

BLOCK POWER SALES AGREEMENT
executed by the
BONNEVILLE POWER ADMINISTRATION
and
PORT TOWNSEND PAPER CORPORATION

Table of Contents

Section	Page
1. Term	
2. Definitions	
3. Applicable Rates	
4. Industrial Firm Power Product	
5. Curtailment and Power Reserves	
6. Take-or-Pay Mitigation/Relief from Take-or-Pay	
7. Scheduling	
8. Delivery	
9. Metering	
10. Billing and Payment	
11. Information Exchange And Confidentiality	
12. Notices and Contract Information	
13. Uncontrollable Forces	
14. Governing Law and Dispute Resolution	
15. Statutory Provisions	
16. Standard Provisions	
17. Termination	
18. Signatures	
Exhibit A Peak Demand	
Exhibit B Billing Parameters	
Exhibit C Billing and Payment	
Exhibit D Additional Product, Services, and Special Provisions	
Exhibit E Metering	
Exhibit F Scheduling	
Exhibit G Preschedule Examples	
Exhibit H Power Reserves	

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 **PORT TOWNSEND PAPER CORPORATION** (**Port Townsend**), hereinafter individually referred to as “Party” and collectively referred to as the “Parties.” **Port Townsend** is a CORPORATION organized under the laws of the State of Washington.

RECITALS

BPA will sell and **Port Townsend** will purchase an amount of Industrial Firm Power under this Agreement.

BPA has functionally separated its organization in order to functionally separate the administration and decision-making activities of BPA's power and transmission functions. References in this Agreement to Power Services or Transmission Services are solely for the purpose of clarifying which BPA function is responsible for administrative activities that are jointly performed.

The Parties agree:

1. TERM

This Agreement takes effect on the date signed by the Parties (Execution Date) and terminates at 2400, December 31, 2010. ~~Performance by the Parties shall commence on the Execution Date and shall continue through September 30, 2011, except that the delivery of Firm Power made available by PS for delivery to Port Townsend shall commence on November 1, 2009 the first day of the month following the Execution Date, and shall continue through September 30, 2011.~~

2. DEFINITIONS

Capitalized terms that are not listed below are either defined within the section in which the term is used or in BPA's applicable Wholesale Power Rate Schedules, including the General Rate Schedule Provisions (GRSPs).

- 2.1 "Amounts Taken" means an amount deemed equal to the amount of power scheduled by **Port Townsend** under section 7 of this Agreement.
- 2.2 "Fiscal Year" means the period that begins each October 1 and which ends the following September 30. For instance Fiscal Year 2009 begins October 1, 2008, and continues through September 30, 2009.
- 2.3 "Business Day" means every Monday through Friday except for federal holidays.
- 2.4 "Diurnal" means the division of hours within the month between Heavy Load Hours (HLH) and Light Load Hours (LLH).
- 2.5 "Hourly Preschedule of Firm Power" shall have the meaning described in Exhibit F.
- 2.6 "Firm Power" means electric power that PS will make continuously available to **Port Townsend** under this Agreement.
- 2.7 "Northwest Power Act" means the Pacific Northwest Electric Power Planning and Conservation Act of 1980, 16 U.S.C. §§ 839 et seq., Public Law No. 96-501, as amended.

- 2.8 “Planned Maintenance Outage” means a reduction in Total Plant Load due to periodic or routine plant maintenance that is typical for **Port Townsend’s** industry. Planned Maintenance Outages shall not exceed 10 days during a fiscal year, unless otherwise agreed to by BPA.
- 2.9 “Point of Delivery” or “POD” means the point(s) specified in Exhibit E where power is transferred from a transmission provider to **Port Townsend**.
- 2.10 “Point of Metering” or “POM” means the point at which power is measured as specified in Exhibit E.
- 2.11 “Points of Receipt” means the points in the Pacific Northwest transmission system where Firm Power is to be made available by PS to Port Townsend.
- 2.12 “Power Reserves” shall have the meaning described in Exhibit H.
- 2.13 “Power Services” or “PS” means the organization, or its successor organization, within BPA that is responsible for the management and sale of federal power from the Federal Columbia River Power System.
- 2.14 “Purchase Deficiency” shall have the meaning set out in section 6.1.1.
- 2.15 “Region” means the definition established for “Region” in the Northwest Power Act.
- 2.16 “Term” means the period set out in section 1.
- 2.17 “Total Plant Load” means all electric power consumption including electric system losses, at **Port Townsend’s** production facilities as measured at Points of Metering. No distinction is made between load that is served with power under this Agreement and load that is served with electric power from other sources.
- 2.18 “Transmission Services” or “TS” 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

- 3.1 Purchases by **Port Townsend** from PS under this Agreement are subject to the Industrial Firm Power Rate (~~IP-07R~~), or its successor, and are subject to all applicable GRSPs. Purchases are established as follows:
 - 3.1.1 ~~IP-107R Rate~~: Firm Power amount specified in section 4 of the body of this Agreement and Exhibit B (Billing) identifies amounts and billing entitlements subject to the ~~IP-107R~~ Rate schedule, or its successor. ~~Any credit to be allowed Port Townsend for provision of Power Reserves hereunder, in accordance with the Supplemental~~

~~Contingency Reserves Adjustment in Section III, Part 2 of the IP 107R Rate Schedule will be a monthly amount.~~

- 3.1.2 **Additional Adjustments and Charges:** Port Townsend is subject to any applicable additional adjustments or charges, including penalty charges (e.g., the Unauthorized Increase Charge), established in BPA's Wholesale Power Rate Schedules and associated GRSPs.

4. INDUSTRIAL FIRM POWER PRODUCT

BPA shall provide Firm Power up to the amount of the Peak Demand Entitlement specified in Exhibit A rounded up to the next whole megawatt (MW) each hour, to accommodate scheduling requirements, and Port Townsend shall purchase such amount each hour, except as set forth in Section 5.1, and Port Townsend agrees to purchase each month during the Term:

- 4.1 a take-or-pay minimum of the lesser of 13 average megawatts (aMW) or the product of the Peak Demand Entitlement specified in section 1 of Exhibit A and the number of hours in the month;
- 4.2 a maximum of the product of the Peak Demand Entitlement and the number of hours in the month; and,
- 4.3 a maximum in any hour of the Peak Demand Entitlement, rounded up to the next whole MW.

5. CURTAILMENT AND POWER RESERVES

5.1 Curtailment

If Port Townsend curtails Total Plant Load in whole or in part, then Port Townsend may request take-or-pay mitigation for the minimum purchase amount under section 4 pursuant to section 6.1 below. In addition, the take-or-pay obligation for the minimum purchase amount shall not apply to the extent it is the result of Uncontrollable Forces as set forth in section 13.

5.2 Power Reserves

~~The Supplemental Contingency Reserves Adjustment (SCRA) section of the 2007 General Rate Schedule Provisions, issued September 2008, is incorporated as Exhibit H, Power Reserves and shall be effective through the period ending September 30, 2009. Effective October 1, 2009, Port Townsend shall provide Supplemental Contingency Reserves in a manner consistent with the SCRA Minimum DSI Operating Reserve - Supplemental section of the 2010 General Rate Schedule Provisions and as established in Exhibit H. Those provisions will establish the standards and criteria for determining Power Reserves that Port Townsend shall provide.~~

5.3 Additional or Alternative Arrangements for Power Reserves

Nothing in this Agreement shall preclude BPA and Port Townsend from entering into arrangements, either by amendment to this Agreement or through a separate agreement for Port Townsend to provide BPA with

additional reserves or alternative restriction rights for purposes of providing reserves for BPA firm power loads within the region.

6. TAKE-OR-PAY MITIGATION/RELIEF FROM TAKE-OR-PAY

6.1 Take-or-Pay Mitigation for Curtailments

If **Port Townsend** chooses to curtail its purchase obligation pursuant to section 5.1 above, then the following terms and conditions shall apply:

6.1.1 Notice of Curtailment

Port Townsend shall endeavor to provide notice to PS at least seven (7) Business Days in advance of a curtailment; *provided, however*, that such notice shall in no event be less than three (3) Business Days prior to the beginning of a curtailment. Such notice shall specify the amount of power to be curtailed (Purchase Deficiency) and the duration of the curtailment. The election to curtail such power, and the amount and duration of such curtailment, may not be changed without BPA's consent.

6.1.2 Limitation on Damages

Port Townsend shall pay PS damages for any Purchase Deficiency equal to the amount by which the reasonable market value of such Purchase Deficiency is less than the price of the IP-~~107~~ Rate, or its successor. No later than 60 days following the end of each Fiscal Year, PS shall, for each month of the previous Fiscal Year, calculate the reasonable market value for each monthly Purchase Deficiency during the Fiscal Year. Reasonable market value and calculation of damages shall be determined as follows.

6.1.2.1 No later than three (3) Business Days prior to the commencement of a curtailment under this section 6.1, **Port Townsend** may obtain one or more transactable quotes for all or a portion of such power from a third party. The transactable quote may be for any length of time and curtailment amount. Each quote shall be deemed equal to the reasonable market value of such power to which the quote applies for the purpose of calculating damages under this section 6.1.2. PS may, but shall not be obligated to, resell the curtailed power to the third party, retain the power, or dispose of the power as it chooses. **Port Townsend** shall allow PS at least four (4) hours during normal business hours to decide whether or not to transact under such quote.

6.1.2.2 PS shall determine, by any reasonable method, the reasonable market value of the portion of each monthly Purchase Deficiency for which **Port Townsend** has not obtained a transactable quote. The reasonable market value shall be adjusted to reflect volume and BPA transmission costs associated with remarketing each such portion of the

monthly Purchase Deficiency, regardless of whether each such portion is actually remarketed.

- 6.1.2.3 PS shall bill **Port Townsend** and **Port Townsend** shall directly pay BPA damages for such Fiscal Year equal to the amount by which the sum of the product of (i) each monthly Purchase Deficiency and (ii) the applicable IP rate that PS would have charged each month if the power had been taken under this Agreement, exceeds the sum of the product of (i) each monthly Purchase Deficiency and (ii) the reasonable market value in each month during the Fiscal Year. PS shall compute as damages the algebraic sum of any positive and negative monthly amounts for monthly Purchase Deficiencies during the Fiscal Year, provided that if the sum of such amounts for the Fiscal Year is a negative number, the damages shall be deemed to be zero and PS shall not be obligated to pay any amounts to **Port Townsend** with regard to such Purchase Deficiencies.

It is expressly agreed to by the Parties that BPA shall not be obligated to enter into replacement transactions to determine or collect damages under this section 6.1.2.

Notwithstanding anything in this section 6.1.2 to the contrary; BPA may require Port Townsend, consistent with BPA's then-current credit policies, to pay for any damages that occur pursuant to this section 6.1 prior to the end of the Fiscal Year.

6.2 **Planned Maintenance Outages**

No less than seven days prior to the beginning of a Planned Maintenance Outage **Port Townsend** shall provide PS with written notice that specifies the duration of the Planned Maintenance Outage and the amount of purchase obligation that is to be reduced. Such notice does not relieve Port Townsend of its obligation to adjust the Hourly Preschedule of Firm Power for the month in accordance with section 7 of this Agreement.

7. **SCHEDULING**

All power transactions under this Agreement shall be scheduled and implemented consistent with Exhibit F, Scheduling.

8. **DELIVERY**

8.1 **Transmission Service**

This Agreement does not provide transmission services for, or include the delivery of, power to **Port Townsend**. **Port Townsend** shall be responsible for executing one or more ~~Wheeling transmission service~~ agreements ~~with TS~~ for the delivery of the power provided by PS (the ~~Wheeling Transmission Service~~ Agreements). The Parties agree to take such actions as may be necessary to facilitate the delivery of such power to **Port Townsend** consistent with the

terms, notice, and the time limits contained in the ~~Wheeling-Transmission Service~~ [Agreements](#).

8.2 Liability for Delivery

Port Townsend waives any claims against BPA arising under this Agreement for non-delivery of power to any points beyond the applicable Points of Receipt. BPA shall not be liable under this Agreement for any third-party claims related to the delivery of power after it leaves the Points of Receipt. Neither Party shall 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.

8.3 Points of Receipt

BPA shall make power available to **Port Townsend** under this Agreement at firm points of receipt as specified in the ~~Wheeling-Transmission Service~~ [Agreement](#) (except in the event that all points of receipt on the Federal Columbia River Power System would be considered non-firm) solely for the purpose of scheduling transmission to points of delivery for service to **Port Townsend's** plant load. **Port Townsend** shall schedule, if scheduling is necessary, such power solely for use by its plant load.

Points of Receipt and their capacity amounts may only be changed through mutual agreement. However, at any time PS may request the use of a non-firm alternate Point of Receipt to provide power to **Port Townsend**.

8.4 Real Power Losses

BPA is responsible for the real power losses necessary to deliver Firm Power across the Federal Columbia River Transmission System to **Port Townsend's** POD(s) listed in Exhibit E.

9. METERING

9.1 Meter Measurements

Port Townsend's purchase obligations in section 4 are dependant on amounts scheduled and do not require load meter measurements for billing and payment. However, PS may require load meter measurements for forecasting, planning and verification purposes.

9.2 Co-generation Measurements

No later than three (3) Business Days following the end of any month that BPA's use of reserves are requested, **Port Townsend** shall provide to BPA by e-mail an electronic copy of the hourly measurements for the preceding month of the electric energy produced by **Port Townsend's** onsite co-generation.

10. BILLING AND PAYMENT

All billing and payment under this Agreement shall be implemented consistent with Exhibit C, Billing and Payment.

11. INFORMATION EXCHANGE AND CONFIDENTIALITY

11.1 General Requirements

Upon request, each Party shall provide the other Party with any information that is necessary to administer this Agreement, and to forecast Port Townsend Load, forecast BPA system load, comply with North American Electric Reliability Council (NERC) reliability standards, prepare bills, resolve billing disputes, and otherwise implement this Agreement. For example, this obligation includes transmission and power scheduling information and load and resource metering information (such as one-line diagrams, metering diagrams, loss factors, etc.). Information requested under this section 11.1 shall be provided in a timely manner.

11.2 Reports

If requested by BPA, Port Townsend shall provide annual financial reports and any similar statements made by Port Townsend to BPA either by e-mail at kslf@bpa.gov or, at the address specified in section 12, Notices and Contact Information.

11.3 Meter Data

Port Townsend consents to allow PS to receive Port Townsend's meter data from Transmission Services or BPA's metering function required to administer or verify performance under this Agreement.

11.4 Confidentiality

Before Port Townsend provides information to BPA that Port Townsend deems to be confidential, commercial or financial information, Port Townsend shall clearly designate such information as confidential. BPA shall notify Port Townsend as soon as practicable, but in any case as provided by applicable law or regulation, of any request received under the Freedom of Information Act (FOIA) (5 U.S.C. §§ 552 *et seq.*), or under any other federal law or court or administrative order, for any information designated as confidential by Port Townsend. BPA shall only release such confidential information consistent with FOIA, or if required by any other federal law or court or administrative order. BPA shall limit the use and dissemination of such confidential information within BPA to employees who need it for purposes of administering this Agreement.

12. NOTICES AND CONTACT INFORMATION

Any notice required under this Agreement that requires such notice to be provided under the terms of this section shall be provided in writing to the other Party in one of the following ways:

12.1 delivered in person;

12.2 by a nationally recognized delivery service with proof of receipt;

12.3 by United States Certified Mail with return receipt requested;

- 12.4 electronically, if both Parties have means to verify the electronic notice's origin, date, time of transmittal and receipt; or
- 12.5 by another method agreed to by the Parties.

Notices are effective when received. Either Party may change the name or address for delivery of notice by providing notice of such change or other mutually agreed method. The Parties shall deliver notices to the following person and address;

If to **Port Townsend**:

Port Townsend Paper Corporation
100 Paper Mill Hill Road
P.O. Box 3170
Port Townsend, WA 98368
Attn: **Roger Loney**
Sr Vic President, General Mgr
Phone: **360-379-2158**
FAX: **360-379-2213**
E-Mail: **roger12@ptpc.com**

If to BPA:

Bonneville Power Administration
905 NE 11th Avenue
P.O. Box 3621
Portland, OR 97208
Attn: Mark E. Miller
Account Executive
Phone: 503-230-4003
FAX: 503-230-3681
E-Mail: memiller@bpa.gov

13. UNCONTROLLABLE FORCES

The Parties shall not be in breach of their respective obligations to the extent the failure to fulfill any 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 prevents that Party from performing its contractual obligations under this Agreement and which, by exercise of that Party's reasonable care, diligence and foresight, such Party was unable to avoid. Uncontrollable Forces include, but are not limited to:

- 13.1 any unplanned curtailment or interruption of firm transmission service used to deliver power sold under this Agreement to **Port Townsend** whether such curtailment or interruption occurs on BPA's or a third party's transmission system;
- 13.2 any failure of **Port Townsend's** production, distribution or transmission facilities that prevents **Port Townsend** from taking Firm Power delivered to the Point of Receipt;
- 13.3 strikes or work stoppage; including the threat of imminent strikes or work stoppages; **provided, however**, that nothing contained in this provision shall be construed to require any Party to settle any strike or labor dispute in which it may be involved.
- 13.4 floods, earthquakes, or other natural disasters; terrorist acts; and

- 13.5 final orders or injunctions issued by a court or regulatory body having competent jurisdiction 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.

If an Uncontrollable Force prevents a Party from performing any of its obligations under this Agreement, such Party shall: (1) immediately notify the other Party of such Uncontrollable Force by any means practicable and confirm such notice in writing as soon as reasonably practicable; (2) use its best efforts to mitigate the effects of such Uncontrollable Force, remedy its inability to perform, and resume full performance of its obligation hereunder as soon as reasonably practicable; (3) keep the other Party apprised of such efforts on an ongoing basis; and (4) provide written notice of the resumption of performance. Written notices sent under this section must comply with section 12, Notices and Contact Information.

14. GOVERNING LAW AND DISPUTE RESOLUTION

This Agreement shall be interpreted consistent with and governed by federal law. **Port Townsend** and BPA shall identify issue(s) in dispute arising out of this Agreement and make a good faith effort to negotiate a resolution of such disputes before either may initiate litigation or arbitration. Such good faith effort shall include discussions or negotiations between the Parties' executives or managers. Pending resolution of a contract dispute or contract issue between the Parties or through formal dispute resolution of a contract dispute arising out of this Agreement, the Parties shall continue performance under this Agreement unless to do so would be impossible or impracticable. Unless the Parties engage in binding arbitration as provided for in this section 14 the Parties reserve their rights to individually seek judicial resolution of any dispute arising under this Agreement.

14.1 Judicial Resolution

Final actions subject to section 9(e) of the Northwest Power Act are not subject to arbitration under this Agreement and shall remain within the exclusive jurisdiction of the United States Court of Appeals for the Ninth Circuit. Such final actions include, but are not limited to, the establishment and the implementation of rates and rate methodologies. Any dispute regarding any rights or obligations of **Port Townsend** or BPA under any rate or rate methodology, or BPA policy, including the implementation of such policy, shall not be subject to arbitration under this Agreement. For purposes of this section 14 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 or regulation. If BPA determines that a dispute is excluded from arbitration under this section 14 then **Port Townsend** may apply to the federal court having jurisdiction for an order determining whether such dispute is subject to nonbinding arbitration under this section 14.

14.2 **Arbitration**

Any contract dispute or contract issue between the Parties arising out of this Agreement, which is not excluded by section 14.1 above, shall be subject to arbitration, as set forth below.

Port Townsend may request that BPA engage in binding arbitration to resolve any dispute. If **Port Townsend** requests such binding arbitration and BPA determines in its sole discretion that binding arbitration of the dispute is appropriate under BPA's Binding Arbitration Policy or its successor, then BPA shall engage in such binding arbitration, provided that the remaining requirements of this section 14.2 and sections 14.3 and 14.4 are met. BPA may request that **Port Townsend** engage in binding arbitration to resolve any dispute. In response to BPA's request, **Port Townsend** may agree to binding arbitration of such dispute, provided that the remaining requirements of this section 14.2 and sections 14.3 and 14.4 are met. Before initiating binding arbitration, the Parties shall draft and sign an agreement to engage in binding arbitration, which shall set forth the precise issue in dispute, the amount in controversy and the maximum monetary award allowed, pursuant to BPA's Binding Arbitration Policy or its successor.

Nonbinding arbitration shall be used to resolve any dispute arising out of this contract that is not excluded by section 14.1 above and is not resolved via binding arbitration, unless **Port Townsend** notifies BPA that it does not wish to proceed with nonbinding arbitration.

14.3 **Arbitration Procedure**

Any arbitration shall take place in Portland, Oregon, unless the Parties agree otherwise. The Parties agree that a fundamental purpose for arbitration is the expedient resolution of disputes; therefore, the Parties shall make best efforts to resolve an arbitrable dispute within one year of initiating arbitration. The rules for arbitration shall be agreed to by the Parties.

14.4 **Arbitration Remedies**

The payment of monies shall be the exclusive remedy available in any arbitration proceeding pursuant to this section 14. This [requirement](#) shall not be interpreted to preclude the Parties from agreeing to limit the object of arbitration to the determination of facts. Under no circumstances shall specific performance be an available remedy against BPA.

14.5 **Finality**

14.5.1 In binding arbitration, the arbitration award shall be final and binding on the 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 arbitrator(s) may be entered by any court having jurisdiction thereof.

14.5.2 In nonbinding arbitration, the arbitration award is not binding on the Parties. Each Party shall notify the other Party within 30 calendar days, or such other time as the Parties otherwise agreed to, whether it accepts or rejects the arbitration award. Subsequent to nonbinding arbitration, if either Party rejects the arbitration award, either Party may seek judicial resolution of the dispute, provided that such suit is brought no later than 395 calendar days after the date the arbitration award was issued.

14.6 **Arbitration Costs**

Each Party shall be responsible for its own costs of arbitration, including legal fees. Unless otherwise agreed to by the Parties, the arbitrator(s) may apportion all other costs of arbitration between the Parties in such manner as the arbitrator(s) deem reasonable taking into account the circumstances of the case, the conduct of the Parties during the proceeding, and the result of the arbitration.

15. **STATUTORY PROVISIONS**

15.1 **Prohibition on Resale**

Port Townsend shall not resell Industrial Firm Power purchased from BPA under this Agreement.

15.2 **BPA Appropriations Refinancing Act**

The text of the BPA Refinancing section of the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (BPA Refinancing Act), P.L. 104-134, 110 Stat. 1321, 350, is incorporated as shown in Exhibit D, Special Provisions.

16. **STANDARD PROVISIONS**

16.1 **Amendments**

Except where this Agreement explicitly allows for one Party to unilaterally amend a provision or revise and exhibit, no amendment or exhibit revision ~~to~~ of this Agreement shall be of any force or effect unless set forth in a written instrument signed by authorized representatives of each Party.

16.2 **Entire Agreement and Order of Precedence**

This Agreement, including documents expressly 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. In matters of contract interpretation, ~~t~~The body of this Agreement shall prevail over exhibits to this Agreement in the event of a conflict.

16.3 **Assignment**

Port Townsend may assign this Agreement upon 90 days written notice, but only to a successor-in-interest that has acquired ownership, through purchase

or merger, of **Port Townsend**'s facilities that are served, in whole or in part, with power provided under this Agreement, and then only if such assignee expressly agrees in writing to be bound by the terms of this Agreement. Such assignment will be subject to any reasonable requirement by BPA that the assignee provide credit security, in a form acceptable to BPA, to secure performance of assignee's obligations under this Agreement. It shall not be deemed unreasonable for BPA to require credit security from an assignee with a Moody's credit rating below "A" or the equivalent if rated by another credit rating agency. No other assignment of this Agreement by **Port Townsend** is permitted.

16.4 No Third-Party Beneficiaries

This Agreement is made and entered into for the sole benefit of the Parties, and the Parties intend that no other person or entity shall be a direct or indirect beneficiary of this Agreement.

16.5 Waivers

No waiver of any provision or breach of this Agreement shall be effective unless such waiver is in writing and signed by the waiving Party, and any such waiver shall not be deemed a waiver of any other provision of this Agreement or any other breach of this Agreement.

16.6 BPA Policies

Any reference in this Agreement to BPA policies, including any revisions, does not constitute agreement of **Port Townsend** to such policy by execution of this Agreement, nor shall it be construed to be a waiver of the right of **Port Townsend** to seek judicial review of any such policy.

16.7 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.

16.8 Performance Assurance

When reasonable grounds for insecurity arise with respect to the performance of **Port Townsend**, BPA may in writing demand adequate assurance of due performance in addition to prepayment and specify the form such assurance shall take. The type of assurance BPA may require includes, but is not limited to, providing a letter of credit, posting a security deposit, as appropriate. Failure of **Port Townsend** to provide such assurance within the time specified by BPA in its request for adequate assurance shall be considered a material breach and may, in BPA's sole discretion, create reasonable grounds to suspend or terminate this Agreement. If adequate assurance is not provided, or is not provided in the form specified in the request for adequate assurance, BPA shall have five Business Days from the date such assurance was required to be provided to notify **Port Townsend** in writing of its intentions with respect to termination or suspension of the

contract. Any waiver by BPA of its right to suspend or terminate this Agreement shall not be considered a waiver of said rights with respect to future instances when adequate assurance may be required. Written notices sent under this section must comply with section 12, Notices and Contact Information.

16.9 Prepayment Reevaluation

Port Townsend may request BPA to reevaluate prepayment or performance assurances required pursuant to section 16.8. Upon such request, BPA shall reevaluate Port Townsend’s creditworthiness to establish whether the amount of prepayment or the performance assurance required to be posted or maintained by Port Townsend need to be revised.

17. TERMINATION

BPA may terminate this Agreement if:

17.1 **Port Townsend** fails to cure non-payment as required by section 10, or

17.2 **Port Townsend** fails to provide performance assurance satisfactory to BPA as required by section 16.8.

Such termination is without prejudice to any other remedies available to BPA under law.

18. SIGNATURES

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

PORT TOWNSEND PAPER CORPORATION

UNITED STATES OF AMERICA
Department of Energy
Bonneville Power Administration

By _____

By _____

Account Executive

Name _____
(Print/Type)

Name _____
(Print/Type)

Title _____

Date _____

Date _____

**Exhibit A
PEAK DEMAND**

1. PEAK DEMAND ENTITLEMENT

Port Townsend's Contract Demand equals 20.5 megawatts (MW) and such Contract Demand shall equal Port Townsend's hourly Peak Demand Entitlement.

2. REVISIONS TO CONTRACT DEMAND

Port Townsend's Contract Demand specified in section 1 of this Exhibit A was established at 2400 hours on September 30, 1997 under Revision No. 1, Exhibit C of Contract No. DE-MS79-81BP-90347. The Parties recognize that Public Utility District No. 1 of Clallam County, Washington (Clallam) has requested that it be permitted to serve Port Townsend's OCC plant load, consistent with BPA's determination in 2005 that service to the OCC plant could be served by Clallam at the PF rate pursuant to Bonneville's Atochem policy. See, BPA's Policy for Power Supply Role for Fiscal Years 2007-2008 (February 2005) at page 56. ~~As a consequence the Contract Demand stated above is contingent on the outcome of BPA's final determination regarding the status of the OCC load.~~ To the extent Clallam ~~is permitted~~ complies with the procedures outlined in BPA's June 16th letter approving Clallam's request and Clallam commences to serve OCC load, Port Townsend's Contract Demand will be adjusted downward accordingly to reflect the change in status of that portion of the Port Townsend load and the OCC plant load shall not be included in Port Townsend's Total Plant Load.

**Exhibit B
BILLING PARAMETERS**

1. INDUSTRIAL FIRM POWER ENTITLEMENTS

1.1 **Port Townsend's** HLH and LLH Energy Entitlements shall be the greater of: (i) the product of the applicable take-or-pay minimum specified in section 4.1 of the body of the Agreement and the number of hours in the respective diurnal periods for the billing month; or, (ii) the sum of the megawatt amounts in the Hourly Preschedule of Firm Power for hours in the respective diurnal periods in the billing month.

1.2 **Port Townsend's** Demand Entitlement shall be the lesser of: (i) Peak Demand Entitlement as specified in Exhibit A of this Agreement; or, (ii) the maximum megawatt amount in the Hourly Preschedule of Firm Power for the billing month.

2. UNAUTHORIZED INCREASE CHARGE

Consistent with the applicable BPA Wholesale Power Rate Schedules and GRSPs, power scheduled pursuant to section 7 of the body of this Agreement is subject to unauthorized increase charges specified in section 2.1 and 2.2 of this Exhibit, unless such power is provided under another contract with PS.

2.1 Hourly Preschedule of Firm Power amounts in any hour that exceed the MW amount specified in section 4.3 of the body of the Agreement shall be subject to the Charge for Unauthorized Increase in Demand.

2.2 The total of Hourly Preschedule for Firm Power amount, submitted and updated by Port Townsend pursuant to Exhibit F, for the month that exceeds the product of Peak Demand Entitlement and the number of hours in the month shall be subject to the Charge for Unauthorized Increase in Energy.

3. REVISIONS

If this exhibit is inconsistent with BPA's IP-~~107R~~ Rate schedule, or its successor, as finally approved by FERC, the Parties shall make a good faith effort to amend this exhibit so that it is consistent.

Exhibit C
BILLING AND PAYMENT

1. BILLING

1.1 Take or Pay Minimum Firm Power

~~BPA shall bill Port Townsend monthly for electric power and related services to be provided to Port Townsend under section 4.1 of the body of this Agreement~~
BPA shall bill Port Townsend for prepayment of monthly electric power and related services to be provided to Port Townsend under section 4.1 of the body of the Agreement (“Take or Pay Minimum Firm Power”) in the succeeding calendar month (the “Delivery Month”). The Issue Date is the earlier of the date BPA provides a bill for Take or Pay Products and Services by electronic transmission to **Port Townsend** and, in the case of physical delivery (whether by hand delivery, U.S. Mail, other reasonable means), the date the bill for Take or Pay Products and Services is received by **Port Townsend**.

1.2 Final Bill

BPA shall bill Port Townsend monthly for electric power and related services to be provided to Port Townsend under section 4 of the body of this Agreement and section 1 of Exhibit F to this Agreement.

2. PAYMENT

Port Townsend shall pay all bills electronically in accordance with instructions on the bill.

2.1 Prepayment

For each prepayment bill for Take or Pay Minimum Firm Power provided by BPA under section 1.1 of this Exhibit, **Port Townsend** shall pay such bill not later than the later to occur of (a) 15th calendar day of the month preceding the Delivery Month, and (b) five Business Days following the Issue Date.

~~2.1~~ 2.1 **Prepayment to be Billed**

The amount to be included in a bill by BPA under section 1.1 of this Exhibit and to be paid by **Port Townsend** for Take or Pay Minimum Firm Power is the take-or-pay minimum Firm Power amount for the related Delivery Month established pursuant to section 4.1 of the body of this Agreement.

~~2.2~~ 2.1 **Prepayment Essential**

Prepayment by Port Townsend of Take or Pay Minimum Firm Power is an essential term of this Agreement.

~~2.1~~ 2.3 **Non-Payment by Port Townsend of Take or Pay Minimum Firm Power**

In the event of non-payment by **Port Townsend** of amounts billed for Take or Pay Minimum Firm Power, even if BPA by written agreement waives breach and default for late payment thereof, **Port Townsend**

shall be liable for unpaid amounts until the payment is satisfied or the obligations hereunder are discharged. Until such time as amounts in arrears are paid in full or are discharged, the unpaid balance shall accrue interest daily at the Default Rate and such accrued interest shall be included in the determination of the amount of the unpaid balance.

2.21.4 Effect of Partial Payments of Prepayment Essential

In the event that **Port Townsend** makes a payment that is insufficient to cover amounts then due and payable for either Take or Pay Minimum Firm Power or for a final monthly bill under this Agreement, the insufficiency shall be deemed to be a nonpayment under section 5 of this Exhibit.

2.23 Final Payment

If payment is due, **Port Townsend** shall make payment of the final bill provided by BPA under section 1.2 of this Exhibit by the 20th day after the Issue Date of the final bill. If the 20th day is a Saturday, Sunday, or federal holiday, then the due date is the next Business Day. Failure to make payment by the due date shall be deemed to be a nonpayment of Firm Power.

2.23.1 If the amount of the final bill exceeds the amount of the bill for Take or Pay Minimum Firm Power for the Delivery Month, **Port Townsend** shall pay BPA the difference between the bill for Take or Pay Minimum Firm Power and final bill by the final bill's due date; or

2.23.2 ~~if~~ If the amount of the final bill for the Delivery Month is less than the amount of the bill for Take or Pay Minimum Firm Power, then BPA shall pay **Port Townsend** the difference between the bill for Take or Pay Minimum Firm Power and final bill by the 20th day after the final bill's Issue Date. If the 20th day is a Saturday, Sunday, or federal holiday, BPA shall pay the difference by the next Business Day.

3. DEFAULT RATE

The Default Rate shall be equal to the higher of:

3.1 the Prime Rate (as reported in the Wall Street Journal or successor publication, in the first issue published during the month in which payment was due), plus four percent, divided by 365; or

3.2 the Prime Rate times 1.5, divided by 365;

and shall be applied each day after the due date to any unpaid balance.

4. DISPUTED BILLS

- 4.1 If **Port Townsend** disputes any portion of a charge or credit on **Port Townsend's** bill, **Port Townsend** shall provide written notice to BPA with a copy of the bill noting the disputed amounts. Notwithstanding whether any portion of the bill is in dispute, **Port Townsend** shall pay the entire bill by the due date. This section 4.1 does not allow **Port Townsend** to challenge the validity of any BPA rate. Notice of a disputed charge on a bill does not constitute BPA's agreement that a valid claim under contract law has been stated.
- 4.2 If the Parties agree, or if after dispute resolution, **Port Townsend** 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 shall equal the Prime Rate (as reported in the Wall Street Journal or successor publication in the first issue published during the month in which payment was due) divided by 365.

5. NON PAYMENT BY PORT TOWNSEND

If **Port Townsend** fails to pay in full any bill for Take or Pay Minimum Firm Power or final bill by the applicable due date it shall be considered in default and such unpaid amount shall be charged the default rate charge provided above in section 3. The unpaid amount and the default rate charge shall be considered overdue and Bonneville shall have the right, at its sole option and without notice to suspend delivery under this Agreement to **Port Townsend** on or after the third (3) calendar day of the applicable due date. If **Port Townsend** has not paid in full any unpaid amount including the applicable default rate charge on or before the Seventh (7) calendar day after the applicable due date, Bonneville shall have the sole option to terminate this Agreement pursuant to Section 17.1 of the body of the Agreement.

6. Deposit

Not later than the seventh Business Day prior to the scheduled commencement of deliveries of ~~Take or Pay Minimum~~ Firm Power under this Agreement, Port Townsend shall irrevocably pay to BPA as security for a possible default by Port Townsend in its payment obligation to BPA ~~for Take or Pay Minimum Firm Power~~ under this Agreement an amount in dollars equal to the amount of the highest monthly bill less the prepayment amount for that month, which will be established by the product of the: i) subtraction of the take-or-pay minimum established in section 4.1 of the body of the Agreement from the Peak Demand Entitlement; ii) highest monthly average IP-~~107R~~ rate, or its successor (\$/MWh); and iii) number of hours in such month (the "Security Amount"). The Security Amount is \$213,267.60 and is the result of 20.5 MW minus 13 MW then multiplied by the \$38.22 per MWh average IP rate for January 2010 then multiplied by 744 hours in January 2010. In the event that Port Townsend does not default in its payment obligations to BPA for Take or Pay Minimum Firm Power under this Agreement, BPA shall provide in aggregate, payment credits in an amount equal to the Security Amount toward payments otherwise due by Port Townsend to BPA for the final month of service, as agreed to herein, for Take or Pay Minimum Firm Power under this Agreement,

provided, that, in the event that the final month's bill for Take or Pay Minimum Firm Power under this Agreement is less than the Security Amount, BPA shall, not later than the sixtieth calendar day after the final bill is provided to Port Townsend, refund in cash to Port ~~Townshend~~Townsend the positive difference between the Security Amount less the final month's bill for Take or Pay Minimum Firm Power under this Agreement.

7. REVISIONS

BPA may unilaterally revise this Exhibit C to implement requirements resulting from updates to **Port Townsend**'s creditworthiness determination as a result of BPA's determination pursuant to section 16.9 of the body of the Agreement.

Exhibit D
ADDITIONAL PRODUCTS, SERVICES, AND SPECIAL PROVISIONS

1. BPA APPROPRIATIONS REFINANCING

In accordance with section 15.2 of the body of this Agreement, section (i) of the BPA Refinancing Section of the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (BPA Refinancing Act), P.L. No. 104-134, 110 Stat. 1321, 350, is included in this Agreement--

1.1 Contract Provisions

In each contract of the Administrator that provides for the Administrator to sell electric power, transmission, or related services, and that is in effect after September 30, 1996, the Administrator shall offer to include, or as the case may be, shall offer to amend to include, provisions specifying that after September 30, 1996--

1.1.1 the Administrator shall establish rates and charges on the basis that

1.1.1.1 the principal amount of an old capital investment shall be no greater than the new principal amount established under subsection (b) of the BPA Refinancing Act;

1.1.1.2 the interest rate applicable to the unpaid balance of the new principal amount of an old capital investment shall be no greater than the interest rate established under subsection (c) of the BPA Refinancing Act;

1.1.1.3 any payment of principal of an old capital investment shall reduce the outstanding principal balance of the old capital investment in the amount of the payment at the time the payment is tendered; and

1.1.1.4 any payment of interest on the unpaid balance of the new principal amount of an old capital investment shall be a credit against the appropriate interest account in the amount of the payment at the time the payment is tendered;

1.1.2 apart from charges necessary to repay the new principal amount of an old capital investment as established under subsection (b) of the BPA Refinancing Act and to pay the interest on the principal amount under subsection (c) of the BPA Refinancing Act, no amount may be charged for return to the United States Treasury as repayment for or return on an old capital investment, whether by way of rate, rent, lease payment, assessment, user charge, or any other fee;

1.1.3 amounts provided under section 1304 of title 31, United States Code, shall be available to pay, and shall be the sole source for payment of, a judgment against or settlement by the Administrator or the United

States on a claim for a breach of the contract provisions required by this Part; and

- 1.1.4 the contract provisions specified in this Part do not--
 - 1.1.4.1 preclude the Administrator from recovering, through rates or other means, any tax that is generally imposed on electric utilities in the United States, or
 - 1.1.4.2 affect the Administrator's authority under applicable law, including section 7(g) of the Pacific Northwest Electric Power Planning and Conservation Act (16 U.S.C. 839e(g)), to--
 - 1.1.4.2.1 allocate costs and benefits, including but not limited to fish and wildlife costs, to rates or resources, or
 - 1.1.4.2.2 design rates.

2. REVISIONS

This exhibit shall be revised by mutual agreement of the Parties to reflect additional special provisions during the Term.

Exhibit E
METERING (07/09/08 Version)

1. METERING

1.1 Directly Connected Points of Delivery and Load Metering

BPA POD Name: Fairmount Substation 115 kV;
BPA POD Number: TBD*
WECC Balancing Authority: BPAT;

Location: the point in BPA's Fairmount Substation where the 115 kV facilities of BPA and Clallam are connected;

Voltage: 115 kV;

Metering: in BPA's Fairmount Substation 115 kV in the 115 kV circuit over which such electric power flows;

- (1) **BPA Meter Point Name:** New Mill In;
BPA Meter Point Number: 2872;
Direction for PF Billing Purposes: Negative;
Manner of Service: Direct, BPA to Port Townsend;
- (2) **BPA Meter Point Name:** New Mill Out;
BPA Meter Point Number: 2871;
Direction for PF Billing Purposes: Positive;
Manner of Service: Direct, Port Townsend to BPA
- (3) **BPA Meter Point Name:** Port Townsend Generation;
BPA Meter Point Number: 2863;
Direction for PF Billing Purposes: «Positive/Negative/Not used»; TBD*
Manner of Service: «Direct, BPA to «Customer Name» or «Customer Name» to BPA»; TBD*

Metering Loss Adjustment: BPA shall adjust for losses between the POD, New Mill In, and the New Mill Out. Such adjustments shall be specified in writing between BPA and Port Townsend;

Exception: None.

2. REVISIONS

Each Party shall notify the other in writing if updates to this exhibit are necessary to accurately reflect the actual characteristics of POD and meter information described in this exhibit. The Parties shall revise this exhibit to reflect such changes. The Parties shall mutually agree on any such exhibit revisions and agreement shall not be unreasonably withheld or delayed. The effective date of any exhibit revision shall be the date the actual circumstances described by the revision occur.

**Exhibit F
SCHEDULING**

1. SCHEDULING FEDERAL RESOURCES

Hourly preschedules of Firm Power for the month must be submitted by Port Townsend to PS in whole megawatts (MW) for each hour in the month in the format presented in Exhibit G of the Agreement, no later than 11 a.m. (1100) PPT three Business Days prior to the beginning of each month. Such submission shall constitute Port Townsend's Hourly Preschedule of Firm Power for the month and shall be communicated by Port Townsend to BPA Preschedule by e-mail at:

E-mail: presched@bpa.gov

Additional BPA Preschedule Contact Information

Preschedule Desk Phone: (503) 230-3813

Preschedule Facsimile: (503) 230-3039

Port Townsend shall provide PS a contact person available at the plant to contact 24 hours, 7 days a week at the following phone number.

Port Townsend

Phone: () -

PS agrees to provide Port Townsend e-Tagging services for the purposes of scheduling power and for e-Tagging scheduled deliveries to Port Townsend under this Agreement. Port Townsend agrees to pay PS \$300 each month for such service. Port Townsend shall be responsible for any charges or penalties assessed schedules submitted by Port Townsend and scheduled by PS.

Changes during the month to the Hourly Preschedule of Firm Power for the month shall be submitted by Port Townsend to PS, in the format presented in Exhibit G of the Agreement, no later than 11 a.m. (1100) PPT in accordance with the WECC Preschedule Calendar for the Preschedule Day hourly schedules to be changed. Such changes shall be communicated by Port Townsend to BPA Preschedule by e-mail at:

E-mail: presched@bpa.gov

In the event of an emergency or unplanned outage or reduction that requires a real-time change to the Hourly Preschedule of Firm Power, Port Townsend shall call the BPA Real-Time Load Desk at the following number to update its hourly schedules as soon as Port Townsend identifies the event.

BPA Real-Time Loads Desk

Phone: (503) 230-3341

Both Parties shall notify each other of changes to telephone or fax numbers of key personnel (for Prescheduling, Real-Time Scheduling, or After the Fact, etc.)

BPA After the Fact Desk
Phone: (503) 230-3949

If BPA, in its sole discretion, determines that Port Townsend has intentionally submitted schedules that deviate, in magnitude and/or duration, from its actual metered load, in order to realize a significant financial benefit beyond what would normally be realized when managing its monthly energy imbalance, as determined by BPA, BPA may take action to mitigate further deviations. If BPA determines that there have been intentional deviations, it will provide written notice to Port Townsend giving Port Townsend 90 days from the date the date of such notice to alter its scheduling practices in a manner that avoids further intentional deviations. At the end of this 90 day cure period, if Port Townsend has altered its scheduling practices in a manner that will avoid future intentional deviations, no further action will be taken. If Port Townsend has not altered its scheduling practices to BPA's satisfaction, BPA shall have the right to unilaterally revise the Agreement to convert power deliveries from scheduled service to load following service and all charges and other requirements specified in BPA rate schedules and General Rate Schedule Provisions for that type of service will be applied.

In the event that **Port Townsend** moves its load to a different Balancing Authority Area, Scheduling will require 60-day notification and additional scheduling services may be required.

2. AFTER THE FACT

BPA and **Port Townsend** agree to reconcile all transactions, schedules and accounts at the end of each month (as early as possible within the first 10 calendar days of the next month). BPA and **Port Townsend** shall verify all transactions per this Agreement, as to product or type of service, hourly amounts, daily and monthly totals, and related charges.

3. REVISIONS

BPA may unilaterally revise this Exhibit F to implement changes that are applicable to Port Townsend and that BPA determines are reasonably necessary to: (i) update contact information; (ii) meet its power and scheduling obligations under this Agreement; or, (iii) comply with requirements of the Western Energy Coordinating Council (WECC), North American Energy Standards Board (NAESB), or NERC, or their successors or assigns.

Revisions are effective 45 days after BPA provides written notice of the revisions to **Port Townsend** unless, in BPA's sole judgment, less notice is necessary to comply with an emergency change to the requirements of the WECC, NAESB, NERC, or their successors or assigns. In this case, BPA shall specify the effective date of such revisions.

**Exhibit G
PRESCHEDULE EXAMPLES**

**Monthly Preschedule of Firm Power
Port Townsend Pre-Schedule**

To: presched@bpa.gov

Contract # 09PB-

Date	HE1	HE2	HE3	HE4	HE5	HE6	HE7	HE8	HE9	HE10	HE11	HE12	HE13	HE14	HE15	HE16	HE17	HE18	HE19	HE20	HE21	HE22	HE23	HE24	HE25	TOTAL	
4/1/09																										0	
4/2/09																											0
4/3/09																											0
4/4/09																											0
4/5/09																											0
4/6/09																											0
4/7/09																											0
4/8/09																											0
4/9/09																											0
4/10/09																											0
4/11/09																											0
4/12/09																											0
4/13/09																											0
4/14/09																											0
4/15/09																											0
4/16/09																											0
4/17/09																											0
4/18/09																											0
4/19/09																											0
4/20/09																											0
4/21/09																											0
4/22/09																											0
4/23/09																											0
4/24/09																											0
4/25/09																											0
4/26/09																											0
4/27/09																											0
4/28/09																											0
4/29/09																											0
4/30/09																											0

Mid-Month Change to Monthly Preschedule of Firm Power

Port Townsend Pre-Schedule

To: presched@bpa.gov

Contract # 09PB-

Date	HE1	HE2	HE3	HE4	HE5	HE6	HE7	HE8	HE9	HE10	HE11	HE12	HE13	HE14	HE15	HE16	HE17	HE18	HE19	HE20	HE21	HE22	HE23	HE24	HE25	TOTAL	
4/17/09																										0	
4/18/09																											0
4/19/09																											0
4/20/09																											0
4/21/09																											0
4/22/09																											0
4/23/09																											0
4/24/09																											0
4/25/09																											0
4/26/09																											0
4/27/09																											0
4/28/09																											0
4/29/09																											0
4/30/09																											0
																											0

**Exhibit H
POWER RESERVES**

1. DEFINITIONS

- 1.1 “Event” is a system condition under which PS needs additional power to meet its obligations during a system disturbance. The beginning of an Event shall be identified by alarm notice to the PS Loads Scheduler/Hydro Duty Scheduler of a system disturbance, and the Loads Scheduler will notify Port Townsend that Restricted Energy is required. The end of the Event shall occur the earlier of when; a) initially established; b) Port Townsend’s scheduling agent has notified Port Townsend that full service has been restored; or c) 105 minutes from the beginning of the Event. An Event shall not include BPA electing not to purchase power for economic reasons, nor shall an Event include circumstances in which BPA elects not to purchase available transmission capacity to avoid the need to impose a restriction.
- 1.2 “Event Duration” shall be the total cumulative Event Minutes of the Event.
- 1.3 “Event Minute” shall be the minutes of restriction (or any portion thereof) during an Event.
- 1.4 “Contingency Reserves” are those reserves provided by Port Townsend under this Agreement for purposes of providing reserves for BPA’s firm power loads within the region, as provided for in the Northwest Power Act.
- 1.5 “Reserve Amount” shall be the kilowatt (kW) amount of Contingency Reserves available to BPA by Port Townsend specified in section 2 of this Exhibit.
- 1.6 “Restricted Energy” means the requested megawatt-hour (MWh) amount of energy not made available to Port Townsend hereunder because of an Event pursuant to section 2 of this Exhibit.

2. AMOUNT AND TYPES RESERVES

When necessary to provide Contingency Reserves, BPA may restrict the Reserve Amount, or the requested portion thereof, for a period of time (Restricted Energy). The Reserve Amount shall equal 2,000 kilowatts, or 10% of the Amount, consistent with the amount of Minimum DSI Operating Reserve – Supplemental specified in the 2010 GRSP, or its successor.

Port Townsend will provide the Restricted Energy to BPA by an interruption of its loads or increased generation in an amount equal to or greater than the amount of such specified Restricted Energy, and in each case shall continue such load interruption for the duration of the Event.

3. QUALITY AND CHARACTER OF RESERVES

Contingency Reserves provided by Port Townsend shall be consistent with North American Electric Reliability Council (NERC), Western Electricity Coordinating Council (WECC), and Northwest Power Pool (NWPP) standards and criteria:

3.1 the Reserve Amount, or the requested portion thereof, must be offline within ten (10) minutes of the Event and pursuant to section 4 of this Exhibit;

3.2 the Reserve Amount, or the requested portion thereof, must be available to be offline for up to one-hundred five (105) minutes.

4. NOTIFICATION

Port Townsend shall provide a contact at the Facility at the following phone number:

Port Townsend
Phone: _____ TBD

Port Townsend shall maintain such contact for every hour in the Term of the Agreement in which the Minimum DSI Operating Reserve – Supplemental amount is greater than zero megawatts.

The Loads Scheduler will notify Port Townsend of each contingency event by means of a pre-programmed phone call or other electronic means. Within eight (8) minutes following such notice by the Loads Scheduler of an Event, Port Townsend shall commence providing the Restricted Energy to BPA. Port Townsend shall not restore its use of the Restricted Energy until the lesser of: (a) one-hundred five (105) minutes; or (b) immediately following notice from the Loads Scheduler terminating an Event.

5. VERIFICATION

PS retains the right to verify Port Townsend's provision of Restricted Energy by comparing the metered amounts before an Event, during an Event, and after an Event is terminated. If such verification fails to demonstrate that the Restricted Energy was made available to BPA by Port Townsend for the Event Duration, then PS, in its sole discretion, may: (a) terminate the compensation specified in Section 6 of this Exhibit for the undemonstrated portion of the Reserve Amount for the remaining Term of the Agreement; and, (b) notify TS of the undemonstrated portion of the Reserve Amount. Port Townsend acknowledges that any undemonstrated portion of the Reserve Amount may cause its transmission supplier to take additional actions subject to the provisions of transmission service agreements Port Townsend maintains with its transmission supplier, that may include an assessment of the monetary penalty described in the Failure to Comply provision of the prevailing TS tariff for transmission service.

6. COMPENSATION FOR CONTINGENCY RESERVES

Port Townsend will be compensated by PS for Minimum DSI Operating Reserve - Supplemental provided in this Agreement through an adjustment to the IP rate determinants, as provided for in the Northwest Power Act.

7. RETURNED ENERGY

BPA must make any Restricted Energy during an Event available to Port Townsend within 24 hours ("Returned Energy") in mutually agreed flat hourly amounts and hours. Parties agree Returned Energy does not need to be scheduled during hours immediately following an Event and that the Returned Energy will likely be made available during Light Load Hours.

BPA will not bill Port Townsend for Returned Energy

Scheduling of Returned Energy amounts scheduled will be in addition to federal power purchased pursuant to section 4 of the body of the Agreement.

8. TESTING OF RESERVES

BPA shall have the right to conduct tests of the procedure specified in this Exhibit.

9. REVISIONS

BPA may unilaterally revise this Exhibit F to implement changes that are applicable to Port Townsend and that BPA determines are reasonably necessary for reserves provided under this Agreement to: (a) reflect changes in the value of the DSI Reserves Adjustment; and (b) comply with requirements of the WECC, NAESB, or NERC, or their successors or assigns.

Revisions are effective 45 days after BPA provides written notice of the revisions to Port Townsend unless, in BPA's sole judgment, less notice is necessary to comply with an emergency change to the requirements of the WECC, NAESB, NERC, or their

successors or assigns. In this case, BPA shall specify the effective date of such revisions. ~~1.—GENERAL RATE SCHEDULE PROVISION~~

~~In accordance with section 5.2 of the body of this Agreement, section O, Supplemental Contingency Reserves Adjustment (SCRA) of the 2007 General Rate Schedule Provisions, issued September 2008, is included in section 2 of this Exhibit H.~~

~~2.—SUPPLEMENTAL CONTINGENCY RESERVES ADJUSTMENT~~

~~The energy charges stated in the IP-07R rate schedule may be adjusted to reflect the negotiated Supplemental Contingency Reserves Adjustment (SCRA) adjustment. Power Services will negotiate with any direct service industries (DSI) interested in providing Supplemental Contingency Reserves (Supplemental Reserves). Supplemental Reserves refers to generating capacity, and associated energy, fully available within 10 minutes' notice of a system disturbance. This is a flexible rate that will allow BPA to negotiate company-specific interruption rights and will establish a value tied to the company-specific arrangement based on the amount and quality of reserves provided. The maximum amount Power Services may pay for Supplemental Reserves from a DSI is capped at the rate published in BPA's Final Supplemental WP-07 Rate Proposal for operating reserve capacity that is provided as a generation input to Transmission Services. This maximum value is based on the Federal Energy Regulatory Commission (FERC) approved embedded cost methodology.~~

~~The suitability and quality of the Supplemental Reserves will be measured by whether they have certain characteristics, some of which are required and others optional. Any Supplemental Reserves purchased by Power Services must be consistent with North American Electric Reliability Council (NERC), Western Electricity Coordinating Council (WECC), and Northwest Power Pool (NWPP) standards or criteria as stated:~~

~~2.1—The interruptible load must be offline within five minutes after a call by BPA;~~

~~2.2—In the event of a system disturbance, the interruptible load must be accessible prior to a request for reserves from other NWPP parties; and~~

~~2.3—The interruptible load must be available to be offline for up to 60 minutes.~~

~~In addition to these required characteristics, the issues identified below will help define when Power Services may pay the maximum value for Supplemental Reserves:~~

~~2.4—The extent to which Power Services has the discretion when and how to use all operating reserves and to determine what resources to call on in the event of a system disturbance; and~~

~~2.5—Whether there are limitations on the number of times or total minutes the reserves may be utilized.~~

~~Pursuant to established criteria met and performance demonstrated, BPA will satisfy its obligation to provide a reserves credit or payment to the DSI through Transmission Services' Transmission Contracts and the Stability Reserves Credit, or through other contracts as negotiated.~~

3. ~~REVISIONS~~

~~BPA will revise this Exhibit H such that the 2010 Wholesale Power Rate Schedules and General Rate Schedule Provisions will establish the standards and criteria for Port Townsend to provide Power Reserves effective October 1, 2009.~~