and Proxy. Pledgor hereby appoints Pledgee or Pledgee's designee as Pledgor's attorney-in-fact and proxy, with full authority and power in Pledgor's place and stead, and in Pledgor's name, from time to time in Pledgee's discretion from and after the occurrence and during the continuance of an Event of Default to take any action and to execute any instrument which Pledgee may deem necessary or advisable to perfect, protect or enforce any right or security interest hereunder or otherwise accomplish the purposes of this Pledge Agreement, including, without limitation, to execute and file alone any financing statement under the UCC and any document or instrument under any other applicable laws, and to receive, endorse and collect all instruments made payable to Pledgor representing any dividend or other distribution in respect of any of the Collateral and to give full discharge for the same. Pledgor ratifies and approves all such acts of such attorney and proxy. Neither Pledgee nor said attorney and proxy will be liable for any acts or omissions, nor for any error of judgment or mistake of fact or law, other than Pledgee's or said attorney's and proxy's gross negligence or willful misconduct as determined by a final non-appealable judgment of a court of competent jurisdiction. This power, being coupled with an interest, is irrevocable until all Obligations have been fully satisfied.

12. Powers Coupled with an Interest. All authorizations and agencies herein contained with respect to the Collateral are irrevocable and powers coupled with an interest.

13. Severability. The invalidity, illegality or unenforceability in any jurisdiction of any provision in or

obligation under this Pledge Agreement shall not affect or impair the validity, legality or enforceability of the remaining provisions or obligations under this Pledge Agreement or of such provision or obligation in any other jurisdiction.

14. Headings. All headings used in this Pledge Agreement are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

15. Failure or Indulgence Not Waiver; Cumulative Remedies. No failure or delay on the part of Pledgee in the exercise of any power, right or privilege under this Pledge Agreement and no course of dealing with respect thereto shall impair such power, right or privilege or be construed to be a waiver of any default or acquiescence therein, nor shall any single or partial exercise of any such power, right or privilege preclude any other or further exercise thereof or any other right, power or privilege. The rights and remedies of Pledgee provided under this Pledge Agreement, the CE Acquisition Credit Agreement and the other Credit Documents are cumulative, may be exercised singly or concurrently and are cumulative to, and not exclusive of any rights or remedies provided by law or otherwise available.

16. Security Interest Absolute; Governing Law; Compliance. All rights of Pledgee and security interests hereunder, and all obligations of Pledgor under this Pledge

Agreement, shall be absolute and unconditional irrespective of (i) any lack of validity or enforceability of any Obligations or the CE Acquisition Credit Agreement or any other Credit Document; (ii) the absence of any attempt to collect the Obligations from Pledgor or any other Person or of any other action to enforce the same; (iii) any change of the time, manner or place of payment, or any other term, of any of the Obligations; (iv) any exchange, release or non-perfection of any collateral securing payment of any of the Obligations; (v) any law, regulation or order of any jurisdiction affecting any term of any of the Obligations or Pledgee's rights with respect thereto; and (vi) any other circumstance which might otherwise constitute a defense available to, or a discharge of, Pledgor, any guarantor or any other Person. THIS PLEDGE AGREEMENT SHALL BE GOVERNED AND CONTROLLED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK (BUT WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICT OF LAWS) AS TO INTERPRETATION, ENFORCEMENT, VALIDITY, CONSTRUCTION, EFFECT AND IN ALL OTHER

RESPECTS, BUT EXCLUDING PERFECTION, WHICH SHALL BE GOVERNED AND CONTROLLED BY THE LAWS OF THE RELEVANT JURISDICTION.

17. Assignment by Pledgee. Pledgor acknowledges that in connection with the transactions contemplated by the Limited Recourse Credit Agreement, Pledgee is entering into the Borrower Pledge and Security Agreement, pursuant to which Pledgee will assign to Agent all of its rights, title and interest (including its security interest) in, to and under this Pledge Agreement and the Pledged Stock, and Pledgor hereby consents to such assignment. Pledgor agrees that upon such assignment, Agent will have all of the rights hereunder granted to Pledgee and that Agent may exercise such rights as if the references herein to Pledgee were references to Agent.

18. Successors and Assigns. This Pledge Agreement and the rights granted hereunder shall be binding upon and inure to the benefit of the successors and permitted assigns of Pledgor and Pledgee, except that Pledgor may not assign its rights or obligations hereunder without the prior written consent of Agent and that Pledgee may not assign its rights or obligations hereunder except to Agent pursuant to the Borrower Pledge and Security Agreement.

19. Third Party Beneficiaries. Pledgor and Pledgee acknowledge that Agent and the Banks are express beneficiaries of this Pledge Agreement.

20. Notices. All notices, approvals, requests, demands and other communications required or permitted to be given hereunder shall be given (and shall be effective) in accordance with the notice provision of the CE Acquisition Credit Agreement.

21. Termination of Pledge Agreement; Release of Collateral. This Pledge Agreement, and all obligations of Pledgor hereunder, shall terminate upon payment in full of all Obligations and all right, title and interest of Pledgee in and to the Collateral shall revert to Pledgor and its successors and assigns. Upon the termination of Pledgee's security interest and the release of the Collateral, Pledgee will, at the written request and expense of Pledgor, (a) promptly execute and deliver to Pledgor such documents as Pledgor shall reasonably request to evidence the termination of such security interest or the release of the Collateral, and (b) promptly deliver or cause to be delivered to Pledgor (without recourse and without any representation or warranty) all property of Pledgor then held by Pledgee or any agent or nominee of Pledgee pursuant to this Pledge Agreement. If, at any time, all or part of any payment of the Obligations theretofore made by Pledgor or any other Person is rescinded

or otherwise must be returned by Pledgee for any reason whatsoever (including, without limitation, the insolvency, bankruptcy or reorganization of Pledgor or any other Person), this Pledge Agreement shall continue to be effective or shall be reinstated, as the case may be, as to the Obligations which were satisfied by the payment to be rescinded or returned, all as though such payment had not been made.

22. Changes in Writing. No amendment, modification, termination or waiver of any provision of this Pledge Agreement, or consent to any departure by Pledgor or Pledgee therefrom, shall in any event be effective unless the same shall be in writing and signed by Pledgee, Pledgor and Agent.

23. Counterparts. This Pledge Agreement and any amendments, waivers, consents or supplements hereto may be executed in any number of counterparts and by the different parties in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all of which counterparts together shall constitute one and the same instrument. This Pledge Agreement shall become effective upon the execution of a counterpart hereof by each of the parties hereto.

IN WITNESS WHEREOF, this Pledge Agreement has been duly executed as of the date and year first above written.

CE ACQUISITION COMPANY, INC.

By: _____
Name:
Title:

Agreed and Accepted as of this
day of January, 1995

CALIFORNIA ENERGY COMPANY, INC.

By: _____
Name:
Title:

SCHEDULE I
Pledge Agreement

DESCRIPTION OF PLEDGED STOCK

<TABLE>
<CAPTION>

Issuer	Class of Stock	Certificate No.	No. of Shares
Magma Power Company	Common, par value \$0.10 per share		[12,400,000]

</TABLE>

TERM NOTE

\$ _____

New York, New York
January __, 1995

FOR VALUE RECEIVED, the undersigned, CALIFORNIA ENERGY COMPANY, INC., a Delaware corporation (hereinafter referred to as the "Maker") hereby promises, subject to the third paragraph hereof, to pay to the order of CREDIT SUISSE, NEW YORK BRANCH (hereinafter together with any other holder hereof referred to as the "Holder"), by wire transfer to Holder's account, ABA No. _____, Account No. _____ at Credit Suisse, 12 East 49th Street, New York, New York 10017, Reference: _____ or at such other place or places and to such account or accounts as Holder may direct from time to time by notice to Maker in accordance with the Credit Agreement (as hereinafter defined), the principal amount of DOLLARS (\$ _____) in lawful money of the United States in immediately available funds, payable, subject to the second paragraph hereof, on January __, 1996. Interest shall accrue on the outstanding principal amount hereof in accordance with the Credit Agreement and shall be payable on such dates and in such amounts as determined in accordance with the Credit Agreement.

This Note is issued to evidence the Loans (as defined in the Credit Agreement) made pursuant to the provisions of Article II of the Limited Recourse Credit Agreement dated as of December 21, 1994 by and among Maker, Holder, the banks and other financial institutions parties hereto and Credit Suisse, New York Branch, as Agent (as from time to time in effect, the "Credit Agreement"), as to which reference is hereby made for a statement of the terms, conditions and covenants under which the indebtedness evidenced hereby was made and is to be repaid, including those related to the acceleration of the indebtedness represented hereby upon the occurrence of an Event of Default (as defined in the Credit Agreement) or upon the termination of the financing of which this Note is part pursuant to the Credit Agreement. This Note is subject to mandatory prepayment as provided in the Credit Agreement and is secured by the Collateral (as defined in the Credit

Agreement).

Holder acknowledges that Maker's obligation to pay the principal amount due hereunder is non-recourse and that any claim against Maker for the payment of such principal amount shall be made only against and shall be limited to the Collateral, and that no judgment or proceeding, whether legal or equitable, with respect to Maker's obligation to pay such principal amount shall be obtained or enforced against Maker's assets (other than the Collateral), for purpose of obtaining payment of such principal amount. Notwithstanding the foregoing, Maker shall be liable for, and Holder shall have recourse against Maker with respect to, interest on the principal amount due hereunder and the other Obligations (as defined in the Credit Agreement) expressly provided for in Section 2.9 of the Credit Agreement.

Holder hereby irrevocably agrees, to the maximum extent permitted by law, that, in any case in which Maker is the debtor or one of the debtors under the Bankruptcy Code (as defined in the Credit Agreement), Holder shall be deemed to have made a timely election pursuant to Section 1111(b)(1)(A)(i) of the Bankruptcy Code (or any substantially comparable provision which is the successor thereto) as to any claim for the payment of the principal amount due hereunder and (ii) if (A) Maker becomes a debtor subject to the reorganization provisions of the Bankruptcy Code or any successor provisions or any other applicable bankruptcy or insolvency statutes, (B) pursuant to such provisions, Maker is held to have recourse liability to Holder directly or indirectly on account of any amount payable in respect of the principal amount due hereunder and (C) Holder actually receives any payment which reflects any payment by Maker on account of the matters referred to in clause (ii)(B) of this sentence, then Holder shall promptly refund to Maker the Recourse Amount (as defined below). For purposes of this paragraph, "Recourse Amount" means the amount by which the portion of such payment by Maker on account of the matters referred to in clause (ii)(B) of the preceding sentence actually received by Holder exceeds the amount which would have been received by Holder if Maker had

not become subject to the recourse liability referred to in such clause (ii)(B) of the preceding sentence; provided, however, that Holder shall be allowed to receive and retain all payments required pursuant to

Section 1129(b) of the Bankruptcy Code (or any substantially comparable provision which is the successor thereto) as a result of having made the election pursuant to Section 1111(b)(1)(A)(i) of the Bankruptcy Code.

None of the rights or remedies of Holder hereunder are to be deemed waived or affected by failure or delay on the part of Holder to exercise the same. All remedies conferred upon Holder by this Note or any other instrument or agreement shall be cumulative and none is exclusive, and such remedies may be exercised concurrently or consecutively at Holder's option.

Maker hereby waives presentment, demand for payment, protest and notice of protest, notice of dishonor and all other notices in connection with this Note.

This Note has been executed and delivered in New York, New York and shall be governed by the laws of the State of New York without giving effect to principles of conflicts of law.

WITNESS the signature of Maker.

CALIFORNIA ENERGY COMPANY, INC.

By: _____
Name:
Title:

Attest: _____
Name:
Title: Secretary