

TERM SHEET
For The Closure Of The Potrero Power Plant
And Reuse Of The Property

This Term Sheet dated as of 10/30, 2007, between the City and County of San Francisco (the "City"), and Mirant Potrero, LLC ("Mirant"), summarizes certain of the basic terms of a proposed agreement for the permanent closure of the existing Units 3, 4, 5 and 6 of the Potrero Power Plant in San Francisco (collectively, the "Potrero Power Plant") and the entitlement and beneficial reuse of the site, comprised of approximately 20-acres of real property bounded generally by Illinois Street and the San Francisco Bay, between 22nd and 23rd Streets (the "Site").

This Term Sheet is intended to be the basis for a comprehensive and binding Power Plant Closure and Reuse Agreement (the "Agreement"). Subject to the public review process and all required governmental approvals and the approval of Mirant Corporation's Board of Directors, as further provided in section 3 of this Term Sheet, the parties shall in good faith negotiate the Agreement in accordance with the terms set forth below and in view of the following facts:

- A. The City has made it a policy priority to close the Potrero Power Plant as soon as possible and has stated that commitment consistently to Mirant and the community. Mirant has indicated its willingness to permanently close the Potrero Power Plant as soon as it is no longer needed for electric reliability and to develop an alternative land use plan for Site.
- B. The Action Plan of the California Independent System Operator ("ISO") for San Francisco provides that the Potrero Power Plant will not be needed to ensure electric reliability once certain electric system improvements are in place, and the parties anticipate, based on publicly available information, that the required electric system improvements will be in place by 2009.
- C. The Regional Water Quality Control Board (the "RWQCB"), on May 10, 2006, renewed the water discharge permit for Potrero Power Plant Unit 3 only until December 31, 2008. In doing so, the RWQCB stated its intent to "prohibit the plant's discharge of once-through cooling water, to the extent allowed by law, unless [Mirant] demonstrates that its discharge has no significant adverse environmental effects on San Francisco Bay." The RWQCB further stated its intent "to resolve this issue no later than December 31, 2008." The City has said it will oppose the use of once-through cooling at the Potrero Power Plant after December 31, 2008.
- D. Mirant is willing to enter into a legally binding agreement to close permanently the Potrero Power Plant when it is no longer needed for electric reliability, if the City is willing to agree to pursue priority processing of an area plan and all required City entitlements for the reuse of the Site, subject to environmental review under the California Environmental Quality Act ("CEQA") and all consistent with the principles set forth below.
- E. The parties acknowledge that the possible creation of additional land value for the Site through the entitlement process is a material inducement for Mirant to agree to permanently shut down the Potrero Power Plant consistent with this Term Sheet and the Agreement.

Accordingly, the City and Mirant agree to negotiate the Agreement based on the following terms and principles:

1. Land Use Entitlement and Permit Processing

- a) The City will agree to immediately designate a senior staff member from each of the Mayor's Office of Economic and Workforce Development and the Planning Department to work with senior representatives of Mirant on the scoping and review of a proposed land use plan for the reuse of Site (the "Site Plan").
- b) The City and Mirant will work together, and in cooperation with the Redevelopment Agency of the City and County of San Francisco (the "Redevelopment Agency") to the extent applicable, to explore options for the type of Site Plan to pursue, including examining the possibility of adoption by the City of a specific plan under the Planning Code covering the entire Site or of a redevelopment plan if the Site meets the statutory requirements for blight under the California Community Redevelopment Law and if it is otherwise appropriate to use redevelopment tools to facilitate the productive reuse of the Site and achieve community benefits and objectives, provided that Mirant acknowledges that even if the Site is included in a redevelopment plan the allocation of any property tax increment from the Site or otherwise is subject to the sole and absolute discretion of the City and the Redevelopment Agency.
- c) The City and Mirant wish to address the question of how to treat the Station A buildings (i.e. the Station A, Meter, Compressor and Sugar House buildings) as part of the Site Plan process for the entire Site, so that there can be a thorough analysis of whether to rehabilitate or demolish the buildings, as appropriate, in connection with the development and reuse of the Site. The buildings are subject to the City's Unreinforced Masonry Building (UMB) ordinance. The City and Mirant will agree to enter into a stipulated injunction filed in court that sets forth a timetable and agreed-upon terms for compliance for the buildings with the UMB ordinance, taking into account the Site Plan process. That timetable will not require Mirant to begin demolition or rehabilitation work on the UMBs until after the Site Plan process is completed, provided that Mirant will take adequate measures throughout the planning process to ensure that all of the Station A buildings are not occupied and are not accessible—and do not pose a life-safety hazard—to members of the public, employees or visitors to the Site, as determined by the City's Department of Building Inspection. If the final proposed Site Plan involves demolition of some or all of the Station A buildings, then the City and Mirant will work together and with interested parties, including, but not limited to, historic preservation interests, to examine acceptable and feasible mitigation measures for any environmental impacts associated with the demolition of those buildings or building elements.
- d) The City and Mirant will work diligently together to obtain community input and support on the proposed Site Plan through a public review process and, following completion of that review process, will seek the endorsement of the proposed Site Plan by the Board of Supervisors and the Planning Commission, and if applicable, the Redevelopment Agency Commission.
- e) The City will agree to review and process on a priority basis a completed application for a proposed Site Plan, including review of the environmental

evaluation application under CEQA. The City will use its good faith efforts to meet the milestones set forth in a mutually agreeable schedule for the expedited entitlement process, including CEQA review, associated with the proposed Site Plan (the "Entitlement Schedule"). The Entitlement Schedule will be attached to and made part of the Agreement between the parties. Certain steps in the Entitlement Schedule will be premised on Mirant's responsibility to provide such completed applications, information and other documents as the City, including its Planning Department and Department of Building Inspection, and, if applicable, the Redevelopment Agency, may require and to pay applicable fees as necessary during the entitlement process. Mirant will not have any responsibility under the Entitlement Schedule to prepare a proposed Site Plan or submit the application by any particular date, to be eligible for the Credit (as defined below) or to be entitled to priority processing by the City as provided in the Entitlement Schedule. The Agreement may also include general principles that would guide development of a Site Plan. The Agreement will include a mutually acceptable process for the City to consult with Mirant before the City begins any steps in the City's entitlement process that will result in City Costs (as defined below) exceeding an agreed-upon threshold.

- f) Subject to subsection (g) below, Mirant will pay or reimburse all of the City's fees and costs ("City Costs") in connection with the Site Plan process. City Costs shall include, without limitation: (i) fees and expenses of the City Attorney's Office and other City staff; (ii) all City costs, including but not limited to, the costs of the Planning Department and all application fees, in preparing, reviewing and processing reports, studies, information, and materials in connection with environmental review and planning processes; (iii) any third-party consultants, advisors and professionals (including, but not limited to, financial advisors) as the City may deem appropriate in consultation with Mirant; and (iv) costs incurred by the City related to public outreach. City Costs will extend to fees and costs incurred by the Redevelopment Agency should establishment of a redevelopment project area for the Site be pursued. City Costs shall exclude fees and costs that would otherwise be payable by Mirant to the City under any development permit application or processing fee set forth in the City's Municipal Code. The Agreement will include a mutually acceptable process to provide Mirant with the opportunity to review (1) all scopes of work, budgets and qualifications for the City's third party consultants, (2) all invoices for City Costs to confirm that they are reasonable, not duplicative, and within the reviewed scope of work and consistent with the reviewed budget, and (3) the City's application of the Credit (defined below).
- g) In light of the public benefits associated with expediting closure of the Potrero Power Plant, the City will agree that, subject to the terms and conditions set forth in this subsection, Mirant will receive a credit of up to \$2,000,000--without interest--against certain City fees and costs, as described below, that would otherwise be payable in connection with review and approval of the Site Plan and any development project under the Site Plan (the "Credit"). The Credit will be applied first to City Costs. As to any amount of the Credit remaining after reducing it by the total of City Costs, such remaining portion of the Credit shall be applied, in the specific priority set forth in the Agreement, to: (i) fees and costs that would otherwise be payable under the City's Municipal Code to the City's Building Department, Planning Department or other City agency with jurisdiction for development plan or

project permit applications and processing, (including by way of example, but not limitation, plan check fees, costs or reviewing or commenting on project plans, and fees for field inspections and reinspections); and (ii) development impact fees that would otherwise be payable to the City under the City's Municipal Code, except for the schools fee. The following two basic limitations shall apply to application of the Credit. First, the Credit will be available only so long as Mirant complies with its obligations regarding closure of the Potrero Power Plant as provided in the Agreement consistent with section 2 below. Second, to the extent it is unused, the Credit shall expire on a future date to be mutually agreed-upon in the Agreement, allowing a reasonable period for Mirant to select a developer and for a developer to plan and undertake the entitlement process.

2. Closure of Potrero Power Plant

- a) Mirant will agree to permanently close the Potrero Power Plant promptly after it is no longer needed for electric reliability. Specifically, for these purposes, the Potrero Power Plant will be considered no longer needed for electric reliability when Mirant has received (i) written notice from the ISO that all units at the Potrero Power Plant are no longer needed to ensure electric reliability and that all units are no longer designated as reliability-must-run or under reliability-must-run contracts and (ii) evidence of approval of the closure from the Federal Energy Regulatory Commission ("FERC"). The Agreement will set forth in greater detail a schedule for the permanent closure of Potrero Power Plant following satisfaction of these two conditions, and that schedule will generally follow the steps, process and timelines that led to the successful closure of the Hunters Point Power Plant. The schedule will include a reasonably short outside date, following applicable notice periods, for Mirant to permanently close the Potrero Power Plant.
- b) Mirant's agreements to cease operating the plants and permanently close the Potrero Power Plant as described above is subject to the City fulfilling its obligations to proceed with priority review and processing of the Site Plan for the Site, including fulfillment of its obligations to assign personnel and begin scoping and defining the entitlement process, and processing Mirant's application for the Site Plan in accordance with the Entitlement Schedule. But Mirant's closure obligations shall not be conditioned on Mirant submitting a Site Plan application or otherwise pursuing any entitlements for reuse of the Site, or on Mirant actually receiving any permits or other final entitlements from the City for the reuse or development of the Site.
- c) Mirant will agree not to oppose or otherwise interfere with, directly or indirectly, the efforts of the City, the ISO or FERC to achieve the permanent closure of the Potrero Power Plant consistent with the terms and principles set forth in this Term Sheet.
- d) Mirant will agree that its obligation to close the Potrero Power Plant will not be limited by any outstanding contracts it may have to operate any of the plants on the Site, other than a regulatory-must-run or similar contract with the ISO. Mirant will further agree not to take any actions that may prolong the need for the Potrero Power Plant to continue operating for electric grid reliability or any other purposes inconsistent with the intent and purposes under this Term Sheet.

- e) So long as Mirant is in compliance with its obligations under the Agreement and it is reasonably foreseeable that the Potrero Power Plant will be closed consistent with the intent of this Term Sheet, the City will agree not to oppose Mirant's request to the RWQCB for a lawful extension of Mirant's water discharge permit for an additional period of up to two years.

3. Implementation

- a) The City and Mirant will negotiate a legally binding Agreement consistent with this Term Sheet, and work diligently to finalize that agreement within 60 days of the date of this Term Sheet, and present it for consideration by the Board of Supervisors within 90 days of the date of this Term Sheet.
- b) The Agreement will describe in greater detail the terms and conditions set forth in this Term Sheet and will include additional contractual provisions including, but not limited to, remedies, consistent with this Term Sheet.
- c) The Agreement shall be subject to approval of the City's Board of Supervisors and Mayor, after approval by the Mirant Corporation Board of Directors.
- d) The parties acknowledge that Mirant is not a real estate development company, and therefore Mirant may assign its development rights under the Agreement and as contemplated by this Term Sheet, including the Credit, to a third party developer or it may partner with a developer to create and implement the Site Plan. The Agreement shall be binding on Mirant, including its successors and assigns, and the City, and Mirant's obligations under the Agreement, including its obligations regarding closure of the Potrero Power Plant, shall run with land. A memorandum of the Agreement shall be recorded against the Site in the City's Official Records.
- e) Ultimately, any entitlements for reuse of the Site will require discretionary approvals by a number of government bodies after public hearings, including, but not limited to, approvals by the City's Planning Commission and the Board of Supervisors, and the City's agreement to cooperate in and give priority to the Site Plan as described in this Term Sheet and ultimately in the Agreement will not commit the City to actually grant the final entitlements or implement the project, nor do they foreclose the possibility of considering alternatives, mitigation measures or deciding not to grant the entitlements or implement the project, after conducting appropriate environmental review under CEQA.

While this Term Sheet summarizes certain essential terms of the proposed Agreement, it does not necessarily set forth all of the material terms and conditions of the Agreement. The signatures of the Mayor, President Peskin, Supervisor Maxwell and City Attorney Herrera below acknowledge their support for the proposed Agreement on the terms specified. But, this Term Sheet is not intended to be, and shall not become, contractually binding on the City or Mirant, and no legal obligation shall exist unless and until the parties have negotiated, executed and delivered a mutually acceptable Agreement, subject to all applicable approvals, as further described above.

In light of the foregoing, the City and Mirant have executed this Term Sheet as of the date first written above.

CITY:

Mayor Gavin Newsom

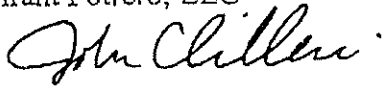
Supervisor Sophie Maxwell

City Attorney Dennis Herrera

Supervisor Aaron Peskin

MIRANT:

Mirant Potrero, LLC



By JOHN CHILLEMI
Its PRESIDENT