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.

~~This Agreement shall be interpreted in accordance with and governed by Federal law. The Parties shall make a good faith effort to negotiate a resolution of disputes before initiating litigation. During a contract dispute or contract issue between the Parties arising out of this Agreement, the Parties shall continue performance under this Agreement pending resolution of the dispute, unless to do so would be impossible or impracticable. Puget reserves the right to seek judicial resolution of any dispute arising under this agreement.~~

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 _____ Name
_____ *(Print / Type)* Title
_____ Date
_____

UNITED STATES OF AMERICA
Department of Energy
Bonneville Power Administration

By _____
Account Executive

Name _____
(Print / Type)

Date _____

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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.

(PBLLAN-PSB-5-W:\PSC\PM\CT\10885.DOC)

Contract No. 01PB-10886

Exhibit A

FIRM POWER BLOCK
POWER SALES AGREEMENT
executed by the
BONNEVILLE POWER ADMINISTRATION
and
PUGET SOUND ENERGY, INC.
(RL ONLY)

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Exhibit A Rate Commitments
Exhibit B Billing
Exhibit C Net Requirements
Exhibit D Scheduling

This BLOCK POWER SALES 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 ~~Oregon~~Washington.

RECITALS

This Agreement will replace Contract No.~~81BP90425~~ DE-MS79-81BP90426 which is available through September 30, 2001, and offered by BPA pursuant to section 5(b) of the Northwest Power Act.

BPA has administratively divided its organization into two business lines in order to functionally separate the administration and decisionmaking activities of BPA's power business from the administrative and decisionmaking activities of its transmission business. References in this Agreement to the Power Business Line (PBL) are solely for the purpose of establishing which BPA business line is responsible for the administration of this Agreement.

BPA and Puget agree:

1. TERM

This Agreement takes effect on the date signed by the Parties. Performance by the Parties, except for the preparatory actions for performance contained in sections 6, 8, and 15(f) of the body of this Agreement, Exhibit A (Rate Commitments), and Exhibit C (Net Requirements), shall commence on October 1, 2001, and shall continue through September 30, 2011 (Expiration Date).

2. DEFINITIONS

Capitalized terms in this Agreement shall have the meanings defined below, in the exhibits or in context. All other capitalized terms and acronyms are defined in BPA's applicable Wholesale Power Rate Schedules, including the General Rate Schedule Provisions (GRSPs), or its successors.

(a) "Amounts Taken" means an amount deemed equal to the amount of power scheduled by Puget under section 7 of this Agreement or an amount of power as measured at Points of Measurement, as appropriate.

(b) "Contract Year" or "CY" means the period 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.

(c) "Contracted Power" means Firm Power provided under this Agreement.

(d) "Diurnal" means the division of hours of the day between Heavy Load Hours (HLH) and Light Load Hours (LLH).

(e) "Firm Power" means electric power that PBL will make continuously available to Puget under this Agreement

(f) "Northwest Power Act" means the Pacific Northwest Electric Power Planning and Conservation Act of 1980, P.L. 96-501.

(g) "Party" or "Parties" means PBL and/or Puget.

(h) "Points of Measurement" means the interconnection points between BPA, Puget and other control areas, as applicable. Electric power amounts are established at these points based on metered amounts or scheduled amounts, as appropriate.

(i) "Point of Receipt" means the points of interconnection on the transmission provider's transmission system where Contracted Power will be made available to Puget's transmission provider by PBL.

(j) "Power Business Line" or "PBL" means that portion of the BPA organization or its successor that is responsible for the management and sale of BPA's Federal power.

(k) "Region" means the definition established for "Region" in the Northwest Power Act.

(l) "Settlement Agreement" means Contract No. ~~00PB~~01PB-~~12161~~10885. This Agreement is attached as Exhibit A to the Amended Settlement Agreement.

(m) "Surplus Firm Power" means surplus firm electric power that is made available and sold consistent with section 5(f) of the Northwest Power Act.

(n) "Total Retail Load" means all electric power consumption including electric system losses, within a utility's distribution system as measured at Points of Measurement, adjusted as needed for unmetered loads or generation, nonfirm or interruptible loads agreed to by the Parties, transfer loads of other utilities served by Puget and Puget's transfer loads located in other control areas, and losses on Puget's transmission system. No distinction is made between load that is served with Contracted Power and load that is served with electric power from other sources.

(o) "Transmission Business Line" or "TBL" means that portion of the BPA organization or its successor that is responsible for the management and sale of transmission service on the Federal Columbia River Transmission System (FCRTS).

3. APPLICABLE RATES

Purchases under this Agreement may be subject to more than one rate schedule. The Residential Load Firm Power (RL) rate schedule, including the GRSPs, or its successors are incorporated by reference into this Agreement. Purchases under such rate schedule are established as follows:

Residential Load Firm Power Rate

Section 4 of the body of this Agreement, Exhibit A (Rate Commitments), and Exhibit B (Billing) establish rates and Contracted Power amounts subject to the RL rate schedule.

4. RL FIRM POWER PRODUCT

(a) **RL Product for Contract Years 2002 Through 2006**
PBL shall sell and make available and Puget shall purchase under the applicable RL rate ~~258~~zero (0) megawatts each hour of Contract Years 2002 through 2006.

(b) **RL Product for Contract Years 2007 Through 2011**
PBL shall sell and make available and Puget shall purchase, during the period that begins October 1, 2006, and continues through September 30, 2011, the MW amounts determined by BPA pursuant to section 4(b)(2) of the Settlement Agreement. This Agreement shall be amended by the Parties to reflect such MW amounts.

(c) **Changes to MW Amounts**
The amounts established in sections 4(a) and 4(b) above may be updated pursuant to the Settlement Agreement and section 5 of Exhibit C, Net Requirements.

5. PURCHASE DEFICIENCY

If PBL determines, that Puget purchased less Contracted Power in any month than it was contractually obligated to purchase under this Agreement (Monthly Purchase Deficiency), then such Monthly Purchase Deficiency shall be converted to cash payments to Puget from PBL or to PBL from Puget in accordance with the Settlement Agreement.

6. SCHEDULING

All Contracted Power transactions under this Agreement shall be scheduled and implemented consistent with Exhibit D, Scheduling. The procedures for scheduling described in Exhibit D, Scheduling, are the standard utility procedures followed by PBL for power transactions between PBL and other utilities or entities in the Region that require scheduling.

7. DELIVERY

(a) **Transmission Service for Contracted Power**
This Agreement does not provide transmission services for, or include the delivery of, Contracted Power to Puget. Puget shall be responsible for executing one or more wheeling agreements with a transmission supplier for the delivery of Contracted Power (Wheeling Agreement). The Parties agree to take such actions as may be necessary to facilitate the delivery of Contracted Power to Puget consistent with the terms, notice, and the time limits contained in the Wheeling Agreement.

(b) **Liability for Delivery**
Puget waives any claims against PBL arising under this Agreement for nondelivery of power to any points beyond the applicable Points of Receipt. PBL shall not be liable for any third-party claims related to the delivery of

power after it leaves the Points of Receipt. In no event will either Party be liable under this Agreement to the other Party for damage that results from any sudden, unexpected, changed, or abnormal electrical condition occurring in or on any electric system, regardless of ownership. These limitations on liability apply regardless of whether or not this Agreement provides for transfer service.

(c) **Points of Receipt**
PBL shall make Contracted Power available to Puget under this Agreement at Points of Receipt solely for the purpose of scheduling transmission to points of delivery to Puget's distribution system. Puget shall schedule, if scheduling is necessary, such Contracted Power solely for use by its firm retail electric power consumer load. PBL, for purposes of scheduling transmission for delivery under this Agreement, shall specify Points of Receipt in a written notice to Puget prior to August 1, 2000.

If required by the Wheeling Agreement when PBL designates such Points of Receipt, PBL will provide capacity amounts for transmission under the Wheeling Agreement associated with the initial Points of Receipt that can be accepted as firm Points of Receipt under Puget's Wheeling Agreement (except in the unlikely event that all Points of Receipt on the Federal Columbia River Power System (FCRPS) would be considered nonfirm). Such Points of Receipt and their capacity amounts may only be changed through mutual agreement. However at any time PBL may request the use of a nonfirm Point of Receipt to provide Contracted Power to Puget, but PBL shall reimburse Puget for any additional costs.

(d) **Transmission Losses**
PBL shall provide Puget the losses, between the Points of Receipt and the point of interconnection between the BPA Control Area and the Control Area in which Puget resides, for Contracted Power, at no additional charge. Losses will be provided at Points of Receipt as established under section 7(c), and under the terms and conditions as defined in the transmission provider's tariff.

8. MEASUREMENT

(a) Amounts Taken are deemed equal to the amount scheduled by Puget under section 7 of this Agreement or an amount of power as measured at Points of Measurement, as appropriate.

(b) Puget shall provide reasonable notice to PBL prior to changing control areas.

9. BILLING AND PAYMENT

(a) **Billing**
PBL shall bill Puget monthly, consistent with applicable BPA rates, including the GRSPs and the provisions of this Agreement for the Amounts

Taken and other services provided to Puget in the preceding month or months under this Agreement. PBL may send Puget an estimated bill followed by a final bill. PBL shall send all bills on the bill's issue date either electronically or by mail, at Puget's option. If electronic transmittal of the entire bill is not practical, PBL shall transmit a summary electronically, and send the entire bill by mail.

(b) **Payment**

Payment of all bills, whether estimated or final, must be received by the 20th day after the issue date of the bill (Due Date). If the 20th day is a Saturday, Sunday, or Federal holiday, the Due Date is the next business day. If payment has been made on an estimated bill before receipt of a final bill for the same month, Puget shall pay only the amount by which the final bill exceeds the payment made for the estimated bill. PBL shall provide Puget the amounts by which an estimated bill exceeds a final bill through either a check or as a credit on the subsequent month's bill. After the Due Date, a late payment charge shall be applied each day to any unpaid balance. The late payment charge is calculated 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 is received. Puget shall pay by electronic funds transfer using BPA's established procedures. PBL may terminate this Agreement if Puget is more than three months behind in paying its bills under this Agreement and Puget cannot demonstrate an ability to make the payments owed.

(c) **Disputed Bills**

In case of a billing dispute, Puget shall note the disputed amount and pay its bill in full by the Due Date. Unpaid bills (including both disputed and undisputed amounts) are subject to late payment charges provided above. If Puget is entitled to a refund of any portion of the disputed amount, then BPA shall make such refund with simple interest computed from the date of receipt of the disputed payment to the date the refund is made. The daily interest rate used to determine the interest is calculated by dividing the Prime Rate for Large Banks as reported in the Wall Street Journal; by 365. The applicable Prime Rate for Large Banks shall be the rate reported on the first day of the month in which payment is received by BPA.

10. NOTICES

Any notice required under this Agreement shall be in writing and shall be delivered: (a) in person; (b) by a nationally recognized delivery service; or (c) by United States Certified Mail. Notices are effective when received. Either Party may change its address for notices by giving notice of such change consistent with this section.

If to Puget:		If to PBL:	
Puget Sound Energy, Inc.		Bonneville Power Administration	
P.O. Box 97034		P.O. Box 3621	
Bellevue, WA #98009-9734		Portland, OR 97208-3621	
Attn:	Doug ~~Foulkner~~Faulkner Manager, Energy Contracts	Attn:	Mark E. Miller – PT-5 Account Executive
Phone:	425-462-3352	Phone:	503-230-4003
FAX:	425-462-3175	FAX:	503-230-3681
E-Mail:	~~dfoulk~~dfaulk@puget.com	E-Mail:	memiller@bpa.gov

11. COST RECOVERY

(a) Nothing included in or omitted from this Agreement creates or extinguishes any right or obligation, if any, of BPA to assess against Puget and Puget to pay to BPA at any time a cost underrecovery charge pursuant to an applicable transmission rate schedule or otherwise applicable law.

(b) BPA may adjust the rates for Contracted Power set forth in the applicable power rate schedule during the term of this Agreement pursuant to the Cost Recovery Adjustment Clause in the 2002 GRSPs, or successor GRSPs.

12. UNCONTROLLABLE FORCES

PBL shall not be in breach of its obligation to provide Contracted Power and Puget shall not be in breach of its obligation to purchase Contracted Power to the extent the failure to fulfill that obligation is due to an Uncontrollable Force. "Uncontrollable Force" means an event beyond the reasonable control of, and without the fault or negligence of, the Party claiming the Uncontrollable Force that impairs that Party's ability to perform its contractual obligations under this Agreement and which, by exercise of that Party's reasonable diligence and foresight, such Party could not be expected to avoid and was unable to avoid. Uncontrollable Forces include, but are not limited to:

(a) any unplanned curtailment or interruption for any reason of firm transmission used to deliver Contracted Power to Puget's facilities or distribution system, including but not limited to unplanned maintenance outages;

(b) any unplanned curtailment or interruption, failure or imminent failure of Puget's distribution facilities, including but not limited to unplanned maintenance outages;

(c) any planned transmission or distribution outage that affects either Puget or PBL which was provided by a third-party transmission or distribution owner, or by a transmission provider, including TBL and Puget, that is functionally separated from the generation provider in conformance with Federal Energy Regulatory Commission (FERC) Orders 888 and 889 or its successors;

(d) strikes or work stoppage, including the threat of imminent strikes or work stoppage;

(e) floods, earthquakes, or other natural disasters; and

(f) orders or injunctions issued by any court having competent subject matter jurisdiction, or any order of an administrative officer which the Party claiming the Uncontrollable Force, after diligent efforts, was unable to have stayed, suspended, or set aside pending review by a court of competent subject matter jurisdiction.

Neither the unavailability of funds or financing, nor conditions of national or local economies or markets shall be considered an Uncontrollable Force. The economic hardship of either Party shall not constitute an Uncontrollable Force. Nothing contained in this provision shall be construed to require either Party to settle any strike or labor dispute in which it may be involved.

The Party claiming the Uncontrollable Force shall notify the other Party as soon as practicable of that Party's inability to meet its obligations under this Agreement due to an Uncontrollable Force. The Party claiming the Uncontrollable Force also agrees to notify any control area involved in the scheduling of a transaction which may be curtailed due to an Uncontrollable Force.

Both Parties shall be excused from their respective obligations, other than from payment obligations incurred prior to the Uncontrollable Force, without liability to the other, for the duration of the Uncontrollable Force and the period reasonably required for the Party claiming the Uncontrollable Force, using due diligence, to restore its operations to conditions existing prior to the occurrence of the Uncontrollable Force.

13. 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 13. For purposes of this section 13 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 13, either Party may apply to the Federal court having jurisdiction for an order determining whether such dispute is subject to arbitration under this section 13.

(b) Any contract dispute or contract issue between the Parties arising out of this Agreement, except for disputes that are excluded through section 13(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.

14. STATUTORY PROVISIONS

(a) **Annual Financial Report and Retail Rate Schedules**
Puget shall provide PBL with a current copy of its annual financial report and its retail rate schedules, as required by Section 5(a) of the Bonneville Project Act, P.L. 75-329.

(b) **Insufficiency and Allocations**
If BPA determines, consistent with section 5(b) of the Northwest Power Act and other applicable statutes, that it will not have sufficient resources on a planning basis to serve its loads after taking all actions required by applicable laws then BPA shall give Puget a written notice that BPA may restrict service. Such notice shall be consistent with BPA's insufficiency and allocations methodology, published in the Federal Register on March 20, 1996 and shall state the effective date of the restriction, the amount of Puget load to be restricted, and the expected duration of the restriction. BPA shall not change that methodology without the written agreement of all affected customers. Such restriction shall take effect no sooner than five years after notice is given to Puget. If BPA imposes a restriction under this provision then the amount of Contracted Power that Puget is obligated to purchase pursuant to section 4 shall be reduced to the amounts available under such restricted service.

(c) **Priority of Pacific Northwest Customers**
The provisions of sections 9(c) and (d) of the Northwest Power Act and the provisions of P.L. 88-552 as amended by the Northwest Power Act are incorporated into this Agreement by reference. BPA agrees that Puget, together with other customers in the Region shall have priority to BPA power, consistent with such provisions.

(d) **Prohibition on Resale**
Puget shall not resell RL Contracted Power except to serve Puget's Total Retail Load or as otherwise permitted by Federal law.

(e) **Use of Regional Resources**

(1) Within 60 days of the start of each Contract Year, Puget shall notify PBL of any firm power from a generating resource, or a contract resource during its term, that has been used to serve firm consumer load in the Region that Puget plans to export for sale outside the Region in the next Contract Year. PBL may during such Contract Year request additional information on Puget resources if PBL has information that Puget may have made such an export and not notified PBL. PBL may request and Puget shall provide within 30 days of such request, information on the planned use of any or all of Puget's generating and contractual resources.

(2) Puget shall be responsible for monitoring any firm power from generating resources and contract resources it sells in the Region to ensure such firm power is delivered to be used to serve firm consumer load in the Region.

(3) If Puget fails to report to PBL in accordance with section (1), above, any of its planned exports for sale outside the Region of firm power from a generating resource or a contract resource that has been used to serve firm consumer load in the Region, and PBL makes a finding that an export which was not reported was made, then PBL may terminate this Agreement upon 30 days written notice to Puget. If PBL concludes that the failure to report is inadvertent and unlikely to reoccur PBL shall not terminate this Agreement and may instead elect to decrement the amount of Contracted Power by up to two times the amount of the export that was not reported. When applicable such decrements shall be established consistent with section 4(c) of Exhibit C.

(4) For purposes of this section, an export for sale outside the Region means a contract for the sale or disposition of firm power from a generating resource, or a contract resource during its term, that has been used to serve firm consumer load in the Region in a manner that such output is not planned to be used solely to serve firm consumer load in the Region. Delivery of firm power outside the Region under a seasonal exchange agreement that is made consistent with BPA's section 9(c) policy will not be considered an export. Firm power from a generating resource or contract resource used to serve firm consumer load in the Region means the firm generating or load carrying capability of a generating resource or contract resource as established under Pacific Northwest Coordination Agreement resource planning criteria, or other resource planning criteria generally used for such purposes within the Region.

(f) **BPA Appropriations Refinancing Act**

The Parties agree that the BPA Refinancing Section of the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (The BPA Refinancing Act), P.L. 104-134, 110 Stat. 1321, 1350, as stated in the United States Code on the date this Agreement is signed by the Parties, is incorporated by reference and is a material term of this Agreement. The Parties agree that this provision and the incorporated text shall be included in subsequent agreements between the Parties, as a material term through at least September 30, 2011.

15. 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) **Assignment**
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, in whole or in part, without the other Party's written consent. Such consent shall not be unreasonably withheld. BPA shall consider any request for assignment consistent with applicable BPA statutes. Puget may not transfer or assign this Agreement to any of its retail customers.

(c) **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 BPA which is subject to a privilege of confidentiality or nondisclosure shall be clearly marked as such and BPA 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. BPA may use such information as necessary to provide service or timely bill for service under this Agreement. BPA shall only disclose information received under this provision to BPA employees who need the information for purposes of this Agreement.

(d) **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.

(e) **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.

(f) **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.

(g) **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.

(h) **BPA Policies**
Any reference in this Agreement to BPA policies, including without limitation BPA's NLSL Policy and the 5(b)/9(c) Policy, and any revisions thereto, does not constitute agreement by Puget to such policy, nor shall it be construed to be a waiver of the right of Puget to seek judicial review of any such policy.

(i) **Severability**
If any term of this Agreement is found to be invalid by a court of competent jurisdiction then such term shall remain in force to the maximum extent permitted by law. All other terms shall remain in force unless that term is determined not to be severable from all other provisions of this Agreement by such court.

(j) **Rate Covenant**
Puget agrees that it will establish, maintain and collect rates or charges for power and energy and other services, facilities and commodities sold, furnished or supplied by it through any of its electric utility properties which shall be adequate to provide revenues sufficient to enable Puget to make the payments required under this Agreement.

16. TERMINATION

Puget may terminate this Agreement through a written notice up to 30 days after FERC grants interim approval for BPA's wholesale power rates that are effective October 1, 2001. In addition, PSE shall have the right to terminate this Agreement if all of the following conditions have been satisfied:

(a) Any rates adopted in WP-02 Final Rate Proposal, Administrator's Final Record of Decision are remanded to BPA for reconsideration by FERC or the Ninth Circuit Court of Appeals.

(b) As a result of the remand, the Administrator publishes a subsequent Final Record of Decision which, if confirmed, would result in PSE being subject to a higher average effective power rate for the period beginning the first day of the billing period immediately following the effective date of new rates contained in the subsequent Final Record of Decision and ending on September 30, 2006.

(c) PSE has provided written notice to BPA of its intent to terminate this Agreement within 30 days of publication of the subsequent Final Record of Decision.

Termination shall be effective at the start of the second billing period following the termination notice.

17. SIGNATURES

The signatories represent that they are authorized to enter into this Agreement on behalf of the Party for whom they sign.

PUGET SOUND ENERGY, INC.

By _____

Name _____
(Print / Type)

Title _____

Date _____

UNITED STATES OF AMERICA
Department of Energy
Bonneville Power Administration

By _____
Account Executive

Name _____
(Print / Type)

Date _____

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Exhibit A
RATE COMMITMENTS

1. DEFINITIONS

(a) "5-Year Rates" means the Lowest RL Rates established in the 2002 Wholesale Power Rate Case for Contract Years 2002 through 2006.

(b) "Lowest RL Rates" means the lowest applicable cost-based power rates provided under the applicable RL rate schedule as applied to Puget's Contracted Power purchases under this Agreement. The Lowest RL Rates shall be selected by Puget from the RL rates that are available and from which the Parties agree Puget is eligible to purchase under at the time Puget makes its selection as specified in this exhibit. The Lowest RL Rates shall be approximately equal to the PF Preference Rate.

(c) "Lowest RL Rate" means the lowest applicable cost-based power rate provided under the applicable RL rate schedule as applied to Puget's Contracted Power purchases under this Agreement at 100 percent annual load factor. The Lowest RL Rate shall be selected by Puget's from the RL rates that are available and from which the Parties agree Puget's is eligible to purchase under at the time Puget's makes its selection as specified in this exhibit.

2. PURCHASE DURATION

Puget shall purchase all of the power provided in section 4 of the body of this Agreement for the entire term of this Agreement.

3. RESIDENTIAL LOAD FIRM POWER RATE TREATMENT

(a) **Right to Lowest RL Rates**
Puget is contractually guaranteed through September 30, 2011 the Lowest RL Rates established in a successor BPA power rates proceeding for its RL Contracted Power purchases under this Agreement. This section shall not be construed to waive, alter, or amend any right that Puget may have under applicable statutes.

(b) **Revisions to Residential Load Firm Power Rates**
BPA agrees that the 5-Year Rates available to Puget consistent with this exhibit shall not be subject to revision during their respective terms, except for the application of a Cost Recovery Adjustment Clause as provided in the applicable RL applicable rate schedule and GRSPs and this Agreement.

(c) **5-Year Rates Treatment**
All Contracted Power purchases provided under section 4 of the body of this Agreement are subject to the 5-Year Rates. The monthly energy rates for Contracted Power are specified in sections II and III in the section labeled

"Schedule RL-02 Residential Load Firm Power" in the 2002 Power Rate Schedules.

Puget must select a follow-on rate period and associated rates from those offered by BPA, and notify PBL of its selection, by the later of:

(1) six months prior to the expiration of the 5-Year Rates; or

(2) thirty (30) days after the date BPA's initial proposal for successor rates is published.

Otherwise the follow-on rate period and associated rates shall be the shortest rate period and associated rates that are applicable to Puget. Subject to establishment in BPA's rate case, and subject to BPA's statutory requirements, the Lowest RL Rates shall be approximately equal to the Lowest PF Rate.

4. SPECIAL RL LOAD TREATMENT

Environmentally Preferred Power
Puget may request Environmentally Preferred Power. If available, the Parties shall amend this Agreement to include necessary provisions as mutually agreed.

5. REVISIONS

If this exhibit is inconsistent with BPA's 2002 Power Rate Case Record of Decision or BPA's 2002 RL Power Rate Schedule as finally approved by FERC, whichever is in effect, the Parties shall make a good faith effort to amend this exhibit so that it is consistent.

The Parties shall update this exhibit to reflect necessary changes to establish new rate choices consistent with the applicable future rate cases. This shall be done by mutual agreement except as allowed in section 3 of this exhibit.

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Exhibit B
BILLING

1. RESIDENTIAL LOAD FIRM POWER ENTITLEMENTS

(a) The hourly amount shown in section 4 of the body of this Agreement multiplied by the number of hours in the applicable Diurnal period establishes Puget's RL HLH and LLH Energy Entitlements.

(b) The hourly amount shown in section 4 of the body of this Agreement establishes Puget's RL Demand Entitlement.

2. UNAUTHORIZED INCREASE CHARGE

Amounts Taken from PBL in excess of Contracted Power shall be subject to the Unauthorized Increase Charge for demand and energy consistent with the applicable BPA Wholesale Power Rate Schedules and GRSPs, unless such power is provided under another contract with PBL. Power that has been provided for energy imbalance service pursuant to an agreement between TBL and Puget will not be subject to an Unauthorized Increase Charge for Demand and Energy under this Agreement.

3. CONSERVATION AND RENEWABLES 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 Contracted Power as established in section 4 of the body of this Agreement, unless Puget has notified PBL before August 2001 that it will not participate in the Conservation and Renewable Discount. For purposes of establishing power amounts eligible for this discount, Puget shall provide PBL a reasonable forecast of such Firm Power amounts through Contract Year 2006 by no later than August 1, 2001.

If during any Contract Year, Puget has significant load loss or gain, the Parties may, by no later than August 31 prior to the succeeding Contract Year, revise the forecast used to calculate the Conservation and Renewables Discount. If the revised forecast is less than 95 percent of, or greater than 105 percent of, the forecast used to calculate the existing Conservation and Renewables Discount, the revised forecast shall be used to recalculate the Conservation and Renewables Discount for the succeeding Contract Years.

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 Renewables Discount implementation manual. Puget shall reimburse BPA for any amount it received but for which it did not satisfy such obligations.

4. REVISIONS

If this exhibit is inconsistent with BPA's 2002 Power Rate Case Record of Decision or BPA's 2002 RL Power Rate Schedule as finally approved by FERC, the Parties shall make a good faith effort to amend this exhibit so that it is consistent.

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Exhibit C
NET REQUIREMENTS

1. ESTABLISHING NET REQUIREMENT

(a) Initial Net Requirement

(1) Total Retail Load Forecast

The tables below shows the PBL approved forecast of Puget's Total Retail Load. The Parties agree that this forecast shall not be subject to arbitration under section 14 of the body of this Agreement.

(2) Initial Net Requirement

Puget's net requirement amounts are derived by taking the forecast of Puget's Total Retail Load and subtracting from it the resource amounts that are committed to serve Puget's Total Retail Load under section 2(c) of this exhibit and the amount of load served by known non-Puget resources, if any, as established in section 3 of this exhibit.

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept
ntract Year 2002												
Total MWa	0	0	0	0	0	0	0	0	0	0	0	0
Peak MW	0	0	0	0	0	0	0	0	0	0	0	0

(b) Annual Update of Net Requirement

(1) Updated Forecast of Total Retail Load

At least 60 days prior to the start of each Contract Year, Puget shall provide PBL an updated monthly forecast of Puget's Total Retail Load in sufficient detail to fill in the table below. Up to 30 days before the start of the Contract Year PBL may notify Puget that PBL has determined that the forecast submitted when considered as a whole is not reasonable and that PBL will substitute a forecast of Total Retail Load that it considers reasonable to fill in the table below. The only issue arising under this section 1(b)(1) that is subject to arbitration under section 14 of body of this Agreement is whether PBL's forecast when considered as a whole was reasonable. Such arbitration shall not include the interpretation or application of BPA's policies to such load forecast. However, the Parties may mutually agree to mediate disputes regarding PBL's forecast. Prior to the start of the Contract Year this exhibit shall be revised to update the forecast in the table below.

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept
Contract Year												
Total MWh	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Peak MW	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(2) **Review of Net Requirements Amounts**
Puget's updated net requirement amounts are derived by taking the Puget forecast of Total Retail Load established in section 1(b)(1) above and subtracting from it the resource amounts that are committed to serve Puget's Total Retail Load under section 2(c) and the amount of load served by known non-Puget resources, if any, as established in section 3 of this exhibit. The updated net requirement amounts shall be shown in the table below.

Contract Year	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept
Total MWh	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Peak MW	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

2. CUSTOMER RESOURCES

The amounts listed in the tables in this section are only for determining Puget's net requirement under this Agreement and do not imply any specific resource operation, nor are the amounts intended to interfere with Puget's decisions on how to operate its specific resources.

(a) **Declared Output of Specific Puget Resources**
Puget commits the firm output from the following resources (or an equivalent amount from another source) to serve its Total Retail Load.

(b) **Unspecified Resource Amounts Committed To Serve Total Retail Load**
Puget shall use its best efforts to meet the obligations to provide unspecified resources established in the provisions below. Puget agrees that if such power is acquired from PBL under this Agreement, then the power provided will be subject to the Unauthorized Increase Charge.

(1) **Unspecified Resources for Balancing Net Requirements**
Puget agrees to provide power from unspecified resources to serve Total Retail Load in amounts, and in periods, equal to its Total Retail Load not served through Puget's power purchases committed to load under this Agreement, through resource amounts committed in section 2(a) above, through unspecified resource amounts established in section 2(b)(2) and section 2(b)(3) below, or through amounts in section 3 below. The amount in the table below shall be updated annually to show the amount, if any that the forecast established in section 1(b)(1) of this exhibit exceeds the sum of the following: the power amount established in section 4 of the body of this exhibit(as updated consistent with section 5 of this exhibit); and resource amounts committed for the upcoming Contract Year in sections 2(a), 2(b)(2), 2(b)(3), and 3 of this exhibit.

(2) **Specific Amounts Committed for Contract Term**
In addition to the resource amounts established in 2(a) above, Puget agrees to serve its Total Retail Load with unspecified resources in the amounts listed in the table below.

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept
Contract Year 2002												
Total MWh	0	0	0	0	0	0	0	0	0	0	0	0
Peak MW	0	0	0	0	0	0	0	0	0	0	0	0

(3) **Amounts Committed for 9(c) Decrements**
Below are the amounts of unspecified resources added consistent with BPA's 9(c) Policy and the requirements of section 4(c) of this exhibit.

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept
Contract Year 2002												
Total MWh	0	0	0	0	0	0	0	0	0	0	0	0
Peak MW	0	0	0	0	0	0	0	0	0	0	0	0

(c) **Total Resource Amounts Committed to Serve Total Retail Load**
Puget commits the resources listed in sections 2(a) and 2(b) above to serve Total Retail Load amounts served by Puget and not served with Contracted Power through this Agreement. The total amount of Puget's resources are shown in the table below. These amounts shall be updated whenever sections 2(a) or 2(b) above are modified, consistent with section 4 of this exhibit.

(d) **Puget Resources Not Used to Serve Total Retail Load**

3. NON-PUGET GENERATING RESOURCES
Known non-Puget resources, if any, greater than 1 MW that provide power to serve Puget's Total Retail Load or such resources that otherwise connect to Puget's distribution system are listed below.

Generating Resource Name	Resource Type	Nameplate Capability
None At This Time.		**0 MW**

The amounts in the table below establish the total amount of non-Puget resources that the Parties agree are to be applied to serve Puget's Total Retail Load to calculate Puget's net requirement. These amounts may only be modified consistent with section 4 of this exhibit.

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept
Contract Year 2002												
Total MWh	0	0	0	0	0	0	0	0	0	0	0	0
Peak MW	0	0	0	0	0	0	0	0	0	0	0	0

4. CHANGES TO RESOURCE AMOUNTS

(a) **Annual Right to Add New Renewable Resources**
Puget may add new renewable resources to section 2(a) of this exhibit according to the terms of this provision. Puget shall request the addition of such resources at least 60 days before the start of the Contract Year the resources will be added. The request shall identify the resources, the length of time that the resources shall be applied to Puget's Total Retail Load and power amounts from the resources for each month of the request. PBL will revise section 2 of this exhibit prior to the start of the Contract Year if PBL agrees that the resource meets BPA's standards to qualify for BPA's Conservation and Renewable Discount, subject to any applicable limits established in BPA's policy on net requirements under section 5(b) of the Northwest Power Act. Puget shall resume purchasing Contracted Power under this Agreement when its commitment to apply the renewable resource ends. The rate treatment for such power shall be the same Puget would have received for such power if Puget had not chosen to apply a resource under this provision.

(b) **Resource Additions for a BPA Insufficiency Notice**
In lieu of the unspecified resource amounts established in 2(b)(1), Puget shall add resources to section 2(a) or 2(b)(2) to replace amounts of Contracted Power BPA notifies Puget will not be provided due to a notice under section 14(b) of the body of this Agreement.

(c) **Decrements for 9(c) Export**
PBL may determine consistent with BPA's policy implementing section 9(c) of the Northwest Power Act and section 3(d) of P.L. 88-552 (9(c) Policy) that an export of a Puget resource requires a reduction in the amount of Federal power that PBL sells under this Agreement. If PBL determines such a reduction is required it will notify Puget of the amount and duration of the reduction. PBL shall revise this exhibit to include such amounts as unspecified resources for the duration of the export requiring such reduction under section 2(b)(3). Determinations by PBL to reduce the amount of Federal power sold are not subject to arbitration under section 14 of the body of this Agreement. When a decrement under the BPA 9(c) Policy occurs within the Contract Year: (1) the monthly amounts in section 1(b)(2) shall be reduced by how much the monthly amounts added to section 2(b)(3) exceed the corresponding monthly amounts in section 2(b)(1); and (2) the Contracted Power provided by PBL shall also be reduced within the Contract Year consistent with such changes in section 1(b)(2), through the terms of section 5 below.

(d) **Permanent Resource Removal**
The resource amounts established in section 2 of this exhibit may be removed permanently by Puget consistent with statutory discontinuance for permanent removal in BPA's policy on net requirements under section 5(b) of

the Northwest Power Act. If PBL determines Puget has met PBL's standards for a permanent removal, the exhibit will be revised to show the agreed resource changes. Determinations by PBL on the permanent removal of a resource are not subject to arbitration under section 13 of the body of this Agreement.

(e) **Changes to Non-Puget Resources**
Puget shall annually update the information established for non-Puget resources in section 3 at least 60 days before the start of each Contract Year, if circumstances reasonably warrant such a change. Subject to agreement of the Parties, the exhibit shall be revised to show the updated information prior to the start of the applicable Contract Year.

(f) **Annual Retail Load Loss and Resource Removal**
Puget may reduce the resource amounts established in sections 2(a) and 2(b) above by up to the amount of load loss Puget reasonably expects in the upcoming Contract Year consistent with the requirements of this section. Puget shall notify PBL at least 60 days prior to the applicable Contract Year, identifying the total monthly MWh amounts of load loss. Reductions in resource amounts shall apply first to unspecified resources established in sections 2(b)(1) and 2(b)(2) of this exhibit. Additional reductions shall apply to specific resources in section 2(a) of this exhibit identified by Puget in the notice. The Parties shall revise this exhibit prior to the start of the Contract Year to make the changes in the resources and shall establish those changes in tables below which shall identify the specific changes that were made to the resources. The resource changes shall only apply for one Contract Year. Prior to the start of the subsequent Contract Year this exhibit shall be revised to add back the resources shown in tables below to the applicable provisions in section 2 of this exhibit, except for amounts Puget requests to remove under this provision for the following Contract Year. Resources removed under this provision continue to be subject to the 9(c) Policy.

(g) **Revisions for Changes in Resource Output**
Up to 60 days prior to the start of a Contract Year Puget may request changes to the monthly distribution of the capabilities of specific resources listed in section 2 of this exhibit. Puget must demonstrate to PBL's satisfaction that an adjustment is appropriate. When PBL decides to grant a request to revise resource amounts PBL shall revise section 2 of this exhibit to show the changes to the resource. PBL shall approve changes to monthly distributions when the changes to resources included in the Pacific Northwest Coordination Agreement (PNCA) are due to operational changes reflected in PNCA planning. PBL shall revise section 2 of this exhibit to show such changes to the resource.

5. REDUCTION OF BLOCK PURCHASE AMOUNTS

The hourly amounts of power provided under this Agreement shall be reduced in any Contract Year when the sum of the monthly net requirement amounts established in section 1(b)(2) above is less than 8,760 hours (8,784 in leap years) multiplied by the

corresponding hourly amount established in section 4 of the body of this Agreement. The reduction shall be made by reducing the hourly amount provided in each hour of the Contract Year. The hourly amounts shall also be reduced when resource amounts not already used to calculate the monthly values in section 1(b)(2) are added pursuant to section 4(c) above during the Contract Year. Reduced amounts are subject to payments as established in section 5 of the body of this Agreement. If such a reduction occurs this exhibit will be revised to include a table below with the updated values. When a table is included below it shall supersede the table in section 4 of the body of this Agreement.

6. RESOURCE DECLARATIONS

The resource capabilities set forth in sections 2(a) and (b) of this exhibit are dedicated to serving Puget's firm load pursuant to section 5(b) of the Northwest Power Act. In addition to the resource capabilities set forth in such sections that may be removed pursuant to other sections of this Agreement, BPA consents that the resource capabilities set forth in sections 2(b)(1) and 2(b)(2) above may be discontinued from use in serving Puget's firm load upon the termination or expiration of this Agreement. The resources established in sections 2(d) and 3 above are not used to serve Puget's firm load under section 5(b) of the Northwest Power Act and will not be required to be so used after the termination or expiration of this Agreement.

7. REVISIONS

When required Puget shall submit a revised Exhibit C, Net Requirements, to PBL at least 60 days prior to each Contract Year. As long as Puget's submittal is consistent with the requirements of this exhibit PBL shall accept it as submitted. If Puget fails to submit revisions when necessary, or if the information provided is inconsistent with the requirements of this exhibit, PBL shall update this exhibit prior to the beginning of the Contract Year with the information PBL believes is required.

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Exhibit D
SCHEDULING

1. PURPOSE OF THIS EXHIBIT

The purpose of this exhibit is to identify power scheduling requirements and coordination procedures necessary for the delivery of electric power and energy sold under this Agreement. All provisions apply to Purchasing-Selling Entities (PSEs), including their authorized scheduling agent. Transmission scheduling arrangements are handled under separate agreements/provisions with the designated transmission provider. Nothing in this exhibit is intended to relieve the Parties of any obligation they may have under North American Electric Reliability Council (NERC) or Western Systems Coordinating Council (WSCC) policy, procedure, or guideline.

2. COORDINATION: GENERAL, PRESCHEDULE, REAL-TIME, AND AFTER-THE-FACT REQUIREMENTS

(a) General Requirements

(1) The Parties may revise and replace this exhibit by mutual agreement. BPA shall also have the right to revise and replace this exhibit under the following circumstances after providing an opportunity for all affected Parties to discuss and comment on any proposed changes: (1) to comply with rules or orders issued by FERC, NERC, or WSCC; or (2) to implement changes reasonably consistent with standard industry practice, but necessary for BPA to administer it's power scheduling function.

(2) PSEs shall have staff available 24 hours a day for each day an active transaction or preschedule is in effect. PSE's must be prepared to verify transactions on an hourly basis if necessary.

(3) PSEs shall complete the prescheduling and check out processes, and to verify Transactions and associated totals, per NERC tag, and BPA contract.

(4) Inability to verify Transactions may result in schedule rejection or curtailment.

(5) PSEs shall verify Transactions and totals after-the-fact (ATF) per both parties' ATF processes.

(6) BPA is not obligated to accept Transactions that do not comply with the scheduling requirements in this exhibit or the contract.

(7) Should a PSE attempt to preschedule a Transaction for power for which that PSE has an obligation to provide transmission and fails to

properly reserve the transmission necessary to complete the Transaction, the PSE will not be excused from its payment obligation, if any, under this Agreement.

(8) All Transactions shall be stated the time zone specified by WSCC and shall be in "hour-ending" format.

(9) All Schedules, except Dynamic Schedules, will be implemented on an hourly basis using the standard ramp as specified by WSCC procedures.

(10) [Intentionally Omitted.]

(11) Changes to telephone or fax numbers of key personnel (for Prescheduling, Real-Time, Control Area, or Scheduling Agents, etc.) must be submitted to BPA.

(b) **Prescheduling Requirements**

(1) **Information Required for Any Preschedule**

(A) Unless otherwise mutually agreed, all Transactions will be submitted according to NERC instructions for E-tagging, as modified by WSCC.

(B) When completing the NERC E-Tag insert the applicable BPA Contract number(s) in the "reference" column of the miscellaneous section of the tag.

(C) Transactions going to or from California-Oregon Border (COB) must be identified as using Malin or Captain Jack, or COB Hub.

(2) **Preschedule Coordination**

(A) Final hourly preschedules (verbal submission of E-tag information) must be submitted for the next day(s) by 1000 of each Workday, unless otherwise agreed.

(B) Typically, preschedules are for one to three days. By mutual agreement of the parties, final preschedules may be requested for longer time periods to accommodate special scheduling requirements.

(C) Under certain operating conditions, either party may require submission of estimated daily preschedules for an ensuing period up to ten days in length, prior to the final preschedule.

(c) **Real-Time Requirements**

(1) PSEs may not make Real-Time changes to the scheduled amounts, including transmission arrangements unless such changes are allowed under individual contract provisions or by mutual agreement.

(2) If Real-Time changes to the Schedule become necessary, and are allowable as described in section 2(c)(1) above, PSEs must submit such request no later than 30 minutes prior to the hour for which the Schedule change becomes effective.

(3) Multihour changes to the Schedule shall specify each hour to be changed and shall not be stated as "until further notice."

(4) Emergency scheduling and notification procedures (including mid-hour changes) will be handled in accordance with NERC and WSCC procedures.

(d) **After-the-Fact Reconciliation Requirements**
PSEs agree to reconcile all Transactions, Schedules and accounts at the end of each month (as early as possible within the first ten calendar days of the next month). The parties will verify all Transactions per BPA contract, as to product or type of service, hourly amounts, daily and monthly totals, and related charges.

3. DEFINITIONS AND ACRONYMS
Capitalized terms in this Exhibit shall have the meanings defined below, in context, or as used elsewhere in this Agreement.

(a) **Control Area:** An electrical system bounded by interconnection (tie-line) metering and telemetry. It controls generation directly to maintain its interchange schedule with other control areas and contributes to frequency regulation of the interconnection.

(b) **Hour Ending**: Designation for one hour periods of time based upon the time which the period ends. For example: the one hour period between 1300 and 1400 is referred to as Hour Ending 1400.

(c) **Prescheduling:** The process (electronic, oral, and written) of establishing and verifying with all scheduling parties, advance hourly Transactions through the following Workday(s). Preschedules apply to the following day or days (if the following day or days are not Workday(s).

(d) **Purchasing-Selling Entity (PSE):** (NERC defined term.) An entity that is eligible to purchase or sell energy or capacity and reserve transmission services.

(e) **Real-Time:** The hourly or minute-to-minute operation and scheduling of a power system as opposed to those operations which are prescheduled a day or more in advance.

(f) **Schedule:** The planned Transaction approved and accepted by all PSEs and Control Areas involved in the Transaction.

(g) **Transaction:** An agreement arranged by a PSE to transfer energy from a seller to a buyer.

(h) **Workday:** Any day BPA, other regional utilities, and PSEs observe as a working day.

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(17)

Insley, Gary - PTS-5

From: Hanlon, Doug - PTS-5
Sent: Monday, June 04, 2001 12:55 PM
To: 'dfaulk@puget.com'
Cc: Kitchen, Larry - PT-5; Casad, Kurt R - LP-7; Miller, Mark - PT-5; Insley, Gary - PTS-5
Subject: CONTRACT NOS. 10885 & 10886 -- REDLINED AND CLEAN

10885.doc 10885clean.doc 10886.doc 10886clean.doc

Here they are, Doug. On time and under budget -- Doug

Contract No. 01PB-10885
06/~~1~~04/01

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*/

*/ 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 ~~S~~settlement ~~A~~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 ~~and~~ 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 ~~of~~ 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:

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

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:

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

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 _____ □□Name
_____ □*(Print / Type)*□□Title
_____ □□Date
_____ □

UNITED STATES OF AMERICA
Department of Energy
Bonneville Power Administration

By _____
Account Executive

Name _____
(Print / Type)

Date _____

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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.

(PBLLAN-PSB-5-W:\PSC\PM\CT\10885.DOC)

Contract No. 01PB-10885
06/04/01

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
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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*/

*/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:

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

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:

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

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:

$$FBNDP = (MIDC - WC - RL) \times MWH$$

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 _____ Name
_____ *(Print / Type)* Title
_____ Date
_____

UNITED STATES OF AMERICA
Department of Energy
Bonneville Power Administration

By _____
Account Executive

Name _____
(Print / Type)

Date _____

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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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Contract No. 01PB-10886

Exhibit A

FIRM POWER BLOCK
POWER SALES AGREEMENT
executed by the
BONNEVILLE POWER ADMINISTRATION
and
PUGET SOUND ENERGY, INC.
(RL ONLY)

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Exhibit A Rate Commitments
Exhibit B Billing
Exhibit C Net Requirements
Exhibit D Scheduling

This BLOCK POWER SALES 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.

RECITALS

This Agreement will replace Contract No. DE-MS79-81BP90426 which is available through September 30, 2001, and offered by BPA pursuant to section 5(b) of the Northwest Power Act.

BPA has administratively divided its organization into two business lines in order to functionally separate the administration and decisionmaking activities of BPA's power business from the administrative and decisionmaking activities of its transmission business. References in this Agreement to the Power Business Line (PBL) are solely for the purpose of establishing which BPA business line is responsible for the administration of this Agreement.

BPA and Puget agree:

1. TERM

This Agreement takes effect on the date signed by the Parties. Performance by the Parties, except for the preparatory actions for performance contained in sections 6, 8, and 15(f) of the body of this Agreement, Exhibit A (Rate Commitments), and Exhibit C (Net Requirements), shall commence on October 1, 2001, and shall continue through September 30, 2011 (Expiration Date).

2. DEFINITIONS

Capitalized terms in this Agreement shall have the meanings defined below, in the exhibits or in context. All other capitalized terms and acronyms are defined in BPA's applicable Wholesale Power Rate Schedules, including the General Rate Schedule Provisions (GRSPs), or its successors.

(a) "Amended Settlement Agreement" means Contract No. 01PB-10885. This Agreement is attached as Exhibit A to the Amended Settlement Agreement.

(~~a~~b) "Amounts Taken" means an amount deemed equal to the amount of power scheduled by Puget under section 7 of this Agreement or an amount of power as measured at Points of Measurement, as appropriate.

(~~b~~c) "Contract Year" or "CY" means the period 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.

(~~c~~d) "Contracted Power" means Firm Power provided under this Agreement.

(~~d~~e) "Diurnal" means the division of hours of the day between Heavy Load Hours (HLH) and Light Load Hours (LLH).

(~~e~~f) "Firm Power" means electric power that PBL will make continuously available to Puget under this Agreement