

INVESTMENT MEMORANDUM OF UNDERSTANDING
dated as of April 30, 2008, by and between
the **ADMINISTRATOR** (the "Administrator") of
the **BONNEVILLE POWER ADMINISTRATION**
("Bonneville") and the **SECRETARY OF THE**
TREASURY ("Secretary").

WHEREAS, section 11(a) of the Transmission Act (as hereinafter defined) established a Bonneville Power Administration fund in the Treasury of the United States;

WHEREAS, for that Bonneville Power Administration fund, the Secretary established the Bonneville Account (as hereinafter defined) on the books of the Department of the Treasury;

WHEREAS, section 13(a) of the Transmission Act authorizes the Administrator to issue and sell to the Secretary from time to time, in the name and for and on behalf of Bonneville, bonds, notes, and other evidences of indebtedness;

WHEREAS, section 13(c) of the Transmission Act authorizes the Secretary to purchase bonds, notes, and other evidences of indebtedness of Bonneville on terms and conditions determined by the Secretary;

WHEREAS, pursuant to section 13(a), the Administrator has issued to the Secretary, and pursuant to section 13(c), the Secretary has purchased from the Administrator, certain Old Bonneville Bonds (as hereinafter defined);

WHEREAS, under the terms of the Old Bonneville Bonds and other correspondence between the Secretary and the Administrator, an interest credit is allowed based on the daily cash balances in the Bonneville Account, as therein provided, and the interest credit is allowed to be applied on March 31 and September 30 of each year by the Administrator as an offset against the interest amounts due and payable to the Secretary on the Old Bonneville Bonds;

WHEREAS, section 12(a) of the Transmission Act authorizes the Administrator to request the Secretary to invest such amounts of moneys in the Bonneville Account as the Administrator deems

advisable when the Administrator determines that moneys in the Bonneville Account are in excess of current needs;

WHEREAS, section 12(a) of the Transmission Act authorizes the Secretary to invest such amounts in the Bonneville Account requested by the Administrator to be invested in, among other permitted investments, direct general obligations of the United States;

WHEREAS, the Administrator from time to time has accrued and expects to accrue financial reserves in the BPA Account, as hereinafter defined, for purposes of, *inter alia*, risk mitigation, rate stability, and to assure payment when due of the Administrator's payment obligations, including to the United States Treasury;

WHEREAS, the Secretary and the Administrator now desire to enter into an agreement that will revise the existing accrual, calculation, and application of interest offset credits and will provide for a mutually agreed upon transition to the investment of amounts in the Bonneville Account in Treasury Market-Based Special Securities (as hereinafter defined);

WHEREAS, simultaneously herewith, the Secretary and the Administrator desire to enter into the Obligation Purchase MOU (as hereinafter defined) setting out terms and conditions of the Secretary's commitment to purchase New Bonneville Obligations (as hereinafter defined) that are hereafter issued from time to time by the Administrator to the Secretary.

NOW THEREFORE, for and in consideration of the mutual agreements herein contained and the Obligation Purchase MOU, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Secretary and the Administrator agree as follows:

ARTICLE 1

DEFINITIONS AND RULES OF INTERPRETATION

Section 1.1 Definitions.

As used in this MOU (as hereinafter defined), the following terms shall have the respective meanings specified in this section 1.1, unless the context clearly requires otherwise:

"2008 Interest Allowance" shall mean a credit that is earned in Fiscal Year 2008, as provided under the terms of the Old Bonneville Bonds and other correspondence between the Secretary and the Administrator wherein an interest credit is allowed based on the daily cash balances in the Bonneville Account, as therein provided. A 2008 Interest Allowance is not an Investment Offset Credit for purposes of this MOU.

"Advance" shall mean an advance of funds made under any Old Bonneville Bond or under any New Bonneville Obligation.

"Applicable Interest Offset Credit Phase-Out Adjustment" shall mean:

(1) For the one-year period ending September 30, 2009, \$100 million;

(2) For the one-year period ending September 30, 2010, \$200 million;

(3) For the one-year period ending September 30, 2011, \$300 million;

(4) For the one-year period ending September 30, 2012, \$400 million;

(5) For the one-year period ending September 30, 2013, \$500 million;

(6) For the one-year period ending September 30, 2014, \$600 million;

(7) For the one-year period ending September 30, 2015, \$700 million;

(8) For the one-year period ending September 30, 2016, \$800 million;

(9) For the one-year period ending September 30, 2017, \$900 million; and

(10) For the one-year period ending September 30, 2018, \$1 billion.

"Approved Method of Electronic Delivery" shall mean electronic facsimile (fax) transmission, electronic mail (email) delivery, or such other means of electronic document delivery upon which the Secretary and the Administrator may hereafter agree.

"Bonneville Account" shall mean the account of the Bonneville Power Administration fund (89X4045) on the books of the Department of the Treasury, or its successor account or accounts.

"Bonneville Appropriated Capital Investment" shall mean an "old capital investment" or a "new capital investment" as such terms are defined in the Omnibus Consolidated Rescissions and Appropriations Act of 1996, Pub. L. 104-134, 110 Stat. 1321, 1350, 16 U.S.C. Chapter 12G section 8381.

"Business Day" shall mean any day on which both the Department of the Treasury and the Federal Reserve Bank of New York are open for business.

"Fiscal Year" shall mean the fiscal year of the United States Federal Government, as then in effect.

"Interest Offset Credit" shall mean a credit that is earned and accrues as provided in section 2.1 of this MOU and that is to be applied as provided in section 2.2 of this MOU.

"Interest Offset Credit Accrual Balance" shall mean, at the time of determination, the positive difference (if any) of the cash balance in the Bonneville Account (if any) less the Short-Term Advance Balance (if any), but only to the

extent to which the positive difference is less than or equal to the aggregate positive value (if any) of:

(1) the cash balance in the Bonneville Account (if any), plus,

(2) the aggregate amount of Treasury Market-Based Special Securities then held by the Bonneville Account (if any) (the amount of each such Security being the original purchase price paid therefor by the Administrator), less

(3) the Applicable Interest Offset Credit Phase-Out Adjustment, less

(4) the Short-Term Advance Balance (if any).

For purposes of this definition, the "cash balance in the Bonneville Account" shall mean the cash balance in the Bonneville Account less any cash in the Bonneville Account for which the Administrator is not entitled by law to earn interest (if any).

"Long-Term Advance" shall mean any Advance heretofore made by the Secretary to Bonneville under any Old Bonneville Bond or hereafter made by the Secretary to the Administrator under any New Bonneville Obligation, where the Advance has a final maturity date for repayment that is three years or more following the date the funds were or are advanced.

"Long-Term Interest Offset Credit Interest Rate" shall mean, at the time of determination, the weighted average interest rate, expressed as a daily rate using an assumed 365 day year, of all Long-Term Advances then outstanding.

"New Bonneville Obligation" shall mean any obligation of the Administrator that is hereafter issued by the Administrator to the Secretary, in any of the forms of obligations attached to the Obligation Purchase MOU.

"Obligation Purchase MOU" shall mean the Obligation Purchase Memorandum of Understanding dated as of even date herewith, between the Secretary and the Administrator relating to, among other things, the terms and conditions of the Secretary's commitment to purchase New Bonneville Obligations, as such Obligation Purchase MOU may be amended.

"Old Bonneville Bonds" shall mean the certain bonds of the Administrator payable to the Secretary that the Administrator on behalf of Bonneville issued and sold to the Secretary prior to April 30, 2008 and that are outstanding on April 30, 2008.

"Short-Term Advance" shall mean an Advance made under any New Bonneville Obligation, where the Advance has a final maturity date for repayment that is less than three years from the date the funds are advanced. An Advance that refunds at maturity or funds the repurchase before maturity of an Advance or portion thereof (including a Long-Term Advance) is a Short-Term Advance if the Advance being refunded or repurchased has a final maturity date for repayment that is less than three years following the date on which the funds are advanced.

"Short-Term Advance Balance" shall mean, at the time of determination, the least of:

- (1) the aggregate principal amount of Short-Term Advances then outstanding (if any),
- (2) the cash balance in the Bonneville Account (if any), and
- (3) the aggregate positive value (if any) of:
 - (a) the cash balance in the Bonneville Account (if any), plus,
 - (b) the aggregate amount of Treasury Market-Based Special Securities then held by the Bonneville Account (if any) (the amount of each such Security being the original purchase price paid therefor by the Administrator), less
 - (c) the Applicable Interest Offset Credit Phase-Out Adjustment.

For purposes of this definition, the "cash balance in the Bonneville Account" shall mean the cash balance in the Bonneville Account less any cash in the Bonneville Account for which the Administrator is not entitled by law to earn interest (if any).

"Short-Term Interest Offset Credit Interest Rate" shall mean, at the time of determination, the weighted average interest rate, expressed as a daily rate using an assumed 365 day year, of all Short-Term Advances then outstanding.

"this MOU" shall mean this Investment Memorandum of Understanding dated as of April 30, 2008, between the Secretary and the Administrator.

"Transition Termination Date" shall mean the earlier to occur of (1) September 30, 2018, and (2) the first day on which the Transition Termination Balance is zero or a negative number.

"Transition Termination Balance" shall mean, at the time of determination, which in all cases shall be the end of a day, an amount equal to the aggregate value (whether positive or negative) of:

- (1) the cash balance in the Bonneville Account, plus
- (2) the aggregate amount of Treasury Market-Based Special Securities then held by the Bonneville Account (if any) (the amount of each such Security being the original purchase price paid therefor by the Administrator), less
- (3) the cash balance in the Bonneville Account for which the Administrator is not entitled by law to earn interest (if any), less
- (4) the Applicable Interest Offset Credit Phase-Out Adjustment.

For purposes of this definition, the "cash balance in the Bonneville Account" shall mean the cash balance in the Bonneville Account less any cash in the Bonneville Account for which the Administrator is not entitled by law to earn interest (if any).

"Transmission Act" shall mean the Federal Columbia River Transmission System Act, Pub. L. No. 93-454, 88 Stat. 1376 (1974), as amended.

"Treasury Market-Based Special Securities" shall mean special non-marketable obligations of the United States having terms identical except for transferability to any

outstanding obligations of the United States issued by the Secretary.

"Treasury's Bureau of the Public Debt" shall mean the Bureau of the Public Debt of the Department of the Treasury, or the office or administrative unit to which applicable functions hereafter succeed.

Section 1.2 Rules of Interpretation.

Unless the context shall otherwise indicate, the terms defined in section 1.1 of this MOU shall include the plural as well as the singular and the singular as well as the plural. The words "herein," "hereof," and "hereto," and words of similar import, refer to this MOU as a whole.

ARTICLE 2

REVISED ACCRUAL, CALCULATION, AND APPLICATION OF INTEREST OFFSET CREDITS

Section 2.1 Earning, Accruing, and Calculating Interest Offset Credits from and after October 1, 2008.

Notwithstanding any prior agreement, arrangement or understanding to the contrary, whether evidenced in writing, including in any Old Bonneville Bond, by oral communication, by practice, or otherwise, the Secretary and the Administrator agree as follows:

2.1.1 Through the Transition Termination Date. From October 1, 2008 up to and including the Transition Termination Date, an Interest Offset Credit shall be earned daily in an amount equal to the sum of: (i) the Interest Offset Credit Accrual Balance (if any) as of the end of the subject day times the Long-Term Interest Offset Credit Interest Rate, and (ii) the Short-Term Advance Balance (if any) as of the end of the subject day times the Short-Term Interest Offset Credit Interest Rate.

2.1.2 After the Transition Termination Date. After the Transition Termination Date, no interest offset credit whatsoever, including an Interest Offset Credit as defined

herein, shall be earned or accrue with respect to cash balances in or other amounts held by the Bonneville Account. The Administrator agrees that immediately after the occurrence of the Transition Termination Date all Old Bonneville Bonds then outstanding shall thereupon be deemed to be permanently amended to delete entirely the paragraph or paragraphs therein describing, referring to, and making available any interest offset credit.

2.1.3 Interest Offset Credit Earned Daily and Accrued Monthly. Notwithstanding that an Interest Offset Credit shall be earned as of the end of a day, it shall accrue and become first available to be applied to the payment of interest on Old Bonneville Bonds as of the end of the month in which the Interest Offset Credit is earned.

Section 2.2 Application of Interest Offset Credits.

2.2.1 Applicable to the Payment of Interest Due and Payable on Old Bonneville Bonds. Except as provided in section 2.2.4 of this MOU, Interest Offset Credits shall be applied as a credit only to the payment of interest due and payable on Old Bonneville Bonds. No Interest Offset Credit may be applied to the payment of interest due and payable under any New Bonneville Obligation or, apart from Old Bonneville Bonds, on any other bond, note or other evidence of indebtedness issued and sold by the Administrator on behalf of Bonneville to the Secretary, whether under section 13 of the Transmission Act or otherwise.

2.2.2 Application of Interest Offset Credits within a Fiscal Year. Interest Offset Credits shall be applied to interest due and payable on Old Bonneville Bonds at the end of the month in which the Interest Offset Credit is earned and accrued, provided, however, that, if the interest due and payable on Old Bonneville Bonds at the end of a month is less than the Interest Offset Credits that are available to be applied thereto, the Interest Offset Credits that are not so applied will accumulate and will continue to be available to be applied to the payment of interest due and payable on Old Bonneville Bonds on each succeeding interest payment date thereafter until the end of the Fiscal Year in which the unused Interest Offset Credits are earned.

2.2.3. No Interest on Interest Offset Credits. Bonneville shall not earn interest on Interest Offset

Credits that have yet to be applied, whether to the payment of interest on an Old Bonneville Bond or otherwise.

2.2.4 Application of Interest Offset Credits That Have Not Otherwise Been Applied to the Payment of Interest on Old Bonneville Bonds. Notwithstanding any provision in this MOU to the contrary:

(a) Interest Offset Credits that have been earned and accrued as of the end of a Fiscal Year but which have not been applied to the payment of interest due and payable on Old Bonneville Bonds as of the end of such Fiscal Year, shall be applied to the payment of interest scheduled for payment by the Administrator to the Secretary at the end of such Fiscal Year with respect to the Administrator's repayment of one or more Bonneville Appropriated Capital Investments of the Administrator's choosing, and

(b) Interest Offset Credits that have been earned as of the Transition Termination Date, but which, as of such date, have not been applied to the payment of interest due and payable on Old Bonneville Bonds, shall be applied at the end of Fiscal Year in which the Interest Offset Credit was earned to the payment of interest scheduled for payment by the Administrator to the Secretary with respect to the Administrator's repayment of one or more Bonneville Appropriated Capital Investments of the Administrator's choosing.

2.2.5 Determination and Application of Interest Offset Credits on an Estimated Basis. The Administrator may determine on an estimated basis for a month the Interest Offset Credits that are earned, accrued, and applied to the payment of interest on Old Bonneville Bonds, or, as the case may be, with respect to Bonneville Appropriated Capital Investments as provided in section 2.2.4 of this MOU; provided, however, that, to the extent that the Administrator overestimates or underestimates the Interest Offset Credits that are in fact earned, accrued, and applied, the Interest Offset Credits earned, accrued, or applied in the next succeeding month or months shall be increased or decreased, as the case may be, in the amount of the overestimate or underestimate.

2.2.6 Relationship to other Offset Credits of the Administrator. Nothing in this MOU shall be interpreted to affect the accrual and application by the Administrator of other offset credits heretofore or hereafter provided for in law with respect to the Administrator's payment and repayment responsibilities to the United States Treasury, including, without limitation, offsets credits under section 4(h)(10)(C) of the Pacific Northwest Electric Power Planning and Conservation Act, Pub. L. 96-501, 94 Stat. 2697 (1980), 16 U.S.C. section 839b(h)(10)(C).

Section 2.3 Interest Offset Credit Calculation Reports.

2.3.1 Monthly Reports. For each month from May 1, 2008 through the Transition Termination Date, Bonneville will prepare and provide to Treasury's Bureau of the Public Debt a calculation of the total amount of the Interest Offset Credits earned, accrued, and applied during the subject month, together with supporting documentation thereto, in the format and with the content specified by Treasury's Bureau of Public Debt. The supporting documentation will include, among other information, the daily cash balances in the Bonneville Account for the month (separately identifying the Interest Offset Credit Accrual Balance, if any, the Short-Term Advance Balance, if any, the Long-Term Interest Offset Credit Interest Rate, and the Short-Term Interest Offset Credit Interest Rate) and the daily amounts of Bonneville investments in Treasury Market-Based Special Securities made during the month.

2.3.2 Delivery. Bonneville will deliver the calculations and supporting documentation described in this section 2.3.1 to the office of Treasury's Bureau of the Public Debt specified in section 4.1.1 of this MOU for receiving the calculations. Bonneville will deliver the calculations no later than 3:00 p.m. (Eastern Time) on the last Business Day of the respective month.

Section 2.4 Application of 2008 Interest Allowances.

Notwithstanding any prior agreement, arrangement or understanding to the contrary, whether evidenced in writing, including in any Old Bonneville Bond, by oral communication, by practice, or otherwise, the Secretary and the Administrator agree that during the period May 1, 2008 through September 30, 2008,

the provisions of sections 2.1, 2.2, and 2.3 of this MOU shall apply to 2008 Interest Allowances as though such 2008 Interest Allowances are Interest Offset Credits as defined in this MOU.

ARTICLE 3

INVESTMENT OF EXCESS FUNDS UNDER SECTION 12(a)

Section 3.1 Investment in Treasury Market-Based Special Securities.

From and after October 1, 2008, if the Administrator determines that amounts in or held by the Bonneville Account are in excess of current needs, the Administrator may request the investment of such amounts as he deems advisable by the Secretary in Treasury Market-Based Special Securities. Upon receiving such investment requests, the Secretary will make these investments.

Section 3.2 Treasury Investment Fund Operating Circular.

The Administrator agrees to all provisions of the Department of the Treasury Operating Circular: Responsibilities Relating to Government Investment Funds and Investment in Government Account Series (GAS) Treasury Securities with the exception of section 4060(h) (relating to limitations on borrowing while holding investments) of the Operating Circular. The Secretary acknowledges that, for purposes of section 7010 (relating to accounting requirements) of the Operating Circular, the accounting requirements applicable to Bonneville are the accounting requirements applicable to government corporations.

ARTICLE 4

MISCELLANEOUS

Section 4.1 Notices.

4.1.1 Addressing Communications to the Secretary: All notices and other communications hereunder to the Secretary, shall be addressed as follows:

Notices, reports, and other communications relating to Article 2 of this MOU shall be addressed as follows:

If sent by U.S. mail:

Federal Borrowings Branch
Office of Public Debt Accounting
Bureau of the Public Debt
Department of the Treasury
Room 113-HB
P.O. Box 396
Parkersburg, WV 26106-0396

If sent by commercial overnight courier service delivery:

Federal Borrowings Branch
Office of Public Debt Accounting
Bureau of the Public Debt
Department of the Treasury
Room 113-HB
200 3rd Street
Parkersburg, WV 26106

Telephone No.: (304) 480-7488

Facsimile No.: (304) 480-5176

Notices and other communications relating to Article 3 of this MOU shall be addressed as follows:

If sent by U.S. mail:

Federal Investments Branch
Office of Public Debt Accounting
Bureau of the Public Debt
Department of the Treasury
Room 114-HB
P.O. Box 396
Parkersburg, WV 26106-0396

If sent by commercial overnight courier service delivery:

Federal Investments Branch
Office of Public Debt Accounting
Bureau of the Public Debt
Department of the Treasury
Room 114-HB
200 3rd Street
Parkersburg, WV 26106

Telephone No.: (304) 480-5151
Facsimile No.: (304) 480-5212

The name of the office, address, electronic mail address, telephone number, or facsimile number for the foregoing may be changed at any time and from time to time by written notice delivered by the Secretary to the Administrator.

4.1.2 Addressing Communications to the Administrator:
All notices and other communications hereunder to the Administrator shall be in writing and shall be addressed as follows:

If sent by U.S. mail:

Bonneville Power Administration
Cash and Treasury Management - FTT-2
P.O. Box 3621
Portland, OR 97208-3621

If sent by commercial overnight courier service delivery:

Bonneville Power Administration
Cash and Treasury Management - FTT-2
905 N.E. 11th Ave.
Portland, OR 97232

Telephone No.: (503) 230-3311
Facsimile No.: (503) 230-4690

The name of the office, address, telephone number, or facsimile number for the foregoing may be changed at any time and from time to time by written notice delivered by the Administrator to the Secretary.

4.1.3 Permitted Means of Delivery. A properly addressed notice or other communication to the Secretary or to the Administrator shall be deemed to have been delivered if it is sent by means of an Approved Method of Electronic Delivery.

Section 4.2 Amendments.

4.2.1 Written Instrument Requirement. No provision of this MOU may be amended, modified, supplemented, waived, discharged, or terminated orally, but only by an instrument in writing duly executed by the parties hereto.

4.2.2 Annual Review. Beginning in Fiscal Year 2008 until the Transition Termination Date, and unless otherwise agreed by the parties, the respective designees of the Secretary and the Administrator will engage in a discussion each year to review the performance under this MOU. The parties will make good faith efforts to assure that the foregoing discussions occur within 30 Business Days prior to the end of each Fiscal Year.

Section 4.3 Successors and Assigns.

4.3.1 Assignment by the Administrator. The Administrator shall not assign or transfer in any manner (whether by succession or otherwise) all or any portion of the Administrator's rights or interests in or to this MOU without the prior express written consent of the Secretary. This MOU shall apply to, bind, and inure to the benefit of any successors and assigns of the Administrator permitted or approved under the preceding sentence.

4.3.2 Assignment by the Secretary. This MOU shall apply to, bind, and inure to the benefit of any successors and assigns of the Secretary.

Section 4.4 Forbearance Not a Waiver.

Any forbearance on the part of the Secretary from enforcing any term or condition of this MOU shall not be construed to be a waiver of such term or condition or acquiescence by the Secretary in any failure on the part of the Administrator to comply with or satisfy such term or condition.

Section 4.5 Effective Date; Term.

4.5.1 Effective Date. This MOU shall be effective on the date first above written.

4.5.2 Term. This MOU, as it may be amended, will remain in effect until such time as it is terminated by the mutual agreement of the Secretary and the Administrator.

Section 4.6 Entire Agreement.

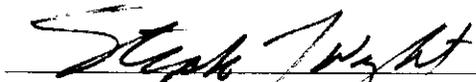
This MOU, together with all written amendments to this MOU, contain the entire agreement between the Administrator and the Secretary relating to Interest Offset Credits and investments after the effective date of this MOU.

Section 4.7 Counterparts.

This MOU may be executed in separate counterparts, each of which when so executed and delivered shall be an original, but all of which together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the Secretary and the Administrator have caused this Investment Memorandum of Understanding to be executed as of the day and year first above written.

ADMINISTRATOR of the
BONNEVILLE POWER ADMINISTRATION
(the "Administrator")

By: 

Name: Stephen J. Wright

Title: Administrator and
Chief Executive Officer

SECRETARY OF THE TREASURY
(the "Secretary")

By: _____

Name: Robert K. Steel

Title: Under Secretary for
Domestic Finance