Contract No. 01PB-10885

AUTHENTICATED

AMENDED
SETTLEMENT AGREEMENT
executed by the
BONNEVILLE POWER ADMINISTRATION
and
PUGET SOUND ENERGY, INC.

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Exhibit A Block Power Sales Agreement (Contract No. 01PB-10886
Exhibit B Residential Load Definition
Exhibit C Confirmation Legislation

This AMENDED SETTLEMENT AGREEMENT (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 organized under the laws of the State of Washington. BPA and Puget are sometimes referred to in the singular as "Party" or in the plural as "Parties."

RECITALS

The Northwest Power Act establishes a Residential Exchange Program to provide benefits to residential and small farm consumers of Pacific Northwest utilities.

BPA implements the Residential Exchange Program through the offer, when requested, of a Residential Purchase and Sale Agreement.

On October 31, 2000, BPA and Puget entered into Contract No. 01PB-12162 (the "Settlement Agreement"), for the purpose of settling the Parties' dispute over implementation of rights and obligations for the Residential Exchange Program under the Northwest Power Act, and such Settlement Agreement provides, among other things, for BPA to provide Puget with Firm Power and Monetary Benefits to settle the Residential Exchange Program.

The term of the Settlement Agreement continues through September 30, 2006.

Since the execution of the Settlement Agreement, BPA and Puget have agreed that BPA will, rather than deliver Firm Power to Puget for the first 5 years of the Settlement Agreement, make cash payments to Puget during the period that begins October 1, 2001, and ends on September 30, 2006. BPA plans to use the Firm Power not sold to Puget to meet deficits in resources necessary to meet loads of publicly-owned and cooperative customers in its firm load obligations in the Pacific Northwest.

The Parties have also agreed to extend the term of the settlement under this Agreement through the period from October 1, 2006, through September 30, 2011, on the same terms and conditions as are in the corresponding Residential Exchange Settlement Agreements and Firm Power Block Sales Agreements for other investor-owned utilities for such period.

The Parties acknowledge that issues have been raised regarding the Settlement Agreement and the Parties wish to affirm their intent to settle their 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.

BPA and Puget desire to enter into this Agreement in order to supersede the Settlement Agreement in its entirety for the purpose of replacing the delivery of Firm Power by BPA to Puget with cash payments during the period that begins on October 1, 2001, and ends on September 30, 2006, extending the term of the Settlement Agreement until September 30, 2011, and affirming their intent to settle 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.

The Parties agree:

1. TERM

This Agreement takes effect on the date signed by the Parties. Performance of this Agreement by the Parties shall begin on July 1, 2001, and shall continue through September 30, 2011 (Expiration Date), unless terminated earlier pursuant to section 14 below.

2. DEFINITIONS

Capitalized terms not defined below shall be as defined in BPA's WP-02 General Rate Schedule Provisions (GRSPs).

(a) "Contract Year" means each period during the term of this Agreement that begins each October 1 and which ends the following September 30. For instance, Contract Year 2002 begins October 1, 2001, and continues through September 30, 2002.

(b) "Firm Power" means electric power that BPA's Power Business Line (PBL)will make continuously available to Puget under the Firm Power Block Power Sales Agreement.

(c) "Firm Power Block Power Sales Agreement" means Contract No. 01PB-10886, attached to this Agreement as Exhibit A.

(d) "Forward Flat-Block Price Forecast" means BPA's forecast of the wholesale market price for the purchase of additional amounts of power at 100 percent annual load factor established in the same BPA power rate case as that which established the RL rate and for the period of the RL Rate established in a BPA power rate case Record of Decision (ROD) as finally approved by the Federal Energy Regulatory Commission and affirmed, if appealed, by the United States Court of Appeals for the Ninth Circuit.

(e) "Lowest PF Rate" means the lowest applicable cost-based power rate provided under the applicable PF rate schedule as applied to purchases of Firm Power by BPA's preference customers at 100 percent annual load factor. The applicable power rate shall be: (1) the PF rate for the same period as the adjustment to monthly cash payments and credit to balancing accounts in section 4(b)(1); or (2) the PF rate for the same period as the RL Rate for the Firm Power purchases provided under the Firm Power Block Power Sales Agreement.

(f) "Monetary Benefit" means the monetary settlement benefits provided under this Agreement as determined pursuant to the methodology described in section 4(c) below.

(g) "Northwest Power Act" means the Pacific Northwest Electric Power Planning and Conservation Act, P.L. 96-501.

(h) "Qualified Entity" means an entity authorized under state law or by order of the applicable state regulatory authority to serve all or a portion of Puget's Residential Load.

(i) "RL Rate" means the then-current applicable Residential Load Firm Power rate schedule.

(j) "Residential Exchange Program" means the program established under section 5(c) of the Northwest Power Act.

(k) "Residential Load" means the load eligible to receive benefits under this Agreement, as such load is defined in Exhibit B.

(l) "Residential Purchase and Sale Agreement," or "RPSA," means an agreement between BPA and a Pacific Northwest utility that implements the Residential Exchange Program.

3. EFFECT ON EXISTING AGREEMENTS AND SECTION 5(c) OBLIGATIONS

(a) **Existing Settlement Agreement**
This Agreement replaces and supersedes in its entirety the Settlement Agreement including the Firm Power Block Sales Agreement executed by BPA and Puget (RL only), Contract No. 12168, attached as Exhibit A to the Settlement Agreement (Existing Agreements).

(b) **Satisfaction of Section 5(c) Obligations**
BPA shall, in full and complete satisfaction of all of its 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, provide to Puget: (1) cash payments for the period that begins July 1, 2001, and ends on September 30, 2001, pursuant to section 3(e) of this Agreement; (2) beginning October 1, 2001, through September 30, 2006, cash payments under section 4(b)(1) and Monetary Benefit payments pursuant to section 4(c) of this Agreement; and (3) beginning October 1, 2006, through September 30, 2011, Firm Power or Monetary Benefit payments, or both, pursuant to sections 4 and 5 of this Agreement. Puget agrees that the cash payments, Firm Power or Monetary Benefits, or both, provided under this Agreement satisfy all of BPA's 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.

(c) **Invalidity**
In the event the United States Court of Appeals for the Ninth Circuit finally determines, after all appeals or requests for reconsideration, that this Agreement (or section 4(a), section 4(b)(1), section 4(c), or section 5 of this Agreement) is unlawful, void, or unenforceable, then the provisions of

section 3(b) above shall be of no further force or effect, and the Parties intend and agree that: (1) the cash payments pursuant to section 3(e), section 4(b)(1) or section 5; the Firm Power; and Monetary Benefits provided prior to such final determination shall be retained by Puget; and (2) the satisfaction of BPA's obligations to Puget under section 5(c) of the Northwest Power Act prior to such final determination shall be preserved, to the maximum extent permitted by law. The Parties specifically acknowledge and agree that, in the event of such final determination, the provisions of section 3(b) above shall not be effective for any period if and to the extent the cash payments, Firm Power and Monetary Benefits with respect to such period are not retained by Puget. This section 3(c) shall survive notwithstanding any determination that any other provision of this Agreement (or the exhibits) is unlawful, void, or unenforceable.

(d) **Negotiation of New Agreement if this Agreement Held Invalid**
If this Agreement (or section 4(a), section 4(b)(1), section 4(c), or section 5 of this Agreement) is finally determined to be unlawful, void, or unenforceable as described in section 3(c) above, then both Parties agree to negotiate in good faith a new, mutually acceptable agreement that would, until the end of its term, be in satisfaction of BPA's obligations under or arising out of section 5(c) of the Northwest Power Act. The term of such new agreement would continue for the remaining term of this Agreement.

(e) **Payments by BPA for the Period Beginning July 1, 2001, and Continuing through September 30, 2001**
For the three calendar month period that begins July 1, 2001, and continues through September 30, 2001, BPA shall pay Puget $12,461,895. Payment for each of these calendar months shall be in equal amounts of $4,153,965 and shall be paid on or before the last business day of each such month. BPA shall pay by electronic funds transfer using Puget's established procedures.

4. SETTLEMENT BENEFITS

(a) Total Benefits

(1) **October 1, 2001, through September 30, 2006**
BPA shall provide to Puget a total benefit comprised of cash payments under section 4(b)(1) and Monetary Benefit under section 4(c), which is expressed in annual average megawatts (aMW). The Monetary Benefit is specified in section 4(c)(1).

(2) **October 1, 2006, through September 30, 2011**
BPA shall provide to Puget a total benefit comprised of Firm Power and Monetary Benefit, both of which are expressed in annual aMW. This total benefit is as follows:

Period of Time	Total of Firm Power and Monetary Benefit for Puget (annual aMW)	Washington (annual aMW)
10/1/06 through 9/30/11	648	648

The allocation and disposition of this total benefit between Firm Power and Monetary Benefit is described in sections 4(b) and 4(c) below.

(b) **Cash Payments and Firm Power Sale Portion of Total Benefits**

(1) **Cash Payments**

BPA shall make monthly cash payments to Puget as follows:

(A) **October 1, 2001, through September 30, 2002**

During the period that begins October 1, 2001, and continues through September 30, 2002, BPA shall pay Puget monthly amounts equal to:

Payment Type	**Monthly Amount ($)**
Total Payment	$9,722,140 [1]

[1] If it is determined that one or more load reduction contingency provisions under sections 4(b)(1)(D)(i), 4(b)(1)(D)(ii), 4(b)(1)(D)(iii), 4(b)(1)(D)(iv), and 4(b)(1)(D)(v) have occurred, then this total monthly payment shall be increased to $10,208,320 on the earliest date specified in an applicable section.

(B) **October 1, 2002, through September 30, 2006**

During the period that begins October 1, 2002, and continues through September 30, 2006, BPA shall pay Puget monthly amounts equal to:

Payment Type	**Monthly Amount ($)**
Base Payment	$12,671,749 [1]
Reduction of Risk Discount	$2,463,429
Net Payment:	$10,208,320 [2]

[1] This Base Payment amount (which shall be equal to $12,706,466 during a leap year) is the monthly amount subject to reduction by the Reduction of Risk Discount.

[2] If, by December 1, 2001: (i) Puget, after the date of execution of this Agreement, enters into a settlement agreement with one or more of BPA's publicly-owned utility and cooperative customers (the sufficiency of such group to be solely determined by Puget) waiving and dismissing legal challenges to this Agreement; (ii) if Puget has entered into a settlement agreement described in (i) above and fails to dismiss its legal

challenges, if any, to: (a) the Residential Purchase and Sale Agreement Record of Decision (ROD); (b) the Power Subscription Strategy RODs, including the Residential Exchange Program Settlement ROD; and (c) the application of the 7(b)(2) surcharge to BPA's WP-02 rates; or (iii) legislation having the effect of the legislation described in Exhibit C is enacted prior to December 1, 2001, then the Base Payment shall be reduced by the Reduction of Risk Discount to this Net Payment amount of $10,208,320 ($10,236,288 during a leap year).

(C) **Cash Payment Adjustments Due to Application of Safety-Net Cost Recovery Adjustment Clause (SN CRAC) and Dividend Distribution Clause (DDC) to BPA Firm Power Sales**

(i) **Adjustment to Cash Payments Resulting from SN CRAC and SN CRAC Balancing Account**
In the event of imposition of the SN CRAC to BPA's firm power sales, BPA shall reduce the monthly payment to Puget in section 4(b)(1)(A) or section 4(b)(1)(B) above by an amount equal to the hours in the month times the mills/kilowatthour (kWh) increase in the Lowest PF Rate at 100 percent load factor above the maximum millage amount allowed for the Lowest PF Rate for such month under the Financial-Based CRAC, times 331 aMW in Contract Year 2002 and 368 aMW in each year of Contract Years 2003 through 2006. BPA shall record the amounts of reduction in such monthly payments in a SN CRAC balancing account (the "SN CRAC Account").

(ii) **DDC Balancing Account**
If BPA makes a monthly DDC payment as established in the WP-02 rate case, BPA shall calculate the amount BPA would have paid to a purchaser of 331 aMW of power in Contract Year 2002 and 368 aMW in each year of Contract Years 2003 through 2006 at the Lowest PF Rate at 100 percent load factor. BPA shall record each such monthly amount in a DDC balancing account (the "DDC Account").

(iii) **Adjustment to Cash Payments Resulting from Amounts in SN CRAC Account and DDC Account**
If and to the extent in any month during the period after September 30, 2001 and prior to October 1, 2006, there are balances in both the SN CRAC Account and the DDC Account, BPA shall be obligated to pay to

Puget an amount equal to the lesser of the balance in such month in the SN CRAC Account or the DDC Account. Such payment shall be made no later than nine months after such obligation arises and shall be deemed (whether or not such payment becomes due after September 30, 2006) to be an increase in the monthly payment to Puget pursuant to this section 4(b). BPA shall record any such increase in monthly payments as a reduction to the balance of the SN CRAC Account and the DDC Account, as of the date the obligation to pay such increase arises.

(D) **Load Reduction Contingency**

(i) As of the execution date of this Agreement, the BPA Administrator has not issued any final rate decisions in Docket No. WP-02. In the event that the Load-Based (LB) CRAC, materially consistent with the Joint Customer Group and BPA staff proposal, is not adopted in the Administrator's Final Supplemental Record of Decision, (a) the load reduction contingency in this section 4(b)(1)(D)(i) has occurred, and (b) the payments under section 4(b)(1)(A) of this Agreement will increase effective October 1, 2001.

(ii) If, in calculating the LB CRAC (excluding true-ups) applicable for the period October 1, 2001, through March 31, 2002, pursuant to section F(1) of the GRSPs, BPA is able to meet either: criterion (a) below (through contracts executed no later than 7 calendar days prior to the final workshop explaining the calculation of the LB CRAC for the period from October 1, 2001, through March 31, 2002), or criterion (b) below, then the load reduction contingency has not occurred and the payments under section 4(b)(1)(A) of this Agreement will not thereby increase. If BPA is unable to meet both criterion (a) and criterion (b) below, then the load reduction contingency has occurred and the payments under section 4(b)(1)(A) of this Agreement will increase October 1, 2001.

(a) BPA includes in the calculation of the LB CRAC (excluding true-ups) no more than 2,200 aMW (including all purchases made by BPA prior to April 10, 2001), per month of market power purchases for meeting LB CRAC augmentation on average for the period October 1, 2001, to March 31, 2002, where

market power purchases for purposes of calculating the application of this contingency clause do not include: (1) power buy-backs of public agency and cooperative customers, investor-owned utilities (IOUs), or direct service industrial customers (DSIs); or (2) power purchases from public agency and cooperative customers, IOUs, or DSIs to the extent such buy-backs and purchases were executed between April 10, 2001, and the final date for execution of contracts used in the calculation of the LB CRAC for the period from October 1, 2001, through March 31, 2002.

(b) The rate after application of the LB CRAC (excluding all true-ups) is no more than 1.87 times the PF, RL, and IPTAC rates.

In the event that contracts executed between April 10, 2001, and the final date for execution of contracts used in the calculation of the LB CRAC (excluding true-ups) for the period from October 1, 2001, through March 31, 2002, exceed the amount necessary to reduce market power purchases below 2,200 aMW per month in criterion (a), such additional load reductions shall be used to reduce the level of the LB CRAC.

(iii) If, in calculating the LB CRAC (excluding true-ups) applicable for the period April 1, 2002, through September 30, 2002, pursuant to section F(1) of the GRSPs, BPA is able to meet either: criterion (a) below (through contracts executed no later than 7 calendar days prior to the final workshop explaining the calculation of the LB CRAC for the period from October 1, 2001, through March 31, 2002), or criterion (b) below, then the load reduction contingency has not occurred and the payments under section 4(b)(1)(A) of this Agreement will not thereby increase. If BPA is unable to meet both criterion (a) and criterion (b) below, then the load reduction contingency has occurred and the payments under section 4(b)(1)(A) of this Agreement will increase effective April 1, 2002.

(a) BPA includes in the calculation of the LB CRAC (excluding true-ups) no more than 2,200 aMW (including all purchases made by BPA prior to April 10, 2001), per month of market

power purchases for meeting LB CRAC augmentation on average for the period April 1, 2002, to September 30, 2002, where market power purchases for purposes of calculating the application of this contingency clause do not include: (1) power buy-backs of public agency and cooperative customers, IOUs, or DSIs; or (2) power purchases from public agency and cooperative customers, IOUs, or DSIs to the extent such buy-backs and purchases were executed between April 10, 2001, and the final date for execution of contracts used in the calculation of the LB CRAC for the period from October 1, 2001, through March 31, 2002, or are extensions of such buy-backs or purchases that were executed prior to April 10, 2001, and are extended prior to calculation of the LB CRAC for the period from April 1, 2002, through September 30, 2002.

(b) The rate after application of the LB CRAC (excluding all true-ups) is no more than 1.87 times the PF, RL, and IPTAC rates.

In the event that contracts executed between April 10, 2001, and the final date for execution of contracts used in the calculation of the LB CRAC (excluding true-ups) for the period from October 1, 2001, through March 31, 2002, or extensions of buy-backs or purchases that were executed prior to April 10, 2001, and are extended prior to calculation of the LB CRAC for the period from April 1, 2002, through September 30, 2002, exceed the amount necessary to reduce market power purchases below 2,200 aMW per month in criterion (a), such additional load reductions shall be used to reduce the level of the LB CRAC.

(iv) If, during the period October 1, 2001, through September 30, 2002, the amount of power forecast to be delivered by BPA to the DSIs in the calculation of the LB CRAC (excluding true-ups) exceeds 400 aMW per month on average for any six month period used in calculating the LB CRAC, then the load reduction contingency has occurred and the payments under section 4(b)(1)(A) of this Agreement will increase effective on the first day of such six-month period used in the calculation of the LB CRAC.

(v) If the amount of power actually delivered to the DSIs exceeds 400 aMW per month on average for any six-month period as determined by BPA through written notice to its customers or during the true-up of the LB CRAC, then the load reduction contingency has occurred and the payments under section 4(b)(1)(A) of this Agreement will increase effective on the first day of the month following such determination.

(E) **No Other Adjustments to Cash Payments**
Except as provided for in sections 4(b)(1)(A), 4(b)(1)(B), 4(b)(1)(C), and 4(b)(1)(D) above, there shall be no other adjustments to the cash payment amounts under this section 4(b)(1) of this Agreement.

(2) **October 1, 2006, through September 30, 2011**

(A) Subject to the terms of this Agreement, BPA shall, no later than October 1, 2005, notify Puget in writing of the amount of Firm Power in annual aMW that will be provided to Puget during the period that begins October 1, 2006, and ends on September 30, 2011. The terms and conditions for this sale shall also be as provided for in the Firm Power Block Power Sales Agreement, and such agreement shall be amended by the Parties to reflect the amount of Firm Power to be sold during such period. BPA shall not offer an amount of Firm Power that exceeds Puget's net requirement at the time of the notice issued pursuant to this section. Prior to issuing such notice, BPA shall consult with Puget regarding its desire for Firm Power or Monetary Benefits.

(B) If Puget does not purchase any Firm Power during the period from October 1, 2001, through September 30, 2006, Puget shall establish an initial net requirement under Exhibit C of the Firm Power Block Power Sales Agreement by August 1, 2005, for Contract Year 2007. Puget shall execute a contract including the terms and conditions of the Firm Power Block Power Sales Agreement, and the information provided on net requirements under this section by January 1, 2006, if BPA notifies Puget under section 4(b)(2)(A) that a portion of its benefits under section 4(a) will be provided as Firm Power.

(C) If the RL Rate calculated at 100 percent annual load factor for the period from October 1, 2006, through September 30, 2011, exceeds the Lowest PF Rate for the same 100 percent annual load factor during such period, Puget may, by written

notice to BPA within 30 days after BPA published its power rate case ROD, notify BPA that it will convert its entire Firm Power purchase under the Firm Power Block Power Sales Agreement to Monetary Benefits, pursuant to section 4(c) below (except as provided in section 5(a)(6) below), for the remaining term of this Agreement.

(c) **Monetary Benefit Portion of Total Benefits**

(1) **Amount of Monetary Benefit**

(A) **October 1, 2001, through September 30, 2006**
BPA shall provide the following Monetary Benefits expressed in annual aMW to Puget for the period that begins October 1, 2001, and continues through September 30, 2006.

Period of Time	Monetary Benefit (annual aMW)	Washington (annual aMW)
10/1/01, through 9/30/06	332	332

(B) **October 1, 2006, through September 30, 2011**
BPA shall, no later than October 1, 2005, notify Puget in writing of the amount of Monetary Benefit expressed in annual aMW, for which payments will be made to Puget during the period that begins October 1, 2006, and continues through September 30, 2011.

(2) **Determination of Monetary Benefit Monthly Payment Amounts**

(A) **October 1, 2001, through September 30, 2006**
The Monetary Benefit monthly payment amounts shall be determined in accordance with the following formula:

$$MP = \frac{(FBPF - RL) \times MB \times 8{,}760 \text{ hours } (8{,}784 \text{ hours in leap years})}{12 \text{ months}}$$

Where:

MP = Monthly Payment Amount

FBPF = Forward Flat-Block Price Forecast established in the same BPA power rate case as that which established the RL Rate during the period beginning October 1, 2001, through September 30, 2006.

RL = The RL Rate calculated at 100 percent annual load factor.

MB = Monetary Benefit amount in annual aMW.

(B) **October 1, 2006, through September 30, 2011**
The Monetary Benefit monthly payment amounts shall be determined in accordance with the following formula:

$$MP = \frac{(FBPF - RL) \times MB \times 8{,}760 \text{ hours } (8{,}784 \text{ hours in leap years})}{12 \text{ months}}$$

Where:

MP = Monthly Payment Amount

FBPF = Forward Flat-Block Price Forecast established in the same BPA power rate case as that which established the RL Rate during the period beginning October 1, 2006, through September 30, 2011.

RL = The RL Rate calculated at 100 percent annual load factor.

MB = Monetary Benefit amount in annual aMW.

(3) **Exception to Use of RL Rate in Sections 4(c)(2)(A) and 4(c)(2)(B)**
If, for the purposes of the formulas shown in sections 4(c)(2)(A) and 4(c)(2)(B) above, there is: (i) no RL Rate in effect; or (ii) the RL Rate exceeds the Lowest PF Rate, then the Lowest PF Rate shall replace the RL Rate in such formulas. Use of the Lowest PF Rate in such event shall apply to Monetary Benefits provided in accordance with sections 4(b)(2)(C) and 4(c)(1).

(d) **Payment Provisions**
BPA shall pay Puget the monthly cash payments as determined in section 4(b)(1), the Monetary Benefit as determined in section 4(c), and the monthly installments as determined in section 10. The monthly cash payments, Monetary Benefit, and monthly installments shall be netted against the monthly payment amounts Puget owes BPA for Firm Power purchased in accordance with section 4(b). If the monthly cash payment, Monetary Benefit, and monthly installment exceeds the monthly amount Puget owes BPA, then BPA shall pay Puget either: (A) on the due date of

the bill issued under Exhibit A; or (B) if Puget is not purchasing power under the Firm Power Block Power Sales Agreement, within 30 days of the end of the calendar month for which cash payments and Monetary Benefits are paid (Due Date). After the Due Date, and for the purposes of this section 4(d), a late payment charge is calculated at a daily, simple interest rate determined by dividing the Prime Rate for Large Banks, as reported in the Wall Street Journal, plus 4 percent, by 365. The applicable Prime Rate for Large Banks shall be the rate reported on the first day of the month in which payment was received. BPA shall pay by electronic funds transfer using Puget's established procedures.

5. CASH PAYMENTS IF FIRM POWER NOT DELIVERED

(a) Conditions Under Which Firm Power Not Delivered

(1) **Amount of Firm Power Purchased Exceeds Net Requirement**
If, for any Contract Year, pursuant to section 5 of Exhibit C of the Firm Power Block Power Sales Agreement, there is a reduction in the hourly amounts of Firm Power provided during each hour of the Contract Year or a portion thereof, then the amount of such Firm Power reduction ("Excess Requirements Energy") shall be converted to cash payments as provided for in section 5(b) below.

(2) **Firm Power Not Delivered Pursuant to Section 8(b)**
If, pursuant to section 8(b) below, monthly amounts of Firm Power cannot be delivered, then such amounts of Firm Power shall be converted to cash payments as provided for in section 5(b) below.

(3) **Insufficiency and Allocations**
If, pursuant to section 14(b) of Exhibit A, there is a restriction of power deliveries under this Agreement, then such restricted amounts shall be converted to cash payments as provided in section 5(b) below.

(4) **Termination or Decrement for Export of Regional Resource**
If, pursuant to section 14(e)(3) of the Firm Power Block Power Sales Agreement, BPA terminates the Firm Power Block Power Sales Agreement, the amounts of Firm Power provided under such agreement shall be converted to cash payments as provided in section 5(b) below. If, pursuant to section 14(e)(3) of the Firm Power Block Power Sales Agreement, BPA decrements the amount of Contracted Power under the Firm Power Block Power Sales Agreement, then the amounts of Contracted Power provided under such agreement shall be converted to cash payments as provided in section 5(a)(1) above.

(5) **Firm Power Not Delivered Due to a Monthly Purchase Deficiency**

If, for any month, there is a Monthly Purchase Deficiency, as that term is defined in section 5 of the Firm Power Block Power Sales Agreement, for reasons other than Excess Requirements Energy as defined in section 5(a)(1) above, then such amount(s) of Monthly Purchase Deficiency shall be converted to cash payments as provided in section 5(b) below.

(6) **Block Power Sales Agreement Held Invalid**

If any or all power deliveries under the Firm Block Power Sales Agreement are restricted due to such agreement being unlawful, void, or unenforceable, then such restricted amounts shall be converted to cash payments as provided in section 5(b) below.

(b) **Determination of Cash Payment Amounts**

(1) **Default Payment Option**

Cash payments pursuant to this section shall be made monthly according to the following formula:

FBNDP = (MIDC WC RL) x MWH

Where:

FBNDP = Monthly Cash Payment Amount for Firm Power in MWh not delivered under sections 5(a)(1) through 5(a)(6) above.

MIDC = The average price for the month of the Dow Jones daily firm On-Peak index price at the Mid-C for HLH, and the Dow Jones daily firm Off-Peak index price at the Mid-C for LLH based on volume weighted amounts not delivered to Puget under Exhibit A. If, in the future, the Mid-C index is no longer available, or does not accurately reflect the value of daily firm energy, then it will be replaced with another prevailing index (or indices) that best represents the market price for firm power traded in eastern Washington.

WC = Wheeling Charge from Federal system generators to the Mid-C point of delivery based on the posted Point-to-Point tariff of BPA's transmission business or its successor over unconstrained paths plus any mandatory posted ancillary service charges and transmission losses for scheduled

power under such tariff. If, in the future, the Point-to-Point tariff is no longer available, or does not accurately reflect the cost of wheeling power from Federal system generators to the Mid-C point of delivery, then it will be replaced with a tariff that best represents the cost of wheeling fixed amounts of power between known points over unconstrained transmission paths.

RL = The monthly RL rate calculated at 100 percent load factor for HLH and LLH periods.

MWH = Monthly amount of power that cannot be delivered, expressed in megawatthours for HLH and LLH periods.

(2) **Puget Offer of Put Right to BPA**

Rather than receive payments under the default option described in section 5(b)(1) above, Puget may elect to offer BPA a put right for amounts of power not delivered pursuant to sections 5(a)(1) through 5(a)(4), and section 5(a)(6) subject to the following terms:

(A) No later than 10 days prior to the start of a month, Puget shall notify BPA if it desires to provide BPA with a put right for such month. Such put right shall provide BPA the right to sell the amount of power determined in sections 5(a)(1) through 5(a)(4), and section 5(a)(6) above at the Mid-C index price as specified in section 5(b)(2)(C) below for the applicable delivery period, and at the point of delivery described in section 5(b)(2)(D) below.

(B) If BPA chooses to exercise the put, it must do so prior to 2 p.m. on the later of: (i) three business days prior to the end of the month; or (ii) the day prior to the last day of trading for that month on the New York Mercantile Exchange futures market, or the put right expires for that month.

(C) If Puget offers BPA the put right for a given month, then BPA shall pay Puget a cash payment according to the following formula:

$$PRP = (MIDC - RL) \times MWH$$

Where:

PRP = Monthly Cash Payment Amount for Firm Power in MWh not delivered under

sections 5(a)(1) through 5(a)(4), and section 5(a)(6).

MIDC = The average price for the month of the Dow Jones daily firm On-Peak index price at the Mid-C for HLH, and the Dow Jones daily firm Off-Peak index price at the Mid-C for LLH based on volume weighted amounts not delivered to Puget under Exhibit A. If, in the future, the Mid-C index is no longer available, or does not accurately reflect the value of daily firm energy, then it will be replaced with another prevailing index (or indices) that best represents the market price for firm power traded in eastern Washington.

RL = The monthly RL rate calculated at 100 percent load factor.

MWH = Monthly amount of power that is offered by Puget as a put right, expressed in megawatthours.

(D) The point of delivery for power that is put to Puget will be the same point where BPA makes Firm Power available to Puget in the Firm Power Block Power Sales Agreement to wheel to its load.

(3) **Exception to Use of RL Rate in Sections 5(b)(1) and 5(b)(2)**
If, for the purposes of the formulas shown in sections 5(b)(1) and 5(b)(2) above, there is: (i) no RL Rate in effect; or (ii) the RL Rate exceeds the Lowest PF Rate, then the Lowest PF Rate shall replace the RL Rate in such formulas. Use of the Lowest PF Rate in such event shall apply to cash payments provided in accordance with sections 5(a), 5(b)(1), and 5(b)(2).

(4) **Payment Provisions**
If the monthly payment amount determined pursuant to the formulas in sections 5(b)(1) and 5(b)(2) is positive, then BPA shall pay Puget such amount; if any such amount is negative, then Puget shall pay BPA such amount. Monthly payment obligations under this section 5 shall appear as adjustments to BPA's payments or Puget's payments under section 4(d) above.

6. PASSTHROUGH OF BENEFITS

(a) Except as otherwise provided in this Agreement, cash payment amounts, Firm Power, and Monetary Benefit amounts received by Puget from BPA under this Agreement shall be passed through, in full, to all residential and small farm consumers comprising the Residential Load, as either: (1) an adjustment in applicable retail rates; (2) monetary payments; or (3) as otherwise directed by the applicable State regulatory authority. It is specifically agreed that cash payment amounts and Monetary Benefit amounts received by Puget may be passed through to the Residential Load in the form of: (i) a specified amount of cash payment amounts and Monetary Benefit amounts received by Puget as a separate line item in Puget's retail rate schedules for the Residential Load; and (ii) the balance of such cash payment amounts and Monetary Benefit amounts received by Puget passed through to the Residential Load in the form of a supplemental rider applicable to such rate schedules.

(b) Monetary payments shall be distributed to the Residential Load in a timely manner, as set forth in this section 6(b). It is specifically acknowledged and agreed that such distribution of monetary payments may be made by Puget in advance of its receipt of such payments from BPA in an amount not to exceed the expected receipt of such payments from BPA under this Agreement over the next 180 days. The amount of benefits held in the account described in section 6(c) below at any time shall not exceed the expected receipt of monetary payments from BPA under this Agreement over the next 180 days. If the annual monetary payment is less than $600,000, then Puget may distribute benefits on a less frequent basis provided that distributions are made at least once each Contract Year.

(c) Benefits shall be passed through consistent with procedures developed by Puget's State regulatory authority(s). Monetary Benefits and cash payments under section 3(e), section 4(b)(1), and section 5 shall be identified on Puget's books of account. Funds shall be held in an interest bearing account, and shall be maintained as restricted funds, unavailable for the operating or working capital needs of Puget, until Puget has passed through such funds for its Residential Load as a credit or credits on its bills. Benefits shall not be pooled with other monies of Puget for short-term investment purposes until Puget has passed through such funds for its Residential Load as a credit or credits on its bills. Firm Power shall be delivered monthly, and only to Residential Load.

(d) Nothing in this Agreement shall require that any power be delivered on an unbundled basis to residential and small farm customers of Puget or that Puget provide retail wheeling of such power.

7. AUDIT RIGHTS

BPA retains the right to audit Puget at BPA's expense to determine whether the benefits provided to Puget under this Agreement were provided only to Puget's eligible Residential Load. BPA retains the right to take action consistent with the results of such audit to require the passthrough of such benefits to eligible Residential Load. BPA's right to conduct such audits of Puget with respect to a Contract Year shall expire 60 months after the end of such Contract Year. As long as BPA has the right to audit Puget pursuant to this Agreement, Puget agrees to maintain records and documents showing all transactions and other activities pertaining to the terms of this Agreement with respect to which BPA has audit rights.

8. ASSIGNMENT

(a) Puget shall be required to assign benefits under this section 8 to BPA if another Qualified Entity serves Residential Load formerly served by Puget unless: (i) BPA has approved an agency agreement for such Qualified Entity under section 8(c); or (ii) BPA has approved a state program for the passthrough of benefits by a distribution utility under section 8(c).

(b) This Agreement is binding on any successors and assigns of the Parties. BPA may assign this Agreement to another Federal agency to which BPA's statutory duties have been transferred. Neither Party may otherwise transfer or assign this Agreement without the other Party's written consent. Such consent shall not be unreasonably withheld; **provided, however,** that Puget agrees it shall assign benefits under this Agreement subject to the following terms and conditions:

(1) Puget shall quantify an amount of Residential Load each month served by Qualified Entities that would have been eligible to receive benefits if served by Puget, and provide written notice to BPA of such amount no later than five days prior to the beginning of a month. Such amount shall be determined in account months based on the amounts served by Puget and Qualified Entities in the last full calendar month prior to such written notice to BPA. An account month is the number of days of service to a Residential Load account during a month, divided by the number of days in such month.

(2) Based on the determination in section 8(b)(1) above, Puget shall assign to BPA during the month following such notice a share of the total benefits specified in section 4(a) above. Such share shall be the account months of Residential Load served by Qualified Entities divided by the account months of Residential Load of Puget that would be eligible to receive benefits, whether or not Puget continues to serve such Residential Load. For purposes of section 8(b)(1) and this section 8(b)(2), the Residential Load of Puget

shall not include Residential Load receiving benefits over a new distribution system under section 8(d).

(3) The amounts of cash payments, Firm Power, and Monetary Benefit assigned to BPA shall be in the same proportion as Puget receives under this Agreement.

(4) If the passthrough of benefits is made to consumers under section 8(c) below, then Puget shall retain the cash payments and Monetary Benefits assigned to BPA under this section 8(b) and the amount of Firm Power determined under this section 8(b) to be assigned to BPA shall be retained by BPA and converted to dollars pursuant to section 5 above. Puget shall use such amount of dollars plus the Monetary Benefits and cash payments to provide benefits to individual residential and small farm consumers under section 8(c) below.

(c) Puget may continue to pass through benefits to individual residential and small farm consumers under this Agreement not served by Puget: (i) if Puget is acting as the agent under an agreement entered into between Puget and a Qualified Entity which has been approved by Puget's applicable state regulatory authority and BPA; or (ii) BPA has approved a program developed by the applicable state regulatory authority providing for the passthrough of benefits received by Puget under this Agreement to all its residential and small farm consumers acting in its capacity as a distribution utility. Puget may continue to act as an agent for a Qualified Entity until an RPSA is signed by BPA and the Qualified Entity. Such benefits shall be equal to each such consumer's share of the Qualified Entity's share of the Residential Load, as calculated under section 8(b) above. Puget may distribute such benefits on a less frequent basis than monthly, provided that distributions are made at least once each Contract Year.

(d) If a Qualified Entity eligible to purchase Firm Power acquires all or a portion of the distribution system serving the Residential Load of Puget, Puget shall assign to BPA for the remaining term of this Agreement a share of the total benefits specified in section 4(a) above. Such share shall be based on the amount of Residential Load that would have been eligible to receive benefits from the new Qualified Entity for the 12-month period prior to the date of assignment divided by the total of Residential Load of Puget that would have been eligible to receive benefits during that same 12-month period regardless of who served such Residential Load. All provisions of this section 8, other than section 8(b)(2), shall apply to assignments under this section 8(d).

9. NOT APPLICABLE

10. CONSERVATION AND RENEWABLE DISCOUNT

Subject to the terms specified in BPA's applicable Wholesale Power Rate Schedules, including GRSPs, BPA shall apply the Conservation and Renewables Discount to Puget's Monetary Benefits, and 368 aMW for each Contract Year during the October 1, 2001, through September 30, 2006, period for cash payments under section 4(b)(1), unless Puget has notified PBL before August 1, 2001, that it will not participate in the Conservation and Renewable Discount. Payments shall be made in 12 equal monthly installments, subject to the payment provisions set forth in section 4(d).

To retain the full amount of the Conservation and Renewable Discount Puget shall satisfy all obligations associated with the Conservation and Renewables Discount as specified in BPA's applicable Wholesale Power Rate Schedules, including GRSPs, and the Conservation and Renewable Discount implementation manual. Puget shall reimburse BPA for any amount it received but for which it did not satisfy such obligations.

Monetary Benefits under section 4(c) and cash payments under section 4(b)(1) shall be treated in the same manner as Firm Power for purposes of any Conservation and Renewable Discount program or similar program based on Firm Power purchases. Puget shall be eligible for the Conservation and Renewable Discount, or any similar program based on Firm Power purchases under section 5(b) of the Northwest Power Act that BPA decides to establish through a section 7(i) hearing for the period that begins October 1, 2006, and ends on September 30, 2011.

11. GOVERNING LAW AND DISPUTE RESOLUTION

(a) This Agreement shall be interpreted consistent with and governed by Federal law. Final actions subject to section 9(e) of the Northwest Power Act are not subject to binding arbitration and shall remain within the exclusive jurisdiction of the United States Ninth Circuit Court of Appeals. Any dispute regarding any rights of the Parties under any BPA policy, including the implementation of such policy, shall not be subject to arbitration under this Agreement. Puget reserves the right to seek judicial resolution of any dispute arising under this Agreement that is not subject to arbitration under this section 11. For purposes of this section 11 BPA policy means any written document adopted by BPA as a final action in a decision record or record of decision that establishes a policy of general application, or makes a determination under an applicable statute. If either Party asserts that a dispute is excluded from arbitration under this section 11, either Party may apply to the Federal court having jurisdiction for an order determining whether such dispute is subject to arbitration under this section 11.

(b) Any contract dispute or contract issue between the Parties arising out of this Agreement, except for disputes that are excluded through section 11(a) above, shall be subject to binding arbitration. The Parties shall make a good faith effort to resolve such disputes before initiating arbitration proceedings. During arbitration, the Parties shall continue performance under this Agreement pending resolution of the dispute, unless to do so would be impossible or impracticable.

(c) Any arbitration shall take place in Portland, Oregon, unless the Parties agree otherwise. The CPR Institute for Dispute Resolution's arbitration procedures for commercial arbitration, Non-Administered Arbitration Rules (CPR Rules), shall be used for each dispute; **provided, however,** that: (1) the Parties shall have the discovery rights provided in the Federal Rules of Civil Procedure unless the Parties agree otherwise; and (2) for claims of $1 million or more, each arbitration shall be conducted by a panel of three neutral arbitrators. The Parties shall select the arbitrators from a list containing the names of 15 qualified individuals supplied by the CPR Institute for Dispute Resolution. If the Parties cannot agree upon three arbitrators on the list within 20 business days, the Parties shall take turns striking names from the list of proposed arbitrators. The Party initiating the arbitration shall take the first strike. This process shall be repeated until three arbitrators remain on the list, and those individuals shall be designated as the arbitrators. For disputes involving less than $1 million, a single neutral arbitrator shall be selected consistent with section 6 of the CPR Rules.

(d) Except for arbitration awards which declare the rights and duties of the Parties under this Agreement, the payment of monies shall be the exclusive remedy available in any arbitration proceeding. Under no circumstances shall specific performance be an available remedy against BPA. The arbitration award shall be final and binding on both Parties, except that either Party may seek judicial review based upon any of the grounds referred to in the Federal Arbitration Act, 9 U.S.C. §1-16 (1988). Judgment upon the award rendered by the arbitrators may be entered by any court having jurisdiction thereof.

(e) Each Party shall be responsible for its own costs of arbitration, including legal fees. The arbitrators may apportion all other costs of arbitration between the Parties in such manner as they deem reasonable taking into account the circumstances of the case, the conduct of the Parties during the proceeding, and the result of the arbitration.

12. NOTICE PROVIDED TO RESIDENTIAL AND SMALL FARM CUSTOMERS

Puget will ensure that any entity that issues customer bills to Puget residential and small farm consumers shall provide written notice on such customer bills

that a portion of their power and associated benefits is "Federal Columbia River Benefits supplied by BPA."

13. STANDARD PROVISIONS

(a) **Amendments**

No oral or written amendment, rescission, waiver, modification or other change of this Agreement shall be of any force or effect unless set forth in a written instrument signed by authorized representatives of each Party.

(b) **Information Exchange and Confidentiality**

The Parties shall provide each other with any information that is reasonably required, and requested by either Party in writing, to operate under and administer this Agreement, including load forecasts for planning purposes, information needed to resolve billing disputes, scheduling and metering information reasonably necessary to prepare power bills that is not otherwise available to the requesting Party. Such information shall be provided in a timely manner. Information may be exchanged by any means agreed to by the Parties. If such information is subject to a privilege of confidentiality, a confidentiality agreement or statutory restriction under state or Federal law on its disclosure by a Party to this Agreement, then that Party shall endeavor to obtain whatever consents, releases or agreements are necessary from the person holding the privilege to provide such information while asserting the confidentiality over the information. Information provided to PBL which is subject to a privilege of confidentiality or nondisclosure shall be clearly marked as such and PBL shall not disclose such information without obtaining the consent of the person or Party asserting the privilege, consistent with BPA's obligation under the Freedom of Information Act. PBL may use such information as necessary to provide service or timely bill for service under this Agreement. PBL shall only disclose information received under this provision to PBL employees who need the information for purposes of this Agreement.

(c) **Entire Agreement**

This Agreement, including all provisions, exhibits incorporated as part of this Agreement, and documents incorporated by reference, constitutes the entire agreement between the Parties. It supersedes all previous communications, representations, or contracts, either written or oral, which purport to describe or embody the subject matter of this Agreement.

(d) **Exhibits**

The exhibits listed in the table of contents are incorporated into this Agreement by reference. The exhibits may only be revised upon mutual agreement between the Parties unless otherwise specified in the exhibits. The body of this Agreement shall prevail over the exhibits to this Agreement in the event of a conflict.

(e) **No Third-Party Beneficiaries**
This Agreement is made and entered into for the sole protection and legal benefit of the Parties, and no other person shall be a direct or indirect legal beneficiary of, or have any direct or indirect cause of action or claim in connection with this Agreement.

(f) **Waivers**
Any waiver at any time by either Party to this Agreement of its rights with respect to any default or any other matter arising in connection with this Agreement shall not be considered a waiver with respect to any subsequent default or matter.

(g) **Severability**
All other provisions and exhibits to this Agreement are independent of Exhibit A (Firm Block Power Sales Agreement) attached hereto, and shall remain in effect even if any or all of such Exhibit A is unlawful, void, or unenforceable.

14. TERMINATION OF AGREEMENT

(a) If BPA does not adopt the Partial Stipulation and Settlement Agreement in the WP-02 Wholesale Power Rate proceeding, then Puget may, upon giving written notice to BPA prior to September 1, 2001, terminate this Agreement. In the event of such termination, this Agreement shall be void and of no force and effect, and in such event nothing in this Agreement shall replace or supersede the Existing Agreements. In the event Puget does not provide such written notice of termination to BPA prior to September 1, 2001, this Agreement shall (subject to section 14(b) below) remain in effect.

(b) This Agreement is subject to Puget's determination by June 15, 2001, that the Washington Utilities and Transportation Commission (WUTC) will provide satisfactory retail rate treatment for the Agreement. Puget shall make such determination that the WUTC will: (i) approve this Agreement; and (ii) provide satisfactory retail rate treatment through written notice to BPA by June 15, 2001. In the event Puget provides written notice on or before June 15, 2001, that Puget will not receive such approval and satisfactory retail rate treatment, this Agreement shall be void and of no force and effect, and in such event nothing in this Agreement shall replace or supersede the Existing Agreements. In the event Puget does not provide any written notice by June 15, 2001, this Agreement shall (subject to section 14(a) above) remain in effect and be treated as if Puget has determined that it will receive such approval and satisfactory retail rate treatment.

(c) If BPA does not use BPA's then-current rate case Forward Flat-Block Price Forecast for all estimates of the cost of purchases of flat blocks of power in any such rate case, which are made in advance of the period of delivery and which are made for the rate period established in such rate case that occurs between October 1, 2006, and September 30, 2011, Puget may terminate this Agreement through a written notice up to 30 days after FERC grants interim approval for BPA's wholesale power rates effective during such period occurring between October 1, 2006, and September 30, 2011. Unless BPA uses its Forward Flat-Block Price Forecast for purposes of: (1) pricing its firm power for augmentation purchases; and (2) estimating the cost of augmentation purchases in any or all demonstrations in the rate case of its ability to meet its obligations to the U.S. Treasury, Puget shall have the termination right specified in this section 14(c). In determining whether this section 14(c) applies, the price of any purchases of firm power for augmentation purposes that are not forecasted to be made on a flat annual basis shall be adjusted to a flat annual price. BPA shall adjust the forecasted price of a shaped augmentation purchase by multiplying such price by the ratio of the forecasted long-run marginal cost for a flat annual purchase to the forecast of the long-run marginal cost for a purchase in the same shape as the shaped augmentation purchase. Although BPA may use its long-run marginal cost of power as its Forward Flat-Block Price Forecast, establishing a Forward Flat-Block Price Forecast that is different than its long-run marginal cost of power shall not be considered a different estimate of the cost of purchases of flat blocks of power under this section 14(c).

15. SIGNATURES

Each signatory represents that he or she is authorized to enter into this Agreement on behalf of the Party for whom he or she signs.

PUGET SOUND ENERGY, INC.

By **/S/ W. A. GAINES** Name
William A. Gaines *(Print/Type)* Title
Vice President, Energy Supply
Date **6/11/01**

UNITED STATES OF AMERICA
Department of Energy
Bonneville Power Administration

By **/S/ MARK E. MILLER**

Date **6/7/01**

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Exhibit B
RESIDENTIAL LOAD DEFINITION

1. Puget's Residential Load means the sum of the loads within the Pacific Northwest eligible for the Residential Exchange Program under the tariff schedules described below. If BPA determines that any action changes Puget's general tariffs or service schedules in a manner which would allow loads other than Residential Loads, as defined in the Northwest Power Act, to be included under these tariff schedules, or that the original general tariffs or service schedules include loads other than Residential Loads, such nonresidential loads shall be excluded from this Agreement.

Such tariff schedules as presently effective include:

(a) for all schedules listed below, include the amount, expressed in kilowatthours, of Residential Load supplied by Puget under:

(1) Commercial Rate Schedule 8, Billing Schedules 08 and 18 Residential and Farm General Service.

(2) Commercial Rate Schedules 10 and 11.

(3) Residential/Farm Area Lighting, Rate Schedule 56.

(4) Residential/Farm Flood Lighting, Rate Schedule 59.

(b) a portion of the Residential Load as determined pursuant to section 2 of this Exhibit B, supplied by the Utility under the Northwest Power Act, section 5(c).

(1) Commercial Rate Schedule 12, Large Demand Service

(2) Rate Schedules 29 and 35, Seasonal Irrigation and Drainage Pumping Service.

(3) Residential Rate Schedule 7, Billing Schedules 07, 17, 27, 37, and 47.

2. Any farm's monthly irrigation and pumping load qualifying hereunder for each billing period shall not exceed the amount of the energy determined by the following formula:

$$\text{Irrigation/Pumping Load} = 400 \times 0.746 \times \text{days in billing period} \times 24$$

provided, however, that this amount shall not exceed that farm's measured energy for the same billing period.

where:

400	is equal to the horsepower limit defined in the Northwest Power Act,
0.746	is the factor for converting horsepower to kW,
days in billing period	is determined in accordance with prudent and normal utility business practices, and
24	is the number of hours in a day.

3. When more than one farm is supplied from a common pumping installation, the irrigation and pumping load of the installation shall be allocated among the farms using the installation, based on the method (e.g., water shares, acreage) that the farms use to allocate the power costs among themselves. These allocated loads shall then be combined with any other irrigation and pumping loads attributed to the farms under section 2 of this exhibit. In no instance shall any farm's total qualifying irrigation loads for any billing month exceed 222,000 kWh.

4. For purposes of this Agreement, a farm is defined as a parcel or parcels of land owned or leased by one or more persons (person includes partnerships, corporations, or any legal entity capable of owning farm land) that is used primarily for agriculture. Agriculture is defined to include the raising and incidental primary processing of crops, pasturage, or livestock. Incidental primary processing means those activities necessarily undertaken to prepare agricultural products for safe and efficient storage or shipment. All electrical loads ordinarily associated with agriculture as defined above shall be considered as usual farm use.

Contiguous parcels of land under single-ownership or leasehold shall be considered to be one farm. Noncontiguous parcels of land under single-ownership or leasehold shall be considered as one farm unit unless demonstrated otherwise by the owner or lessee of the parcels as determined by BPA.

Parcels of land may not be subdivided into a larger number of parcels in order to attempt to increase the number of farms. Ownership or leasehold interests in farms may not be changed in order to attempt to increase the number of farms, for example, by leases to family members or establishment of partnerships, corporations or similar devices. Acquisition of a parcel which was previously a separate farm becomes part of the single farm that acquired the parcel. In order for a noncontiguous parcel to constitute a separate farm, the farm must not share any equipment or labor with any other parcel and must maintain separate financial statements, accounting records, and tax returns as of May 1, 2000. Any new farms created after May 1, 2000, must submit an application for exchange benefits to Puget which shall then submit such application to BPA and such application must be reviewed and approved by BPA before the new farm is eligible to receive benefits. A number of additional factors may be used by BPA to

determine whether noncontiguous parcels constitute one or more farms. These factors include but are not limited to:

- use
- ownership
- control
- operating practices
- distance between parcels

5. Unused irrigation allocations may not be reallocated to other farms or to another billing period.

6. The operator of a farm is required to certify to Puget all irrigation accounts, including horsepower rating for that farm, including all irrigation accounts commonly shared. The operator of a farm is required to provide Puget and BPA all documentation requested to assist in the farm determination.

7. This Exhibit B shall be revised to incorporate additional qualifying tariff schedules, subject to BPA's determination that the loads served under these schedules are qualified under the Northwest Power Act.

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Exhibit C
CONFIRMATION LEGISLATION

Legislation by the United States Congress that has substantially the same effect as the following:

> The action of the Administrator of the Bonneville Power Administration in entering into the following contract is hereby ratified and confirmed, and the Administrator of the Bonneville Power Administration shall perform such contract:
>
> Amended Settlement Agreement executed by the Bonneville Power Administration and Puget Sound Energy, Inc., Contract No. 01PB-10885.

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