

EXHIBIT NO. ___(JLM-3)
DOCKET NO. UE-06 ___/UG-06 ___
2006 PSE GENERAL RATE CASE
WITNESS: JOEL L. MOLANDER

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

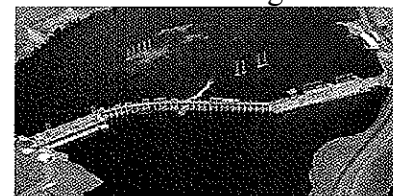
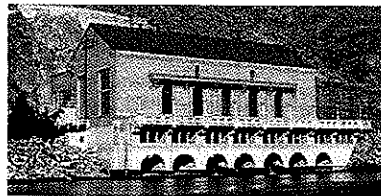
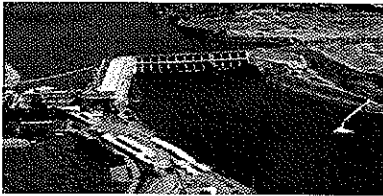
PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. UE-06 ___
Docket No. UG-06 ___

**SECOND EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF
JOEL L. MOLANDER
ON BEHALF OF PUGET SOUND ENERGY, INC.**

FEBRUARY 15, 2006

**PUBLIC UTILITY DISTRICT NO. 1 of CHELAN COUNTY**

P.O. Box 1231, Wenatchee, WA 98807-1231 • 327 N. Wenatchee Ave., Wenatchee, WA 98801

(509) 663-8121 • Toll free 1-888-663-8121 • www.chelanpud.org

February 1, 2006

Puget Sound Energy, Inc.
10885 NE 4th Street
Bellevue, WA 98004

Attn: Eric M. Markell
Senior Vice President Energy Resources

RE: Power Sales Agreement between Public Utility District No. 1 of Chelan County,
Washington and Puget Sound Energy, Inc. dated as of February 1, 2006

Gentlemen:

Puget Sound Energy, Inc. ("Puget") and Public Utility District No. 1 of Chelan County, Washington (the "District") have on this date entered into a Power Sales Agreement related to output from the Chelan Power System (the "Power Sales Agreement"). Pursuant to Section 13.01 of the Power Sales Agreement, Puget has agreed that it will not assign its rights and obligations under the Power Sales Agreement to any third party without the District's consent.

Puget has advised the District that, under its existing financing arrangements evidenced by that certain Fortieth Supplemental Indenture dated as of September 1, 1954, supplemental to the Indenture dated as of June 2, 1924, as supplemented and modified from time to time (collectively, the "Indenture"), between Puget and the party named as "Trustee" therein (the "Trustee"), Puget has granted the Trustee a security interest in a substantial portion of its assets, which may include certain rights to exercise Puget's rights under the Power Sales Agreement, to secure certain outstanding obligations under the Indenture (the "Security Interest"). Puget has requested that the District acknowledge the Security Interest and waive any default under the Power Sales Agreement that may arise as a result of any lien created thereby, and to further waive any default under the Power Sales Agreement that may arise from the grant by Puget of a similar security interest in connection with the refinancing of the obligations under the Indenture (the "Refinancing"), in each case subject to the limitations described below.


The District hereby acknowledges the existence of the Security Interest and agrees to waive any Puget default (or Event of Default) under the Power Sales Agreement that may arise

solely as a result of the existence of any lien created by, or Puget's grant of other possible rights under, the Indenture, or any lien or Puget's granting of other possible rights with respect to the Refinancing. The District is not, by this waiver, in any way consenting to an amendment or modification of the terms of the Power Sales Agreement or waiving any other provision or requirement applicable to Puget or its permitted assigns thereunder. Consequently, any potential assignee (including the Trustee and any successor entity under the Refinancing) of Puget's rights or interests under the Power Sales Agreement, whether by way of foreclosure of the Security Interest or any security interest granted in connection with the Refinancing, or any arrangement in lieu of foreclosure, or any workout under any bankruptcy or creditor's rights laws, or otherwise, will have to meet and strictly comply with the criteria for assignment set forth in Section 13.01(B) of the Power Sales Agreement before any assignment by Puget to such potential assignee will become effective.

By execution of this Letter Agreement, each party agrees to the limited nature of the District's agreement contained herein and to the conditions by which such agreement was granted.

This Letter Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same document, and each of which shall for all purposes be deemed to be an original. This Letter Agreement may be amended, terminated or otherwise modified only by written instrument executed by the District and Puget. This Letter Agreement shall be governed by the laws of the State of Washington without regard to choice of law rules.

Sincerely yours,



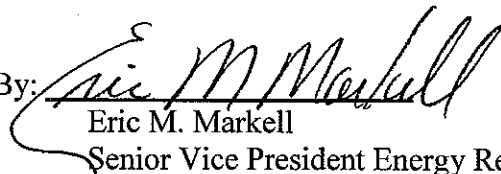
Wayne Wright,
Interim General Manager for
Public Utility District No. 1 of Chelan
County, Washington

ACCEPTED AND AGREED to this

3rd day of FEBRUARY, 2006:

PUGET SOUND ENERGY, INC.

By:



Eric M. Markell
Senior Vice President Energy Resources

EXECUTION COPY

POWER SALES AGREEMENT

BY AND BETWEEN

PUBLIC UTILITY DISTRICT NO. 1

OF

CHELAN COUNTY, WASHINGTON

AND

PUGET SOUND ENERGY, INC.

DATED AS OF

February 1, 2006

TABLE OF CONTENTS

<i>ARTICLE I DEFINITIONS</i>	<i>1</i>
Section 1.01.Definitions.....	1
Section 1.02.Interpretation.....	9
Section 1.03.Technical Meanings.....	10
Section 1.04.Conflicts.....	10
<i>ARTICLE II APPENDICES</i>	<i>11</i>
Section 2.01.Appendices.....	11
<i>ARTICLE III TERM AND TERMINATION</i>	<i>11</i>
Section 3.01.Term.....	11
Section 3.02.Condition Precedent to Effectiveness.....	11
Section 3.03.Termination.....	12
Section 3.04.Continued Effectiveness after Termination.....	12
<i>ARTICLE IV REPRESENTATIONS</i>	<i>12</i>
Section 4.01.Representations.....	12
Section 4.02.Compliance Covenant.....	13
Section 4.03.Independent Decision.....	13
Section 4.04.Ability to Perform.....	14
Section 4.05.Forward Contract Merchant.....	14
<i>ARTICLE V OUTPUT</i>	<i>14</i>
Section 5.01.Output To Be Made Available.....	14
Section 5.02.Delivery and Scheduling.....	15
Section 5.03.Right to Resell.....	15
Section 5.04.Mandatory Step-up.....	15
<i>ARTICLE VI CURTAILMENT AND DECOMMISSIONING</i>	<i>16</i>
Section 6.01.Curtailment.....	16
Section 6.02.Restoration of Service.....	17
Section 6.03.Decommissioning.....	17
<i>ARTICLE VII PAYMENT</i>	<i>17</i>
Section 7.01.Payments and Charges.....	17
Section 7.02.Unconditional Obligations.....	23
Section 7.03.Final Payment.....	23

Section 7.04.Post Adjusting Invoices/Credits	23
Section 7.05.Use of Funds by District	23
Section 7.06.Disposition of Fund Balances Upon Expiration or Termination of Agreement.....	23
Section 7.07.Investment of Certain Funds.	23
ARTICLE VIII BILLING AND PAYMENT.....	24
Section 8.01.Billing of Periodic Payments.....	24
Section 8.02.Accounting.....	25
Section 8.03.Audits by Purchaser.	25
Section 8.04.No Interest In System.	26
ARTICLE IX INTERCONNECTION AND TRANSMISSION.....	26
Section 9.01.Interconnection and Transmission Agreements.	26
Section 9.02.Type of Service; Scheduling.....	26
ARTICLE X CONTROL, OPERATION AND MAINTENANCE OF THE SYSTEM	26
Section 10.01.Control, Operation and Maintenance of the Chelan Power System.	26
ARTICLE XI RELICENSING SUPPORT	27
Section 11.01.Relicensing Support.....	27
Section 11.02.Cooperation.	27
ARTICLE XII RISK OF LOSS AND DISCLAIMER OF WARRANTIES.....	27
Section 12.01.Risk of Loss.	27
Section 12.02.Disclaimer of Warranties.	28
ARTICLE XIII ASSIGNMENT.....	28
Section 13.01.Assignment.	28
ARTICLE XIV TAXES AND INSURANCE.....	30
Section 14.01.Taxes.	30
Section 14.02.Insurance Required.	30
Section 14.03.Certificates of Insurance.	30
ARTICLE XV DEFAULT AND TERMINATION.....	30
Section 15.01.Events of Default.....	30
Section 15.02.Remedies upon Default.....	32
Section 15.03.Calculation of District's Loss upon Termination.....	33
ARTICLE XVI DISPUTE RESOLUTION.....	34
Section 16.01.General.	34
Section 16.02.Good-Faith Negotiations.	35

Section 16.03. Confidentiality and Non-Admissibility of Statements Made in, and Evidence Specifically Prepared for, Good Faith Negotiations.	35
Section 16.04. Other Recourse.	35
Section 16.05. Commitments.	36
ARTICLE XVII NO DEDICATION OF FACILITIES.	36
Section 17.01. No Dedication of Facilities.	36
ARTICLE XVIII LICENSES AND OWNERSHIP AND CONTROL	36
Section 18.01. FERC Licenses and Bond Resolutions.	36
ARTICLE XIX INFORMATION AND CONFIDENTIALITY	36
Section 19.01. Confidential Information; Disclosure.	36
ARTICLE XX FINANCIAL INFORMATION.	37
Section 20.01. Financial Information.	37
ARTICLE XXI LIMITATION OF LIABILITY.	37
Section 21.01. Limitation of Liability.	37
Section 21.02. Survival.	38
Section 21.03. No Personal Liability.	38
Section 21.04. Duty to Mitigate.	38
ARTICLE XXII NOTICES	38
Section 22.01. Notification.	38
ARTICLE XXIII MISCELLANEOUS.	39
Section 23.01. Binding Effect.	39
Section 23.02. Applicable Law; Venue.	39
Section 23.03. Entire Agreement; Modifications.	39
Section 23.04. Headings.	40
Section 23.05. Third Party Beneficiaries.	40
Section 23.06. Non-waiver.	40
Section 23.07. Attorney Fees.	40
Section 23.08. Execution.	40
Section 23.09. Severability.	40
Section 23.10. No Guaranty; Obligations Regarding Bonds or Indebtedness.	40
Section 23.11. Environmental Attributes.	40
Section 23.12. Metering.	41

Schedule of Appendices

Appendix A: Determination of Chelan Power System Net Costs

Appendix B: Output, Scheduling, Planning and Transmission

Appendix C: Project Specific Lines and Facilities

Appendix D: Form of Transmission Agreement

Appendix E: Form of Legal Opinions

POWER SALES AGREEMENT

This Agreement is dated as of the 1st day of February, 2006 by and between Public Utility District No. 1 of Chelan County, Washington (hereinafter referred to as the "District"), and Puget Sound Energy, Inc. (hereinafter referred to as the "Purchaser"), a Washington corporation (collectively referred to as the "Parties" and individually as a "Party").

RECITALS

The District is the owner and operator of the Rock Island and Rocky Reach Projects (as hereinafter defined, the "Projects"), located in or adjacent to Chelan County, Washington. The Purchaser wishes to purchase a percentage of the energy and capacity of the Projects, and certain ancillary services associated therewith, using a methodology as set forth herein, and the District is willing to sell such output and services, all on the terms and conditions set forth herein.

For and in consideration of the promises, representations and undertakings of the Parties, they covenant and agree as follows:

ARTICLE I DEFINITIONS

Section 1.01. **Definitions.** The following definitions shall apply throughout this Agreement and its Appendices whenever the term is capitalized. Other terms with special meaning within this Agreement are defined in the text or in the Appendices.

"Adequate Assurance" means assurances of continued performance by the Purchaser of its obligations hereunder, in each case reasonably acceptable to the District.

"Affiliate" means, with respect to any Person, any other Person (other than an individual) that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such Person. For this purpose, "control" means the direct or indirect ownership of fifty percent (50%) or more of the outstanding capital stock or other equity interests having ordinary voting power.

"Agreement" means this Agreement, including the schedules and appendices hereto, all as may be amended from time to time pursuant to the terms hereof.

"Appendix" means an Appendix attached to this Agreement.

"Approval Date" means the date FERC approves this Agreement.

"Assumed Debt Service" has the meaning set forth in Section 1 of Appendix A.

"Average Service Life" has the meaning set forth in Section 1 of Appendix A.

“Bankruptcy” means, with respect to a Party, (i) an adjudication of bankruptcy or insolvency, or the entry of an order for relief, under any Bankruptcy Law with respect to such Party; (ii) the making by such Party of an assignment for the benefit of its creditors; (iii) the filing by such Party of a petition in bankruptcy or for relief under any Bankruptcy Law; (iv) the filing by such Party of an answer or pleading admitting or failing to contest the material allegations of any such petition; (v) the general inability of such Party to pay its debts as they fall due; (vi) the filing against such Party of any petition in bankruptcy or for relief under any Bankruptcy Law (unless such petition is dismissed within ninety (90) days from the date of filing thereof); (vii) the appointment of a liquidator, administrator, trustee, conservator or receiver for such Party or for all or any substantial portion of its assets (unless such appointment is vacated or stayed within ninety (90) days of such appointment); or (viii) the taking by such Party of any action for its winding up or liquidation, or the consent by such Party to any of the actions described in clauses (i) through (vii) being taken against it.

“Bankruptcy Law” means any applicable state or federal bankruptcy or insolvency statute.

“Business Day” means any day other than a Saturday or Sunday or a day on which banks located in the State of Washington are authorized or required by law to close. A Business Day shall open at 8:00 a.m. and close at 5:00 p.m. Pacific prevailing time (PPT).

“Capacity” means the generation potential of the Chelan Power System as adjusted for limitations and obligations in accordance with Section 1 of Appendix B.

“Capacity Reservation Charge” has the meaning set forth in Section 7.01(A).

“Capital Recovery Charge” has the meaning set forth in Section 7.01(G).

“Capital Recovery Charge Base” has the meaning set forth in Section 7.01(G)(ii).

“Capital Recovery Charge Percentage” has the meaning set forth in Section 7.01(G)(i).

“Capital Improvements” means such capital repairs, renewals, additions, improvements and replacements of the Projects, together with preliminary surveys, investigations, architectural, engineering, design, consulting, legal, financial and other services and items properly chargeable thereto, as the District may reasonably determine consistent with GAAP, FERC regulations (including FERC’s Uniform System of Accounts) and District accounting policies, practices and procedures.

“Chelan Power System” means, collectively, Rocky Reach and Rock Island, in each case as each such Project exists as of its respective Project Availability Date. The Chelan Power System shall also include any expansion of the generating capacity of the existing Projects after their respective Project Availability Dates, including efficiency improvements and upgrades that become a part of the respective Project, but shall not include any other power generation, transmission or distribution assets or rights, now owned or hereafter acquired by the District.

"Claims" means all claims (including counterclaims), demands, actions or proceedings, threatened or filed and whether groundless, false or fraudulent, that directly or indirectly relate to the subject matter of an indemnity or limitation of liability, and the resulting costs, judgments, liabilities, losses, damages, penalties, interest, expenses, attorneys fees, court costs and costs of investigation, whether incurred by settlement or otherwise, and whether such claims or actions are threatened or filed prior to or after the termination of this Agreement.

"Commercially Reasonable" or *"Commercially Reasonable Efforts"* means, with respect to any purchase or sale or other action required to be made, attempted or taken by a Party under this Agreement, such efforts as a reasonably prudent business would undertake for the protection of its own interest under the conditions affecting such purchase or sale or other action, including without limitation, the amount of notice of the need to take such action, the duration and type of the purchase or sale or other action, the competitive environment in which such purchase or sale or other action occurs and the risk to the Party required to take such action. A *"Commercially Reasonable"* standard is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather to be a spectrum of commonly used efforts, methods or acts.

"Confidential Information" has the meaning set forth in Section 19.01.

"Contract Year" means the period commencing on the first Project Availability Date and ending on the next succeeding December 31, and each 12-month period thereafter, except for the 12-month period during which the expiration or termination date of the Agreement occurs, in which case the Contract Year means the period commencing on January 1 of such year and ending on such expiration or termination date.

"Coverage Amount" means the sum, as of the date of calculation, of (i) with respect to Debt Obligations outstanding on the Signing Date and identified in Schedule A-1, an amount equal to fifteen percent (15%) of the maximum estimated aggregate amount of the Financing Costs described in Section 2(b)(i) of Appendix A that will be payable in any Contract Year during the Term, as determined by the District as of the Signing Date for all Debt Obligations then outstanding, and (ii) with respect to all Debt Obligations issued after the Signing Date, an amount equal to fifteen percent (15%) of the maximum estimated aggregate amount (each amount included in such aggregate amount to be as determined by the District as of the date of issuance or incurrence of the applicable Debt Obligation) of Financing Costs with respect to such Debt Obligations as described in Section 2(b)(ii) of Appendix A, that will be payable in any Contract Year during the Term.

"Coverage Fund" means the Coverage Fund described in Section 7.01(D) of this Agreement.

"Cross Default Amount" means, with respect to the Purchaser, two and one-half percent (2 1/2%) of the Purchaser's then current market capitalization (based on its share prices as quoted in the Wall Street Journal the Business Day prior to the date of calculation) and, with respect to the District, \$50,000,000, as adjusted in accordance with the Escalation Factor.

"Debt Administrative Charge" means the charge imposed on the Purchaser pursuant to Section 7.01(I) of this Agreement.

"Debt Obligation" has the meaning set forth in Section 1 of Appendix A.

"Debt Reduction Charge" has the meaning set forth in Section 7.01(F).

"Debt Reduction Charge Percentage" has the meaning set forth in Section 7.01(F)(i).

"Debt Reduction Charge Obligations" has the meaning set forth in Section 7.01(F)(ii).

"Deemed Maturity" has the meaning set forth in Section 1 of Appendix A.

"Defaulting Party" has the meaning set forth in Section 15.01 hereof.

"Disclosing Party" has the meaning set forth in Section 19.01 hereof.

"Dispute" has the meaning set forth in Section 16.02 hereof.

"District" has the meaning set forth in the preamble.

"District Enterprise Units" means and shall include each utility, enterprise or operating system or unit of the District, exclusive of Rocky Reach and Rock Island, as the District may designate from time to time, that may make advances or inter-fund loans to the Chelan Power System as contemplated within the definition of Debt Obligations in Appendix A hereto.

"District System Emergency" means a condition or situation that, in the judgment of the District and in conformance with guidelines of FERC, NERC, the WECC or other entities with regulatory jurisdiction (whether by contract or operation of Law) over the District concerning system emergencies, adversely affects or is likely to adversely affect: (i) public health, life or property; (ii) District's employees, agents or property; or (iii) District's ability to maintain safe and reliable electric service to its respective customers.

"Downgrade Event" means the Purchaser's corporate debt rating (a) from S&P is withdrawn, suspended or reduced below "BBB-" (or corresponding successor rating); or (b) from Moody's is withdrawn, suspended or reduced below "Baa3" (or corresponding successor rating); or (c) from Fitch is withdrawn, suspended or reduced below "BBB-" (or corresponding successor rating). If any Rating Agency has not assigned a rating to Purchaser as of the Signing Date, a Downgrade Event shall not occur as to that Rating Agency until such a rating has been assigned and such rating is either at or below the respective level set forth above, or the initial higher rating is thereafter withdrawn, suspended or reduced below the respective level set forth above.

"Dryden Facilities" means the District's dam, spillway, irrigation flume and related facilities located on the Wenatchee River near Dryden in Chelan County, Washington.

“*Due Date*” has the meaning set forth in Section 8.01(A) hereof.

“*Effective Date*” of this Agreement means the Signing Date.

“*Energy*” means the energy production, expressed in megawatt hours, of the Chelan Power System as measured in megawatts integrated over an hour and adjusted for limitations and obligations in accordance with Section 1 of Appendix B.

“*Entiat Facilities*” means the District's diversion and irrigation facilities located in and adjacent to the Entiat River in Chelan County.

“*Environmental Attributes*” means any cash credits, tradable certificates or other transferable renewal energy credits made available to the District under state or Federal law that are intended to provide incentives to hydroelectric generation and are directly attributable to environmental benefits resulting from the generation and use of Output from the Chelan Power System.

“*Escalation Factor*” has the meaning set forth in Section 7.01(G)(iii).

“*Event of Default*” has the meaning set forth in Section 15.01.

“*Existing Rocky Reach Power Sales Contract*” has the meaning set forth in Section 23.03.

“*Existing Rock Island Power Sales Contract*” has the meaning set forth in Section 23.03.

“*FERC*” means the Federal Energy Regulatory Commission or its successor.

“*Financing Costs*” has the meaning set forth in Section 2(b) of Appendix A hereof.

“*Fiscal Year*” means the twelve-month period selected by the District from time to time as its fiscal year for accounting and other purposes, which currently is the twelve-month period commencing on January 1 and ending on the next succeeding December 31.

“*Fitch*” means Fitch Ratings, or any successor thereto and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “*Fitch*” shall be deemed to refer to any other nationally recognized securities rating agency designated in writing by the District.

“*GAAP*” means, as of any applicable date of determination, generally accepted accounting principles in effect in the United States, as applied to Government Authorities such as the District.

“*Government Authority*” means any federal, state, local, territorial or municipal government and any department, commission, board, bureau, agency, instrumentality, judicial or administrative body thereof.

Appendix A. *"Independent Investment Banker"* has the meaning set forth in Section 1 of

"Index Rate" has the meaning set forth in Section 1 of Appendix A.

"In Service Date" has the meaning set forth in Section 1 of Appendix A.

B hereto. *"Interconnection Agreement"* has the meaning ascribed to that term in Appendix

Authority. *"Law"* means any statute, law, order, rule or regulation imposed by a Regulatory

"MW" means a megawatt, or one thousand (1,000) kilowatts.

"MWH" means a megawatt hour or one thousand (1,000) kilowatt hours.

"Month" means a calendar month.

"Moody's" means Moody's Investors Service, Inc., or any successor thereto and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated in writing by the District.

"NERC" means the North American Electric Reliability Council or its successor responsible for insuring a reliable, adequate and secure bulk electric system.

"Net Costs" has the meaning set forth in Section 2 of Appendix A hereof.

"Non-Defaulting Party" has the meaning set forth in Section 15.02.

"Operating Costs" has the meaning set forth in Section 2(a) of Appendix A hereof.

"Output" means an amount of Energy, Capacity and certain related rights available from the Chelan Power System, in each case to the extent described in and determined pursuant to Section 1 of Appendix B hereof, and subject to the limitations set for in Articles V and VI of this Agreement and the provisions of Appendix B.

"Party" or "Parties" has the meaning set forth in the preamble.

"Periodic Payments" means the sum of the payments, costs and charges described or referred to in Section 7.01 of this Agreement.

"Permanently Retired" means with respect to a Project, that such Project or specified Units of such Project, have been shut down and notice of permanent cessation of operations with respect thereto has been given by the District to the Purchaser.

“*Person*” means any individual, limited liability company, sole proprietorship, corporation, partnership, joint venture, trust, unincorporated organization or Government Authority.

“*Potential Event of Default*” means an event which, with notice or passage of time or both, would constitute an Event of Default.

“*Prepayment Amount*” means the cumulative amounts paid by the Purchaser to the District pursuant to Section 7.01(E) that have not been applied to satisfy the Purchaser’s payment obligations as described in that section.

“*Project*” means each of Rock Island and Rocky Reach.

“*Project Availability Date*” means for Rocky Reach, 00:00 hours on November 1, 2011, and for Rock Island, 00:00 hours on July 1, 2012.

“*Prudent Utility Practice*” means any of the practices, methods and acts engaged in, or approved by, a significant portion of the electric utility industry in the Western Interconnection for operating facilities of a size and technology similar to the Project during the relevant time period or 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 applicable Laws, longevity, reliability, safety and expedition. Prudent 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 a spectrum of commonly used practices, methods and acts.

“*Purchaser*” has the meaning set forth in the preamble.

“*Purchaser’s Percentage*” means the percentage set forth in Section 5.01(A) hereof, as such amount may be adjusted from time to time pursuant to the terms of this Agreement.

“*Purchaser’s Percentage of Output*” means an amount for any period equal to the product of (i) the Purchaser’s Percentage, and (ii) the Output.

“*Qualified Investments*” means all securities and other instruments in which the District is authorized to invest under applicable law.

“*Rating Agencies*” means, collectively, Fitch, Moody’s and S&P.

“*Rating Agency*” means any one of the Rating Agencies.

“*RCW*” means the Revised Codes of Washington.

“*Refinance,*” or “*Refinancing*” when used with respect to an outstanding Debt Obligation or portion thereof, means to refund, refinance or remarket such Debt Obligation.

"Refunding Obligations" means a bond, note (including a commercial paper note or bond anticipation note), installment purchase agreement, financing lease, inter-fund loan or any other obligation for borrowed money, or any portion thereof, issued or incurred by or on behalf of the District, for purposes of Refinancing a Debt Obligation or a Refunding Obligation. The term "Refunding Obligations" shall not be included in the calculation of Debt Obligations.

"Regulatory Authority" means any Government Authority other than the District itself.

"Related Power Sales Agreement" means a power sales agreement between a Share Participant and the District for the purchase and sale of a percentage of the Output of the Chelan Power System as so designated by the District and containing terms and conditions similar to the terms and conditions set forth herein.

"Reserve and Contingency Fund" means the fund or funds created under the Project bond resolutions including the Rocky Reach Resolutions 1860 and 4198, and the Rock Island Resolutions 1137, 3443, 4950 and 97-10671, 97-10672. As long as bonds remain outstanding under such resolutions, deposit requirements into the appropriate Reserve and Contingency Fund may be made from the Capital Recovery Fund and/or the Debt Reduction Fund, and from Purchaser's payments made in respect of Financing Costs allocated to that purpose under Schedule A-1. Required and authorized uses of the Reserve and Contingency Funds shall be made in accordance with the appropriate Project bond resolution or, after the retirement of such bonds, for any other lawful Project purpose not inconsistent with the provisions of this Agreement.

"Rock Island" means (i) the District's Rock Island Hydroelectric Project as currently licensed by FERC under license number 943, and any successor license, including any efficiency improvements and upgrades that increase generating capacity and any decommissioning of Units as contemplated in Section 6.03, in each case made by the District from time to time during the Term, together with (ii) the Dryden Facilities, the Entiat Facilities and the Tumwater Facilities.

"Rocky Reach" means the District's Rocky Reach Hydroelectric Project as currently licensed by FERC under license number 2145, and any successor license, including any efficiency improvements and upgrades that increase generating capacity and any decommissioning of Units as contemplated in Section 6.03, in each case, made by the District from time to time during the Term.

"Schedule" or *"Scheduling"* means the actions or product of the District, Purchaser and/or their designated representatives, including each Party's Transmission Providers, if applicable, of notifying, requesting and confirming to each other the quantity and type of Output to be delivered on any given day or days at a specified Transmission Point of Receipt and/or Transmission Point of Delivery.

"S&P" means Standard and Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc., or any successor thereto and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency,

“S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated in writing by the District.

“*Share Participant*” means a third party purchaser, unrelated to the District, who signs a Related Power Sales Agreement with the District for a share of Output of the Chelan Power System.

“*Signing Date*” means the date the Parties sign this Agreement, which shall be deemed to be the date recited in the first paragraph of this Agreement.

“*Term*” has the meaning set forth in Section 3.01 hereof.

“*Transmission Agreement*” has the meaning ascribed to that term in Section 9 of Appendix B hereto.

“*Transmission Point(s) of Delivery*” has the meaning ascribed to that term in Section 9 of Appendix B hereto.

“*Transmission Point(s) of Receipt*” has the meaning ascribed to that term in Section 9 of Appendix B hereto.

“*Transmission Provider*” means any entity or entities transmitting or transporting the Output on behalf of Purchaser to or from the Transmission Point(s) of Delivery; or, with respect to the District when acting as a Transmission Provider, from the Transmission Point(s) of Receipt to the Transmission Point(s) of Delivery.

“*Tumwater Facilities*” means the dam, spillway and related facilities owned and operated by the District, located on the Wenatchee River in Tumwater Canyon.

“*Uniform System of Accounts*” means the system of accounts for Public Utilities and Licensees as prescribed by FERC, constituting Part 101 of Title 18 of the Code of Federal Regulations, as supplemented and amended (the “Uniform System of Accounts”), used to account for the costs of generating projects, and any successor thereto and to the account designations thereunder.

“*Up Front Payments*” means those payments imposed pursuant to Section 7.01(A) of this Agreement.

“*WECC*” means the Western Electricity Coordinating Council or its successor, or such other entity or entities responsible for regional reliability as determined by the District.

“*Working Capital Charge*” has the meaning set forth in Section 7.01(B) of this Agreement.

Section 1.02. **Interpretation.** Unless the context otherwise requires:

(i) Words singular and plural in number shall be deemed to include the other and pronouns having masculine or feminine gender shall be deemed to include the other.

(ii) Any reference in this Agreement to any Person includes its successors and permitted assigns and, in the case of any Government Authority, any Person succeeding to its functions and capacities.

(iii) Any reference in this Agreement to any Section or Appendix means and refers to the Section contained in, or Appendix attached to, this Agreement, unless otherwise specified.

(iv) Any reference in this Agreement to a certain time of day shall be based on the then Pacific prevailing time (PPT).

(v) If any payment, act, matter or thing hereunder, required to be done under this contract on a date certain, would occur on a day that is not a Business Day, then such payment, act, matter or thing shall, unless otherwise expressly provided for herein, occur on the next following Business Day.

(vi) A reference to the words "hereof," "herein," and "hereunder" refer to this Agreement as a whole and not to any particular provision of this Agreement.

(vii) All uses of "include" or "including" shall be deemed to be followed by "without limitation."

(viii) The phrases "as determined by the District," "in the discretion of the District," "the District considers necessary," "the District deems necessary" or similar phrases, exclusive of phrases such as "in the District's sole discretion" or other phrases using "solely," or "sole," unless the context otherwise indicates, refers to a determination made by the District in its reasonable discretion.

(ix) All references to a law, rule, regulation, contract, agreement, or other document mean that law, rule, regulation, contract, agreement, or document as amended, modified, supplemented or restated, from time to time.

(x) Any definition of one part of speech of a word, such as definition of the noun form of that word, shall have a comparable meaning when used as a different part of speech, such as the verb form of that word and other grammatical forms of defined words or phrases, if initially capitalized, have corresponding meanings.

Section 1.03. **Technical Meanings.** Words not otherwise defined herein that have well-known and generally accepted technical or trade meanings are used herein in accordance with such recognized meanings.

Section 1.04. **Conflicts.** In the event of a conflict or inconsistency between this Agreement and any Appendix, attachment or the Transmission Agreement or Interconnection Agreement, the provisions of this Agreement shall take precedence. In the event of a conflict or

inconsistency between any Appendix or attachment and the Transmission Agreement or Interconnection Agreement, the provisions of such Appendix or attachment shall take precedence, in that order.

ARTICLE II APPENDICES

Section 2.01. Appendices. The terms and provisions of the following Appendices constitute a part of and are hereby incorporated by this reference in this Agreement:

Appendix A: Determination of Chelan Power System Net Costs

Appendix B: Output, Scheduling, Planning and Transmission

Appendix C: Project Specific Lines and Facilities

Appendix D: Form of Transmission Agreement

ARTICLE III TERM AND TERMINATION

Section 3.01. Term. This Agreement shall become effective as of the Signing Date. The Term, however, shall commence as of the first Project Availability Date and shall terminate as of the expiration or termination of this Agreement pursuant to its terms. Unless terminated or extended as provided herein, this Agreement shall remain in effect until midnight on October 31, 2031. All obligations accruing or arising prior to the termination or expiration of this Agreement shall survive the termination or expiration hereof until satisfied in full.

Section 3.02. Condition Precedent to Effectiveness. The Parties agree and acknowledge that the respective rights and obligations of the Parties under this Agreement with respect to the Output from Rocky Reach and Rock Island, respectively (including the District's obligation to deliver Output attributable to such Projects and the Purchaser's obligation to pay any Periodic Payments (other than the Capacity Reservation Charge and the other Up Front Payments referred to in Section 7.01(A)) attributable to or arising out of such Projects) are contingent, in the District's sole discretion, upon the satisfaction as of each respective Project Availability Date for each such Project (00:00 Hours on November 1, 2011 for Rocky Reach and 00:00 Hours on July 1, 2012 for Rock Island) of the following conditions precedent: (1) no default shall have occurred and be continuing, as of each respective Project Availability Date, under the current contract(s) between the Parties; (2) no Event of Default or Potential Event of Default exists under this Agreement; (3) the representations contained in Article IV continue to be true; (4) the Existing Rocky Reach Power Sales Contract shall have terminated prior to the Rocky Reach Project Availability Date; (5) the Existing Rock Island Power Sales Contract shall have terminated prior to the Rock Island Project Availability Date; (6) no termination described in Section 3.03 has occurred; and (7) the Parties have entered into a Transmission Agreement, in substantially the form attached hereto as Appendix D, and an Interconnection Agreement, in form and substance reasonably satisfactory to the District and the Purchaser.

If the conditions precedent set forth above are not satisfied or waived by the District on or within 90 days following each respective Project Availability Date, the District may terminate this Agreement in accordance with Section 3.03. Any such termination shall apply to this Agreement as a whole, and not severally as to the Output from Rocky Reach or Rock Island.

Section 3.03. **Termination.** This Agreement may only be terminated (i) by mutual agreement of the Parties; (ii) by either Party if the Approval Date has not occurred by the first Project Availability Date, provided that the Party wishing to terminate this Agreement pursuant to this clause (ii) shall give the other Party written notice of such termination on or within three (3) Business Days prior to the first Project Availability Date; (iii) by the District pursuant to the provisions of Section 15.02, so long as any Event of Default is continuing and has not been cured within the applicable cure period (which termination event, at the District's discretion, may supersede a termination under Section 3.02(2)); or (iv) by the District pursuant to Section 3.02. In the event this Agreement is terminated pursuant to subsections (i), (ii) or (iv), neither Party shall be liable to the other Party for damages due to such termination. Any termination of this Agreement by a Party pursuant to the terms hereof shall be effected by and effective only upon receipt of written notice of such termination by the other Party.

Section 3.04. **Continued Effectiveness after Termination.** After termination or expiration of the Term, any provisions that may be reasonably interpreted or construed as being intended to survive the termination or expiration of the Term or this Agreement, including, without limitation, Article XXI (Limitation of Liability), and all unsatisfied billing and payment obligations that arose during the Term, shall survive such termination or expiration.

ARTICLE IV REPRESENTATIONS

Section 4.01. **Representations.** As a material inducement to entering into this Agreement, each Party, with respect to itself, hereby represents to the other Party, as of the date of execution hereof, as follows:

(A) it is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation, and is qualified to conduct its business in all other jurisdictions in which the nature of the business conducted by it makes such qualification necessary and where failure to qualify would reasonably be expected to have a material adverse effect upon its financial condition, operations, prospects or business, taken as a whole, or its ability to perform its obligations under this Agreement;

(B) the execution, delivery and performance of this Agreement are within its statutory and corporate powers;

(C) it has full legal right, power and authority to execute, deliver and perform its obligations under this Agreement; it has taken all appropriate and necessary action to authorize the execution, delivery and performance of this Agreement including, without limitation, the approval by its Board of Commissioners or Board of Directors, as the case may be; and this Agreement has been duly and validly executed and delivered by it; and this Agreement does not violate any of the terms or conditions in its governing documents or any

contract to which it is a party or any law, rule, regulation, order, writ, judgment, decree or other legal or regulatory determination applicable to it;

(D) this Agreement constitutes a legal, valid and binding obligation of such Party enforceable against it in accordance with its terms, subject to bankruptcy, insolvency reorganization and other laws affecting creditor's rights generally, with regard to equitable remedies, to the discretion of the court before which proceedings to obtain same may be pending, and to limitations on remedies against Government Authorities under the laws of the State of Washington;

(E) except for the FERC approval of this Agreement as referred to herein, no authorization, approval, exemption or consent by any governmental or public body or authority is required in connection with the authorization, execution, delivery and carrying out of the terms of this Agreement, which has not yet been obtained or which is not presently undergoing the necessary processes to be obtained;

(F) there are no bankruptcy, insolvency, reorganization, receivership or other arrangement or proceedings pending or being contemplated by it, or to its knowledge threatened against it;

(G) there are no actions, suits, proceedings or investigations pending or, to the Party's knowledge, threatened against such Party or any of its Affiliates, at law or in equity before any Government Authority, having jurisdiction over such Party which, if adversely determined, would individually or in the aggregate have a material adverse effect on the business, properties or assets or the condition, financial or otherwise, of such Party, or result in any impairment of such Party's ability to perform its obligations under this Agreement;

(H) it has no knowledge of any violation or default by such Party or its Affiliates with respect to any order, writ, injunction or decree of any court or any federal, state, municipal or other governmental department, commission, board, agency or instrumentality which is reasonably likely to have such a material adverse effect or to result in such impairment; and

(I) it is not subject to any material outstanding judgment, order, writ, injunction or decree of any Government Authority having jurisdiction over such Party which would materially and adversely affect its ability to enter into and perform its obligations under this Agreement.

Section 4.02. **Compliance Covenant.** Each Party covenants and agrees to take whatever action it, in good faith, deems reasonably necessary and within its reasonable control to ensure that the representations related to it under clauses (A) through (E) of Section 4.01 will not be violated in any material respect during the Term.

Section 4.03. **Independent Decision.** Each Party is acting for its own account, and has made its own independent decision to enter this Agreement and this Agreement is appropriate or proper for it based upon its own judgment. Neither Party is relying upon the advice or recommendations of the other Party in so doing, and each Party is capable of assessing

the merits of and understanding, and understands and accepts, the terms, conditions and risks of the Agreement.

Section 4.04. **Ability to Perform.** Each Party has entered into this Agreement in connection with the conduct of its business and it has the capacity or ability to make or take delivery of the Output referred to in this Agreement. Each of the Parties shall, contemporaneously with the execution and delivery of this Agreement, provide to the other Party a legal opinion in the applicable form set forth in Appendix E hereto.

Section 4.05. **Forward Contract Merchant.** Each Party acknowledges and agrees that this Agreement is a "forward contract" and that each Party is either a "forward contract merchant" or "financial participant," in each case as those terms are used in the United States Bankruptcy Code.

ARTICLE V OUTPUT

Section 5.01. **Output To Be Made Available.**

(A) Beginning at 00:00 hours on the respective Project Availability Date for each Project and continuing until midnight on the date on which this Agreement is terminated or expires, the District shall during each hour sell and make available for scheduling by and delivery (or cause to be delivered) to Purchaser, at the Transmission Point(s) of Receipt, Purchaser's Percentage of Output attributable to such Project, and Purchaser shall during each hour purchase and receive (or cause to be received), at the Transmission Point(s) of Receipt, the amount of Purchaser's Percentage of Output scheduled by Purchaser for every such hour. Purchaser's Percentage shall at all times during the Term of this Agreement be 25% of the Chelan Power System, as the same may be modified from time to time pursuant to Section 5.04.

(B) It is expressly acknowledged and agreed by the Parties that Output is dynamic and variable and is dependent upon a variety of factors including, without limitation, availability of water and operable generation Units of the Projects, electric system reliability requirements, federal and state laws, rules, regulations and orders affecting river flows and operation of the Projects regarding endangered species and other environmental matters, matters giving rise to curtailment described in Section 6.01 or Section 6.03 and other restrictions on Output described in Appendix B, the terms of which Appendix are incorporated by reference. Output can and will vary substantially from hour-to-hour, season-to-season and year-to-year. Appendix B, in conjunction with the Transmission Agreement, shall also govern the delivery of the Output from the Chelan Power System to the Transmission Point(s) of Receipt, shall define the scheduling procedures and scheduling requirements of the Output, shall provide for the transmission of Output from the Transmission Point(s) of Receipt to the Transmission Point(s) of Delivery, shall provide for management of the Purchaser's Percentage, shall define the services included in Output, and shall describe certain services and products offered by the District.

(C) PURCHASER ACKNOWLEDGES THAT, NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT TO THE CONTRARY, THE DISTRICT'S OBLIGATION TO SELL AND DELIVER OUTPUT IS EXPRESSLY LIMITED TO PURCHASER'S PERCENTAGE OF ANY OUTPUT ACTUALLY PRODUCED BY THE CHELAN POWER SYSTEM AND AVAILABLE FOR DELIVERY AND THAT THE DISTRICT WILL NOT BE LIABLE TO THE PURCHASER FOR THE FAILURE TO DELIVER ANY OUTPUT THAT IS NOT OTHERWISE AVAILABLE FROM THE CHELAN POWER SYSTEM, REGARDLESS OF THE REASON FOR SUCH UNAVAILABILITY.

(D) Output shall be made available to the Purchaser by the District in accordance with the provisions and limitations in Appendix B hereof, on and after each respective Project Availability Date, but with respect to each Project only from and after the respective Project Availability Date for each Project.

Section 5.02. **Delivery and Scheduling.** The District shall arrange and be responsible for delivering Output to the Transmission Point(s) of Receipt. The Purchaser shall (i) make arrangements with the District, pursuant to the Transmission Agreement, to deliver the Output from the Transmission Point(s) of Receipt to the Transmission Point(s) of Delivery; and (ii) Schedule or arrange for Scheduling services with its Transmission Providers to receive the Output from the District at the Transmission Point(s) of Delivery. Exchanges of Output shall be subject to the protocols established in the Interconnection Agreement, and transmission charges will be specified in the Transmission Agreement. A form of the Transmission Agreement to be entered into by the Parties contemporaneously with this Agreement is attached as Appendix D. The parties have agreed to negotiate and execute an Interconnection Agreement subsequent to the Signing Date and prior to April 1, 2006.

Section 5.03. **Right to Resell.** Subject to the provisions of Section 15.02, Purchaser shall have the right to resell or re-market the Output provided to Purchaser by District under this Agreement and to retain the proceeds of such a sale.

Section 5.04. **Mandatory Step-up.** If a Share Participant (a "Defaulting Participant") defaults under a Related Power Sales Agreement and the District elects to terminate that Defaulting Participant's entitlement to Output, the Purchaser will purchase from the District, commencing on a date fifteen (15) days following written notice from the District (such date, the "Step-Up Effective Date"), Purchaser's pro rata share of the Output to which the Defaulting Participant was entitled from and after the Step-Up Effective Date, on the terms and conditions set forth in this Agreement (other than Section 7.01(A)), for a term equal to the lesser of the Defaulting Participant's remaining contract term or the remaining term of this Agreement; provided, that the Purchaser's Percentage as it may be increased pursuant to this Section shall not, without the written consent of Purchaser, exceed 40%.

For purposes of this Section 5.04, the Purchaser's pro rata share of a Defaulted Participant's Output entitlement (referred to herein as the "Purchaser's Step-up Percentage") shall be determined based on the Purchaser's Percentage divided by the sum of Purchaser's Percentage, the percentage of Output shares held by other Share Participants excluding the Defaulting Participant, and the Output share retained by the District. For example, if the

Purchaser's Percentage is 25%, the Defaulting Participant's share is 10%, the District's share is 40% and the other Share Participants' shares are 25%, the Purchaser's Step-Up Percentage under this section would be:

$$10\% \times [(25\% \div (25\% + 40\% + 25\%))] = 2.78\%, \text{ to be added to Purchaser's Percentage}$$

For the avoidance of doubt, Purchaser shall not be liable for any amounts owed by the Defaulting Participant to the District prior to the Step-Up Effective Date (and Purchaser shall have no obligation or liability to perform any of the obligations under the Related Power Sales Agreement and no liability for any default or breach thereunder), and any amounts for which the Purchaser shall become liable under this Section 5.04 shall be determined under this Agreement and not under the Related Power Sales Agreement.

If as a result of a Share Participant's default under a Related Power Sales Agreement, the District imposes the mandatory step-up requirement pursuant to the terms of this Section 5.04, a portion of the damages recovered by the District that were awarded to compensate the District for prospective losses, if any, directly attributable to the early termination of such Related Power Sales Agreement (net of costs and expenses), adjusted for the number of years remaining under this Agreement (if less than the period for which such damages were measured), shall be allocated to the Purchaser based on the Purchaser's Step-up Percentage and shall be credited against all future payments due from Purchaser hereunder that are attributable to Purchaser's Step-Up Percentage of such Output until such allocated recoveries have been exhausted. If the Purchaser contests its obligation to purchase the Purchaser's Step-up Percentage of the Defaulting Purchaser's share of Output, Purchaser's share of such recoveries shall be held by the District until Purchaser assumes (by instrument in form and substance satisfactory to the District) its Step-Up Percentage, and shall then be applied to future payment obligations in accordance with the preceding sentence.

ARTICLE VI CURTAILMENT AND DECOMMISSIONING

Section 6.01. ***Curtailement.*** The District shall have the right, in its sole discretion, to temporarily interrupt, reduce or suspend delivery (through manual operation, automatic operation or otherwise) of Output from the Projects during any one or more of the following circumstances: (i) to prevent damage to the District's system or to maintain the reliable and safe operation of the District's system; (ii) a District System Emergency; (iii) if suspension is required for relocation, repair or maintenance of facilities or to facilitate restoration of line outages; (iv) a force majeure event; (v) any Operational Constraints as described in Appendix B; (vi) negligent acts or intentional misconduct of Purchaser which are reasonably expected to present imminent threat of damage to property or personal injury; (vii) an Event of Default by the Purchaser, as provided in Section 15.01, or a Potential Event of Default by the Purchaser, or (viii) any other reason consistent with Prudent Utility Practice. Any available Output during each such interruption, reduction or suspension shall be allocated pro rata among the District, the Purchaser and the other Share Participants, except and to the extent the District determines (or had determined at any time prior to such interruption, reduction or suspension) in its sole discretion that due to a District System Emergency such pro-rata allocation of remaining Output due to such interruption, reduction or suspension is impracticable or infeasible. The District

shall give advance notice, as circumstances permit, of the need for such suspension, reduction or interruption to employees of the Purchaser designated from time to time by the Purchaser to receive such notice. The District shall not be responsible for payment of any penalty or cost incurred by the Purchaser during or as a result of such interruption, reduction or suspension. The provisions contained in this Section 6.01 shall not limit or modify the scope of and limitations on the District's obligations hereunder as otherwise set forth in Sections 5.01(C), Article XII and Section 21.01.

Section 6.02. **Restoration of Service.** Purchaser and District shall endeavor to restore deliveries of Output as promptly as is reasonably possible in the event of an interruption, reduction or suspension under Section 6.01.

Section 6.03. **Decommissioning.** Over the term of this Agreement, the District may, in its sole discretion, cause components of the Project responsible for not more than 20% of the Output in the aggregate to be Permanently Retired. The District may also cause the Projects, or any components thereof, to be Permanently Retired if, as a result of the adoption or implementation of, or a change in, any Law, rule or regulation, or any policy, guideline or directive of, or any change in the interpretation or administration thereof by, any Regulatory Authority (in each case, having the force of Law) (collectively a "Change in Law"), the District would be required to make material modifications to such Projects or components in order to continue their operation, and the District determines in good faith that, absent such components being Permanently Retired, it would not be Commercially Reasonable, as otherwise herein defined, to comply with such statutory or regulatory requirements. In each case, the District shall give Purchaser as much advance written notice of its determination to Permanently Retire Projects or components as reasonably possible. Decommissioning shall not reduce Purchaser's payment obligations hereunder.

ARTICLE VII PAYMENT

Section 7.01. **Payments and Charges.** In consideration of the District's agreement to provide Purchaser with Purchaser's Percentage of Output, the Purchaser agrees to pay the District the following charges at the times and in the amounts specified below:

(A) **Up Front Payments.** Within 30 days following the later to occur of the Approval Date and the Effective Date, Purchaser shall pay the District by wire transfer in immediately available funds a non-refundable capacity reservation charge of \$89,000,000 (the "Capacity Reservation Charge").

(B) **Working Capital Charges.** The Purchaser will pay Working Capital Charges as follows:

(i) On the Project Availability Date of Rocky Reach, Purchaser shall pay the District, by wire transfer in immediately available funds, an initial Working Capital Charge of \$2,500,000 (stated in December, 2004 Dollars), as adjusted in accordance with the Escalation Factor set forth in Section 7.01(G)(iii) to such Project Availability Date. Within fifteen (15) days following the commencement of each

Contract Year thereafter, Purchaser shall pay the District, by wire transfer in immediately available funds, an additional Working Capital Charge equal to the amount, if any, by which \$2,500,000 (stated in December, 2004 Dollars), as adjusted in accordance with the Escalation Factor set forth in Section 7.01(G)(iii) to the beginning of such Contract Year exceeds the sum of the Working Capital Charges previously paid pursuant to this subsection (i).

(ii) On the Project Availability Date of Rock Island, Purchaser shall pay the District, by wire transfer in immediately available funds, a second Working Capital Charge of \$2,500,000 (stated in December, 2004 Dollars), as adjusted in accordance with the Escalation Factor set forth in Section 7.01(G)(iii) to such Project Availability Date. Within fifteen (15) days following the commencement of each Contract Year thereafter, Purchaser shall pay the District, by wire transfer in immediately available funds, an additional Working Capital Charge equal to the amount, if any, by which \$2,500,000 (stated in December, 2004 Dollars), as adjusted in accordance with the Escalation Factor set forth in Section 7.01(G)(iii) to the beginning of such Contract Year exceeds the sum of the Working Capital Charges previously paid pursuant to this subsection (ii).

(iii) Each initial Working Capital Charge payment pursuant to subsections (i) and (ii) above constitutes the Purchaser's Percentage of the amount the District deems necessary as of the Signing Date to provide an adequate working capital balance for each respective Project.

(iv) From time to time during any Contract Year, Purchaser shall pay to the District, by wire transfer in immediately available funds, upon demand by the District, an amount equal to the Purchaser's Percentage of any additional Working Capital Charge that is necessary to provide an adequate level of working capital for the Chelan Power System as determined by the District in accordance with Prudent Utility Practice.

(v) The payments described in this Section are sometimes referred to in this Agreement as a "Working Capital Charge" or collectively as "Working Capital Charges."

(C) Net Costs. Purchaser shall pay monthly to the District during each Contract Year, an amount equal to the Purchaser's Percentage of Net Costs determined in accordance with Appendix A hereto.

(D) Coverage Fund Charge. The District shall continue, or establish, and maintain, one or more coverage funds or their equivalents into which shall be deposited the Coverage Amount with respect to the Debt Obligations (collectively, the "Coverage Fund"). The Purchaser will pay the Purchaser's Percentage of the Coverage Amount as follows:

(i) On the Project Availability Date for Rocky Reach, Purchaser shall pay the District, by wire transfer in immediately available funds, the Purchaser's Percentage of the Coverage Amount (calculated as of such Project Availability Date)

attributable to Debt Obligations for Rocky Reach. On the Project Availability Date for Rock Island, Purchaser shall pay the District, by wire transfer in immediately available funds, the Purchaser's Percentage of the Coverage Amount (calculated as of such Project Availability Date) attributable to Debt Obligations for Rock Island. The District shall notify the Purchaser of such required amounts at least 30 days prior to each such Project Availability Date.

(ii) In addition, upon the issuance or incurrence during any Contract Year of any additional Debt Obligations attributable to Rocky Reach by the District after the Project Availability Date for Rocky Reach and of any additional Debt Obligations attributable to Rock Island by the District after the Project Availability Date for Rock Island, Purchaser shall pay to the District, by wire transfer in immediately available funds, within 30 days of demand by the District, an amount equal to the positive difference, if any, between (1) the product of (a) the Purchaser's Percentage, times (b) the Coverage Amount (calculated as of the issuance or incurrence of such additional Debt Obligations), minus (2) the amounts previously paid by the Purchaser pursuant to this Subsection 7.01(D).

All amounts paid by the Purchaser to the District pursuant to this Subsection 7.01(D) shall be used for any lawful purpose as determined by the District in its sole discretion.

(E) Prepayment Requirements. On the first Project Availability Date, the Purchaser shall pay to the District as a prepayment an amount equal to the product of (i) \$740,000 multiplied by (ii) Purchaser's Percentage (expressed as a decimal) multiplied by 100. If the Purchaser's Percentage increases at any time during the Term, pursuant to contractual agreement, mandatory step-up pursuant to Section 5.04, or otherwise, Purchaser will pay to the District within 30 days of the occurrence of such event an additional amount equal to the product of (i) \$740,000, multiplied by (ii) such increase in Purchaser's Percentage (expressed as a decimal) multiplied by 100. The District will maintain separate accounting records of such prepayments but shall not be obligated to segregate or separately account for such funds, nor shall the Purchaser have any right to or claim in any such funds, but shall only have claim against the District to the extent and in the manner described below.

If the Purchaser fails to make any payment due hereunder as described in Section 15.01(A) of this Agreement or under the Transmission Agreement, the District shall apply the Prepayment Amounts to the satisfaction of such payment obligations (which application shall not constitute a cure of the payment default described therein unless and until the Prepayment Amount is replenished as described in this Section 7.01(E)). If the District applies the Prepayment Amount or any portion thereof to any payment then due, the Purchaser shall replenish the amounts so credited immediately upon demand so that, after such replenishment, the unused portion of the Prepayment Amount again is thereafter equal to (i) \$740,000 multiplied by (ii) Purchaser's Percentage (expressed as a decimal) multiplied by 100. The District shall apply any unused portion of the Prepayment Amount to the last payment(s) due from the Purchaser under this Agreement.

(F) Debt Reduction Charge. The Purchaser shall pay to the District each month of each Contract Year as part of its Periodic Payments one twelfth (1/12th) of the

Purchaser's Percentage of an annual debt reduction charge (the "Debt Reduction Charge"), which Debt Reduction Charge shall be computed by multiplying the Debt Reduction Charge Percentage for the Contract Year in which such month occurs by the Debt Reduction Charge Obligations for such Contract Year. The Debt Reduction Charge collected by the District pursuant to this section shall be held by the District in a separate fund or account to be known as the "Debt Reduction Charge Account" and used only to purchase, redeem or defease debt of the Chelan Power System, to fund (after the Project Availability Date for Rocky Reach) required deposits to Reserve and Contingency Funds for Rocky Reach bonds, to fund (after the Project Availability Date for Rock Island) required deposits to Reserve and Contingency Funds for Rock Island bonds, or to fund Capital Improvements related to the Chelan Power System, in each case as determined by the District.

For purposes of this Section:

(i) **"Debt Reduction Charge Percentage"** means that percentage, designated by the District for a Contract Year not less than twelve (12) months prior to the commencement of such Contract Year, which percentage shall be set between a minimum of 0% and a maximum of 3%. Each such designation shall be effective for the Contract Year for which such designation is made. If the District fails to make a designation for any Contract Year by the date required above, the Debt Reduction Charge Percentage for such Contract Year shall be the greater of 2-1/2% or the last effective Debt Reduction Charge Percentage designated by the District;

(ii) **"Debt Reduction Charge Obligations"** means, for any Contract Year, the aggregate principal amount of all Debt Obligations assumed to be outstanding as of the first day of such Contract Year, determined in accordance with Sections 2(b)(i) and (ii) of Appendix A, as such principal amount may have theretofore been reduced in accordance with Section 2(c) of Appendix A. Prior to the Project Availability Date for Rock Island, the Debt Reduction Charge Obligations for purposes of this Section 7.01(F) shall be computed only with reference to those Debt Obligations attributable to Rocky Reach.

(G) **Capital Recovery Charge.** The Purchaser shall pay to the District each month of each Contract Year as part of its Periodic Payments one twelfth (1/12th) of the Purchaser's Percentage of an annual capital recovery charge (the "Capital Recovery Charge"), which Capital Recovery Charge shall be computed by multiplying the Capital Recovery Charge Percentage for the Contract Year in which such month occurs by the Capital Recovery Charge Base for such Contract Year. The Capital Recovery Charge shall be held by the District in a separate fund or account to be known as the "Capital Recovery Charge Account" and used only to purchase, redeem or defease debt of the Chelan Power System, to fund (after the Project Availability Date for Rocky Reach) required deposits to Reserve and Contingency Funds for Rocky Reach bonds, to fund (after the Project Availability Date for Rock Island) required deposits to Reserve and Contingency Funds for Rock Island bonds, or to fund Capital Improvements related to the Chelan Power System, in each case as determined by the District.

For purposes of this Section:

(i) **“Capital Recovery Charge Percentage”** means that percentage, designated by the District for a Contract Year not less than twelve (12) months prior to the commencement of such Contract Year, which percentage shall be set between a minimum of 0% and a maximum of 50%. Each such designation shall be effective for the Contract Year for which such designation is made. If the District fails to make a designation for any Contract Year by the date required above, the Capital Recovery Charge Percentage for such Contract Year shall be the greater of 25% or the last effective Capital Recovery Charge Percentage designated by the District.

(ii) **“Capital Recovery Charge Base”** means a base amount equal to \$25,000,000 in 2004 dollars. The Capital Recovery Charge Base, as the same may be adjusted from time to time pursuant to the methodology specified in the following paragraph, shall be adjusted annually as of the first day of each Contract Year by the Escalation Factor.

In addition to adjustments resulting from the Escalation Factor, the District may adjust the Capital Recovery Charge Base for a Contract Year by giving written notice to the Purchaser at least 180 days prior to the commencement of such Contract Year. Any such adjustment shall not increase the Capital Recovery Charge Base to an amount greater than the District's estimate, made in good faith, of its average annual Capital Improvement requirements over the next ensuing thirty (30) Fiscal Years. Such estimate shall be as computed in real dollars adjusted to be effective as of the first day of such Contract Year. The Capital Recovery Charge Base, as so adjusted, shall remain in effect thereafter unless and until subsequently adjusted pursuant to this paragraph or the immediately preceding paragraph. Adjustments for future annual Capital Improvements shall not result in the duplication of payments for such future Capital Improvements.

(iii) **“Escalation Factor”** means the percentage change in relative value of the Consumer Price Index using the non-seasonally adjusted US City Average Index for All Urban Consumers (All Items, Base Period 1982-84 = 100), as published by the U.S. Department of Labor, Bureau of Labor Statistics, computed annually in accordance with the following formula:

$$EF = \text{CPI} \div \text{CPI-b}$$

Where: EF = the Escalation Factor,

CPI = the most recently published consumer price index identified above, in effect as of the date of annual computation

CPI-b = 190.3, the consumer price index identified above for the base month of December, 2004
(<http://data.bls.gov/cgi-bin/surveymost?bls>) as shown in Attachment 1.

Should the index referred to above be discontinued or be substantially modified, then an alternate index shall be chosen by the District in its discretion that reasonably tracks the methodology used to track the consumer price index identified above prior to such modification or discontinuance to maintain the purchasing power of one dollar at a constant level, considering the nature of expenses incurred in the acquisition, construction and installation of Capital Improvements of the Chelan Power System.

If the Capital Recovery Charge Base is recalculated pursuant to the second paragraph of clause (ii) above, CPI-b for the calculation of the Escalation Factor for the then current and each succeeding Contract Year (until further changed in accordance with this provision) for purposes of determining the Capital Recovery Charge Base shall be changed to the CPI Index number for the December immediately preceding the commencement of the Contract Year in which such recalculation occurs.

(H) Notwithstanding the provisions of Section 7.01(F) and (G) to the contrary, the Purchaser shall not be obligated to pay the Purchaser's Percentage of the Debt Reduction Charge and the Capital Recovery Charge in any month if, and only to the extent that, the aggregate value of unspent cash and investments on deposit in the Debt Reduction Charge Fund and the Capital Recovery Charge Fund as of the 15th day of the immediately preceding month exceeds:

- (i) five (5) times the Capital Recovery Charge Base for the monthly periods during the Term ending prior to November 1, 2027;
- (ii) four (4) times the Capital Recovery Charge Base for the monthly periods beginning November 1, 2027 and ending prior to November 1, 2028;
- (iii) three (3) times the Capital Recovery Charge Base for the monthly periods beginning November 1, 2028 and ending prior to November 1, 2029;
- (iv) two (2) times the Capital Recovery Charge Base for the monthly periods beginning November 1, 2029 and ending prior to November 1, 2030; and
- (v) one (1) times the Capital Recovery Charge Base for the monthly periods beginning November 1, 2030 and ending prior to November 1, 2031.

For purposes of the foregoing, funds shall be deemed "spent" when (i) costs are paid or incurred for Capital Improvements, or (ii) costs are committed to be expended for qualified costs pursuant to contracts for design, engineering, acquisition and/or construction of such Capital Improvements, but only to the extent that such costs are expected by the District to be paid or incurred prior to the expiration of the Term, or (iii) funds are applied to the purchase, redemption or defeasance of Debt Obligations.

(I) Debt Administrative Charge. The Purchaser shall pay the District monthly during each Contract Year, in addition to the Net Costs and other amounts described in

this Section 7.01, an administrative charge equal to one-twelfth of Purchaser's Percentage multiplied by one percent (1.0%) per annum of the principal balance of the Debt Obligations outstanding at the beginning of such Contract Year, as determined by the District.

Section 7.02. **Unconditional Obligations.** All Periodic Payments due hereunder shall be payable by Purchaser, whether or not the Purchaser can receive, accept, take delivery of or use all or any portion of such Output, regardless of curtailments, shutdowns, force majeure events or other operational, regulatory or financial circumstances that may affect the Purchaser, and whether or not any of the Projects are operable or operating or the operation thereof is interrupted, suspended, interfered with, reduced or curtailed, in whole or in part, at any time for any reason during the term of this Agreement (including, without limitation, events of force majeure); provided, however, that the foregoing shall not affect the rights of Purchaser to pursue a claim against the District for damages upon the occurrence of an Event of Default by the District with respect to any of its obligations hereunder. The Periodic Payments payable by Purchaser pursuant to this Agreement for any month, shall be independent of and not related to the amount of Output, if any, delivered to Purchaser hereunder during such month.

Section 7.03. **Final Payment.** Within ninety (90) days following the expiration or earlier termination of this Agreement, Purchaser shall pay to the District any and all Periodic Payments accrued but unpaid, net of any credits due to Purchaser as of the date of such expiration or termination. The District shall provide Purchaser with a special invoice identifying any such costs and credits within sixty (60) days following the expiration or termination date.

Section 7.04. **Post Adjusting Invoices/Credits.** The District reserves the right to provide Purchaser post adjusting invoices/credits derived from financial, statutory or other required audits performed for the Fiscal Years in which the expiration of this Agreement or the earlier termination of this Agreement occurred. If such post adjusting invoices/credits show a payment due to the District from the Purchaser or a credit due to the Purchaser from the District, the payment or credit shall be due and payable within thirty (30) days of Purchaser's receipt of such invoice/credit.

Section 7.05. **Use of Funds by District.** Except as otherwise provided in this Section 7 and in Appendix A, the District may use the Periodic Payments paid to the District hereunder in any manner that the District, in its sole discretion, shall determine.

Section 7.06. **Disposition of Fund Balances Upon Expiration or Termination of Agreement.** Upon the expiration or prior termination of the Agreement at any time for any reason, all amounts collected pursuant to this Agreement, including, but not limited to, amounts deposited and on hand in any debt service, reserve, capital, coverage or other fund or account maintained by or on behalf of the District, shall be retained by the District (or in the case of the Prepayment Amount, shall be applied pursuant to Section 7.01(E)). Purchaser shall have no right, interest or claim in or to any such amounts or any interest or earnings thereon, except as set forth in this Agreement.

Section 7.07. **Investment of Certain Funds.** The District agrees, to the extent consistent with applicable Law, to invest and keep invested in a manner consistent with the

District's investment policies in effect from time to time, any unexpended amounts of the Debt Reduction Charges and Capital Recovery Charges during any Contract Year.

ARTICLE VIII BILLING AND PAYMENT

Section 8.01. Billing of Periodic Payments. Periodic Payments shall be billed as follows:

(A) Monthly Invoices; Periodic Payments. On or prior to the tenth (10th) day of each Month, the District shall submit to the Purchaser, by electronic or facsimile transmission, a monthly invoice setting forth the Periodic Payments incurred by the District in the current Contract Year, and stating the sum of the Periodic Payments actually received to date from the Purchaser with respect to such Contract Year. Costs incurred but not actually known by the date of the invoice may be estimated, subject to reconciliation the following month or months, as actual costs become known by the District.

The Purchaser shall pay each month the Periodic Payments then due as shown on the District's invoice, by electronic funds transfer to the District's account as the District's Treasurer may instruct. Periodic Payments shall be due and payable to the District by 5:00 p.m. (Pacific prevailing time (PPT)) on the twentieth (20th) day of each Month in which the District's monthly invoice is received, or if such day is not a Business Day, on the next succeeding Business Day (the "Due Date"). Failure of the District to submit an invoice as scheduled shall not release the Purchaser from liability for payment upon future delivery of the invoice.

(B) Late Charges and Interest. If payment in full is not made on or before the District's close of business on a Due Date, a delayed payment charge of two percent (2%) of the unpaid amount of the invoice shall be assessed to the Purchaser. Interest shall accrue on all past due statements at a rate equal to the lesser of 1.5% per month or the maximum rate allowed by law. Should Purchaser fail to pay any invoice within two (2) Business Days after its Due Date as provided in Section 8.01(A), the District shall send a notice of such failure to pay to the Purchaser. A monthly payment remaining unpaid three (3) Business Days after the receipt by the Purchaser of such notice of failure to pay shall constitute a breach of this Agreement for purposes of Section 15.01(A), and the District may, in addition to its other remedies, suspend delivery of the Purchaser's Percentage of Output until all amounts due hereunder (including late charges and interest) are received by the District.

(C) Payments Unconditional. The Periodic Payments shall accrue, and the Purchaser shall be obligated to make such payments through the date of termination of this Agreement, irrespective of the condition of the Projects and whether or not they are capable of producing any Output for any reason. This provision shall not constitute a waiver of the Purchaser's right to seek damages for a breach by the District of its obligations hereunder.

(D) True-Up. Within thirty (30) days after the finalization of financial, statutory or other required audits for each Fiscal Year, the District shall compute any amounts that should have been included as charges or credits in the monthly invoices to Purchaser during such Fiscal Year and prepare and submit to Purchaser a final true-up invoice containing any such

expenses and credits (the "Annual True-Up"). If such Annual True-Up invoice shows a payment due to the District from the Purchaser, the final Annual True-Up invoice shall be due and payable in the same manner as the monthly payments for Periodic Payments; provided that if this Agreement has then expired, the Purchaser shall make a payment by electronic funds transfer of such amount to the District within thirty (30) days of the date of such calculation and Purchaser's receipt of such final Annual True-Up invoice. If such Annual True-Up invoice shows a credit due to the Purchaser from the District, such credit shall be reflected as a deduction to the Periodic Payment due the month(s) after the final Annual True-Up invoice is issued until such credit is exhausted; provided that if this Agreement has then expired or expires prior to such credit being exhausted, the District shall make a refund by electronic funds transfer of such amount to the Purchaser within thirty (30) days of the date of such calculation.

(E) Corrections. The District may make corrections for expenses and credits discovered by either Party in invoices or Annual True-Up reports in each of the prior three (3) Fiscal Years. No adjustments for or with respect to expenses, credits or energy exchanges will be made with respect to any Fiscal Year ending earlier than the third Fiscal Year preceding the Fiscal Year to which the current audit pertains.

Section 8.02. Accounting. The District shall cause proper books and records of account to be kept for each of the Projects by the District. Such books and records of account shall be kept in accordance with the rules and regulations established by any Government Authority authorized to prescribe such rules including, but not limited to, the Division of Municipal Corporations of the State Auditor's Office of the State of Washington or such other Washington State department or agency succeeding to such duties of the State Auditor's Office. The District shall also maintain books and records in conformity with GAAP and in accordance with the Uniform System of Accounts prescribed by FERC or such other federal agency having jurisdiction over electric utilities owning and operating properties similar to the District's electric properties. The District shall cause such books and records of account to be audited by independent certified public accountants, experienced in electric utility accounting, to be retained by the District. The audits to be made by such certified public accountants, as above mentioned, shall be made annually and shall cover each Fiscal Year during the term of this Agreement. At the Purchaser's written request, the District shall deliver a copy of each such annual audit, including any recommendations of the auditors with respect to the Project to Purchaser promptly after it is received by the District.

Section 8.03. Audits by Purchaser. District shall provide or cause to be provided all information that Purchaser may reasonably request to substantiate all invoices, adjustments and claims under this Agreement related to the Projects. Purchaser shall, upon notice, have the right to audit, at its sole cost and expense, upon reasonable notice and during normal business hours following the receipt of an Annual True-Up, and District shall make or cause to be made available any and all books and records related to the Projects which directly relate to the determination of Net Costs as set forth in Appendix A and are reasonably necessary for verification of charges and costs included in invoices or amended invoices rendered under this Agreement or verification of Purchaser's or the District's compliance with this Agreement; provided, however, that Purchaser shall coordinate its rights under this section with the other Share Participants in order to conduct joint, rather than individual, audits pursuant to this provision. The District shall also cooperate with Purchaser in its efforts to verify the charges

imposed pursuant to Section 7.01 of this Agreement. Any Annual True-Up not challenged within three (3) years following its date shall be considered final. Any audit shall, at the option of Purchaser and at Purchaser's expense, be performed by designated employees, consultants or agents of Purchaser that Purchaser determines in its discretion are experienced in utility practices. Upon request, District will be entitled to review the complete audit report and any supporting materials.

Section 8.04. **No Interest In System.** This Agreement is for a sale of Output as described in Section 5. Nothing in this Agreement is intended to grant to Purchaser any rights to or interest in any specific District project, facility or resource.

Nothing in this Agreement shall be construed to create a partnership, association or joint venture with Purchaser, or any ownership interest or other legal right in Purchaser with respect to any existing District facility, project or resource, including but not limited to, the Chelan Power System or the Projects.

ARTICLE IX INTERCONNECTION AND TRANSMISSION

Section 9.01. **Interconnection and Transmission Agreements.** The Parties will concurrently herewith or prior to the Effective Date, enter into the Transmission Agreement, in substantially the form attached to this Agreement as Appendix D, and an Interconnection Agreement, to be negotiated and executed by the parties following the Signing Date and prior to April 1, 2006.

Section 9.02. **Type of Service; Scheduling.** Types of service and Scheduling of Capacity and Energy deliveries shall be made in accordance with the provisions of Appendix B hereof.

ARTICLE X CONTROL, OPERATION AND MAINTENANCE OF THE SYSTEM

Section 10.01. **Control, Operation and Maintenance of the Chelan Power System.** Subject to the provisions of Section 6.01 and 6.03, the District shall operate and maintain the Chelan Power System in accordance with Prudent Utility Practices and shall use Commercially Reasonable Efforts consistent with Prudent Utility Practice to keep the Chelan Power System in good operating condition at all times. The District shall use Commercially Reasonable Efforts consistent with Prudent Utility Practice to perform such operations and maintenance in an efficient, economical and workmanlike manner; and the District shall make such repairs, renewals, additions, improvements and replacements of Project components as the District determines in its sole discretion.

Nothing in this Agreement shall be construed to grant Purchaser any right of control over the operation or maintenance of or repairs, renewals, additions, improvements or replacements to any of the District's generation, transmission or distribution facilities or the financing for such activities. All deliveries shall be subject to the District's curtailment rights set forth in Article VI.

Following the first Project Availability Date, at the request of Purchaser, the District shall meet with representatives of Purchaser on a semi-annual basis. All such meetings shall be held at the District's headquarters office, or such other location, and at a date and time as the Parties may mutually agree. The District may elect to schedule such meetings with other Share Participants, but it shall not be obligated to do so. The District's representatives shall attend and provide information concerning past and future expenditures, budgets, operations, maintenance, capital projects and other matters related to the Chelan Power System, as reasonably requested by Purchaser. Meetings initiated pursuant to this paragraph shall not exceed eight (8) hours duration without the District's consent. At such meetings, Purchaser may make recommendations to the District concerning the operation and maintenance of, and repairs, renewals, additions, improvements and replacements to, the Chelan Power System. Nothing herein shall be construed to create any implied obligations by the District with respect to the Purchaser's recommendations.

ARTICLE XI RELICENSING SUPPORT

Section 11.01. **Relicensing Support.** The District shall follow Prudent Utility Practice in obtaining and maintaining licenses and permits for operation during the Term of each Project after its Project Availability Date in accordance with this Agreement. The District's current FERC license for Rocky Reach expires on June 30, 2006; and its current FERC license for Rock Island expires on December 31, 2028. The District currently intends to seek a new license for each of the Projects. In light of the fact that the Output with respect to each of the Projects is material to this Agreement, Purchaser covenants and agrees to use Commercially Reasonable Efforts, at its cost and expense, to support the District's efforts to obtain a new license for each of the Projects, at such times during the Term and in such manner as the District shall reasonably request in writing. Such support may include, but shall not be limited to, providing letters or other written statements of support and written or oral testimony before FERC or in other administrative or legal proceedings, and participation in and statements of support at public meetings.

Section 11.02. **Cooperation.** Each Party covenants and agrees to act reasonably in support of any request by the other Party for review or approval by any Regulatory Authority of this Agreement (or costs incurred hereunder). Such support may include, but shall not be limited to, providing letters or other written statements of support and written or oral testimony before FERC or in other administrative or legal proceedings, and participation in and statements of support at public meetings, in each case as such supporting party reasonably deems prudent.

ARTICLE XII RISK OF LOSS AND DISCLAIMER OF WARRANTIES

Section 12.01. **Risk of Loss.** The District represents and warrants that it will deliver the Output sold hereunder to Purchaser free and clear of all liens, claims and encumbrances arising prior to the delivery of such Output at the Transmission Point(s) of Receipt. Risk of loss associated with the Output shall transfer from the District to Purchaser at the point Output reaches the Transmission Point(s) of Receipt. Purchaser shall bear all risk of all occurrences of any nature (including force majeure or any other event beyond the reasonable

control of either Party) affecting any interconnection facilities, substations, transmission lines and other facilities on Purchaser's side of the applicable Transmission Point(s) of Receipt. For the avoidance of doubt, the risk of loss pursuant to the foregoing shall not reduce or otherwise affect the Purchaser's Periodic Payments as described in this Agreement.

The District shall not be liable to Purchaser for any damages or losses sustained by Purchaser or its customers or third parties as a result of the curtailment, reduction or interruption of Output.

Section 12.02. **Disclaimer of Warranties.** Except as otherwise expressly set forth herein, the District disclaims any and all warranties beyond the express terms hereof, including any implied warranties of merchantability or fitness for a particular purpose, and all other warranties with regard to all Energy and Capacity and other Output made available to Purchaser pursuant to this Agreement are hereby expressly disclaimed.

The Parties confirm that the express remedies and measures of damages provided in this Agreement against the Purchaser, and the express limitations as to remedies and damages provided in this Agreement with respect to the District, in each case satisfy the essential purposes hereof. For breach of any provision hereof for which an express remedy or measure of damages is provided, such express remedy or measure of damages shall be the sole and exclusive remedy, the obligor's liability shall be limited as set forth in such provision and all remedies or damages at law or in equity are waived. Except as otherwise expressly provided herein, the obligor's liability shall be limited to direct actual damages only, such direct actual damages shall be the sole and exclusive remedy and all other remedies or damages at law or in equity are waived.

THE FOREGOING IS IN LIEU OF ALL OTHER WARRANTIES, EXPRESSED OR IMPLIED, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, IN FACT OR BY LAW WITH RESPECT TO THE OUTPUT PROVIDED HEREUNDER. DISTRICT HEREBY DISCLAIMS ANY AND ALL OTHER WARRANTIES WHATSOEVER.

The limitations contained in this Section 12.02 shall be in addition to, and not in lieu of, the provisions of Section 5.01(C), Article VI and Article XXI, however, the provisions in this Agreement shall not apply to liabilities arising under the Transmission Agreement or the Interconnection Agreement.

ARTICLE XIII ASSIGNMENT

Section 13.01. **Assignment.** Neither Party shall assign this Agreement or its rights hereunder without the prior written consent of the other Party, which consent may be withheld in the exercise of its sole discretion; *provided, however,* that:

(A) The District may, without the consent of the Purchaser (and without relieving itself from liability hereunder), pledge or encumber this Agreement or the accounts, revenues or proceeds hereof in connection with any financing or other financial arrangements; and

(B) So long as no default or event which, following notice or the lapse of time or both, would constitute a default by such assigning Party has occurred and is continuing, and no Downgrade Event with respect to such Party has occurred and is continuing, such Party may, with the consent of the other Party, which consent shall not be unreasonably withheld, conditioned or delayed (i) transfer or assign this Agreement to an Affiliate of such assigning Party, provided such Affiliate's creditworthiness is equal to or higher than the then existing credit quality of such Party, or (ii) transfer or assign this Agreement to any person or entity that, by merger, consolidation or otherwise, succeeds to all or substantially all of the assets of such assigning Party; *provided, however*, that in each such case, in the reasonable judgment of the non-assigning Party:

(1) the proposed successor has assumed and has agreed to service, and has the requisite skill and experience to service, the retail and commercial distribution system of such Party;

(2) the proposed successor is capable of performing the obligations of the assigning Party hereunder in the same manner and with the same capacity as the assignor immediately prior to such transfer;

(3) the proposed successor's short term and long term creditworthiness is equal to or higher than the then existing credit quality of such assigning Party;

(4) after giving effect to such assignment, the prospective assignee would not be in default hereunder (determined without regard to any notices and cure periods);

(5) such prospective assignee shall sign an assumption agreement in form and substance reasonably satisfactory to the non-assigning Party, agreeing to be bound by the assignor's obligations hereunder; and

(6) the non-assigning Party shall have received such opinions, certificates and other assurances as the non-assigning Party may reasonably request as to the enforceability of such undertaking and to the effect that such transfer will not have a material adverse effect (tax or otherwise) on the non-assigning Party.

If more than one Party has signed this Agreement as Purchaser hereunder, this provision shall apply to each entity collectively as a unit. No assignment made under this Clause (B) shall release the assigning Party from its obligations hereunder unless the non-assigning Party expressly consents to such release, which consent may be withheld at the non-assigning Party's sole discretion; and

(C) Nothing contained herein shall preclude the District, without notice to or the consent of the Purchaser, from entering into lease/leaseback, sale/leaseback with an option to purchase, or other similar arrangements with respect to the Projects, or either of them, the economic effect of which is to transfer tax ownership of the Project or Projects for a stated period to a third party, provided that the District retains control of the management and operation of the Projects and the Output, equivalent to that of a legal owner, as determined by the District, for the Term.

ARTICLE XIV TAXES AND INSURANCE

Section 14.01. Taxes. Except as expressly set forth in Section 2 of Appendix A, each Party shall be responsible for payment of and bear any federal, state and local taxes that it shall accrue or incur as a result of the purchase and sale of Output under this Agreement.

Section 14.02. Insurance Required.

(A) Purchaser shall acquire and maintain during the Term in full force and effect, at its sole cost and expense, comprehensive general liability insurance that includes operations, products and contractual liability, explosion, collapse, and underground hazards, broad form property damage, sudden and accidental pollution and personal liability, with a minimum combined single limit of \$10,000,000 per occurrence and not less than \$20,000,000 in the aggregate. Each such policy shall be primary to and shall not contribute to any insurance that may otherwise be maintained by, or on behalf of, the District. All insurance required hereunder shall contain provisions waiving the insured's and the insurer's rights of subrogation or recovery of any kind against the District, its Affiliates and their respective directors, trustees, agents, employees, officers, successors and assigns. Self insurance may be substituted for all or any part of the insurance requirements under this Section 14.02(A) consistent with any generally applied self insurance program of Purchaser. Purchaser will provide the District with a summary of insurance coverages in force on an annual basis. The District acknowledges and agrees that the Purchaser's current program of insurance and self-insurance, as of the Signing Date, is consistent with and satisfies the foregoing provisions of this Section 14.02(A).

(B) The District shall maintain an insurance and/or self-insurance program with respect to the Chelan Power System for property damage, general liability, and other risks as, consistent with Prudent Utility Practice, the District may determine and the District's Commissioners may approve. The Purchaser acknowledges and agrees that the District's current program of insurance and self-insurance meets requirements of this Agreement.

Section 14.03. Certificates of Insurance. On or prior to the first Project Availability Date, each Party will provide to the other Party certificates of insurance evidencing the required coverage set forth above. Each Party shall endeavor to ensure that its certificates of insurance shall provide for a minimum of thirty (30) days advance notice to such other Party of cancellation or material change in coverage. Failure by either Party to obtain the insurance coverage or certificates of insurance required by this Article XIV shall not relieve such Party of the insurance requirements set forth herein or therein or in any way relieve or limit such Party's obligations and liabilities under any other provision of this Agreement.

ARTICLE XV DEFAULT AND TERMINATION

Section 15.01. Events of Default. An "Event of Default" means, with respect to a Party (a "Defaulting Party"), the occurrence of any of the following:

(A) the failure to make, when due, any payment required pursuant to this Agreement if such failure is not remedied within three (3) Business Days after receipt of written notice, as required in Section 8.01(B);

(B) any representation or warranty made by such Party herein is false or misleading in any material respect when made or when deemed made or repeated;

(C) the failure to perform any material covenant or obligation set forth in this Agreement (except to the extent constituting a separate Event of Default) if such failure is not remedied within 30 days after receipt of written notice;

(D) the Bankruptcy of such Party;

(E) the failure of the Purchaser to make the Prepayment Amounts at the times and in the amounts required pursuant to Section 7.01(E);

(F) the failure of such Purchaser to provide Adequate Assurances to the District within fifteen (15) days following receipt of written notice that the District in good faith has reasonable grounds for insecurity (determined using commercially reasonable standards embodied in Section 2-609(2) of the Washington State Uniform Commercial Code) in the Purchaser's ability to perform its obligations under this Agreement;

(G) such Party consolidates or amalgamates with, or merges with or into, or transfers all or substantially all of its assets to, another entity and, at the time of such consolidation, amalgamation, merger or transfer, the resulting, surviving or transferee entity fails to assume all the obligations of such Party under this Agreement to which it or its predecessor was a party by operation of law or pursuant to an agreement reasonably satisfactory to the other Party; or

(H) the occurrence and continuation of (i) a default, event of default or other similar condition or event in respect of such Party under one or more agreements or instruments, individually or collectively, relating to indebtedness for borrowed money ("Funding Agreements") in an aggregate amount of not less than the applicable Cross Default Amount which results in such indebtedness becoming immediately due and payable or (ii) a default by such Party in making on the due date therefor one or more payments, individually or collectively, under any judgment, or under any contract or other obligation not included within the definition of "Funding Agreement" above, in an aggregate amount of not less than the applicable Cross Default Amount; provided, however that such Party shall not be deemed in default under this clause (ii) so long as it diligently contests such payments in good faith by appropriate proceedings and pays any amount ultimately determined to be due within 30 days of such determination.

The District's use of Prepayment Amounts to fund a payment default by the Purchaser shall not relieve the Purchaser of its obligation to make such payment as and when due and such non-payment shall constitute an Event of Default under Section 15.01(A) above, which shall be deemed to continue until the Prepayment Amounts have been fully replenished. The decommissioning of one or both Projects pursuant to Section 6.03 shall not constitute a breach of this Agreement.

Section 15.02. Remedies upon Default. The Party as to which an Event of Default has not occurred (each a "Non-Defaulting Party") shall have the right, so long as any Event of Default is continuing and has not been cured within the applicable cure periods, if any, to take any one or more of the following actions:

(A) suspend its performance under this Agreement, other than any payment obligations that may be due or become due hereunder, until such Event of Default is cured or formally waived in writing by the Non-Defaulting Party;

(B) in the case of the District only, terminate this Agreement and sue for damages as contemplated in Section 15.03 below;

(C) maintain successive proceedings against the Defaulting Party for recovery of damages or for a sum equal to any and all payments required to be made pursuant to this Agreement; or

(D) take whatever action at law or in equity as may be necessary or desirable to collect the amounts payable by the Defaulting Party under this Agreement, as then due or to become due thereafter, or to enforce performance and observation of any obligation, agreement or covenant of the Defaulting Party under this Agreement.

If the District suspends performance pursuant to clause (A) above, the District shall act in a Commercially Reasonable manner to mitigate damages, including but not limited to using Commercially Reasonable efforts to sell the Purchaser's share of Output to third parties on a short term basis. In such case, Purchaser shall pay for the full amount of the monthly Periodic Payments, and any proceeds the District receives from the sale of such Output, net of administrative fees, costs and expenses, as determined by the District, shall first be applied against amounts owed by the Purchaser hereunder with respect to such Output, with the balance, if any, being retained by the District.

Notwithstanding any other provision contained herein, the Purchaser hereby waives any right it may have to terminate this Agreement as a result of a default by the District and agrees to limit its remedies related to any such default to claims for damages, specific performance or injunctive or equitable relief.

Except as otherwise expressly provided herein, no right or remedy conferred upon or reserved to a Party is intended to be exclusive of any other right or remedy, and each and every right and remedy shall be cumulative and in addition to any other right or remedy given hereunder, or now or hereafter legally existing, upon the occurrence of any Event of Default. Failure of either Party to insist at any time on the strict observance or performance by the other Party of any of the provisions of this Agreement, or to exercise any right or remedy provided for in this Agreement shall not impair any such right or remedy nor be construed as a waiver or relinquishment thereof for the future. Receipt by the District of any payment required to be made hereunder with knowledge of the breach of any provisions of this Agreement, shall not be deemed a waiver of such breach. In addition to all other remedies provided in this Agreement, each Party shall be entitled, to the extent permitted by applicable Law, to injunctive relief in case of the violation, or attempted or threatened violation, of any of the provisions of this Agreement,

or to a decree requiring performance of any of the provisions of this Agreement or to any other remedy legally allowed to such Party.

Section 15.03. Calculation of District's Loss upon Termination.

(A) If the District terminates this Agreement pursuant to Section 15.02 (B), the District shall be entitled to recover from the Purchaser the full amount of its loss resulting from the early termination of this Agreement. The Parties recognize that it will be difficult to calculate those losses with absolute precision and agree that the District's good faith determination of such losses, based on the methodology set forth in this Section 15.03, shall be conclusive and binding on the Parties, absent manifest error.

(B) The District's losses and costs upon such termination shall be determined based on its assessment of the cost of replacing the defaulting Purchaser with a new creditworthy participant who is willing to assume the obligations of the defaulting Purchaser under this Agreement. Such costs shall include, among other items, upfront incentive payments the District reasonably believes it will be required to pay to entice a substitute Purchaser to assume the defaulting Purchaser's obligations hereunder, the present value (calculated at the District's tax-exempt borrowing rate, or if the District no longer has tax exempt debt outstanding, at its applicable taxable borrowing rate) of pricing discounts and other concessions that the District reasonably believes will be required to entice a substitute Purchaser to assume such obligations, the legal fees and expenses anticipated to be incurred by the District in effectuating such substitution, and all other losses, costs and expenses that have been, and that the District reasonably believes will be, incurred in connection with such default, termination and substitution.

(C) All such losses and costs will be determined by the District in good faith, using Commercially Reasonable procedures, in order to arrive at a Commercially Reasonable result.

(D) Amounts due and owing by the defaulting Purchaser as of the date of termination, together with all legal fees, costs and expenses incurred by the District, arising out of or as a result of such default in connection with the enforcement of this Agreement and the protection of its rights hereunder (including all costs of collection) shall be in addition to the losses calculated in accordance with Clause (B) above.

(E) In determining its losses, the District may consider any relevant information, including, without limitation, one or more of the following types of information:

(i) quotations (either firm or indicative) for assumption of the Purchaser's obligations hereunder, supplied by one or more third parties that take into account the status of the Chelan Power System, the District's existing and anticipated Net Costs, the creditworthiness of the District at the time the quotation is provided and any other factors then existing or anticipated that are relevant to the third party providing such quotation;

(ii) information consisting of relevant market data in the relevant market supplied by one or more third parties, including, without limitation, relevant

existing and projected rates, prices, yields, yield curves, volatilities, spreads, correlations and other relevant market data, and the current and anticipated future regulatory environment; or

(iii) information of the types described in the clauses (i) or (ii) above from internal sources if that information is of the same type used by the District in the regular course of its business for evaluating power sales contracts.

(F) The District will consider, taking into account the standards and procedures described above, quotations pursuant to Clause (E)(i) above or relevant market data pursuant to Clause (E)(ii) above, unless the District reasonably believes in good faith that such quotations or relevant market data are not readily available or would produce a result that would not satisfy those standards. When considering information described in Clause (E)(i), (ii) or (iii) above, the District may include costs of funding, to the extent it would not be a component of the other information utilized. Third parties supplying quotations pursuant to Clause (E)(i) above or market data pursuant to Clause (E)(ii) above may include, without limitation, wholesale purchasers in relevant markets, end-users of electric energy, information vendors, brokers, and other sources of market information.

(G) In making the calculations under this Section 15.03, the mandatory step-up provisions of Section 5.04 shall be ignored.

(H) If the District determines that its losses, as determined using the foregoing methodology, are negative (meaning that the District will benefit economically from such termination), no amounts will be due by either Party with respect to such losses, and the Purchaser's liability shall be limited to (i) amounts due and owing and accrued as of the date of termination, plus (ii) attorneys fees and expenses and other collection costs, plus (iii) the District's reasonable costs of calculating such losses.

(I) The District shall notify the Purchaser of its calculation of losses as soon as possible after termination and shall supply the Purchaser with a summary analysis of the methodology used in such calculations. The Parties recognize that it will be extremely difficult to precisely determine the amount of actual damages and loss that would be suffered by the District if the Purchaser's default gives rise to a termination of this Agreement as contemplated in this Article XV, and agree that the District's reasonable determination of such losses, using the methodology pursuant to this Section, is a fair and reasonable method of determining of the amount of actual damages that would be suffered by the District in such event. The loss methodology is intended to measure the anticipated damages actually suffered from a termination and is not intended to constitute a penalty or forfeiture.

ARTICLE XVI DISPUTE RESOLUTION

Section 16.01. **General.** Any dispute arising out of, or relating to, this Agreement, with the exception of those specifically excluded under this Agreement, shall be subject to the dispute resolution procedures specified in this Article XVI. Each Party retains the right, after making a good faith effort at resolving the dispute pursuant to the terms of this Article

XVI, to pursue such other actions and remedies otherwise permitted or authorized by law or equity.

Section 16.02. **Good-Faith Negotiations.** The Parties shall first negotiate in good faith to attempt to resolve any dispute, controversy or claim arising out of, under, or relating to this Agreement (a "Dispute"), unless otherwise mutually agreed to by the Parties. In the event that the Parties are unsuccessful in resolving a Dispute through such negotiations, either Party may proceed immediately to litigation concerning the Dispute.

The process of "good-faith negotiations" requires that each Party set out in writing to the other its reason(s) for adopting a specific conclusion or for selecting a particular course of action, together with the sequence of subordinate facts leading to the conclusion or course of action. The Parties shall attempt to agree on a mutually agreeable resolution of the Dispute. A Party shall not be required as part of these negotiations to provide any information which is confidential or proprietary in nature unless it is satisfied in its discretion that the other Party will maintain the confidentiality of and will not misuse such information or any information subject to attorney-client or other privilege under applicable Law regarding discovery and production of documents.

The negotiation process shall include at least two (2) meetings to discuss any Dispute. Unless otherwise mutually agreed, the first meeting shall take place within ten days after either Party has received written notice from the other of the desire to commence formal negotiations concerning the Dispute. Unless otherwise mutually agreed, the second meeting shall take place no more than ten days later. In the event a Party refuses to attend a negotiation meeting, either Party may proceed immediately to litigation concerning the Dispute.

Section 16.03. **Confidentiality and Non-Admissibility of Statements Made in, and Evidence Specifically Prepared for, Good Faith Negotiations.** Each Party hereby agrees that, to the full extent permitted by law, all statements made in the course of good faith negotiations, as contemplated in Section 16.02, shall be Confidential Information and shall not be disclosed, except as provided in Section 19.01 and except that such statements may be disclosed to or shared with any third person whose presence is necessary to facilitate the negotiation process). Each Party agrees and acknowledges that no statements made in or evidence specifically prepared for good faith negotiations under Section 16.02 shall be admissible for any purpose in any subsequent litigation.

Section 16.04. **Other Recourse.** Notwithstanding any other provision of this Agreement, either Party may, without prejudice to any negotiation or mediation, proceed in the courts of the State of Washington to obtain provisional judicial relief if, in such Party's sole discretion, such action is necessary to protect public safety, avoid imminent irreparable harm, or to preserve the status quo pending the conclusion of any dispute resolution procedures employed by the Parties or pendency of any action at law or in equity. Except for temporary injunctive relief under this section, neither Party shall bring any action at law or in equity to enforce, interpret, or remedy any breach or default of this Agreement without first complying with the provisions of this Article.

Section 16.05. Commitments. Unless otherwise agreed to in writing (including any express provision of this Agreement) or prohibited by applicable Law, the Parties shall continue to honor all commitments under this Agreement during the course of any dispute resolution under this Article and during the pendency of any action at law or in equity.

ARTICLE XVII NO DEDICATION OF FACILITIES

Section 17.01. No Dedication of Facilities. No undertaking under any provision of this Agreement shall constitute a dedication of any portion of the electric system of either Party to the public or to the other Party.

ARTICLE XVIII LICENSES AND OWNERSHIP AND CONTROL

Section 18.01. FERC Licenses and Bond Resolutions. Purchaser hereby acknowledges and agrees that the District must comply with the terms and provisions of the (i) FERC licenses for the respective Projects and (ii) the respective Debt Obligations and the resolutions and documents authorizing or providing for the issuance or incurrence and/or the terms thereof. This Agreement is made subject to the terms and provisions of such FERC licenses and such licenses shall govern to the extent of any conflict with the terms and provisions of this Agreement.

ARTICLE XIX INFORMATION AND CONFIDENTIALITY

Section 19.01. Confidential Information; Disclosure. Where a Party makes any calculation of costs or damages under this Agreement, such Party shall provide, upon the reasonable request of the other Party, documentation supporting such calculation. Neither Party shall disclose or otherwise make available to any other person or third party any information of a technical, commercial or business nature regarding the Projects or this Agreement that has been marked or identified (as of the time of such disclosure or availability) as confidential or proprietary ("Confidential Information") by the Party making such disclosure (the "Disclosing Party") without the prior written consent of the Disclosing Party, except that (a) either Party or its Affiliate may provide Confidential Information to such Party's or such Affiliate's existing or prospective lenders, underwriters, investors, affiliates, advisors, employees, officers and directors to the extent reasonably required in connection with the administration of this Agreement, the issuance or incurrence of debt or equity or other financing activities of such Party or such Affiliate, or the performance of any duties relating to this Agreement; (b) either Party may provide Confidential Information to any Government Authority in connection with the exercise by such Government Authority of its jurisdiction with respect to such Party; (c) any Party may disclose any such Confidential Information in any litigation or proceeding to enforce or recover damages under this Agreement; (d) any Party (or its Affiliate) may disclose any such Confidential Information as may be required (i) by any applicable Law, regulation or governmental order, or (ii) in connection with any regulatory or governmental proceeding or inquiry, or (iii) in connection with any reporting requirements under agreements (such as MCHC) to which both the District and the Purchaser are parties; and (e) any Party (or its

Affiliate) may disclose such Confidential Information to any person or entity succeeding to all or substantially all the assets of such Party (or its Affiliate) or all or a substantial portion of its interest in the Projects; *provided*, that in the case of (e), any such successor shall agree to be bound by the provisions of this Section 19.01. Confidential Information shall not include information that: (i) the receiving Party can demonstrate was known to it prior to its disclosure by the other Party; (ii) is, or later becomes, public knowledge without breach of this Agreement by the receiving Party; (iii) was received by the receiving Party from a third party without obligation of confidentiality; or (iv) is developed by the receiving Party independently from Confidential Information received from the other Party, as evidenced by appropriate documentation. In the event that disclosure is required by applicable public disclosure laws, as determined by the District, or by a valid order of a court or Government Authority, the Party subject to such requirement may disclose Confidential Information to the extent so required, but shall promptly notify the other Party and shall cooperate with the other Party's efforts to obtain protective orders or similar restraints with respect to such disclosure. The provisions of this Article XIX shall continue in effect until three (3) years after the end of the Term.

Because of the unique nature of the information to be provided, the Parties understand and agree that irreparable harm will be suffered in the event that one Party (the "Breaching Party") fails to comply with its obligations contained in this Section 19.01 and that monetary damages will be inadequate to compensate for such breach. Accordingly, any Breaching Party agrees that the non-breaching party will, in addition to any other remedies available to it under this Agreement, be entitled to specific performance or injunctive relief to enforce the provisions of this Section.

ARTICLE XX FINANCIAL INFORMATION

Section 20.01. ***Financial Information.*** The Purchaser shall deliver to the District (i) within 120 days following the end of each fiscal year of Purchaser, a copy of the Purchaser's annual report containing audited consolidated financial statements for such fiscal year, (ii) within 60 days after the end of each of its first three fiscal quarters of each fiscal year, a copy of the Purchaser's quarterly report containing unaudited consolidated financial statements for such fiscal quarter, (iii) all public announcements made by the Purchaser of a financial nature promptly following their release to the public, and (iv) any notice of any Downgrade Event, promptly upon the occurrence thereof. In all cases the statements shall be for the most recent accounting period and prepared in accordance with GAAP; provided, however, that should any such statements not be available on a timely basis due to a delay in preparation or in the delivery of audited financial statements or certificates with respect thereto, such delay shall not be an Event of Default so long as the Purchaser provides notice to the District and diligently pursues the preparation and delivery of the statements and required certificates.

ARTICLE XXI LIMITATION OF LIABILITY

Section 21.01. ***Limitation of Liability.*** Except as provided in Article XV, and then only to the extent provided therein, neither Party (including each Party's officers, trustees, directors, agents, employees, direct and indirect parents, subsidiaries or Affiliates, and such

parents', subsidiaries' or Affiliates' officers, trustees, directors, agents or employees) shall be liable or responsible to the other Party (or its direct and indirect parents, subsidiaries, Affiliates, officers, trustees, directors, agents, employees, successors or assigns) or their respective insurers, for special, incidental, indirect, exemplary, punitive or consequential damages connected with or resulting from the performance or non-performance of this Agreement, or anything done in connection therewith including, without limitation, Claims in the nature of business interruption, lost revenues, income or profits (other than payments expressly required and properly due under this Agreement), or loss of business, reputation or opportunity, or cost of capital, and irrespective of whether such Claims are based upon downtime costs or Claims of customers, and irrespective of whether such Claims are based upon breach of warranty, tort (including negligence, whether of either District, Purchaser or others), strict liability, contract, operation of law or otherwise, but excluding acts or omissions of gross negligence or willful misconduct.

Section 21.02. **Survival.** The protections afforded by Section 21.01 above shall survive the termination, expiration or cancellation of this Agreement, and shall apply to the fullest extent permitted by law.

Section 21.03. **No Personal Liability.** Neither any partner, shareholder, member, parent company or other Affiliate of either Party (or any officer or director or any employee thereof), nor any partner, shareholder, member, parent company or other Affiliate or successor-in-interest of such partner, shareholder, member, parent company or other Affiliate (or any officer or director of any employee thereof), shall have any personal liability or responsibility for, relating to or in connection with said Party's failure to properly perform any term, covenant, condition or provision of this Agreement.

Section 21.04. **Duty to Mitigate.** Each Party agrees that it has a duty to mitigate damages and covenants that it will use Commercially Reasonable Efforts to minimize any damages it may incur as a result of the other Party's non-performance of this Agreement.

ARTICLE XXII NOTICES

Section 22.01. **Notification.** All notices to be given pursuant to this Agreement by Purchaser to the District shall be in writing and addressed to the General Manager of Public Utility District No. 1 of Chelan County, 327 N. Wenatchee Avenue, Wenatchee, WA 98801, with a copy to General Counsel of Public District No. 1 of Chelan County, 327 N. Wenatchee Avenue, Wenatchee, WA 98801. Notices to be given to Purchaser hereunder shall be in writing and addressed to Puget Sound Energy, Inc., 10885 NE 4th Street, Bellevue, WA 98004, Attention: Sr. Vice President, Energy Resources, PSE-12 with copy to Sr. Vice President, General Counsel and Chief Compliance Officer, PSE -12, Puget Sound Energy, Inc., 10885 NE 4th Street, Bellevue, WA 98004. Notice shall be deemed to have been given when enclosed in a properly sealed envelope, addressed as aforesaid, and deposited first class postage prepaid in a post office or branch post office of the United States Postal Service or by electronic mail, facsimile or other documentary form mutually agreed upon means of communication. Notice by electronic mail, facsimile or hand delivery shall be deemed to have been received by the close of business on the Business Day on which it was delivered or transmitted (provided a confirmation of such transmission has been received). Either Party may change the identity of the contact

person or the address for notice for such Party by providing notice thereof to the other Party pursuant to this Section 22.01.

ARTICLE XXIII MISCELLANEOUS

Section 23.01. **Binding Effect.** This Agreement shall be binding upon the Parties and their successors and permitted assigns.

Section 23.02. **Applicable Law; Venue.** The Parties hereto agree that the laws of the State of Washington shall govern this Agreement. Venue for any legal action arising from this Agreement shall be in the Superior Court of Washington for Chelan County.

Section 23.03. **Entire Agreement; Modifications.** Except as may be expressly provided herein, all previous communications between the Parties hereto, either verbal or written, with reference to the subject matter of this Agreement are hereby abrogated. The Purchaser's entitlement to Output from Rocky Reach hereunder shall only become effective on the expiration of the existing Power Sales Contract between Public Utility District No. 1 of Chelan County, Washington and Purchasers, dated as of November 14, 1957, as heretofore or hereafter amended from time to time (as so amended, "Existing Rocky Reach Power Sales Contract"), and the Purchaser's entitlement to Output from Rock Island hereunder shall only become effective on the expiration of the existing Power Contract - Rock Island Joint System between the Parties dated June 19, 1974, as heretofore or hereafter amended from time to time (as so amended, "Existing Rock Island Power Sales Contract"), and nothing herein shall be deemed to supersede or supplement those agreements. Upon the Project Availability Date for a Project, this Agreement shall constitute the entire agreement between the Parties hereto with respect to such Project. No modifications of or amendments to this Agreement shall be binding upon the Parties or either of them unless such a modification shall be in writing, hereafter duly executed by an authorized officer or employee of each Party.

Neither Party nor any Affiliate thereof may make application to FERC, or any other Government Authority having jurisdiction over this Agreement, seeking any change in this Agreement pursuant to the provisions of Sections 205 or 206 of the Federal Power Act or under any other statute, regulation or other provision promulgated by a Government Authority, nor support any such application by a third party. Absent the agreement of the Parties to any proposed change, the standard of review for changes to any Section of this Agreement specifying the rate(s) or other material economic terms and conditions agreed to by the Parties herein whether proposed by a Party, a non-Party or FERC actions sua sponte, shall be the "public interest" standard of review set forth in *United Gas Pipe Line Co. v. Mobile Gas Service Corp.*, 350 U.S. 332 (1956) and *Federal Power Commission v. Sierra Pacific Power Co.*, 350 U.S. 348 (1956) (the "Mobile-Sierra" doctrine). The Parties, for themselves and their successors and assigns, (i) agree that this "public interest" standard shall apply to any proposed changes in any other documents, instruments or other agreements executed or entered into by the Parties in connection with this Agreement and (ii) hereby expressly and irrevocably waive any rights they can or may have to the application of any other standard of review, including the "just and reasonable" standard.

Section 23.04. **Headings.** Section and subsection headings are included solely for the convenience of the Parties and do not constitute a part of this Agreement. No meaning shall be imputed to such headings nor shall they be relied upon to interpret this Agreement.

Section 23.05. **Third Party Beneficiaries.** This Agreement shall not be construed to create rights in, or to grant remedies to, any third party as a beneficiary of this Agreement.

Section 23.06. **Non-waiver.** Failure by either Party at any time to require performance of any provision of this Agreement shall not adversely affect either Party's rights hereunder to enforce the same. No waiver by either Party of any breach of this Agreement shall be held to be a waiver of any subsequent or different breach hereof.

Section 23.07. **Attorney Fees.** The substantially prevailing Party in a dispute related to this Agreement shall be entitled to recover all of its costs, including reasonable attorney fees.

Section 23.08. **Execution.** This Agreement may be executed in any number of counterparts and by the Parties on separate counterparts, each of which, when so executed and delivered, shall be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 23.09. **Severability.** If any term or provision of this Agreement or the application thereof to any Party, or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Agreement, or the application of such term or provision to the Parties or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each term and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law. If any clause or provision of this Agreement shall be deemed invalid or unenforceable, the Parties will promptly engage in good faith negotiations to modify such clause or provision to each Party's Commercially Reasonable satisfaction to alleviate the grounds for invalidity or enforceability and to preserve the respective rights and obligations of the Parties intended to be conferred by this Agreement to the greatest extent reasonably practicable.

Section 23.10. **No Guaranty; Obligations Regarding Bonds or Indebtedness.** Nothing contained herein shall obligate the Purchaser, directly or indirectly, to be or become a guarantor or surety of any bonds or indebtedness of the District and the Purchaser shall not directly or contingently be obligated to pay such bonds or indebtedness, nor shall it be liable or responsible for the District's use, deposit, investment or application of any funds payable by the Purchaser hereunder. The District may pledge payments to be made by the Purchaser hereunder as security for any such bonds or indebtedness; however, such pledge shall not imply any obligation of the Purchaser beyond the express terms of this Agreement.

Section 23.11. **Environmental Attributes.** If Puget notifies the District that Environmental Attributes have become available that result from or are directly attributable to Output generated from the Chelan Power System, the Parties agree to negotiate in good faith a fair and equitable allocation of such Environmental Attributes, pro rated over the remaining Term; *provided, however*, that nothing in this Agreement is intended to address the Purchaser's right, if any, to any energy certificates or other credits that may otherwise be available to

Purchaser under state or Federal law without the consent, approval or agreement of the District; and provided further, however, that notwithstanding any other provision of his Agreement to the contrary, the Purchaser shall not be entitled to Environmental Attributes to the extent the District reasonably determines that such allocations might cause interest on any of its outstanding obligations to be includable in gross income of the holders thereof for federal income tax purposes.

Section 23.12. Metering.

(A) Metering Installation. The District has installed metering devices at each Point of Receipt to record the energy, real and reactive power, and instantaneous flow of power generated by the Units. The District may from time to time install additional or replacement metering devices to measure energy, real and reactive power and instantaneous flows from the Units. All such metering devices, as so designated by the District from time to time ("Meters"), shall be used to measure Energy for all purposes of this Power Sales Agreement and for purposes of any other agreement between the Parties related to the delivery of Energy from the Chelan Power System.

(B) Measurements. Except as may otherwise be provided in a contract between the Parties governing a specific transaction between them, all power flow and reactive power flow measurements from the Units shall be based on the measurement automatically recorded by the Meters. Measurements shall be adjusted for transmission and transformation losses as may be specified in the Transmission Agreement.

(C) Meter Testing. The District shall inspect, test and adjust the Meters at least once every two years. The District shall provide Purchaser with reasonable advance notice of, and permit a representative of Purchaser to witness and verify, such inspections, tests and adjustments.

(D) Supplemental Testing Requested by Purchaser. In addition to the other inspections and tests required under Section 23.12(C), upon two (2) weeks' prior written notice by Purchaser, and not more often than once every 3 months, the District shall perform additional inspections or tests of any of the District's Meters. The District and Purchaser shall agree on a mutually convenient time for such inspections or tests, and the District shall permit a qualified representative of Purchaser to inspect or witness such testing of any of the District's Meters. The actual expense of any such requested additional inspection or testing shall be borne by Purchaser unless, upon such inspection or testing, the District's metering devices are found to register inaccurately by more than +/- 0.5%, in which event the expense of the requested additional inspection or testing shall be included in Net Costs.

(E) Recalculations. If any of the District's metering devices are found to be defective or inaccurate by more than +/- 0.2%, it shall be adjusted, repaired, replaced and/or re-calibrated to bring the metering device to within the specifications provided for herein. If any of the District's metering devices are not found to be defective or inaccurate by more than the variances stated herein, then such Meters shall not be re-calibrated unless the Parties otherwise agree.

(F) Adjustment for Inaccurate Metering. If any Meter fails to register, or if the measurement made by such Meter during a test conducted pursuant to Section 23.12(C) or (D) varies by more than +/- 0.2% from the measurement made by the standard meter used in such test, or if an error in meter reading occurs, adjustment shall be made to correct all measurements for the period during which such inaccurate measurements were made, if such period can be determined. If such period cannot be determined, the adjustment shall be made for the period immediately preceding the test of such Meter which is equal to the lesser of (a) one-half the time from the date of the last preceding test of such Meter, or (b) six months. Such corrected measurements shall be used to recompute the amounts of Energy delivered by the District to Purchaser during the period of adjustment. Such adjustment shall not include or give rise to any monetary compensation or other adjustments to the Periodic Payments.

The Parties have executed this Agreement on the dates noted below.

“District”

“Purchaser”

**Public Utility District No. 1
of Chelan County, Washington**

Puget Sound Energy, Inc.

By: Wayne Wright
Wayne Wright
Interim General Manager

By: Eric M. Markell
Eric M. Markell
Senior Vice President Energy Resources

Date: February 1, 2006

Date: February 3 2006

ATTACHMENT 1

Series Id: CUUR0000SAO
Not Seasonally Adjusted
Area: U.S. city average
Item: All items
Base Period: 1982-84=100

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual	HALF1	HALF2
1995	150.3	150.9	151.4	151.9	152.2	152.5	152.5	152.9	153.2	153.7	153.6	153.5	152.4	151.5	153.2
1996	154.4	154.9	155.7	156.3	156.6	156.7	157.0	157.3	157.8	158.3	158.6	158.6	156.9	155.8	157.9
1997	159.1	159.6	160.0	160.2	160.1	160.3	160.5	160.8	161.2	161.6	161.5	161.3	160.5	159.9	161.2
1998	161.6	161.9	162.2	162.5	162.8	163.0	163.2	163.4	163.6	164.0	164.0	163.9	163.0	162.3	163.7
1999	164.3	164.5	165.0	166.2	166.2	166.2	166.7	167.1	167.9	168.2	168.3	168.3	166.6	165.4	167.8
2000	168.8	169.8	171.2	171.3	171.5	172.4	172.8	172.8	173.7	174.0	174.1	174.0	172.2	170.8	173.6
2001	175.1	175.8	176.2	176.9	177.7	178.0	177.5	177.5	178.3	177.7	177.4	176.7	177.1	176.6	177.5
2002	177.1	177.8	178.8	179.8	179.8	179.9	180.1	180.7	181.0	181.3	181.3	180.9	179.9	178.9	180.9
2003	181.7	183.1	184.2	183.8	183.5	183.7	183.9	184.6	185.2	185.0	184.5	184.3	184.0	183.3	184.6
2004	185.2	186.2	187.4	188.0	189.1	189.7	189.4	189.5	189.9	190.9	191.0	190.3	188.9	187.6	190.2
2005	190.7	191.8	193.3	194.6											

Source: U.S. Department of Labor, Bureau of Labor Statistics
<http://data.bls.gov/cgi-bin/surveymost?bls>

APPENDIX A

DETERMINATION OF CHELAN POWER SYSTEM NET COSTS

1. **Definitions.** The following definitions shall apply throughout the Agreement and this Appendix A whenever the term is capitalized.

"Assumed Debt Service" means:

(i) with respect to any Debt Obligation issued after the Signing Date and before the first Project Availability Date, the amount for each applicable Contract Year calculated as of the date of issuance or incurrence thereof, that would be sufficient to fully amortize the original stated principal amount thereof, together with interest thereon at the Index Rate (using semi-annual compounding and a year of 360 days), for such Debt Obligation, on an annual level debt service basis over an amortization period commencing on the In Service Date of the Capital Improvements expected to be financed from the proceeds of such Debt Obligation and ending on the last day of such Capital Improvements' Average Service Life.

(ii) with respect to any Debt Obligation issued on or after the first Project Availability Date, the amount for each applicable Contract Year calculated as of the issuance or incurrence thereof, that would be sufficient to fully amortize the original stated principal amount thereof, together with interest thereon at the Index Rate (using semi-annual compounding and a year of 360 days) for such Debt Obligation on an annual level debt service basis over an amortization period commencing on the date of issuance or incurrence of such Debt Obligation and ending on the Deemed Maturity thereof.

"Average Service Life" means, with respect to any Debt Obligation issued after the Signing Date, the estimated weighted average economic service life of the Capital Improvements that the District expects to finance from proceeds of such Debt Obligations issued or incurred after the Signing Date, as determined by the District on or as of the date of the issuance or incurrence thereof. For purposes of the foregoing, land shall be deemed to have a weighted average economic service life of 25 years.

"Debt Obligation" means a bond, note (including a commercial paper note or bond anticipation note), installment purchase agreement, financing lease, inter-fund loan or any other obligation for borrowed money, or portion thereof, issued or incurred by or on behalf of the District for either or both Projects, the proceeds of which were or will be applied to finance Capital Improvements with respect to such Project or Projects and which has been or is designated by the District in its discretion as a Debt Obligation with respect to such Project or Projects. For the avoidance of doubt, the obligations listed or referred to in Schedule A-1 shall constitute Debt Obligations for purposes of this Agreement. Debt Obligations shall not include any Refunding Obligations, or the principal portion of any obligations issued after the Signing Date that otherwise would fall within the definition of Debt Obligations, to the extent such principal portion is or was used to pay costs of issuance or to fund debt service reserves with respect to Debt Obligations, all as determined by the District in its discretion. To avoid double counting, if the District designates inter-fund loans from the District Enterprise Units of the District to the Chelan Power System as Debt Obligations, the corresponding third party

obligations of the District shall not be included as Debt Obligations for purposes of this Agreement. For purposes of this Appendix A, "Debt Obligations" will include inter-fund loans from the District Enterprise Units that otherwise qualify as Debt Obligations; however, transfers from the District to the Chelan Power System derived from payments made by the Purchaser in respect of Capital Recovery Charges or Debt Reduction Charges, as determined by the District, shall not be treated as Debt Obligations for purposes of this Agreement. For purposes of this Agreement, the principal amount of Debt Obligations issued after the Signing Date shall be deemed to amortize in accordance with the Assumed Debt Service with respect thereto, and not on the actual principal amount of the District's Debt Obligations that may be outstanding on the date of calculation.

"*Deemed Maturity*" means that date determined by the District as of the issuance or incurrence of a Debt Obligation, by adding to the date of issuance or incurrence of such Debt Obligation, *the lesser of* (a) twenty-five (25) years, or (b) the Average Service Life of the Capital Improvements expected to be financed by the District from the proceeds thereof, as determined by the District.

"*Independent Investment Banker*" means an investment banking firm selected by the District in its discretion that is nationally recognized for its knowledge and experience in the pricing and sale of debt securities and that has, or whose parent company has, a rating from at least two of the Rating Agencies of not less than "A-" in the case of S&P and Fitch, and "A3" in the case of Moody's.

"*Index Rate*" means, with respect to each Debt Obligation, as of the applicable date of calculation, the fixed interest rate, as determined by the District in consultation with an Independent Investment Banker as of the date of issuance or incurrence thereof, equal to 110% of the weighted average annual interest rate that such Debt Obligation would bear (i) based on the then current underlying long term credit rating of the District; (ii) assuming that interest on such Debt Obligation would be includable in the income of the holders thereof for federal income tax purposes; and (iii) assuming that such Debt Obligation were amortized on a level debt service basis over the applicable amortization period described in the definition of "Assumed Debt Service." In determining the Index Rate of any Debt Obligation, the District may consider interest indices and other market data generally available as of the date of calculation.

"*In Service Date*" means the estimated weighted average date the Capital Improvements expected to be financed from proceeds of a Debt Obligation are or are expected to be placed in service, as determined by the District.

2. **Determination of Net Costs.** For purposes of this Agreement, the District's Chelan Power System net costs ("Net Costs") for any given month shall include all costs and expenses of every kind and description, both direct and indirect, paid or accrued by the District in such Month with respect to its ownership, operation, maintenance, repair and improvement of, and the production, sale and delivery of Output from, the Chelan Power System, as determined by the District, including without duplication (whether under this Agreement, the Transmission Agreement or the Interconnection Agreement), the items of cost and expense described below in this Section 2, plus any cost or expenses incurred by

the District in such month in administering this Agreement that are unique to Purchaser or Purchaser's performance (or failure to perform) hereunder. Net Costs shall not include any depreciation expense. Such Net Costs shall include, without intending to limit the generality of the foregoing:

- (a) **Operating and Maintenance Costs.** All operating and maintenance costs of every kind and description, both direct and indirect ("Operating Costs"), paid or accrued by the District with respect to the operation, maintenance and repair of, or the production, sale or delivery of Output from, the Chelan Power System or any part thereof, including allocable District overhead and administrative costs, and costs of generation integration for the Chelan Power System provided by the District's distribution system, all as the District may reasonably determine consistent with GAAP, FERC regulations (including FERC's Uniform System of Accounts) and the District's accounting policies, practices and procedures. Without limiting the generality of the foregoing, Operating Costs shall include those items of cost described in subsections (i) through (iv) below.
- (i) **Taxes and Assessments.** All governmental taxes, assessments or other similar charges with respect to its ownership, operation, maintenance or repair of, or the production, sale or delivery of Output from, the Chelan Power System or any part thereof, including payments by the District in lieu of such governmental taxes, assessments or other similar charges.
- (ii) **Certification, Relicensing and Decommissioning Costs.** All costs determined by the District to be reasonably allocable to the certification, re-licensing or decommissioning of any of the Projects or any part thereof. The District agrees that it will not accelerate payment of costs associated with measures required or agreed upon, in the District's sole discretion, for the relicensing of either Project in advance of the date(s) necessary to comply with existing and anticipated FERC and other regulatory requirements or settlement agreements related to relicensing.
- (iii) **Litigation.** All judgments, claims, settlements, arbitration awards and other similar costs and liabilities with respect to its ownership, operation, maintenance, repair or improvement of, or the production, sale or delivery of Output from, the Chelan Power System, including attorneys' fees and costs, in each case to the extent not paid from proceeds of insurance.
- (iv) **Loss Prevention.** All costs for the prevention of any loss or damage to the Chelan Power System, and all costs of the correction of any loss or damage to the Chelan Power System to the extent not paid from proceeds of insurance covering such loss or damage.

Anything in this Appendix A to the contrary notwithstanding, Operating Costs shall not include costs paid or deemed paid from the proceeds of Debt Obligations or to the extent the costs of Capital Improvements were paid from Capital Recovery Charges or Debt Reduction Charges as contemplated in Sections 7.01 (F) and (G).

The Purchaser agrees that the District may, in its sole discretion, determine what Operating Costs shall be incurred in connection with the ownership, operation, maintenance and improvement of, and the production, sale and delivery of Output from, the Chelan Power System.

(b) **Financing Costs.** Financing Costs ("Financing Costs") for each Month shall consist of the monthly accrual, as determined by the District, of the following costs payable or deemed payable by the District or the Chelan Power System, as the case may be, in connection with the issuance, incurring and carrying of Debt Obligations:

(i) **Outstanding Debt Obligations.** With respect to Debt Obligations that are outstanding as of the Signing Date ("Outstanding Debt Obligations"), the Purchaser will pay Financing Costs based on the payment and amortization schedule attached hereto as Schedule A-1, and regardless of actual payments owed by the District and regardless of any subsequent changes in such Debt Obligations, whether as a result of prepayments, refundings, restructuring or otherwise.

(ii) **Future Debt Obligations.** With respect to Debt Obligations that are incurred after the Signing Date ("Future Debt Obligations"), the Purchaser will (a) pay, commencing November 1, 2011, the monthly amortization of the Assumed Debt Service on such Debt Obligations attributable to Rocky Reach, and (b) pay, commencing July 1, 2012, the monthly amortization of the Assumed Debt Service on such Debt Obligations attributable to Rock Island. Following the issuance or incurrence of any Debt Obligation, the District will make available to the Purchaser, at its request, a written schedule showing the Capital Improvements expected to be financed by the District from the proceeds thereof, the estimated Average Service Life of such Capital Improvements as determined by the District and the scheduled monthly Financing Costs associated with such Debt Obligations.

(iii) **Refunding Obligations.** The Purchaser's Financing Costs with respect to Debt Obligations shall be determined as of the Signing Date or the date of original issuance or incurrence thereof, as the case may be, and will not be affected by any subsequent direct or

synthetic refinancing of such obligations.

Except as provided in Section 2(c) below, no adjustment will be made to the Purchaser's scheduled Debt Obligations payments as calculated in accordance with this Section as a result of the payment, purchase, defeasance, tender, acceleration, redemption or other restructure or modification of Debt Obligations after the initial issuance or incurrence thereof.

- (c) **Capital Recovery Charge and Debt Reduction Charge Adjustments.** If the District purchases, redeems or defeases outstanding debt of the Chelan Power System from moneys on deposit in the Capital Recovery Charge Fund or Debt Reduction Charge Fund, or from proceeds of insurance received with respect to components of the Capital Improvements that the District elects not to repair, rebuild or replace, all as determined by the District, the District shall provide the Purchaser with a credit against its monthly Financing Costs otherwise due from time to time hereunder, spread over a 25 year period from the month following the month of calculation (which the District agrees to complete as soon as reasonably practical following such purchase, redemption or defeasance), computed on a level monthly credit basis, using the following criteria, all as determined by the District: (i) the interest component of the credit shall be the actual weighted average interest rate applicable to Debt Obligations included in the Purchaser's Financing Costs (as set forth in Schedule A-1 and as determined in accordance with Section 2(b)(ii)), and (ii) the principal component of the credit shall equal the principal amount of debt of the Chelan Power System that was purchased, redeemed or defeased with such funds.

Anything in this Appendix A to the contrary notwithstanding, the District's determination of Net Costs, Operating Costs and Financing Costs shall be binding and conclusive on the Purchaser absent manifest error.

Notwithstanding the foregoing, the District, in its discretion, may adjust the Financing Costs contemplated in this Section 2 as it deems necessary, from time to time, to correct any error in the computation thereof, or to reflect a material change in the District's reasonable estimate of the In Service Date or the Average Service Life with respect thereto, and shall either add to or credit the amounts otherwise due in such month under this Section 2, to reflect the cumulative effect of any such adjustment.

Anything in this Appendix A to the contrary notwithstanding, except as provided in Section 15.02 of this Agreement, no credits shall be given for any income or revenues from the sale or other disposition of Output to any person.

3. **Use of Funds; Separate Accounts.**

- (a) Except as otherwise expressly set forth in this Agreement, the District, in its sole discretion, may use payments received from the Purchaser under this Agreement in any manner that the District shall determine.
- (b) The moneys in any fund or account established pursuant to this Agreement may be deposited and invested on a commingled basis by the District; provided, that the District shall maintain adequate accounting records to reflect any restricted applications of the moneys on deposit therein.
- (c) The designation of any fund or account herein shall not be construed to require the establishment of any independent, self-balancing fund as such term is commonly defined and used in governmental accounting, but rather is intended solely to constitute an earmarking of certain funds for certain purposes and to establish certain priorities or requirements for application thereof as provided herein.

4. **Issuance and Incurrence of Debt Obligations and Refunding Obligations.**

The District in its discretion may issue and incur Debt Obligations for the purpose of financing Capital Improvements to the Chelan Power System and may issue or incur Refunding Obligations to Refinance Debt Obligations and Refunding Obligations.

Anything in this Agreement to the contrary notwithstanding, the covenants, agreements, terms and provisions of all Debt Obligations and Refunding Obligations, including all bond resolutions, loan resolutions, trust agreements and indentures, loan agreements, reimbursement agreements, leases, bonds, notes and other similar instruments, adopted or executed by the District with respect to such Debt Obligations and Refunding Obligations shall be determined by the District in its sole discretion.

SCHEDULE A-1

SCHEDULE OF FINANCING COSTS WITH RESPECT TO DEBT
OBLIGATIONS OUTSTANDING AS OF THE SIGNING DATE

<u>Period</u> <u>Beginning</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Principal &</u> <u>Interest</u>	<u>Reserve &</u> <u>Contingency</u>	<u>Total</u> <u>Debt</u> <u>Service</u>	<u>Total Debt</u> <u>Obligation</u> <u>Outstanding(4)</u>
2011 RR (1)	2,845,770.78	2,363,260.12	5,209,030.90	333,333.34	5,542,364.24	231,747,832.10
2012 RR (2)	17,296,757.50	13,349,015.51	30,645,773.01	2,000,000.04	32,645,773.05	214,387,162.06
2012 RI (3)	<u>6,648,348.71</u>	<u>10,089,919.27</u>	<u>16,738,267.98</u>	<u>1,134,250.00</u>	<u>17,872,517.98</u>	<u>326,556,072.67</u>
2012 Total	23,945,106.21	23,438,934.78	47,384,040.99	3,134,250.04	50,518,291.03	540,943,234.73
2013	31,951,487.18	32,010,748.96	63,962,236.14	4,268,500.04	68,230,736.18	508,835,830.46
2014	34,070,581.26	30,279,484.44	64,350,065.70	4,268,500.04	68,618,565.74	474,596,282.00
2015	33,452,319.44	28,610,324.85	62,062,644.29	3,268,500.02	65,331,144.31	438,910,852.99
2016	33,272,297.15	26,918,105.06	60,190,402.20	2,268,500.00	62,458,902.20	405,440,120.21
2017	33,629,144.40	25,107,552.62	58,736,697.02	2,268,500.00	61,005,197.02	371,595,931.29
2018	25,786,035.52	22,918,336.37	48,704,371.89	2,268,500.00	50,972,871.89	345,576,852.25
2019	23,816,802.25	20,965,804.59	44,782,606.85	2,268,500.00	47,051,106.85	321,507,500.94
2020	25,278,962.53	19,560,195.11	44,839,157.64	2,268,500.00	47,107,657.64	295,954,851.31
2021	26,095,075.35	18,047,085.20	44,142,160.55	2,268,500.00	46,410,660.55	269,714,457.60
2022	27,521,910.08	16,440,932.73	43,962,842.81	2,268,500.00	46,231,342.81	242,192,547.53
2023	29,132,549.68	14,755,163.04	43,887,712.73	2,268,500.00	46,156,212.73	213,059,997.84
2024	30,365,634.32	12,990,312.02	43,355,946.34	2,268,500.00	45,624,446.34	182,694,363.53
2025	29,653,862.44	11,128,760.59	40,782,623.03	2,268,500.00	43,051,123.03	153,040,501.08
2026	29,742,752.10	9,306,331.14	39,049,083.24	2,268,500.00	41,317,583.24	123,297,748.98
2027	30,080,459.43	7,492,206.09	37,572,665.52	2,268,500.00	39,841,165.52	93,217,289.56
2028	30,766,917.37	5,671,857.89	36,438,775.26	2,448,739.56	38,887,514.81	62,450,372.19
2029	17,431,506.44	3,145,877.39	20,577,383.83	1,073,950.88	21,651,334.70	26,198,686.75
2030	6,741,011.77	1,582,782.42	8,323,794.19	-	8,323,794.19	19,457,674.98
2031	4,986,464.68	1,188,202.18	6,174,666.86	-	6,174,666.86	14,471,210.30

- 1) Beginning November 2011 amounts due related to the Rocky Reach System
- 2) 2012 amounts due related to the Rocky Reach System
- 3) Beginning July 2012 amounts due related to the Rock Island System
- 4) As of the beginning of each period.

APPENDIX B

OUTPUT, SCHEDULING, PLANNING AND TRANSMISSION

This Appendix B shall govern the determination of the Output to be made available to Purchaser under this Agreement. This Appendix B, in conjunction with the Transmission Agreement and the Interconnection Agreement, shall also govern the management, scheduling, delivery and transmission of the Output.

Definitions

In addition to the terms elsewhere defined in this Agreement, the following terms used in this Appendix B shall have the meanings ascribed to them below.

Biological Opinion - means any opinion issued by a Government Authority authorized to do so under the Endangered Species Act (ESA) that reviews and assesses whether the operating plan submitted by BPA, the U.S. Army Corps of Engineers and the Bureau of Reclamation will jeopardize the survival of any creature or creatures that have been determined to be threatened or endangered pursuant to the ESA.

Black Start Capability - The ability of generators to self-start without any source of off-site electric power and maintain adequate voltage and frequency while energizing isolated transmission facilities and auxiliary loads of other generators.

Bonneville Power Administration (BPA) - The Federal power marketing agency responsible for the selling of the output of all Columbia River Federal project generation, and ownership, operation and maintenance of a major share of the northwest high-voltage transmission system.

Canadian Entitlement - The amount of energy and capacity that Rocky Reach and Rock Island are obligated to return to BPA in its capacity as the US Entity for the account of the Canadian government to fulfill obligations under the US-Canadian Columbia River Treaty of 1964.

Chelan Power System Output includes adjustments for the following:

1. Canadian Entitlement
2. MCHC
3. PNCA
4. HCP
5. Biological Opinion
6. Hanford Reach Fall Chinook Protection Program
7. Immediate Spill Replacement

Fish Spill - The required spill of water for the passage of fish past the Projects as required by FERC order, the District's HCP, spill for studies, or other Regulatory Authorities.

Habitat Conservation Plans (HCP) - The plans approved as part of the Rocky Reach and Rock Island licenses to protect anadromous fish passing upstream and downstream at the projects.

Hanford Reach Fall Chinook Protection Program (Vernita Bar) - The agreement which defines the Mid-Columbia projects' (Grand Coulee, Chief Joseph, Wells, Rocky Reach, Rock Island, Wanapum, and Priest Rapids) operational obligations for the fresh water life cycle protection of the Hanford Reach Fall Chinook which has been signed by the District, National Oceanic and Atmospheric Administration's Department of Fisheries (NOAA Fisheries), Washington Department of Fish and Wildlife, PUD No. 2 of Grant County, and PUD No. 1 of Douglas County.

Immediate Spill Replacement - The energy received from the Federal government for the purpose of moving spill from the Federal system to reduce total dissolved gas levels downstream from Federal reservoirs.

Load Following/Regulation - The ability to adjust generation within an hour (or pursuant to dynamic scheduling) to follow variations in load. Load Following/Regulation is limited and constrained by the number of Units available, any limitations on the Units, Ramp Rate, and any other power or non-power restrictions.

Mid-Columbia Hourly Coordination (MCHC) - The 1997 Agreement For The Hourly Coordination Of Projects On The Mid-Columbia River (or its successor agreement) is an agreement among the principal parties that own or have rights to generation relating to the seven mid-Columbia hydro projects (Grand Coulee, Chief Joseph, Wells, Rocky Reach, Rock Island, Wanapum, and Priest Rapids). This agreement coordinates the hydraulic operation (generation, flows, and storage) among these projects.

Non-Spinning Operating Reserves - Those reserves that may be available at any time from all Units of the Chelan Power System not then connected to the system but capable of being connected and serving demand within a specified time.

Operational Constraints - Constraints on the Units, or a Project's operation that are needed to meet any requirement due to the HCP, regulations, Laws, court orders, authority, safety, or to minimize equipment wear, maintain equipment, or repair/replace equipment, or that are due to any other event or circumstance described in Section 1(E) of this Appendix B or in Section 6.01 of the Agreement.

Pacific Northwest Coordination Agreement (PNCA) - Shall mean the agreement among Northwest parties for the coordinated operation of the Columbia River system on a seasonal and monthly basis. The PNCA defines the firm energy output of the Chelan Power System, as well as other rights and obligations, including provisional energy, interchange energy, in-lieu energy, and others defined in the contract. The PNCA does not allow resources above the head works of Bonneville Dam to be removed from coordination, and currently all Capacity and Energy of the Chelan Power System is included in PNCA planning. PNCA serves as a settlement of the Federal Power Act Section 10(f) obligation to reimburse upstream Federal projects for energy gains as a result of the storage provided, as well as a FERC approved settlement among all Non-Federal parties for upstream benefit payments. The Purchaser must become a signatory to PNCA or contract with another PNCA party to fulfill any and all of the obligations required by PNCA with respect to the Purchaser's Percentage of Output.

Pond/Storage – The volume of water, expressed in MWH, that can be stored behind a Project between its minimum and maximum headwater elevations.

Project Transmission Facilities - Those Project owned transmission facilities included in the Chelan Power System and listed in Appendix C that are utilized to transmit Capacity and Energy from the Units to the Chelan Transmission System.

Ramp Rate – means the rate of change in the level of generation for a specified period within all applicable Operational Constraints. The maximum Ramp Rate is a variable quantity based upon these limitations.

Regional Transmission Organization (RTO) – shall mean any regional transmission organization which governs loads, generation, ancillary services and transmission of both Parties. As of the Signing Date, there is no such RTO.

Remedial Action Schemes (RAS) - Any action implemented by the District utilizing the Chelan Power System to maintain the transfer capabilities and stability of the western electrical system.

Spinning Operating Reserves – The difference at any time between total available Capacity of all Units of the Chelan Power System then on-line and the sum of the then-current generation level of those on-line Units.

Spill – Water that passes over a spillway without going through turbines to produce energy.

Spill Past Unloaded Units - Spill that occurs while Units are not all fully loaded.

Transmission Rights – The Purchaser has transmission rights up to the Purchaser's Percentage of available Project Transmission Facilities as specified in Section 9 of this Appendix B.

Unit - Each generating unit or collectively, the generating units at the Projects. The Units currently consist of the eleven generating Units C1 through C11 at Rocky Reach, the eleven generating Units BH (house Unit) and B1 through B10 at Rock Island Powerhouse One, and the eight generating Units U1 through U8 at Rock Island powerhouse Two. Unit may also include any other generating Units installed in the Chelan Power System (for example attraction water turbines).

Voltage Support / MegaVars (MVARs) – Shall mean reactive power supplied or absorbed by the Chelan Power System as required to maintain voltage at adjacent switchyards. Under certain operating conditions, the MVARs output from the Units may cause a reduction in the Capacity of the Chelan Power System.

OUTPUT

Section 1. Chelan Power System Output.

(A) **Capacity and Energy Component.** Output includes the deliverable electric Capacity and Energy from the Chelan Power System net of the following adjustments with respect thereto:

(i) adjustments for receipt and delivery of all upstream and downstream encroachments, adjustment for station service and losses to the Transmission Point(s) of Receipt;

(ii) adjustment for energy delivery or consumption obligations that are a Project responsibility under applicable Laws or agreements (including, but not limited to, fish hatcheries);

(iii) adjustment for capacity and energy receipt obligations with the Federal System associated with Immediate Spill Replacement;

(iv) capacity and energy delivery obligations under the Canadian Entitlement Allocation Extension Agreement signed by the District and the Bonneville Power Administration, acting as the U.S. Entity under the U.S. Canada Treaty of 1964;

(v) Purchaser adjustments for energy delivery rights that are a Project right under applicable laws or agreements (including, but not limited to, PNCA); and

(vi) adjustments due to limitations imposed by and rights under the FERC licenses, MCHC, HCP, Biological Opinion, Hanford Reach Fall Chinook Protection Program and Immediate Spill Replacement.

(B) **Pond/Storage.** Output includes access to and the ability to use 90% of the Purchaser's Percentage of Pond/Storage of the Projects of the Chelan Power System.

(C) **Load Following and Regulation.** Output includes Load Following/Regulation services by the Chelan Power System.

(D) **Chelan Power System Rights and Obligations.** Output includes the rights and obligations from Canadian Entitlement, MCHC, PNCA, HCP, Biological Opinion, Hanford Reach Fall Chinook Protection Program and Immediate Spill Replacement.

(E) **Output Limitations.** Output is subject to limitation or adjustments due to:

(i) planned or unplanned outages for maintenance or repair;

(ii) any reductions due to fishery programs, including but not limited to, spill for fish bypass and capability reductions for a bypass system;

(iii) any reductions or limitations due to the Hanford Reach Fall Chinook Protection Program and the Biological Opinion or any other limitations imposed by Government Authorities;

(iv) any reductions or limitations due to the HCP;

(v) reductions or interruptions reasonably necessary to promote and support national, regional and local electric system stability and reliability (including, but not limited to, MVAR support of the transmission system);

(vi) minimum generation limitations due to minimum flow requirements;

(vii) other operational limitations lawfully imposed;

(viii) force majeure events; and

(ix) Any other Operational Constraints.

(F) **Excluded Products and Services.** Output does not include the following:

(i) Black Start Capability;

(ii) RAS;

(iii) Voltage Support/MegaVars (MVARs); and

(iv) All other items not specifically included in Clauses (A) through (E) of this Section 1, except as otherwise described in Clause (G) below. It is Purchaser's responsibility to provide any additional ancillary services required to comply with safety and reliability standards in connection with Purchaser's receipt and use of Output.

(G) **Spinning Operating Reserves and Non-Spinning Operating Reserves.** The Purchaser's ability to utilize Output for purposes of Spinning Operating Reserves and Non-Spinning Operating Reserves shall be limited to and as provided in MCHC and its related operating protocols. The Parties agree that they will negotiate in good faith with each other and with other MCHC parties to modify MCHC's operating protocols in order to provide for the availability of Spinning Operating Reserves and Non-Spinning Operating Reserves; provided, however, that under any circumstances, the District reserves the right to refuse to place unloaded Units on-line for the sole purpose of meeting Purchaser's Spinning Operating Reserve obligations.

(H) **Implementation.** The reduction of Chelan Power System Capacity deliveries to Purchaser will be imposed pro-rata such that reductions of Capacity for Purchaser at any time will equal Purchaser's Percentage of the total reductions of Capacity at such time. Energy reductions of the Chelan Power System shall be allocated according to procedures in the MCHC. The Purchaser shall have the ability to utilize its full Purchaser's Percentage of Output at any

point in time, subject to the availability of Units, the amount of water available, FERC limitations, maximum Ramp Rates, and any other Operational Constraints.

MEASUREMENT OF ENERGY

Section 2. Measurement of Energy Made Available. The amount of electric Energy made available hereunder from time to time shall be deemed to be the amount of Energy delivered in accordance with this Appendix, as measured in accordance with Section 23.12, that was not interrupted or curtailed due to conditions set forth herein or in Section 6.01 of this Agreement.

MANAGEMENT

Section 3. Management of Rocky Reach and Rock Island Storage (MCHC). Purchaser shall have access to and the ability to use its Purchaser's Percentage of Output, inflow, and 90% of the Purchaser's Percentage of Pond/Storage components of Output as it sees fit, subject to all limitations set forth in this Agreement, including this Appendix B. The Chelan Power System has a limited amount of Pond/Storage available each day for daily shaping use. All Pond/Storage at Rocky Reach and Rock Island shall be accounted for and controlled pursuant to the terms of the MCHC.

(A) Prior to the first Project Availability Date, the Purchaser must become a signatory of the MCHC. The Purchaser shall be responsible for monitoring storage levels and adjusting Energy requests as required to stay within MCHC limits. All expenses associated with acquisition, operation and maintenance of hardware and software on the Purchaser's system necessary to meet Purchaser's obligations under this Agreement and the MCHC shall be Purchaser's responsibility. In the event the District must intervene to correct an MCHC problem or contractual deficiency on behalf of Purchaser, Purchaser shall reimburse the District for all resulting costs and penalties incurred by the District as a result thereof on a monthly basis as a line item on billings.

(B) The Purchaser shall manage its Energy requests, subject to the terms of the MCHC, so as not to exceed its total Capacity entitlement at each Project. All rights and duties under the MCHC as applicable to Purchaser's Percentage of Output shall be discharged solely by Purchaser, except as otherwise provided in this Section 3. Purchaser shall not make any request for Energy that would cause its MCHC Pond/Storage account for either Project to go below zero MWH. An account shall be kept pursuant to the MCHC for the Purchaser, based on the information provided to the District pursuant to the MCHC. Purchaser's account will reflect Purchaser's Percentage of allocated inflow being added each hour and Purchaser's previous hour's energy subtracted. Purchaser shall not violate any MCHC limitation. In the event Purchaser's Pond/Storage account for either Rocky Reach or Rock Island goes below the minimum MCHC requirements, expressed in MWH, the District, as its sole remedy for such condition, may immediately reduce Capacity associated with Purchaser's Percentage of Output available from either Rocky Reach or Rock Island to an amount approximating Purchaser's Percentage of allocated inflow until the Purchaser's Pond/Storage account balance has returned to zero MWH.

SCHEDULING OF OUTPUT

Section 4. Scheduling for Energy Deliveries. Purchaser shall notify the District of its Energy delivery requirements, within its Purchaser's Percentage of Output, either by pre-scheduling Energy deliveries, by transmission of a dynamic control signal or by electing to purchase Scheduling services from a third Party. The Parties shall each be responsible for their respective adherence to all scheduling protocols in WECC, NERC, RTO, or another Regulatory Authority's imposed protocols. The scheduling protocols established in this Appendix B are not intended to confer or grant to Purchaser any additional rights or entitlements to Output beyond that otherwise described in the body of this Agreement.

(A) **Scheduled Energy Deliveries.** Purchaser may elect from time to time to regulate delivery of Energy from its Purchaser's Percentage of Output by supplying the District with an hourly Schedule of requested resources for the next day. Purchaser shall supply all necessary information, including transmission path and ultimate delivery point(s), in accordance with the District's standard Scheduling practices as may be adopted from time to time to meet requirements specified under this Section 4 or under Section 5 of this Appendix B.

If Purchaser elects (from time to time) to utilize the hourly pre-schedule method of regulating Energy deliveries, the District shall maintain the scheduled deliveries as long as they are within all applicable limits for Capacity and Energy obtainable from Purchaser's Percentage of Output. Purchaser shall be responsible for keeping its schedules within all Energy production limits applicable to each Project, including all limits imposed by the terms of the MCHC. In the event that any operating limits are exceeded as a result of Purchaser's schedule, the schedule is subject to immediate termination or decrease (or increase if a minimum generation limit is the system constraint) by the District. Purchaser's schedule is also subject to immediate termination or decrease in the event of an unplanned outage or other sudden reduction in the Capacity of the Chelan Power System as a result of Operational Constraints or otherwise. The District's power dispatchers shall notify Purchaser by telephone of any capacity limitation or cuts as soon as practicable.

Purchaser may revise any portion of a pre-schedule that has been submitted to the District in a timely fashion that meets or exceeds the District's scheduling practices, subject to modification pursuant to Section 5 below. The District shall implement changes to pre-schedules as requested by the Purchaser, so long as the requested change is within all applicable limits for Capacity and Energy obtainable from Purchaser's Percentage of Output. If the frequency with which Purchaser requests changes to pre-schedules requires the District to incur additional costs, including, but not limited to, the hiring of additional scheduling personnel, Purchaser shall reimburse the District for any such costs reasonably incurred on a monthly basis as a line item on the billings.

(B) **Dynamic Control Signal.** As an alternative to pre-scheduling at any time, Purchaser may supply the District (or District's designee) a continuously variable digital signal to indicate Purchaser's total generation request from the Chelan Power System, as well as a return data path for the District to supply a return signal which will indicate actual Energy deliveries. If Purchaser supplies a variable signal, the signal must be compatible with the equipment of the District (or District's designee) and the signal must be delivered to the

District's generation control computer (or the District's designee) at Purchaser's expense. Upon the District's request from time to time, Purchaser shall provide, on a pre-schedule basis, a non-binding estimate of Purchaser's projected requests for Energy from the Chelan Power System for the next succeeding delivery day or days. Purchaser's estimates provided to the District pursuant to the preceding sentence shall be treated as "Confidential Information" for purposes of Section 19.01 of the Agreement.

The signal shall indicate Purchaser's instantaneous generation request from the Chelan Power System and can vary between the Purchaser's Percentage of the Chelan Power System's minimum Capacity generation requirements up to Purchaser's Percentage of the Chelan Power System's maximum Capacity at that time. The District, directly or through MCHC, shall supply a return signal to indicate the amount of the requested Energy actually delivered. The ability of the Projects to respond to signal changes is subject to Capacity limitations, Ramp Rates, and maximum signal rates of change to be established by the District. The ability to utilize the Chelan Power System's ability to change will be in proportion to Purchaser's Percentage of Output.

(C) **Third Party Scheduling Services.** Purchaser may elect to purchase Scheduling services from the District or another third party for its Energy deliveries. The obligations of the Parties with respect to such Scheduling services shall be separately negotiated and subject to mutually agreeable terms and conditions.

(D) **Scheduling for Output other than Energy.** The District will use commercially reasonable efforts to facilitate Purchaser's Scheduling of Output necessary to support Purchaser's Percentage of Output, including making a dynamic control signal available to a control area designated by Purchaser. Purchaser is responsible for having 24-hour energy Scheduling services available to immediately respond to all factors that may affect Purchaser's Percentage of Output including, but not limited to, unplanned outages and changes in river flows that may affect Purchaser's instantaneous capacity and MCHC Pond/Storage balances. The Purchaser is also responsible for all costs, including the purchase and maintenance of any District (or District designee) compatible third-party communication equipment and interface, associated with providing Purchaser with these Output for Purchaser's share of the Chelan Power System.

(E) **RTO.** In the event that an RTO is created that purchases Output directly from generating projects, then as between the District and the Purchaser, it will be Purchaser's responsibility to manage and bid these products into that entity with respect to Purchaser's Percentage of Output. The District will facilitate delivery of any Output delivered from the Purchaser's Percentage of Output by Scheduling such deliveries with the purchasing party.

OPERATING AND SCHEDULING PROCEDURES

Section 5. Modification or Addition of Operating and Scheduling Procedures. The District may establish new or additional operating or Scheduling procedures that the District considers necessary to effectuate this Agreement and to conform to standard Scheduling and operating practices in the region. Changes may also be made to conform to

WECC, NERC or other Regulatory Authority's standard Scheduling protocol/practices. Changes for other reasons will be made by mutual agreement.

PLANNING DATA

Section 6. Planning Data. The District shall from time to time supply, as soon as practicable after it is available to the District, estimates of planned outages and planned Fish Spill to enable Purchaser to estimate future Output.

OPERATING DATA

Section 7. Operating Data. Purchaser may from time to time request that the District provide Purchaser with available operating data related to the Chelan Power System, including planned outages, Fish Spill estimates and other anticipated events or circumstances that might affect Output over the ensuing 12 months. The District shall use commercially reasonable efforts to comply with such requests, to the extent such information is in the District's possession; provided, however, that the District shall not be liable to the Purchaser for any inaccuracies in such information or the failure of the District to deliver it in a timely manner. The Parties anticipate that the technology for the transfer of such information and the information required to operate Purchaser's Percentage of Output will change over time. The Parties agree to transfer operating information reasonably needed by Purchaser to operate its Percentage of Output by means of a technology that is both cost-effective and timely, as mutually agreed by the Parties.

COORDINATION AGREEMENT

Section 8. Pacific Northwest Coordination Agreement ("PNCA"). The District is currently a signatory of the PNCA and expects that the PNCA will remain in effect throughout the term of this Agreement. The District's current FERC licenses also require that the Projects be coordinated with other generating facilities in the Pacific Northwest. It is the intention of both Parties that Purchaser's Percentage of Output remain coordinated under the PNCA. All rights and duties under the PNCA as applicable to Purchaser's Percentage of Output shall be discharged solely by Purchaser, except as otherwise provided in this Section 8. None of the means to implement this coordination, whether through the Purchaser becoming signatory to the PNCA, or by means of the District's current PNCA contract, or other mutually agreeable methods are precluded or specified by this Agreement, and are left for later determination. If Purchaser is not a signatory to the PNCA, it is expected that another mutually acceptable agreement will be reached by the Parties prior to the delivery of any Purchaser's Percentage of Output to Purchaser. In the event that no such agreement is reached, Purchaser commits to becoming a signatory to PNCA and will assume all rights and obligations associated with coordinating its Purchaser's Percentage of Output under PNCA. The headwater benefit obligations defined by the PNCA are also a settlement of FERC Section 10(f) obligations to the upstream Federal projects, as well as non-Federal parties. As such, any costs of such headwater benefits with respect to Rock Island and Rocky Reach are considered a Project cost and will be included in Net Costs.

TRANSMISSION

Section 9. Transmission. This section 9 of Appendix B is intended to describe the relationship between various services provided by the District in the Power Sales Agreement and the Transmission Agreement. Terms and conditions for all transmission service is contained in the Transmission Agreement.

(A) **Definitions.** As used in this Section 9, the following terms used in capitalized form shall have the following meanings:

Chelan Transmission System - The District's electric facilities, whether owned or leased, that are operated at voltages in excess of 100,000 volts, including all associated system protection and control facilities, and any other facilities, including land and access roads that may be classified as "transmission facilities" pursuant to the FERC Uniform System of Accounts. The Chelan Transmission System does not include (i) Project Transmission Facilities; (ii) any transmission facility, substation, or related equipment constructed and operated by the District for the sole use or benefit of a single customer pursuant to a written agreement between the District and that customer ("Direct Assignment Facility"); or (iii) any transmission facility or generator-interconnection facility constructed or acquired by the District after the Signing Date for the exclusive purpose of the District receiving power from a new power resource unrelated to the Chelan Power System.

Interconnection Agreement - The agreement between Purchaser and the District providing for the interconnection of the Purchaser's electric transmission facilities with the Chelan Transmission System, as well as terms and conditions for the parallel operation of the Chelan Transmission System and Purchaser's transmission system. Promptly following the execution of the Power Sales Agreement, and in all events prior to April 1, 2006, the Parties will enter into the Interconnection Agreement in form and substance reasonably satisfactory to the District and the Purchaser.

Transmission Point(s) of Delivery - The point(s) where the Chelan Transmission System interconnects with the Purchaser's electric transmission facilities or a third party's electric transmission facilities.

Transmission Point(s) of Receipt - The point(s) where Project Transmission Facilities interconnect with the Chelan Transmission System.

Transmission Agreement - An agreement dated February 1, 2006 between the Purchaser and the District that provides terms and conditions for the transmission of the Purchaser's Percentage of Project Output over the Chelan Transmission System from specified Transmission Point(s) of Receipt to Transmission Point(s) of Delivery. Concurrently with entering into this Agreement, the Parties shall enter into the Transmission Agreement substantially in the form attached hereto as Appendix D.

(B) **Third Party Transmission Service.** Purchaser is responsible for obtaining all necessary transmission capacity, arranging scheduling and paying associated costs to transmit all

Energy obtained from its Purchaser's Percentage of Output from the Transmission Point(s) of Delivery to Purchaser's system or any alternate point of receipt.

(C) **Project Facilities.** Project Transmission Facilities are required to transmit Project Output from the Project generating Units to the Transmission Point(s) of Receipt. Purchaser shall pay a pro-rata share, equal to its Purchaser's Percentage of Output, of the costs of construction, maintenance and upkeep of Project Transmission Facilities as part of Net Costs and shall be entitled to use the same share of the electric capacity. Project Transmission Facilities are depicted on Appendix C. Any unused capacity on Project Transmission Facilities shall be available for use by the District.

It will be Purchaser's responsibility to handle its own transmission availability posting and scheduling in accordance with FERC regulations for its pro-rata share of the capacity of Project Transmission Facilities.

(D) **Chelan Transmission Service.** Prior to the initial delivery of Purchaser's Percentage of Output, Purchaser and the District intend to enter into a Transmission Agreement (and, at the discretion of the District, a separate Interconnection Agreement).

The Transmission Agreement shall contain all terms and conditions required to effectuate the delivery of Purchaser's Percentage of Output from the Purchaser's "Transmission Point(s) of Receipt", across the Chelan Transmission System to the Purchaser's "Transmission Point(s) of Delivery." The Parties will structure the Transmission Agreement as required to support the efficient exchanges of electric capacity and energy contemplated by Canadian Entitlement, MCHC, and PNCA, and to allow Purchaser flexibility in designation of Transmission Points of Delivery and Transmission Points of Receipt, so long as such flexibility does not adversely affect the safety and reliability of the Chelan Transmission System, the District's retail electric service obligations, or other firm District transmission service obligations.

In addition to specifying Transmission Point(s) of Receipt and Transmission Point(s) of Delivery, the Transmission Agreement will also specify the maximum amount of transmission demand that the District commits to transmit for the Purchaser to each Transmission Point(s) of Receipt and/or Transmission Point(s) of Delivery, a formula for determining electric line loss compensation by the Purchaser to the District, and a methodology for determining the transmission rate paid by the Purchaser to the District. The Parties contemplate that the Transmission Agreement shall run contemporaneously with the Agreement; provided, however, that any Interconnection Agreement between the Parties may have a term that extends beyond the term of the Agreement.

APPENDIX C
Project Transmission Facilities

Rocky Reach:

All generator step-up transformers

All lines from Rocky Reach to the Rocky Reach Switchyard including the breakers and switches associated with these lines connecting them to the bus.

Rock Island:

All generator step-up transformers

All lines from Rock Island to the McKenzie Switchyard including the breakers and switches associated with these lines connecting them to the bus.

The Rock Island Powerhouse Two 115 kv breakers 3-350, 3-360, and 3-370 with their associated switches.

APPENDIX D

Transmission Agreement

APPENDIX D

LONG-TERM TRANSMISSION SERVICE AGREEMENT

between

**PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY,
WASHINGTON**

and

PUGET SOUND ENERGY, INC.

DATED AS OF

February 1, 2006

This LONG-TERM TRANSMISSION SERVICE AGREEMENT (“Transmission Agreement”) is executed on February 1, 2006 (“Execution Date”), by and between the Public Utility District No. 1 of Chelan County, Washington (the “District”), and Puget Sound Energy, Inc. (“Puget”) a Washington corporation. The District and Puget are sometimes referenced in this Transmission Agreement individually as “Party” and collectively as “Parties.”

RECITALS

The District owns and operates the Rocky Reach Hydroelectric Project on the Columbia River, located approximately seven miles upstream from Wenatchee, Washington. The Rocky Reach Project is covered by License No. 2145, issued pursuant to Part I of the Federal Power Act. That License expires on June 30, 2006, and is subject to renewal in proceedings before the Federal Energy Regulatory Commission. The District has sold to Puget a portion of the output of the Rocky Reach Project under a single, long-term contract that expires on October 31, 2011.

The District also owns and operates the Rock Island Hydroelectric Project on the Columbia River, located approximately twelve miles downstream from Wenatchee, Washington. The Rock Island Project is covered by License No. 943, issued pursuant to Part I of the Federal Power Act. That License extends until December 31, 2028. The District has also sold to Puget a portion of the output of the Rock Island Project under a single, long-term contract that expires on June 7, 2012.

The District and Puget have entered into a new Power Sales Agreement, dated as of February 1, 2006 (“Power Sales Agreement”), pursuant to which the District will sell to Puget a percentage of the Output of both the Rocky Reach Project and the Rock Island Project under the terms of the Power Sales Agreement commencing on November 1, 2011, and July 1, 2012, respectively. This Transmission Agreement is intended to provide for the transmission of the Output by the District across the Chelan Transmission System to various Transmission Points of Delivery at which the Chelan Transmission System interconnects with Puget’s transmission system or the transmission systems of certain third-party signatories to either the Mid-Columbia Hourly Coordination Agreement or the Pacific Northwest Coordination Agreement, or both such agreements.

The District and Puget intend to enter into an Interconnection and Parallel Operations Agreement to establish the terms and conditions for the continued interconnection and parallel operation of the Chelan Transmission System and the Puget transmission system.

NOW, THEREFORE, in recognition of the foregoing recitals and in consideration of the covenants contained herein, the Parties hereby agree as follows:

ARTICLE I. DEFINITIONS

Section 1.01. Definitions. As used in this Transmission Agreement (unless otherwise defined herein), terms with initial capitalization, whether singular or plural, shall have the meanings set forth in (i) the Power Sales Agreement, including Appendix B thereto (provided, that references to “this Agreement” in the definitions of such terms in the Power Sales

Agreement shall, for purposes of this Transmission Agreement be deemed to be references to this Transmission Agreement); (ii) in this Article I; and (iii) where they appear elsewhere in this Transmission Agreement.

“*Agreement Limiting Liability Among Western Interconnected Systems*” means that certain agreement among the District, Puget and other signatories, originally dated as of August 1973, as amended from time to time.

“*Ancillary Service*” means voltage-regulation, spinning-reserve, non-spinning reserve, replacement reserve, voltage-support, black-start and any other interconnected-operation service that the District might provide, under applicable FERC policies, to support the transmission of capacity and electric energy from resources to electric loads, while maintaining reliable operation of the Chelan Transmission System in accordance with Prudent Utility Practice and the Reliability Criteria.

“*Audit Period*” has the meaning specified in Section 7.03.

“*BPA*” means the US Department of Energy, Bonneville Power Administration, or any entity succeeding to BPA’s responsibilities regarding the Federal Columbia River Transmission System.

“*CEA Agreements*” mean the two substantially similar agreements, each entitled “Agreement Regarding Canadian Entitlement,” and each executed by the District and Puget as of September 30, 1997, as either or both those agreements may be amended or replaced from time to time, whereby Puget, in its capacity as a purchaser of electric energy from Rocky Reach and from Rock Island, makes specified amounts of energy available to the District for the purpose of assisting the District in meeting its obligations as a signatory to the “Canadian Entitlement Allocation Extension Agreement,” executed by the District and BPA as of April 29, 1997.

“*Chelan Transmission System Revenue Requirement*,” or “*CTSRR*,” means, for each year such calculation is required under Section 5.02, the District’s determination of its cost of owning, operating, maintaining, repairing and upgrading the Chelan Transmission System, minus the District’s revenues for the relevant 12-month period from (i) any Direct Assignment Facility, and (ii) firm and nonfirm wholesale transmission services unrelated to the transmission services provided either to Puget under this Transmission Agreement or to any other Share Participant under any comparable transmission agreement entered into by such Share Participant and the District in connection with a Related Power Sales Agreement. CTSRR excludes costs and revenues associated with the Project Transmission Facilities listed in Appendix C to the Power Sales Agreement. CTSRR shall be determined in accordance with the Uniform System of Accounts.

“*Curtailment*” means a cessation, interruption, discontinuation, or reduction of Transmission Service, continuing for as long as necessary to accommodate any circumstance covered either by Section 3.02 or Section 3.03.

“*Default*” means, with respect to either Party, any of the conditions or circumstances causing such Party to be in “default of this Transmission Agreement” pursuant to Article XI.

“*Direct Assignment Facility*” means any transmission facility, substation, or related equipment constructed and operated by the District for the sole use or benefit of a single customer pursuant to a contract between the District and that customer. Under this Transmission Agreement, Direct Assignment Facilities are part of the Chelan Transmission System for purposes of calculating CTSRR.

“*FERC*” means the Federal Energy Regulatory Commission, or its successor.

“*Interconnection and Parallel Operations Agreement*” or “*Interconnection Agreement*” has the meaning set forth in the Recitals of this Transmission Agreement.

“*Interest*” shall be calculated in accordance with the methodology specified for interest on refunds in FERC regulations at 18 C.F.R. §35.19(a)(2)(iii), as revised or replaced from time to time.

“*Lake Chelan Project Capacity*” means the sum of nameplate capacity ratings as reported from time to time by the District to FERC for each unit at the District’s Lake Chelan hydroelectric project.

“*Loss Factor*” has the meaning specified in Section 3.08.

“*Output Capacity*” means the sum of nameplate capacity ratings as reported from time to time by the District to FERC for each Unit at Rock Island and each Unit at Rocky Reach.

“*PNSC*” means the Pacific Northwest Security Coordinator, a non-profit corporation organized under the laws of the State of Washington for the purpose of providing security coordination services regarding the transmission systems of the Pacific Northwest, or its successor organization.

“*Power Sales Agreement*” has the meaning set forth in the Recitals of this Transmission Agreement.

“*Regional Transmission Organization,*” or “*RTO,*” means an organization approved by FERC in accordance with the requirements of 18 C.F.R. §35.34, or successor regulation, and organized for the consolidation, coordination, planning, operation, maintenance, expansion or use of transmission facilities of various owners on a regional or inter-regional basis.

“*Reliability Criteria*” means the pre-established criteria, promulgated by the North American Electric Reliability Council, Western Electric Coordinating Council, any Electric Reliability Organization or regional entity (as the latter two entities are described in the Energy Policy Act of 2005, 16 U.S.C. §824o(a), or other applicable law, regulation or administrative order), that are required to be followed in order to maintain desired performance of the interconnected transmission networks of the District, Puget, BPA and other transmission operators under contingency or steady state conditions.

“*Transmission Service*” has the meaning specified in Article III.

Section 1.02. Interpretation, Technical Meanings and Conflicts. Sections 1.02, 1.03 and 1.04 of the Power Sales Agreement are hereby incorporated by reference and made a part of this Transmission Agreement (provided, that references to “this Agreement” in the definitions of such terms in the Power Sales Agreement shall, for purposes of this Transmission Agreement be deemed to be references to this Transmission Agreement).

ARTICLE II. EFFECTIVE DATE AND TERM

Section 2.01. Term. The Parties intend that this Transmission Agreement shall be coterminous with the Power Sales Agreement. This Transmission Agreement shall become effective as of the Signing Date determined in accordance with the Power Sales Agreement. Unless terminated early by the District pursuant to Section 12.01, the term of this Transmission Agreement (“Term”) shall extend from the first Project Availability Date and continue throughout the term of the Power Sales Agreement. On the day that termination of this Transmission Agreement becomes effective, the District’s obligation to provide Transmission Service to Puget and Puget’s obligation to take-or-pay for such service shall cease.

Section 2.02. Survival. All payment and indemnification obligations incurred and continuing under this Transmission Agreement, or under the Agreement Limiting Liability Among Western Interconnected Systems and relating to this Transmission Agreement, shall survive termination of this Transmission Agreement until satisfied in full.

ARTICLE III. TRANSMISSION SERVICE

Section 3.01. General Specifications. Commencing on the respective Project Availability Dates and continuing throughout the Term, the District shall provide Transmission Service to (i) transmit Output from Transmission Points of Receipt to Transmission Points of Delivery, and (ii) participate in bidirectional power flows over the Chelan Transmission System relating to Output as part of coordinated-system operations under the MCHC and the PNCA for as long as Puget shall remain a signatory to either of those agreements, and (iii) participate in bidirectional power flows over the Chelan Transmission System as necessary for Puget to fulfill its obligations to the District under the CEA Agreements. Exhibit A to this Transmission Agreement specifies each Transmission Point of Delivery. Exhibit A may be modified only by mutual agreement of the Parties in accordance with Section 15.03.

Section 3.02. Transmission Service Under Coordinated System Operations. The Parties acknowledge that the Transmission Service provided under Section 3.01 is subject to directives and instructions to the District from BPA, PNSC and other third parties designated to implement coordinated system operations under the MCHC and the PNCA (collectively the “Coordination Authority”). Any operating directive or instruction relating to the transmission of Output, made or given to the District by any Coordination Authority, shall be deemed conclusively to have been made or given by Puget for purposes of this Transmission Agreement. The District shall not be in Default of its obligations under this Transmission Agreement if, and to the extent, it is in compliance with any directive or instruction from any Coordination Authority, including a directive or instruction that results in a Curtailment.

Section 3.03. Transmission Service Interruption. Consistent with Prudent Utility Practice, and notwithstanding anything in Sections 3.01 or 3.02 to the contrary, the District may unilaterally effect a Curtailment of Transmission Service, to the extent Puget or the District deems necessary, to (i) respond to a District System Emergency; (ii) avoid failure in, or a material interference with, the normal operation of the transmission or distribution system of either Party or any third party, that, absent such Curtailment, would result in a District System Emergency or in an emergency regarding Puget's electric system; (iii) enable the District, acting in accordance with Prudent Utility Practice, to inspect, alter, maintain, relocate, or repair any part of the Project Transmission Facilities or any part of the Chelan Transmission System that is relevant to the District's Transmission Service to Puget, (iv) comply with the Reliability Criteria; or (v) respond to negligent acts or intentional misconduct of Puget or any third party, which are reasonably expected to present imminent threat of damage to property or personal injury, regardless of whether such act or misconduct would constitute a default under this Transmission Agreement.

Section 3.04. Notice Regarding Curtailments. Each Party shall use reasonable efforts in accordance with Prudent Utility Practice to notify the other Party as soon as practicable of any condition on, or affecting, its electric system that has caused, or is likely to cause, a Curtailment and to minimize the duration of any such Curtailment.

Section 3.05. Access to Alternative Transmission Paths. During periods when one or more of the Units specified in the Power Sales Agreement as sources of Output are not in operation, the District shall use Commercially Reasonable Efforts to accommodate Puget's requests for nonfirm transmission service up to the amount (measured in MW) equal to the Purchaser's Percentage of the Unit Capacity not in operation at that time. Puget shall preschedule all such nonfirm transmission service in accordance with the District's then-prevailing scheduling procedures. Nonfirm transmission service provided under this Section 3.05 shall be at no additional cost to Puget, except for reimbursement of any incremental costs to the District under Section 4.02 and compensation for losses under Section 3.08.

Section 3.06. No Ancillary Services Provided. Except as otherwise provided in the Power Sales Agreement or any other written agreement between the Parties with respect to Ancillary Services, the Parties agree that Puget shall make separate arrangements for any and all Ancillary Services necessary to support the District's Transmission Service under this Transmission Agreement. Notwithstanding any law or administrative regulation to the contrary, Puget hereby relinquishes and waives, throughout the term of this Transmission Agreement, any claim or right it may have to receive Ancillary Services from the District relating to the Transmission Service provided under this Transmission Agreement; provided, however, that nothing in this Section 3.06 shall diminish or otherwise affect Puget's rights to receive Output under the Power Sales Agreement.

Section 3.07. No Third-Party Transmission Services Provided. Procurement of, and payment for, any transmission services that Puget may require from BPA or any other third party transmission owner or operator regarding the transmission of Output from and beyond a Transmission Point of Delivery on the Chelan Transmission System shall be the sole and exclusive responsibility of Puget, and not the responsibility of the District. Puget shall obtain all third-party transmission services it deems necessary for its receipt of Output and to allow it to fulfill its obligations under the MCHC and the PNCA. The failure of Puget to procure or pay for

such third-party transmission services shall not excuse Puget from performance of its other obligations under this Transmission Agreement.

Section 3.08. Losses. The District shall account for transmission and transformation losses on the Chelan Transmission System by applying the Loss Factor to (i) Output, metered at the Transmission Points of Receipt, and (ii) any nonfirm transmission service provided under Section 3.05. The initial Loss Factor shall be 0.32 percent, subject to revision by the District from time to time, but no more frequently than once every year, by application of the methodology summarized in Exhibit B. Any change to, or replacement of, the methodology used by the District to determine the initial Loss Factor shall be subject to Puget's consent, which shall not be unreasonably withheld or delayed. The methodology used to derive the initial Loss Factor is summarized in Exhibit B.

Section 3.09. Direct Assignment Facilities. The Parties may amend this Agreement to provide for the District's construction and operation of one or more Direct Assignment Facilities for the sole use or benefit of Puget.

ARTICLE IV.

PUGET'S TAKE-OR-PAY OBLIGATION FOR TRANSMISSION SERVICE

Section 4.01. Basic Unconditional Obligation. Commencing as of the date on which Transmission Service is initially provided pursuant to Section 3.01 and continuing each month throughout the Term, Puget shall take or pay for Transmission Service made available by the District in the dollar amounts derived by application of Article V and in the manner specified by Article VII to this Transmission Agreement. Such take-or-pay obligation shall be absolute, regardless of (i) variations in actual power flows relating to Output, or (ii) the occurrence of any Curtailment relating either to Section 3.02 or Section 3.03.

Section 4.02. Incremental Costs Relating to Section 3.05. Puget shall reimburse the District for any incremental costs that may be reasonably incurred by the District in accommodating any requests for nonfirm transmission service made under Section 3.05.

ARTICLE V.

COMPENSATION FOR TRANSMISSION SERVICE

Section 5.01. Determination of Puget's Compensation Fraction. Puget shall compensate the District for Transmission Service under this Transmission Agreement by paying a pro rata share ("Compensation Fraction") of the Chelan Transmission System Revenue Requirement. Puget's Compensation Fraction shall be determined according to the following formula:

$$\text{Compensation Fraction} = \frac{\text{Purchaser's Percentage} * \text{Output Capacity}}{\text{Output Capacity} + \text{Lake Chelan Project Capacity}}$$

The Compensation Fraction shall be redetermined by the District from time to time to account for changes in any variable in the formula specified above in this Section 5.01, including any increase in Purchaser's Percentage of Output Capacity relating to any mandatory

step-up resulting by operation of Section 5.04 of the Power Sales Agreement, effective as of the date of the step-up.

Section 5.02. Determination of Puget's Take-Or-Pay Obligation. No later than June 1 of each year during the Term, commencing with 2011 (the year of the initial Project Availability Date), the District shall calculate the Chelan Transmission System Revenue Requirement ("CTSRR"), in accordance with the methodology specified in Exhibit C to this Transmission Agreement, based on audited financial data for the preceding fiscal year. This CTSRR shall apply to all Transmission Service during the subsequent 12 consecutive months (July through June); provided, however, that the initial CTSRR shall be calculated by October 1, 2011, and shall apply to Transmission Service during November and December of 2011 through June of 2012. Puget's take-or-pay obligation under this Transmission Agreement shall be based on CTSRR and the Compensation Fraction, each determined from time to time in accordance with this Article V, and derived according to the following formula:

$$\text{Monthly take-or-pay amount} = \frac{\text{CTSRR} * \text{Compensation Fraction}}{12}$$

If and to the extent the District incurs any obligation to refund all, or any part of, a contribution in aid of construction or other prepayment made by a transmission customer of the District other than Puget regarding any component of the Chelan Transmission System constructed after the Execution Date, then such refund shall thereupon be included in the calculation of CTSRR. The District shall, in its arrangements with any third party regarding any Direct Assignment Facility, recover all of its direct costs for such facility and, as determined by the District in a Commercially Reasonable manner, all of its indirect costs, if any, that are included in the calculation of CTSRR pursuant to this Transmission Agreement. Nothing in the immediately preceding sentence shall confer on Puget any rights or benefits under any such third party arrangements.

Section 5.03. Extraneous Facilities. The Parties acknowledge and agree that, as of the Execution Date, the entire Chelan Transmission System is used in the provision of the Transmission Service. If the District subsequently constructs or acquires any new transmission facility or generator-interconnection facility exclusively for the purpose of receiving power from a new power resource unrelated to the Chelan Power System, and not for the purpose of providing the Transmission Service (including, but not limited to, coordinated-system operations) as determined by the District in a Commercially Reasonable manner, then the District shall exclude the costs and any revenues associated with such transmission facility or generator-interconnection facility from the calculation of CTSRR under Section 5.02 unless and until changed circumstances thereafter cause that facility to become used in the provision of the Transmission Service.

Section 5.04. Taxes. To the extent not recovered as part of CTSRR, Puget shall reimburse the District for any federal, state, municipal, or other taxes, fees, or charges levied by any Regulatory Authority upon Puget's purchase or the District's furnishing of Transmission Service, including without limitation any taxes, fees, or charges that are imposed or approved by any Regulatory Authority after the Signing Date.

ARTICLE VI. TRANSMISSION SCHEDULING

Section 6.01. Transmission Scheduling Under Coordinated Operations. For as long as Puget and the District both remain parties to the MCHC, scheduling of Transmission Service under this Transmission Agreement, including any temporary changes in Transmission Point(s) of Receipt and Transmission Point(s) of Delivery requested under Section 3.05, shall conform to the requirements for scheduling energy deliveries specified in Appendix B, Section 4, of the Power Sales Agreement.

Section 6.02. Transmission Scheduling Apart From Coordinated Operations. At least 180 days prior to the date as of which either Puget or the District cease to be a party to the Mid-Columbia Hourly Coordination Agreement, the District shall specify the new procedures under which Puget shall thereafter schedule Transmission Service under this Transmission Agreement.

ARTICLE VII. BILLING AND PAYMENT

Section 7.01. Billing and Payment Procedures. On or prior to the tenth (10th) day of each Month, the District shall submit to Puget, by electronic or facsimile transmission, a monthly invoice setting forth for the preceding Month Puget's charges for Transmission Service, as calculated pursuant to formulae contained in Sections 5.01 and 5.02 and the Loss Factor specified in Section 3.08, plus any taxes payable by Puget under Section 5.04, plus any incremental costs recoverable by the District pursuant to Section 4.02. Puget shall pay the amounts then due as shown on the District's invoice, by electronic funds transfer to the District's account as the District's Treasurer may instruct. All payments shall be due and payable to the District by 5:00 p.m. (local Pacific time) on the twentieth (20th) day of each Month in which the District's monthly invoice is received, or if such day is not a Business Day, on the next succeeding Business Day (the "Due Date"). Failure of the District to submit an invoice as scheduled shall not release Puget from liability for payment upon future delivery of the invoice. Overdue payments shall accrue Interest compounded daily, from the due date until the date payment is received by the District. When payments are received by mail, bills shall be considered as having been paid on the date funds have cleared the District's operations account, as reasonably determined by the District.

Section 7.02. Accounting. The District shall cause proper books and records of account to be kept regarding each amount payable by Puget under this Article VII. Such books and records of account shall be kept in accordance with the rules and regulations established by any Government Authority authorized to prescribe such rules including, but not limited to, the Division of Municipal Corporations of the State Auditor's Office of the State of Washington or such other Washington State department or agency succeeding to such duties of the State Auditor's Office. The District shall also maintain books and records in conformity with GAAP and in accordance with the Uniform System of Accounts prescribed by FERC or such other federal agency having jurisdiction over electric utilities owning and operating properties similar to the District's electric properties. The District shall cause such books and records of account to be audited by independent certified public accountants, experienced in electric utility accounting, to be retained by the District. The audits to be made by such certified public accountants, as

above mentioned, shall be made annually and shall cover each Fiscal Year during the term of this Agreement. At Puget's written request, the District shall deliver a copy of each such annual audit, including any recommendations of the auditors, to Puget promptly after it is received by the District.

Section 7.03. Audit by Puget. Anytime within 24 months after (a) the submission of any invoice to Puget pursuant to Section 7.01 of this Transmission Agreement, (b) any cessation, interruption, discontinuation or reduction of Transmission Service to Puget under this Transmission Agreement, or (c) failure to account for transmission and transformation losses as provided for in Section 3.08 ("Audit Period"), the District shall provide or cause to be provided all information that Puget may reasonably request to audit such invoice or to investigate the cessation, interruption, discontinuation, or reduction of Transmission Service or failure to account for losses. Audits and investigations shall be conducted by Puget from time to time or an independent auditor or consultant engaged by Puget, at Puget's sole cost and expense, and upon reasonable notice and during normal business hours within the Audit Period. To the extent any audit or investigation involves issues common to other Share Participants, Puget shall coordinate the exercise of its rights under this Section 7.03 with the exercise of similar rights by the other Share Participants in order to minimize administrative burdens on the District; provided, however, that a failure to coordinate by other Share Participants shall not deprive Puget of the independent exercise of its rights under this provision. Any audit or investigation shall, at the option of Puget and at its expense, be performed by designated employees, consultants or agents of Puget that Puget determines in its discretion are experienced in utility practices. Upon request, the District will be entitled to review the complete audit report and any supporting materials.

Section 7.04. Correction. The District may correct any error in a monthly invoice discovered by either Party within the Audit Period. Errors for which correction may be made include, but are not limited to, miscalculation of Compensation Fraction under Section 5.01 or CTSRR under Section 5.02. Puget shall either be credited with, or pay, the difference, depending on whether the correction decreases or increases the amount due under the corrected invoice. Any invoice that has not been disputed by Puget within the Audit Period shall be deemed accurate and in full conformity with this Transmission Agreement, and the District shall thereafter have no obligation to make any correction with respect thereto.

Section 7.05. Disputes. If Puget disputes any invoice, it shall pay both the disputed amount and the undisputed portion thereof no later than the due date specified on the invoice. Puget shall promptly provide to the District a written explanation of the basis for the dispute.

ARTICLE VIII. CREDIT SUPPORT

Section 8.01. Financial Information. The obligation of Puget, as "Purchaser" under Section 20.01 of the Power Sales Agreement, to deliver specified financial information to the District in a timely fashion throughout the term of the Power Sales Agreement, shall also be an obligation imposed on Puget under this Transmission Agreement.

Section 8.02. Prepayment Requirements. Puget acknowledges and agrees to each of the following prepayment obligations:

(A) The Prepayment Amount required of Puget under Section 7.01(E) of the Power Sales Agreement may be applied by the District to the satisfaction of any payment obligation of Puget, under either the Power Sales Agreement or the Transmission Agreement, that Puget fails to satisfy on a timely basis.

(B) Application of the Prepayment Amount by the District, as described in Section 8.02(A), shall not constitute a cure of any payment Default by Puget unless and until the Prepayment Amount is timely replenished by Puget in accordance with Section 7.01(E) of the Power Sales Agreement.

(C) Any Event of Default by Puget of any obligation imposed on it under Section 7.01(E) of the Power Sales Agreement shall also constitute a Default by Puget under this Transmission Agreement. Puget shall have no separate cure period under this Transmission Agreement during which to cure any such Event of Default under Section 7.01(E) of the Power Sales Agreement.

ARTICLE IX. INDEMNIFICATION

Section 9.01. General Indemnification Obligation. Puget shall, to the maximum extent permitted by applicable law, at all times indemnify, defend, and save the District harmless from, any and all damages, losses, claims, including claims and actions relating to injury to or death of any person or damage to property, demands, suits, recoveries, costs and expenses, court costs, attorney fees, and all other obligations by or to third parties, arising out of or resulting from the District's performance of its obligations under this Transmission Agreement on behalf of Puget except to the extent of negligence or intentional wrongdoing by the District. This provision shall not apply to any monetary amount the District elects to include as part of CTSRR.

Section 9.02. Special Limitation Regarding Indemnification. For as long as both the District and Puget shall both continue to be parties thereto, the Agreement Limiting Liability Among Western Interconnected Systems shall continue to govern questions of liability that may arise between them under this Transmission Agreement, notwithstanding any provision of Section 9.01 to the contrary. The District and Puget shall use Commercially Reasonable Efforts to assist each other in enforcing the Agreement Limiting Liability Among Western Interconnected Systems against third-party signatories thereto in connection with any Claims that may arise out of or may be related to this Transmission Agreement.

ARTICLE X. REPRESENTATIONS; WARRANTIES AND COVENANTS

Section 10.01. Authority to Execute this Transmission Agreement. Each Party represents and warrants to the other Party that it has full authority and power to enter into this Transmission Agreement, that the Party's representative who signs below is duly authorized

by it to enter into this Transmission Agreement, and that nothing herein violates any law, regulation, judicial or regulatory order, or agreement applicable to such warranting Party.

Section 10.02. Puget's Representations and Warranties to the District.

Puget hereby makes the following representations and warranties to the District:

(A) throughout the Term, it will not apply to FERC, pursuant to any provision of the Federal Power Act, for any change to, or modification of, this Transmission Agreement, and that it will oppose any such application by any third party; and

(B) all regulatory approvals relating to Puget's execution and faithful performance of this Transmission Agreement have been obtained.

Section 10.03. Mutual Representations and Warranties. Each Party, with respect to itself, represents and warrants to the other Party that at the time of signing this Transmission Agreement:

(A) it is duly organized, validly existing and in good standing (where applicable) under the laws of the jurisdiction of its formation and is qualified to conduct its business in each jurisdiction in which any terms of this Transmission Agreement are to be performed by it;

(B) the execution, delivery and performance of this Transmission Agreement are within its statutory and corporate powers, have been duly authorized by all necessary action and do not violate any of the terms and conditions in its governing documents, any contracts to which it is a party, or any laws or regulations applicable to it;

(C) this Transmission Agreement constitutes the legal, valid and binding obligation enforceable against it in accordance with its terms, subject to bankruptcy, insolvency reorganization and other laws affecting creditor's rights generally, with regard to equitable remedies, and further subject to the discretion of the court or Regulatory Authority before which proceedings to obtain same may be pending, and to limitations on remedies against Government Authorities under the laws of the State of Washington;

(D) there are no Bankruptcy proceedings pending or being contemplated by it or, to its knowledge, threatened against it;

(E) there are no actions, suits, proceedings or investigations pending or, to the Party's knowledge, threatened against such Party, at law or in equity, before any Government Authority having jurisdiction over such Party which, if adversely determined, would individually or in the aggregate have a material adverse effect on the business, properties or assets or the condition, financial or otherwise, of such Party, or result in any impairment of such Party's ability to perform its obligations under this Transmission Agreement; and

(F) this Transmission Agreement is the result of a fair, arms-length negotiation between the Parties.

Section 10.04. Compliance Covenant. Each Party covenants and agrees to take whatever action it, in good faith, deems reasonably necessary and within its reasonable control to ensure that the representations related to it under Clauses A through C of Section 10.03 will not be violated in any material respect during the Term.

Section 10.05. Disclaimer. EXCEPT AS OTHERWISE PROVIDED IN THIS TRANSMISSION AGREEMENT, THE DISTRICT HEREBY DISCLAIMS ANY REPRESENTATION OR WARRANTY, WRITTEN OR ORAL, EXPRESS OR IMPLIED, ARISING OUT OF CONDUCT OR COURSE OF PERFORMANCE, INCLUDING WITHOUT LIMITATION ANY REPRESENTATION OR WARRANTY WITH RESPECT TO MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE.

ARTICLE XI. DEFAULT

Section 11.01. Default by the District. The District shall be in default of this Transmission Agreement if, and only if, and to the extent that, it intentionally refuses to provide the Transmission Service for Output, as Output is determined under the Power Sales Agreement. For purposes of the foregoing, the District will be deemed to have intentionally refused to provide Transmission Service if and only to the extent that during any hour in which (a) Output is available for delivery to Puget under the Power Sales Agreement; and (b) the Chelan Transmission System has the transfer capability to transmit such Output but nevertheless the District refuses to do so. Any actions taken by the District pursuant to (i) Section 3.03 or (ii) a Coordination Authority directive, action or instruction under Section 3.02 shall not be deemed to be an intentional act by the District for purposes of this Section 11.01.

Section 11.02. Default by Puget. Puget shall be in default of this Transmission Agreement if it:

- (A) fails to make, when due, any payment required pursuant to this Transmission Agreement if such failure is not remedied within three (3) Business Days after receipt of written notice, as required in Article XIV; or
- (B) an Event of Default described in Section 8.02.(C) has occurred and is continuing.

Section 11.03. Other Defaults by Puget. In addition to the Defaults specified above in Section 11.02, Puget shall be in default of this Transmission Agreement if it:

- (A) breaches any other material term of this Transmission Agreement;
- (B) makes an assignment or any general arrangement for the benefit of creditors, or files a petition or otherwise commences, authorizes, or acquiesces in the commencement of a proceeding or cause of action under any Bankruptcy or similar law for the protection of creditors, or has such petition filed against it and the petition is not withdrawn or dismissed within 90 days after filing; or otherwise becomes bankrupt or insolvent (however evidenced); or

(C) is unable to pay its debts as they fall due.

Section 11.04. Cure Period. Except for Defaults covered by Section 11.03(B), for which no cure period is provided, and Section 11.02(A) for which a separate cure period is provided, a defaulting Party shall have a cure period of 30 calendar days, commencing on the day on which the other Party notifies the defaulting Party thereof in writing. Such notice shall be effective upon receipt. Absent cure to its satisfaction within the specified period, the non-defaulting Party may then pursue its remedies under Article XII.

ARTICLE XII. REMEDIES

Section 12.01. Default by Puget. Upon the occurrence of a Default by Puget that remains uncured upon expiration of any specified cure period, the District may, by written notice to Puget, (i) terminate this Transmission Agreement, and (ii) exercise such other rights and remedies to which it may be entitled at law or in equity. No remedy will be deemed exclusive of any other right or remedy, and each remedy shall be cumulative and in addition to any other right or remedy provided for hereunder or otherwise legally available.

Section 12.02. Default by the District. If the District is in Default under Section 11.01, Puget shall be entitled, as its sole remedy, (i) to an order of specific performance, directing the District to fulfill its obligation to transmit Output under this Transmission Agreement, and (ii) upon demonstration by Puget that the District has sold Output to third parties during any hour in which the District is, or was, in Default, recovery of any revenues received by the District from such third-party sale. For purposes of making the demonstration required by the second clause of the foregoing sentence, the Parties acknowledge that a sale of power by the District to a third party during any hour in which Output is not being transmitted under the Transmission Agreement does not mean, ipso facto, that the District has sold Output to such third party. The Parties hereby acknowledge and agree that equitable relief, in the form of specific performance, would be appropriate remedy for any Default by the District under this Section 12.02, upon demonstration by Puget of the factual grounds to substantiate such remedy.

Section 12.03. Failure by the District to Perform Certain Obligations. The Parties shall attempt in good faith to resolve any dispute raised during the Audit Period relating to (i) any invoice, submitted to Puget pursuant to Section 7.01, (ii) the accounting by the District for transmission and transformation losses as provided for in Section 3.08, or (iii) the performance by the District of its obligations under Section 3.04, 3.05, 5.02, 7.02 or 7.03, by convening one or more discussions involving each Party's senior responsible officials. After an initial meeting, the Parties shall continue to meet thereafter as often as they reasonably deem necessary to exchange information and to attempt to resolve the dispute. If the matter has not been resolved within 30 calendar days of the first meeting, then Puget may seek relief from a court or Regulatory Authority of competent jurisdiction, directing the District to make any appropriate correction under Section 7.04, if appropriate to resolve the dispute at issue, or to grant any petition by Puget for specific performance, upon demonstration by Puget of the factual grounds to substantiate such remedy. The District agrees that Puget shall be entitled, as a remedy for the District's failure to make any appropriate correction under Section 7.04 or to perform its obligations under Section 3.04, 3.05, 3.08, 5.02, 7.02 or 7.03, to an order of specific performance directing the District to remedy such failure or to fulfill such obligations, and the Parties hereby acknowledge and agree that equitable relief, in the form of specific performance, would be appropriate remedy, upon demonstration by Puget of the factual grounds to substantiate such remedy.

Section 12.04. Choice of Law. This Transmission Agreement and the rights and obligations of the Parties hereunder shall be construed and enforced in accordance with the laws of the State of Washington, without regard to that state's choice-of-law principles.

Section 12.05. Jurisdiction and Venue. Each Party hereby irrevocably consents to the jurisdiction and venue of the federal, state and local courts located in Chelan County, Washington, in connection with any action arising out of or in connection with this Transmission Agreement, except as otherwise provided in Section 12.03 with respect to Puget's right to seek relief from a Regulatory Authority or in Section 12.06 with respect to either Party's right to initiate arbitration. The substantially prevailing Party in any judicial proceeding relating to a dispute arising under, or relating to, this Transmission Agreement shall be entitled to recover all of its costs, including reasonable attorney fees.

Section 12.06. Special Provision Relating to Arbitration. Disputes arising under the Agreement Limiting Liability Among Western Interconnected Systems are subject to arbitration in accordance with Section 2 thereof. Any such arbitration that relates to the subject matter of this Transmission Agreement shall be conducted so as to give maximum effect to the provisions of Section 12.05 of this Transmission Agreement. Except as otherwise provided in the Agreement Limiting Liability Among Western Interconnected Systems, the substantially prevailing Party in any arbitration relating to a dispute arising under, or relating to, this Transmission Agreement shall be entitled to recover all of its costs, including reasonable attorney fees.

Section 12.07. Duty to Mitigate. Each Party has a duty to mitigate damages and shall use Commercially Reasonable Efforts to minimize any damages it may incur as a result of the other Party's Default under this Transmission Agreement.

Section 12.08. Limitation of Liability. Regarding any Default of this Transmission Agreement, except as otherwise specifically provided in this Transmission Agreement, the defaulting Party's liability shall be limited to direct actual damages only, the direct actual damages shall be the exclusive remedy, and all other remedies or damages at law or in equity are waived. Neither Party shall have any liability for consequential, incidental, punitive, exemplary, or indirect damages, lost profits, lost or damaged product or data, or other business interruption damages, whether by statute, in tort or contract, under any indemnity provision, or otherwise, even if the Party subject to liability has been advised in advance of the possibility of those damages. The limitations on remedies imposed by this provision are without regard to the cause or causes of the applicable Default, including the negligence of a Party, whether that negligence is sole or joint or active or passive.

Section 12.09. Cross-Termination. If the District exercises its right pursuant to Section 15.02(B) of the Power Sales Agreement to terminate the Power Sales Agreement because an Event of Default as to Puget has occurred and is continuing under the Power Sales Agreement, then the District shall also have the right to terminate this Transmission Agreement by providing to Puget written notice thereof.

ARTICLE XIII. ASSIGNMENT

Section 13.01. General Requirements. This Transmission Agreement may only be assigned to a single assignee that is also being assigned the Power Sales Agreement upon satisfaction of all conditions specified in Article XIII of the Power Sales Agreement. Neither Party may assign any of its rights under this Transmission Agreement or delegate any of its obligations under this Transmission Agreement without the prior written consent of the other Party, which consent shall not be unreasonably withheld; provided, however, that (i) the District may, without the consent of Puget, pledge or encumber this Transmission Agreement or the accounts, revenues or proceeds thereof in connection with any financing or financial arrangements, and (ii) Puget, may without the separate consent of the District under this Transmission Agreement, assign this Transmission Agreement to an assignee of the Power Sales Agreement. In the event of an assignment of this Transmission Agreement or any of the Parties' respective rights hereunder, the terms of this Transmission Agreement shall be binding upon any successor or assignee of such Party in the same manner as they are binding upon the original Parties hereto. Any attempted assignment of this Transmission Agreement in violation of this provision shall be void.

Section 13.02. Special Provision Regarding an RTO. Notwithstanding Section 13.01, in the event the District elects, in its sole discretion, to participate in an RTO or otherwise transfer operational control of the Chelan Transmission System to an RTO, then the RTO shall succeed to the rights and obligations of the District under this Transmission Agreement.

**ARTICLE XIV.
NOTICES**

Any notice required by a Party under this Transmission Agreement shall be in writing and shall be deemed delivered (1) when sent via U.S. Mail, postage prepaid, certified mail, return receipt requested; (2) when sent via overnight delivery service requiring a signature from the Party receiving the notice; or (3) when hand delivered. In the event notice is required under this Transmission Agreement, it shall be addressed as follows:

If to the District: General Manager
 327 N. Wenatchee Avenue
 Wenatchee, WA 98801

with a copy to:

 General Counsel
 327 N. Wenatchee Avenue
 Wenatchee, WA 98801

If to Puget: Puget Sound Energy, Inc.
 Attn: Sr. Vice President, Energy
 Resources, PSE-12

If via U.S. Mail:
P.O. Box 97034
Bellevue, WA 98009-9734

If via overnight or hand delivery:
10885 N.E. 4th Street
Bellevue, WA 98004

With a copy to (addresses shown
immediately above):

 Puget Sound Energy, Inc.
 Attn: Sr. Vice President, General
 Counsel and Chief Compliance
 Officer, PSE-12

Either Party may change the name or addresses of its designee by giving written notice to the other Party pursuant to this Article XIV.

**ARTICLE XV.
GENERAL**

Section 15.01. Entirety. This Transmission Agreement constitutes the entire agreement between the Parties regarding the Transmission Service that is the subject matter of this Transmission Agreement.

Section 15.02. Binding Effect. This Transmission Agreement shall bind, inure to the benefit of, and be enforceable by the Parties and their respective successors and permitted assigns.

Section 15.03. Amendments. No amendment, modification or change to this Transmission Agreement shall be enforceable unless reduced to writing and hereafter executed by both Parties.

Section 15.04. Non-Waiver. No waiver of any breach in the performance of any provision of this Transmission Agreement shall be construed as a waiver of any other breach.

Section 15.05. Severability. In the event that any provision of this Transmission Agreement shall, by a Regulatory Authority of competent jurisdiction, be deemed unlawful, so long as the purpose and effect of this Transmission Agreement is not thereby rendered meaningless, such provision shall be severed from the remainder of this Transmission Agreement, and the remainder of this Transmission Agreement shall continue in effect, fully binding. The Parties agree to meet to determine their need for any replacement language and to negotiate a suitable replacement for the severed provision as soon thereafter as reasonably practicable.

Section 15.06. Headings. Headings used in this Transmission Agreement are for convenience only and shall not affect the meaning or interpretation of the provisions of this Transmission Agreement.

Section 15.07. Preparation of Agreement. This Transmission Agreement shall be considered for all purposes as having been prepared through the joint efforts of the Parties and shall not be construed against one Party or the other as a result of the manner in which this Transmission Agreement was negotiated, prepared, drafted, or executed.

Section 15.08. No Third Party Beneficiaries. The Parties do not intend to create any rights on the part of any third party with regard to this Transmission Agreement.

Section 15.09. No Joint Venture. Nothing contained herein shall be construed as creating a partnership or joint venture between the Parties. Neither Party shall be responsible in any way for the debts or obligations of the other Party; it being the express intent of the Parties that their relationship is that of independent contractors to a contract.

Section 15.010. No Dedication of Facilities. No undertaking by the District to Puget under any provision of this Transmission Agreement shall constitute a dedication of the District's transmission system (or any portion thereof) to the public or to Puget. Nothing in this

Transmission Agreement shall be construed to grant Puget (i) any right of ownership regarding the Chelan Transmission System, or (ii) any right of control over conduct or timing of the operation, maintenance, repair, renewal, addition or improvement to, or replacement of Chelan Transmission System facilities, or the financing for any of the foregoing.

IN WITNESS WHEREOF, the Parties, by their respective duly authorized representatives, have executed this Transmission Agreement on the date shown in the first paragraph thereof. This Transmission Agreement shall not bind either Party until executed by both Parties in accordance with the provisions of this Transmission Agreement.

**THE PUBLIC UTILITY DISTRICT NO. 1
OF CHELAN COUNTY, WASHINGTON**

By: _____
Wayne Wright

Title: Interim General Manager

PUGET SOUND ENERGY, INC.

By: _____
Eric M. Markell

Title: Senior Vice President Energy
Resources

EXHIBIT A

SPECIFICATIONS FOR LONG-TERM FIRM TRANSMISSION SERVICE

1. DESCRIPTION OF TRANSMISSION POINTS OF RECEIPT AND TRANSMISSION POINTS OF DELIVERY

Table 1(a) White River – Rocky Reach Transmission Line Point of Delivery

Delivering Party (Resource)	Transmission Point of Receipt	Transmission Point of Delivery	Transmission Point of Delivery Control Area	Receiving Party
Rocky Reach and Rock Island	Rocky Reach 230 kV Bus Bar and McKenzie 115 kV Bus Bar	White River – Rocky Reach 230 kV Transmission Line	Puget Sound Energy	Puget Sound Energy

Table 1(b) Anderson Canyon – Beverly Transmission Line Point of Delivery

Delivering Party (Resource)	Transmission Point of Receipt	Transmission Point of Delivery	Transmission Point of Delivery Control Area	Receiving Party
Rocky Reach and Rock Island	Rocky Reach 230 kV Bus Bar and McKenzie 115 kV Bus Bar	Anderson Canyon – Beverly 115 kV Transmission Line	Puget Sound Energy	Puget Sound Energy

Table 1(c) Maple Valley - Rocky Reach Transmission Line Point of Delivery

Delivering Party (Resource)	Transmission Point of Receipt	Transmission Point of Delivery	Transmission Point of Delivery Control Area	Receiving Party
Rocky Reach and Rock Island	Rocky Reach 230 kV Bus Bar and McKenzie 115 kV Bus Bar	Maple Valley – Rocky Reach 230/345 kV Transmission Line	BPA	Puget Sound Energy

Table 1(d) Chelan Rocky Reach – Columbia #2 Transmission Line Point of Delivery

Delivering Party (Resource)	Transmission Point of Receipt	Transmission Point of Delivery	Transmission Point of Delivery Control Area	Receiving Party
Rocky Reach and Rock Island	Rocky Reach 230 kV Bus Bar and McKenzie 115 kV Bus Bar	Rocky Reach – Columbia #2 230 kV Transmission Line	BPA	Puget Sound Energy

Table 1(e) Chelan Rocky Reach – Columbia #2 Transmission Line Point of Delivery

Delivering Party (Resource)	Transmission Point of Receipt	Transmission Point of Delivery	Transmission Point of Delivery Control Area	Receiving Party
Rocky Reach and Rock Island	Rocky Reach 230 kV Bus Bar and McKenzie 115 kV Bus Bar	Rocky Reach – Columbia #2 230 kV Transmission Line	Grant County PUD	Puget Sound Energy

Table 1(f) BPA Rocky Reach – Columbia #1 Transmission Line Point of Delivery

Delivering Party (Resource)	Transmission Point of Receipt	Transmission Point of Delivery	Transmission Point of Delivery Control Area	Receiving Party
Rocky Reach and Rock Island	Rocky Reach 230 kV Bus Bar and McKenzie 115 kV Bus Bar	Rocky Reach – Columbia #1 230 kV Transmission Line	BPA	Puget Sound Energy

Table 1(g) Rocky Reach – Douglas Tie Transmission Line Point of Delivery

Delivering Party (Resource)	Transmission Point of Receipt	Transmission Point of Delivery	Transmission Point of Delivery Control Area	Receiving Party
Rocky Reach and Rock Island	Rocky Reach 230 kV Bus Bar and McKenzie 115 kV Bus Bar	Rocky Reach – Douglas Tie 230 kV Transmission Line	Douglas County PUD	Puget Sound Energy

Table 1(h) BPA Valhalla Substation Point of Delivery

Delivering Party (Resource)	Transmission Point of Receipt	Transmission Point of Delivery	Transmission Point of Delivery Control Area	Receiving Party
Rocky Reach and Rock Island	Rocky Reach 230 kV Bus Bar and McKenzie 115 kV Bus Bar	BPA Valhalla 115 kV Substation	BPA	Puget Sound Energy

2. TRANSMISSION POINTS OF RECEIPT

(a) Rocky Reach Switchyard 230 kV Bus Bar

Location: The point(s) where Rocky Reach Project Transmission Facilities interconnect with the Chelan Transmission System in the vicinity of the Rocky Reach 230 kV Switchyard.

Voltage: 230 kV

Metering: The District owns and operates metering devices located on the 230 kV circuit breakers at the Rocky Reach 230 kV Switchyard. These meters shall record the energy, real and reactive power, and instantaneous flow of power on the transmission line. Measurements shall be adjusted for transmission and transformation losses as may be specified in the Transmission Agreement.

(b) McKenzie Switchyard 115 kV Bus Bar

Location: The point(s) where Rock Island Project Transmission Facilities interconnect with the Chelan Transmission System in the vicinity of the McKenzie 115 kV Switchyard.

Voltage: 115 kV

Metering: The District owns and operates metering devices located on the 115 kV circuit breakers at the McKenzie 115 kV Switchyard. These meters shall record the energy, real and reactive power, and instantaneous flow of power on the transmission line. Measurements shall be adjusted for transmission and transformation losses as may be specified in the Transmission Agreement.

3. TRANSMISSION POINTS OF DELIVERY

(a) White River - Rocky Reach 230 kV Transmission Line

Location: The point(s) where the Chelan Transmission System interconnects with the Purchaser's White River – Rocky Reach 230 kV transmission line in the vicinity of the Rocky Reach Switchyard.

Voltage: 230kV

Metering: The District owns and operates metering devices at the Rocky Reach 230 kV Switchyard. These meters shall record the energy, real and reactive power, and instantaneous flow of power on the transmission line.

- (b) **Anderson Canyon – Beverly 115 kV Transmission Line**
Location: The point(s) where the Chelan Transmission System interconnects with the Purchaser's Anderson Canyon – Beverly 115 kV transmission line in the vicinity of the District's Summit Substation.
Voltage: 115 kV
Metering: The District owns and operates metering devices at the Summit Substation. These meters shall record the energy, real and reactive power, and instantaneous flow of power on the transmission line.
- (c) **Maple Valley - Rocky Reach 230/345 kV Transmission Line**
Location: The point(s) where the Chelan Transmission System interconnects with BPA's 230/345 kV step-up transformer facilities that in turn feed BPA's Maple Valley – Rocky Reach 230/345 kV transmission line in the vicinity of the Rocky Reach Switchyard.
Voltage: 230 kV
Metering: The District owns and operates metering devices at the Rocky Reach 230 kV Switchyard. These meters shall record the energy, real and reactive power, and instantaneous flow of power on the transmission line.
- (d) **Chelan Rocky Reach – Columbia #2 230 kV Transmission Line**
Location: The point(s) where the Chelan Transmission System interconnects with BPA at 230 kV in the vicinity of BPA's Columbia Substation
Voltage: 230 kV
Metering: The District owns and operates metering devices at the Rocky Reach 230 kV Switchyard. These meters shall record the energy, real and reactive power, and instantaneous flow of power on the transmission line. All metering devices located at the Columbia substation are owned and operated by BPA.
- (e) **Chelan Rocky Reach – Columbia #2 230 kV Transmission Line**
Location: The point(s) where the Chelan Transmission System interconnects with Grant County PUD's Columbia – Wanapum 230 kV line in the vicinity of BPA's Columbia Substation
Voltage: 230 kV
Metering: The District owns and operates metering devices at the Rocky Reach 230 kV Switchyard. These meters shall record the energy, real and reactive power, and instantaneous flow of power on the transmission line. All metering devices located at the Columbia substation are owned and operated by BPA.
- (f) **BPA Rocky Reach – Columbia #1 230 kV Transmission Line**
Location: The point(s) where the Chelan Transmission System interconnects with BPA's Rocky Reach – Columbia 230 kV line in the vicinity of the Rocky Reach Switchyard.
Voltage: 230 kV
Metering: The District owns and operates metering devices at the Rocky Reach 230 kV Switchyard. These meters shall record the energy, real and reactive power, and instantaneous flow of power on the transmission line. All metering devices located at the Columbia substation are owned and operated by BPA.

(g) **Rocky Reach – Douglas 230 kV Tie Line**

Location: The point(s) where the Chelan Transmission System interconnects with Douglas County PUD's 230 kV system in the vicinity of the Rocky Reach Switchyard.

Voltage: 230 kV

Metering: The District owns and operates metering devices at the Rocky Reach 230 kV Switchyard. These meters shall record the energy, real and reactive power, and instantaneous flow of power on the transmission line.

(h) **BPA Valhalla 115 kV Substation**

Location: The point(s) where the Chelan Transmission System interconnects with BPA at 115 kV in the vicinity of the BPA 115 kV Valhalla Substation.

Voltage: 115 kV

Metering: The District owns and operates metering devices at the Rock Island Second Power house, Valhalla 115 kV Switchyard and McKenzie 115 kV Switchyard. These meters shall record the energy, real and reactive power, and instantaneous flow of power on the transmission line.

4. **NAME OF INTERVENING SYSTEMS PROVIDING TRANSMISSION SERVICE**

BPA.

5. **TRANSMISSION AGREEMENT CHARGES**

Transmission Charge

To be determined by the District prior to the first Project Availability Date, subject to later redetermination by the District in accordance with the Transmission Agreement.

EXHIBIT B**Power-Flow Methodology for Calculating Loss Factor**

The underlying data used to calculate the loss factor shall be the same data submitted to WECC for the seasonal transmission study process. The District's transmission losses resulting from the WECC approved operating power flow cases shall be adjusted to exclude the transmission losses associated with Project Transmission Facilities. The loss factor associated with each approved power flow case, adjusted for Project Transmission Facilities, shall be averaged to produce a single loss factor.

WECC Case	WECC Case Description	CHPD Load	CHPD Gen	CHPD Tran. Losses	Loss As % of Gen
06LW1A	2006 Light Winter – Operating Case	423.2	372	2	0.54%
06HW3A	2006 Heavy Winter – Operating Case	541.7	1447	7.05	0.49%
06HSP1A	2006 Heavy Spring – Operating Case	364.6	1102	3.01	0.27%
06LS1	2006 Light Summer – Operating Case	372	323.9	0.42	0.13%
06HS4A	2006 Heavy Summer Operating Case	406.2	1532	2.58	0.17%

Loss Factor 0.32%
as % of Generation

EXHIBIT C**METHODOLOGY FOR DETERMINING
CHELAN TRANSMISSION SYSTEM REVENUE REQUIREMENT**

The Chelan Transmission System Revenue Requirement ("CTSRR") is calculated annually as the sum of Revenue Requirement Components Nos. 1-7, minus Revenue Requirement Component No. 8 provided in Table 1 below.

Table 1

<u>No.</u>	<u>Revenue Requirement Component</u>	<u>Formula</u>
1	Transmission O&M expense, net of transmission by others	A-B
2	Allocated Tax Expense (ratio of total transmission plant investment to electric plant in service times other taxes)	$\frac{C}{E} * D$
3	Allocated A&G Expense (ratio of transmission wages expense to total wages expense net of A&G wages expense times total A&G related O&M expense)	$\frac{F}{(H-G)} * I$
4	Transmission Plant Depreciation Expense	J
5	Allocated Weighted Long-Term Debt Cost (ratio of long term interest expense to long term debt balance times total transmission plant investment)	$\frac{L}{K} * C$
6	Allocated General Plant Depreciation Expense (ratio of transmission wages expense to total wages expense net of A&G wages expense times general plant depreciation expense)	$\frac{F}{(H-G)} * M$
7	Working Capital Interest Cost (the sum of forty five days of transmission O&M expense, transmission related materials and supplies and transmission related prepayments times the weighted average cost of debt.	$[(A-B) * 0.125] + P + Q * N$
8	Offsetting Direct-Assignment and unrelated Transmission Revenues (to be deducted from the annualized costs of the Chelan Transmission System in calculating Puget's take-or-pay obligation under Section 5.02 of the Transmission Agreement in accordance with the definition of CTSRR and Section 5.03)	O

The District shall derive dollar values for each variable shown in Table 1 of this Exhibit C, annually, using the audited financial data for the preceding fiscal year. Derivations shall be based on the following Table 2, which is subject to modification in the event of any change to the Uniform System of Accounts:

Table 2
(Annual values for expense accounts and end-of-year balance sheet accounts from the District's audited financial data for the preceding fiscal year)

Variable	Associated Cost	Derivation
A	Transmission Operation & Maintenance Expense	FERC account nos. 560, 561, 562, 563, 564, 565, 566, 567, 568, 569, 570, 571, 572, 573 and all applicable sub-accounts for each such account
B	Transmission by Others	FERC account no. 565 and all applicable sub-accounts for such account
C	Total Transmission Plant Investment	FERC account nos. 350, 351, 352, 353, 354, 355, 356, 357, 358, 359 and all applicable sub-accounts for each such account
D	Other Taxes	FERC account no. 408 and all applicable sub-accounts for such account
E	Electric Plant In Service	FERC account nos. 301, 302, 303, 330, 331, 332, 333, 334, 335, 336, 338, 340, 341, 342, 343, 344, 345, 346, 350, 351, 352, 353, 354, 355, 356, 357, 358, 359, 360, 361, 362, 363, 364, 365, 366, 367, 368, 369, 370, 371, 372, 373, 389, 390, 391, 392, 393, 394, 395, 396, 397, 398, 399 and all applicable sub-accounts for each such account
F	Transmission Wages Expense	Labor and benefits included in FERC account nos. 560, 561, 562, 563, 564, 566, 567, 568, 569, 570, 571, 572, 573 and all applicable sub-accounts for each such account
G	A&G Wages Expense	Labor and benefits included in FERC account nos. 920, 921, 922, 923, 924, 925, 926, 927, 928, 929, 930, 930.1, 930.2, 931, 935 and all applicable sub-accounts for each such account
H	Total Wages Expense	Labor and benefits included in all FERC operation and maintenance account nos. 5XX (500 series) and 9XX (900 series) and all applicable sub-accounts for each such account

I	Total A&G related O&M Expense	FERC account nos. 920, 921, 922, 923, 924, 925, 926, 927, 928, 929, 930, 930.1, 930.2, 931, 935 and all applicable sub-accounts for each such account
J	Transmission Plant Depreciation Expense (straight-line method)	FERC account no. 403 as it relates to transmission plant and all applicable transmission-plant related sub-accounts for such account
K	Long-Term Debt	FERC account nos. 221, 223, 224, 225, 226 and all applicable sub-accounts for each such account
L	Long-Term Debt Interest Expense	FERC account nos. 427, 428, 428.1, 429, 429.1, 430, 432 and all applicable sub-accounts for each such account
M	General Plant Depreciation Expense (straight-line method)	FERC account no. 403 as it relates to general plant and all applicable general-plant related sub-accounts for such account
N	Weighted Average Cost of Debt	FERC account nos. 427, 428, 428.1, 429, 429.1, 430, 431, 432 divided by FERC account nos. 221, 223, 224, 225, 226, 231, 233, 235 and all applicable sub-accounts for each such account
O	Offsetting Direct-Assignment and unrelated Transmission Revenues	<p>(1) Offsets: The District's revenues for the relevant 12-month period from (i) any Direct Assignment Facility, and (ii) firm and nonfirm wholesale transmission services unrelated to the transmission services provided either to Puget under this Transmission Agreement or to any other Share Participant under any comparable transmission agreement entered into by such Share Participant and the District in connection with a Related Power Sales Agreement.</p> <p>(2) Exclusions: The costs and revenues associated with any transmission facility or generator-interconnection facility pursuant to Section 5.03 shall be excluded from the calculation of CTSRR.</p>
P	Transmission Related Materials and Supplies	FERC account nos. 151, 154 and 163 as they relate to transmission and all applicable transmission-related sub-accounts for such accounts
Q	Transmission Related Prepayments	FERC account no. 165 as it relates to transmission and all applicable transmission-related sub-accounts for such account

APPENDIX E

Form of Legal Opinions

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SEATTLE, WA 98104
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[Month/Day], 2006

Puget Sound Energy, Inc.
[Address]

Re: Power Sales Agreement Dated [Month/Day], 2006, By and Between Public Utility District No. 1 of Chelan County, Washington, and Puget Sound Energy, Inc.

Ladies and Gentlemen:

We have acted as special counsel to Public Utility District No. 1 of Chelan County, Washington (the "District"), in connection with the authorization of that certain Power Sales Agreement dated [Month/Day], 2006, by and between the District and Puget Sound Energy, Inc. (the "Purchaser") regarding the sale by the District to the Purchaser of energy from the District's Rock Island and Rocky Reach Hydro-Electric Projects (the "Power Sales Agreement") pursuant to Title 54 of the Revised Code of Washington, as amended and supplemented to the date hereof (the "Act").

We have reviewed the Power Sales Agreement, Resolution No. 06-____ of the District, adopted on January 30, 2006, authorizing the execution and delivery by the District of the Power Sales Agreement and making certain findings and determinations in connection therewith, and such other documents, opinions and matters to the extent we deemed necessary to render the opinion set forth herein.

The opinion expressed herein is based on an analysis of existing laws, regulations and court decisions and covers certain matters not directly addressed by such authorities. Such opinion may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or copies), the due and legal execution and delivery thereof by all parties thereto (other than the District), and the validity and legality thereof against all parties thereto. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified, and the findings and determinations set forth, in the documents referred to in the second paragraph hereof. We express no opinion regarding the validity, legality or binding or enforceable effect of the Power Sales Agreement against the District or the Purchaser, the receipt by the District of any necessary authorizations, approvals or consents from any governmental agency or body other than the District, or compliance by the District with any Federal law, rule or regulation or with the State Environmental Policy Act of 1971, as amended, constituting Chapter 43.21C of the Revised Code of Washington.



O R R I C K

Puget Sound Energy, Inc.

[Month/Day], 2006

Page 2

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that the Power Sales Agreement has been duly authorized, executed and delivered by all requisite action on the part of the District.

This opinion is furnished by us as special counsel to the District and is limited to the laws of the State of Washington. No attorney-client relationship has existed or exists between our firm and you in connection with the Power Sales Agreement or by virtue of this letter. This letter is delivered to you solely for your benefit and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP



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February 1, 2006

Public Utility District No. 1 of Chelan County
P. O. Box 1231
Wenatchee, WA 98807
Attention: Ms. Carol Wardell
General Counsel

Re: Power Sales Agreement and Long-Term Transmission Service Agreement

Ladies and Gentlemen:

We have acted as counsel for Puget Sound Energy, Inc., a Washington corporation (the "Company") in connection with the transactions contemplated by the Power Sales Agreement and the Long-Term Transmission Service Agreement, each dated February 1, 2006, by and between Public Utility District No. 1 of Chelan County, Washington, and Puget Sound Energy, Inc. (together, the "Agreements").

A. Documents and Matters Examined

In connection with this opinion letter, we have received from the Senior Vice President General Counsel and Chief Ethics and Compliance Officer of the Company a certificate concerning various facts underlying this opinion. As to matters bearing upon the opinions expressed herein, we have, without further investigation, relied solely upon information and statements in such certificate, enclosed herewith. We have also examined an original, or a copy identified to our satisfaction, of the Agreements and such other documents, corporate records, certificates and statements of persons referred to herein, and such other instruments as we have deemed necessary or appropriate for the basis of the opinions herein expressed.

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Perkins Coie LLP and Affiliates

Public Utility District No. 1 of Chelan County
February 1, 2006
Page 2

B. Assumption

We have assumed, but have not independently investigated or verified, that any signatures on the Agreements are genuine.

C. Opinions

Based upon the examinations, assumptions, qualifications, exceptions, limitations and exclusions stated herein, we are of the opinion that the Agreements have been duly authorized, executed and delivered by all requisite action on the part of the Company.

D. Qualifications and Limitations

This opinion letter is governed by, and shall be interpreted in accordance with, the Legal Opinion Accord (the "Accord") of the ABA Section of Business Law (1991). As a consequence, it is subject to a number of assumptions, qualifications, exceptions, definitions, limitation on coverage and other limitations, all as more particularly described in the Accord, and this opinion letter should be read in conjunction therewith.

The opinions expressed above are limited to the laws of the state of Washington, and we express no opinion with respect to the laws, regulations or ordinances of any county, municipality, or governmental subdivision or agency, nor any local laws, other state laws or foreign laws and regulations.

This opinion is given as of the date first written above, and we have no responsibility to update it for events and circumstances occurring after such date or as to facts relating to prior events of which we subsequently become aware. We specifically disavow any undertaking to advise you of any changes of fact or law.

This opinion is for the sole benefit of, and may be relied upon only by, the addressee.

Very truly yours,

Steven E. Pope

SEP:ic
Enclosure

**Certificate of Senior Vice President General Counsel and Chief
Ethics and Compliance Officer for Puget Sound Energy, Inc.**