



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

POWER BUSINESS LINE

July 20, 2007

In reply refer to: PGP

Ms. Renata Kurshner
Manager, Generation Resource Management,
BC Hydro and Power Authority
6911 Southpoint Drive, Tower 15
Burnaby, BC V3N 4X8

Dear Ms. Kurshner:

This letter agreement (Agreement) between the BC Hydro and Power Authority (BCH) and the Bonneville Power Administration (BPA), jointly the Parties, which BPA for accounting purposes is assigned BPA contract number 07PB-32671, will confirm discussions between our respective staffs regarding Arrow flow shaping utilizing available non-Treaty storage space for the period 2400 hours 19 July 2007 through 2400 hours 31 August 2007.

The purpose of this Agreement is to enable smoothing of Arrow outflows from the current high flow period through August to reduce expected peak flows downstream of Arrow, enhance Arrow reservoir elevations and to accomplish smoother pattern of inflows into Grand Coulee while preserving the seasonal inflow volume.

1. Term

The term of this Agreement is from 2400 hours 19 July 2007 through 2400 hours 31 August 2007. The Parties agree that the principles and procedures contained herein do not set a precedent concerning any current or future dispute over Treaty or Non-Treaty rights and obligations, nor do they set a precedent for nonpower purposes, objectives or target objectives and contents.

2. Changes to this Agreement

Changes may be made to the terms and conditions of this Agreement only by mutual consent of the Parties.

3. Storage

- a. The storage period of this Agreement shall be from 2400 hours 19 July 2007 through 2400 hours 17 August 2007.
- b. The available storage volume shall be the difference between the weekly Arrow Treaty discharge as per the Weekly Treaty Flow Agreement and the weekly actual Arrow discharge, and shall be controlled in equal shares by the Parties.
- c. All storage shall be by mutual agreement.

- d. Weekly storage volumes under this Agreement will be agreed in advance for the upcoming Saturday through Friday period and will be finalized on the same schedule as the Weekly Treaty Flow Agreement.
- e. Storage under this Agreement will be accounted for in available space in Mica and/or Arrow. Storage actions under this Agreement shall not impact accounts under the 1990 Non-Treaty Storage Agreement, including account balances and Mica headloss calculations under that NTSA.

4. Release

The release period of this Agreement may begin as early as 2400 hours 28 July 2007 but no later than 2400 hours 17 August 2007 (as determined by mutual agreement). The beginning of the release period will mark the end of the storage period described in Section 3.a. of this Agreement.

- b. BPA and BC Hydro shall release storage by 2400 hours 31 August 2007. The maximum release rate each for BPA and BC Hydro will be the greater of 24.47 hm³/day (10 ksf/day) and the combined BPA/BC Hydro storage volume under this Agreement divided by 28.

5. Other Conditions

- a. BPA and BC Hydro water release rights under Section 2 of this Agreement shall be limited equally so as not to cause actual or forecast discharges to exceed 2832.0 m³/s (100 kcfs) at Arrow, or exceed the daily flow rate change of 424.8 m³/s (15 kcfs) at Arrow or exceed 4672.3 m³/s (165 kcfs) at the water level gauge at Birchbank on the Columbia River. Flow changes that exceed 424.8 m³/s (15 kcfs), will be ramped at the BC Hydro maximum ramp rate requirement of 424.8 m³/s/day (15 kcfs/day). At BPA's discretion, ramping will either commence immediately prior to the start of the Treaty week, or may be delayed to the completion of the Treaty week, preserving the agreed volume of water.
- b. At any time during the term of this agreement, BPA and BC Hydro shall equally share in any forced release due to limited physical storage space at either Mica or Arrow, or compromised Mica flexibility which forces such release.

6. Indemnification

BPA hereby agrees to indemnify and hold BC Hydro harmless from any claims and costs (including reasonable legal fees and disbursements), including any judgments or settlements resulting thereof, that may be asserted against BC Hydro related to the Wells, Rocky Reach, Rock Island, Wanapum, and Priest Rapids projects (commonly referred to as the Mid-Columbia Projects) arising from the storage and release of water, during the period 2400 hours 19 July through 2400 hours 31 August 2007 conducted pursuant to this Agreement.

7. Force Majeure

- a. If either Party is prevented or delayed in performing any obligation under this Agreement by any cause the specific or particular occurrence of which it cannot reasonably anticipate and which is beyond its reasonable control, performance by that Party of such obligation shall be excused to the extent that it is so prevented or delayed until such cause has been removed or overcome. To the extent that such causes

are beyond the reasonable control of such Party, those causes shall include, without limiting the generality of the foregoing, flood, earthquake, storm, lightning, fire, epidemic, war, riot, civil disturbance, labour disturbance, sabotage, and the act or failure to act by a court, administrative authority or other lawful authority; but such causes shall not include lack of financial means.

b. A Party excused under this Section from performance of any obligation, or reasonably anticipating that it will be so excused, shall promptly give notice to that effect to the other Party and shall make all reasonable efforts to remove or overcome the cause of the prevention or delay as soon as is practicable.

8. Consideration

a. Neither BCH nor BPA shall invoice the other any storage fee, charge, toll or assessment for the operation covered by this Agreement.

If the above terms and conditions are acceptable to BCH, please indicate your approval by signing three (3) originals of this Agreement and returning them to BPA. The remaining original is for your files.

Sincerely,



FOR
Stephen R. Oliver
Vice President, Generation Supply

ACCEPTED:

BC HYDRO AND POWER AUTHORITY

By Kelvin Ketchen for Renata Kurschner
Title Acting Manager, Generation Resource Mgmt.
Date 20 July 2007