INTERLOCAL AGREEMENT FOR RESOURCESMART PAYMENT TO THE
CITY OF CASHMERE COMMERCIAL AND INDUSTRIAL CUSTOMERS

This agreement between PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN
COUNTY, WASHINGTON, hereinafter referred to as the “District” and the CITY OF
CASHMERE, hereinafter referred to as the “City”.

RECITALS

1. The District is authorized to purchase and sell electricity to meet its current and
future needs by RCW 54.16.040. Further, the District is authorized to make all
contracts and engage in undertakings that are necessary to render the District’s
system efficient and beneficial to the public.

2. The District has been selling power and providing electrical service facilities to
Cashmere pursuant to a Power Sales Agreement dated October 24, 1994 (“1994
Agreement”). In Section 17 of the “1994 Agreement,” the District intends to
offer certain conservation programs under separate agreements to the City’s
customers. The City will not directly participate in those programs.

3. The purchase of electricity through payment to individuals for installation of
conservation measures has been recognized by the courts of Washington in
Tacoma v. Taxpayers, 108 Wn.2d 679, 743 P.2d 793 (1987), as a valid
expenditure of public funds.

4. The Commission in Resolution No. 01-11751 authorized the purchase of
electricity saved through conservation from commercial and industrial
customers.

5. The District has operated an industrial and commercial energy conservation
program called Resource$mart since 2001 which pays customers for their
conserved energy, as authorized by Resolution No. 01-11724 and revised by
Resolution No. 04-12571 and Resolution No. 05-12799.

6. The City and District are authorized pursuant to RCW 39.34 to enter in
arrangements such as this, which are mutually beneficial.

7. District staff has determined it is more cost-effective for the District, the
customers and the City due to process and administrative efficiencies to follow
established procedures and work directly with the customer.

8. The District has established procedures in the Resource$mart program that
include working directly with the customer and efficiency measure installers.

9. The Resource$mart Program is administered by District staff following
procedures as outlined in Exhibit A and using an implementation agreement,
shown in Exhibit B.
10. Nothing in this Agreement is intended to change the relationship of the City’s customers as retail customers of the City. Those customers are not retail customers of the District.

TERMS AND CONDITIONS

1. The Recitals set forth above are incorporated herein.

2. The District will offer financial incentives for conservation measures, pursuant to current terms and conditions of the Resource$mart program, to commercial and industrial customers of the City.

3. The District will enter into a Resource$mart Implementation Agreement with the commercial and industrial customers of the City that specifies the terms and conditions of a Resource$mart offer to purchase conserved energy.

4. The City’s commercial and industrial customers will then facilitate the installation of energy conservation measures described in the Resource$mart Program Implementation Agreement.

5. The City’s commercial and industrial customers will then invoice the District for the amounts described in the Resource$mart Implementation Agreement.

6. The District will inspect completed energy conservation work for completeness and specification compliance. The District will then pay the City’s commercial or industrial customer according to the terms described in the Resource$mart Implementation Agreement.

7. This interlocal agreement shall be effective upon execution of both the District and the City and shall remain in effect until such time as it is terminated by either party as provided herein. Either party may terminate the Agreement by providing thirty (30) days written notice to the other party. Upon termination of this Agreement, the District will no longer offer any new Resource$mart offers to City commercial or industrial customers.

8. Notices required shall be sent by regular mail to:

   Public Utility District No. 1
   General Manager
   Address: P. O. Box 1231
   Wenatchee, WA 98807-1231
   Fax: (509) 661-8115

   City of Cashmere
   Mayor
   Address: 101 Woodring Street
   Cashmere, WA 98815
   Fax: (509) 782-2840

9. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the substantially prevailing party shall be entitled to reasonable attorney fees, costs and necessary disbursements, in addition to any other relief granted.

10. The “1994 Agreement” remains in full force and effect and is not amended by this Agreement.
11. The Electric Utility System Purchase and Sale Agreement Between the City and the District dated April 30, 2007 remains in full force and effect and is not amended by this Agreement.

12. This Agreement embodies the entire Agreement between the parties. There are no promises, terms, conditions or obligations other than those contained herein.

EXECUTED THIS 27th day of August, 2007

CITY OF CASHMERE

PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY

By George Valison, Mayor

By Rich Riazi, General Manager

Date: 8/27/07

Date: 8/17/07
CUSTOMER BUYBACK POLICY (RESOURCESMART)

BACKGROUND

Chelan County Public Utility District is authorized to purchase and sell electricity to meet current and future needs (RCW 54.16.040). The District also is authorized to execute contracts and engage in activities to make the District’s system efficient and beneficial to the public.

At times during each year, the District must purchase power in order to meet its load requirements. The District benefits when it can avoid the costs of purchased power to serve its load. At other times, when the District has excess power, the electric energy can be sold to others on the wholesale market. The revenues obtained from such sales provide a benefit to customers through low retail rates and operation of an efficient system.

The principle behind the District’s buyback program is that conservation is a source of electricity. A kilowatt-hour saved from existing demand is as fully a source of new supply as another kilowatt hour generated.

On March 26, 2001, the Board of Commissioners, by Resolution No. 01-11724, authorized the purchase of electricity saved through conservation from Rate Schedule 2, 3 and 30 (commercial and industrial) customers. The resolution recognized conservation as a source of electricity and established a program to help industrial and commercial customers install energy-efficiency measures, freeing up additional power for the District to help meet its load requirements or to sell on the wholesale market.

A fund was established for this electric energy savings program. It has been the Board of Commissioners’ practice to continually fund this program, called Resourcesmart, as long as it is of economic benefit to both the District and its customers.

FUNDING

It is the intent of the District that staff will continue to evaluate and identify potential electric energy reduction opportunities at customer-owned commercial and industrial facilities. Staff may offer commercial and industrial customers up to 75 percent of the up-front cost to replace, retrofit or install new equipment including but not limited to fast-acting doors for fruit warehouses, more efficient industrial refrigeration fans, heating and cooling system improvements, and better lighting.

The actual amount of funding for each project is based on the projected wholesale price of electric energy. The amount to be paid to a customer is subject to change as determined by the District’s financial requirements and approved revisions to this Customer Buyback Policy.

All Resourcesmart requests are subject to engineering and financial feasibility analysis by District staff and are evaluated consistent with business-like practices to provide efficient service to the customer.

PROCESS

Customers apply to the Resourcesmart program by contacting the District’s Energy
Services department. A staff representative makes an appointment to visit the customer’s business to evaluate it for potential energy-saving measures.

The representative analyzes the proposed measures, projecting potential energy savings and the dollar amounts that may be available for installing the energy-efficiency improvements. Calculations and projected savings are subject to internal review.

If approved by reviewers, a formal offer and Resource$mart Implementation Agreement is sent to the customer. (Customers must not begin work on their project(s) until receiving a formal offer, in writing, from the District and signing and returning the agreement to the District.)

After receiving a formal offer, customers provide the District with an estimate of the total cost, supplied by a contractor, vendor, business owner or manager. (Final payment from the District is based on invoicing after the work is done, not on the estimate.)

The customer then completes the work, invoicing the District. Invoice must either match the amount stated in the Resource$mart Implementation Agreement or 75 percent of the actual invoiced amount, whichever is lower. The invoice to Chelan County PUD should include the customer’s Federal Tax ID Number.

INSPECTION AND PAYMENT
The customer must notify the PUD of completion and schedule an inspection by PUD officials. Resource$mart purchase payments are contingent on verification inspection by a PUD representative to assure conformance. Customers will receive payment after inspection is completed and work is approved. Payments terms are net 25 days from the date the invoice is received by the District.
RESOURCE$MART
Implementation Agreement

This agreement is between CUSTOMER and Public Utility District No. 1 of Chelan County (PUD).

WHEREAS,

The PUD is offering the Resource$mart program in order to acquire cost-effective electric resources from its Rate Schedule 2, 3 and 30 (commercial and industrial) customers. CUSTOMER is an existing commercial customer of the PUD.

CUSTOMER is legally authorized to construct, remodel or otherwise improve their facility located at ADDRESS.

Now, therefore, in consideration of the mutual covenants contained herein, the PUD and CUSTOMER agree as follows:

1. Installation of Conservation Measures. CUSTOMER agrees that in order to receive payment from the PUD it must install the conservation measures described in this agreement on or before DATE. If CUSTOMER is unable to complete the installation by this date, the PUD may extend this agreement, but the Resource$mart payment amount may be substantially less. Any such extension must be in writing to be effective.

2. Payment by PUD. PUD agrees to pay CUSTOMER for the acquisition of this electric resource, as set forth herein.

   The PUD agrees to pay CUSTOMER the lesser of (a) the Maximum Resource$mart Payment amounts shown below; or (b) seventy-five percent (75%) of the customer's actual cost to purchase and install the electric energy savings equipment.

   Such payment shall not exceed the maximum sums as set forth as follows:

3. Verification of Expenses. CUSTOMER shall provide the PUD with all invoices and other requested verification of the costs to install the conservation measures.

5. No Third Party Beneficiaries and No Further Obligations by PUD. The PUD's sole responsibility is to purchase electric power resources from CUSTOMER that result from the installation of these conservation measures. The PUD is not a party to any contracts for the purchase or installation of any equipment or measure, or for the actual installation of any measure.

6. No Warranty. CUSTOMER acknowledges that, due to the variability of energy use, it is not possible to accurately predict energy savings from installing the energy conservation measures. The PUD does not warrant to CUSTOMER any level of energy savings. Customer should independently verify all energy and cost savings calculations, assumptions, and estimates before committing to any equipment purchases under this Resource$mart program.

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7. **Hold Harmless.** CUSTOMER agrees to hold harmless, indemnify and defend the PUD from and against any and all liability for damages or costs connected in any way with the purchase and installation of conservation measures and any work associated therewith.

8. **Compliance with Laws.** CUSTOMER is solely responsible for compliance with all federal, state, and local requirements related to environmental, health, safety and zoning requirements and other laws or regulations applicable to this project.

9. **Governing Law and Venue.** This agreement shall be governed by the laws of the State of Washington. Venue for any action arising from or related to this Agreement shall be in the Superior Court of Chelan County, Washington.

10. **Attorney Fees.** In the event it is necessary for either party to utilize the services of an attorney to enforce any of the terms of this Agreement, such enforcing party shall be entitled to compensation for its reasonable attorney’s fees and costs. In the event of litigation regarding any of the terms of this Agreement, the substantially prevailing party shall be entitled, in addition to other relief, to such reasonable attorney’s fees and costs as determined by the court.

11. ** Entire Agreement.** This instrument contains the entire agreement of the parties.

**IN WITNESS WHEREOF,** the parties have executed this Agreement on the dates noted.

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**CUSTOMER**

By: ___________________________ Date

print name and title

Title: __________________________

Public Utility District No. 1 of Chelan County, Washington

By: John D. Stoll Date

Title: Director of Customer Service
RESOLUTION NO. 07-18155

A RESOLUTION AUTHORIZING AN AMENDMENT TO RESOLUTION NO. 01-11724, AUTHORIZING THE PURCHASE OF ELECTRICITY SAVED THROUGH CONSERVATION FOR CUSTOMERS ON RATE SCHEDULES 2, 3 AND 30, AND APPROVING AN INTERLOCAL AGREEMENT WITH THE CITY OF CASHMERE TO ADD CASHMERE COMMERCIAL AND INDUSTRIAL CUSTOMERS TO THE ENERGY BUYBACK PROGRAM

FACTUAL BACKGROUND AND REASONS FOR ACTION

Resolution No. 01-11724, dated March 26, 2001, authorized an electric energy buyback program for customers on the District’s Rate Schedules 2, 3 and 30 referred to as Resource$mart. The resolution recognized conservation as a source of electricity and established a program to help industrial and commercial customers install energy-efficiency measures, freeing up additional power for the District to help meet its load requirements or to sell on the wholesale market. Revenues obtained from such sales are used by the District and provide a benefit to the public in terms of the District’s low retail rates and operation of an efficient system.

A fund was established for this electric energy savings program in an amount not to exceed $1,500,000.

Resolution No. 01-11724 was amended on July 6, 2004 by Resolution No. 04-12571, which increased the total authorized Resource$mart amount to $2,000,000. It was further amended on November 21, 2005, by Resolution No. 05-12799, which increased the authorized amount by $1,000,000 for a total authorized amount of $3,000,000.

District staff has identified the need for additional funding of $1,000,000 to fund new projects through 2009. Staff recommends the increased funding for the program due to increased wholesale price projections for electricity and because of growing interest in the program by industrial and commercial customers.

District staff also has identified the need to include City of Cashmere commercial and industrial customers in the Resource$mart Program. Per the Power Sales Agreement, dated October 24, 1994, the District currently sells electricity to the City of Cashmere on a wholesale basis, which then distributes and sells the power to its customers. While energy conserved by the City’s commercial and industrial customers will reduce the District’s wholesale income from the City, this power can be sold or does not have to be purchased at wholesale market rates which are
typically much higher. The cost associated with the program’s inclusion of the City’s retail customers is included in the current budget.

Per Section 17 of the Power Sales Agreement, the District and City of Cashmere agreed that the District would offer certain conservation measures and programs under separate agreements.

The Commission recognizes that the District must receive sufficient consideration for any expenditure of public funds. It is the Commission’s finding that the District’s Resource$mart program is specifically intended for the purpose of purchasing electric resources. The Commission has no donative intent including City of Cashmere in this program. In addition the public as a whole will receive sufficient benefit and consideration from the City of Cashmere’s participation in the Resource$mart program.

District staff recommends that the District enter into an Agreement with the City of Cashmere to offer the Resource$mart program to City of Cashmere commercial and industrial customers.

District staff recommends that it is in the best interest of the District to amend Resolution No. 01-11724 to provide additional funding for energy-efficiency measures in the amount of $1,000,000 for a total revised sum of $4,000,000. Staff further recommends that the City of Cashmere commercial and industrial customers be included in the electric energy buyback program through an interlocal agreement with the City.

The General Manager has reviewed District staff’s recommendations and concurs in the same.

ACTION

IT IS RESOLVED BY THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON as follows:

Section 1. Resolution No. 01-11724 is hereby amended to increase the funds authorized for the energy buyback program for customers on the District’s Rate Schedules 2, 3 and 30 by $1,000,000. The revised sum will not exceed $4,000,000 without prior Commission approval.

Section 2. The Commission determines that it is in the best interests of the District to purchase electric energy from the City of Cashmere’s commercial and industrial electric utility customers through the Resource$mart Program.

Section 3. The General Manager, or his designee, is authorized to implement an agreement with the City of Cashmere to include the City of Cashmere’s
commercial and industrial electric utility customers in the District’s ResourceSmart Program in order to fully implement this Program.

Section 4. The General Manager, or his designee, is authorized to execute agreements with appropriate entities within the City of Cashmere in order to fully implement this Program.

DATED this 13th day of August, 2007.

[Signatures]

President

Vice President

Secretary

Commissioner

Commissioner

Seal