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RECORDATION NO. 18758 FILED 1425

APR 4 1994 -3 25 PM

INTERSTATE COMMERCE COMMISSION

April 4, 1994

Mr. Sidney L. Strickland
Secretary
Interstate Commerce Commission
Washington, DC 20423

RE: DOCUMENT FOR RECORDATION - SECURITY AGREEMENT BETWEEN UNION BANK AND ACE COGENERATION COMPANY

Dear Mr. Strickland:

Enclosed for recordation pursuant to the provisions of 49 U.S.C. § 11303(a) are two original executed copies of the following:

Primary Document: Security Agreement dated as of April 5, 1994, between Union Bank (Lender) and Ace Cogeneration Company (Borrower) evidencing a security interest in 84 rail cars.

The names and addresses of the parties to the enclosed documents are:

Lender: Union Bank
445 Figueroa Street
Los Angeles, CA 90071-1602

Original Signature Matter

LICENSING BRANCH

APR 4 3 15 PM '94

Borrower: Ace Cogeneration Associates
7827 Convoy Court
Suite 412
San Diego, CA 92111

A description of the railroad equipment covered by the enclosed document is appended to this letter and is contained as an exhibit to the above-referenced document.

Please returned the stamped original and one stamped photostat copy of the enclosed document and a stamped photostat copy of this letter to Michele E. Beasley, Esq. at Chadbourne & Parke, 1101 Vermont Avenue, NW, Washington, DC 20005 or the bearer of this letter.

Very truly yours,

Michele E. Beasley

Enclosures

cc: K. Langan

Interstate Commerce Commission
Washington, D.C. 20423

OFFICE OF THE SECRETARY

Dear

The enclosed document(s) was recorded pursuant to the provisions of Section 11303 of the Interstate Commerce Act, 49 U.S.C. 11303, on at , and assigned recordation number(s).

Sincerely yours,

Secretary
SIDNEY L. STRICKLAND, JR.

Enclosure(s)

UNION BANK & ACE COGENERATION CO.

INTERSTATE COMMERCE COMMISSION

Pd. $18.00
for Recordation

TO: Michele BEASLEY

DATE: 4/4/94

The amount indicated at the left has been received in payment of a fee in connection with a document filed on the date shown. This receipt is issued for the amount paid and in no way indicates acknowledgement that the fee paid is correct. This is accepted subject to review of the document which has been assigned the transaction number corresponding to the one stamped on this receipt. In event of error or any questions concerning this fee, you will receive a notification after the Commission has had an opportunity to examine your document.

SIGNATURE Willie Davis

RECORDATION NO. 18758 FILED 1425
APR 4 1994 -3 25 PM
INTERSTATE COMMERCE COMMISSION

SECURITY AGREEMENT

THIS SECURITY AGREEMENT dated as of April 5, 1994 (the "Security Agreement") is between ACE COGENERATION COMPANY, a California limited partnership having an office at 7827 Conroy Court, Suite 412, San Diego, California 92111 (the "Borrower") and Union Bank, a California banking corporation, having an office at 445 South Figueroa Street, Los Angeles, California 90071 ("Lender").

R E C I T A L S:

A. The Borrower has entered into that certain Term Loan Agreement, of even date herewith, with the Lender (as it may be amended and supplemented from time to time, the "Loan Agreement").

B. It is a condition precedent to the obligation of the Lender to make the term loan under the Loan Agreement that the Borrower shall execute and deliver this Agreement.

C. The promissory note issued by the Borrower evidencing the term loan (the "Note") and all principal thereof and interest (and premium, if any) thereon and all additional amounts and other sums at any time due and owing from or required to be paid by the Borrower under the terms of the Note, this Security Agreement or the Loan Agreement are hereinafter sometimes referred to as "indebtedness hereby secured".

D. All of the requirements of law relating to the transaction contemplated hereby have been fully complied with and all other acts and things necessary to make this Security Agreement a valid, binding and legal instrument for the security of the Note have been done and performed.

E. The capitalized terms used in this Security Agreement shall have the meanings specified in the Loan Agreement unless otherwise herein defined or the context hereof shall otherwise require.

SECTION I. GRANT OF SECURITY.

The Borrower, in consideration of the premises and other good and valuable consideration, receipt whereof is hereby acknowledged, and in order to secure the payment of the principal of and interest on the Note issued by the Borrower according to its tenor and effect, and to secure the payment of all other indebtedness hereby secured and the performance and observance of all of the Borrower's covenants and conditions in the Note and in this Security Agreement and in the Loan Agreement, does hereby convey, warrant, mortgage, assign, pledge and grant unto the Lender, its successors and assigns, a security interest in all and singular of the Borrower's right, title and interest in and to the properties, rights, interests and privileges described in Sections I(A) and I(B) hereof, hereinafter collectively referred to as the ("Collateral").

A. Equipment Collateral. The Collateral includes (i) the equipment (the "Equipment"), described in Schedule 1 attached hereto, and all accessories, equipment, parts and appurtenances appertaining or attached to any of the Equipment herein above described, hereafter acquired, (ii) all substitutions, renewals or replacements of and additions, improvements, accessions and accumulations to any and all of said Equipment together with all the rents, issues, income, profits and avails therefrom, and (iii) all proceeds, including, without limitation, insurance proceeds, and products of any of the foregoing.

B. Assigned Agreements. The Collateral also includes all right, title, interest, claims and demands of the Borrower in, to and under any and all other contracts and agreements relating to the Equipment, to the extent they relate to the Equipment, (including without limitation the Purchase Documents referred to in the Loan Agreement) or any rights or interest therein to which the Borrower is now or may hereafter be a party, together with all rights, powers, privileges, licenses, easements, options and other benefits of the Borrower under each thereof, including, without limitation, the right to make all waivers and agreements, to give and receive all notices and other instruments or communications, to receive payments, to take such action upon the occurrence of a default thereunder, including the commencement, conduct and consummation of legal,

administrative or other proceedings, as shall be permitted thereby or by law, and to do any and all other things which the Borrower is or may be entitled to thereunder.

C. Duration of Security Interest. The Lender, its successors and assigns shall have and hold the Collateral forever; provided, always, however, that such security interest is granted upon the express condition that if the Borrower shall irrevocably pay or cause to be irrevocably paid all the indebtedness hereby secured then these presents and the estate hereby granted and conveyed shall, subject to Section VIII (D) hereof, cease and this Security Agreement shall become null and void, and in such event the Lender shall (upon the request of the Borrower and at the sole expense of the Borrower and at no cost to the Lender) execute and deliver to the Borrower such instrument or instruments as may be necessary or appropriate in order to make clear upon the public records the title of the Borrower in and to the Collateral; otherwise it shall remain in full force and effect.

SECTION II. COVENANTS AND WARRANTIES OF THE BORROWER

The Borrower covenants, warrants and agrees for the benefit of the Lender as follows:

A. Borrower's Duties. The Borrower covenants and agrees well and truly to perform, abide by and be governed and restricted by each and all of the terms, provisions, restrictions, covenants and agreements set forth in the Loan Agreement, and in each and every supplement thereto or amendment thereof which may at any time or from time to time be executed and delivered by the parties thereto or their successors and assigns, to the same extent as though each and all of said terms, provisions, restrictions, covenants and agreements were fully set out herein and as though any amendment or supplement to the Loan Agreement were fully set out in an amendment or supplement to this Security Agreement.

B. Warranty. The Borrower has the right, power and authority to grant a security interest in the Collateral to the Lender for the uses and purposes herein set forth; and the Borrower will warrant and defend the title to the Collateral against all claims and demands of persons claiming by, through or under the Borrower,

excepting only this Security Agreement and Permitted Liens. The Borrower also agrees that it will, in its individual capacity and at its own cost and expense, without regard to the provisions of Sections VII hereof, to the extent required under the Loan Agreement promptly take such action as may be necessary to duly discharge any Liens other than Permitted Liens on the Collateral which result from claims against the Borrower in its individual capacity as well as those related to the ownership of the Equipment. Without limiting the foregoing, there is no financing statement or other filed or recorded instrument in which the Borrower is named and which the Borrower has signed, as debtor or mortgagor, now on file in any public office covering any of the Collateral excepting the financing statements or other instruments filed or to be filed in respect of and for the security interest provided for herein.

C. Further Assurances. The Borrower will, upon the request of and at no expense to the Lender, do, execute, acknowledge and deliver all and every further acts, deeds, conveyances, transfers and assurances necessary or proper for the perfection of the security interest being herein provided for in the Collateral, whether now owned or hereafter acquired.

D. After-Acquired Property. Any and all property described or referred to in the granting clauses hereof which is hereafter acquired shall ipso facto, and without any further conveyance, assignment or act on the part of the Borrower or the Lender, become and be subject to the security interest herein granted as fully and completely as though specifically described herein, but nothing in this Section II(D) contained shall be deemed to modify or change the obligation of the Borrower under Section II(C) hereof.

E. Recordation and Filing. The Borrower will cooperate fully with the Lender in any effort to cause this Security Agreement and all supplements hereto, and all financing and continuation statements and similar notices required by applicable law, at all times to be kept, recorded and filed at no expense to the Lender in such manner and in such place as may be requested by the Lender in order to fully preserve and protect the rights of the Lender thereunder. Without limiting the generality of the foregoing, the Borrower will cause this Security Agreement, and any amendments or supplements

hereto to be filed with the Interstate Commerce Commission pursuant to 49 U.S.C. § 11303, and will cause financing statements reflecting the security interests herein granted to be filed in the appropriate filing offices in the States of California, Nevada and Utah, and will cause each of the foregoing instruments to be filed in all other places required to perfect the Lender's security interest in the Collateral; and the Borrower will from time to time do and perform any other act and will execute, acknowledge, deliver, file, register, deposit and record any and all further instruments reasonably required by law or reasonably requested by the Lender for the purpose of proper protection, to the reasonable satisfaction of counsel for the Lender, of its interest in the Collateral and its rights under this Security Agreement or for the purpose of carrying out the intention of this Agreement and the Loan Agreement; and the Borrower will promptly furnish or cause to be furnished to the Lender certificates or other evidence of such filing, registering, depositing and recording, in each case reasonably satisfactory to the Lender.

F. Actions with Respect to Collateral. The Borrower will not sell, mortgage, transfer, assign or hypothecate (other than to the Lender hereunder) its interest in the Equipment or any part thereof or in any amount to be received by it from the use or disposition of the Equipment.

G. Duty To Number and Mark. The Borrower will cause (and, within 30 days after the date hereof, will provide evidence thereof satisfactory to Lender) each item of Equipment to be kept numbered with the reporting mark and number set forth in Schedule 1 hereto, or as otherwise directed by the Lender, and in the case of any item of Equipment not there listed, such reporting mark and number as shall be set forth in any amendment or supplement hereto extending this Security Agreement to cover such item of Equipment. Within 30 days after the date hereof, the Borrower will maintain permanently and conspicuously marked upon each side of each item of Equipment in letters not less than one-half inch in height the following:

"OWNERSHIP SUBJECT TO A SECURITY AGREEMENT, ACE COGENERATION COMPANY, OWNER AND DEBTOR; UNION BANK, SECURED PARTY

with appropriate changes and additions as from time to time may be required by law in order to protect the rights of Lender in such item of Equipment. After the expiration of the aforementioned 30-day period, the Borrower will not place or continue any item of Equipment in operation until the required legend shall have been so marked.

The Borrower will not change the reporting mark and number of any item of Equipment unless (i) the Lender shall have been given 180 days prior written notice from the Borrower of a proposed change, (ii) a statement of new marks and numbers to be substituted therefor shall have been submitted to the Lender and duly filed, recorded and deposited by the Borrower in all public offices where the Security Agreement and the UCC financing statements shall have been filed, recorded and deposited and (iii) the Borrower shall have furnished the Lender with an opinion of counsel satisfactory to Lender to such effect. Each item of Equipment may be lettered with the names or initials or other insignia customarily used by the Borrower.

Except as provided in the immediately preceding paragraph, the Borrower will not allow the name of any person, association or corporation to be placed on any item of Equipment as a designation that might be interpreted as a claim of ownership or lien.

H. Compliance with Law. The Borrower agrees, for the benefit of the Lender, to comply in all respects with all applicable laws of the jurisdictions in which operations involving the items of Equipment may extend, including, without limitation the interchange rules of the Association of American Railroads and with all lawful rules and regulations of the United States Department of Transportation and the Interstate Commerce Commission and any other legislative, executive, administrative or judicial body exercising any power or jurisdiction over the items of Equipment, to the extent that such laws and rules affect the title, operation or use of the items of Equipment (all such laws and rules to such extent being hereinafter called "Applicable Laws"), and in the event that, prior to release in full of the Collateral, any Applicable Law requires any alteration, replacement, addition or modification of or to any part on any item of Equipment, the Borrower will conform therewith at its own

expense, and a lien on any additions or improvements so made shall thereupon vest in the Lender.

I. Maintenance; Location of Collateral. The Borrower agrees that, at its own cost and expense, it will maintain and keep each item of Equipment which is subject to this Security Agreement in good operating order, repair and condition, ordinary wear and tear excepted. Each item of Equipment will be consistently maintained in accordance with standards and procedures which shall be no less effective than the existing prudent industry practices, and which will conform to any conditions set forth in applicable builder's warranties during the term of such warranties. In addition, loading and unloading procedures will be followed which shall be no less effective than the existing prudent industry practices. The Borrower shall not permit any of the equipment to be kept, operated, stored, transported or otherwise ever located anywhere outside of the States of California, Nevada and Utah.

J. Duty of Borrower To Furnish Report. On or before April 30, 1995, and annually thereafter, the Borrower will furnish to the Lender an accurate statement, as of the preceding December 31, (a) showing the amount, description and numbers of the items of Equipment then subject to this Security Agreement, the amount, description and numbers of all items of Equipment that may have suffered any casualty occurrence during the 12 months ending on such December 31, and such other information regarding the condition, repair or place of use of the Equipment as the Lender may reasonably request, and (b) stating that, in the case of all Equipment repainted during the period covered by such statement, the markings required by Section II (G) hereof shall have been preserved or replaced.

SECTION III. POSSESSION OF PROPERTY.

Unless an Event of Default shall have occurred and be continuing, the Borrower shall be permitted to remain in full possession, enjoyment and control of the Equipment and to manage, operate and use the same and each part thereof with the rights and franchises appertaining thereto; provided, always, that the possession, enjoyment, control and use of the Equipment shall at all times be subject to the observance and

performance of the terms of this Security Agreement and the Loan Agreement.

SECTION IV. COLLECTIONS.

At any time after the occurrence of any Event of Default or if the Lender exercises the rights granted to it under this Security Agreement, the Borrower shall, at the written request of the Lender, immediately upon receipt of any checks, drafts, cash or other remittances in payment of any of its accounts, contract rights, or general intangibles constituting part of the Collateral or in payment for any Collateral sold, transferred, or otherwise disposed of, or in payment of or on account of its accounts, contracts, contract rights, notes, drafts, acceptances, general intangibles, choses in action and all other forms of obligations relating to any of the Collateral so sold, transferred or otherwise disposed of, deliver any such items to the Lender accompanied by a remittance report in form supplied or approved by the Lender, such items to be delivered to the Lender in the same form received, endorsed or otherwise assigned by the Borrower where necessary to permit collection of items and, regardless of the form of such endorsement. The Borrower hereby waives presentment, demand, notice of dishonor, protest, notice of protest and all other notices with respect thereto. The Borrower does hereby irrevocably constitute and appoint the Lender its true and lawful attorney with full power of substitution, for it and in its name, place and stead, after an Event of Default shall have occurred and be continuing, to ask, demand, collect, receive, receipt for, sue for, compound and give acquittance for any and all rents, income and other sums which are assigned under Section I hereof (with full power to settle, adjust or compromise any claim thereunder as fully as the Borrower could itself do), and to endorse the name of the Borrower on all commercial paper given in payment or in part payment thereof, and in its discretion to file any claim or take any other action or proceedings, either in its own name or in the name of the Borrower or otherwise, which the Lender may deem necessary or appropriate to protect and preserve the right, title and interest of the Lender in and to such rents and other sums and the security intended to be afforded hereby.

SECTION V. RIGHTS AND REMEDIES ON DEFAULT AND OTHER PROVISIONS.

A. Lender Rights. The Borrower agrees that when any Event of Default has occurred and is continuing, the Lender shall have the rights, options, duties and remedies of a secured party and the Borrower shall have the rights and duties of a debtor, under the UCC, and, without limiting the foregoing, the Lender, may exercise any one or more or all, and in any order, of the remedies hereinafter set forth, it being expressly understood that no remedy herein conferred is intended to be exclusive of any other remedy or remedies, but each and every remedy shall be cumulative and shall be in addition to every other remedy given herein or now or hereafter existing at law in equity or by statute.

1. The Lender personally, or by agents or attorneys, shall have the right (subject to compliance with any applicable mandatory legal requirements) to take immediate possession of the Collateral, or any portion thereof, and for that purpose may pursue the same wherever it may be found, and may enter any of the premises of the Borrower, with or without notice, demand, process of law or legal procedure, if this can be done without breach of the peace, and search for, take possession of, remove, keep and store the same, or use and operate or lease the same until sold, and to collect and receive all earnings, revenues, rents, issues, proceeds and income of the Collateral and every part thereof, to make alterations, improvements and additions thereon or remove and dispose of any portion of the Collateral and to otherwise exercise any and all of the rights and powers of the Borrower in respect thereof;

2. The Lender may, if at the time such action may be lawful and always subject to compliance with any mandatory legal requirements, either with or without taking possession and either before or after taking possession, and without instituting any legal proceedings whatsoever, and having first given notice of any such sale by registered mail to the Borrower, at least ten (10) days prior to (i) the date of any public sale or (ii) the date on or after which any private sale may take place, and any other notice which may be required by law, sell and

dispose of the Collateral, or any part thereof, at public auction to the highest bidder or at a private sale or sales conducted in a commercially reasonable manner, in one lot as an entirety or in separate lots, and either for cash or on credit and on such terms as the Lender may determine, and at any place (whether or not it be the location of the Collateral or any part thereof) designated in the notice above referred to. Any such sale or sales may be adjourned from time to time by announcement at the time and place appointed for such sales, or for any such adjourned sale or sales, without further published notice, and the Lender, or any interest therein, or the Borrower may bid and become the purchaser at any such sale;

3. The Lender may proceed to protect and enforce this Security Agreement and the Note by suit or suits or proceedings in equity, at law or in bankruptcy, and whether for the specific performance of any covenant or agreement herein contained or in execution or aid of any power herein granted; or for foreclosure hereunder, or for the appointment of a receiver or receivers for the Collateral or any part thereof, for the recovery of judgment for the indebtedness hereby secured or for the recovery of judgment for the indebtedness hereby secured or for the enforcement of any other proper, legal or equitable remedy available under applicable law; and

4. The Lender may proceed to exercise all rights, privileges and remedies of the Borrower under the documents constituting part of the Collateral and may exercise all such rights and remedies either in the name of the Lender or in the name of the Borrower for the use and benefit of the Lender.

B. Waiver by Borrower. To the extent permitted by law, the Borrower covenants that it will not at any time insist upon or plead, or in any manner whatever claim or take any benefit or advantage of, any stay or extension law now or at any time hereafter in force, nor claim, take, nor insist upon any benefit or advantage of or from any law now or hereafter in force providing for the valuation or appraisal of the Collateral or any part thereof prior to any sale or sales thereof to be made pursuant to any provision herein

contained, or pursuant to the decree, judgment or order of any court of competent jurisdiction; nor, after such sale or sales, claim or exercise any right under any statute now or hereafter made or enacted by any state or otherwise to redeem the property so sold or any part thereof, and, to the full extent legally permitted, hereby expressly waives for itself and on behalf of each and every person, except decree or judgment creditors of the Borrower acquiring any interest in or title to the Collateral or any part thereof subsequent to the date of this Security Agreement, all benefit and advantage of any such law or laws, and covenants that it will not invoke or utilize any such law or laws or otherwise hinder, delay or impede the execution of any power herein granted and delegated to the Lender, but will suffer and permit the execution of every such power as though no such power, law or laws had been made or enacted. This Section V(B) shall not apply to actions by Lender which are determined by a court of competent jurisdiction to constitute gross negligence or wilful misconduct.

C. Effect of Sale. Any sale, whether under any power of sale hereby given or by virtue of judicial proceedings, shall operate to divest all right, title, interest, claim and demand whatsoever, either at law or in equity, of the Borrower in and to the property sold, and shall be a perpetual bar, both at law and in equity, against the Borrower, its successors and assigns, and against any and all Persons claiming the property sold or any part thereof under, by or through the Borrower, its successors or assigns.

D. Application of Proceeds. The purchase money proceeds of any sale of the Collateral, or any part thereof, and the proceeds and the avails of any remedy hereunder shall be paid to the Lender to be applied to the Obligations. In case the Lender shall have proceeded to enforce any right under this Security Agreement by foreclosure, sale, entry or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, then and in every such case the Borrower and Lender shall be restored to their former positions and rights hereunder with respect to the property subject to the security interest created under this Security Agreement.

E. Cumulative Remedies. No remedy hereunder is intended to be exclusive of any other remedy but each

and every remedy shall be cumulative and in addition to any and every other remedy given hereunder or otherwise existing; nor shall the giving, taking or enforcement of any other or additional security, collateral or guaranty for the payment of the indebtedness secured under this Security Agreement operate to prejudice, waive or affect the security of this Security Agreement or any rights, powers or remedies hereunder, nor shall the Lender be required to first look to, enforce or exhaust such other or additional security, collateral or guaranty.

F. Status of Moneys Received. Moneys received by the Lender need not be segregated in any manner from any other moneys, except to the extent required by law, and may be deposited by the Lender under such general conditions as may be prescribed by law in the Lender's general banking department, and the Lender shall be under no liability for interest on any moneys received by it hereunder.

SECTION VI. INDEMNITY.

(a) The Borrower covenants and agrees to indemnify and hold harmless the Lender and its officers, directors, employees, agents, attorneys-in-fact and affiliates, from and against any and all claims, suits, losses, penalties, demands, causes of action and judgments of any nature whatsoever and all liabilities and indebtedness of any and every kind and nature now or hereafter owing, arising, due or payable, including all costs and expenses (including reasonable attorneys fees and expenses) (all of the foregoing being herein collectively called "Liabilities"), which may be imposed on, incurred by or asserted against any of them in connection with (i) the ownership or use of any of the Collateral or the security interest of the Lender in the Collateral, (ii) the failure on the part of the Borrower to comply in all respects with the laws of the United States of America and other jurisdictions in which the Collateral or any part thereof may be operated and with all lawful acts, rules, regulations and orders of any commissions, boards or other legislative, executive, administrative or judicial bodies or officers having power to regulate or supervise any of the Collateral, and (iii) the execution, delivery, consummation, waiver, consent, amendment, enforcement, performance and administration of this Security Agreement, the Loan Agreement, the Purchase Documents or any related

documents or the use by the Borrower of the proceeds of each extension of credit under the Loan Agreement; provided, however, that the Borrower shall not have any obligation with respect to liabilities arising from the gross negligence or willful misconduct of the Lender.

(b) The Borrower agrees to defend and pay all costs, expenses and judgments incurred by it or the Lender in any action brought against the Borrower under the Purchase Documents or in any actions brought by the Lender pursuant to this Agreement whether under or pursuant to the provision of any Purchase Document or to enforce any provisions of the Purchase Documents.

(c) The obligations of the Borrower under this Section VI shall survive the termination of this Security Agreement.

SECTION VII. COSTS AND EXPENSES.

Any and all reasonable fees, actual costs and expenses, of whatever kind or nature, including the reasonable attorneys' fees and legal expenses incurred by the Lender in connection with the preparation of this Security Agreement and all other documents relating hereto and the consummation of the transactions contemplated by the Loan Agreement, the filing or recording of UCC financing statements and other documents (including all taxes in connection therewith) in public offices, the payment or discharge of any taxes, insurance premiums, encumbrances or otherwise protecting, maintaining or preserving the Collateral, or the enforcing, foreclosing, retaking, holding, storing, processing, selling, leasing or otherwise realizing upon the Collateral and the Lender's Lien thereon, whether through judicial proceedings or otherwise, or in defending or prosecuting any actions or proceedings arising out of or relating to the transaction to which this Security Agreement relates, shall be borne and paid by the Borrower on written demand by the Lender and if not paid within ten days of receipt of such written demand shall be added to the principal amount of the Obligations and such amounts shall bear interest at the Default Interest Rate beginning on the day of such demand.

SECTION VIII. MISCELLANEOUS.

A. Successors and Assigns. Whenever any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party; and all the covenants, promises and agreements in this Security Agreement contained by or on behalf of the Borrower or by or on behalf of the Lender, shall bind and inure to the benefit of the respective successors and assigns of such parties whether so expressed or not.

B. Severability. Any provision of this Security Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

C. Communications. All communications and notices shall become effective when delivered in accordance with Section 7.1 of the Loan Agreement.

D. Release. The Lender shall release this Security Agreement and the security interest granted hereby by proper instrument or instruments upon its receipt of evidence satisfactory to it that all indebtedness secured hereby has been fully and irrevocably paid or discharged, provided, that in the event there are any outstanding obligations under the Project Loan Agreement or any of the "Loan Documents" referred to therein, Lender shall assign its security interest (without warranty) to the agent bank for the "Banks" under the Project Loan Agreement and Borrower shall take whatever action is necessary or desirable to grant such agent bank at such time a valid and perfected security interest in the Collateral.

E. Modification. This Agreement may not be amended or modified, nor may any provisions be waived, except by a writing signed by each of the parties hereto or, in the case of a waiver, by the party so waiving its rights.

F. Banking Day. If the date on which any payment is to be made pursuant to this Security Agreement

is not a Banking Day, the payment otherwise payable on such date shall be payable on the next succeeding Banking Day.

G. GOVERNING LAW. THIS SECURITY AGREEMENT AND THE NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE INTERNAL LAWS AND DECISIONS (AS OPPOSED TO CONFLICTS OF LAW PROVISIONS) OF THE STATE OF CALIFORNIA; PROVIDED, HOWEVER, THAT THE LENDER SHALL BE ENTITLED TO ALL THE RIGHTS CONFERRED BY ANY APPLICABLE FEDERAL STATUTE, RULE OR REGULATION.

H. Counterparts. This Security Agreement may be executed, acknowledged and delivered in any number of counterparts, each of such counterparts constituting an original but all together only one Security Agreement.

I. Headings. Any headings or captions preceding the text of the several sections hereof are intended solely for convenience of reference and shall not constitute a part of this Security Agreement nor shall they affect its meaning, construction or effect.

IN WITNESS WHEREOF, the parties hereto have caused this Security Agreement to be duly executed as of the date first above written.

"Lender"

UNION BANK,
a California banking corporation

By: _____
VICENTE C. BENDANILLO
VICE PRESIDENT
(Printed Name and Title)

Address:

Union Bank
445 South Figueroa Street
Los Angeles, California 90071-1602
Attention: Energy Capital Services
Telephone: (213) 236-5558
Telecopier: (213) 236-4096

"Borrower"

ACE COGENERATION COMPANY, a
California Limited Partnership

By: ACE Power Partners,
a California general partnership,
its general partner

By: Aquarius Power Partners,
a California limited partnership,
its general partner

By: Aquarius Power Company, Inc.,
a California corporation,
its general partner

By: _____
GERALD C. MAYERS, TREASURER
Printed Name and Title

By: CE ACE Limited Partnership,
a Maryland limited partnership,
its general partner

By: CD ACE I, Inc.,
a Maryland corporation,
its sole general partner

By: _____
DOUGLAS S. PERRY
SECRETARY
Printed Name and Title

By: Aquarius Power Company, Inc.,
a California corporation,
its general partner

By: Gerald C. Mayers
GERALD C. MAYERS, TREASURER
Printed Name and Title

STATE OF CALIFORNIA)
)
COUNTY OF Los Angeles)

On March 29, 1994, before me, JoAnn Flynn, Notary Public, personally appeared Vicente C. Bendanillo

_____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/~~her/their~~ authorized capacity(ies), and that by his/~~her/their~~ signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

JoAnn Flynn
Notary Public

JO ANN FLYNN
COMM. #990161
NOTARY PUBLIC-CALIFORNIA
LOS ANGELES COUNTY
MY COMMISSION EXPIRES
APRIL 1, 1997

STATE OF CALIFORNIA)
)
COUNTY OF _____)

On March ~~29~~ 29, 1994, before me, Diane Lynn Samuelson, Notary Public, personally appeared Gerald C. Mayels

_____, personally known to me (~~or proved to me on the basis of satisfactory evidence~~) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Diane Lynn Samuelson
Notary Public

OFFICIAL SEAL
DIANE LYNN SAMUELSON
NOTARY PUBLIC - CALIFORNIA
SAN DIEGO COUNTY
My Comm. Expires July 15, 1994

STATE OF CALIFORNIA)
)
COUNTY OF San Diego)

On March 29, 1994, before me, Diane Lynn Samuelson Notary Public, personally appeared Gerald C. Mayers, personally known to me (~~or proved to me on the basis of satisfactory evidence~~) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Diane Lynn Samuelson
Notary Public

OFFICIAL SEAL
DIANE LYNN SAMUELSON
NOTARY PUBLIC - CALIFORNIA
SAN DIEGO COUNTY
My Comm. Expires July 15, 1994

STATE OF ~~CALIFORNIA~~ MARYLAND)
)
COUNTY OF Baltimore)

On March 30, 1994, before me, Melissa A. Hill, Notary Public, personally appeared Douglas S. Perry, personally known to me ~~(or proved to me on the basis of satisfactory evidence)~~ to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Melissa A. Hill
Notary Public

MELISSA A. HILL
NOTARY PUBLIC
BALTIMORE CO., MD.

My commission expires on September 24, 1996

SCHEDULE 1

The Railcars

Eight-four (84) open top railroad hopper cars manufactured by Trinity Industries, Inc., bearing Reporting Marks and Numbers:

ACEX 4100	ACEX 4121	ACEX 4142	ACEX 4163
ACEX 4101	ACEX 4122	ACEX 4143	ACEX 4164
ACEX 4102	ACEX 4123	ACEX 4144	ACEX 4165
ACEX 4103	ACEX 4124	ACEX 4145	ACEX 4166
ACEX 4104	ACEX 4125	ACEX 4146	ACEX 4167
ACEX 4105	ACEX 4126	ACEX 4147	ACEX 4168
ACEX 4106	ACEX 4127	ACEX 4148	ACEX 4169
ACEX 4107	ACEX 4128	ACEX 4149	ACEX 4170
ACEX 4108	ACEX 4129	ACEX 4150	ACEX 4171
ACEX 4109	ACEX 4130	ACEX 4151	ACEX 4172
ACEX 4110	ACEX 4131	ACEX 4152	ACEX 4173
ACEX 4111	ACEX 4132	ACEX 4153	ACEX 4174
ACEX 4112	ACEX 4133	ACEX 4154	ACEX 4175
ACEX 4113	ACEX 4134	ACEX 4155	ACEX 4176
ACEX 4114	ACEX 4135	ACEX 4156	ACEX 4177
ACEX 4115	ACEX 4136	ACEX 4157	ACEX 4178
ACEX 4116	ACEX 4137	ACEX 4158	ACEX 4179
ACEX 4117	ACEX 4138	ACEX 4159	ACEX 4180
ACEX 4118	ACEX 4139	ACEX 4160	ACEX 4181
ACEX 4119	ACEX 4140	ACEX 4161	ACEX 4182
ACEX 4120	ACEX 4141	ACEX 4162	ACEX 4183