

AUTHENTICATED

**AGREEMENT REGARDING
FISCAL YEAR 2003 DEFERRAL AMOUNT
executed by the
BONNEVILLE POWER ADMINISTRATION
and
PUGET SOUND ENERGY, INC.**

This AGREEMENT REGARDING FISCAL YEAR 2003 DEFERRAL AMOUNT ("Agreement") is executed by the UNITED STATES OF AMERICA, Department of Energy, acting by and through the BONNEVILLE POWER ADMINISTRATION ("BPA"), and PUGET SOUND ENERGY, INC. ("Puget"). Puget is a corporation existing under the laws of the State of Washington. BPA and Puget are sometimes referred to in this Agreement in the singular as "Party" and in the plural as "Parties."

RECITALS

A. On June 11, 2001, the Parties entered into Contract No. 01PB-10885 ("Amended Settlement Agreement"), which settled the Parties' rights and obligations during the period from July 1, 2001, through September 30, 2011, under or arising out of section 5(c) of the Northwest Power Act.

B. On June 17, 2002, the Parties entered into the Agreement Regarding Conditional Deferral of Reduction of Risk Discount, Contract No. 02PB-11156 ("Conditional Deferral Agreement"), which amended the payment provisions of the Amended Settlement Agreement to provide for conditional deferral of payment by BPA of certain amounts to be paid under the Amended Settlement Agreement. The Amended Settlement Agreement and the Conditional Deferral Agreement are sometimes referred to collectively in this Agreement as the "Settlement Agreement."

C. BPA wishes to defer payment in FY 2003 of certain amounts of Monetary Benefit under the Settlement Agreement and yet wishes to facilitate a relatively uniform passthrough of benefits under the Settlement Agreement.

D. Contemporaneously with entering into this Agreement, BPA is entering into other agreements under which other investor-owned utilities and BPA are agreeing to BPA's deferral of payment in FY 2003 of payments under agreements similar to the Amended Settlement Agreement. The total cumulative amount to be deferred under this Agreement and such other agreements equals \$55 million.

AGREEMENT

The Parties agree:

1. TERM

This Agreement shall become effective on the date signed by the Parties, and shall continue in effect through September 30, 2011. Upon the expiration or other termination of this Agreement, the rights and obligations then accrued or incurred for the payment of any amounts to Puget by BPA under this Agreement shall survive.

2. AMENDMENT OF AMENDED SETTLEMENT AGREEMENT

The Amended Settlement Agreement is amended as follows:

(a) Amendment of Section 2

Sections 2(m), 2(n), and 2(o) are added at the end of and as part of section 2 of the Amended Settlement Agreement:

“(m) "Deferral Amount for Contract Year 2003" means an amount equal to \$27,697,368.42.

(n) "Monthly Deferral Amount" means the following amounts for each month of February through September of Contract Year 2003, the sum of which is equal to the Deferral Amount for Contract Year 2003:

Month, Year	Monthly Deferral Amount
February 2003	3,462,171.07
March 2003	3,462,171.05
April 2003	3,462,171.05
May 2003	3,462,171.05
June 2003	3,462,171.05

Month, Year	Monthly Deferral Amount
July 2003	3,462,171.05
August 2003	3,462,171.05
September 2003	3,462,171.05
TOTAL:	\$27,697,368.42

- (o) "SN CRAC Reduction" means in any month prior to October 1, 2006, an amount equal to the sum of
- (i) an amount equal to the reduction to Monetary Benefit paid in such month under section 4(c) of this Amended Settlement Agreement as a result of the application of the SN CRAC, plus
 - (ii) an amount equal to the reduction calculated pursuant to section 4(b)(1)(C) of this Amended Settlement Agreement in the amount paid in such month under section 4(b)(1)(B) of this Amended Settlement Agreement.”

(b) Amendment of Section 4(c)

- (1) Section 4(c)(4) is added at the end of and as part of section 4(c) of the Amended Settlement Agreement:

“(4) Deferral of Fiscal Year 2003 Monetary Benefit

The monthly amount of Monetary Benefit to be paid to Puget pursuant to the preceding provisions of this section 4(c) during the period February 2003 through September 2003 shall be reduced by the Monthly Deferral Amount.”

- (2) Section 4(c)(5) is added at the end of and as part of section 4(c) of the Amended Settlement Agreement:

“(5) Repayment of Deferral Amount for Contract Year 2003

(A) The Deferral Amount for Contract Year 2003 shall be paid, plus interest, to Puget by BPA as Monetary Benefit pursuant to sections 4(c)(5)(B) and 4(c)(5)(C) below. Such interest shall accrue at an annual rate of 3.01 percent, compounded monthly, and shall accrue on the amount of each

reduction commencing on (and including) the date it would have been due to be paid absent the occurrence of such Deferral Amount for Contract Year 2003 and continuing up to (but not including) the date such amount is paid pursuant to section 4(c)(5)(B) or 4(c)(5)(C) below.

- (B) If there is any SN CRAC Reduction in Contract Years 2003, 2004, 2005, or 2006, an amount equal to the lesser of
- (i) such SN CRAC Reduction; or
 - (ii) the amount, if any, by which the aggregate amount of reductions after January 31, 2003, of payments pursuant to section 4(c)(4) above, including interest calculated in accordance with section 4(c)(5)(A) until the Due Date determined under section 4(d), exceeds the aggregate amount of any payments that have then been previously made pursuant to this section 4(c)(5)(B)

shall be paid by BPA to Puget as Monetary Benefit at the time the SN CRAC Reduction is reflected in the payments to Puget under this Amended Settlement Agreement.

- (C) In addition to paying each month any amounts otherwise due during such month to be paid to Puget pursuant to the provisions of this Amended Settlement Agreement, as it may hereafter be amended, superseded, or replaced, or the Conditional Deferral Agreement, BPA shall pay to Puget as Monetary Benefit an amount, if any, equal to (i) the Deferral Amount for Contract Year 2003 (plus interest as calculated in section 4(c)(5)(A) above), reduced by (ii) any amounts previously paid pursuant to section 4(c)(5)(B) above. Such amount shall be paid by BPA to Puget in 60 equal monthly installments during the period October 1, 2006, through September 30, 2011.

(D) The Parties agree that any amounts Puget is entitled to receive pursuant to section 4(c)(5)(C) above after September 30, 2006, shall be in addition to amounts Puget is otherwise entitled to receive under this Amended Settlement Agreement, as it may hereafter be amended, superseded, or replaced, and the Conditional Deferral Agreement (and shall only reduce other amounts Puget is entitled to receive after such date for the benefit of its residential and small farm customers, under the Settlement Agreement or otherwise, through its impact on the level of the Lowest PF Rate).”

(c) **Amendment of Section 6(b)**

Section 6(b) of the Amended Settlement Agreement is amended by deleting the third sentence of such section 6(b) and inserting the following in its place:

“The amount of benefits held in the account described in section 6(c) below shall not at any time exceed an amount equal to the greater of (1) the expected receipts of monetary payments from BPA under this Amended Settlement Agreement over the next 180 days or (2) the receipts of monetary payments from BPA under this Amended Settlement Agreement over the immediately preceding 180 days.”

3. LIMITATION OF CONDITIONAL DEFERRAL AGREEMENT NOTICE

Puget shall not give, prior to January 1, 2003, to BPA any notice of termination of the deferral period pursuant to section 2 of the Conditional Deferral Agreement.

4. OTHER PROVISIONS

- (a) The Amended Settlement Agreement (as amended by this Agreement) and the Conditional Deferral Agreement shall be and continue in full force and effect.
- (b) For purposes of determining the Conservation and Renewable Discount for Puget’s Monetary Benefit under section 10 of the Amended Settlement Agreement (and the terms specified in BPA’s applicable

Wholesale Power Rate Schedules, including GRSPs), the forecasted amount of monthly Monetary Benefit to be paid to Puget shall be determined as though the Parties had not entered into this Agreement.

- (c) If this Agreement is held to be illegal, invalid or unenforceable for any reason, the Amended Settlement Agreement and the Conditional Deferral Agreement shall be and continue in full force and effect (and any amounts that have then been deferred pursuant to this Agreement shall be paid to Puget by BPA within 30 days of such holding). This section 4(c) shall be and remain in effect even if any or all of the other provisions of this Agreement are illegal, invalid or unenforceable.
- (d) This Agreement sets forth the entire agreement of the Parties with respect to the subject matter hereof and may only be amended by writing hereafter signed by each of the Parties. Each of the Parties represents that its signatory below is authorized to enter into this Agreement on behalf of the Party for whom he or she signs.

PUGET SOUND ENERGY, INC.

UNITED STATES OF AMERICA
Department of Energy
Bonneville Power Administration

By /S/ WILLIAM A. GAINES
Vice President Energy Supply

By /S/ MARK E. MILLER
Account Executive

Name William A. Gaines
(Print/Type)

Name Mark E. Miller
(Print/Type)

Date Signed January 13, 2003

Date Signed December 18, 2002

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