

**AGREEMENT REGARDING
CONDITIONAL DEFERRAL OF REDUCTION OF
RISK DISCOUNT AMOUNT
executed by the
BONNEVILLE POWER ADMINISTRATION
and
PUGET SOUND ENERGY, INC.**

This AGREEMENT REGARDING CONDITIONAL DEFERRAL OF REDUCTION OF RISK DISCOUNT AMOUNT (Agreement) dated as of **June 17**, 2002 (Effective Date), is executed by the UNITED STATES OF AMERICA, Department of Energy, acting by and through the BONNEVILLE POWER ADMINISTRATION (BPA), and PUGET SOUND ENERGY, INC. (Puget). Puget is a corporation existing under the laws of the State of Washington. BPA and Puget are sometimes referred to in this Agreement in the singular as "Party" and in the plural as "Parties."

RECITALS

- A. Pursuant to Section 4(b)(1)(B) of the Amended Settlement Agreement (Contract No. 01PB-10885) between BPA and Puget ("Financial Settlement Agreement"), Puget would have accepted a "Reduction of Risk Discount" of \$2,463,429 monthly (\$14,780,574 every 6 months or \$29,561,148 annually) commencing October 1, 2002, if by December 1, 2001, it entered into specified settlement agreements with one or more of BPA's publicly-owned utility and cooperative customers (hereinafter referred to as "BPA Preference Utilities").
- B. Such specified settlement agreements were not entered into by December 1, 2001, and failure to reach such settlements affects the costs that BPA must include in its LB CRAC adjustment to its wholesale power rates effective October 1, 2002.
- C. As of the Effective Date, discussions between Puget and various parties, including BPA Preference Utilities regarding a comprehensive settlement of various BPA matters, including litigation relating to Contract No. 01PB-12162 or the Financial Settlement Agreement, are at an advanced stage. (It is an objective of such discussions to develop and execute a new agreement between BPA and Puget pursuant to which Puget will, for a period commencing FY 2007, receive payments from BPA for the benefit of its residential and small farm customers pursuant to implementation of or in settlement of the residential exchange

provisions of the Northwest Power Act.) BPA Preference Utilities have asked that any such settlement, if successful, include a reduction in payments under the Financial Settlement Agreement equal to the Reduction of Risk Discount, and that Puget defer collection of the amounts covered by the Reduction of Risk Discount while settlement discussions continue.

AGREEMENT

The Parties agree:

1. The deferral period under this Agreement shall begin October 1, 2002, and continue until termination of the deferral period pursuant to section 2 below. For each month of the deferral period: (i) the amount equal to \$10,208,320 (\$10,236,288 during a leap year) shall be paid to Puget pursuant to section 4(b)(1)(B) of the Financial Settlement Agreement on the payment schedule set forth in the Financial Settlement Agreement, and (ii) an additional amount equal to \$2,463,429 (\$2,470,178 during a leap year) shall be deferred.
2. The deferral period shall continue for the 6-month period beginning October 1, 2002. The deferral period shall be continued for each subsequent 6-month period; provided, Puget may elect, by notice to BPA not less than 120 days prior to the beginning of any such 6-month period, for a reason specified below in this section 2, to terminate the deferral period at the end of such 6-month period. Puget shall have the right to terminate the deferral period under the Financial Settlement Agreement if:
 - (a) Puget determines that the current comprehensive settlement efforts regarding litigation relating to Contract No. 01PB-12162 or the Financial Settlement Agreement are unlikely to be concluded successfully to Puget's satisfaction; or
 - (b) the Washington Utilities and Transportation Commission objects to or disapproves continuation of the deferral period.
3. Upon termination pursuant to section 2 above of the deferral period at the end of a 6-month period, BPA shall pay Puget:
 - (a) pursuant to section 4(b)(1)(B) of the Financial Settlement Agreement, monthly payments equal to \$12,671,749 (\$12,706,466 during a leap year); and
 - (b) an additional amount equal to the aggregate amount deferred pursuant to item (ii) of section 1 above since October 1, 2002, together with interest thereon from the deferral until paid, at an annual rate of 4.46 percent, compounded monthly. Commencing upon termination of the deferral period as described in section 2 above, such additional amount, together with accrued interest thereon, shall be paid in equal monthly installments over a period equal to the greater of: (i) the period that begins with the end of the deferral period as described in section 2 above and continues

through September 30, 2006, or (ii) the deferral period as described in section 2 above.

4. Any comprehensive final settlement agreement entered into by Puget and BPA Preference Utilities of litigation relating to Contract No. 01PB-12162 or the Financial Settlement Agreement that is concluded successfully to Puget's satisfaction shall include Puget's and BPA's agreement that, unless such settlement is successfully challenged or otherwise is determined to be invalid or unenforceable.
 - (a) the monthly amount paid to Puget pursuant to the Financial Settlement Agreement, after the agreements successfully concluding such litigation are entered into and become effective. shall equal \$10,208,320 (\$10,236,288 during a leap year) and
 - (b) all amounts that have been deferred pursuant to section 1 above and that have not then been paid to Puget shall not be paid to Puget.

In no event shall any amount paid by BPA to Puget pursuant to section 4(b)(1)(B) of the Financial Settlement Agreement be refunded to BPA.

5. In the event of a conflict between the terms of this Agreement and the terms of section 4(b)(1)(B) of the Financial Settlement Agreement, the terms of this Agreement shall prevail.
6. This Agreement shall remain in effect until either:
 - (a) the date specified in a comprehensive settlement agreement entered into pursuant to section 4 above; or
 - (b) the date (following termination of the deferral period pursuant to section 2 above) that all payments owed to Puget by BPA pursuant to section 3 above have been made.
7. This Agreement sets forth the entire agreement of the Parties with respect to the subject matter hereof and may only be amended by writing hereafter signed by each of the Parties. Each of the Parties represents that its signatory below is authorized to enter into this Agreement on behalf of the Party for whom he or she signs.

PUGET SOUND ENERGY, INC.

UNITED STATES OF AMERICA
Department of Energy
Bonneville Power Administration

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

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

Name **William A. Gaines**
(Print/Type)

Name **Mark E. Miller**
(Print/Type)

Date Signed **June 12, 2002**

Date Signed **June 17, 2002**

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