

EXHIBIT NO. ___(JLM-5)
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.

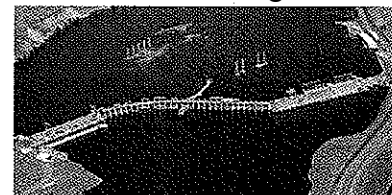
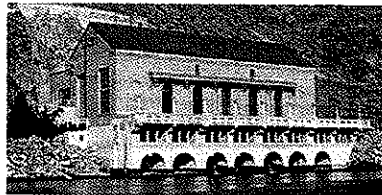
PUGET SOUND ENERGY, INC.,

Respondent.

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

**FOURTH 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: Long-Term Transmission Service Transmission 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 Long-Term Transmission Service Agreement related to output from the Chelan Power System (the "Transmission Agreement"). Pursuant to Section 13.01 of the Transmission Agreement, Puget has agreed that it will not assign its rights and obligations under the Transmission Agreement to any third party except in connection with the assignment of the Power Sales Agreement dated as of February 1, 2006 between Puget and the District (the "Power Sales Agreement"); pursuant to the terms of the Power Sales Agreement.

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 Transmission 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 Transmission Agreement that may arise as a result of any lien created thereby, and to further waive any default under the Transmission Agreement that may arise from the grant by Puget of a

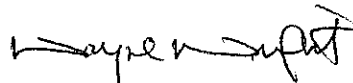
similar security interest in connection with the refinancing of the obligations under the Indenture (the "Refinancing"), in each case subject to the limitations described below.

The District hereby acknowledges the existence of the Security Interest and agrees to waive any Puget default (or Event of Default) under the Transmission 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 Transmission Agreement or waiving any other provision or requirement applicable to Puget or its permitted assigns thereunder or under the Power Sales Agreement. Consequently, any potential assignee (including the Trustee and any successor entity under the Refinancing) of Puget's rights or interests under the Transmission 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 of the Transmission Agreement and 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

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, PNCA 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.

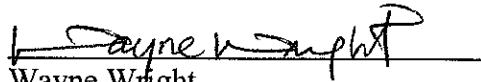
Section 15.010. No Dedication of Facilities. No undertaking by the District to Puget under any provision of this Transmission Agreement shall constitute a dedication of the District's transmission system (or any portion thereof) to the public or to Puget. Nothing in this

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