

EXHIBIT NO. _____ (WAG-11)
DOCKET NO. _____
2003 POWER COST ONLY RATE CASE
WITNESS: WILLIAM A. GAINES

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. _____

DIRECT TESTIMONY OF
WILLIAM A. GAINES
ON BEHALF OF PUGET SOUND ENERGY, INC.



January 2, 2003

Commissioners: Marilyn Showalter, Chairwoman,
Patrick J. Oshie and Richard Hemsted
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

Re: Notification of Disposition of PSE's Nooksack Hydro Facility

Dear Commissioners:

On December 13, 2002, Puget Sound Energy ("PSE", "Puget" or "the Company") met with Commission Staff members to discuss PSE's plan to dispose of the Nooksack Hydro Facility. Although, in accordance with WAC 480-143-180, the proposed transaction is below the advance reporting threshold that requires authorization by the Commission, this letter is intended to inform the Commission of the disposition.

The Nooksack Hydro Facility operated from 1906 until 1997 when the generating unit was destroyed by fire resulting from a line fault. Shortly thereafter, the plant was retired from the Company's books and the land was transferred to non-utility. In 2001, an interested party ("buyer") approached the Company regarding purchase of the facility. The buyer intends to restore the generating facility as well as develop the site for other purposes. The buyer and the Company have agreed on the terms of the sale. Attachment A, Tab 4, contains the Real Estate Purchase and Sale Agreement.

The transaction will be accounted for, as authorized in Docket No. UE-921262, the Company will defer the Customer share of the gain on the sale until the next general rate case. The Company's share of the gain (for the portion of time that the land has been classified as non-utility) will be recorded as income in the period incurred. Considering that neither the plant nor the land were included in rate base in the last rate case, UE-011570, the Company is not recovering any amount for either plant or land in its current rates. An estimate of the gain on the sale of the Nooksack Facility is shown on Attachment B.

Puget intends to purchase power from the buyer once the plant is restored. The terms of such purchase are included in the Agreement for Firm Power Purchase, also included in Attachment A, Tab 1, enclosed herewith. The Agreement will be filed with the Commission once it is fully executed.

WUTC Commissioners

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January 2, 2003

The Company will retain an easement in order to maintain its transmission facilities. The Easement Agreement is included in Attachment A, Tab 6. The buyer plans to connect to PSE's electric system and to operate the facility in parallel with the system. Attachment A, Tab2, contains the Interconnection and Parallel Operation Agreement that will be filed with FERC.

If you have any questions regarding this matter, please call me at (425) 456-2797.

Very truly yours,

PUGET SOUND ENERGY, INC.

By 
Karl R. Karzmar
Manager, Revenue Requirements

Enclosures
cc: Simon ffitich

Attachment B

Puget Sound Energy
 Property Transfer – Nooksack Sale
 Proposed Journal Entries

	<u>G/L</u>	<u>Description</u>	<u>DR</u>	<u>CR</u>
Entry 1				
Debit	121	Non-Utility WIP	\$ 18,662	
Credit	121	Non-Utility Plant		\$ 18,662
		To Record the Retirement of the Nooksack Facility.		
Entry 2				
Debit	131	Cash	\$ 1,750,000	
Credit	121	Non Utility WIP		\$ 18,662
Credit	256	Def Gains from Disp. of Utility Plant		\$1,731,338 (a)
		To Record the sale of Nooksack Facility.		
Entry 4				
Debit	409.2	Income Taxes	\$605,968	
Credit	254	Other Regulatory Liabilities		\$605,968
		To Record Deferral of Taxes related to the Nooksack sale.		

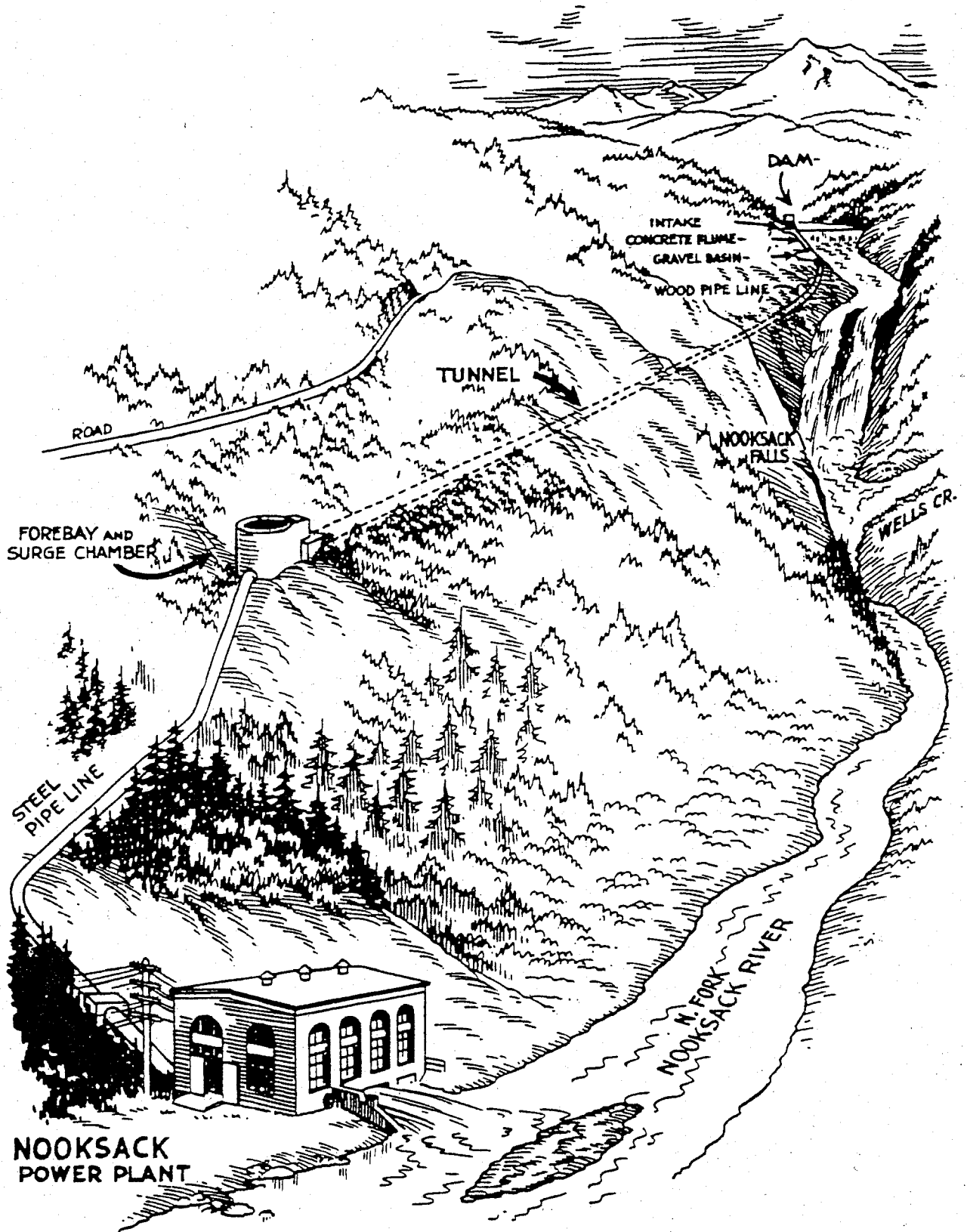
Note 1: The amount recorded in Entry 4 will be determined as follows:

Sale Price	\$1,750,000
Cost of Sale	0 (b)
Net Book Value of Property	<u>18,662</u>
	\$ 1,731,338
Tax Rate	<u>35%</u>
Deferred Tax	\$ 605,968

(a) For simplicity purposes, this entry assumes that all of the gain is assigned to the customer. The Company will be allocated a portion of the gain based upon the amount of time that the facility was recorded as non-utility plant (from 1997 to present).

(b) Cost of Sale to be borne by buyer.

Nooksack Falls Hydroelectric Project





Nooksack Falls Hydroelectric Project

Location and Drainage Basin

Nooksack Falls Project is located on the North Fork of the Nooksack River, about one-half mile below Nooksack Falls, in Whatcom County, Washington. The river above the project drains 96 square miles, with the source of the river rising in the Mt. Baker area 15 miles from the powerhouse intake.

Construction

The project was placed in operation in 1906.

Intake Dam

The intake dam is of a plank type construction resting on a concrete toe. The distance from intake to powerhouse is approximately 2622 feet. The water channel from intake to powerhouse is novel, in that construction is of four different type sections. The first section consists of 467 feet of concrete flume, which leads into a second section of 566 feet of wood stave pipe. Following are 1,025 feet of 7 to 8 foot diameter unlined tunnel. From the tunnel to powerhouse is a steel penstock varying from 6 feet diameter at the tunnel to a 5-foot diameter at the powerhouse.

Turbines

One Pelton type impulse horizontal turbine develops 2,547 horsepower under an effective head of 195 feet.

Generator

The generator is a 3-phase, 60 cycle, 1,500 kw Westinghouse. Excitation is by separate excitors driven by a motor or belt driven from the water wheel shaft.

Transmission Lines

Power from the project is transmitted by a 55,000 volt line from Nooksack to Bellingham, Washington.

AGREEMENT FOR FIRM POWER PURCHASE

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AGREEMENT FOR FIRM POWER PURCHASE

This AGREEMENT FOR FIRM POWER PURCHASE (this "Agreement"), dated as of _____, 2002, is made by and between Puget Sound Energy, Inc., a Washington corporation ("Puget"), and Puget Sound Hydro, LLC, a Washington limited liability company ("Company"). Puget and Company are sometimes referred to herein in the singular as a "Party" and in the plural as the "Parties."

RECITALS

A. Puget is a public service electric utility company engaged in the sale and distribution of electric energy, and is willing to acquire the net electrical output of the Company's facility at a reasonable cost.

B. Company desires to own and operate a hydroelectric generating facility at Nooksack Falls on the North Fork Nooksack River in Whatcom County, Washington.

C. Company and Puget desire to establish the terms and conditions relating to the sale to Puget of the net electrical output of the Company's facility to Puget.

AGREEMENT

The Parties, therefore, agree as follows:

Section 1. Definitions

Whenever used in this Agreement, the following capitalized terms shall have the following respective meanings, unless the particular context clearly requires a different meaning:

1.1 "Puget," "Company," "Party," and "Parties," have the respective meanings set forth above.

1.2 "Company Activities" means all design, engineering, procurement, construction and other activities related to the inspection, testing, start-up, repair, maintenance, replacement, improvement, alteration, modification, licensing or permitting of, or addition to, the Facility and to the acquisition of rights in the Facility property.

1.3 "Date of Commercial Operation" has the meaning set forth in paragraph 3.4.

1.4 "Effective Date" means the date of the closing of the transactions under that certain Real Estate Purchase and Sale Agreement between Company and Puget dated as of _____ 2002.

1.5 "Excusable Delay" has the meaning set forth in Section 4.

1.6 "Facility" means the hydroelectric generation facility having a nameplate hydroelectric generating capacity of 1.5 megawatts, all as located at the North Fork Nooksack River at Nooksack Falls, in Whatcom County, Washington, near the town of Glacier, Washington, together with all equipment, facilities, structures, improvements, alterations, modifications, additions, betterments, property and property rights (e.g., for access to the Facility) of or related to such hydroelectric generation facility. A one-line electrical diagram of the Facility is set forth in the attached Exhibit B.

1.7 "FERC" means the Federal Energy Regulatory Commission or any successor regulatory authority.

1.8 "Interconnection Agreement" means the Interconnection and Parallel Operation Agreement to be entered into by and between the Parties prior to the energization of the interconnection of the Facility with Puget's electric system, or any electric system with which Puget's electric system is interconnected.

1.9 "Market Price" means for any hour an amount, stated in dollars per megawatt-hour, equal to the "Firm On-Peak," "Firm Off-Peak" or "Sunday and NERC Holidays" Dow Jones Mid-Columbia Electricity Index for the period in which such hour occurs. If any such index becomes unavailable during the Term, it shall be replaced for purposes of the preceding sentence by a replacement index that replicates as near may be the information provided by the above-described Dow Jones Mid-Columbia Electricity Indices.

1.10 "Point of Delivery" means the point where the Facility is interconnected with Puget's electric system, which as of the Effective Date is a point located at the low side of Puget's 2.3 kilovolt/55 kilovolt generator step-up transformer, as shown on the diagram attached hereto as Exhibit A.

1.11 "Production Proxy Price" means, for any month (or partial month) during the Term, an amount, stated in dollars per megawatt hour, equal to the product of (a) a heat rate of a combustion turbine equal to 10.2 million Btus per megawatt hour multiplied by (b) the Forward Gas Price for such month, where the Forward Gas Price for a month (or partial month) is equal to the "first of the month" index price for such month (or partial month), stated in dollars per MMBtu, for Northwest Pipeline-

Canadian border (Sumas) as reported in Inside FERC Gas Market Report. If the index price becomes unavailable during the Term, it shall be replaced for purposes of the preceding sentence by a replacement index price that replicates as near may be the information provided by the above-described index price for Northwest Pipeline-Canadian border (Sumas) as reported in Inside FERC Gas Market Report.

1.12 "Prudent Electrical Practice" means:

(a) those practices, methods and acts that when engaged in are commonly used in prudent electrical engineering and operations to operate electric equipment lawfully and with safety, reliability, efficiency and expedition; or

(b) in the absence of those practices, methods and acts described in the foregoing clause (a), those practices, methods and acts that in the exercise of reasonable judgment considering the facts known when engaged in, could have been expected to achieve the desired result consistent with applicable law, safety, reliability, efficiency and expedition.

Prudent Electrical Practice is not limited to the optimum practice, method or act, but rather is a spectrum of possible practices, methods or acts.

1.13 "Term," "Initial Term," and "Extension Term" have the respective meanings set forth in paragraph 7.1.

1.14 "Transfer" means any sale, assignment, encumbrance, disposition or other transfer, at any time, whether voluntary, involuntary, by operation of law or otherwise, of all or any portion of Company's rights, title or interests in or to the Facility or the output of the Facility or in, to or under this Agreement.

1.15 "WUTC" means the Washington Utilities and Transportation Commission or any successor thereof.

Section 2. Purchase and Sale of Energy

2.1 General

Subject to the provisions of this Agreement, Puget purchases and shall take from Company, and Company sells and shall deliver to Puget at the Point of Delivery, the entire net electrical output of the Facility (i.e., the total output of the Facility reduced by any amounts of electric power and energy used in connection with the operation of the Facility) during the Term of this Agreement.

2.2 Purchase Price

(a) For electrical output actually delivered from the Facility to the Point of Delivery and actually received at Puget's substation in the town of Glacier in Whatcom County, Washington (the "Glacier Substation") during each month (or partial month) of the Term from (and including) the Effective Date to (and including) the Date of Commercial Operation, Puget shall pay to Company a monthly amount equal to the product of 0.95 multiplied by the lesser of

(i) the megawatt-hours of such electrical output so delivered during any hour of such month (or partial month) multiplied by the Market Price applicable to such hour and

(ii) the megawatt-hours of such electrical output so delivered during any hour of such month (or partial month) multiplied by the Production Proxy Price for such month (or partial month).

(b) For electrical output actually delivered from the Facility to the Point of Delivery and actually received at the Glacier Substation during each month (or partial month) of the Term from (and including) the day after the Date of Commercial Operation to (and including) December 31, 2005, Puget shall pay to Company a monthly amount equal to the product of (i) the megawatt-hours of such electrical output so delivered multiplied by (ii) \$29.25 per megawatt hour.

(c) For electrical output actually delivered from the Facility to the Point of Delivery and actually received at the Glacier Substation during each month (or partial month) of the Term from (and including) January 1, 2006, to the expiration of the Term, Puget shall pay to Company a monthly amount equal to the product of 0.95 multiplied by the lesser of

(i) the megawatt-hours of such electrical output so delivered during any hour of such month (or partial month) multiplied by the Market Price applicable to such hour, and

(ii) the megawatt-hours of such electrical output so delivered during any hour of such month (or partial month) multiplied by the Production Proxy Price for such month (or partial month);

provided, that the Parties may by written agreement hereafter signed by both Parties agree to a different price to be paid by Puget for such electrical output.

(d) Notwithstanding anything to the contrary contained in this Section 2.2, for the purposes of determining the purchase price to be paid by Puget to

Company under this Section 2.2, the amount of electrical output actually delivered from the Facility to the Point of Delivery shall be deemed to be the amount of electrical output actually received at the Glacier Substation, as determined or computed by Puget from measurements made by meter(s) or metering equipment installed at or near the Point of Delivery or the Glacier Substation and owned, operated and maintained by Puget pursuant to the terms of the Interconnection Agreement.

2.3 Payment

The total amount payable in accordance with paragraph 2.2 for the electrical output delivered from the Facility during any calendar month shall be paid by Puget on or before the last day of the next following calendar month.

2.4 Delivery

Company shall deliver the net electrical output of the Facility to Puget at the Point of Delivery and in the form of three phase, sixty hertz, alternating electric current at 2.3 kilovolts (and in no event more than five percent (5%) above or five percent (5%) below such voltage) and at a power factor of not less than 0.95. The requirements of the preceding sentence shall be subject to adjustment by Puget from time to time to reflect changes in Puget's electric system.

2.5 Metering

The electrical output actually delivered from the Facility and actually received by Puget at the Glacier Substation shall be measured with or determined by Puget from metering equipment installed at or near the Point of Delivery or the Glacier Substation and owned, operated and maintained by Puget pursuant to the terms of the Interconnection Agreement.

2.6 Puget's Conditions

(a) Puget's obligations under this Agreement are at all times subject to the Company's compliance with all applicable laws, ordinances, rules, regulations, orders and other requirements, now or hereafter in effect, of any governmental authority, including, but not limited to, obtaining all necessary permits, licenses, authorizations and other rights required to perform Company Activities and to own, operate, use, maintain and repair the Facility.

(b) This Agreement is not valid and shall have no force or effect (and no electric output shall be delivered from the Facility to Puget under this Agreement) until this Agreement has been filed with and approved, or otherwise has been

reviewed without notice of any issue, within thirty (30) days after filing, by the WUTC.

(c) Puget's obligations under this Agreement are conditioned upon the Company's execution and delivery of the Interconnection Agreement.

Section 3. Maintenance and Operation of the Facility

3.1 Operation, Use and Maintenance of Facility

Company shall operate the Facility on a continuous, reliable and sustained basis during the Term of this Agreement, subject to availability of streamflows and to outages in accordance with the attached Exhibit C. The Parties shall coordinate operation of the Facility with Puget's electric system in accordance with the attached Exhibit C.

3.2 Permits and Other Rights

Company shall obtain and comply with all permits, licenses, authorizations and other rights as may be required from time to time to perform the Company Activities, to own, operate, use, maintain and repair the Facility and to sell and deliver the net electrical output of the Facility.

3.3 Performance

Company shall perform the Company Activities and shall own, operate, use, maintain and repair the Facility:

- (a) at its own risk and expense;
- (b) in a safe, prudent, dependable, efficient, orderly, skillful and workmanlike manner;
- (c) in compliance with the permits, licenses, authorizations and rights described in paragraph 3.2;
- (d) in compliance with all applicable laws, ordinances, rules, regulations, orders and other requirements, now or hereafter in effect, of any governmental authority; and
- (e) in accordance with Prudent Electrical Practice.

3.4 Performance Tests; Date of Commercial Operation

Company shall provide Puget advance written notice at least seven (7) days prior to the commencement of any performance or availability test of the Facility. Upon completion of all performance and availability tests, Company shall promptly deliver to Puget written notice of such completion, together with a certificate, signed by an officer of Company having responsibility for the administration of this Agreement, in which such officer represents and warrants that (a) such performance and availability tests have been successfully completed, (b) the Facility is available for reliable and continuous commercial operation and for the delivery of the net electrical output of the Facility to Puget in accordance with this Agreement, and (c) the Facility has operated on an uninterrupted basis for a period of ten (10) consecutive days after the completion of such performance and availability tests; provided, that, without limiting any of the foregoing, no performance or availability test shall have been successfully completed unless and until any defects related to the safe, reliable and continuous commercial operation of the Facility discovered during or prior to any such test shall have been corrected to Puget's reasonable satisfaction. The date of commercial operation of the Facility under this Agreement ("**Date of Commercial Operation**") shall be deemed to be the date specified in such certificate, and in no event shall the Date of Commercial Operation occur prior to the later to occur of (i) 0000 hours on the date following the completion of the activities referred to in clauses (a), (b) and (c) of this paragraph 3.4 and (ii) January 1, 2003. In the event that the Date of Commercial Operation does not occur on or before January 1, 2004, Puget shall have the right to terminate this Agreement and its Term by giving the Company written notice of such termination.

Section 4. Inspection, Access and Information

4.1 Inspection

Company shall permit Puget to inspect, and to be present at all inspections and tests of, the Facility, the Construction Activities and the operation, use or maintenance of the Facility. Company shall provide Puget reasonable advance notice of any such test or inspection; provided, that Company shall provide Puget advance written notice of any performance or availability test in accordance with paragraph 3.4.

4.2 Access

Company shall provide Puget, and Puget shall have the right of, such access as Puget may reasonably require, by personnel and for equipment, to the Facility for inspection and testing described in paragraph 4.1. Puget shall provide reasonable advance notice to Company of any access required under this paragraph 4.2.

Company may make such access subject to limitations required by Prudent Electrical Practice. Company shall and hereby does grant to Puget all necessary licenses, rights-of-way and easements for the access and purposes described in this paragraph 4.2 and shall execute, acknowledge and deliver to Puget such additional documents as Puget may reasonably request to effectuate, evidence, vest, record or give notice of such licenses, rights-of-way and easements.

4.3 Information

Company shall promptly furnish Puget with copies of such plans, specifications, records and other information relating to the Facility, the Company Activities, the arrangements between Company and any other person or entity for transmission or delivery of energy from the Facility to Puget's electric system, or the ownership, operation, use, repair or maintenance of the Facility, as may be reasonably requested by Puget from time to time. Puget shall use reasonable efforts not to disclose to third parties any confidential or proprietary information or documents furnished by Company pursuant to this section if and to the extent such information and documents are conspicuously marked as confidential or proprietary when furnished by Company to Puget. The foregoing nondisclosure obligations shall not apply to (a) any information or documents that are generally available to the public, known to Puget prior to receipt from Company, or acquired from a third party without a requirement of protection, (b) any use or disclosure required by any law, rule, regulation, order or other requirement of any governmental authority having jurisdiction, (c) any disclosure to the WUTC with a request for confidential treatment pursuant to WAC 480-09-015, (d) any disclosure to FERC with a request for confidential treatment, or (e) any use that is necessary to carry out Puget's obligations under this Agreement. All other information and documents furnished by Company under this Agreement shall be furnished on a non-confidential basis.

Section 5. Excusable Delay

Neither Party shall be liable under this Agreement for, or be considered to be in breach of or default under this Agreement on account of, any delay in or failure of performance, or any delay or failure to deliver, receive or accept delivery of energy, due to any of the following events:

- (a) any cause or condition beyond such Party's reasonable control that such Party is unable to overcome, or to have avoided or overcome, by the exercise of reasonable diligence (such causes or conditions include but are not limited to: fire, flood, earthquake, volcanic activity, wind, drought and other acts of the elements; court order and act of civil, military or governmental authority (excluding, however, any denial of or delay in granting any license,

permit, authorization or other right required to perform the Company Activities and to own, operate, use, maintain and repair the Facility); strike, lockout and other labor dispute; riot, insurrection, sabotage, terrorist act and war; breakdown of or damage to facilities or equipment; electrical disturbance originating in or transmitted through such Party's electric system or any electric system with which such Party's system is interconnected; and, act or omission of any person or entity other than such Party and such Party's contractors or suppliers of any tier or anyone acting on behalf of such Party); or

(b) any action taken by such Party that is, in the sole judgment of such Party, necessary or prudent to protect the operation, performance, integrity, reliability or stability of such Party's electric system or any electric system with which such Party's electric system is interconnected, whether such action occurs automatically or manually.

Any such delay or failure is referred to in this Agreement as an "Excusable Delay"; provided, however, that "Excusable Delay" shall specifically exclude any such delay or failure resulting from delay or inability to make any payment pursuant to any provision of this Agreement.

In the event of any Excusable Delay, the time for performance thereby delayed shall, subject to the terms of paragraph 7.3(b), be extended by a period of time reasonably necessary to compensate for such delay. Nothing contained in this Section 5 shall require any Party to settle any strike, lockout or other labor dispute. Each Party shall give the other Party prompt written notice of any delay that the Party giving notice considers to be an Excusable Delay of its performance. Such notice shall include a particular description of the event, cause or condition giving rise to the purported Excusable Delay, the projected duration of the Excusable Delay and assurances that suspension of performance is of no greater scope and of no longer duration than is required by such event, cause or condition and that reasonable best efforts are being used to remedy or overcome such event, cause or condition.

Section 6. Restrictions on Transfer

Company shall not make or permit any Transfer, except as follows:

(a) to Puget;

(b) as security for any indebtedness incurred by Company to finance the Facility, provided that upon any Transfer, the person or entity acquiring the interests subject to any such Transfer agrees, upon exercising any rights in or to the Facility or in or under this Agreement, to (i) assume, or to be otherwise

bound to perform, and (ii) if such transferee subsequently sells, assigns or transfers any of its rights in or to the Facility or in or under this Agreement, to cause to be assumed and performed by any subsequent transferee, on a recourse basis, all of Company's obligations under this Agreement, and provided, further, that such person or entity and such subsequent transferee, if any, shall be financially responsible and shall be skilled and experienced in the operation of a hydroelectric generation facility; or

(c) to any other person or entity with the written consent of Puget, which consent shall not be unreasonably withheld, provided that such other person or entity assumes, or is otherwise bound to perform or to cause to be performed, all of Company's obligations under this Agreement, as if such other person or entity were an original party to this Agreement, and provided, further, that such other person or entity shall be financially responsible and shall be skilled and experienced in the operation of a hydroelectric generation facility.

Section 7. Term and Termination

7.1 Term

"Term" means the period commencing on the Effective Date and terminating on the earliest of (a) the date on which termination, if any, of this Agreement and its Term pursuant to paragraph 7.3 becomes effective; (b) the expiration of the Initial Term, unless the Company elects to extend the Term beyond the Initial Term (and such election is not annulled by Puget) pursuant to paragraph 7.1; and (c) the expiration of the Extension Term, if any.

"Initial Term" means the period during the Term commencing on the Effective Date and terminating on the earlier of (i) the date on which termination, if any, of this Agreement and its Term pursuant to paragraph 7.3 becomes effective; and (ii) the date occurring five (5) years after the Date of Commercial Operation.

"Extension Term" means the period, if any, during the Term commencing upon the expiration of the Initial Term and terminating on the earlier of (x) the date on which termination, if any, of this Agreement and its Term pursuant to paragraph 7.3 becomes effective; or (y) the date occurring five (5) years after the expiration of the Initial Term; provided, however, the Extension Term shall not occur unless the Company elects to extend the Term beyond the Initial Term (and such election is not annulled by Puget) pursuant to paragraph 7.2.

7.2 Extension Term Option

The Company may, by giving Puget written notice (received by Puget not less than sixty (60) days prior to the expiration of five (5) years after the Date of Commercial Operation), extend the Agreement and its Term for the Extension Term; provided that if as of such notice or any time thereafter during the remainder of the Initial Term Company is in material breach of or default under this Agreement, Company shall have no right to any extension of the Term beyond the Initial Term.

7.3 Termination

(a) If either Party is at any time in material breach of or default under this Agreement (the "Defaulting Party"), the other Party (the "Terminating Party") shall have the right to terminate this Agreement and its Term by giving the Defaulting Party written notice of such termination. Such termination of this Agreement and its Term shall be effective upon the Defaulting Party's receipt of such notice of such termination pursuant to this paragraph 7.3(a). For purposes of this paragraph 7.3(a), a Party shall be deemed to be in material breach of or default under this Agreement if such Party:

(i) fails to cure any material breach of or default under this Agreement by such Party prior to the later of (A) the expiration of sixty (60) days after the Terminating Party gives the Defaulting Party written notice of the breach or default and (B) the date upon which the Terminating Party gives the Defaulting Party written notice of termination; provided that, without limiting the generality of paragraph 7.5, either Party's right to terminate this Agreement and its Term pursuant to this subparagraph 7.3(a)(i) is in addition to, and shall not preclude the exercise of, any other rights and remedies provided under this Agreement or at law or in equity;

(ii) is unable to meet its obligations as they become due or such Party's liabilities exceed its assets;

(iii) makes a general assignment of all or substantially all of its assets for the benefit of its creditors, files a petition for bankruptcy or reorganization or seeks other relief under any applicable insolvency laws; or

(iv) has filed against it a petition for bankruptcy, reorganization or other relief under any applicable insolvency laws and such petition is not dismissed within sixty (60) days after it is filed.

(b) Puget shall have the right to terminate this Agreement and its Term by giving Company written notice of such termination (and such termination shall be effective upon Company's receipt of such notice of such termination) following the occurrence of any of the following events:

(i) Company fails to overcome or remedy within one-hundred eighty (180) days following the commencement of any Excusable Delay occurring on or after the Effective Date of this Agreement the event, cause or condition that gave rise to such Excusable Delay;

(ii) the Date of Commercial Operation does not occur on or before January 1, 2004, as provided under paragraph 3.4; or

(iii) Company's business is suspended, dissolved or wound up.

In no event shall Puget incur any liability (whether for lost revenues or lost profits or otherwise) as a result of any termination of this Agreement and its Term pursuant to this paragraph 7.3.

7.4 Cure By Puget

If Puget directs Company by written notice to cure any breach of or default under this Agreement, and Company thereafter fails to cure or indicates its inability or unwillingness to cure such breach or default within the time periods set forth in paragraph 7.3(a), if applicable, then Puget shall have the right, but not the obligation, to cure (or cause to be cured) the breach or default by the most expeditious means available to it (by contract or otherwise) and charge to or otherwise recover (e.g., by offset against the compensation otherwise payable to Company under this Agreement) from Company all costs of such cure.

7.5 Rights and Remedies Cumulative

All rights and remedies of either Party under this Agreement and at law and in equity shall be cumulative and not mutually exclusive and the exercise of one right or remedy shall not be deemed a waiver of any other right or remedy. Nothing contained in any provision of this Agreement shall be construed to limit or exclude any right or remedy of either Party (arising on account of the breach or default by the other Party or otherwise) now or hereafter existing under any other provision of this Agreement, at law or in equity.

Section 8. Qualifying Facility Status

Company represents and warrants that at all times during its operation during the Term, the Facility will be a "qualifying small power production facility" within the meaning of subsection 3(17)(C) of the Federal Power Act, as amended. Company shall furnish Puget with such documentation and information as Puget may request to verify Company's representations and warranties set forth in this Section 8.

Section 9. Miscellaneous

9.1 Notices

Except as may be expressly provided otherwise in this Agreement, any notice, request, authorization, direction, or other communication under this Agreement shall be given in writing (a) by delivery in person, (b) by recognized overnight air courier service, (c) by first-class U.S. mail (stamped with the required postage), or (d) by facsimile transmission, using facsimile equipment providing written confirmation of successful completed transmission to the receiving facsimile number. All notices to either Party shall be made to the address set forth below:

If to Puget: Puget Sound Energy, Inc.
Bellevue Center – 15th Floor
411 – 108th Avenue NE
Bellevue, Washington 98004-5515
Attention: Vice President Energy Supply
Tel. (425) 462-3145
Fax (425) 462-3300

If to Company: Puget Sound Hydro, LLC
P.O. Box 1432
Lewiston, Idaho 83501
Attention: Arch Ford, Manager
Tel. (208) 743-2200
Fax (208) 743-7319

Either Party may change its address specified above by giving the other Party notice of such change in accordance with this paragraph 9.1. All notices, requests, authorizations, directions and other communications by a Party shall be deemed delivered when received by the other Party.

9.2 Governmental Authority

This Agreement is subject to the rules, regulations, orders and other requirements, now or hereafter in effect, of all governmental authorities (including, without limitation, FERC and the WUTC) having jurisdiction over the Facility, this Agreement, the Parties or either of them. All laws, ordinances, rules, regulations, orders and other requirements, now or hereafter in effect, of governmental authorities that are required to be incorporated in agreements of this character are by this reference incorporated in this Agreement.

9.3 No Partnership

This Agreement shall not be interpreted or construed to create an association, joint venture or partnership between the Parties or to impose any partnership obligations or liability upon either Party. Further, neither Party shall have any right, power or authority to enter into any agreement or undertaking for or on behalf of, to act as or be an agent or representative of, or to otherwise bind the other Party.

9.4 Nonwaiver

No failure or delay of either Party to insist upon or enforce strict performance by the other Party of any provision of this Agreement or to exercise any other right under this Agreement, and no course of dealing or performance with respect thereto, shall be construed as a waiver or relinquishment to any extent of such Party's right to assert or rely upon any such provision or right in that or any other instance; rather, the same shall be and remain in full force and effect. The express waiver by either Party of any right or remedy under this Agreement in a particular instance or circumstance shall not constitute a waiver thereof in any other instance or circumstance.

9.5 Survival

Sections 6 and 9 and all other provisions of this Agreement that may reasonably be interpreted or construed as surviving the completion, termination or cancellation of this Agreement or its Term, shall survive the termination or cancellation of this Agreement or its Term.

9.6 Entire Agreement

This Agreement sets forth the entire agreement, and supersedes any and all prior agreements (whether written or oral) of the Parties with respect to the subject matters hereof.

9.7 Successors and Assigns

Except as provided in Section 6, Company shall not make any Transfer without the prior written consent of Puget. Further, no Transfer by Company shall to any extent relieve it of, or release it from, any of its obligations under this Agreement. Subject to the foregoing restrictions on Transfers, this Agreement shall be fully binding upon, inure to the benefit of and be enforceable by the Parties and their respective successors, assigns and legal representatives.

9.8 No Third-Party Beneficiaries

There are no third-party beneficiaries of this Agreement. Nothing contained in this Agreement is intended to confer any right or interest on anyone other than the Parties, their respective successors, assigns and legal representatives permitted under paragraph 9.7.

9.9 Amendment

No change, amendment or modification of any provision of this Agreement or of any exhibit to this Agreement shall be valid unless set forth hereafter in a written amendment to this Agreement or such exhibit signed by both Parties.

9.10 Implementation

Each Party shall take such action (including, but not limited to, the execution, acknowledgment and delivery of documents) as may reasonably be requested by the other Party for the implementation or continuing performance of this Agreement.

9.11 Severability

The invalidity or unenforceability of any provision of this Agreement shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provisions were omitted.

9.12 Governing Law; Jurisdiction

This Agreement shall in all respects be interpreted, construed and enforced in accordance with the laws of the state of Washington (without regard to conflict of laws principles to the contrary), except to the extent such laws may be preempted by the laws of the United States of America. Each Party consents to the jurisdiction of the state and federal courts in the state of Washington.

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9.13 Headings

The section and paragraph headings of this Agreement are provided for convenience of reference only and are not intended to restrict, affect or be construed in the interpretation or construction of the provisions of any section or paragraph.

PUGET SOUND HYDRO, LLC

PUGET SOUND ENERGY, INC.

By: _____

By: _____

Title: _____

Title: Vice President Energy Supply

Date signed: _____

Date signed: _____

EXHIBIT A

Point of Delivery

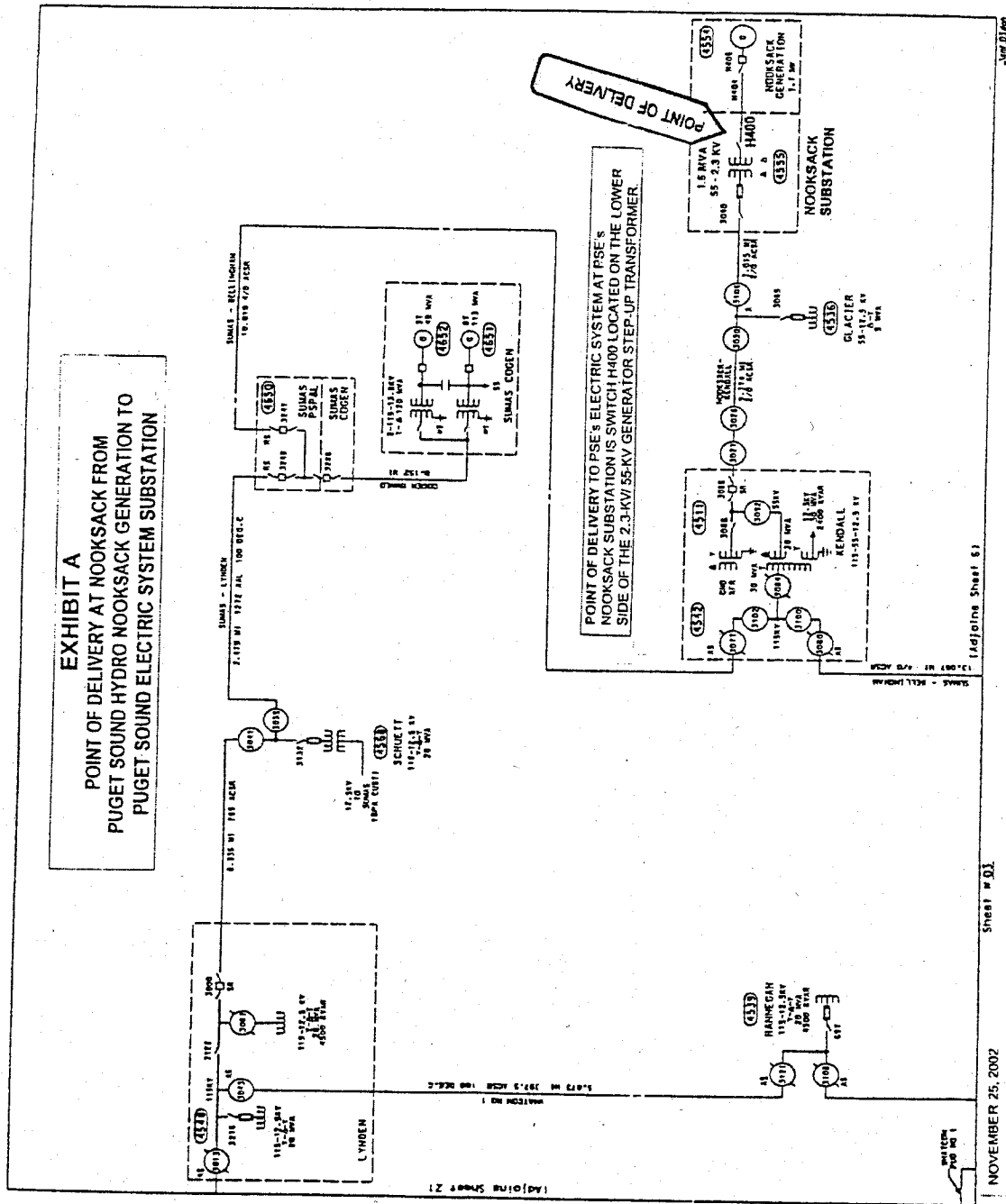
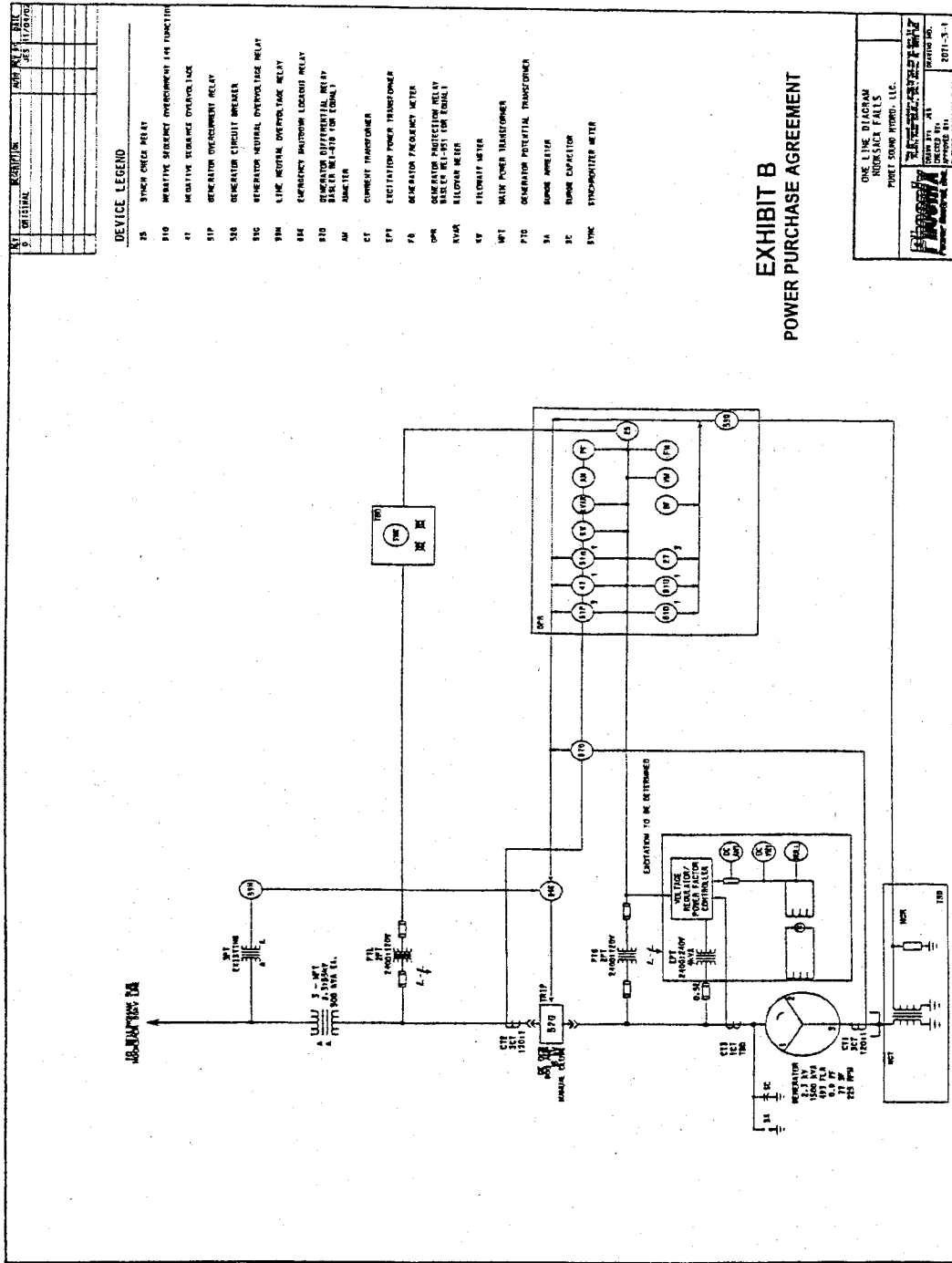


EXHIBIT B

Electrical One-Line Diagram of Facility



- DEVICE LEGEND**
- 2S SYNCH CHECK RELAY
 - 310 INHIBITIVE SEQUENCE OVERCURRENT IAS FUNCTION
 - 41 NEGATIVE SEQUENCE OVERVOLTAGE
 - 51P GENERATOR OVERCURRENT RELAY
 - 500 GENERATOR CIRCUIT BREAKER
 - 51G GENERATOR NEGATIVE OVERVOLTAGE RELAY
 - 51M LINE NEGATIVE OVERVOLTAGE RELAY
 - 51K CAPACITANT AUTOLOCKOUT RELAY
 - 510 GENERATOR OVERCURRENT RELAY
 - 51C INHIBITIVE SEQUENCE OVERCURRENT RELAY
 - AM AMMETER
 - CT CURRENT TRANSFORMER
 - TP3 EXCITATION POWER TRANSFORMER
 - 78 GENERATOR FREQUENCY METER
 - OPR GENERATOR PROTECTION RELAY
 - 51VA RELAY LOGIC OVERLOAD RELAY
 - 51W WATTMETER
 - WPT WATT POWER TRANSFORMER
 - PTO GENERATOR POTENTIAL TRANSFORMER
 - 3A SENSING AMMETER
 - 3C SENSING CAPACITOR
 - 51NC SYNCHRONIZER METER

NO.	DESCRIPTION	DATE	BY
1	ORIGINAL		
2			
3			
4			
5			
6			
7			
8			
9			
10			

ONE LINE DIAGRAM
 NOOKSACK FALLS
 PURE SOUND POWER, LLC
 PROJECT NO. 001-001
 DATE: 11/21/02
 DRAWN BY: JLS
 CHECKED BY: JLS
 APPROVED BY: JLS
 PROJECT NO. 001-001
 DATE: 11/21/02

EXHIBIT C

OPERATING PROCEDURES AND COORDINATION

The Parties hereby agree as follows:

1. Definitions

All capitalized terms not specifically defined below shall have the meaning as set forth in the Agreement for Firm Power Purchase, unless the specific application clearly indicates a different meaning.

1.1 "Dispatchers(s)" means Puget's representative or representatives responsible for monitoring and operating Puget's electric resources.

1.2 "Operator(s)" means Company's representative or representatives responsible for operating the Facility.

1.3 "Scheduled Maintenance" means the occurrence of reduced or suspended Facility operation for the purpose of performing routine or regular maintenance to the Facility. Scheduled Maintenance is distinguished from Unplanned Outages in that the duration and timing of Scheduled Maintenance can be reasonably forecasted.

1.4 "Unplanned Outage" means the occurrence of a reduction or suspension of the electrical output from any Unit or Units in response to an abnormal operating condition.

2. Designation of Operating Representatives

2.1 Puget shall notify Company of designated Dispatchers. Company shall notify Puget of designated Operators. The Dispatchers and Operators so designated shall be authorized to administer the terms of this Exhibit C. Each Party shall notify the other of any changes to operating representatives.

2.2 Each Party shall maintain a 24-hour telephone number that can be used to contact operating representatives designated under this Exhibit C. Each Party shall notify the other of any changes to the telephone number.

3. Notification

Notification under this Exhibit shall be by telephone or telecopy unless explicitly stated otherwise for a particular application. Prior notification of an event or situation to be made by Company to Dispatcher pursuant to this Exhibit C shall be given to Dispatcher a reasonable amount of time in advance of such event or situation.

4. Prescheduling

Unless otherwise agreed to by the Parties, prior to 9:00 a.m. local time on each business day, Company shall notify the Dispatcher of hourly estimates of Facility generation for the next seven (7) succeeding days and scheduled operation in accordance with Section 5 of this Exhibit. Company shall also provide prompt updates to the Dispatcher should such estimates change.

5. Outages

5.1 Scheduled Maintenance

(a) **Submittal of Proposed Scheduled Maintenance.** At least sixty (60) days prior to the commencement of each calendar year, Company shall submit to Puget in writing a proposed forecast of Scheduled Maintenance for such calendar year and the six months immediately following such calendar year. In such proposed forecast, Company shall endeavor to confine Scheduled Maintenance to the months of May and June or as otherwise directed by Puget. Such proposed forecast shall set forth the reason, timing, expected duration, and impact upon Facility output, and the scheduling flexibility of each Scheduled Maintenance.

(b) **Review of Proposed Scheduled Maintenance.** Puget shall have thirty (30) days to review the proposed forecast of Scheduled Maintenance. Following this review, Puget may submit in writing to Company comments and suggested starting dates for Scheduled Maintenance.

(c) **Final Forecast of Scheduled Maintenance.** Following good faith consideration of Puget's suggested timing of Scheduled Maintenance, the Company will establish the final forecast of Scheduled Maintenance and send such written forecast to Puget prior to the commencement of the calendar year. Such final forecast shall confine Scheduled Maintenance to the months of May and June, unless Puget reasonably requests otherwise.

(d) **Updates to Forecast.** Company shall notify Puget of any change to the Scheduled Maintenance forecast as soon as practicable.

(e) **Notification to Puget.** Not less than seven (7) days prior to a Scheduled Maintenance, the Operator shall notify the Dispatcher of the timing, expected duration and the impact upon the Facility output. Prior to reducing the Facility output for a Scheduled Maintenance, the Operator shall notify the Dispatcher of the latest information regarding the timing, the rate at which the Facility will be removed, or ramped down, from service, expected duration and the impact upon Facility output. During the Scheduled Maintenance, the Operator shall notify the Dispatcher of any changes to the expected duration of the Scheduled Maintenance outage as soon as practicable.

(f) **Start-up.** Company shall notify the Dispatcher prior to returning the Facility to service following a Scheduled Maintenance outage. Such notification shall include the timing of the start-up and the rate at which the Facility will be returned, or ramped up, to service.

5.2 Unplanned Outage

(a) **Notification to Puget.** As soon as practicable after the occurrence of an Unplanned Outage or the need for an Unplanned Outage becomes known, the Operator shall notify the Dispatcher, to the extent information is available, of the reason, timing, expected duration and the impact upon Facility output of each Unplanned Outage.

(b) **Updates.** During an extended Unplanned Outage, the Operator shall notify the Dispatcher of any changes to the expected duration of the outage as they become known.

(c) **Start-up.** Company shall notify the Dispatcher prior to returning the Facility to service following an Unplanned Outage. Such notification shall include the timing of the start-up and the ramp up rate of that portion of the Facility returning to service. In the event Company is able to initiate an immediate restart following an Unplanned Outage, Company shall notify Dispatcher of the above information as soon as practicable.

5.3 Outage Reports

Puget may from time-to-time request a report of the cause of any Facility outage and the actions taken by Company to correct the situation.

INTERCONNECTION AND PARALLEL OPERATION AGREEMENT

This INTERCONNECTION AND PARALLEL OPERATION AGREEMENT (this "Agreement") dated as of November __, 2002, is entered into by and between Puget Sound Hydro, LLC, a Washington limited liability company ("Customer"), and Puget Sound Energy, Inc., a Washington corporation ("PSE"). Each of Customer and PSE is sometimes referred to in the singular in this Agreement as "Party"; both of Customer and PSE are sometimes referred to in the plural in this Agreement as "Parties."

Recitals

A. Contemporaneous with the execution of this Agreement, Customer is executing a Real Estate Purchase and Sales Agreement with PSE for approximately sixty-six (66) acres of real property (the "Private Lands") near the town of Glacier in Whatcom County, Washington, as specified in Exhibit A (the "Location") on which it intends to operate the electrical generation equipment consisting of existing Nooksack Falls Hydroelectric Project and related facilities and equipment, as specified in Exhibit A (collectively, the "Facility").

B. Customer also desires to interconnect the Facility to PSE's electric system at the Location at the point indicated in the attached Exhibit A ("Point of Interconnection"), and thereafter during the Term (as defined below) to operate the Facility in parallel with PSE's electric system.

C. The United States Forest Service ("USFS") owns property adjacent to the Property and has allowed PSE to use its property for the purpose of constructing, maintaining and operating approximately seven (7) miles of 55 kV electrical transmission/distribution lines interconnecting the Facility to PSE's transmission/distribution system at PSE's Glacier substation, pursuant to a Special Use Permit, the most recent dated November 19, 1962, which permit may be from time to time renewed and/or amended (the "USFS Permit").

Agreement

The Parties, therefore, mutually agree as follows:

Section 1. Interconnection and Parallel Operation

1.1 Interconnection. Subject to the terms and provisions of this Agreement, the Facility shall during the Term be interconnected with, and, at any time the Facility

operates during the Term, operate in parallel with, PSE's electric system at the Point of Interconnection.

1.2 Facility and Interconnection Costs and Expenses.

(a) Customer shall be responsible for, and shall pay all costs and expenses incurred in connection with, the design, installation, operation, and maintenance of the Facility, including, without limitation, the interconnection of the Facility with PSE's electric system, in accordance with PSE's interconnection standards and practices, as may be revised from time to time, which as of the date of this Agreement are set forth in PSE's Interconnection Standards for Qualifying Facilities, Customer-Owned Generators and Non-Utility Generators, Document No. PSE-ET-160.5 ("PSE's Interconnection Standards"), a current copy of which is attached to this Agreement and incorporated by this reference.

(b) Customer shall reimburse PSE for all costs and expenses incurred by PSE for, or in connection, with the installation, operation, and maintenance of the interconnection of the Facility with PSE's electric system, including, without limitation, initial and future costs and expenses for engineering, reviewing plans, inspection, procurement and installation of PSE interconnection equipment, substation equipment, metering equipment and facilities. Customer shall also reimburse PSE for any and all maintenance, and repairs of the 55 kv transmission/distribution lines and support structures (including, but not limited to, tree-trimming, vegetation management, and ground work), except as such costs are to be shared as set forth in Section 1.2 (h). All costs of modification and/or replacement of the 55 kv transmission/distribution lines and support structures (including, but not limited to, tree-trimming, vegetation management, and ground work) necessary to bring them up to current industry standards and into compliance with the USFS Permit and any and all applicable laws, codes, ordinances, regulations or USFS Permit conditions, if required, shall be borne solely by Customer, pursuant to a Transmission Upgrade Plan which shall be jointly developed by PSE and Customer; provided that PSE shall provide to Customer a cost estimate and schedule prior to work initiation and Customer shall have an opportunity to comment on the modification(s) and or replacement(s). PSE shall use reasonable efforts to furnish the equipment and perform and complete the work for interconnection as described in Section III of the attached Exhibit A, subject to Uncontrollable Forces (as such term is defined in Section 11.9). Unless otherwise specified in Exhibit A or agreed to in writing by the Parties, (i) PSE shall retain ownership of all equipment and other items furnished by PSE and (ii) such equipment and other items shall constitute part of PSE's electric system for purposes of this Agreement.

(c) Customer shall reimburse PSE for all costs and expenses incurred by PSE, except as such costs are to be shared as set forth in Section 1.2 (h), for or in connection with the maintenance, amendment, and renewal of all permits (including, but not limited to, the USFS Permit as described in Section 1.2(d)), licenses, certificates, inspections, reviews, impact statements, determinations, authorizations, exceptions or any other form or review or approval given, made, done, issued or provided by any one or more governmental authorities with jurisdiction necessary for PSE to maintain or upgrade the interconnection of the Facility. PSE shall also obtain any and all work permits, licenses and other authorizations required for PSE to maintain or upgrade the interconnection. Customer shall be responsible for and bear any costs associated with any permits, licenses and other authorizations obtained by PSE and performing any mitigation required by the permits, licenses and other authorizations, except as such costs are to be shared as set forth in Section 1.2 (h). Unless otherwise specified in Exhibit A or agreed to in writing by the Parties, PSE shall retain ownership of all permits, licenses and other authorizations.

(d) Customer shall reimburse PSE, except as such costs are to be shared as set forth in Section 1.2 (h), for any and all improvements, studies, actions, mitigation fees, removals, replacements, repairs, or any other fees, improvements or actions required by the USFS which relate to the USFS Permit, the Transmission Lines, and/or the property thereunder, in order to comply with the existing or a future USFS Permit or to amend or extend the USFS Permit or to issue a new Permit. Customer acknowledges that, notwithstanding PSE's exclusive ownership and control of such USFS permit, it is ultimately responsible for promptly satisfying any and all conditions, financial and otherwise, that the USFS may impose or request as a condition to keeping the USFS Permit in effect. Customer further acknowledges that such costs, fees and improvement work will be a significant investment of time and money and Customer is ready, willing, and able to comply with such conditions. Customer may participate in negotiations with USFS on any related matter where Customer is responsible for costs, fees and improvements. Nothing in this Section 1.2 shall be deemed to preclude Customer from exercising any legal right it may have to protest, appeal, or contest any such charges, fees, or actions required or imposed by the USFS; provided, however, that doing so does not (i) cause the USFS Permit to terminate or be revoked, or (ii) cause PSE to incur any liability whatsoever.

(e) If PSE makes any alteration, modification or other change to its electric system that requires any alteration, modification or other change to the Facility or interconnection (including, but not limited to, an upgrading of any of PSE's facilities), then the costs of such changes to the Facility or interconnection shall be borne by Customer. PSE shall use its reasonable efforts to provide Customer

reasonable advance notice of any such required changes to the Facility or interconnection and anticipated costs and schedules.

(f) Not later than thirty (30) days after receipt of PSE's invoice therefor, Customer shall reimburse PSE for all costs and expenses incurred by PSE pursuant to this Section 1.2. Any overdue reimbursement shall be made with interest accruing at the rate of twelve percent (12%) per annum calculated on the basis of a 365-day year and actual days elapsed from (and including) the date on which such reimbursement was due, to (but excluding) the date on which such reimbursement is made.

(g) The Customer shall be responsible for any and all costs associated with any upgrade or modification to PSE's electrical system (including, without limitation, any applicable transmission/distribution service line or line transformer) required, in PSE's sole determination, for interconnection of the Facility to PSE's electric system. The costs for which the Customer is responsible pursuant to this Section 1.2(e) shall be subject to credit, determined by PSE consistent with applicable Federal Energy Regulatory Commission ("FERC") rules, for use of any such upgrade or modification by customers (other than the Customer) of PSE.

(h) PSE owns and operates seven (7) miles of 55 kV electrical transmission/distribution lines interconnecting the Facility and certain other PSE customers within the Private Lands to PSE's transmission/distribution system, as described in Diagram A-1, which is attached and incorporated in this Agreement as part of Exhibit A. PSE owns a 12.5kV under built distribution line that runs approximately 1.1 miles east from PSE's Glacier substation, utilizing the same rights of way, easements, poles, and support structures as those lines serving the Facility and other customers on Private Lands. Any costs incurred pursuant to this Section of this Agreement related to this dual use 1.1 mile section of poles, structures, rights of way, USFS SUP costs and rents, easements, support structures, and operations and maintenance (e.g., tree trimming) shall be allocated between, and borne by, PSE and Customer based on each party's effective space occupancy on the pole. The total effective space shall be assumed to be 13.5 feet. Customer's use of the 55kV transmission/distribution lines equals 7.5 feet of the 13.5 feet of the effective space, so Customer's share shall be deemed to be 55.56% of the total costs for the dual use section of the poles, structures, rights of way, etc. Note, however, that Customer is solely responsible for any work in its effective space on the pole, i.e. the 55kv line, arms and insulators. From time to time (but not more frequently than once per year), PSE may, and Customer may request that PSE, recalculate the allocation of capital, operations and maintenance costs for the shared section consistent with applicable rules and regulatory standards. Similarly, if the transmission/distribution line serving

the Facility should come to serve PSE customers other than PSE customers located on Private Lands, PSE and Customer shall re-calculate equitable sharing of capital, operations and maintenance costs consistent with applicable cost allocation FERC rules.

1.3 Authorization by PSE. Customer shall not interconnect the Facility with PSE's electric system or any electric system with which PSE's electric system is interconnected, or alter or modify such interconnection, so as to deviate from the Facility Specifications set forth in Exhibit A or from PSE's Interconnection Standards, without prior written authorization from PSE, which authorization shall not be unreasonably withheld. Customer shall make any such interconnection, alteration or modification only in accordance with detailed plans, drawings and specifications approved by PSE. Such plans, drawings and specifications shall be in conformance with Good Utility Practice (as defined in Section 2.3) and with PSE's Interconnection Standards.

1.4 Equipment Removal. Upon expiration or termination of the Term or this Agreement, PSE shall have the right to disconnect the Facility and remove all equipment and other items, ownership of which is retained by PSE pursuant to this Section 1, on PSE's side of Point of Interconnection, as designated on Exhibit A.

Section 2. Disconnection

2.1 General. Each of PSE and Customer agrees to provide to the other an interconnection during the Term except to the extent that PSE or Customer accomplishes (through manual operation, automatic operation or otherwise) any disconnection, interruption, suspension or curtailment of power transmission in accordance with the terms of this Agreement.

2.2 Disconnection by PSE. PSE shall have the right at any time during the Term, in accordance with Good Utility Practice, to disconnect, interrupt, suspend or curtail any interconnection under this Agreement to the extent PSE determines or has determined in the exercise of its sole discretion that failure to do so:

- (i) may endanger any person or property or the operation of PSE's electric system (including, but not limited to, any transmission or distribution line thereof) or any electric system with which PSE is interconnected;
- (ii) may cause or contribute to imminent significant disruption of electric service (including, without limitation, material reduction in quality of service) on PSE's electric system;

- (iii) may interfere with any construction, installation, operation, use, maintenance, repair, replacement, alteration, modification, improvement, inspection or testing of, or addition to, PSE's electric system or other property owned or controlled by PSE; or
- (iv) is contrary to Good Utility Practice.

PSE shall use reasonable efforts to give Customer reasonable advance written notice of any such disconnection, interruption, suspension or curtailment and to provide Customer with the opportunity to coordinate and consult with respect to scheduling the same. PSE shall promptly notify Customer of the reasons for any such disconnection, interruption, suspension or curtailment. PSE shall use reasonable efforts to limit the duration of any such disconnection, interruption, suspension or curtailment.

2.3 Disconnection by Customer. Customer shall have the right at any time during the Term, in accordance with Good Utility Practice, to disconnect, interrupt, suspend or curtail any interconnection under this Agreement to the extent Customer determines or has determined in the exercise of its sole discretion that failure to do so:

- (i) may endanger any person or property or the operation of the Facility;
- (ii) may interfere with any construction, installation, operation, use, maintenance, repair, replacement, alteration, modification, improvement, inspection or testing of, or addition to, the Facility or other property owned or controlled by Customer; or
- (iii) is contrary to Good Utility Practice.

Customer shall use reasonable efforts to give PSE reasonable advance written notice of any such disconnection, interruption, suspension or curtailment and to provide PSE with the opportunity to coordinate and consult with respect to scheduling the same. Customer shall promptly notify PSE of the reasons for any such disconnection, interruption, suspension or curtailment. Customer shall use reasonable efforts to limit the duration of any such disconnection, interruption, suspension or curtailment.

2.4 Good Utility Practice. As used in this Agreement, "Good Utility Practice" means (a) any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the Term, or (b) in the absence of the practices, methods and acts referred to in clause (a) of this Section 2.4, any of the practices, methods and acts which, in the exercise of reasonable judgment

in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method, or act, to the exclusion of all others, but rather to be practices, methods, or acts generally accepted in the Pacific Northwest.

2.5 No Liability. Neither Party ("First Party") shall have any liability (whether arising in contract, tort, strict liability, warranty or otherwise) to the other Party for any loss or damage whatsoever arising out of any action taken by the First Party pursuant to this Section 2.

Section 3. Term and Termination

3.1 Term. The term of this Agreement (the "Term") shall commence or become effective on the date this Agreement is executed and delivered by both of the Parties and shall continue until terminated in accordance with Section 3.2.

3.2 Termination. This Agreement may be terminated as follows:

- (a) sixty (60) days after the Customer gives written notice to PSE of termination of this Agreement;
- (b) sixty (60) days after PSE gives written notice to Customer of a material change in an applicable rule or statute; or
- (c) immediately, upon
 - (i) Customer's failure to cure any default or breach under this Agreement within thirty (30) days after PSE gives written notice of the default or breach;
 - (ii) Customer's insolvency or assignment for the benefit of creditors or if Customer becomes the subject of any petition or order in bankruptcy;
 - (iii) Customer's abandonment of the Facility or failure to generate energy from the Facility in parallel with PSE's system within twelve months after completion of the interconnection;

- (iv) the termination, cancellation or expiration of any required licenses, permits and other governmental authorizations required for construction, installation and operation of the Facility as described in Section 4.3 or operation and maintenance of the transmission/distribution lines, support structures and related facilities used to interconnect PSE's system with Facility. Notwithstanding this termination provision 3.2(c)(iv), termination will not occur until after exhaustion of administrative and legal remedies and appeals, without adequate replacement of, or timely submittal and pendency of, an application for such required licenses, permits and other governmental authorizations.

3.3 Rights Cumulative. Any right or remedy available to either Party under any provision of this Agreement on account of the breach or default by the other Party is in addition to, and not in lieu of, all other rights and remedies afforded to such Party under any other provision of this Agreement, by law or otherwise on account of such breach or default.

Section 4. Governmental Authority

4.1 FERC & WUTC Filings. Subsequent to execution and delivery of this Agreement by each of the Parties, PSE shall submit this Agreement for filing to FERC and/or the Washington Utilities and Transportation Commission ("WUTC"), as PSE determines necessary in its sole discretion.

4.2 Other Requirements. This Agreement is subject to the rules, regulations, orders and other requirements, now or hereafter in effect, of all governmental regulatory authorities having jurisdiction over the Facility, this Agreement, the Parties or either of them.

4.3 Authorizations. Customer shall obtain and maintain all licenses, permits and other governmental authorizations required for construction, installation and operation of the Facility, and Customer shall, upon PSE's request, promptly submit to PSE copies of such governmental authorizations, licenses, applications and permits. This obligation on Customer includes, but is not limited to:

- (a) any license or exemption or application for same in compliance with Part I of the Federal Power Act [16 U.S.C. §§791-823b] and applicable

regulations, if Customer or FERC determines that such license or exemption is required;

(b) any applicable state requirements pertaining to construction, maintenance, and operation of dams and reservoirs, such as Chapters 90.03, 86.16, 43.21A of the Revised Code of Washington and applicable regulations, such as Washington Administrative Code Chapter 173-175;

(c) "qualifying small power production facility" status in compliance with Section 210 of the Public Utility Regulatory Policy Act (PURPA) [16 U.S.C. § 824a-3] and applicable regulations, if and to the extent Customer or FERC determines that such status is required; and

(d) exempt wholesale generator status in compliance with Section 32 of the Public Utility Holding Company Act (PUHCA) [15 U.S.C. § 79z-5a] and any applicable regulations, if Customer, FERC, or the Securities and Exchange Commission determines such status is required.

Section 5. Permits, Inspection and Metering

5.1 Permits; Access. If any equipment or facilities associated with the Point of Interconnection and belonging to a Party are, or are to be, located on the property owned or controlled by the other Party, a right to install, test, maintain, inspect, replace, repair, and operate such equipment and facilities during the Term, and to remove such equipment and facilities on that Party's side of the Point of Interconnection at the expiration of the Term (together with the right of entry to such property at all reasonable times during the Term to carry out such activities) is hereby granted to such other Party. In furtherance of this provision of access, Customer is granting PSE an easement across Private Lands as set forth in the Real Estate Purchase and Sales Agreement. Customer shall permit PSE, subject to compliance by PSE's employees and representatives with Customer's applicable standard safety requirements, to enter upon Facility premises at any reasonable time to perform such inspections of the Facility as PSE reasonably deems appropriate or desirable in its sole discretion in connection with the protection, operation, use and maintenance of PSE's electric system, without any obligation of PSE to perform any such inspections.

5.2 Inspection. During the Term, each Party ("First Party") shall, upon receipt of reasonable prior notice from the other Party ("Second Party") specifying the date and time of the visit, provide access for the Second Party's representatives to the facilities of the First Party as may be (i) reasonably necessary for such Second Party's performance of its obligations under this Agreement, (ii) permitted under Section 5.1. The Second Party shall cause its representatives to observe during any such visit all of

Section 6. Protective Apparatus

Customer shall, at no cost or expense to PSE, furnish, install, operate and maintain such control and protective apparatus as are acceptable to PSE (and consistent with PSE's Interconnection Standards) for operation of the Facility in parallel with PSE's electric system. Such apparatus shall include (but shall not be limited to) switching or other equipment capable of isolating the Facility from PSE's electric system (including, but not necessarily limited to, a lockable disconnect switch, capable of isolating the Facility from PSE's electric system). Customer shall make fully accessible to PSE at all times, subject to compliance by PSE's employees and representatives with the Customer's applicable standard safety requirements, such switching or other equipment, and PSE shall have the right, pursuant to Section 2.1, to lock such disconnect switch or other equipment open whenever PSE, in its sole discretion, deems it necessary or appropriate to maintain safe electrical operating conditions, or whenever Customer's equipment or facilities adversely affect PSE's system.

Section 7. Operation of Equipment

7.1 Customer's Responsibility. Customer shall be fully responsible for operation of the equipment described in Section 6.

7.2 Discretionary Operation. PSE may, in its sole but reasonable discretion, and consistent with Good Utility Practice, at any time operate the equipment described in Section 6, (a) to disconnect the Facility from PSE's electric system upon expiration or termination of this Agreement or the Term or (b) pursuant to Section 2 to disconnect PSE's electric system from the Facility or to interrupt or reduce the flow of energy to or from the Facility.

7.3 PSE's Responsibility. PSE shall be fully responsible for operation and maintenance of all interconnection equipment other than the equipment described in Section 6. PSE shall operate and maintain such equipment in accordance with Good Utility Practice.

Section 8. Operation, Maintenance and Modification by Customer

Customer shall operate and maintain the Facility in accordance with (a) Good Utility Practice, (b) PSE's safety and reliability standards made available to the Customer from time to time, (c) applicable laws, regulations and codes, including, without limitation, the National Electric Safety Code, and (d) policies, standards, and reliability criteria of the Western Electricity Coordinating Council and the North American Electric Reliability Council, or their successor organizations. Customer

shall not modify any part of the Facility related to the interconnection of the Facility with PSE's electric system without the express prior written consent of PSE, which consent shall not be unreasonably withheld.

Section 9. Limitations of Liability; Insurance

9.1 Responsibility. PSE shall have no liability or responsibility, and Customer shall have full responsibility, for the ownership, operation, use and maintenance of the Facility (whether by Customer, any of Customer's assignees, contractors or suppliers of any tier, or any other person or entity) notwithstanding any:

- (a) review, approval, consent, advice, recommendation, authorization, notice, inspection, test or other act by PSE;
- (b) failure or delay by PSE to review, approve, consent, advise, recommend, authorize, notify, inspect, test, disconnect or perform any act; or
- (c) knowledge or information of PSE.

No review, approval, consent, advice, recommendation, authorization, notice, inspection, test or other act by PSE regarding the ownership, operation, use or maintenance of the Facility or the delivery of energy from the Facility to PSE's electric system shall constitute or be interpreted or construed as, or be relied upon or held out by Customer or any other person or entity as, any warranty, representation or endorsement by PSE.

9.2 Insurance; Waiver of Claims.

(a) Notwithstanding anything contained in Section 9.3 to the contrary, and subject to clause (iii) of the last sentence of Section 9.3, Customer shall maintain policies of insurance, in form and substance reasonably satisfactory to PSE, protecting PSE and its Affiliates (as defined in Section 11.12) and their respective directors, officers, employees and agents as additional insureds, from claims, damages and expenses involving personal injury (including death) or property damage that result from the construction, installation, operation or maintenance of the Facility and from the interconnection or disconnection of the Facility. Customer shall provide a true and correct copy of any such insurance policies and endorsements thereof and of broker's report of insurance upon PSE's request therefor. Customer's obligation to procure and maintain insurance under this Agreement shall be satisfied in full by its procurement and maintenance of the types and amounts (and with the characteristics of such insurance) set forth in the attached Exhibit B.

(b) Customer waives, and shall require each of its insurers to waive, all rights of recovery and claims of any kind, including any rights and claims to which its insurers or any other party may be subrogated, against PSE arising out of or related to:

(i) the construction, installation, operation or maintenance of the Facility;

(ii) the interconnection of the Facility with PSE's electric system, the disconnection of the Facility from PSE's electric system or the interruption or reduction of flow of energy from the Facility, or failure to do any of the foregoing; or

(iii) any act or omission by Customer related to the construction, installation, operation or maintenance of the Facility that results in any claim, damage, loss or expense to PSE.

9.3 Release By PSE. PSE hereby releases Customer from any and all claims, losses, harm, liabilities, damages, costs and expenses to the extent resulting from any:

(a) operation of the Facility in parallel with PSE's electric system;

(b) electric disturbance or fluctuation that migrates, directly or indirectly, from the Facility to PSE's electric system;

(c) interruption, suspension or reduction of delivery of power from the Facility to PSE's electric system or of the interconnection between PSE's electric system and the Facility, regardless of whether such interruption, suspension or reduction is caused or contributed to by PSE's electric system or the interconnection of PSE's electric system with the Facility; or

(d) disconnection, interruption, suspension or curtailment by Customer pursuant to this Agreement.

The foregoing release shall not be effective (i) with respect to any claims by, harm or liabilities to, or losses, damages, costs or expenses of any third party, (ii) to the extent any claims, losses, harm, liabilities, damages, costs and expenses (A) are the result of Customer's negligence or willful misconduct or (B) arise under any other agreement between the Parties, or (iii) with respect to any claims, losses, harm, liabilities, damages, costs and expenses covered by the insurance required to be maintained by Customer pursuant to Section 9.2.

9.4 Release By Customer. Customer hereby releases PSE from any and all claims, losses, harm, liabilities, damages, costs and expenses to the extent resulting from any:

- (a) operation of the Facility in parallel with PSE's electric system;
- (b) electric disturbance or fluctuation that migrates, directly or indirectly, from or through PSE's electric system to the Facility;
- (c) interruption, suspension or reduction of the interconnection between PSE's electric system and the Facility regardless of whether such interruption, suspension or reduction is caused or contributed to by the Facility or the interconnection of the Facility with PSE's electric system; or
- (d) disconnection, interruption, suspension or curtailment by PSE pursuant to this Agreement.

The foregoing release shall not be effective (i) with respect to any claims by, harm or liabilities to, or losses, damages, costs or expenses of any third party or (ii) to the extent any claims, losses, harm, liabilities, damages, costs and expenses (A) are the result of PSE's negligence or willful misconduct or (B) arise under any other agreement between the Parties.

9.5 Indemnity.

(a) To the maximum extent permitted by applicable law (and consistent with the provisions of RCW 4.24.115 if and as applicable), Customer shall defend, indemnify and hold harmless each, any and all of PSE, its successors and assigns, and the respective directors, officers, employees, and representatives of PSE, its successors and assigns (collectively, the "Indemnitees") from and against any and all allegations, claims, demands, harms, liens, losses, costs, damages and expenses (including, but not limited to, reasonable attorneys' fees) brought or incurred by any third party and any liabilities to such third party directly or indirectly arising from or in connection with any and all of the following: (i) the performance by each party hereto of its obligations under this Agreement; (ii) the design, construction, installation, operation or maintenance of the Facility; (iii) the interconnection or disconnection (or delay or failure to do so) of the Facility and PSE's electric system, or (iv) any act or omission by PSE, its directors, officers, employees, agents or representatives. Notwithstanding the provisions of this Section 9.5(a), no Indemnitee shall be indemnified hereunder for its loss, liability, damage, claim, cost, charge, demand, or expense to the extent resulting from such Indemnitee's negligence or willful misconduct.

(b) In connection with any action to enforce this Section 9.5, Customer hereby waives any immunity, defense, or protection under any workers' compensation, industrial insurance or similar laws (including, but not limited to, the Washington Industrial Insurance Act, Title 51 of the Revised Code of Washington). This Section 9.4(b) was mutually negotiated by the Parties:

Initialed by:

Customer

PSE

9.6 LIMITATION OF DAMAGES. EXCEPT TO THE EXTENT NECESSARY TO SATISFY CUSTOMER'S LIABILITY TO PSE UNDER SECTION 9.5 FOR ALLEGATIONS, CLAIMS, DEMANDS, HARMS, LIENS, LOSSES, COSTS, DAMAGES AND EXPENSES (INCLUDING, BUT NOT LIMITED TO, REASONABLE ATTORNEYS' FEES) BROUGHT OR INCURRED BY ANY THIRD PARTY AND ANY LIABILITIES TO SUCH THIRD PARTY, NEITHER PARTY, ITS DIRECTORS, MEMBERS OF ITS GOVERNING BODY, OFFICERS, EMPLOYEES OR LEGAL REPRESENTATIVES, SHALL BE LIABLE TO THE OTHER PARTY FOR ANY LOSS OF EARNINGS OR REVENUES, PERSONAL INJURY, OR ANY OTHER INDIRECT, INCIDENTAL, SPECIAL,

PUNITIVE, EXEMPLARY OR CONSEQUENTIAL DAMAGES OR INJURY WHICH MAY OCCUR OR RESULT FROM THE PERFORMANCE OR NON-PERFORMANCE OF THIS AGREEMENT, EVEN IF THE PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

9.6 Applicability. The provisions of this Section 9 shall apply to the maximum extent permitted by applicable law.

Section 10. Information

Customer shall promptly furnish PSE with copies of such plans, specifications, records and other information related to the condition, operation, use, ownership, repair or maintenance of the Facility, as may be reasonably requested by PSE from time to time. All such information, together with all other documents and information furnished to PSE under this Agreement, shall be given to PSE on a nonconfidential basis, except that PSE shall use reasonable efforts not to disclose to third parties any confidential or proprietary information or documents furnished by Customer pursuant to this section if and to the extent such information and documents are conspicuously marked as confidential or proprietary when furnished. The foregoing nondisclosure obligations shall not apply to (a) any information or documents that are generally available to the public, known to PSE prior to receipt from Customer, or acquired from a third party without a requirement of protection, (b) any use or disclosure required by any law, rule, regulation, order or other requirement of any governmental authority having jurisdiction, (c) any disclosure to the Washington Utilities and Transportation Commission with a request for confidential treatment pursuant to WAC 480-09-015, (d) any disclosure to FERC with a request for confidential treatment, or (e) any use that is necessary to carry out PSE's obligations under this Agreement. All other information and documents furnished by Customer under this Agreement shall be furnished on a non-confidential basis.

Section 11. Miscellaneous

11.1 Restrictions on Transfer.

Customer shall not make or permit any Transfer, except as follows:

- (a) to PSE;
- (b) as security for any indebtedness incurred by Customer to finance the Facility, provided that upon any Transfer, the person or entity acquiring the interests subject to any such Transfer agrees, upon exercising any rights in or to the Facility or in or under this Agreement, to (i) assume, or to be otherwise

bound to perform, and (ii) if such transferee subsequently sells, assigns or transfers any of its rights in or to the Facility or in or under this Agreement, to cause to be assumed and performed by any subsequent transferee, on a recourse basis, all of Customer's obligations under this Agreement, and provided, further, that such person or entity and such subsequent transferee, if any, shall be financially responsible and shall be skilled and experienced in the operation of a hydroelectric generation facility; or

(c) to any other person or entity with the written consent of PSE, which consent shall not be unreasonably withheld, provided that such other person or entity assumes, or is otherwise bound to perform or to cause to be performed, all of Customer's obligations under this Agreement, as if such other person or entity were an original party to this Agreement, and provided, further, that such other person or entity shall be financially responsible and shall be skilled and experienced in the operation of a hydroelectric generation facility.

11.2 Notices. Any notice, request, authorization, direction or other communication under this Agreement shall be given in writing (a) by personal delivery, (b) by recognized overnight air courier service, (c) by first-class U.S. mail, properly addressed and stamped with the required postage, or (d) by facsimile transmission, using facsimile equipment providing written confirmation of successful completed transmission to the receiving facsimile number. All notices to either Party shall be made to the address set forth below:

If to PSE:

Puget Sound Energy, Inc.
10608 N.E. 4th Street
Bellevue, Washington 98004-5028
Attn: Manager of Transmission
Contracts and OASIS Trading
Tel. (425-462-3706)
FAX (425-462-3344)

If to Customer:

Puget Sound Hydro, LLC
P.O. Box 1432
Lewiston, Idaho 83501
Attn: Arch Ford, Manager
Tel. (208) 743-2200
FAX (208) 743-7319

Either Party may change its address specified above by giving the other Party written notice of such change in accordance with this section. All notices, requests, authorizations, directions and other communications by a Party shall be deemed delivered when received by the other Party.

11.3 Independent Contractor. Customer shall be and act as an independent contractor (and not as an employee, partner, agent or representative of PSE) in the performance of this Agreement. This Agreement shall not be interpreted or construed to create an association, joint venture or partnership between the Parties or to impose any partnership obligations or liability upon either Party. Further, neither Party shall have any right, power or authority to enter into any agreement or undertaking for or on behalf of, to act as or be an agent or representative of, or to otherwise bind the other Party.

11.4 Governing Law. This Agreement shall in all respects be interpreted, construed and enforced in accordance with the laws of the State of Washington, without reference to such state's choice of law principles to the contrary, except to the extent such laws may be preempted by the laws of the United States of America.

11.5 Survival. Sections 1, 9, 10 and 11 of this Agreement (and all other provisions of this Agreement that may reasonably be interpreted or construed as surviving the completion, cancellation or termination of this Agreement) shall survive the completion, cancellation or termination of this Agreement.

11.6 No Third-Party Beneficiaries. Nothing in this Agreement shall be interpreted or construed to create any duty, obligation or liability to, or any standard of care with reference to any person or entity, other than the Parties (and their respective successors and assigns), subject to Section 11.1. Except as specifically provided in Section 9.4 with respect to the directors, employees, agents and legal representatives of either Party, there are no third-party beneficiaries of this Agreement.

11.7 Further Action. Each Party shall take such action (including, but not limited to, the execution, acknowledgment and delivery of documents) as may be reasonably requested by the other Party for implementation or continuing performance of this Agreement, including, but not limited to appearances by Customer and compliance with discovery associated with necessary approvals of this agreement, if any, as contemplated under Section 4.1.

11.8 No Waiver. No failure or delay of either Party to insist upon or enforce strict performance by the other Party of any provision of this Agreement or to exercise any other right under this Agreement, and no course of dealing or performance with respect thereto, shall be interpreted or construed as a waiver or relinquishment to any

extent of such Party's right to assert or rely upon any such provision or right in that or any other instance; rather, the same shall be and remain in full force and effect. The express waiver by either Party of any right or remedy under this Agreement in a particular instance or circumstance shall not constitute a waiver thereof in any other instance or circumstance.

11.9 Uncontrollable Forces. Neither Party shall be considered to be in breach of this Agreement on account of any failure to perform as required by this Agreement if such failure is the result of Uncontrollable Forces. The term "Uncontrollable Forces" means any cause or condition which by the exercise of due diligence the Party failing to perform could not reasonably have been expected to avoid and which by the exercise of due diligence that Party has been unable to overcome, including, but not limited to, the following: emergency or electrical disturbance on or transmitted through a Party's electrical system or any electrical system with which a Party is directly or indirectly interconnected; failure or threat of failure of equipment or facilities; flood, earthquake, volcanic activity, wind, storm, drought, fire, pestilence, lightning and other natural catastrophes; epidemic, war, riot, civil disturbance or disobedience, sabotage, vandalism, terrorism, strike, lockout, labor disturbance or material shortage; government priorities; restraint by court order or public authority; action or inaction by any governmental regulatory authority; inability to obtain necessary authorizations or approvals from any governmental regulatory authority; or compliance with a directive issued by the Pacific Northwest Security Coordinator. Nothing in this Section 11.9 shall be interpreted or construed as requiring a Party to settle any strike, lockout or labor dispute in which it may be involved, or to accept any permit, certificate, contract or any other agreement or authorization necessary for the performance of this Agreement, which contains terms and conditions which a Party in good faith determines are unduly burdensome or otherwise unacceptable.

11.10 Section 205. Nothing contained in this Agreement shall be interpreted or construed as affecting in any way (a) the right of PSE to unilaterally make application to FERC for a change in rates, terms and conditions, charges, classification of service, this Agreement, rule or regulation under Section 205 of the Federal Power Act and pursuant to FERC's rules and regulations promulgated thereunder, or (b) either Party's right to exercise its rights under the Federal Power Act or pursuant to any rules and regulations of a commission with jurisdiction.

11.11 Entire Agreement. This Agreement constitutes the entire agreement of the Parties with respect to the subject matter hereof and all other agreements and understandings of the Parties, whether written or oral, with respect to the subject matter of this Agreement are hereby superseded in their entireties.

11.12 Affiliates. For the purposes of this Agreement, "Affiliates" shall mean, when used with reference to a specified Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the Person specified. For the purposes of the foregoing, "Person" shall mean any individual, partnership, corporation, limited liability company, association, business, trust, government or political subdivision thereof, governmental agency or other entity; and "control", "controlled by" and "under common control with" with respect to any Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, partnership interests or by contract or otherwise.

11.13 Severability. In the event that any provision of this Agreement or the application of any such provision shall be held invalid as to either Party or any circumstance by any court having jurisdiction, such provision shall remain in force and effect to the maximum extent provided by law, and all other provisions of this Agreement and their application shall not be affected thereby but shall remain in force and effect unless such court holds that they are inseverable from the invalid provision.

11.14 Disputes. The Dispute Resolution Procedures set forth in Section 12 of PSE's Open Access Transmission Tariff (as in effect from time to time) shall apply to all disputes arising under this Agreement.

PUGET SOUND HYDRO, LLC

PUGET SOUND ENERGY, INC.

By: _____

By: _____

Title: Manager

Title: Manager of Transmission Contracts and
Oasis Trading

Date signed: _____

Date signed: _____

Exhibit A

Description of Customer's Facility

I. General Information

Name: Puget Sound Hydro, LLC
Mailing address: PO Box 1432
Lewiston, Idaho 83501
Service address: _____
Telephone Number: 208 743 2200

B. Facility Operator Data (if applicable)

Name: Jason Hines
Address: 1000 Harris Ave., Ste. 16
Bellingham, WA 98225
Telephone Number: 360 734 4525 (office) 360-961-5429 (cell)

C. Consultant Data (if applicable)

Name: Not Applicable
Address: _____
Telephone Number: _____
Registered
Engineering Number: _____

D. Facility Location

Service address: Within a sixty-six acre parcel of land owned by Customer and located in SE ¼ Section 31, Township 40 North, Range 8 East. Approximately seven miles east of town of Glacier on SR 542. (See attached Diagram A-1.)

E. Point of Interconnection

Connection to PSE's Electric System is at PSE's Nooksack substation located within Facility property near the power house. The point of interconnection is on the low-side of 2.3-kv/55-kv transformer at switch H400, see attached Diagram A-2.

II. Facility Specifications

A. Prime Mover

Type:	<u>Hydroelectric</u>
Expected Electrical	<u>1.5 megawatt</u>
Energy Output:	<u>Estimated 13 GWh</u>

B. Turbine

Manufacturer:	<u>Pelton Water Wheel Company</u>
Type or Style:	<u>Single horizontal Pelton Water Turbine</u>
Nameplate Data:	<u>3200 HP</u>

C. Generator

Type:	<u>Synchronous</u>
Manufacturer:	<u>Electric Machinery Manufacturing Company</u>
Type or Style:	<u>C Pedestal Frame C-93</u>
Nameplate Data:	
Voltage:	<u>2,300 Volts Frequency: 60 Hertz</u>
Maximum KW Output:	<u>1500 KW (which may be significantly increased by adding forced air cooling and Class H insulation)</u>
Operating Power Factor:	<u>1.0</u>
Regulator (if regulated):	<u></u>

D. Synchronous Inverter (Solar Cell or DC Generator)

Not applicable.

E. Protection Equipment

List relay manufacturer, type and trip setting used to monitor each of the following:

Overcurrent:	(2) Basler BE1-951 multipurpose relay containing 51P and 51N overcurrent elements. Relay trip will be set to PSE standards.
Frequency:	(2) Basler BE1-951 multipurpose relays containing both 81O and 81U over and under frequency elements. Relay trip will be set to PSE standards.
Voltage:	(2) Basler BE1-951 multipurpose relays containing 59 and 27 phase overvoltage and undervoltage elements. Relay trip will be set to PSE standards

Describe the protection against backfeeding into a de-energized Puget Sound Energy power system. Include manufacturer, type and trip setting of relays.

(2) Basler BE1-951 multipurpose relays and (2) Basler 87G relays provide protective functions in the event of PSE line failure/islanded operation. Once off-line, the station will not be capable of black start onto a de-energized line. The BE1-951's 25 sync check element also provides dead-line/dead-bus voltage monitor logic

Describe location, manufacturer and type of Lockable Disconnect Switch or similar equipment.

(2) Basler BE1-951 multipurpose relays and (2) Basler 87G relays provide protective functions in the event of PSE line failure/islanded operation. Once off-line, the station will not be capable of black start onto a de-energized line. The BE1-951's 25 sync check element also provides dead-line/dead-bus voltage monitor logic

F. Other Information (if applicable)

G. Facility Diagram

See attached Diagram A-3.

III. Company Equipment and Work for Interconnection

PSE shall use reasonable efforts to furnish equipment and perform work for interconnection as follows (the estimated cost and completion dates of which are as set forth below):

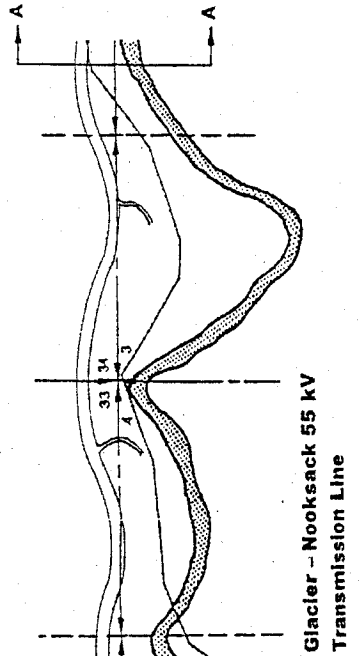
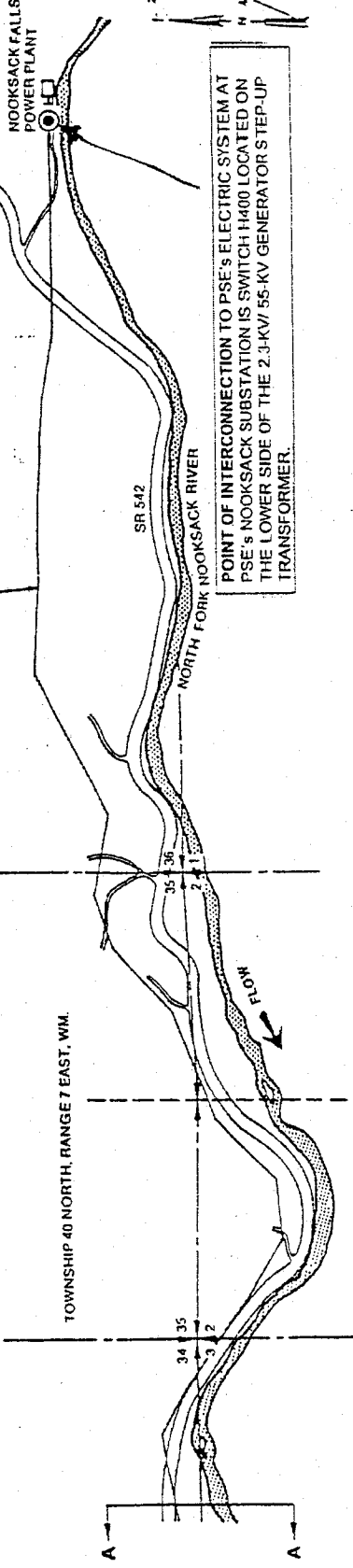
	<u>Estimated</u> Costs; Prior to Commercial Operations Date	<u>Estimated</u> Costs to be incurred during the next five-years
Vegetation Management	\$6,000	\$30,000
Line Maintenance (Immediate – arms, insulators, down guys; within 5 years -- 5 poles at 100%, 5 poles at 55%)	25,000	\$75,000
Telecommunications to Glacier Sub	\$15,000 +	\$300 per month
CT's, PT's, AGC Metering	\$65,000 based on new units \$35,000	
Nooksack Substation Re-Activation with PSE current transformer	\$ 10,000 50,000	\$100,000
Nooksack Substation Rebuild. [PSE may utilize a PSE surplus transformer; if not, PSE will procure a used transformer or rewind at Customer's expense]		\$100,000 with used transformer
Transmission System Upgrades	None	
None Required		
<u>Grand Total</u>	\$121,000	\$ 205,000 with used transformer 100,000

Assumptions:

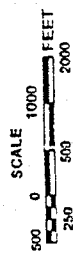
1. Price based on using new CT's & PT's (PSE will attempt to locate surplus units)
2. Nooksack Substation Re-build in 2003 assumes existence of a used PSE surplus transformer and minor substation upgrades to bring up to current standards.
3. 2003 Nooksack Substation Re-build will be at 55 kV.
4. Above estimates do not include any costs to meet USFS SUP requirements or other government requirements.

DIAGRAM A-1
NOOKSACK FACILITY LOCATION, POINT
OF INTERCONNECTION, AND GLACIER
AND NOOKSACK SUBSTATIONS

Glacier - Nooksack 55 kV
Transmission Line



TOWNSHIP 39 NORTH, RANGE 7 EAST, WM.



--- 12.5 kV DISTRIBUTION LINE
— 55 kV TRANSMISSION LINE

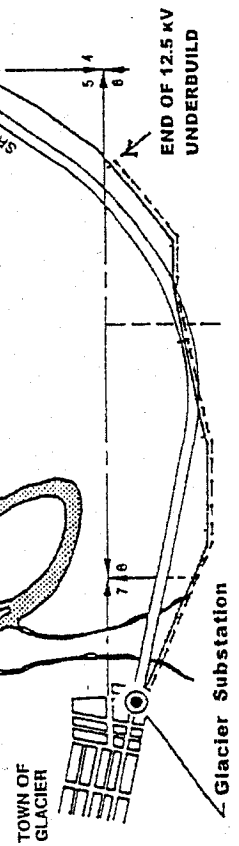


Exhibit B

Insurance Requirements

1.1 Requirement and Coverages. Customer shall, at all times during the Term, procure and maintain the types and amounts of insurance as set forth in this Section 1.1 with insurance carriers having an A.M. Best rating of A-, VIII or better.

1.1.1 Commercial General Liability Insurance. Commercial General Liability insurance with a combined single limit of not less than Two Million Dollars (\$2,000,000) per occurrence and in the annual aggregate. Such coverage shall include Premises/Operations, Broad Form Property Damage and Personal Injury, Products Completed Operations, Explosion, Collapse and Underground Hazards coverage, Stop Gap coverage, Broad Form Contractual Liability and Independent Contractors Liability.

The amounts of insurance required in Section may be satisfied by purchasing coverage in the amounts specified, by self-insurance acceptable to PSE, or by any combination thereof, so long as such insurance meets the requirements specified herein.

1.2 Endorsements. All policies of insurance described in Sections 1.1 to be maintained by Customer shall be written or endorsed as follows:

1.2.1 Severability. To provide a severability of interest or cross liability clause;

1.2.2 Primary Coverage. That the insurance shall be primary and not excess to or contributing with any insurance or self-insurance maintained by PSE; and

1.2.3 Additional Insured. With the exception of the insurance required under Section 1.1.1, to name PSE and its Affiliates, and their respective directors, officers, employers and agents, as additional insureds with respect to any injury or damage arising out of or related to:

(a) the construction, installation, operation or maintenance of the Facility;

(b) the interconnection of the Facility with PSE's electric system, the disconnection of the Facility from PSE's electric system., or failure to do any of the foregoing; or

(c) any act or omission by Customer related to the construction, installation, operation or maintenance of the Facility that results in any claim, damage, loss or expense to PSE.

1.3 Contractors and Subcontractors. Customer shall at all times during the Term cause every contractor or subcontractor of any tier employed by Customer to carry insurance of types and amounts necessary to cover risks inherent in the work or services being performed by such contractors or subcontractors. Coverage for completed operations under the Commercial General Liability insurance provided by the prime general contractor and its subcontractors shall remain in effect for a period of at least two (2) years following completion of the Facility. Alternatively, Customer may arrange any or all policies for such insurance on behalf of the contractors and subcontractors.

1.4 Evidence of Insurance. Within seven (7) business days of the effective date of this Agreement, as defined in Section 3.1, Customer shall furnish to PSE certificates of insurance from each insurance carrier showing that the above required insurance and endorsements are in full force and effect, the amount of the carrier's liability thereunder, and further providing that the insurance will not be canceled, materially changed or not renewed until the expiration of at least thirty (30) days after written notice of such cancellation, material change or nonrenewal has been received by PSE.

1.5 Waiver of Subrogation. Customer hereby agrees to waive on behalf of its insurers for the benefit of PSE, with respect to the insurance required under Section 1.1, all rights of subrogation against PSE and its Affiliates and their respective directors, officers, employees or agents, for payment under such policies.

STATION SERVICE AGREEMENT

This STATION SERVICE AGREEMENT (this "Agreement") dated as of November __, 2002, is entered into by and between Puget Sound Hydro, LLC, a Washington limited liability company ("Customer"), and Puget Sound Energy, Inc., a Washington corporation ("PSE"). Each of Customer and PSE is sometimes referred to in the singular in this Agreement as "Party"; both of Customer and PSE are sometimes referred to in the plural in this Agreement as "Parties."

Recitals

A. Contemporaneous with the execution of this Agreement, Customer is executing a Real Estate Purchase and Sales Agreement with PSE for approximately sixty-six (66) acres of real property (the "Private Lands") near the town of Glacier in Whatcom County, Washington, on which it intends to operate the electrical generation equipment consisting of existing Nooksack Falls Hydroelectric Project and related facilities and equipment, as specified in Exhibit A (collectively, the "Facility").

B. Customer also contemporaneously executing an Interconnection and Parallel Operation Agreement ("Interconnection Agreement") in order interconnect the Facility to PSE's electric system at the Location at the point indicated in the attached Exhibit A ("Point of Interconnection"), and thereafter during the term of that agreement to operate the Facility in parallel with PSE's electric system.

C. Customer intends to operate Facility as a "qualifying small power production facility" in compliance with Section 210 of the Public Utility Regulatory Policy Act (PURPA) [16 U.S.C. § 824a-3] and applicable regulations, and is entering into Power Purchase and Sales Agreement for the sale of the Facility's electrical generation output to PSE.

D. Customer desires to obtain Station Service (as that term is defined below) from PSE for use at the Facility according to the terms set forth herein.

Agreement

1. **Tariff.** The Company agrees to provide, and Customer agrees to purchase, Station Service under the rates, terms and conditions of Schedule 31, as it may be revised from time to time.
2. **Other Schedules.** Schedule 31 is incorporated herein by this reference. This Service Agreement is also subject to the General Rules and Provisions as set forth in Schedule 80 (and is subject to other schedules of Electric Tariff G that may apply) as such schedules may be revised from time to time. Any conflict between this Service Agreement and the Company's Electric Tariff G schedules shall be resolved in favor of the Company's Electric Tariff G schedules.
3. **Station Service.** "Station Service" means the provision of: (1) maintenance power during scheduled outages of the Facility and (2) back-up power during unscheduled outages of the Facility. Station Service power requirements shall be limited to the total

electrical power requirements of the Facility's equipment, heating, and lighting necessary for the operations and maintenance of the Facility. All other retail loads that may be established on Private Lands will be served by PSE independently of Station Service for Facility as new retail customers pursuant to the then applicable rate schedules.

4. **Metering.** Metering necessary for Station Service will be provided by the metering set forth and required under the Interconnection Agreement, until such time as additional retail loads are located and connected to the Nooksack substation. In the event that additional retail loads are located and connected to the Nooksack substation, PSE may require additional metering and telecommunications equipment for the provision of Station Service, the cost of which will be borne by Customer. PSE may also require separate metering and telecommunications equipment for the additional retail loads connected to the Nooksack substation, the costs of which will be borne by the new customers (rather than Customer) as set forth in PSE's Electric Tariff G.
5. **Equipment.** Equipment (lines, substation, rights of way, and associated operations and maintenance) necessary for Station Service will be provided using the equipment set forth and required pursuant to the Interconnection Agreement. PSE reserves the right to require additional equipment, the cost of which will be borne by Customer, in the event that additional retail loads are located and fed off Nooksack substation.
6. **Term.** The term of this Agreement (the "Term") shall commence or become effective on the date this Agreement is executed and delivered by both of the Parties and shall continue unless terminated sooner as follows:
 - a. according to the service termination provisions set forth in PSE's Schedule 80;
 - b. immediately, upon termination of Interconnection Agreement.
7. **Other Agreements.** The Interconnection Agreement is incorporated herein by this reference.
8. **Notices.** Any notice, request, authorization, direction or other communication under this Agreement shall be given in writing (a) by personal delivery, (b) by recognized overnight air courier service, (c) by first-class U.S. mail, properly addressed and stamped with the required postage, or (d) by facsimile transmission, using facsimile equipment providing written confirmation of successful completed transmission to the receiving facsimile number. All notices to either Party shall be made to the address set forth below:

If to PSE:

Puget Sound Energy, Inc.
P.O. Box 97034
Bellevue, Washington 98004-5028
Attn: George Marshall
Tel. (425) 462-3706
FAX (425) 462-3344

If to Customer:

Puget Sound Hydro, LLC
P.O. Box 1432
Lewiston, Idaho 83501
Attn: Arch Ford, Manager
Tel. (208) 743-2200
FAX (208) 743-7319

Either Party may change its address specified above by giving the other Party written notice of such change in accordance with this section. All notices, requests, authorizations, directions and other communications by a Party shall be deemed delivered when received by the other Party.

9. **Successors and Assigns.** This Service Agreement shall be binding upon and shall inure to the benefit of the Company and Customer and their respective successors, assigns, purchasers, and transferees.
10. **Headings.** The headings in this Service Agreement are for convenience only and do not modify the substantive terms herein.

Company:

Puget Sound Energy, Inc.

By: _____

Its: _____

Date Signed: _____

Customer:

Puget Sound Hydro, LLC.

By: _____

Its: Manager _____

Date Signed: _____

Exhibit A

Description of Customer's Facility

1. Facility Location

Service address: Within a sixty-six acre parcel of land owned by Customer and located in SE $\frac{1}{4}$ Section 31, Township 40 North, Range 8 East. Approximately seven miles east of town of Glacier on SR 542. (See attached Diagram A-1 of Interconnection Agreement.)

2. Point of Interconnection

Connection to PSE's Electric System is at PSE's Nooksack substation located within Facility property near the power house. The point of interconnection is on the low-side of 2.3-kv/55-kv transformer at switch H400, see attached Diagram A-2 of Interconnection Agreement.

[LETTER FROM ARCH FORD]

December ____, 2002

Kimberly Harris
Vice President, Rates and Regulatory Policy
Puget Sound Energy, Inc.
10608 N.E. 4th Street
Bellevue, Washington 98004-5028

RE: Indemnification of Costs of Maintaining Transmission/Distribution Facilities Connected to PSE's Glacier Substation

Dear Ms. Harris:

Today, my company, Puget Sound Hydro, LLC is entering into the following agreements with PSE:

1. Real Estate Purchase and Sales Agreement for approximately sixty-six (66) acres of real property (the "Private Lands") near the town of Glacier in Whatcom County, Washington, on which Puget Sound Hydro, LLC intends to operate the electrical generation equipment consisting of existing Nooksack Falls Hydroelectric Project and related facilities and equipment ("Facility");
2. Interconnection and Parallel Operation Agreement ("Interconnection Agreement") in order interconnect the Facility to PSE's electric system at the Location at the Point of Interconnection through Nooksack Substation to Glacier Substation, and thereafter during the term of that agreement to operate the Facility in parallel with PSE's electric system;
3. Power Purchase and Sales Agreement in which Puget Sound Hydro, LLC agrees to operate Facility as a "qualifying small power production facility" in compliance with Section 210 of the Public Utility Regulatory Policy Act (PURPA) and sell the Facility's electrical generation output to PSE; and
4. Station Service Agreement pursuant to which PSE will provide retail station service for use at the Facility.

As further consideration for these arrangements, I am writing to memorialize my understanding that these agreements do not address the necessary legal and commercial arrangements that will be required by PSE in order to serve any additional retail loads (other than requested Station Service to Facility) connected to the transmission/distribution facilities from Glacier substation to the Point of Interconnection in the future. I acknowledge that if I, any companies that I am or may become affiliated with, or assignees and successors thereof, request retail service for new loads to be served by PSE through transmission/distribution facilities from Glacier substation to the Point of Interconnection, those new retail loads will be served independently under PSE's then applicable rate schedules, terms, and conditions.

Further, I acknowledge that PSE is re-energizing transmission/distribution facilities from Glacier substation to the Point of Interconnection for the primary purpose of interconnecting with and serving Facility. As a result, Puget Sound Hydro, LLC has agreed to bear costs associated with transmission/distribution facilities from Glacier substation to the Point of Interconnection, as set forth in Section 1.2 of the Interconnection Agreement.

In the event that (a) I, any companies that I am or may become affiliated with, or assignees and successors thereof, locate new loads and request retail service from PSE via transmission/distribution facilities from Glacier substation to the Point of Interconnection, and (b) the Interconnection Agreement is terminated, I acknowledge and agree that the new retail loads will bear the cost responsibility for associated transmission/distribution facilities from Glacier substation to the Point of Interconnection set forth in Section 1.2 of the Interconnection Agreement. On behalf of any companies that I am or may become affiliated with that locate new loads and request retail service from PSE via transmission/distribution facilities from Glacier substation to the Point of Interconnection, I also agree to indemnify PSE for such costs until such time as such costs are included in PSE's retail rate base, if ever, at PSE's discretion and subject to approval by the Washington Utilities and Transportation Commission (WUTC).

Very truly yours,

Arch Ford

REAL ESTATE PURCHASE AND SALE AGREEMENT

THIS AGREEMENT is made and entered into this ____ day of December, 2002, by and between PUGET SOUND ENERGY, INC., a Washington corporation ("Seller"), and PUGET SOUND HYDRO, LLC, a Washington limited liability company ("Buyer"). In addition, portions of this Agreement are made and entered into by and between Seller and ARCH FORD, an individual ("Ford"), but only with respect to certain provisions of this Agreement. Ford is not the Buyer under this Agreement.

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller and Buyer agree as follows:

1. **Purchase and Sale -- Property Description.** Subject to the terms and provisions of this Agreement, Seller agrees to sell to Buyer, and Buyer agrees to purchase from Seller, the real property legally described on **Exhibit "A"** attached hereto, together with all appurtenant rights and interests Seller may have related thereto, including (i) the feeder lines which run from the generating facility to the Nooksack Substation (as defined in Section 22 below) which are depicted on **Exhibit "B"** attached hereto, (ii) all improvements thereon (but specifically excluding the Nooksack Substation); and (iii) the personal property, files and records which are set forth on **Exhibit "C"** attached (all of the foregoing shall collectively be referred to herein as the "Property").

2. **Purchase Price -- Payment Terms.**

(a) **Purchase Price.** The purchase price for the Property shall be One Million Eight Hundred Thousand and No/100 Dollars (\$1,800,000.00) (the "Purchase Price").

(b) **Payment Terms.** The Purchase Price shall be paid to Seller as follows:

(i) **Execution Payment.** Upon execution and delivery of this Agreement by both parties, Buyer shall immediately deliver to the Closing Agent (defined below) Fifty Thousand and No/100 Dollars (\$50,000.00) (the "Execution Payment"), which shall be non-refundable, absent Seller's default, but applicable towards the Purchase Price.

(ii) **Balance of Purchase Price.** At Closing, Buyer shall execute (i) a five (5) year promissory note in the principal amount of One Million Seven Hundred Fifty Thousand and No/100 Dollars (\$1,750,000.00) at eight and one-half percent (8.5%) interest on the outstanding principal balance in the form and content of **Exhibit "D"** attached hereto (the "Note"), and (ii) a first position deed of trust securing the Note in the form and content of **Exhibit "E"** attached hereto (the "Deed of Trust").

3. **Title, Title Commitment and Survey.**

(a) **Title; Condition of Title.** Seller shall quitclaim and convey to Buyer and Buyer shall accept from Seller a good and marketable title in fee simple, free and clear of all liens and encumbrances, easements, restrictions, conditions, covenants, rights, rights-of-way, and other known matters, except for (i) those "Permitted Exceptions" identified in Paragraph 3(b) below, and (ii) the Easement (as defined in Section 5(b)(ii)(7) below).

(b) **Permitted Exceptions to Title.** The following shall be deemed to be Permitted Exceptions to the condition of the title to the Property:

- (i) Any non-delinquent real property taxes (whether general or special);
- (ii) The standard printed exceptions set forth in the Title Commitment;
- (iii) The special exceptions disclosed in the Title Commitment;
- (iv) Any matters affecting the condition of title created by or with the consent of Buyer; and
- (v) Any easements, encroachments and other matters not materially affecting the value of the Property or unduly interfering with Buyer's intended use of the Property.

(c) **Title Commitment.** Buyer hereby acknowledges receipt of a current ALTA form of commitment for an owner's standard coverage policy of title insurance (the "Title Commitment") issued through First American Title Insurance Company (the "Title Company"), and waives any objections thereto.

(d) **Other Endorsements and Coverages.** Any title insurance coverages and endorsements beyond those provided by the standard coverage policy of title insurance, such as by way of example, extended coverage, shall be Buyer's responsibility. Seller shall cooperate with Buyer's efforts to obtain any such endorsements and coverages, but shall have no obligation to pay or arrange for any such additional coverages.

4. **Possession.** Buyer shall be entitled to possession of the Property immediately following Closing, subject to the Permitted Exceptions, the Easement, and any other reserved rights expressly provided herein.

5. **Closing - Closing Agent.**

(a) **Generally.** The sale of the Property shall be closed at the offices of First American Title Insurance Company (herein the "Closing Agent") within ten (10) business days following mutual execution of this Agreement. Seller and Buyer shall deposit in escrow with the Closing Agent all instruments, documents and monies necessary to complete the sale in accordance with this Agreement. For purposes of this Agreement, the

term "Closing" and/or "Closing Date" shall mean the date on which all appropriate documents are recorded and proceeds of the sale are available for disbursement to Seller.

(b) **Closing Documents.** On or before the Closing Date:

(i) **Seller shall deliver to the Closing Agent the following:**

(1) a Quitclaim Deed conveying fee simple title to the Buyer in the Property (in the form of **Exhibit "F"** attached hereto) duly executed and acknowledged by Seller.

(2) A standard coverage ALTA policy of Title Insurance issued by the Title Company conforming to the requirements of Section 3 above insuring Buyer's title in the amount of the Purchase Price and containing no exceptions other than the Permitted Exceptions.

(3) A duly executed Interconnection and Parallel Operation Agreement in the form and content of **Exhibit "G"** attached hereto (the "Interconnection and Parallel Operation Agreement").

(4) A duly executed Power Purchase Agreement in the form and content of **Exhibit "H"** attached hereto (the "Power Purchase Agreement").

(5) An executed Bill of Sale for all personal property on the Property at Closing in the form and content of **Exhibit "I"** attached hereto.

(6) The Note for Buyer's execution.

(7) The Deed of Trust for Buyer's execution.

(8) An affidavit showing that Seller is not a "foreign person" as defined in Section 1445(f) of the Internal Revenue Code of 1986, as amended.

(ii) **Buyer shall deliver to the Closing Agent the following:**

(1) The consideration required pursuant to Section 5(c) below, in cash or by electronic wire transfer or Buyer's certified or cashier's check in U.S. funds immediately available.

(2) Such evidence of the authority and capacity of Buyer and their representative as Seller or the Title Company may reasonably require.

(3) A duly executed Interconnection and Parallel Operation Agreement.

(4) A duly executed Power Purchase Agreement.

(5) A duly executed Note.

(6) A duly executed Deed of Trust.

(7) A duly executed perpetual easement for the Nooksack Substation in the form and content of Exhibit "J" attached hereto (the "Easement").

(c) Expenses. Buyer shall pay all of the closing costs relating to this transaction, including, without limitation, the full amount of the escrow fee charged by the Closing Agent, the cost of all title insurance policies and endorsements, excise tax, the recording fees for the Quitclaim Deed, Deed of Trust, and Easement, and Buyer's own attorneys' fees, if any, but excluding Seller's own attorney's fees which may be incurred by Seller and which are solely related to the purchase and sale of the Property referenced in this Agreement.

(d) Prorations. Real property taxes shall be prorated to the Closing Date, based upon actual days involved.

6. Water Rights. At Closing, Seller shall be deemed to have assigned to Buyer, without any further documentation, any rights, water claims, or water right applications that Seller may have to the Property, including without limitation water claim No. 160816 for 328 cubic feet per second ("cfs"), and water right application number S1-24326 for 272 cfs (the "Water Rights"). Buyer acknowledges that Seller's assignment of its interest, if any, to such water rights may require governmental approvals before any such assignment is valid and/or recognized by the governmental authority having jurisdiction thereof. If requested by Buyer, Seller shall, at Buyer's sole cost and expense, assist Buyer in obtaining the necessary governmental approvals to assign any water rights Seller may have to Buyer.

7. Property Condition.

(a) "AS-IS," "WHERE IS," WITH NO WARRANTIES. BUYER ACKNOWLEDGES THAT THE PROPERTY MAY NOT BE BUILDABLE OR OTHERWISE CAPABLE OF BEING DEVELOPED DUE TO ITS LOCATION, ZONING, SOILS, SLOPE AND OTHER FACTORS. BUYER FURTHER ACKNOWLEDGES AND AGREES THAT IT IS A SOPHISTICATED REAL ESTATE DEVELOPER AND IS RELYING SOLELY ON ITS OWN INVESTIGATION AND INSPECTIONS OF THE PROPERTY, AND WILL ACCEPT THE PROPERTY AT CLOSING ON A STRICTLY "AS IS" AND "WHERE IS" BASIS, IN ITS THEN CURRENT CONDITION WITH NO REPRESENTATIONS OR WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED, EITHER ORAL OR WRITTEN, MADE BY SELLER OR ANY AGENT OF SELLER. BUYER HAS DETERMINED TO IT OWN SATISFACTION THAT THE PROPERTY CAN BE USED FOR THE PURPOSES BUYER INTENDS. BUYER ALSO ACKNOWLEDGES AND AGREES THAT NEITHER SELLER NOR ANY AGENT OF SELLER HAS MADE, AND DOES NOT MAKE, ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND OR CHARACTER WHATSOEVER, WHETHER EXPRESS OR IMPLIED, WITH RESPECT TO THE HABITABILITY, TENANTABILITY OR SUITABILITY FOR COMMERCIAL PURPOSES,

MERCHANTABILITY, OR FITNESS FOR A PARTICULAR PURPOSE OF THE PROPERTY, OR THE PRESENCE OR ABSENCE OF ANY HAZARDOUS SUBSTANCES, WASTES OR MATERIALS AS DEFINED BY STATE, FEDERAL OR LOCAL LAW, ALL OF WHICH REPRESENTATIONS AND WARRANTIES SELLER HEREBY EXPRESSLY DISCLAIMS.

(b) **Release of Seller.** Buyer and Ford waives, releases, covenants not to sue and forever discharges Seller, its officers, directors, contractors, employees and agents and other persons acting on behalf of Seller, of and from any and all claims, actions, causes of action, demands, rights, damages, costs, expenses, or compensation whatsoever, direct or indirect, known or unknown, foreseen or unforeseen, which Buyer or Ford now has or which may arise in the future on account of or growing out of or in connection with any physical characteristics or existing condition including, without limitation, subsurface conditions, solid and hazardous wastes, and Hazardous Materials on, under, or related to the Property, or any applicable law or regulation. Buyer and Ford acknowledges that (i) Seller has afforded Buyer and Ford the opportunity for a full and complete investigation, examination and inspection of the Property, and (ii) the purchase price reflects the agreement of Buyer and Ford not to pursue or assert any claims against Seller arising out of any and all matters, including without limitation environmental matters. Buyer and Ford acknowledges that this clause is a negotiated part of this Agreement and serves as an essential component of consideration for the Property. The release contained under this clause includes, but is not limited to, the release of Seller from all claims pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended.

(c) **Indemnity of Seller.** As additional consideration in determining the Purchase Price of the Property, at Closing, Buyer and Ford assumes and covenants to undertake and discharge all liabilities of Seller or Buyer arising from (1) any condition which now exists or may be found to exist in, on, under or about the Property, (2) a determination that the Property or any portion violates any applicable environmental or health or safety law, ordinance, regulation or ruling, and (3) the presence, use, generation, storage, release, threatened release, or containment, treatment, or disposal of any Hazardous Materials. Buyer and Ford shall defend, indemnify and hold Seller harmless from and against any and all damage, cost, loss, liability and expense which may be incurred by Seller by reason of, resulting from, in connection with or arising in any manner whatsoever from any breach of the covenant of Buyer and Ford contained in this paragraph. The covenants and agreements of Buyer and Ford in this paragraph shall survive the Closing and consummation of the transactions contemplated in this Agreement and shall not merge with the deed. Buyer and Ford shall be solely responsible for any and all of its obligations and liabilities set forth in this Section 7(c) or elsewhere in this Agreement from and after the Closing Date.

8. Default by Seller.

(a) **Generally.** Seller shall be in default hereunder if Seller shall fail to meet, comply with or perform any material covenant, agreement or obligation on its part required hereunder, within the time limits and in the manner required in this Agreement.

(b) **Remedies.** In the event of a default by Seller hereunder, Buyer may, at Buyer's option, terminate this Agreement by written notice delivered to Seller at or prior to the Closing Date whereupon the Execution Payment shall be returned to Buyer and Seller shall pay for any escrow or title commitment costs or fees, as Buyer's sole and exclusive remedy.

(c) **No Damages.** Buyer shall have no claim whatsoever for any damages against Seller for any default by Seller hereunder.

9. **Default by Buyer.**

(a) **Generally.** Buyer shall be in default hereunder if Buyer shall fail to meet, comply with or perform any material covenant, agreement or obligation on its part required hereunder, within the time limits and in the manner required in this Agreement.

(b) **Remedies.** In the event of a default by Buyer hereunder, Seller shall be entitled to terminate this Agreement by notice to Buyer and retain the Execution Payment as liquidated damages. Buyer acknowledges that the Property will be removed from the market while this agreement is in effect, making the Property unavailable for sale to other qualified buyers. Buyer further acknowledges that if it fails to purchase the Property for any reason other than the failure of a condition to its performance or a breach of Seller, Seller will be entitled to compensation for the detriment resulting from the removal of the Property from the market, and entering into this agreement rather than selling to other qualified buyers. The parties agree that the damages which Seller will sustain as a result of such breach will be substantial, but will be extremely difficult and impracticable to ascertain. Therefore, the parties agree that if Buyer fails to purchase the Property for any reason other than a failure of a condition to its performance or a breach of Seller, Seller will be entitled to recover the sum, at the time of the breach, of the Execution Payment. The parties acknowledge that this will not constitute a penalty. The parties further acknowledge and agree that the Execution Payment is presently a reasonable estimate of Seller's damages, considering all of the circumstances existing on the date of this Agreement, including the relationship of the sum to the range of harm to Seller that reasonably could be anticipated and the expectation that proof of actual damages would be impractical or extremely difficult to ascertain. In placing their initials in the spaces provided below, each party expressly confirms the accuracy of the statements made above and the fact that each party had the opportunity to be represented by an attorney of his choice, or was in fact represented by counsel who explained the consequences of this provision at the time this agreement was made. Finally, the parties agree that the retention of the Execution Payment will be in lieu of any other monetary or equitable relief to which Seller might otherwise be entitled by virtue of this Agreement or by operation of law or equity.

Initials of Seller

Initials of Buyer

10. **Attorneys' Fees.** If it shall be necessary for either Buyer or Seller to employ an attorney to enforce its rights pursuant to this Agreement because of the default of

the other party, the defaulting party shall reimburse the non-defaulting party for its reasonable attorneys' fees and court costs.

11. **Brokerage Commission.** Buyer shall pay any and all real estate commission(s) due and owing as a result of this transaction. Buyer and Ford shall indemnify, defend and hold Seller and harmless from any loss, liability, damage, cost or expense (including, without limitation, reasonably attorney's fees) paid or incurred by Seller by reason of any claim to any broker's, finder's or other fee or commission obligation arising out of this transaction by any party claiming by, through or under Buyer and/or Ford.

12. **Notices.** All notices, demands, requests and other communications required or permitted hereunder shall be in writing, and shall be deemed delivered on the earlier of (i) posting of registered or certified mail, addressed to the addressee at the address set forth below or at such other address as such party may have specified theretofore by notice delivered in accordance with this Section, or (ii) actual receipt by the addressee:

IF TO SELLER:

Puget Sound Energy, Inc.
Director of Energy Production and Supply
P.O. Box 97034-OBC 14N
Bellevue, Washington 98009-9734

With a copy to:

Brett N. Wiese
Perkins Coie LLP
411 108th Ave. NE, Suite 1800
Bellevue, Washington 98004

IF TO BUYER:

Puget Sound Hydro, LLC
P.O. Box 1432
Lewiston, Idaho 83501

With a copy to:

Jonathan K. Sitkin
Chmelik Sitkin & Davis P.S.
1500 Railroad Ave.
Bellingham, WA 98226

IF TO FORD:

Arch Ford
P.O. Box 1432
Lewiston, Idaho 83501

With a copy to:

Jonathan K. Sitkin
Chmelik Sitkin & Davis P.S.
1500 Railroad Ave.
Bellingham, WA 98226

13. **Survival.** The provisions of this Agreement shall survive termination and/or Closing and not merge with the deed.

14. **Governing Law; Venue.** The laws of the state of Washington shall govern the validity, enforcement, and interpretation of this Agreement. Any dispute or cause of action under this Agreement shall be resolved in the Whatcom County Superior Courts in the State of Washington.

15. **Integration; Modification; Waiver.** This Agreement constitutes the complete and final expression of the agreement of the parties relating to the Property, and supersedes all previous contracts, agreements and understandings of the parties, either oral or written, relating to the Property. This Agreement cannot be modified, or any of the terms hereof waived, except by an instrument in writing (referring specifically to this Agreement) executed by the party against whom enforcement of the modification or waiver is sought. The paragraph headings are provided for the purposes of convenience only and are not intended to limit or extend the scope of any aspect of this Agreement.

16. **Good Faith.** Seller and Buyer shall act in good faith and with due diligence in all respects relative to the transactions and actions contemplated hereby.

17. **Counterpart Execution.** This Agreement may be executed in several counterparts, each of which shall be fully effective as an original and all of which together shall constitute one and the same instrument.

18. **Invalid Provisions.** If any one or more of the provisions of this Agreement, or the applicability of any such provision to a specific situation, shall be held invalid or unenforceable, such provision shall be modified to the minimum extent necessary to make it or its application valid and enforceable, and the validity and enforceability of all other provisions of this Agreement and all other applications of any such provision shall not be affected thereby.

19. **Binding Effect.** This Agreement shall be binding upon and inure to the benefit of Seller and Buyer, and their respective successors and assigns. Except as expressly provided herein, nothing in this Agreement is intended to confer on any person, other than the parties hereto and their respective heirs, successors and assigns, any rights or remedies under or by reason of this Agreement.

20. **Time.** Time is of the essence of this Agreement.

21. **Authority.** Seller represents that it has the power and authority to enter into this Agreement and to convey the Property to Buyer, and that the execution,

delivery and performance of this Agreement have been duly and validly authorized by all necessary action of Seller.

22. **Nooksack Substation.** Notwithstanding anything in this Agreement to the contrary, Seller's electrical substation that is located on the Property (the "Nooksack Substation"), shall remain Seller's property and shall not be included in the sale of the Property. The Nooksack Substation is owned and operated by Seller and shall continue to be owned and operated by Seller or its assigns for so long as Seller elects. Upon Closing, Buyer shall grant Seller the Easement for the Nooksack Substation on the Property (which Easement shall also be reserved in the Deed) in its present location and allow Seller to continue to use, operate, and maintain such substation. As part of the Easement, Buyer shall also grant Seller a perpetual easement to travel across the Property to access the Nooksack Substation for use, operation, maintenance, repair and other uses related to the Nooksack Substation. This Section 22 shall survive Closing and shall not merge with the Deed.

SELLER:

BUYER:

PUGET SOUND ENERGY, INC.
a Washington corporation

PUGET SOUND HYDRO, LLC
a Washington limited liability company

By _____
William A. Gaines
Vice President

By _____
Arch Ford, Manager

Dated: _____

Dated: _____

Arch Ford, Individually, but only with
respect to Sections 7(b), 7(c), and 11.

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

On this _____ day of December, 2002, before me, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared WILLIAM A. GAINES to me known to be the VICE PRESIDENT of PUGET SOUND ENERGY, INC., the corporation named in and which executed the foregoing instrument; and acknowledged to me that he signed the same as the free and voluntary act and deed of said corporation for the uses and purposes therein mentioned, being authorized so to do.

WITNESS my hand and official seal the day and year in this certificate above written.

Notary Public in and for the State

of Washington, residing at _____
My commission expires _____

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

On this _____ day of December, 2002, before me, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared ARCH FORD to me known to be the MANAGER of PUGET SOUND HYDRO, LLC, the limited liability company named in and which executed the foregoing instrument; and acknowledged to me that he/she signed the same as the free and voluntary act and deed of said corporation for the uses and purposes therein mentioned, being authorized so to do.

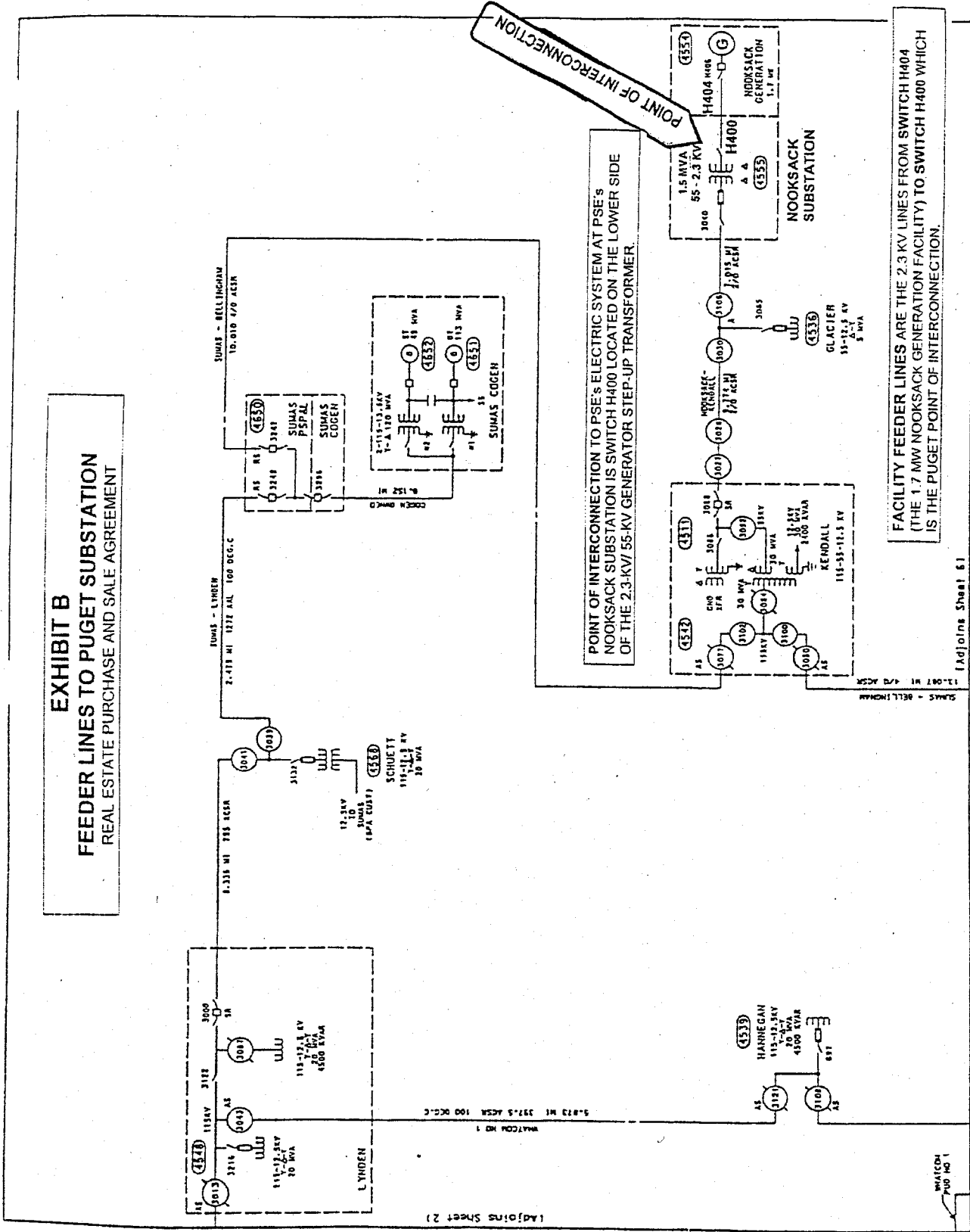
WITNESS my hand and official seal the day and year in this certificate above written.

Notary Public in and for the State
of Washington, residing at _____
My commission expires _____

EXHIBIT A

LEGAL DESCRIPTION OF THE PROPERTY

EXHIBIT B
FEEDER LINES TO PUGET SUBSTATION
 REAL ESTATE PURCHASE AND SALE AGREEMENT



POINT OF INTERCONNECTION

POINT OF INTERCONNECTION TO PSE'S ELECTRIC SYSTEM AT PSE'S NOKSACK SUBSTATION IS SWITCH H400 LOCATED ON THE LOWER SIDE OF THE 2.3-KV/ 55-KV GENERATOR STEP-UP TRANSFORMER.

POINT OF INTERCONNECTION TO PSE'S ELECTRIC SYSTEM AT PSE'S NOKSACK SUBSTATION IS SWITCH H400 LOCATED ON THE LOWER SIDE OF THE 2.3-KV/ 55-KV GENERATOR STEP-UP TRANSFORMER.

FACILITY FEEDER LINES ARE THE 2.3 KV LINES FROM SWITCH H400 (THE 1.7 MW NOKSACK GENERATION FACILITY) TO SWITCH H400 WHICH IS THE PUGET POINT OF INTERCONNECTION.

Nov. 01/02

Adjoins Sheet 61

Sheet # 01

NOVEMBER 25, 2002

WATCH PUG NO 1

Adjoins Sheet 2

WATCH NO 1

EXHIBIT C

LIST OF PERSONAL PROPERTY AND DOCUMENTS INCLUDED IN THE SALE

- All personal property located at the Nooksack Facility at Closing.
- Copies of pertinent files, memorandum, correspondence, notes, drawings and photographs in the possession or control of Seller that are directly related to and necessary for Buyer's operation, licensing or permitting of the Nooksack Facility including the following categories:
 1. Design
 2. Construction
 3. Operation
 4. Modification
 5. Repairs
 6. Hydrology
 7. Environmental
 8. Studies
 9. Historical
 10. Water Right Claims
 11. Current Permits and Licenses and Applications
 12. Existing Easements
 13. Current Rights Of Way
- At Buyer's request, copies of any other document pertaining to the Nooksack Facility property that is directly related to and necessary for future operation, licensing or permitting of the facility and is in the possession or control of Seller.

Copies of the foregoing documents will be made at Buyer's sole expense. Seller will retain original documents for recordkeeping purposes. Upon payment of the Promissory Note, the original documents shall be transferred to Buyer, and Seller may retain copies.

For purposes of this Agreement copies of the following documents shall not be included in the sale: (1) employee records; (2) non-project related memorandum and correspondence; (3) confidential business information; (4) attorney-client privileged information; and (5) historical information not directly related to or necessary for Buyer's current and future operation, licensing and permitting of the Nooksack Facility.

EXHIBIT C TO PURCHASE AGREEMENT

LIST OF EQUIPMENT INCLUDED IN BILL OF SALE

Pelton Water Wheel Company: 4-wheel horizontal, tangential impulse turbine, 2,547 hp at net design head of 195 feet, 200 rpm, serial number 13165, 1910.

In-operative, Westinghouse AC synchronous Generator; 1,500 kW, 2,200 volt, 3 phase, 60 cycle, 394 amps, 200 rpm, serial no. 67131, patent date 1905.

Hubbell- Ensign Electric Division, Single Vacuum Breaker, #104070-1, 4160 volts

Lombard Governor of Boston, Mass., Type: Q type, Serial No: 988.

Belt driven rotary exciter made by Westinghouse is rated at 45 kW, 125 volts at 850 RPM, 360 amps at 350 RPM, serial number 200608, and is original equipment.

20-Ton, hand operated traveling Crane made by Northern Engineering Works, Detroit, Michigan. This is an entirely mechanical (no motors, operated by blocks and chains) crane. Spans 36'8".

Oil pump double 3" x 3" Lombard pump with a vertical tank with 1906 date.

Oil circuit breaker is a General Electric type FK-43.

DC resistor pile.

Vandalized, Instrument/ Control Panel

EXHIBIT D

Promissory Note

US \$1,750,000.00

Bellevue, Washington
December __, 2002

FOR VALUE RECEIVED, PUGET SOUND HYDRO, LLC, a Washington limited liability company (together with its successors, the "Maker"), promises to pay to the order of Puget Sound Energy, Inc., a Washington corporation (together with its successors and assigns, the "Payee") at One Bellevue Center Building, 411 108th Avenue NE, 15th Floor, Bellevue, WA 98004-5515, or at such other place or address as Payee may from time to time designate, the principal sum of One Million Seven Hundred Fifty Thousand and No/100 Dollars (\$1,750,000), together with simple interest thereon at the rate of eight and one-half percent (8.5%) per annum, commencing on June 1, 2003 and continuing until the entirety of the principal amount hereof has been fully paid or satisfied, in the manner and on the terms herein set forth. This Note is the Note referred to in, and issued pursuant to, the Real Estate Purchase and Sale Agreement between Puget Sound Energy, Inc., as Seller, and Puget Sound Hydro, LLC, as Buyer, dated December __, 2002 (the "Purchase Agreement"). This Note is secured by a first position deed of trust on the Property (as defined in the Purchase Agreement) in the form and content as Exhibit A which is attached hereto and incorporated herein (the "DOT"). Capitalized terms not otherwise expressly defined in this Note will have the meanings ascribed to them in the Purchase Agreement and the DOT.

1. Interest and Payment.

- (a) Payments. A principal payment in the amount of Two Hundred Thousand and No/100 Dollars (\$200,000.00) shall be paid to Payee on June 1, 2003.
- (b) Thereafter, principal and interest payments shall be made pursuant to the payment schedule set forth on Exhibit B attached hereto and incorporated herein. The entire principal balance of this Note, together with all accrued but unpaid interest, shall be due and payable in full on or before January 1, 2008.
- (b) Prepayment. Maker shall have the right to prepay the entire unpaid principal balance of this Note, including accrued but unpaid interest, or any part thereof, at any time without penalty; however, any prepayment shall not cause any subsequent installment to be delayed. In the event Maker prepays any portion of the unpaid balance, only the interest portion of such installments shall be adjusted to reflect the now reduced unpaid balance.
- (c) Place and Time of Payment. All payments specified in this Note shall be deemed made when actually received by Payee. All payments shall be made to

Payee at the address set forth above or at such other address as Payee may designate in writing to Maker, and shall be made without offset and without prior notice or demand.

(d) Form and Application of Payments. Payments shall be in lawful money of the United States of America, and when received by Payee shall be applied first to late charges and interest and second to principal.

(e) Eminent Domain. In the event of an eminent domain action by any entity, payments regarding the Property for such action shall be first applied to the remaining principal balance on the Note. Once the Note has been paid in full, the remaining proceeds shall belong to Maker.

2. Default. Time is of the essence of this Note. This Note shall be declared to be in default (an "Event of Default"), triggering remedies under this Note and the DOT upon the happening of one or more of the following Events of Default:

(a) Default in the timely payment of any late charge, interest on the late payment, interest on this Note or principal on this Note and not cured within thirty (30) days after written notice of such default to Maker;

(b) (i) the Maker's application for, consent to or acquiescence in the appointment of a trustee, receiver, liquidator, assignee, sequestrator or other similar official for the Maker or its property, or the making of a general assignment for the benefit of creditors, or the filing of a petition seeking reorganization in a proceeding under any bankruptcy law (as now or hereafter in effect) or a readjustment of its indebtedness or an answer admitting the material allegations of a petition filed against it in any such proceeding, or the seeking of relief under the provisions of any bankruptcy or similar law, or the making of an agreement, composition, extension or adjustment with its creditors; or

(ii) in the absence of any of the foregoing, a trustee, receiver, liquidator, assignee, sequestrator or other similar official is appointed for the Maker or for a substantial part of any of the property of the Maker and is not discharged within thirty (30) days;

(iii) any bankruptcy, reorganization, debt arrangement or other proceeding under any bankruptcy or other insolvency law or common law or in equity is instituted by or against the Maker and is not dismissed within thirty (30) days; or

(iv) if, under the provisions of any law providing for reorganization or winding up that may apply to the Maker, any court of competent jurisdiction shall assume jurisdiction, custody or control of the Maker or of any substantial part of its property and such jurisdiction, custody or control shall remain in force unrelinquished, unstayed or unterminated for a period of thirty (30) days;

(c) The untruth in any material respect of any representation or warranty made by the Maker herein or in the DOT or in the Purchase Agreement; or

(d) Breach of any of the Maker's covenants herein, which breach is not cured within thirty (30) days after written notice of such breach to Maker; or

(e) Default by Maker under the terms of the DOT or of the Purchase Agreement.

3. **Remedies.** In the event of an Event of Default, Payee may take any one or more of the following steps:

(a) **Acceleration.** Declare the entire unpaid principal balance of the debt evidenced hereby, and all interest on such debt and all other costs and expenses evidenced hereby, to be immediately due and payable.

(b) **Late Charge.** In the event of Default in the timely payment of any interest or principal on this Note and not cured within ten (30) days after written notice of such default to Maker, Payee may charge a late charge equal to ten percent (10%) of the amount of such payment.

(c) **Default Interest.** Increase the rate of interest accruing on the outstanding principal balance of this Note to twelve percent (12%) per annum.

(d) **Other Remedies.** For monetary defaults, the rights of the Payee shall be limited to foreclosure on the Deed of Trust securing this Note. If Payee elects to foreclose on the Deed of Trust, Maker shall, at Payee's option, (i) execute and deliver to Payee, a deed in lieu of foreclosure conveying the Property back to Payee, free and clear of any and all mechanics and/or materialmens liens or other liens or encumbrances which attached to the Property after the Closing Date, and free of all obligations and liabilities which occurred on or after the Closing Date, (ii) execute a bill of sale in a form reasonably acceptable to Payee conveying back to Payee all rights, title and interest previously conveyed to Maker under the Purchase and Sale Agreement of even date herewith, and (iii) execute a document, in a form reasonably acceptable to Payee, which assigns the Water Rights back to Payee. Seller acknowledges that in such event, Buyer's assignment of its interest, if any, to such water rights may require governmental approvals before any such assignment is valid and/or recognized by the governmental authority having jurisdiction thereof. If requested by Seller, Buyer shall, at Seller's sole cost and expense, assist Seller in obtaining the necessary governmental approvals to assign any water rights Buyer may have to Seller. Failure to exercise any right or remedy shall not be deemed a waiver of any existing or subsequent default nor a waiver of any such right or remedy.

4. **Security.** This Note is secured by the DOT.

5. **Waiver.** The Maker hereby waives diligence, demand, presentment, protest and notice of any kind, and assents to extensions of the time of payment, release, surrender or substitution of security, or forbearance or other indulgence, without notice. The Maker agrees to pay all amounts of principal, interest and fees under this Note without offset, deduction, withholding, claim, counterclaim, defense or recoupment, all of which are hereby waived by the Maker.

6. **Attorneys' Fees and Collection Costs.** Maker agrees to pay all costs of collection for sums due under this Note, including reasonable attorneys' fees. The undersigned shall pay upon demand any and all expenses, including reasonable attorneys' fees, incurred or paid by Payee without suit or action in attempting to collect funds due under this Note. In the event litigation is commenced by a party to this Note to enforce or interpret any provision of this Note, or to collect any amount due under this Note, the prevailing party in such litigation shall be entitled to receive, in addition to all other sums and relief, its reasonable costs and attorneys' fees, whether incurred in arbitration, in preparation for trial, in any appeal or review, or in any proceeding in bankruptcy. Such amount shall be set by the arbitrator or court(s) before which the matter is heard.

7. **Notice.** All notices, demands, requests, consents, approvals and other instruments required or permitted to be given pursuant to the terms of this Note and the DOT securing this Note shall be in writing and shall be deemed to have been properly given if sent by registered or certified mail, postage prepaid, return receipt requested, to the addresses set forth below:

- a. To Maker: Puget Sound Hydro LLC
P.O. Box 1432
Lewiston, Idaho 83501
Attn.: Arch Ford
- b. To Payee: Puget Sound Energy
One Bellevue Center
411 108th Avenue NE, 15th Floor
Bellevue, WA 98004-5515
Attn.: William A. Gaines

Provided however, that such address may be changed upon five (5) days' written notice thereof similarly given to the other party. Such notice, demand, request, consent, approval or other instrument shall have been deemed to have been served on the third (3rd) day following the date of mailing.

8. **Governing Law.** This Note shall be governed by and construed in accordance with the laws of the State of Washington.

9. **Amendment.** This Note may not be changed, modified or terminated orally, nor shall any provision of this Note be deemed waived, but only by an agreement in writing signed by the Maker or any successors of the Maker and the Payee.

10. **Binding Agreement.** This Note shall be binding upon the successors of the Maker and inure to the benefit of the Payee and its successors and assigns.

Maker:

PUGET SOUND HYDRO, LLC

By: _____

Arch Ford, Manager

Arch Ford, individually, but only with respect to
Section 3(d)

**NOTICE: ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY,
EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A
DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.**

Exhibit A to Note

Deed of Trust

Exhibit B to Note

Payment Schedule

Nooksack Falls Payment Schedule

TRANSACTION	AMOUNT	TOTAL INTEREST PAYMENTS	BALANCE
Purchase Price			\$1,800,000
Down Payment at Signing of Agreement	\$50,000		\$1,750,000
Promissory Note at Signing of Agreement			\$1,750,000
Payment July 1, 2004	\$200,000		\$1,550,000
Interest 8.5% on Principal starts July 1, 2004			
First Interest Payment due January 1, 2005	\$197,625	\$197,625	\$1,550,000
Interest Payment due July 1, 2005	\$65,875	\$263,500	\$1,550,000
Interest Payment due January 1, 2006	\$65,875	\$329,375	\$1,550,000
Interest Payment due July 1, 2006	\$65,875	\$395,250	\$1,550,000
Interest Payment due January 1, 2007	\$65,875	\$461,125	\$1,550,000
Interest Payment due July 1, 2007	\$65,875	\$527,000	\$1,550,000
Final Interest Payment due January 1, 2008	\$65,875	\$592,875	\$1,550,000
Final Principal Payment January 1, 2008	\$1,550,000		\$0

EXHIBIT E
Deed of Trust

WHEN RECORDED RETURN TO:

Perkins Coie LLP
411 108th Avenue NE, Suite 1800
Bellevue, Washington 98004-5584
Attn.: Brett N. Wiese

Document Title: DEED OF TRUST, SECURITY AGREEMENT AND FIXTURE FILING

Reference Number of Documents Released: None.

Grantor: Puget Sound Hydro, LLC, a Washington limited liability company.

Grantee: Puget Sound Energy, Inc., a Washington corporation.

Legal Description: PTN SEC 31 & 32, T 40 N, R 8 E. PTN SEC 5 & 6, T 39 N, R 8 E.

Assessor's Property Tax Parcel/Account Numbers: 390806 510510

DEED OF TRUST, SECURITY AGREEMENT AND FIXTURE FILING

This **DEED OF TRUST, SECURITY AGREEMENT AND FIXTURE FILING** dated as of this _____ day of December, 2002 ("Deed of Trust"), is made by **PUGET SOUND HYDRO, LLC, a Washington limited liability company**, whose address is P.O. Box 1432 Lewiston, Idaho 83501 as the grantor under this Deed of Trust ("Grantor"), to **FIRST AMERICAN TITLE INSURANCE COMPANY**, whose address is 2101 Fourth Avenue, Suite 800, Seattle, Washington 98121, as the trustee under this Deed of Trust ("Trustee"), and to **PUGET SOUND ENERGY, INC., a Washington corporation**, whose address is P.O. Box 97034-OBC 14N, Bellevue, WA. 98009-0734, Attn.: Director of Energy Production and Supply, as the beneficiary under this Deed of Trust ("Beneficiary").

NOW, THEREFORE, for and in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by Grantor, and to secure the full and punctual payment by Grantor when due (whether at stated maturity, by acceleration or otherwise) of that certain Promissory Note of approximately even date herewith in the principal amount of **ONE MILLION SEVEN HUNDRED FIFTY THOUSAND AND No/100 DOLLARS (\$1,750,000.00)** (the "Note"), Grantor does hereby **GRANT and CONVEY** unto Trustee, **IN TRUST, WITH FULL POWER OF SALE** the real property legally described in Exhibit A attached hereto (the "Real Property") together with all buildings, structures, improvements, fixtures, equipment and machinery, property, documents, and property now attached to or used in connection with the use, occupancy or operation of the Real Property (collectively the "Improvements"), including, but not limited

to the items set forth in Exhibit B attached hereto, together with the equipment, boilers, engines, motors, generating equipment, telephone and other communication systems, piping and plumbing fixtures, cooling, ventilating, sprinkling, fire extinguishing apparatus, gas and electric fixtures, irrigation equipment and all other equipment of any kind located on the Real Property as of the date of this Deed of Trust. All property mentioned herein shall be deemed part of the realty and not severable wholly or in part without material injury to the Real Property (the Real Property and the Improvements shall collectively be referred to herein as the "Property"). This Deed of Trust is also to be recorded as a "fixture filing" as defined in the Uniform Commercial Code; it covers goods that are fixtures as of the date hereof.

AND Grantor covenants and agrees with Trustee and Beneficiary as follows:

ARTICLE I
Covenants of Grantor

1.01 Payment of Obligations. Grantor will punctually pay the Note when due, and will perform and observe all of its other obligations under this Deed of Trust.

1.02 Further Assurances. Promptly upon request by Trustee, Grantor will correct any defect, error or omission that may be discovered in the contents of, or in the execution, acknowledgment or recordation of, this Deed of Trust.

1.03 Taxes and Other Charges. Grantor will pay when due, and before any penalty, interest or cost for nonpayment thereof may be added thereto, all taxes, assessments and other governmental and quasi-governmental charges, general and special, ordinary and extraordinary, foreseen and unforeseen, heretofore or hereafter assessed, levied or otherwise imposed against or upon, or which may become a lien upon, the Property.

1.04 Eminent Domain. In the event any portion of the Property is taken or damaged in an eminent domain proceedings, the entire amount of the award or such portion as may be necessary to fully satisfy the obligation secured hereby, shall be paid to Beneficiary to be applied to said obligation.

1.05 Maintenance Repair and Waste. Grantor shall keep the Property in good condition and repair; to permit no waste thereof; to restore (to a condition equal to or better than the condition existing as of the date of this Deed of Trust) promptly any currently existing building, structure or improvement thereon which may be damaged or destroyed; and to comply with all laws, ordinances, regulations, covenants, conditions and restrictions affecting the Property.

1.06 Insurance. N/A.

ARTICLE II
Defaults and Remedies

2.01 Event of Default. The term "Event of Default" shall mean any of the following:

(a) An Event of Default under the Note, the terms and conditions of which are incorporated herein and made a part hereof;

(b) Any breach of any provision of this Deed of Trust;

(c) Any default under the Real Estate Purchase and Sale Agreement for the Property dated December ____, 2002, the terms and conditions of which are incorporated herein and made a part hereof;

(d) The granting and/or recording of any other mortgage, deed of trust, lien or encumbrance secured by the Property without Beneficiary's prior written consent;

(e) Any subdividing of the Property without Beneficiaries prior written consent, which consent shall not be unreasonably withheld provided such subdivision is necessary for Grantor to secure direct vehicular right-of-way access to Highway SR 542 without crossing USFS land;

(f) Any leasing, subleasing, or any other form of transfer of any or all of the Property without Beneficiary's prior written consent, which consent shall not be unreasonably withheld provided: (i) Arch Ford is the sole owner of the entity that is leasing or subleasing any or all of the Property, (ii) such lease or sublease shall be subject and subordinate to the terms and conditions of this Deed of Trust, and (iii) Arch Ford will personally indemnify, defend and hold Beneficiary harmless from any and all claims, damages or liabilities caused by any such tenant or subtenant, including any and all damages caused by such tenant or subtenant, including any damages incurred by Beneficiary if such tenant or subtenant holds over after Beneficiary retakes possession of the Property after Grantor causes and Event of Default;

(g) The failure of Grantor to complete any and all improvement work pursuant to applicable laws, codes and ordinances; or

(h) The harvesting of any timber which is located on the Real Property.

2.02 Remedies. Upon the occurrence of any Event of Default, Trustee or Beneficiary may (but shall not be obligated to), take such action personally or by its agents or attorneys, with or without entry, as Trustee deems necessary or advisable to protect and enforce its rights and remedies against Grantor and in and to the Property, including the following actions, each of which may be pursued concurrently or otherwise, at such time and in such order as Trustee or

Beneficiary may determine, in its sole discretion, without impairing or otherwise affecting any other rights or remedies of Trustee or Beneficiary:

(a) Declare the entire balance of the Note to be immediately due and payable, and upon any such declaration the entire unpaid balance of the Note shall become and be immediately due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by Grantor; or

(b) If Grantor does not pay Beneficiary the entire balance of the Note within thirty (30) days after written notice, then Beneficiary may request that Grantor execute and deliver to Beneficiary a deed in lieu of foreclosure conveying the Property back to Beneficiary, which deed in lieu Grantor shall immediately execute and deliver to Beneficiary if so requested by Beneficiary.

2.03 Expenses. In any suit to foreclose this Deed of Trust or to enforce any other remedy of Trustee or Beneficiary under this Deed of Trust, there shall be allowed and included as an addition to and a part of the obligations in the decree for sale or other judgment or decree all reasonable expenditures and expenses (including reasonable attorneys' fees and disbursements, inclusive of any fees recovered under the attorneys' fee provision of the Promissory Note) which may be paid or incurred in connection with the exercise by Trustee or Beneficiary of any of its rights and remedies provided or referred to in **Section 2.02**, and the same shall be secured by this Deed of Trust.

ARTICLE III

Defeasance: Provisions as to Trustee

3.01 Defeasance. If the Note shall be paid in full as the payments become due and payable, then all rights under this Deed of Trust shall terminate and the Property shall become wholly released and cleared of the lien, security interest, conveyance and assignment evidenced by this Deed of Trust. In such event, Trustee or Beneficiary, at the request and the sole cost and expense of Grantor, shall immediately deliver to Grantor, in recordable form, all such documents as shall be necessary to release the Property from the lien, security interest, conveyance and assignment evidenced by this Deed of Trust.

3.02 Trustee's Resignation. Trustee may resign by an instrument in writing addressed to Beneficiary, or Trustee may be removed at any time with or without cause by an instrument in writing executed by Beneficiary. In case of the death, resignation, removal or disqualification of Trustee or if for any reason Beneficiary shall deem it desirable to appoint a substitute or successor trustee to act instead of Trustee named in this Deed of Trust or instead of any substitute or successor Trustee, then Beneficiary shall have the right and is hereby authorized and empowered to appoint a successor Trustee, or a substitute Trustee, without other formality than appointment and designation in writing executed by Beneficiary, and the authority conferred by this **Section 3.02** shall extend to the appointment of other successor and substitute Trustees successively until the Obligations have been paid in full or until the Property

is sold under this Deed of Trust. Such appointment and designation by Beneficiary shall be full evidence of the right and authority to make the same and of all facts therein recited. Upon the making of such appointment and designation, all of the estate and title of Trustee in the Property shall vest in the named successor or substitute Trustee, and the named successor or substitute Trustee shall thereupon succeed to and shall hold, possess and execute all the rights, powers, privileges, immunities and duties conferred upon Trustee in this Deed of Trust. Upon the written request of Beneficiary or of the successor or substitute Trustee, Trustee ceasing to act shall execute and deliver an instrument transferring to such successor or substitute Trustee all of the estate and title in the Property of Trustee so ceasing to act, together with all the rights, powers, privileges, immunities and duties conferred upon Trustee in this Deed of Trust, and shall duly assign, transfer and deliver any of the properties and moneys held by said Trustee under this Deed of Trust to said successor or substitute Trustee. All references in this Deed of Trust to Trustee shall be deemed to refer to Trustee (including any successor or substitute appointed and designated as provided in this Deed of Trust) from time to time acting under this Deed of Trust. Grantor hereby ratifies and confirms any and all acts which Trustee or its successor or successors, substitute or substitutes, in this trust, shall do lawfully by virtue of this Deed of Trust.

ARTICLE IV Additional Provisions

4.01 Waiver. By accepting payment of any sum secured hereby after its due date, Beneficiary does not waive its right to require prompt payment when due of all other sums so secured or to declare default for failure to so pay.

4.02 Beneficiary's Appearance/Inspection. If any action or proceeding is commenced against Grantor which materially affects Beneficiary's interest in the Property, including, but not limited to, insolvency, local or state code enforcement, arrangements or proceedings involving a bankruptcy, then Beneficiary, at Beneficiary's option, upon notice to Grantor, may make such appearances and take such action as is necessary to protect Beneficiary's interest, including, but not limited to entry upon the Property to make repairs or improvements.

(a) Any amounts disbursed by Beneficiary pursuant to this paragraph shall become additional indebtedness, with interest thereon, of Grantor secured by this Deed of Trust. Unless agreed otherwise, such amounts shall be payable thirty days (30) from notice from Beneficiary requesting payment thereof, and shall bear interest from the date of disbursement at the rate payable from time to time on outstanding principal under the Note unless payment of interest at such rate would be contrary to law, in which event such amounts shall bear interest at the highest rate permissible under applicable law. Nothing contained in this paragraph shall require Beneficiary to incur any expense or take any action hereunder.

(b) Beneficiary may make or cause to be made reasonable entries upon and inspections of the Property, provided that Beneficiary shall give Grantor notice prior to any such inspection specifying the reason and the time during which such inspection shall be made.

4.03 Time Extension. Extension of time for payment of any of the sums secured by this Deed of Trust granted by Beneficiary shall not operate to release, in any manner, the liability of Grantor and Grantor's successors in interest under the Note or this Deed of Trust. Any forbearance by Beneficiary in exercising any right or remedy hereunder, or otherwise afforded by law, shall not be a waiver of or preclude the exercise of any such right or remedy.

4.04 Indemnification. Except to the extent cause by the gross negligence of Beneficiary, Grantor, its successors and assigns agree to defend, indemnify, and hold harmless Beneficiary, its officials, employees, and agents from and against all claims, demands, judgments, damages, actions, causes of action, injuries, administrative orders, consent agreements, liabilities, penalties, costs, and expenses of any kind whatsoever, including claims arising out of loss of life, injury to persons, property, or business damage in connection with activities of Grantor, third parties who have entered on the Property or parties in a contractual relationship with Grantor, which relate to the period time Grantor owns the Property. Furthermore, Grantor, its successors and assigns, covenant, warrant, and represent that, Grantor has no knowledge that any pollutants or other toxic or hazardous substances, including any solid, liquid, gaseous, or thermal irritant or contaminant, acids, chemicals or wastes have been or shall be discharged, dispersed, released, treated, generated, disposed of, or allowed to escape on the Property. Failure to comply with any provision of this section shall be deemed to be an Event of Default.

4.05 Defense of Security. Grantor shall defend any action or proceeding purporting to affect the security hereof or the rights or powers of Beneficiary or Trustee, and to pay all costs and expenses, including cost of title search and attorneys' fees in a reasonable amount, subject to the limitation set forth in **Section 2.03** above.

4.06 Cumulative Remedies. Except as may be otherwise provided herein, all of Beneficiary's and Trustee's rights and remedies specified in this Deed of Trust and the Note are cumulative, not mutually exclusive and not in substitution for any rights or remedies available in law or equity. The commencement of proceedings to enforce a particular remedy shall not preclude the discontinuance of proceedings and/or the commencement of proceedings to enforce a different remedy.

4.07 Limitation on Interest. Notwithstanding any other provisions of this Deed of Trust to the contrary, no provision of this Deed of Trust or the Note shall require the payment or permit the collection of interest, fees or charges in excess of the maximum rate permitted by applicable law.

4.08 Amendments, Etc. No amendment or waiver of any provision of this Deed of Trust, nor consent to any departure by Grantor from any such provision, shall in any event be effective unless such amendment, waiver or consent is in a writing which specifically refers to this **Section 4.08** and which is signed by Grantor and Beneficiary and, to the extent required by applicable law, by Trustee; provided that any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, further, that Trustee shall not sign any amendment or waiver without the consent of Beneficiary.

4.09 Notices. Except as otherwise provided in this Deed of Trust or required by applicable law, all notices, consents, requests and other communications to any party under or in connection with this Deed of Trust shall be in writing and shall be sent via personal delivery, via certified or registered mail, return receipt requested, or via express courier or delivery service, addressed to such party at such party's address set forth below or at such other address as shall be designated by such party in a written notice given to each other party complying as to delivery with the terms of this **Section 4.09**:

if to Grantor, at:

Puget Sound Hydro LLC
P.O. Box 1432
Lewiston, Idaho 83501

if to Beneficiary, at:

Puget Sound Energy, Inc.
P.O. Box 97034-OBC 14N
Bellevue, Washington 98009-9734
Attn.: Director of Energy Production and Supply

if to Trustee, at:

First American Title Insurance Company
2101 Fourth Avenue, Suite 800
Seattle, Washington 98121

All such notices, consents, requests and other communications shall be deemed given when given and receipted for (or upon the date of attempted delivery when delivery is refused), if sent via personal delivery, via certified or registered mail, return receipt requested, or via express courier or delivery service.

4.10. Counterparts. This Deed of Trust may be executed in any number of counterparts and by different parties to this Deed of Trust in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

4.11. Oral Agreements Unenforceable. ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

IN WITNESS WHEREOF, Grantor has executed this Deed of Trust as of the date first above written.

PUGET SOUND HYDRO, LLC
a Washington limited liability company

By: _____
Arch Ford, Manager

Arch Ford, personally, but only with respect
to Sections 1.03, 1.05, 2.01(f), and 2.01(h).

EXHIBIT A

Legal Description of the Property

EXHIBIT B
Deed of Trust

LIST OF PERSONAL PROPERTY AND DOCUMENTS INCLUDED IN
THE SALE

- All personal property located at the Nooksack Facility at Closing.
- Copies of pertinent files, memorandum, correspondence, notes, drawings and photographs in the possession or control of Seller that are directly related to and necessary for Buyer's operation, licensing or permitting of the Nooksack Facility including the following categories:
 1. Design
 2. Construction
 3. Operation
 4. Modification
 5. Repairs
 6. Hydrology
 7. Environmental
 8. Studies
 9. Historical
 10. Water Right Claims
 11. Current Permits and Licenses and Applications
 12. Existing Easements
 13. Current Rights Of Way
- At Buyer's request, copies of any other document pertaining to the Nooksack Facility property that is directly related to and necessary for future operation, licensing or permitting of the facility and is in the possession or control of Seller

Copies of the foregoing documents will be made at Buyer's sole expense. Seller will retain original documents for recordkeeping purposes. Upon payment of the Promissory Note, the original documents shall be transferred to Buyer, and Seller may retain copies.

For purposes of this Agreement copies of the following documents shall not be included in the sale: (1) employee records; (2) non-project related memorandum and correspondence; (3) confidential business information; (4) attorney-client privileged information; and (5) historical information not directly related to or necessary for Buyer's current and future operation, licensing and permitting of the Nooksack Facility.

EXHIBIT B TO DEED OF TRUST

LIST OF EQUIPMENT INCLUDED IN BILL OF SALE

Pelton Water Wheel Company: 4-wheel horizontal, tangential impulse turbine, 2,547 hp at net design head of 195 feet, 200 rpm, serial number 13165, 1910.

In-operative, Westinghouse AC synchronous Generator; 1,500 kW, 2,200 volt, 3 phase, 60 cycle, 394 amps, 200 rpm, serial no. 67131, patent date 1905.

Hubbell- Ensign Electric Division, Single Vacuum Breaker, #104070-1, 4160 volts

Lombard Governor of Boston, Mass., Type: Q type, Serial No: 988.

Belt driven rotary exciter made by Westinghouse is rated at 45 kW, 125 volts at 850 RPM, 360 amps at 350 RPM, serial number 200608, and is original equipment.

20-Ton, hand operated traveling Crane made by Northern Engineering Works, Detroit, Michigan. This is an entirely mechanical (no motors, operated by blocks and chains) crane. Spans 36'8".

Oil pump double 3" x 3" Lombard pump with a vertical tank with 1906 date.

Oil circuit breaker is a General Electric type FK-43.

DC resistor pile.

Vandalized, Instrument/ Control Panel

EXHIBIT F

WHEN RECORDED MAIL TO:

Arch Ford
P.O. Box 1432
Lewistone, Idaho 83501

QUITCLAIM DEED

GRANTOR, PUGET SOUND ENERGY, INC., a Washington corporation, for and in consideration of TEN DOLLARS AND OTHER GOOD AND VALUABLE CONSIDERATION in hand paid hereby conveys and quitclaims to GRANTEE, PUGET SOUND HYDRO, LLC, a Washington limited liability company, the real property, situated in the County of Whatcom, State of Washington, described below:

See Exhibit A attached hereto, subject the encumbrances, reservations, easements, and conditions of record.

SUBJECT TO: a reserved perpetual easement dated December ____, 2002, and recorded in the Auditor's Office of Whatcom County under under Whatcom County Recording No. _____, which easement is reserved by Grantor for itself and its successors and assigns, the terms and conditions of which easement are incorporated herein and made a part hereof.

Dated this ____ day of December, 2002.

PUGET SOUND ENERGY, INC.,
a Washington corporation

By _____
Its _____

EXHIBIT G
INTERCONNECTION AND PARALLEL OPERATION AGREEMENT

EXHIBIT H
POWER PURCHASE AGREEMENT

EXHIBIT I

BILL OF SALE

PUGET SOUND ENERGY, INC., a Washington corporation ("Seller"), for and in consideration of the sum of Ten Dollars (\$10.00) and other valuable consideration in lawful money of the United States of America, in hand paid by PUGET SOUND HYDRO, LLC, a Washington limited liability company ("Buyer"), the receipt and sufficiency of which is hereby acknowledged, does by these presents grant, bargain, sell and deliver unto said Buyer, all the equipment and personal property identified in Exhibit A, attached hereto and incorporated by this reference.

DATED this ____ day of December, 2002.

PUGET SOUND ENERGY, INC.,
a Washington corporation

By _____
William A. Gaines
Vice President

EXHIBIT A TO BILL OF SALE

LIST OF EQUIPMENT INCLUDED IN BILL OF SALE

Pelton Water Wheel Company: 4-wheel horizontal, tangential impulse turbine, 2,547 hp at net design head of 195 feet, 200 rpm, serial number 13165, 1910.

In-operative, Westinghouse AC synchronous Generator; 1,500 kW, 2,200 volt, 3 phase, 60 cycle, 394 amps, 200 rpm, serial no. 67131, patent date 1905.

Hubbell- Ensign Electric Division, Single Vacuum Breaker, #104070-1, 4160 volts

Lombard Governor of Boston, Mass., Type: Q type, Serial No: 988.

Belt driven rotary exciter made by Westinghouse is rated at 45 kW, 125 volts at 850 RPM, 360 amps at 350 RPM, serial number 200608, and is original equipment.

20-Ton, hand operated traveling Crane made by Northern Engineering Works, Detroit, Michigan. This is an entirely mechanical (no motors, operated by blocks and chains) crane. Spans 36'8".

Oil pump double 3" x 3" Lombard pump with a vertical tank with 1906 date.

Oil circuit breaker is a General Electric type FK-43.

DC resistor pile.

Vandalized, Instrument/ Control Panel

EXHIBIT J
EASEMENT

WHEN RECORDED RETURN TO:
Perkins Coie LLP
One Bellevue Center
411 108th Avenue N.E., Suite 1800
Bellevue, Washington 98004-5584
Attn.: Brett N. Wiese

Document Title: Easement Agreement
Reference Number of Documents Released: None.
Grantor: Puget Hydro LLC, a Washington limited liability company
Grantee: Puget Sound Energy, Inc., a Washington corporation
Legal Description: PTN SEC 31 & 32, T 40 N, R 8 E. PTN SEC 5 & 6, T 39 N, R 8 E.
Assessor's Property Tax Parcel/Account Numbers: 390806 510510

EASEMENT AGREEMENT

THIS EASEMENT AGREEMENT (the "Agreement"), is entered into this ____ day of December, 2002, by and between PUGET SOUND HYDRO LLC, a Washington limited liability company ("Grantor"), and PUGET SOUND ENERGY, INC., a Washington corporation ("Grantee").

RECITALS

A. Grantor and Grantee have entered into a certain Real Estate Purchase and Sale Agreement dated December ____, 2002 (the "Purchase Agreement"), whereby Grantee is the seller and Grantor is the buyer of certain real property situated in Whatcom County, Washington, which property is legally described on Exhibit A (the "Property").

B. Pursuant to the terms of the Purchase Agreement, Grantee has reserved and Grantor shall convey easements over certain portions of the Property, which portions are known as the "Substation Facility Area," the "Transmission Line Area," and the "Access Road Area" which areas are legally described on Exhibit B and depicted on Exhibit C attached hereto.

C. Grantor now desires to convey easements to Grantee for (i) the Substation Facility Area, (ii) the Transmission Line Area, and (iii) the Access Road Area, pursuant to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual promises set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Conveyance of Easements. Grantor hereby quitclaims, transfers and conveys to Grantee, on the terms and conditions set forth herein, (i) an exclusive easement on, over, under, in, along, across, and upon the Substation Facility Area, (ii) a non-exclusive fifty foot (50') wide easement on, over, under, in, along, across, and upon the Transmission Line Area, and (iii) a non-exclusive thirty foot (30') easement on, over, under, in, along, across and upon the Access Road Area.
2. Use of the Substation Facility Area. Grantee shall have and enjoy the Substation Facility Area for the operation, maintenance and repair of an electrical substation and electrical transmission facility, and any and all other legal uses related thereto, including but not limited to the right to occupy, use, construct, operate, maintain, repair, replace, improve, remove, enlarge and use electric transmission and/or distribution systems necessary for the successful operation of an electrical transmission/generation facility.
3. Use of the Transmission Line Area. Grantee shall have and enjoy the fifty foot (50') wide Transmission Line Area for the operation, maintenance and repair of electrical transmission lines which connect to the Substation Facility Area, and any and all other legal uses related thereto, including but not limited to the right to occupy, use, construct, operate, maintain, repair, replace, improve, remove, enlarge and use electrical transmission and/or distribution lines necessary for the successful transmission/distribution of electrical power.
4. Use of the Access Road Area. Grantee shall have and enjoy the thirty foot (30') wide Access Road Area for unobstructed ingress and egress, at all times, to the Transmission Line Area and the Substation Facility Area.
5. Clearing, Grading and Maintenance. Grantee shall have the right, at its sole cost and expense, to clear, grade and maintain the Substation Facility Area, the Transmission Line Area, and the Access Road Area so as to keep such areas clear of trees, vegetation, brush, and any obstructions which in Grantee's reasonable discretion may hinder Grantee's full use and enjoyment of such areas.
6. The Easement Term. The easements conveyed herein shall remain in affect in perpetuity (the "Easement Term"), unless sooner terminated by operation of law or by mutual agreement of the owner of the Grantor Parcel and Grantee. The Easement Term shall commence upon the execution of this Agreement.
7. Release and Indemnification. Except for the negligence or misconduct of Grantor and/or Grantor's servants, agents, employees and contractors, Grantee does hereby release and indemnify Grantor from and against any and all liability, loss, damage, expense, actions and claims, including costs and reasonable attorneys' fees incurred by Grantor in defense thereof, asserted or arising directly on account of or out of acts or omissions of Grantee and/or Grantee's servants, agents, employees and contractors in the exercise of the rights granted herein.

8. Amendments. This Agreement may be amended only by a written instrument executed and acknowledged by Grantor and Grantee, or their successors or assignees, and recorded in the official records of Whatcom County, Washington.

9. Successors. The rights and obligations of the parties hereto shall run with the land and inure to the benefit of and be binding upon their respective successors and assigns.

10. Entire Agreement. This Agreement, together with the exhibits hereto, constitutes the entire agreement of the parties hereto with respect to the subject matter hereof and supersedes any and all prior oral or written agreements or understandings between them pertaining to the subject matter hereof.

11. Recording. This Agreement, and any amendments hereto, shall be recorded with the real property records of Whatcom County, Washington.

12. Attorneys' Fees. If it shall be necessary for either Grantor or Grantee to employ an attorney to enforce its rights pursuant to this Agreement because of the default of the other party, the defaulting party shall reimburse the non-defaulting party for its reasonable attorneys' fees and court costs.

13. Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Washington.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date first above written.

GRANTOR

PUGET SOUND HYDRO LLC,
a Washington limited liability company

By: _____
Arch Ford, Manager

GRANTEE

PUGET SOUND ENERGY, INC.,
a Washington corporation

By: _____

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

On this ____ day of December, 2002, before me, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared _____, to me known to be the _____ of PUGET SOUND ENERGY, INC., the corporation that executed the within and foregoing instrument, and acknowledged that he signed the same as the free and voluntary act and deed of such corporation, for the uses and purposes therein mentioned.

GIVEN UNDER my hand and official seal hereto affixed the day and year in this certificate first above written.

Print Name: _____
Notary Public in and for the State of
Washington, residing at _____
My commission expires: _____

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

On this ____ day of December, 2002, before me, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared ARCH FORD, to me known to be the MANAGER of PUGET SOUND HYDRO, LLC, the limited liability company that executed the within and foregoing instrument, and acknowledged that he signed the same as the free and voluntary act and deed of such company, for the uses and purposes therein mentioned.

GIVEN UNDER my hand and official seal hereto affixed the day and year in this certificate first above written.

Print Name: _____
Notary Public in and for the State of
Washington, residing at _____
My commission expires: _____

EXHIBIT A
Legal Description

EXHIBIT B

EASEMENT AREA LEGAL DESCRIPTION

Legal Description Substation Facility Area

From United States Land Monument Number 2 (USLM) located in PTN Section 31 T 40 N R8E;

Proceed N 23° 59' E, 42.7 feet;

Proceed N 48° 13' W, 1,215.2 feet along North property boundary;

Proceed N 87° 42' W, 610 feet along North property boundary;

Proceed S 2° 18' W, 287' which is the NE corner of the chain link fence surrounding the Substation.

Easement from previous corner point is:

S 2° 30' W, 38.8 feet, which is the east side of the easement;

N 87° 30' W, 32.5 feet, which is the south side of the easement;

N 2° 30' E, 38.3 feet, which is the west side of the easement; and

S 87° 30' E, 32.5 feet which is the north side of the easement.

Legal Description Transmission Line Area

From United States Land Monument Number 2 (USLM) located in PTN Section 31 T 40 N R8E

Proceed N 23° 59' E, 42.7 feet;

Proceed N 48° 13' W, 1,215.2 feet along North property boundary;

Proceed N 87° 42' W, 1,027.5 feet along North property boundary;

Proceed S 26° 37' W, 240 feet along West property boundary, which is start of Transmission line easement;

Easement from above point on West property boundary is 25 feet to each side of the Transmission centerline, which is defined as:

Proceed S 89° 0' E, 160 feet;

Proceed S 88° 44' E, 360 feet (approx.) to pole;

Proceed S 1° 16' W, 25 feet (approx.) terminating at northside of subdivision easement.

Legal Description Access Road Area;

From United States Land Monument Number 2 (USLM) located in PTN Section 31 T 40 N R8E

Proceed N 23° 59' E, 42.7 feet;

Proceed N 48° 13' W, 1,215.2 feet along the north property boundary;

Proceed N 87° 42' W, 1,027.5 feet along the north property boundary;

Proceed S 26° 37' W, 270 feet along West property boundary, which is start of Access Road easement;

Easement from previous point on West property boundary is 15 feet to each side of the Access Road centerline, which is defined as

Proceed S 89° 0' E, 575 feet (approximate) terminating beyond eastside substation easement area.

