

**CONTRACT
FOR
OPEN-MARKET SALE OF PRIEST RAPIDS PROJECT
POWER**

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**CONTRACT
FOR
OPEN-MARKET SALE OF PRIEST RAPIDS PROJECT POWER**

Executed by
**PUBLIC UTILITY DISTRICT NO. 2
OF GRANT COUNTY, WASHINGTON**
And

This contract is entered into as of _____, 2011 between Public Utility District No. 2 of Grant County, Washington (the "District"), a municipal corporation of the State of Washington, and _____ (the "Purchaser"), a _____ corporation organized and existing under the laws of _____. The District and the Purchaser are referred to as a "Party" and collectively as "Parties."

The District agrees to sell to the Purchaser, and the Purchaser agrees to purchase from the District, a percentage share of the Priest Rapids Project Output upon the terms and subject to the conditions set forth in this Contract.

The Parties, in consideration of the mutual promises and intending to be legally bound, agree as follows:

SECTION 1. TERM OF CONTRACT

Except as otherwise provided herein, this Contract shall be in full force and effect from and after it has been executed by the District and the Purchaser. Unless sooner terminated pursuant to other provisions, this Contract shall remain in effect until the end of HE 2400 (midnight) Pacific Prevailing Time "PPT", December 31, 2011 (the "Term"). Except as otherwise provided herein, all obligations accruing under this Contract are preserved until satisfied.

SECTION 2. DEFINITIONS

As used in this Contract, the following terms when initially capitalized shall have the following meanings:

"Agreement for the Hourly Coordination of Projects on the Mid-Columbia River" (MCHC) shall mean the 1997 Agreement, as amended from time to time, with the Mid-Columbia PUD project owners, purchasers, the U.S. Department of Energy via the Bonneville Power Administration, the U.S. Department of the Army via the Army Corps of Engineers, and the U.S. Department of Interior via the Bureau of Reclamation to coordinate real time operation of the seven projects from Grand Coulee through Priest Rapids on the Columbia River.

"Bond Resolution" shall mean each and all of the resolutions adopted by the District authorizing

the issuance of outstanding Debt for the Priest Rapids Project.

“Business Days” shall mean any weekday, Monday through Friday, excluding Federal Reserve Holidays as designated on Exhibit B of this Contract.

“Contract” shall mean this CONTRACT FOR OPEN-MARKET SALE OF PRIEST RAPIDS PROJECT POWER, in its’ entirety.

“Defaulting Party” shall mean the Party who is responsible for an “Event of Default” as defined in Section 15.

“Electric System” shall mean the separate electric utility system of the District, including all associated generation, transmission and distribution facilities and any betterments, renewals, replacements and additions of such system, but does not include the Priest Rapids Project or any other utility properties designated as a separate utility system of the District.

“FERC” shall mean the Federal Energy Regulatory Commission or its successor.

“FERC License” shall mean the license for the Priest Rapids Project PL 2114 issued by FERC on April 17, 2008, effective April 1, 2008.

“Guarantor” means the entity providing a guarantee pursuant to a Guarantee Agreement.

“HE” shall mean hour ending.

“Operating Agreements” shall mean any agreements to which the District is or may become a party, which provide for operation of the Priest Rapids Project, including but not limited to, the Pacific Northwest Coordination Agreement, the Agreement for the Hourly Coordination of Projects on the Mid-Columbia River, the Western Systems Coordinating Council Agreement, and the Northwest Power Pool Agreement, as such agreements currently exist or hereafter may be amended.

“Original FERC License” shall mean the Federal Power Commission License for the Priest Rapids Project issued to the District on November 4, 1955, together with amendments thereto.

“Pacific Northwest” shall have the meaning ascribed thereto in Section 3(14) of the Regional Act.

“Pacific Northwest Coordination Agreement” or “PNCA” shall mean the Agreement amongst northwest parties executed in 1997 for the coordinated operation of the Columbia River System which became effective August 1, 2003, as such Agreement may be amended from time to time.

“Pre-Schedule Day” shall mean days identified by the District pursuant to the Western Electricity Coordinating Council Interchange Scheduling and Accounting Subcommittee daily scheduling calendar.

“Priest Rapids Development” shall mean the separate utility system of the District, including a dam at the Priest Rapids Development, all generation and transmission facilities associated therewith, and all betterments, renewals, replacements, and additions to such system, as further described in Section 2(f) of Exhibit 1 of District Resolution No. 390 which is attached as Exhibit A, but shall not include any additional generation, transmission and distribution facilities hereafter constructed or acquired by the District as a part of the Electric System or the Wanapum Development or any other utility properties of the District acquired or constructed as a separate utility system.

“Priest Rapids Project Output” or “PRPO” shall mean the amount of capacity, energy (both firm and non-firm), pondage, reactive power, ancillary services and any other product produced by the Priest Rapids Project, after correction, pro-rata with all purchasers of PRPO and with the District’s share of PRPO, for encroachment, Canadian entitlement, station and project use, and depletions required by the FERC License or other regulatory requirements.

“Priest Rapids Project” shall mean the hydroelectric project on the Columbia River in the State of Washington designated by the Federal Power Commission as Project No. 2114. The Priest Rapids Project consists of the Priest Rapids Development and the Wanapum Development.

“Prudent Utility Practice” means those practices, methods and acts which: (i) when engaged in are commonly used in prudent engineering and operations to operate electric equipment and associated mechanical and civil facilities lawfully and with safety, reliability, efficiency and expedition or (ii) in the exercise of reasonable judgment considering the facts known when engaged in, could have been reasonably expected to achieve the desired result consistent with applicable law, safety, reliability, efficiency and expedition. Prudent Utility Practice is not intended to be the optimum practice, method or act, to the exclusion of all others, but rather to be a spectrum of commonly used practices, methods or acts.

“Regional Act” shall mean Public Law 96-501, the Pacific Northwest Electric Power Planning and Conservation Act.

“Uncontrollable Forces” shall mean any cause reasonably beyond the control of the Party and which the Party subject thereto has made reasonable efforts to avoid, remove or mitigate, including but not limited to acts of God, fire, flood, explosion, strike, sabotage, acts of terrorism, act of the public enemy, civil or military authority, including court orders, injunctions, and orders of government agencies (other than those of the District) with proper jurisdiction, insurrection or riot, an act of the elements, failure of equipment or contractors, or inability to obtain or ship materials or equipment because of the affect of similar causes on suppliers or carriers; provided, however, that in no event shall an Uncontrollable Force excuse the Purchaser from the obligation to pay any amount when due and owing under this contract.

“Wanapum Development” shall mean the second stage of the Priest Rapids Project as more fully described in Section 2.2 of District Resolution No. 474, which is attached as Exhibit A, but shall not include any generation, transmission and distribution facilities hereafter constructed or acquired by the District as a part of the Electric System or the Priest Rapids Development, or any other utility properties of the District acquired or constructed as a separate utility system.

The following terms are defined in the cited sections of this Contract:

- “Event of Default” at Section 15(a)
- “Party” and “Parties” at the Preamble
- “Purchaser Allocation of Pondage” at Section 6(d)(4)
- “Purchaser’s PRPO” at Section 3(a)

SECTION 3. PURCHASE AND SALE OF PRIEST RAPIDS PROJECT OUTPUT/REGULATORY APPROVAL

- (a) Purchaser’s PRPO. The District shall make available to the Purchaser and the Purchaser shall purchase an amount of PRPO equal to the total applicable PRPO multiplied by the corresponding Purchaser’s PRPO Percentage which amount is herein referred to as “Purchaser’s PRPO.”
- (b) The Purchaser’s PRPO Percentage shall be 10.135 % of Priest Rapids Project power for the period starting at (midnight) HE 2400, December 31, 2011 and ending at HE 2400, December 31, 2012.

SECTION 4. PRPO AVAILABILITY

- (a) Purchaser understands and acknowledges that PRPO availability will fluctuate and is subject to and contingent upon many factors including, but not limited to, the following: weather and precipitation levels, regulatory and environmental considerations and requirements, Operating Agreements and Uncontrollable Forces.
- (b) The District, as operator of the Priest Rapids Project, may restrict deliveries of PRPO if it determines that such action is necessary to avoid exceeding the capability of the Priest Rapids Project or subjecting it or its operation to undue hazard or violating the FERC License, any applicable law, regulation, or Operating Agreement. Any such restrictions in delivery by the District shall be made pro-rata with all purchasers of PRPO and with the District’s share of PRPO.
- (c) The District, as operator of the Priest Rapids Project, may also restrict deliveries of PRPO in case of emergencies or in order to install equipment in, make repairs to, make betterments, renewals, replacements, and additions to, investigations and inspections of, or perform other maintenance work on the Priest Rapids Project. Any such restrictions in delivery shall be made pro-rata with all purchasers of PRPO and with the District’s share of PRPO.
- (d) The District shall use commercially reasonable efforts to give advance notice to the Purchaser regarding any limit, restriction, interruption, curtailment or reduction of PRPO for which the District has knowledge in advance of the need for such action, giving the reason therefore and stating the probable duration thereof, and shall provide timely updates concerning the same should conditions change. In any instance where advance

notice is not commercially reasonable, the District shall promptly notify Purchaser after imposing such limit, restriction, interruption, curtailment or reduction of PRPO and give the reason therefore, the probable duration thereof (non-binding), and shall make commercially reasonable efforts to provide timely updates concerning the same should conditions change.

- (e) Notwithstanding any other provision of this Contract, the District shall at all times have the right to operate the Priest Rapids Project in such manner as it deems necessary to comply with the FERC License, applicable laws and regulations, Prudent Utility Practice and this Contract.
- (f) Notwithstanding any other provision of this Contract, the District shall have the unilateral right to restrict deliveries of PRPO as may be necessary to fulfill any non-power regulatory or other legal requirements and shall have the unilateral right to determine the amounts of spill required at the Priest Rapids Project. Any such restrictions in delivery shall be made pro-rata with all purchasers of PRPO and with the District's share of PRPO.

SECTION 5. PURCHASE PRICE AND PAYMENTS BY PURCHASER

- (a) The purchase price for the Purchaser's PRPO shall be the total dollar amount submitted by Purchaser on its bid form. Purchaser shall make 12 equal monthly payments of 1/12th of the purchase price with the first such payment due January 10, 2012.
- (b) The monthly payments set forth above shall be due and payable by electronic funds transfer to the District's account, designated in writing by the District, on the 10th (tenth) calendar day of each month. If the 10th calendar day of the month is a Saturday, Sunday or a Federal Reserve Holiday as listed in Exhibit B, the next following Business Day
- (c) If any monthly payment amount set forth on a statement or revised statement is not paid in full and received by the District on or before the close of business on the 10th calendar day of the month, a delayed payment charge of 2% of the unpaid amount due will be made. Any bill which remains unpaid for more than 30 calendar days after the due date shall, in addition to the delayed payment charge, accrue interest at the lesser of 1.5% per month or the maximum rate allowed by law. If the 10th calendar day of the month is a Saturday, Sunday or a Federal Reserve Holiday as listed in Exhibit B, the next following Business Day shall be the last day on which payment may be received without the addition of the delayed-payment charge. Additionally, if payment due to the District under this Section 5 remains unpaid 3 Business Days after the due date, the District may thereafter suspend delivery of the Purchaser's PRPO until payment in full of all amounts due and owing (including any interest and delay charges) is received by the District.
- (d) The payments required under this Section 5 shall be due and owing notwithstanding the fact that the actual amount of power from the PRPO Percentage made available to the Purchaser is less or more than that which was anticipated by either Party at the time of execution of this Contract. The District makes no warranties of any type as to the PRPO

that will actually be produced and available, other than, that the percentage of PRPO made available to the Purchaser will at all times be in accordance with [Section 3(b), and Purchaser assumes all risks associated therewith.

- (e) The purchase price submitted by the Purchaser on its bid form is the total price for the Purchaser's PRPO and all rights associated with it. Except as otherwise provided in Sections 6(c) and 19 (c), the Purchaser shall not be obligated to pay any other amounts charged to or payable by the District as a result of this Contract, including without limitation, any water fees, license fees, penalties, taxes, operating, administration, maintenance or capital costs, damages or any other costs whatsoever, relating to ownership or operation of the Priest Rapids Project.

SECTION 6. SCHEDULING OF DELIVERIES OF PRIEST RAPIDS PROJECT OUTPUT

- (a) This Section 6 shall apply to the scheduling of the Purchaser's PRPO.
- (b) Scheduling of Purchaser's PRPO shall be as requested by the Purchaser, or its designated scheduling agent, and shall be subject to the limitations set forth in this Contract.
- (c) The Purchaser, or its designated scheduling agent, shall provide the District each Pre-Schedule Day, in conformance with then prevailing scheduling procedures for scheduling Pacific Northwest generating resources, hourly schedules of desired Purchaser's PRPO deliveries for the following day or days. The schedules will be completed in a time frame consistent with standard industry practices in the Pacific Northwest. Such schedule shall be based upon the probable water supply to the Priest Rapids Project (inflows) and the resulting probable output. Schedules shall be in compliance with all applicable reliability and reserves criteria as put forth by the North American Electric Reliability Council, Western Electricity Coordinating Council, and the Northwest Power Pool, as such criteria are revised from time to time. To the extent failure to comply with reliability or reserve criteria results in costs or fees incurred by the District, as a direct and proximate result of Purchaser's acts or omissions, Purchaser shall reimburse District for all such reasonably demonstrated costs or fees, provided however, that Purchaser is not responsible for any such costs or fees the District incurs when Purchaser's failure to comply with reliability or reserve criteria was the result of Purchaser's reliance on data, instructions or other information provided by the District, including but not limited to those provided under this Section. Revisions in a schedule may be made at any time upon the request of the Purchaser in accordance with Section 6(d)(9). The District will use reasonable efforts to minimize deviations from the schedule and make corrections promptly as practicable on an hourly basis under conditions as nearly equivalent as practicable to those occurring when the deviations occurred. Alternatively, the Purchaser may provide scheduling information via a dynamic electronic signal. If the Purchaser chooses this option, it shall be solely responsible for providing any and all necessary hardware or software modifications necessary for the District to receive this signal.
- (d) Purchaser's schedules shall be in accordance with the following:

- (1) Subject to the provisions of this Contract, the District shall make available to Purchaser, each hour, Purchaser's PRPO.
- (2) The District, as operator of the Priest Rapids Project, shall make all determinations concerning the Priest Rapids Project maximum output and minimum discharge using Prudent Utility Practices; and the District shall have the unilateral right to determine the maximum allowable amount of change in PRPO during any time period and the maximum number of unit starts and stops allowable during any time period. Purchaser's daily and hourly schedules shall be based on Purchaser's PRPO in accordance with the Priest Rapids Project operational parameters as established by the District from time to time.
- (3) Purchaser's schedule shall not be less than Purchaser's PRPO Percentage of the minimum operating capability of the Priest Rapids Project, as determined by the District, nor shall it be greater than Purchaser's PRPO Percentage of the maximum operating capability of the Priest Rapids Project as determined by the District.
- (4) Purchaser shall be entitled to utilize a share of the pondage available at the Priest Rapids Project (the "Purchaser Allocation of Pondage"), determined by multiplying the total of the pondage available by the applicable Purchaser's PRPO Percentage. The pondage available at the Priest Rapids Project shall be determined by the District, as operator of the Priest Rapids Project, from time to time on the basis of the volume of water that can be stored between the then current maximum forebay elevation and the then current minimum forebay elevation.
- (5) The District will establish and maintain for Purchaser a pondage account that will reflect the use of pondage by the Purchaser. On the last hour of the term of this Contract, the Purchaser shall return the pond account balance to at least where it was on the first hour of the term of this Contract. The Purchaser may schedule more than its share of the Priest Rapids Project inflows determined in accordance with Section 6(c) if the Purchaser has sufficient amount of energy in its pond account. The amount of the energy scheduled from the pondage account shall not exceed the Purchaser Allocation of Pondage determined in accordance with Section 6(d)(4).
- (6) During any hour that spill is occurring at non-federal Mid-C Projects in order to control forebay elevation, the spill is allocated in the following manner: i) if spill is due to unloaded turbines at the spilling project, that spill will be allocated to any Mid-C participant whose generation was less than their capacity during the spill hour, ii) Spill past loaded units are allocated to each Mid-C party who has a share in the spilling project.
- (7) During any hour that spill is occurring at the Priest Rapids Project for fish or any other non-power purpose determined necessary or desirable by the District, the

spill shall be allocated to reduce the inflow of Purchaser and other PRPO purchasers in proportion to their percentage shares of PRPO, including the District.

- (8) If the Purchaser chooses not to provide scheduling information via a dynamic electronic signal, the District will provide the following maximum number of schedules or paths available to schedule Purchaser's PRPO on an hourly basis according to the following formula: the amount of daily capacity available to the Purchaser, divided by 15 (rounded up), plus 1.
- (9) In the absence of dynamic scheduling pursuant to Section 6 (c) real-time schedules shall be called in at least 30 minutes prior to the start of each hour.

SECTION 7. POINT OF DELIVERY

- (a) PRPO power supplied hereunder shall be approximately 230 kV, three-phase, alternating current, at approximately 60 hertz.
- (b) The PRPO power to be delivered hereunder shall be made available to the Purchaser, at its option, exercisable from time to time, at any one or more of the following points:
 - (1) The 230 kV bus of the Bonneville Power Administration's Midway Substation;
 - (2) The 230 kV bus of the switchyard of the Wanapum Development;
 - (3) The 230 kV bus of the Vantage Substation; or
 - (4) At any other location mutually agreed to in writing by the District and Purchaser.

SECTION 8. METERING AND TRANSMISSION LOSSES

- (a) The District shall provide and maintain suitable meters in the generator leads of the Priest Rapids Project to indicate and record the PRPO. The actual PRPO shall be determined from totaled readings from the meters. The District or an agent of the District shall read meters and records thereof shall be made available to the Purchaser as may be reasonably requested.

SECTION 9. INFORMATION TO BE MADE AVAILABLE TO THE PURCHASER

- (a) The Purchaser, upon at least 30 days advance written notice to the District, shall have the right at its sole cost and expense to audit or examine operating records relating to the Priest Rapids Project during the District's normal business hours. All reasonable costs incurred by the District associated with such audit, including, but not limited to, District labor, materials and reproduction services shall be promptly reimbursed to the District by the Purchaser.

- (b) The Purchaser's representatives shall at all times be given reasonable access to the Priest Rapids Project, subject to the District's applicable safety rules and regulations.
- (c) The District shall exercise commercially reasonable efforts to provide to the Purchaser estimates and information reasonably necessary for the Purchaser to exercise its rights under this Contract.

SECTION 10. LIABILITY OF PARTIES

- (a) Except as otherwise provided in this Contract, each Party hereby releases the other Party and its commissioners, officers, directors, agents and employees from any claim for loss or damage arising out of the ownership, operation, and maintenance of the Priest Rapids Project including any loss of profits or revenues, loss of use of power system, cost of capital, cost of purchased or replacement power, other substantially similar liability or other direct or indirect consequential loss or damage.
- (b) The Purchaser shall have no claim of any type or right of action against the District: (i) as a result of a FERC or court order or amendment; (ii) as a result of adjustment of PRPO, and the Purchaser hereby releases the District and its commissioners, officers, agents and employees from any claim for loss or damage arising out of the events described in this paragraph; provided however, that nothing herein precludes the Purchaser from bringing any claim in law or equity, or a court of other body with jurisdiction from awarding any remedies, in the event that the District defaults on deliveries under this contract.
- (c) The Purchaser is purchasing output from or attributable to the Priest Rapids Project as available and scheduled by the Purchaser. The Purchaser acquires no interest in or rights to any facilities forming part of the Priest Rapids Project.

SECTION 11. NOTICES AND COMPUTATION OF TIME

- (a) Any notice, demand or request provided for in this Contract shall be, unless otherwise specified herein, in writing and may be delivered by hand delivery, United States mail, overnight courier or facsimile. Notice by courier, facsimile or hand delivery shall be effective at the close of business on the day actually received, if received during business hours on a regular Business Day of the District, and otherwise shall be effective on the close of business on the next regular Business Day of the District. All notices by United States mail shall be sent certified, return receipt requested and shall be effective on the date of actual receipt by the recipient.

All notice, demand or request made by mail shall be mailed postage prepaid and addressed to:

Manager
Public Utility District No. 2 of Grant County
P.O. Box 878
30 C St S.W.
Ephrata, Washington 98823;

any notice or demand by the District to the Purchaser under this Contract shall be deemed properly given if a written copy is delivered to the Purchaser's representative specified herein by courier and the Purchaser's signature evidencing receipt thereof is obtained or if mailed postage prepaid and addressed to:

- (b) In computing any period of time from such notice, such period shall commence at HE 2400 (midnight) PPT on the date of receipt. The designations of the name and address to which any such notice or demand is directed may be changed at any time by either Party giving notice as provided above.

SECTION 12. DISTRICT'S BOND RESOLUTIONS AND LICENSE

It is recognized by the Parties that the District, in its operation of the Priest Rapids Project, must comply with the requirements of the Bond Resolution and with the FERC License together with amendments thereof from time to time made, and the District is hereby authorized to take such actions as the District determines are necessary and appropriate to comply with such Bond Resolutions and FERC License.

SECTION 13. GOVERNING LAW.

The Parties agree that the laws of the State of Washington shall govern this Contract.

SECTION 14. ASSIGNMENT OF CONTRACT

Neither the Purchaser nor the District shall by contract, operation of law or otherwise, assign this Contract or any right or interest in this Contract without the prior written consent of the other Party, which shall not be unreasonably withheld; provided, however, a Party may, without the consent of the other Party (and without relieving itself from liability hereunder) (i) transfer or assign this Contract to an affiliate of the Party provided that the affiliate's creditworthiness is equal or higher than that of the Party or (ii) transfer or assign this Contract to any person or entity succeeding to all or substantially all of the assets of the Party whose creditworthiness is equal or higher than that of the Party; provided however, that in each such case, any such assignee shall agree in writing to be bound by the terms and conditions in this Contract and the transferring Party shall deliver such tax and enforceability assurance as the other Party may reasonably request.

SECTION 15. REMEDIES ON DEFAULT

- (a) An "Event of Default" shall mean with respect to a Party ("Defaulting Party"):
 - (1) the failure by the Defaulting Party to make, when due, any payment required pursuant to this Contract if such failure is not remedied within three (3) Business

Days after written notice of such failure is given to the Defaulting Party by the other Party ("the Non-Defaulting Party"). The Non-Defaulting Party shall provide the notice by facsimile to the designated contact person for the Defaulting Party and also shall send the notice by overnight delivery to such contact person; or

- (2) the failure by the District to deliver PRPO to the Purchaser as required by this Contract and such failure is not cured within three (3) Business Days after written notice thereof from the Purchaser to the District; or
- (3) the failure by the Defaulting Party to have made accurate representations and warranties as required this Contract and such failure is not cured within three (3) Business Days after written notice thereof to the Defaulting Party; or
- (4) the institution, with respect to the Defaulting Party, by the Defaulting Party or by another person or entity of a bankruptcy, reorganization, moratorium, liquidation or similar insolvency proceeding or other relief under any bankruptcy or insolvency law affecting creditor's rights or a petition is presented or instituted for its winding-up or liquidation; or
- (5) the failure by the Defaulting Party to provide adequate assurances of its ability to perform all of its outstanding material obligations to the Non-Defaulting Party under this Contract.
- (6) With respect to its Guarantor, if any:
 - (i) if a material representation or warranty made by a Guarantor in connection with this Contract, or any transaction entered into hereunder, is false or misleading in any material respect when made or when deemed made or repeated; or
 - (ii) the failure of a Guarantor to make any payment required or to perform any other material covenant or obligation in any guarantee made in connection with this Contract, including any transaction entered into hereunder, and such failure shall not be remedied within three (3) Business Days after written notice; or
 - (iii) the institution, with respect to the Guarantor, by the Guarantor or by another person or entity of a bankruptcy, reorganization, moratorium, liquidation or similar insolvency proceeding or other relief under any bankruptcy or insolvency law affecting creditor's rights or a petition is presented or instituted for its winding-up or liquidation; or
 - (iv) the failure, without written consent of the other Party, of a Guarantor's guarantee to be in full force and effect for purposes of

this Contract (other than in accordance with its terms) prior to the satisfaction of all obligations of such Party under each transaction to which such guarantee shall relate; or

- (v) a Guarantor shall repudiate, disaffirm, disclaim, or reject, in whole or in part, or challenge the validity of, any guarantee.
- (b) If an Event of Default occurs, the Non-Defaulting Party may at its option terminate the Contract or seek specific performance. In the event the Non-Defaulting Party elects to terminate the Contract, it may pursue any legal or equitable remedies available at law or otherwise.

SECTION 16. INFORMATION REQUIRED FOR CREDIT DETERMINATION

The Purchaser is required to provide the District with all of the following:

- (a) Copies of Purchaser's current Issuer or Senior Unsecured credit ratings as assigned by Standard and Poor's Corp., Fitch Ratings, and/or Moody's Investors Services, to the extent that such ratings have been issued and or updated;
- (b) Purchaser's most recent two years of audited financial statements including the Balance Sheet, Income Statement, Statement of Cash Flows and Notes to Financial Statements, or its most recently filed SEC Forms 10-Q and 10-K, if applicable. If Purchaser uses a parental guarantee, then Purchaser shall provide the parent's or affiliate's most recent two years of audited financial statements, or the most recently filed SEC Forms 10-Q and 10-K, if applicable. If the required financial statements can be found online on the internet, the Purchaser may provide the appropriate website internet link for retrieval of such information. In the event that only unaudited financial statements are available, the District shall determine whether it will accept them at its sole discretion;
- (c) Quarterly financial statements on a going-forward basis;
- (d) Documentation of any issues or matters that could have a material effect on the Purchaser's creditworthiness, to the extent not included in the footnotes of the financial statements;

SECTION 17. CREDITWORTHINESS

Should the Purchaser's creditworthiness, financial responsibility, or performance viability be unsatisfactory to the District in the Districts reasonably exercised discretion with regard to this Contract, the District may require the Purchaser to provide, at the Purchaser's option (but subject to the District's acceptance based upon reasonably exercised discretion), either (1) the posting of a letter of credit, (2) a cash prepayment, (3) the posting of other acceptable collateral or security by the Purchaser, (4) a guaranty agreement executed by a creditworthy entity; or (5) some other mutually agreeable method of satisfying the District.

All collateral posted in the form of cash or cash prepayment will be held in an interest bearing escrow account. In the event the collateral is no longer required to satisfy Purchaser's obligations, it will be returned to the Purchaser, with interest earned, on a tiered basis near the end of the term of this Contract. For each fiscal year beginning April 1 and ending March 31, deposits will earn interest calculated at the rate for the one-year Treasury Constant Maturity calculated by the U.S. Treasury, as published in the Federal Reserves Statistical Release H.15 on March 15 of each year. If March 15 falls on a non-Business Day, the District will use the rate posted on the next Business Day. The one-year Treasury Constant Maturity rate on March 15 of each year will be applied to the next fiscal year beginning April 1 and ending March 31.

Events which may trigger the District requesting assurance due to reasonable concern about the Purchaser's creditworthiness, financial responsibility, or performance viability include, but are not limited to, the following:

- (a) The Purchaser or its Guarantor has debt which is rated as investment grade and that debt falls below the investment grade rating by at least one rating agency or is below investment grade and the rating of that debt is downgraded further by at least one rating agency.
- (b) Other material adverse changes in the Purchaser's financial condition occur.
- (c) Substantial changes in market prices which materially and adversely impact the Purchaser's ability to perform under this Contract occur.

If the Purchaser fails to provide such reasonably satisfactory assurances of its ability to perform an obligation hereunder within three (3) Business Days of demand therefore, that will be considered an Event of Default under Section 15 of this Contract and the District shall have the right to exercise any of the remedies provided for under that Section 15. Nothing contained in this Section 16 shall affect any credit agreement or arrangement, if any, between the Parties.

SECTION 18. VENUE AND ATTORNEY FEES

Venue of any action filed to enforce or interpret the provisions of this Contract shall be exclusively in the United States District Court for the Eastern District of Washington or the Superior Court of the State of Washington for Grant County and the Parties irrevocably submit to the jurisdiction of any such court. In the event of litigation to enforce the provisions of this Contract, the prevailing Party shall be entitled to reasonable attorney's fees in addition to any other relief allowed.

SECTION 19. COMPLIANCE WITH LAW

- (a) The Parties understand and acknowledge that operation of the Priest Rapids Project must conform to and comply with all applicable laws, rules, regulations, license conditions or restrictions promulgated by the FERC, the State of Washington or any other governmental agency or entity having jurisdiction over the Priest Rapids Project. The Purchaser shall cooperate and take whatever action is necessary to cooperate fully with

the District in meeting such requirements. Obligations of the District contained in this Contract are hereby expressly made subordinate and subject to such compliance.

- (b) RCW 54.16.040 contains provisions relating to the District's sale of electric energy. The Parties understand and acknowledge that the District must comply with RCW 54.16.040 to the extent applicable to this Contract and the District's obligations and performance of this Contract are hereby expressly made subordinate and subject to such compliance.
- (c) The Purchaser shall ensure that PRPO available to Purchaser under this Contract is not sold, resold, distributed for use or used outside the Pacific Northwest in violation of the Bonneville Project Act, Public Law 75-329, the Pacific Northwest Consumer Power Preference Act, Public Law 88-552, the Regional Act or in contravention of any applicable state or federal law, order, regulation, or policy. If such sales occur in violation of the foregoing, the Purchaser shall reimburse the District for any penalties imposed on and costs incurred by the District as a consequence of such violation. Attached hereto as Exhibit C is a letter from the Bonneville Power Administration regarding this subject.

SECTION 20. HEADINGS

The headings of sections and paragraphs of this Contract are for convenience of reference only and are not intended to restrict, affect or be of any weight in the interpretation or construction of the provisions of such sections and paragraphs.

SECTION 21. ENTIRE AGREEMENT; MODIFICATION; CONFLICT IN PRECEDENCE

This Contract constitutes the entire agreement between the Parties with respect to the subject matter of this Contract, and supersedes all previous communications between the Parties, either verbal or written, with respect to such subject matter. No modifications of this Contract shall be binding upon the Parties unless such modifications are in writing signed by each Party.

SECTION 22. NO PARTNERSHIP OR THIRD PARTY RIGHTS

- (a) This Contract shall not be interpreted or construed to create an association, joint venture or partnership between the Parties, or to impose any partnership obligations or liability upon any Party.
- (b) This Contract shall not be construed to create rights in or grant remedies to any third party as a beneficiary of this Contract.

SECTION 23. REPRESENTATIONS AND WARRANTIES

Each Party represents and warrants to the other Party that:

- (a) It is duly organized, validly existing and in good standing under the laws of the

jurisdiction of its formation.

- (b) The execution, delivery and performance of this Contract are within its powers, have been duly authorized by all necessary action and do not violate any of the terms and conditions in its governing documents, any contracts to which it is a party or any law, rule, regulation, or order applicable to it.
- (c) This Contract constitutes a legally valid and binding obligation enforceable against it in accordance with its terms, subject to equitable defenses and applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally.
- (d) The representations, warranties and covenants set forth in this Contract shall remain in full force and effect throughout completion of performance of the Contract.

SECTION 24. OPTIONAL AGREEMENT AVAILABLE TO PURCHASER

The Purchaser shall have the option of becoming a joinder to the "1997 Agreement for the Hourly Coordination of Projects on the Mid-Columbia River", pursuant to Section 9(a) of that Agreement.

PUBLIC UTILITY DISTRICT NO. 2
OF GRANT COUNTY, WASHINGTON

By: _____

Title: General Manager

By: _____

Title:

(SEAL)

EXHIBIT A

DEFINITION OF PRIEST RAPIDS PROJECT

RESOLUTION NO. 390 – DEFINITION OF PRIEST RAPIDS DEVELOPMENT

Section 2(f) of Exhibit 1. “Priest Rapids Development” shall mean those properties and facilities consisting of the Priest Rapids dam, site, reservoir, switchyard and power plant, including all generating facilities associated therewith up to and including the first ten (10) main turbine generator units each with a nameplate rating of approximately 78,850 kilowatts and any additional generating facilities which may be installed as provided for in Section 19 of the Original Power Sales Contract, together with the associated transmission facilities consisting of two 230 KV transmission lines and terminal facilities interconnecting the Priest Rapids switchyard and the Bonneville Power Administration’s Midway Substation and an undivided one-half (1/2) interest in the interconnecting facilities between the Priest Rapids switchyard and the Wanapum switchyard.

RESOLUTION NO. 474 - DEFINITION OF WANAPUM DEVELOPMENT

Section 2.2. The District specifies and adopts the plan and system hereinafter set forth for the acquisition, by purchase or condemnation, and construction of the following generation and transmission facilities as a separate utility system of the District constituting the Wanapum Development of the District, to wit:

A. The District shall construct an electric generating plant and associated facilities on the Columbia River at approximately river mile 415 from the mouth of said river at the Wanapum site on said river, in Grant and Kittitas Counties, Washington, as authorized by the Federal Power Commission License for Project No. 2114, originally issued November 4, 1955, and all amendments thereto; said generating plant to have an installed nameplate rating of approximately 831,250 kilowatts, and said generating plant and associated facilities to include, but not limited to, a concrete gravity dam, a fully enclosed reinforced concrete powerhouse containing ten (10) turbo-generating units with provisions in the intake structure for the installation of six (6) additional turbo-generating units, a reservoir, waterways, fish ladders and other fish protective devices; provisions for future installation of navigation locks; transforming facilities; a switchyard; transmission facilities necessary to connect the powerhouse to the existing transmission facilities of the Priest Rapids Development and to the transmission facilities of the Bonneville Power Administration in the vicinity of said Project; railroad siding, shops, warehouses,

EXHIBIT B

FEDERAL RESERVE HOLIDAYS

2012	
New Year's Day	January 2
Birthday of Martin Luther King, Jr.	January 16
Washington's Birthday	February 20
Memorial Day	May 27
Independence Day	July 4
Labor Day	September 3
Columbus Day	October 8
Veterans Day	November 11
Thanksgiving Day	November 28
Christmas Day	December 25

EXHIBIT C

BPA's LETTER REGARDING 5(B)9(C)



Department of Energy

Bonneville Power Administration
P.O. Box 3821
Portland, Oregon 97208-3821

POWER BUSINESS LINE

August 9, 2006

In reply refer to: PS-6

Mr. Tim Culbertson, General Manager
Public Utility District No. 2 of Grant County
P.O. Box 878
Ephrata, WA 98823

Dear Mr. Culbertson:

The Bonneville Power Administration (BPA) and Grant County Public Utility District No. 1 (Grant) met on July 26, 2006 to discuss Grant's pending Priest Rapids Development Project market based auction. Grant is preparing for its 2006 Power Auction of the Priest Rapids Project output as a pricing mechanism for the 30 percent Reasonable Portion product sold to Pub. L. 544 parties. The open market auction process is a fairly new mechanism for a utility to make power sales in the region and is Grant's choice for implementing the Federal Energy Regulatory Commission (FERC) order regarding the reasonable portion requirement of Pub. L. 544 in *Kootenai Electric Coop. Inc. et al v. Public Utility District No. 2*, 82 FERC ¶ 61,112, affirmed in *Kootenai Electric Cooperative Inc. v. Federal Energy Regulatory Commission*, 192 F.3d 144 (D.C. Cir. 1999). Grant conducted a prior auction which resulted in a sale of Project power to Constellation Energy, Inc. As we discussed at our July 26th meeting, we both would like to ensure compliance of Grant's auction sales with the application of BPA statutes and policy regarding the sale of customer-owned hydroelectric resources under Section 3(d) of Pub. L. 88-552, the Pacific Northwest Consumer Power Preference Act, and section 9(c) of Pub. L. 96-501, the Pacific Northwest Electric Power Planning and Conservation Act. Therefore, BPA wishes to address its understanding reached after our discussion on July 26th as to treatment of these sales and Grant's 2005 auction sale to Constellation.

BPA's Policy on Determining Net Requirements of the Pacific Northwest Utility Customers under Sections 5(b)(1) and 9(c) of the Northwest Power Act (May 2000) addresses the extra-regional sale of regional resources, including output from hydroelectric resources such as the Priest Rapids Project. It is understood by BPA that, based on the above mentioned FERC order, Grant has no right to the power from the Project that is represented by the 30 percent Reasonable Portion and is required to offer this power to participating parties. We also understand that the power offered is part of the Reasonable Portion and is used to set a price for the entire Reasonable Portion sale. As seller, and in order to comply with both the FERC order and BPA's policy and statutes, you have included in your contracts for the sale of this power a provision which states: "The purchaser shall ensure that Priest Rapids Development Output available to Purchaser under this contract is not sold, resold, distributed for use or used outside the Pacific Northwest in violation of the Bonneville Project Act, Public Law 75-329, the Pacific Northwest

Consumer Power Preference Act, Public Law 88-552, the Regional Act or in contravention of any applicable state or Federal law, order regulation or policy.” While that provision is a good first step, it does not address the practical consideration of reporting resale information by the purchaser and does not in all instances identify what actions BPA may be required to take under its statutes.

To clarify our mutual responsibilities regarding Grant’s auction sales we discussed and agreed upon the following compliance protocol:

1. Grant will continue to include in its open market auction contracts a provision that requires compliance by the purchaser with BPA’s policy and statutes governing the sale of non-Federal power, substantially in the form noted above. In the event of resale in violation of that provision, BPA would have recourse against Grant by reduction of BPA’s firm power sale (decrement) consistent with BPA’s statutes and policy.
2. As the seller, Grant remains responsible for the in-region use of the power when the sale at auction is made to a purchaser that is an entity that does not have a Northwest Power Act section 5(b) contract with BPA, or that does not directly serve retail consumer load in the Region. Grant is responsible for demonstrating the purchaser resold the power to a Northwest load serving investor-owned utility, public or cooperative utility, or direct service industry (DSI) customer with a section 5(b) or 5(d) contract that has a planned load in excess of its planned generation. Customers holding a 5(b) or 5(d) contract, other than those that receive all of their firm power supply from BPA, are assumed to have a planned load in excess of their planned generation.
3. As long as the purchaser’s monthly sales of power to the BPA customers identified in 2 above meets or exceeds the amount of firm power bought at auction and delivered for the month, then BPA will consider the resale as used in the Region. Grant will monitor such sales by the purchaser by keeping monthly records of tags, commercial arrangement documents, or FERC website hourly data files, whichever is appropriate. If requested by BPA, Grant will provide this information to BPA 15 days after the end of a month. In the event that such resale by the purchaser does not equal the amount of power purchased at auction in the month, BPA may impose a decrement on its firm power sales in subsequent months to Grant equal to the difference. Grant may have a contractual recourse against the purchaser.
4. If the sale at auction is to the BPA customers identified in 2 above, then BPA will consider the power sold at auction used for load in the Region.

Constellation Sale

BPA’s statutes and 9(c) policy require BPA to make certain determinations regarding the effect of potential sales of power outside the region of non-Federal power resources, or exports upon its firm power requirements obligations to provide service to its customers. BPA is only allowed to

replace such power exported with Federal power that is otherwise surplus to BPA's firm power obligations. These determinations are factually based and can result in BPA reducing or decrementing its firm power obligations to the seller. In response to BPA's April 27, 2006, letter to Grant, Grant has supplied BPA data files that show certain sales made at the Mid-Columbia Hub by Constellation, the 2005 purchaser of power auctioned by Grant as the 6 percent Priest Rapids Project output. These files demonstrate Constellation has sold the 2005 auction power to several Northwest load serving utilities, or cooperatives that have 5(b) or 5(d) contracts. Further, for the period of this 2005 auction, BPA's regional planning document, the Whitebook, as updated, showed both BPA and the region in a surplus power condition having firm resources that exceed firm loads for that planning year (2005). Therefore, BPA finds that Grant's sale to Constellation and Constellation's resale of power from the 2005 auction complies with BPA's 9(c) policy. BPA finds no need to decrement or reduce Grant's block purchase from BPA and Grant will not be decremented.

Thank you for taking the time to meet with us and establishing the compliance protocol we have both agreed to, as described above. I wish you success on your upcoming auction and appreciate your patience in resolving this issue.

Sincerely,

/s/ **Mark Gendron**

Mark Gendron
Vice President
Requirements Marketing

bcc:

R. Roach – L-7
T. Johnson – LP-7
T. Miller – LP-7
P. Norman – P-6
C. Andrews – PF-6
S. Oliver – PG-5
M. Weedall – PN-1
H. Goodwin – PS-6
D. Latham – PS-6
A. Burns – PT-5
S. Wilson – PT-5
K. Hustad – PSE/Spokane
C. Hustad – PSE/Spokane
L. King – PSE/Burley
G. Thompson – PSE/Spokane
C. Hobson – PSW-6
J. Lebens – PSW-6
Official File – PS-6

MGendron:jlb:7640:8/15/2006 (S_WG-PS-6-E\PS\EXTERNAL_ISSUES\Grant_PriorRapids.doc)