

PROTOTYPE OWNERSHIP TERM SHEET

Background

This Prototype Ownership Term Sheet (“Term Sheet”) sets forth the current requirements that we, PSE, want you, the Respondent, to address or incorporate into any proposal you make to us that contemplates the ultimate ownership of your project by us. It is intended to identify certain elements of a potential transaction that would be embodied in Definitive Agreements (defined below).

We have tried to identify in this Term Sheet those provisions that would be applicable generally to all Respondents and relevant to any potential transaction arising out of a proposed PSE ownership arrangement involving the sale of a project to PSE. We recognize, however, that the particular facts and circumstances relevant to your project may vary from the transaction structure described in this Term Sheet, so certain proposals may not incorporate all elements of a PSE ownership arrangement outlined in this Term Sheet.

We also recognize that you may have other reasons (whether legal, regulatory or relating to financing) that may cause you to propose that PSE purchase equity interests (such as limited liability company interests or limited partnership interests) in a project company that owns a generation project, rather than sell the project outright to PSE.

We prefer proposals consistent with the sort of ownership arrangement described in this Term Sheet. Nevertheless, we are willing to review and evaluate alternative ownership structures on the basis set forth in the RFP, taking into consideration the different or additional economic, legal, regulatory, tax, risk management, financing, credit support, contractual and other implications presented by such alternative proposals.

By submitting your proposal, you acknowledge that the RFP, including this Term Sheet, has been prepared by us as part of our ongoing process of integrated resource planning and that we are considering alternative arrangements for the procurement of generation resources. This Term Sheet is an integral part of, and subject to, the terms and conditions of the RFP. You should not interpret this Term Sheet as an offer, agreement or commitment by PSE to acquire any generation resource. Also, this Term Sheet shall not limit, restrict or obligate us with regard to the conduct of our integrated resource planning process, the potential implementation of any plan or program of resource procurement or the actual procurement of any generation resources.

We reserve the right to reject any and all proposals received in response to the RFP, request the submission of different proposals for other generation resources and/or seek to acquire generation resources from

one or more parties other than any Respondent. We may also modify, change, supplement or delete any and all provisions of this Term Sheet, or withdraw and cancel the RFP.

General Ownership Structure

When we speak of a “PSE ownership arrangement” we mean a proposal pursuant to which PSE would ultimately own the resource. Ownership could be transferred to us at various stages of development and using a variety of approaches. For example, possibilities include joint development by you and PSE, development by you followed by the transfer to PSE, an initial purchase of power by PSE with transfer of ownership later, or other mutually beneficial approaches. Although we are willing to consider a variety of arrangements, this Term Sheet presumes that we would acquire an ownership interest in a Project (as defined below under “*Respondent and the Project*”) either (i) prior to the commencement of its construction or (ii) after it has already commenced commercial operations. Please note that if you include a proposal to shape a resource to our seasonal resource requirements, your proposal should provide a fixed price (e.g., not tied to a market price index) and should be for a longer-term arrangement (3, 5 or 7 years).

This Term Sheet sets forth certain terms and conditions which would be embodied in a purchase and sale agreement (the “PSA”) pursuant to which we would acquire 100% of all assets, properties and rights of the Project from you.¹

If your proposal contemplates a PSE ownership arrangement, in addition to containing the other submissions required by the RFP, you will need to set forth in your proposal substantial additional details. We will need to review supporting documents, information and data regarding the timing, price, terms and conditions of a proposed sale of the Project to PSE and a budget, schedule and other information regarding the funding of construction, operation and maintenance of the Project.

¹ These assets, properties and rights of the Project would include all of the associated real and personal property, tangible and intangible property, assets, equipment, components, facilities, interconnections, systems, spare and replacement parts, permits, intellectual property, and contractual, expansion and other rights currently held or acquired in the future that are necessary, useful, held for use or appropriate for the ownership, planning, development, permitting, design, engineering, construction, interconnection, transmission, use, operation, maintenance, repair and expansion of the Project.

Exhibit XI, All Generation Source RFP – Prototype Ownership Term Sheet (DRAFT)

Respondent and the Project

This Term Sheet assumes that you, the Respondent, are the owner of a generation project currently operating or under development and having a nameplate capacity of not less than 25 MW (the “Project”).

In your response to the RFP, in addition to the other submissions that should accompany a proposal that contemplates the sale of all of the Project to PSE, you need to comprehensively demonstrate to us that the Project, as proposed to be owned, financed, permitted, constructed, operated and maintained, is capable of being “placed in service” on or before [December 31, 2008],² in full compliance with all technical, performance and operating criteria and standards and the requirements of the RFP, applicable laws, regulations, permits and governmental authorities having jurisdiction over the parties or the Project.

Certain Definitive Agreements

We expect that the agreements necessary to complete the potential transaction described in this Term Sheet (the “Definitive Agreements”) would include, at least: (1) a PSA for the sale by Respondent to PSE of all of the Project, and (2) if we deem it necessary, a guaranty by an affiliate of yours acceptable to PSE (the “Guarantor”), who would guaranty your obligations or those of your affiliates under the Definitive Agreements (the “Respondent Guaranty”).

The execution and delivery of the Definitive Agreements would be subject, among other things, to our satisfactory completion of due diligence and the approval of the transaction by each party’s board of directors (or other appropriate management body).

Closing

The Closing would occur after receipt by the parties of all consents, authorizations and approvals and the satisfaction or waiver of conditions precedent specified in the Definitive Agreements. At the Closing, we would purchase the Project from you, free and clear of all liens, charges, encumbrances, and conflicting or competing claims.

Transaction Taxes

You would be responsible for the payment of all sales, conveyance, transfer, real estate excise, business and occupation or similar transaction taxes assessed with respect to or imposed on either party relating to PSE’s purchase of the Project or otherwise in connection with a potential transaction. We would agree to cooperate with you to minimize both of our respective transaction taxes.

Regulatory Approvals

We expect that the following regulatory approvals, among others, might be required prior to Closing to implement a proposed transaction:

- (1) Receipt of FERC approval under Section 203 of the Federal Power

² PSE’s preference is that the Project would be placed in service on or before [December 31, 2008]; however, PSE will evaluate proposals that contemplate a later placed in service date.

Exhibit XI, All Generation Source RFP – Prototype Ownership Term Sheet (DRAFT)

Act required for the transfer of an interest in FERC-jurisdictional facilities included as part of the Project;

(2) Expiration of any waiting period (or obtaining of any approval required) under Hart-Scott-Rodino; and

(3) Receipt by PSE from the Washington Utilities and Transportation Commission (the “WUTC”) of approvals and orders, as applicable, pertaining to our acquisition of the Project and the other aspects of the potential transaction, and confirming the inclusion of the full amount of the purchase price plus all or substantially all of our transaction costs and other amounts allocable to the construction, start-up, testing and commissioning of the Project in our rate base.

Transaction Representations & Warranties

We expect that the Definitive Agreements would contain representations and warranties by both parties customary for similar transactions relating to, among other things:

(1) Receipt by the parties of regulatory and other approvals necessary to consummate the potential transaction;

(2) The financial condition of each of you, your Guarantor and any affiliate of yours that is a party to a Definitive Agreement, and PSE;

(3) The nature and extent of your right, title and interest in and to the Project and the condition of the Project (including with respect to environmental matters);

(4) The sufficiency of the assets, properties, equipment and rights constituting the Project, including permits and governmental authorizations, for the construction, operation, maintenance and repair of the Project and for the full operation, utilization and maintenance of the Project in accordance with the requirements of the RFP;

(5) The Project’s compliance with the requirements of applicable law;

(6) Labor and employment matters; and

(7) Other appropriate representations and warranties as may reasonably be required by PSE or Respondent.

Transaction Covenants

The Definitive Agreements would contain covenants of Respondent and PSE customary for similar transactions.

Depending upon the circumstances of your proposal (such as the financial condition and experience of you and your Guarantor, the status of development and completion of the Project, the nature of existing contractual arrangements, the capacity, equipment and other technical

Exhibit XI, All Generation Source RFP – Prototype Ownership Term Sheet (DRAFT)

characteristics of the Project, and other details of your proposal), the Definitive Agreements may set forth covenants from you in which you promise not to take certain actions, possibly including:

- making any loans, advances or contributions to any person or furnishing a guaranty of the obligations of any person;
- failing to continue to develop the Project prior to Closing;
- agreeing to unreasonably costly mitigation efforts;
- changing your organizational and governing documents or reorganizing into any other legal form, entering into any joint venture or partnership, or consolidating, converting or merging with or acquiring any other entity;
- engaging in any business other than the management, administration, operation and maintenance of the Project;
- incurring any indebtedness (other than, if necessary, your project financing);
- settling any third party claim relating to the Project without our prior written consent, which consent would not be unreasonably withheld; or,
- soliciting, offering, or negotiating with any third party for the sale or transfer of the Project prior to Closing.

Terms and Conditions For Projects Under Development

If your proposal involves an unbuilt Project, we are willing to consider contracting to either (i) transfer to us the responsibility for its completion, start-up and commissioning, or (ii) having you keep responsibility for its completion, start-up and commissioning.

In either case, the Definitive Agreements would include detailed schedules showing the Project's design, engineering and construction status. These schedules will need to include:

- performance and technical specifications of the Project;
- performance guarantees;
- major equipment and systems and vendors;
- major subcontractors;
- the status of permit applications;

Exhibit XI, All Generation Source RFP – Prototype Ownership Term Sheet (DRAFT)

- the status of contractors' and vendors' obligations and warranties; and,
- the schedule for completion of the Project and other related information and data.

The Definitive Agreements would also require you to provide access to the Project to certain designated PSE employees, representatives and agents so that they can observe and monitor the manufacture, fabrication, assembly, installation, construction, start-up, testing and commissioning of the Project and any parts or components of it. Our people would also be permitted access to the premises of contractors, vendors and consultants and attend meetings and review and copy information, data and documents in connection with our due diligence review. Our employees, representatives and agents would be required to observe your (and your contractors') rules regarding safety, security and confidentiality and would not interfere with or hinder the construction of the Project.

In the event that you plan to retain responsibility for the completion, start-up and commissioning of the Project, we expect that the following additional terms and conditions would apply to the proposed transaction:

Purchase Price

The portion of the purchase price allocable to the cost of completion of the Facility would be payable in predetermined installment amounts through Final Completion (as defined below) as set forth in a funding schedule to be incorporated in the Definitive Agreements, with the first payment due at Closing. The Definitive Agreements would also set forth the procedure for invoicing and payment of all remaining amounts due.

Respondent's Completion of the Project

Subject to certain approval rights of PSE, you would be responsible for the direction of, and the cost and expense necessary, incidental to or appropriate for, the construction, completion, start-up and commissioning of the Project, including mobilization, design, engineering, procurement, supply, supervision, and testing expenses (with the exception of such expenses related to fuel for certain tests as set forth below). Your Guarantor would unconditionally guarantee your payment, performance, warranty and other obligations with respect to the design, engineering, construction and completion of the Project in accordance with the criteria set forth in the Definitive Agreements. You would cause construction of the Project to be performed or supervised

Exhibit XI, All Generation Source RFP – Prototype Ownership Term Sheet (DRAFT)

by an EPC contractor experienced in the design, engineering and construction of electric generating facilities similar to the Project and in accordance with applicable laws, regulations, permits, the standards and criteria of original equipment manufacturers, good industry practices and insurance requirements.

Change Orders: In completing the construction of the Project, you would notify PSE, in writing, prior to making any proposed change order or any other modification to the design, component parts or equipment or operational characteristics of the Project which (A) (i) involves individually an amount in excess of \$[]³ or (ii) is proposed after the aggregate value of prior change orders or modifications is \$[]⁴, or (B) which would reasonably be expected to adversely affect the operational characteristics, reliability or costs of operation and maintenance of the Project. PSE would have ten (10) days to notify you in writing that we do not consent to the proposed change order or modification described by you in such notice; otherwise we would be deemed to concur with the proposed change order or modification.

Otherwise, you shall have the right, without PSE's consent, to make such substitutions of parts, materials and/or equipment in completing the construction of the Project as would not be reasonably expected to adversely affect the operational characteristics, reliability or costs of operation or maintenance of the Project. You agree to provide PSE with a list of such substitutions on a monthly basis and at Substantial Completion and Final Completion (each as defined below). In the event you fail to provide timely notice to PSE of any proposed change order or modification of the nature or effect described above, and such change order or modification results in a material adverse change to the operational characteristics, reliability or costs of operation and maintenance of the Project, the Definitive Agreements would set forth mutually agreed upon rights and remedies.

For purposes of this Term Sheet, “Substantial Completion” means the completion of the Project, the completion of the facilities necessary to interconnect the Project to the electric grid and to receive water, fuel supplies and other supplies and services, and the delivery of all permits, interim manuals sufficient for interim operations during the period between Substantial Completion and Final Completion, and other deliverables necessary for PSE to operate the Project on a commercial basis in accordance with the requirements of the Definitive Agreements

³ Amount to depend on facts pertaining to the particular Project, including but not limited to the Project's size and cost.

⁴ Amount to depend on facts pertaining to the particular Project, including but not limited to the Project's size and cost.

at an electrical output not less than and heat rate not greater than certain “Minimum Performance Guarantees” to be agreed to in the Definitive Agreements. “Final Completion” shall mean the final completion by Respondent of all items of work remaining at Substantial Completion, delivery of all outstanding deliverables, including manuals and lien releases from contractors and vendors, clean-up of the site and removal of all equipment.

No later than at Final Completion, you would provide us with statutory lien releases from the EPC contractor and its subcontractors furnishing services, equipment or goods used in the design, engineering, equipping, construction and completion of the Project, evidencing that all amounts due to such parties have been paid or bonded around, such that PSE and the Project would not be liable for payment of any such amounts owed.

Subsequent to Closing, PSE would be the owner of and receive one hundred percent (100%) of all energy products produced in connection with the start-up, testing and commissioning of the Project. PSE would be responsible for (i) the procurement, cost and delivery to the Project of all fuel and station power necessary for the start-up, testing, and commissioning of the Project, and (ii) the receipt of such energy products from the Project and the cost of any associated electric transmission service for such energy products. PSE would schedule all fuel deliveries and electric transmission for the start-up, testing and commissioning of the Project according to an agreed upon schedule, no later than one (1) month prior to the commencement of the testing and consistent with the schedule for achievement of Substantial Completion. You will not be liable under the Definitive Agreements for any schedule delays attributable to PSE's failure to have such fuel, station power and electric transmission available in accordance with the schedule.

We would provide you and your designees access to the Project as you require after Substantial Completion, consistent with all safety and similar practices as reasonably requested by PSE, for the purpose of achieving Final Completion and performing warranty work. We will ensure that a sufficient number of qualified operators are available to support the start-up, testing and commissioning activities, all as you recommended.

Title and Risk of Loss

We would take title to the Project upon the closing of the transaction. However, risk of loss would transfer to PSE only upon the achievement of Substantial Completion of the Project.

Liquidated Damages and Performance Bonuses

You would be liable for schedule liquidated damages if you fail to achieve Substantial Completion of the Project by an agreed upon date, as well as performance liquidated damages for failure to meet the Minimum Performance Guarantees agreed to in the Definitive Agreements.

You also would have the right to earn a performance bonus in the event that the Project achieves Substantial Completion earlier than the agreed upon scheduled date and if the Project exceeds performance standards for capacity and heat rate specified in the Definitive Agreements.

Additional Representations, Warranties and Covenants of Respondent

We expect that the Definitive Agreements would include the following additional representations, warranties and covenants in the event that you retain responsibility for the completion, start-up and commissioning of the Project:

- (1) You would cause the Project to be designed, engineered, equipped and constructed in accordance with the provisions of the Definitive Agreements so as to meet the Minimum Performance Guarantees and other criteria set forth in the Definitive Agreements and be Substantially Complete and commercially operable on or before a guaranteed Substantial Completion date;
- (2) You will provide a full “wrap” of obligations with respect to the Project and all equipment warranties and cause Guarantor to guarantee your obligations;
- (3) You would at all times maintain sufficient rights and entitlements to such services and facilities as may be necessary to develop, construct and complete the Project so that upon Substantial Completion the Project may be operated on a commercial basis;
- (4) You would obtain and maintain during the construction of the Project, at your cost and expense, builder's risk insurance, the terms, conditions, limits of coverage and other provisions of which are normal and customary;
- (5) You, with PSE's commercially reasonable cooperation and assistance, would at your cost be responsible for applying for, obtaining and maintaining and complying with all permits and other governmental authorizations necessary or appropriate for the construction, start-up, testing, ownership, occupancy, use, operation and maintenance of the Project; and

(6) You would cause all equipment warranties (the terms and conditions of which we will have the right to approve), to be in full force with the respective contractors and vendors and fully assignable to PSE, and you will assign such warranties to PSE as of Substantial Completion of the Project.

Project Managers and Independent Engineer

Each of us would designate a construction project manager no later than the date of Closing. Notices, correspondence and other communication required or contemplated by the Definitive Agreements relating to the construction of the Project would be made through our respective construction project managers, except as otherwise agreed.

An independent engineer would be retained to verify you have achieved the performance levels and other criteria required to meet Substantial Completion and Final Completion under the Definitive Agreements. We would share with you the independent engineer's fees and expenses. PSE and Respondent would select the independent engineer from a mutually agreed list of qualified engineers included in the Definitive Agreements.

**Respondent
Guaranty
Requirements**

If we determine that you alone are not sufficiently creditworthy, we will require you to have your Guarantor provide us with the Respondent Guaranty, pursuant to which Guarantor would guarantee the performance by you and your affiliates of your obligations to or for the benefit of PSE under the Definitive Agreements. The Respondent Guarantor would also guaranty the payment of any damages, losses, liabilities, costs and expenses incurred by PSE and payable by you or your affiliates) under the Definitive Agreements. The parties would address in the Definitive Agreements the circumstances, if any, in which PSE might require adequate assurance by you or your Guarantor of your performance of your obligations under the Definitive Agreements, and the nature of such assurance.

**Conditions
Precedent**

The Definitive Agreements shall contain customary conditions precedent for transactions of this type, including:

(1) Delivery of all instruments, consents, assignments, certificates and opinions required by the Definitive Agreements, including, but not limited to, customary opinions regarding (a) the satisfaction of requisite regulatory approvals and requirements and (b) if applicable, the absence of any conflict with any legal, regulatory, contractual or other limitation applicable to any of the parties resulting from granting of a security interest in respect of the undivided interest of a party in the Project to any designated third party lender;

Exhibit XI, All Generation Source RFP – Prototype Ownership Term Sheet (DRAFT)

(2) No material adverse change in the financial condition or business and operations of you, your Guarantor, or any affiliate of yours that is a party to a Definitive Agreement, or PSE;

(3) No material adverse change in the budget, schedule, permit and legal requirements, technical requirements and plans relating to construction, operation, maintenance and repair of the Project, or in the performance levels, operability, output and condition of the Project;

(4) Receipt by PSE of the approvals or orders discussed above under “*Regulatory Approvals*”; and

(5) Such other customary conditions precedent as the parties in good faith determine are reasonably necessary taking into account the parties’ obligations, including appropriate provisions to address the consequences of material adverse changes in the physical condition and performance of the Project prior to the Closing.

Limitations on Liability

The Definitive Agreements shall provide that notwithstanding anything to the contrary, in the event of a breach of the obligations of one of the parties or otherwise, such party would be liable for direct damages only, and under no circumstances shall such party be liable to the other party for consequential (including, without limitation, lost profits, business interruption and the like), incidental, punitive, exemplary or similar damages.

Indemnification

You would indemnify, hold harmless and defend PSE and our affiliates, directors, officers, employees, representatives, and agents from and against any claims, damages, loss, liability, judgment, award, fine, penalty, cost or expense, including reasonable fees of attorneys arising out of, relating to or in connection with any event, occurrence, circumstance, condition, action or omission prior to Closing. The Definitive Agreements would also set forth provisions by which each party would indemnify, hold harmless and defend the other party and its affiliates, directors, officers, employees, representatives and agents from and against certain losses with respect to false or inaccurate representations and warranties or breaches of covenants and obligations under the Definitive Agreements.

Due Diligence

For a specified period commencing on the date we notify you that your proposal has been selected as a potential transaction (this period, and any extensions to it we may agree upon, the “Due Diligence Period”), we would be entitled to conduct an in-depth due diligence review of the Project, you, your Guarantor and any affiliate of yours that would be a party to a Definitive Agreement. You agree to fully cooperate (and cause your affiliates to fully cooperate) with us and to facilitate this

process.

We expect that our due diligence would include a review of the following, among others:

- all technical matters relating to the Project;
- construction, engineering and transmission agreements, and any other commercial arrangements relating to the Project;
- legal and regulatory matters (including the availability and terms of all required permits and licenses);
- information systems, human resources (subject to applicable legal confidentiality and other restrictions), insurance matters; and,
- any other matters associated with the development, permitting, design, engineering, construction, interconnection, start-up, commissioning, operation and maintenance of the Project.

We agree that our due diligence review shall not unreasonably disrupt your (or your affiliates') business, or your directors, officers, employees and agents. The Due Diligence Period would terminate automatically in the event of the termination of the Term Sheet by either party.

During the Due Diligence Period, you and your affiliates would provide access to the Project to certain designated PSE employees, representatives and agents so that they could observe and monitor the manufacture, fabrication, assembly, installation, construction, start-up, testing and commissioning of the Project and any of its parts or components. Our people would also be permitted access to the premises of contractors, vendors and consultants, attend meetings and review and copy information, data and documents in connection with our due diligence review. We would be subject to and would be required to observe your (and your contractors') rules regarding safety, security and confidentiality and we would not interfere with or hinder the construction of the Project.

Dispute Resolution The Definitive Agreements would contain provisions for the resolution of disputes, and the forum for the resolution of any dispute arising under or in connection with this Term Sheet or the Definitive Agreements would be King County, Washington.

Expenses Each party shall bear its own legal, accounting, regulatory and other professional fees and expenses and other costs associated with the RFP and a potential transaction, regardless of whether a transaction is consummated.

Exhibit XI, All Generation Source RFP – Prototype Ownership Term Sheet (DRAFT)

Assignability The parties would not be permitted to assign the Definitive Agreements or their respective rights and obligations under them without the prior written consent of the other party, such consent not to be unreasonably withheld or delayed.

This Term Sheet is for discussion purposes only to facilitate PSE’s evaluation and assessment of proposals submitted in response to the RFP relating to a potential transaction for the acquisition of rights and interest in a generation project. It is not intended to create a binding or enforceable agreement, contract or commitment or to be complete and all inclusive of the terms and conditions of a potential transaction. This is not an offer, agreement or a commitment of PSE, Respondent or Guarantor or any parent company or affiliate of any of them. The potential transaction described above would be subject to further review and approval of the board of directors of each of PSE, Respondent or Guarantor, the conduct and completion of due diligence by PSE to its satisfaction and the execution of the Definitive Agreements containing all appropriate provisions, including, but not limited to, those relating to credit, limitation of damages, indemnification, remedies and force majeure.