

RESOLUTION NO. **06-12830**

A RESOLUTION AUTHORIZING THE INTERIM  
GENERAL MANAGER TO ENTER INTO A POWER  
SALES AGREEMENT AND TRANSMISSION  
AGREEMENT WITH PUGET SOUND ENERGY

**FACTUAL BACKGROUND AND REASONS FOR ACTION**

Public Utility District No. 1 of Chelan County (“District”) is a municipal corporation engaged in the production of electric power. As provided in RCW 54.16.040, the District has the authority to sell to other persons, including private corporations, within or without its limits, electric current for all uses with full and exclusive authority to regulate the charges and price thereof as well as the other terms of the power sales agreement. The District, prior to making any such sales, must determine that it has made adequate provision for the needs of the District, both actual and prospective.

Puget Sound Energy (“PSE”) is engaged in the business of providing energy to customers in the State of Washington. PSE serves over one million electric customers in the State of Washington.

PSE and the District are parties to two current Power Sales Agreements for the output from the District’s Rocky Reach and Rock Island Hydroelectric Projects. Those Power Sales Agreements expire on October 31, 2011 and June 7, 2012, respectively. PSE and the District have a long and productive contractual history with one another.

District and PSE staff have negotiated a new Power Sales Agreement for a twenty (20) year term which expires on October 31, 2031. The contract provides that the District will sell to PSE and PSE will take and pay for twenty-five (25%) percent of the output from the Rocky Reach and Rock Island Hydroelectric Projects. There is no guaranteed amount of energy and the District’s delivery obligations are expressly limited to 25% of only that output actually produced. In exchange, PSE has agreed to pay \$89 million upon approval of the Power Sales Agreement by the Federal Energy Regulatory Commission and to make on-going financial payments starting in 2011. PSE has agreed to pay as lump sum payments the following: \$18,500,000 as prepayment to be used by the District as collateral to be paid in 2011; \$2,500,000 (stated in 2004 dollars) as working capital for each project to be paid upon the respective project availability dates (2011 and 2012); and payments necessary for the Coverage Fund as defined in the contract. On-going monthly payments after the project availability dates in 2011 and 2012 include: operating and maintenance costs; financing costs; capital recovery charge; debt reduction charge; debt administration charge; transmission charges; and other miscellaneous charges. Further, the District retains operational control as well as financial control and flexibility as defined in the

Power Sales Agreement. The Power Sales Agreement contains other terms and conditions as agreed upon by the parties.

The major points of the new Power Sales Agreement are generally described in a memorandum provided to the Board of Commissioners by the Power Sales Agreement Negotiating Team dated December 5, 2005. A copy of the proposed agreement has also been provided to the Board of Commissioners and is on file. The terms of the Power Sales Agreement have been discussed at several public Board meetings.

District and PSE staff have also negotiated a Transmission Agreement with a term of the same duration as the Power Sales Agreement. This Transmission Agreement provides for the use of the District's transmission system between designated points of receipt and points of delivery on that system. The Transmission Agreement defines the method for calculating charges and losses, service specifications, disclaimer of warranties and liabilities and other provisions necessary for the transmission of the output from Rocky Reach and Rock Island Hydroelectric Projects to PSE's points of interconnection. PSE will pay the District transmission charges as specified in the Transmission Agreement. A discussion of the Transmission Agreement occurred at the January 9, 2006 Board meeting.

District staff recommends that it is in the best interests of the District to execute the new Power Sales Agreement with PSE with the terms specified in the contract on file at the District.

The Interim General Manager has reviewed District staff's recommendation and concurs in the same.

The Commission finds that the District has made adequate provision for its own needs, both current and prospective. The Commission finds that the Power Sales Agreement and Transmission Agreement are in the best interests of the District.

The Commission further determines that the proposed Power Sales Agreement and the Transmission Agreement with PSE should also serve as a template for future discussions with other parties for related power sales agreements. Entities purchasing a "slice of the system" under a cost-based agreement should pay the same costs and agree to the same basic terms as provided in the Power Sales Agreement and Transmission Agreement with PSE. This ensures that all parties' interests are properly aligned and the District's customer/owners are best protected from undue risks. A memorandum describing the template nature of the Power Sales Agreement dated January 3, 2006 from the Power Sales Contract Negotiating Team to the Board of Commissioners describes the reasoning and basis for this agreement serving as a template.

**ACTION**

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

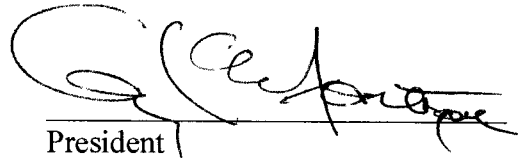
Section 1. At a public meeting on January 16, 2006 a proposed Power Sales Agreement between the District and Puget Sound Energy was introduced to the Commission for approval. Pursuant to RCW 54.16.040, the Commission tabled a decision on whether to approve the proposed Agreement until at least ten (10) calendar days had passed.

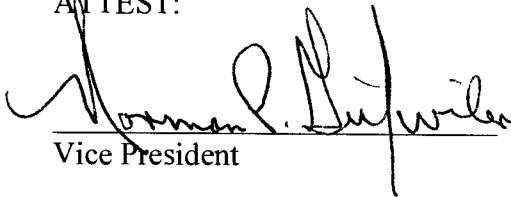
Section 2. The Commission approves the proposed Power Sales Agreement and the Transmission Agreement between the District and Puget Sound Energy and authorizes and directs the Interim General Manager to execute those Agreements on behalf of the District.

Section 3. The Commission also authorizes the Interim General Manager, General Counsel and Chief Financial Officer to execute such other documents and take actions necessary to effectuate the Power Sales Agreement and Transmission Agreement on behalf of the District.

Section 4. The Commission approves and directs District staff to utilize the Power Sales Agreement and Transmission Agreement as a template for future discussion with other parties for consistency, uniformity and alignment of interests of all purchasers.

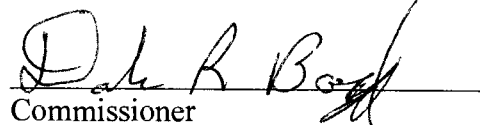
Dated this 30<sup>th</sup> day of January 2006.

  
President

ATTEST:  
  
Vice President

Commissioner Congdon appeared by telephone and voted for this resolution. Commissioner Congdon authorized General Counsel Carol Wardell to not such action in lieu of Commissioner Secretary Congdon's signature. Carol A. Wardell  
1-30-06

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Commissioner

  
Commissioner

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