COLLATERAL ANNEX

**to the**

**WSPP AGREEMENT AND CONTRACT(S) FOR SALE OF OUTPUT FROM**

**THE ROCKY REACH PROJECT AND ROCK ISLAND PROJECT**

 This Collateral Annex together with the Cover Sheet Elections (collectively, the “Collateral Annex”), between Public Utility District No. 1 of Chelan County, Washington (“Party A”) and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (“Party B”) (each a “Party” and, collectively, the “Parties”), is given to provide credit assurances to secure each Party's Obligations under the Agreements, as each term is defined below.

 The Obligations of each Party to the other Party under the Agreements shall be secured in accordance with the provisions of this Collateral Annex, which sets forth the conditions under which a Party will be required to deliver Performance Assurance and the conditions under which a Party will be required to release and return Performance Assurance. To the extent there are any inconsistencies between the terms and conditions of the Agreements and this Collateral Annex, this Collateral Annex shall prevail. To the extent there are any inconsistencies between the terms and conditions of this Collateral Annex, excluding the Cover Sheet Elections, and the Cover Sheet Elections, the Cover Sheet Elections shall prevail.

**1. Definitions.**

 For purposes of this Collateral Annex, the following terms have the meanings set forth below or in the provisions referred to below:

"Agreements" means, collectively, all Transactions between the Parties conducted under the WSPP Agreement, a Dynamic Transfer Agreement, an EIM Participation Operating Agreement, any Slice Contracts and all other slice related agreements between the Parties. The terms “Slice Contracts”, “Dynamic Transfer Agreement” and “EIM Participation Operating Agreement” are defined in the Contract for Sale of Output from the Rocky Reach Project and the Rock Island Project.

“Beneficiary Party” means, at any time, the Party entitled to receive, or that has received and is the beneficiary of, Performance Assurance provided by, or on behalf of, the Posting Party.

“Business Day” means any day other than a Saturday or Sunday or a national (United States or Canadian, whichever is applicable) holiday. United States holidays shall be holidays observed by Federal Reserve member banks in New York City. Where both Party A and Party B have their principal place of business in the United States, Canadian holidays shall not apply. In situations where one Party has its principal place of business within the United States and the other Party's principal place of business is within Canada, both United States and Canadian holidays shall apply. A Business Day shall open at 8:00 a.m. and close at 5:00 p.m. Pacific prevailing time (“PPT”).

“Collateral Requirement” has the meaning stated in Section 4(c) of this Collateral Annex.

“Collateral Threshold” means, with respect to a Party, the collateral threshold, if any, set forth in Part I of the Cover Sheet Elections for that Party, or if no amount is set for such Party, such amount shall be zero (0).

“Contract for Sale of Output from the Rocky Reach Project and the Rock Island Project” means any Contract for Sale of Output from the Rocky Reach Project and the Rock Island Project between Party A and Party B, including all amendments and annexes thereto agreed to between the parties.

“Credit Rating” means, with respect to an entity but including, as applicable, a Party or its Guarantor, as the case may be, on any date of determination: (a) the rating then assigned to such entity’s (i) unsecured debt (such debt not supported by third-party credit enhancement) or (ii) if such rating in clause (i) is unavailable, its corporate credit rating, in each case as issued by Standard & Poor’s (“S&P”), Moody’s Investors Service (“Moody’s”), or Fitch, Inc. (“Fitch”) or other rating agency or agencies to which the Parties may agree in writing, or (b) other such rating to which the Parties may agree in writing, and as further defined or described by the Parties in the Cover Sheet Elections.

 “Dealer” means any entity that would qualify as a “Dealer” under Section 4 of the WSPP Agreement, and any leading broker or dealer engaged on a national level in the purchase, sale or exchange of energy, capacity or related rights on NYMEX or related exchanges, including forward purchase agreements, futures agreements and derivative products related thereto, except that no Party or any parent, subsidiary, or other affiliate of a Party shall be a Dealer for purposes of this Collateral Annex.

“Deliver” or “Delivered” or related terms means with respect to any Letter of Credit, the physical delivery thereof by the issuing bank to the Beneficiary Party. Any Delivery required to be made on a day that is not a Business Day shall instead be required to be made on the first following Business Day.

“Demand Notice” has the meaning given in Section 4(a) hereof.

“Defaulting Party” means a Party who has experienced an event of default as described in Section 22.1 of the WSPP Agreement, or the Slice Contracts.

“Early Termination” means a termination of all Transactions in accordance with Section 22.2 of the WSPP Agreement or any Slice Contracts, as the case may be, due to an Event of Default.

“Event of Default” has the meaning stated in Sections 22.1 of the WSPP Agreement and Section 15 of any Slice Contract, as modified by Section 3 of this Collateral Annex.

“Guarantor” has the meaning stated in Section 4 of the WSPP Agreement and shall also include any entity identified in Part I of the Cover Sheet Elections.

“Independent Amount” means that amount required in Part IV of the Cover Sheet Elections. The Independent Amount is an additional credit support amount, in the form of (i) a Letter of Credit, or (ii) other security in form and subject to terms and conditions that are acceptable to the Beneficiary Party in its sole and absolute discretion, that is required independent of any Collateral Requirement or Excess Performance Assurance calculated under Sections 4 and 5.

“LC Issuer” means (a) an entity organized under the laws of the United States of America or any state thereof, or a domestic branch of a foreign entity, having capital and surplus of at least one billion dollars ($1,000,000,000) and having a Credit Rating from any two of the following three rating agencies of at least (i) “A+” by Standard and Poors Ratings Group, a division of McGraw-Hill, Inc. ("S&P"), (ii) “A1” by Moody’s Investors Services, Inc. ("Moody's"), and (iii) “A+” by Fitch Ratings, or (b) any other entity to which the Parties agree in the Cover Sheet Elections or otherwise in writing, provided, that the Parties may agree to another definition of LC Issuer in Part VIII of the Cover Sheet Elections or otherwise in writing, which other definition shall supersede the foregoing. The Beneficiary Party may reject an LC Issuer that conforms to the requirements in (a) or (b) above if in the Beneficiary Party’s sole discretion acceptance of additional credit from the applicable LC Issuer would be an unacceptable credit risk due to other commitments it has accepted from such LC Issuer.

“Letter of Credit” means an irrevocable, non-transferable, standby letter of credit, issued by a LC Issuer in a form consistent with the Parties’ agreements stated in Part VIII of the Cover Sheet Elections and which Letter of Credit is otherwise reasonably acceptable to the Beneficiary Party.

“Letter of Credit Default” means with respect to an outstanding Letter of Credit and prior to the time such Letter of Credit is required to be canceled or returned to a Party in accordance with the terms of this Collateral Annex, the occurrence of any of the following events: (a) the issuer of the Letter of Credit has failed to satisfy the criteria of a LC Issuer under this Collateral Annex, the Cover Sheet Elections, or other Agreements of the Parties, as applicable; (b) the LC Issuer has failed to comply with or perform its obligations under such Letter of Credit, including, but not limited to a failure to comply with a request to draw thereon in accordance with its terms; (c) the LC Issuer has disaffirmed, disclaimed, repudiated or rejected, in whole or in part, or challenged the validity of, such Letter of Credit; (d) such Letter of Credit has expired or terminated, has become unenforceable, or has failed or ceased to be in full force and effect at any time during the term of any transaction under the Agreements for which Performance Assurance is required to be kept in full force and effect hereunder, in any such case without replacement within three (3) Business Days following the date such Letter of Credit expired, terminated, has become unenforceable, or failed or ceased to be in full force and effect; (e) the LC Issuer has initiated or become subject to, or any other party has initiated against LC Issuer (i) a bankruptcy, reorganization, moratorium, liquidation, receivership or similar insolvency proceeding under federal or state law, (ii) a similar proceeding for relief under any federal or state bankruptcy or insolvency law affecting creditor’s rights, or (iii) a proceeding to liquidate or wind-up the business or affairs of the LC Issuer; (f) the LC Issuer makes an assignment for the benefit of creditors; or (g) the LC Issuer admits in writing its inability to pay its debts generally as they become due.

“Material Adverse Change” has the meaning stated, for the applicable Party, in Part II of the Cover Sheet Elections.

“Minimum Transfer Amount” means, with respect to a Party, the amount set forth in Part V of the Cover Sheet Elections for such Party, or if no amount is filled in for such Party, such amount shall be zero (0).

“Obligations” means, with respect to a Posting Party (a) all debts, liabilities and amounts due or that may become due from the Posting Party to the Beneficiary Party pursuant to (i) the Agreements, including all outstanding WSPP Confirmations evidencing Transactions between the Parties under the WSPP Agreement, (ii) this Collateral Annex, (iii) any Security Agreement, and (iv) any other documents, instruments or agreements executed in connection therewith; and (b) all amounts owed under any modifications, renewals or extensions of the foregoing.

“Party” and “Parties” have the respective meanings stated in the introductory paragraph of this Collateral Annex.

“Performance Assurance” means collateral in the form of (i) a Letter of Credit, or (ii) other security in form and subject to terms and conditions that are acceptable to the Beneficiary Party in its sole and absolute discretion. Performance Assurance shall include any Independent Amount as required in Part IV of the Cover Sheet Elections, except for purposes of calculating the Collateral Requirement in Section 4(c) and the Excess Performance Assurance in Section 5(a).

“Posting Deadline” has the meaning given in Part VII of the Cover Sheet Elections.

“Posting Party” means, at any time, the Party required to post, or that has posted, Performance Assurance to, or for the benefit of, the Beneficiary Party.

“Potential Event of Default” means an event which, (a) with the giving of notice required under the respective Agreement, if any is required, or (b) the failure to remedy or cure under such Agreements, if remedy or cure is permitted, or both (a) and (b), would be an Event of Default.

“Reduction Deadline” has the meaning given in Part VII of the Cover Sheet Elections.

“Replacement Letter of Credit” has the meaning given in Section 6(a) hereof.

 “Rounding Amount” means, with respect to a Party, the amount, set forth in Part VI of the Cover Sheet Elections for such Party, or if no amount is filled in for such Party, such amount shall be zero (0).

 “Security Agreement” means a Security Agreement, which may be in the form attached hereto, applicable to Performance Assurance in a form other than Letter of Credit.

 “Slice Collateral Component” means the amount determined in accordance with the methodology set forth in Appendix A to this Collateral Annex, including amounts due for rendered performance by Party A to Party B under all Slice Contracts, whether or not invoiced or due. As calculated under Appendix A, the Slice Collateral Component as of any calculation date may either be in favor of Party A or Party B.

 “Termination Date” means the date thirty (30) days after either Party provides written notice of termination of the Collateral Annex to the other Party. In no case will the Termination Date precede the date on which the Beneficiary Party shall have received full and final payment of all of the Obligations. If the Beneficiary Party has not received full and final payment of all Obligations at the time notice of termination is provided, then the Termination Date will be the date that all Obligations are paid in full.

 “Termination Payment” means, for purposes of this Collateral Annex, the net Termination Payments (as such term is defined in the WSPP Agreement) that would become due under Section 22.3 of the WSPP Agreement (including all Transactions thereunder on a netting or consolidated basis) on the date of calculation, if the Transactions under the WSPP Agreement were terminated on that date. The Termination Payment as of any calculation date may either be in favor of Party A or Party B.

 “Transaction” means one or more transactions under the WSPP Agreement as evidenced by confirmations, whether oral or written, made or issued thereunder.

 “Value” on any date means: with respect to any Letter of Credit, the maximum stated amount remaining available to be drawn by the Beneficiary Party thereunder on such date; provided, however, that (x) the Value of a Letter of Credit that is affected by a Letter of Credit Default shall be zero (-0-) and (y) the Value of any Letter of Credit that expires less than twenty (20) Business Days from the date of calculation shall be zero (-0-) unless the conditions described in Section 6(a) hereof have been satisfied.

 “UCC” means the Uniform Commercial Code as in effect from time to time in the State of Washington, without regard to the conflicts of laws rules thereof, except to the extent that the perfection, the effect of perfection or nonperfection and the priority of the security interest granted hereunder, or remedies hereunder, are governed by the law of any jurisdiction other than the State of Washington, the term UCC shall mean the Uniform Commercial Code of such other jurisdiction as necessary to give complete effect to this Collateral Annex.

 “WSPP Agreement” means the WSPP Agreement, including Service Schedules and Exhibits attached, the Master Confirmation Agreement to the WSPP Agreement executed by the Parties, any amendments and annexes thereto agreed to between the Parties, and all Transactions evidenced by confirmations between the Parties entered into or conducted thereunder. The numbering of sections contained herein correspond to the WSPP Agreement effective as of October 12, 2016 and any renumbering of the sections shall not affect the terms of this Collateral Annex.

**2. Encumbrance; Grant of Security Interest.**

 (a) As security for the prompt and complete payment of all amounts due or that may now or hereafter become due from a Party to the other Party and the performance by a Party of all covenants and obligations to be performed by it pursuant to this Collateral Annex, the Agreements and all Obligations, each Party hereby pledges, assigns, conveys and transfers to the other Party, and hereby grants to the other Party a present and continuing security interest in and to, and a general first lien upon and right of set off against, all Performance Assurance that has been or may in the future be Delivered to, or received by, the other Party. Each Party agrees to take such action as the other Party reasonably requests in order to perfect the other Party’s continuing security interest, and lien on (and right of setoff against), such Performance Assurance.

 (b) The security interest created hereunder shall (i) remain in full force and effect until the security interest granted hereby is terminated in accordance with the second sentence of this Section 2(b), (ii) be binding upon the Posting Party, its successors and assigns and (iii) inure to the benefit of the Beneficiary Party and its successors, transferees and assigns. On the Termination Date with respect to each applicable Posting Party, the security interest granted hereunder shall terminate and all rights to the Performance Assurance that may then remain shall revert to the Posting Party. Upon such termination, the Beneficiary Party shall return all Performance Assurance in its possession or otherwise under its control to the Posting Party pursuant to Section 5(c) of this Collateral Annex and, at the Posting Party’s expense, execute and deliver to the Posting Party such documents as the Posting Party shall reasonably request to evidence termination of the security interest.

 (c) The security interest created hereunder is in addition to, and not in lieu of, any and all remedies that may be available under the Agreements.

 (d) In the event a Party claims in any judicial proceeding that the grant set forth in Section 2(a) of this Collateral Annex is ineffective and fails to prevail on the claim, then that Party shall pay the other Party’s reasonable attorneys fees incurred in defending against the claim.

**3. Additional Events of Default.**

The following events are added as an additional Event of Default under applicable sections of the Agreements and are incorporated therein for all purposes under this Collateral Annex:

 (a) A Party fails to establish, maintain, transfer or extend Performance Assurance, or return Excess Performance Assurance, in any such case when required pursuant to the Parties’ Collateral Annex.

 (b) An event of default, however defined, under either Agreement, or in respect of any Transaction thereunder shall be an event of default under the other Agreement and under this Collateral Annex.

**4. Collateral Requirement.**

 (a) From time to time, on any Business Day prior to 7:00 a.m. PPT, but no more than once daily, the Beneficiary Party may demand by notice (each a “Demand Notice”) that the Posting Party transfer Performance Assurance to or for the benefit of the Beneficiary Party, in an amount no less than the Collateral Requirement, provided that both conditions (i) and (ii) of this Section 4(a) are satisfied.

 (i) No Event of Default has occurred and is continuing where the Beneficiary Party is the Defaulting Party and no Potential Event of Default exists where the Beneficiary Party is the potentially Defaulting Party;

 (ii) No Early Termination has occurred or been designated with respect to such Beneficiary Party as the defaulting party.

 (b) After receiving a Demand Notice from the Beneficiary Party pursuant to Section 4(a) of this Collateral Annex, but subject to the netting requirements in Section 5(b) of this Collateral Annex, the Posting Party shall, by the Posting Deadline, Deliver, or cause to be Delivered to the Beneficiary Party, Performance Assurance to, or for the benefit of, the Beneficiary Party, in an amount no less than the Collateral Requirement as defined in Section 4(c) of this Collateral Annex, provided, however, that a Posting Party shall not have an obligation to transfer Performance Assurance until the Collateral Requirement exceeds the Minimum Transfer Amount, at which time the Posting Party shall transfer the entire amount of the Collateral Requirement to the Beneficiary Party.

 (c) The “Collateral Requirement” is the amount calculated, as of the date of the Demand Notice, rounded up to the nearest integral multiple of the Rounding Amount, which is equal to *(x)* less *(y)*, but no less than zero, where:

*(x)* is the net of

(i) the Termination Payment, if any, that would be owed under the WSPP Agreement

(ii) any Slice Collateral Component

(iii) the damages, if any, owed solely under Section 21.3 of the WSPP Agreement

(iv) any further and additional amounts due for rendered performance by either Party A or Party B under the WSPP Agreement, Dynamic Transfer Agreement or any Slice Contract whether or not invoiced or due, and

*(y)* is the sum of

(i) the Value of Performance Assurance, excluding the Independent Amount previously provided by or otherwise credited to the Posting Party for the benefit of the Beneficiary Party and not released as of the time the Beneficiary Party made the demand plus

(ii) the Collateral Threshold then applicable to the Posting Party.

 (d) Any Letter of Credit shall be delivered to such address as the Beneficiary Party shall specify.

 (e) Party A shall serve as calculation agent for purposes of calculating Collateral Requirement, the amount of Performance Assurance to be posted, and the amount of any Excess Performance Assurance. Calculations shall be performed daily and communicated to Party B by 7:00 a.m. PPT. All such calculations shall be deemed conclusive, final and binding on the parties absent manifest error.

**5. Reduction, Return, and Substitution of Performance Assurance.**

 (a) Reduction of Performance Assurance. From time to time, on any Business Day prior to 8:00 a.m. PPT but no more than once daily, a Posting Party may demand that the Beneficiary Party reduce Performance Assurance in an amount equal to the Excess Performance Assurance as defined in this Section, provided, that the Posting Party shall not have any right to demand such reduction if on or prior to such Business Day, an Event of Default has occurred and is continuing where the Posting Party is the Defaulting Party, a Potential Event of Default exists where the Posting Party is the potentially Defaulting Party, or an Early Termination has occurred or been designated with respect to such Posting Party for which the Posting Party has not satisfied its Obligations. The Beneficiary Party shall comply with the demand by reducing the amount(s) of outstanding Letter(s) of Credit the Posting Party previously posted, provided, however, that a Beneficiary Party shall not have an obligation to transfer or cause the transfer of Excess Performance Assurance until the Excess Performance Assurance exceeds the Minimum Transfer Amount, at which time the Beneficiary Party shall transfer the entire amount of the Excess Performance Assurance to the Posting Party. The Posting Party shall have the right to specify such means of compliance. If Excess Performance Assurance is returned by reducing the face amount of an outstanding Letter of Credit and the LC Issuer requires that the reduction be implemented through a cancellation of the existing Letter of Credit and the issuance of a new Letter of Credit with a reduced face amount, then (1) the Posting Party shall have delivered a new Letter of Credit to the Beneficiary Party in a form reasonably acceptable to the Beneficiary Party and in an amount not less than the then-current Collateral Requirement, and (2) in the event that an Event of Default occurs, as to which the Posting Party is the defaulting Party, between the Reduction Deadline and the date on which the new Letter of Credit is executed and delivered to the Beneficiary Party, the Beneficiary Party shall be entitled to draw from the existing Letter of Credit only an amount up to but not exceeding the then-current Collateral Requirement. The cost and expense of compliance (including, but not limited to, the reasonable costs, expenses, and attorneys’ fees of the Beneficiary Party and, if applicable, the LC Issuer) shall be the sole obligation of, and paid directly by, the Posting Party. If the Beneficiary Party pays any such cost or expense, the Posting Party shall reimburse the Beneficiary Party for each such cost and expense promptly following a demand for reimbursement. The Beneficiary Party shall comply with the demand on or before the Reduction Deadline.

 “Excess Performance Assurance” is an amount, calculated as of the date of the demand and rounded down to the nearest integral multiple of the Rounding Amount, which is equal to *(x)* less *(y)*, but no less than zero, where:

 *(x)* is the sum of

(i) the Value of Performance Assurance excluding the Independent Amount previously provided by or credited to the Posting Party for the benefit of the Beneficiary Party and not released as of the time the Posting Party made the demand, plus

(ii) the Collateral Threshold applicable to the Posting Party.

 *(y)* is the net sum of

(i) the Termination Payment, if any, that would be owed under the WSPP Agreement

(ii) any Slice Collateral Component

(iii) the damages, if any, owed solely under Section 21.3 of the WSPP Agreement,

(iv) any further and additional amounts due for rendered performance by either Party A or Party B under the WSPP Agreement, Dynamic Transfer Agreement or any Slice Contract, whether or not invoiced or due.

 (b) Netting. The foregoing notwithstanding, Party B’s obligations to Deliver Performance Assurance under Section 4 of this Collateral Annex, and Party A’s obligations to release and return Performance Assurance under Section 5, at any time shall be determined on a net basis.

 (c) Return of All Performance Assurance. No later than one (1) Business Day after the last to occur of (i) the Termination Date, and (ii) (A) completion of all outstanding transactions between the Parties under the Agreements or (B) if all such outstanding transactions have not been completed, then payment by the Posting Party of all amounts due to the Beneficiary Party under the Agreements with respect to uncompleted transactions, the Beneficiary Party shall return all outstanding Performance Assurance and the Independent Amount to the Posting Party less any amounts applied to the satisfaction of any of the Posting Party’s Obligations.

 (d) Substitution of Performance Assurance. Unless (i) an Event of Default has occurred and is continuing where the Posting Party is the Defaulting Party, (ii) a Potential Event of Default exists where the Posting Party is the potentially Defaulting Party, or (iii) an Early Termination has occurred or been designated with respect to the Posting Party pursuant to which the Posting Party has not satisfied all Obligations, the Posting Party may substitute Performance Assurance for existing Performance Assurance of equal value. The Posting Party must give notice of the substitution to the Beneficiary Party two (2) Business Days before the substitution is intended to occur no later than 2:00 p.m. PPT. The notice must include a draft of the substitute Letter of Credit. The Posting Party may affect the substitution no earlier than two (2), and no later than five (5), Business Days after giving such notice. If the substitute Performance Assurance is not a Letter of Credit (in form consistent with this Collateral Annex), the substitution shall not be made unless the Beneficiary Party consents in writing thereto. No later than one Business Day after the Beneficiary Party receives substitute Performance Assurance in accordance with this Section, the Beneficiary Party shall transfer the Performance Assurance that has been replaced to the Posting Party. Notwithstanding anything herein to the contrary, no such substitution shall be permitted unless after giving effect to such substitution, the value of such substitute Performance Assurance shall equal the greater of the Posting Party’s Collateral Requirement or the Posting Party’s Minimum Transfer Amount. The substituted Performance Assurance shall be subject to and governed by the terms and conditions of this Collateral Annex.

**6. Administration of Performance Assurance.**

 (a) Letters of Credit. Performance Assurance provided in the form of a Letter of Credit shall be subject to the following provisions, provided, that nothing in this Section 6(a) is intended to modify any terms and conditions contained in any Letter of Credit that apply to draws thereon and it is recognized that the Parties may agree to additional terms and conditions not stated herein.

(i) The Posting Party shall maintain for the benefit of the Beneficiary Party any Letter of Credit provided as Performance Assurance in accordance with Section 4 of this Collateral Annex. The Posting Party shall *(a)* renew or cause the renewal of each outstanding Letter of Credit not less than forty-five (45) days prior to its expiration in accordance with the terms contained in the applicable Letter of Credit (the “*Extension Deadline*”), *(b)* if the LC Issuer has indicated its intent not to renew such Letter of Credit, provide a replacement Letter of Credit issued by a LC Issuer in the same face amount and on substantially the same terms as the outstanding Letter of Credit (each, a “*Replacement Letter of Credit*”), at least forty-five (45) days prior to the expiration of the applicable Letter of Credit, and *(c)* if the LC Issuer shall fail to honor the Beneficiary Party’s request to draw on an outstanding Letter of Credit in accordance with the terms thereof, provide for the benefit of the Beneficiary Party a Replacement Letter of Credit within one (1) Business Day after such refusal, provided, that, as a result of the Posting Party’s failure to perform in accordance with *(a)*, *(b)*, or *(c)* above, the Posting Party’s Collateral Requirement would be greater than zero. The foregoing notwithstanding, the Beneficiary Party may reject a Replacement Letter of Credit that conforms to the requirements of this Section if in the Beneficiary Party’s sole discretion acceptance of additional credit from the applicable LC Issuer would be an unacceptable credit risk due to other commitments it had accepted from such LC Issuer, provided, that in the event of such rejection, the Beneficiary Party shall pay any excess costs incurred by the Posting Party in obtaining a Replacement Letter of Credit from a different LC Issuer. Rejection of a Replacement Letter of Credit under the immediately prior sentence shall not relieve a Posting Party of its obligations to maintain adequate Performance Assurance at all times under this Collateral Annex.

(ii) Upon the occurrence of a Letter of Credit Default, the Posting Party shall deliver to the Beneficiary Party a Replacement Letter of Credit on or before the first Business Day after the occurrence thereof (or the fifth (5th) Business Day after the occurrence thereof if only clause (a) under the definition of Letter of Credit Default applies), in such amounts that on the day such Replacement Letter of Credit is provided the Collateral Requirement is zero.

(iii) In the specific circumstance where (1) a Letter of Credit Default has occurred and is continuing (e.g. because the issuer thereof is no longer a LC Issuer or such Letter of Credit is scheduled to terminate or expire in less than forty-five (45) days), and (2) the Posting Party has not Delivered additional Performance Assurance or a Replacement Letter of Credit as required hereunder, the Beneficiary Party shall be entitled to draw in whole or part on the related Letter of Credit, and the proceeds of such draw shall be held as Performance Assurance hereunder in accordance with the terms and conditions of this Agreement.

(iv) Upon or at any time after the occurrence of an Event of Default that is continuing where the Posting Party is the Defaulting Party, or if an Early Termination has occurred or been designated with respect to the Posting Party pursuant to which the Posting Party has not satisfied all of its Obligations, then the Beneficiary Party may draw on the entire, undrawn portion of any outstanding Letter of Credit in accordance with its terms. Notwithstanding the Beneficiary Party’s receipt of Cash under the Letter of Credit, the Posting Party shall remain liable for any failure to transfer sufficient Performance Assurance and for any Obligations owing to the Beneficiary Party and remaining unpaid after the application of the amounts so drawn by the Beneficiary Party.

(v) In all cases, the costs and expenses (including but not limited to the reasonable costs, expenses, and attorneys’ fees of the Beneficiary Party) of establishing, renewing, substituting, reissuing, canceling, reducing and increasing the face amount of (as the case may be) a Letter of Credit shall be paid by the Posting Party, or if paid by the Beneficiary Party, promptly reimbursed by the Posting Party following the Beneficiary Party’s demand for reimbursement.

 (b) Performance Assurance in Forms Other than Letters of Credit. The Parties may by written agreement agree that a Party may provide Performance Assurance in forms other than Letters of Credit, and may agree to additional terms and conditions respecting such Performance Assurance.

 (c) Care of Performance Assurance. Except for duties to comply with all requirements concerning Performance Assurance stated herein, the Beneficiary Party shall have no duty as to any Performance Assurance in its possession or control or any income thereon or as to the preservation of rights against prior parties or any other rights pertaining thereto. The Beneficiary Party, shall at all times retain possession or control of Performance Assurance delivered to it. To the extent if any that this Section 6(c) is inconsistent with UCC § 9-207, this Section 6(c) shall control.

**7. Beneficiary Party’s Exercise of Rights Concerning Performance Assurance.**

 (a) In the event that *(x)* an Event of Default has occurred and is continuing where the Posting Party is the Defaulting Party or *(y)* an Early Termination has occurred or been designated under the Agreements or in respect of any transaction thereunder for which the Posting Party has not satisfied all of its Obligations, the Beneficiary Party may exercise any one or more of the rights and remedies provided under the applicable Agreement, under this Collateral Annex or as otherwise may be available under applicable law. Without limiting the foregoing, if at any time *(x)* or *(y)* has occurred, then the Beneficiary Party may, in its sole discretion, declare all Obligations immediately due and payable without presentment, demand, notice, protest or other formalities of any kind (all of which are hereby expressly waived by the Posting Party) and exercise any one or more of the following rights and remedies:

(i) All rights and remedies available to the Beneficiary Party under UCC Article 9 or the uniform commercial code of any jurisdiction in which the Performance Assurance is being held and any other applicable jurisdiction and other applicable laws with respect to the preservation of or foreclosure upon collateral.

(ii) The right to set off any Performance Assurance held by or for the benefit of the Beneficiary Party against and in satisfaction of any amount payable by the Posting Party in respect of any of its Obligations.

(iii) The right to draw the full undrawn face amount of each outstanding Letter of Credit issued for its benefit to the extent necessary to satisfy the Obligations of the Posting Party.

(iv) The right to liquidate any Performance Assurance held by or for the benefit of the Beneficiary Party, free from any claim or right of any nature whatsoever of the Posting Party, and to apply the proceeds received following the exercise of the rights and remedies set forth above as follows (A) first, to the payment of (1) all costs and expenses relating to the sale of any Performance Assurance and collection of amounts owing hereunder, including reasonable attorneys’ fees and disbursements and the just compensation of the Beneficiary Party for services rendered in connection therewith or in connection with any proceeding to sell if a sale is not completed, and (2) all charges, expenses and advances incurred or made by the Beneficiary Party in order to protect the lien provided under this Collateral Annex; (B) second, to the payment in full of all of the Obligations owed to the Beneficiary Party hereunder and under the Agreements in such order as the Beneficiary Party may elect; and (C) third, the balance, if any, shall be paid to the Posting Party.

(b) The Posting Party hereby irrevocably constitutes and appoints the Beneficiary Party and any officer or agent thereof, with full power of substitution, as the Posting Party’s true and lawful attorney-in-fact (which appointment shall be coupled with an interest) with full irrevocable power and authority to act in the name, place and stead of the Posting Party or in the Beneficiary Party’s own name, from time to time in the Beneficiary Party’s discretion, solely for the purpose of taking any and all action and executing and delivering any and all documents or instruments which may be necessary or desirable to accomplish the purposes of Section 7(a). Notwithstanding the foregoing, the Beneficiary Party shall not be obligated to exercise any right or duty as attorney-in-fact, and shall have no duties to the Posting party in connection therewith.

 (c) The Posting Party shall in all events remain liable to the Beneficiary Party for any amount payable by the Posting Party in respect of any of its Obligations remaining unpaid after any such liquidation, application and set off and the Beneficiary Party shall have the right to proceed against the Posting Party for any such deficiency.

**8. Posting Party’s Exercise of Rights Concerning Performance Assurance.**

If at any time *(a)* an Event of Default has occurred and is continuing where the Beneficiary Party is the Defaulting Party, or *(b)* an Early Termination has occurred or been designated under the Agreements or with respect to any transactions thereunder for which the Beneficiary Party has not satisfied all of its Obligations, then:

(i) within three (3) Business Days of occurrence, the Beneficiary Party will be obligated to transfer all Performance Assurance (including any Letter of Credit) in excess of the Posting Party’s Obligations to the Beneficiary Party, to the Posting Party;

(ii) the Posting Party may do any one or more of the following: *(a)* exercise any of the rights and remedies of a pledgor with respect to the Performance Assurance, including any such rights and remedies under law then in effect; *(b)* to the extent that Performance Assurance is not transferred to the Posting Party as required in (i) above, setoff amounts payable to the Beneficiary Party against the Performance Assurance (other than Letters of Credit) held by the Beneficiary Party or to the extent its rights to setoff are not exercised, withhold payment of any remaining amounts payable by the Posting Party, up to the value of any Performance Assurance that has not been so transferred, until the Performance Assurance is transferred to the Posting Party; *(c)* exercise rights and remedies available to the Posting Party under the terms of any Letter of Credit; and *(d)* exercise any applicable rights and remedies available to the Posting Party under the Agreements; and

(iii) the Beneficiary Party shall be prohibited from drawing on any Letter of Credit that has been posted by the Posting Party for its benefit in excess of the Posting Party’s Obligations to the Beneficiary Party under the Agreements and hereunder.

**9. Covenants; Representations and Warranties; Miscellaneous.**

 (a) The Posting Party will execute and deliver to the Beneficiary Party (and to the extent permitted by applicable law, the Posting Party hereby authorizes the Beneficiary Party to execute and deliver, in the name of the Posting Party or otherwise) such financing statements, assignments and other documents and do such other things relating to the Performance Assurance and the security interest granted under this Collateral Annex including any action the Beneficiary Party may deem necessary or appropriate to perfect or maintain perfection of its security interest in the Performance Assurance, and the Posting Party shall pay all costs relating to its delivery of Performance Assurance and the maintenance and perfection of the security interest therein.

 (b) On each day on which Performance Assurance is held under this Collateral Annex by the Beneficiary Party, the Posting Party hereby represents and warrants that:

1. the Posting Party has good and marketable title to and is the sole owner of such Performance Assurance, and the execution, delivery and performance of the covenants and agreements of this Collateral Annex, do not result in the creation or imposition of any lien or security interest upon any of its assets or properties, including, without limitation, the Performance Assurance, other than the security interests and liens created under the Agreements and this Collateral Annex;
2. upon the transfer of Performance Assurance by the Posting Party to the Beneficiary Party for the benefit of the Beneficiary Party, the Beneficiary Party shall have a valid and perfected first priority continuing security interest therein, free of any liens, security interests, claims or encumbrances, except those liens, security interests, claims or encumbrances arising by operation of law that are given priority over a perfected security interest;
3. it is not and will not become a Party to or otherwise be bound by any agreement, other than the Agreements and this Collateral Annex, or amendments thereto, which restricts in any manner the rights of any present or future holder of any of the Performance Assurance with respect hereto; and
4. No approval or authorization by, and no filing with or consent of, any federal, state, local, municipal or other government agency, department or regulatory authority is required either (A) for the grant by the Posting Party of the liens granted hereby or for the execution, delivery or performance of this Collateral Annex by the Posting Party or (B) for the perfection (except for filing of any financing statements in the jurisdictions identified in writing by the Posting Party) of the liens created hereby or the exercise by the Beneficiary Party of the rights and remedies hereunder.

 (c) This Collateral Annex has been and is made solely for the benefit of the Parties and their permitted successors and assigns, and no other person, partnership, association, corporation, or other entity shall acquire or have any right thereunder or by virtue of this Collateral Annex.

 (d) Each Party represents and warrants to the other Party that (i) it has all requisite power and authority to execute and deliver this Collateral Annex, to consummate the transactions contemplated hereby and to perform its respective obligations hereunder; (ii) it has taken all necessary action to authorize the execution, delivery and performance of this Collateral Annex and (iii) this Collateral Annex has been duly executed and delivered and, when executed and delivered by the other Party, will constitute the legal, valid and binding obligation of such Party enforceable against it in accordance with its terms except as such enforcement may be limited by bankruptcy, insolvency, moratorium or similar laws affecting the rights of creditors generally or by general equitable principles (regardless of whether enforcement is sought in a proceeding in equity or at law).

 (e) As of the date a Party executes this Collateral Annex, the Cover Sheet Elections, or Security Agreement, or any amendment thereto, such Party is a member in good standing of the WSPP, Inc. or has signed a WSPP Agreement.

 (f) Section 34 of the WSPP Agreement is inapplicable to any disputes concerning the enforcement of this Collateral Annex or the rights and obligations set forth herein concerning Performance Assurance. In the event litigation is commenced by either Party to enforce this Collateral Annex or collect any amounts required to be paid, provided or transferred hereunder, each Party agrees to pay the other Party for all reasonable attorneys' fees, disbursements, and court costs incurred by the prevailing Party in such litigation.

 (g) No delay or forbearance by any Party or its agents in exercising any right, power, privilege, or remedy accruing to such Party upon the occurrence of any breach or default by the other Party under this Collateral Annex, and no course of dealing between the Parties, shall impair any such right, power or remedy of the non-defaulting Party, nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of any similar breach or default thereafter occurring, nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of a Party of any such breach or default under this Collateral Annex, or any waiver on the part of any non-defaulting Party hereto of any provision or condition of this Collateral Annex, must be in writing or electronic mail and shall be effective only to the extent specifically set forth in such communication. This Collateral Annex may be amended only by a document executed by the Parties.

 (h) Each demand, notice, consent, agreement, approval or other communication required or permitted to be given from one Party to the other Party under this Collateral Annex shall be provided in writing (unless expressly provided otherwise) and shall be submitted by recognized overnight courier service or telefacsimile addressed to the recipient Party at its address or telefacsimile number set forth in Part IX of the Cover Sheet Elections or as changed by notice to the other Party. Email communications shall be permitted for all purposes of this Collateral Annex, except as provided below, to the extent and following the protocols, set forth in the Cover Sheet Elections. All such notices, requests, demands, approvals and other communications shall be deemed to have been duly given, received and effective when: (a) received if personally delivered; (b) on the day transmitted (unless transmitted after 2:00 p.m. PPT at the place of receipt or on a day that is not a Business Day, in which case it shall be deemed received on the next Business Day), if transmitted by facsimile transmis­sion and the sender's facsimile machine has received the correct answerback of the addressee and confirmation of uninterrupted transmission by a transmission report or the recipient confirming by telephone to sender that he has received the facsimile message; (c) the day immediately following the day it is sent, if sent for next day delivery to a domestic address by a nationally-recognized overnight courier or delivery service; (d) on the day of receipt, if sent by certified or registered mail, return receipt requested; and (e) on the date actually received, if sent or delivered by any other means; provided, that any notice, demand, request or other communication made or delivered in connection with an alleged breach or default hereunder (including an Event of Default) shall only be delivered personally or by a nationally-recognized overnight courier or delivery service. Whenever this Collateral Annex provides that a demand, notice, consent, agreement, approval or other communication shall be provided in “writing” or shall be provided in “written” form, such demand, notice, consent, agreement, approval or other communication shall only be effective hereunder if provided by a manually signed original, photocopy or telefacsimile copy from the Party or Parties to be bound thereby.

 (i) The headings in this Collateral Annex are for convenience of reference only, and shall not affect the meaning or construction of any provision thereof.

 (j) This Collateral Annex shall be governed by, and construed and interpreted in accordance with, the laws of the State of Washington except to the extent that the perfection, the effect of perfection or nonperfection and the priority of the security interest granted hereunder, or remedies hereunder, are governed by provisions of the UCC, including but not limited to UCC §§ 9-104, 9-301, 9-303, 9-304, 9-305, 9-306 and 9-307, that may call for the application of the laws of jurisdictions other than the State of Washington.

 (k) This Collateral Annex may be executed in one or more counterparts, all of which, when taken together, shall constitute one and the same instrument and each of the Parties hereto may execute this Collateral Annex by signing any such counterpart.

IN WITNESS HEREOF, the Parties have caused this Collateral Annex to be duly executed effective as of the date signed below.

**Party A Party B**

Public Utility District No. 1 of Chelan County \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name of Party: Name of Party

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

[Sign here] [Sign here]

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

[Print name] [Print name]

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Title Title

Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Appendix A to Collateral Annex**

CALCULATION OF SLICE COLLATERAL COMPONENT

Under

SECTIONS 4 AND 5 OF COLLATERAL ANNEX

 This Appendix sets forth the methodology for calculating the Slice Collateral Component under Sections 4 and 5 of the Collateral Annex in relation to Slice Contracts. Calculations shall only be made on a Business Day. The District, pursuant to Section 4(e) of the Collateral Annex, shall serve as the Calculation Agent for purposes of the calculations under this Appendix A, and its determinations, as made in good faith, shall be conclusive, final and binding on the parties absent manifest error. The calculations described below have been illustrated in an example attached at the end of this Appendix A to aid in clarity.

The parties have elected this methodology as a rough approximation of payments that might become due under Section 16 of any Slice Contract, were they to terminate on the calculation date.

1. Determine Contract Price and Contract Quantity for each Delivery Period at time of agreement execution.
	1. Assume median annual energy for the Rocky Reach Project and the Rock Island Project is 1,045aMW (net of CEAs and encroachment) and multiply by purchaser’s percentage for each respective Delivery Period, as shown in Section 3 of the Slice Contract, to determine the Purchaser’s median annual energy (aMW).
	2. Determine the Delivery Period Contract Quantity (MWh) by multiplying the number of hours in Delivery Period by the amount in (1a).
	3. Determine the Purchaser’s Delivery Period Payments ($) as shown on Appendix B to the Slice Contract for each respective Delivery Period.
	4. Divide each Delivery Period Payment ($) by that Delivery Period Contract Quantity (MWh) to determine Delivery Period Contract Price ($/MWh).
	5. Determine Flat Mid-C Forward Market Price at time of contract execution for each Delivery Period.
	6. Determine Delivery Period Pricing Shaping Adjustment Factor by dividing the Delivery Period Contract Price ($/MWh) (1d) for each Delivery Period by the Delivery Period Flat Mid-C Forward Market Price for each Delivery Period at time of contract execution (1e).
2. Determine the Delivery Period Gain/Loss Amount for future Delivery Periods.
	1. Determine Flat Mid-C Forward Market Price for each future Delivery Period on the date of calculation.
	2. Multiply the Flat Mid-C Forward Market Price (2a) by the Delivery Period Pricing shaping adjustment factor from (1f) to determine the Delivery Period Replacement Price ($/MWh).
	3. For each future Delivery Period, subtract the Delivery Period Contract Price ($/MWh) (1d) from the Delivery Period Replacement Price ($/MWh) (2b).
	4. Calculate the Delivery Period Gain/Loss Amount for future Delivery Periods by multiplying the Delivery Period Contract Quantity (1b) by the differential price calculated in (2c).
3. Determine the Delivery Period Gain/Loss Amount for the current Delivery Period.
	1. The District will determine the generation estimate for the months remaining in the current Delivery Period, commencing with the Prompt Month, using the Northwest River Forecast Center’s Forecast and/or the Median Water Forecast for the remainder of the current Delivery Period (the “*Remaining Current Delivery Period Output*”). The District will then multiply the Remaining Current Delivery Period Output estimate by the Purchaser’s Slice Percentage for the current Delivery Period as set forth in Section 3 of the Slice Contract to establish the Current Delivery Period Remaining Replacement Quantity (MWh).
	2. Sum all future Delivery Period Payment Installments beginning with the installment due in the Prompt Month through the end of the current Delivery Period.
	3. Determine the Remaining Delivery Period Market Price on the date of calculation for Current Delivery Period Remaining Replacement Quantity (3a) by multiplying the monthly Flat Mid C Forward Market Prices by the respective monthly amounts of the Current Delivery Period Remaining Replacement Quantity (3a) and then divide the sum of those monthly dollar amounts by the total Current Delivery Period Remaining Replacement Quantity from (3a).
	4. Multiply the Remaining Delivery Period Market Price (3c) by the Delivery Period Pricing Shaping Adjustment Factor from (1f) to determine the Current Delivery Period Replacement Price ($/MWh).
	5. Multiply the Current Delivery Period Replacement Price (3d) by the total Current Delivery Period Remaining Replacement Quantity (3a) and then subtract the sum of the future Delivery Period Payment Installments, beginning with the installment owed for the Prompt Month (3b) and net the Delivery Period Payment Installment and amounts due under Section 6 of the Slice Contract, in each case that are due on the 20th of the month following the calculation date to determine the Current Delivery Period Gain/Loss Amount for the current year.
4. Determine the Slice Collateral Component.
	1. Aggregate or netthe future and current Delivery Period Gain/Loss Amounts calculated in (2d) and (3e) into a single gain or loss amount.
	2. Determine the total amounts unpaid for rendered performance by Party A to Party B under the Slice Contract in all months prior to the date of calculation, whether or not invoiced or due.
	3. The Slice Collateral Component is the aggregation of the amounts under Paragraphs 4(a) and 4(b).

As used in this Appendix, the following terms shall have the meanings ascribed to them below:

1. “*Contract Price*” means the price in $/MWh calculated by dividing the Delivery Period Payment ($) by the Delivery Period Contract Quantity (MWh).
2. “*Current Delivery Period Remaining Replacement Quantity*” means the amount of energy in MWh of Purchaser’s Output for the remainder of the current Delivery Period (beginning with the Prompt Month after the calculation date) as calculated by the District pursuant to Paragraph 3(a) of this Appendix A.
3. *“Current Delivery Period Replacement Price*” means the price in $/MWh determined pursuant to Paragraph 3(d) of this Appendix A.
4. “*Delivery Period*” means, as applicable, one or more of the delivery periods described in Section 3 of the Slice Contract(s).
5. “*Delivery Period Contract Quantity*” means the amount of energy in MWh of Purchaser’s Output during the Delivery Period determined pursuant to Paragraph 1(b) of this Appendix A.
6. “*Delivery Period Contract Price*” means the amount per MWh determined pursuant to Paragraph 1(d) of this Appendix A.
7. “*Delivery Period Payment*” means the amount in United States funds to be paid by Purchaser to the District for the purchase of the Purchaser’s Output during each Delivery Period as defined in Section 3 of the Slice Contract.
8. “*Delivery Period Payment Installments*” means the amount in United States funds to be paid by Purchaser to the District for the purchase of the Purchaser’s Output Percentage during each Delivery Period divided by the number of months in the Delivery Period.
9. “*Delivery Period Pricing Shaping Adjustment Factor*” means the Delivery Period Contract Price ($/MWh) divided by the Flat Mid-C forward market price at the time of Contract execution.
10. “*Delivery Period Replacement Price*” means the price in $/MWh determined pursuant to Paragraph 2(b) of this Appendix A.
11. “*Delivery Period Gain/Loss Amount*” means the amount in $US equal to the economic advantage or disadvantage, if any, (exclusive of Costs) resulting from the termination of this Contract for such Delivery Period, determined by the District pursuant to this Appendix A.
12. “*Flat Mid C Forward Market Price*” means the price ($/MWh) for 1MWh for every hour of the respective Delivery Period. The District may consider, among other valuations, quotations from dealers in energy contracts, end-users of relevant products, brokers, any of the settlement prices of the NYMEX power futures contract (or NYMEX power options contracts in the case of Physically-Settled Options), ICE (Intercontinental Exchange trading platform for physical and financial contracts) and other bona fide third party offers, all adjusted for the length of the remaining term and differences in transmission.
13. “*Median Water Forecast*” means the median flows based on at least 70 years of re-regulated flows as determined by the District.
14. “*Northwest River Forecast Center’s Forecast*” means the most recent long-range forecast of water supply volume forecasts for Grand Coulee Dam on the Columbia River issued by the Northwest River Forecast Center or successor entity. This forecast may also be provided by another recognized regional third party water supply forecaster.
15. “*Prompt Month*” means the month following the date of calculation.
16. “*Remaining Current Delivery Period Output*” means the amount determined pursuant to Paragraph 3(a) of this Appendix A.
17. “*Remaining Delivery Period Market Price*” means the weighted market price determined pursuant to Paragraph 3(c) of this Appendix A.
18. “*Slice Collateral Component*” means the sum of the future and current Delivery Period Gain/Loss Amounts, netted into a single payment as set forth in Paragraph 4(a), and aggregated with the receivables described in Paragraph 4(b) of this Appendix A.