

Summary of Large Load Service Agreement and Related Contracts between Public Utility District No. 1 of Chelan County (“Chelan PUD”) and Microsoft Corporation

Prepared by Chelan PUD staff

June 2025

This memorandum summarizes the terms of agreements Chelan PUD’s Board of Commissioner’s is contemplating executing with Microsoft to provide electricity service to Microsoft’s data center in Malaga, Chelan County.

Term. 15 years. Electricity service runs from August 1, 2025 to July 31, 2040. Service will automatically extend for additional 5-year periods until either party opts out.

Load Served. The Microsoft data center in Malaga with a maximum authorized demand of 288 MW.

Reliability Protections. Microsoft is required to install protective equipment and manage its load in a way that meets the safety and reliability criteria that applies to Chelan PUD’s electrical system and the load. In the event the data center operates in a manner that threatens the reliability of service to other customers, Chelan PUD can reduce or shutoff service to the data center. To minimize unanticipated operational issues, Microsoft and Chelan PUD will coordinate regularly on planned maintenance, outages, and similar events. Microsoft must get prior approval for certain planned changes to its load that could degrade service to other customers.

Interconnection and Substation. Microsoft and Chelan PUD executed a Large Load Interconnection Agreement in 2022 that governs construction of the Jumpoff Ridge substation and transmission system modifications. Microsoft is responsible for all costs of constructing the substation and other modifications. Chelan PUD will own the substation.

Power Supply Source. Service to the datacenter is contingent on an arrangement for long-term power supply being in place. Service is generally limited to the amount of long-term power supply delivered. Chelan PUD may provide supplementary power on a short-term basis if doing so does not reduce service or impact rates to other customers. Power supply may be procured from multiple sources. During August to December of 2025, up to 18 MW of load will be served with 80% carbon-free power primarily from Chelan PUD surplus power, which power is priced at the market value of energy, capacity and environmental attributes. Future sources of power must meet carbon-free and capacity metrics and other requirements set by Chelan PUD, the State of Washington, and other regulators. This means power has to be at least 80% carbon-free. Power supply is also required to meet standards intended to ensure power resources are adequate to meet demand.

Chelan PUD Hydropower. Chelan PUD retains full control over how its hydroelectric projects are used. Chelan PUD has no obligation to provide energy from its own generating resources. The agreement leaves open the possibility for sale of power from Chelan PUD generating resources on mutually agreeable terms, which would be subject to approval by Chelan PUD’s Board of Commissioners and after considering the interests of its customer-owners.

Power Supply Costs. Costs and liabilities associated with power purchased from third parties are passed through to Microsoft to avoid affecting the rates of other customers.

Shutdown Protections. Microsoft must pay certain minimum charges every month even if the data center is not taking power. This ensures Chelan PUD recovers certain fixed costs of owning and operating electrical facilities needed to be able to provide service even if the data center is shutdown.

Termination Damages. If the contract is terminated early, Microsoft must pay all Chelan PUD's damages related to power supply transactions that would have been used to serve the data center. Microsoft would also be required to pay Chelan PUD to decommission the substation or an amount estimated to cover the costs of maintaining the substation and other assets until a replacement load can come online.

Performance Assurance and Other Financial Protections. Microsoft must post collateral to cover the full amount it is estimated to owe Chelan PUD in the event of early termination, ensuring Chelan PUD is paid even if Microsoft does not or cannot pay. Monthly payments from Microsoft are due prior to the date Chelan PUD would have to pay an external third party for power supply, which mitigates fund liquidity.

Load and Grid Management Charges. Certain charges are associated with short-term fluctuations in load and contingencies to support reliability. These load management services are provided as part of Chelan PUD's role as the owner-operator of the interconnecting electrical system. During situations where Chelan PUD is able to sell or otherwise use excess power that was designated for the data center, Microsoft will receive a credit. The charges are subject to ongoing oversight and revision by Chelan PUD's Board of Commissioners to protect rates and ensure the reliability of other customers is not affected.

Other Charges. Other charges apply to recover costs associated with providing customer service, managing long-term and short-term power supply, and other utility services. These charges are also subject to ongoing oversight and revision by the Board of Commissioners.

Changes to Energy Markets and Laws. The agreements include several provisions in anticipation of possible future changes in energy markets and laws. They are intended to give Chelan PUD flexibility to adapt to future changes in practices, markets, and legal requirements, while continuing to provide reliable service to the data datacenter and recovering all costs from Microsoft.

Governing Documents. The primary contract documents are the Large Load Service Agreement (LLSA) and the Master Power Supply Agreement (MPSA).

The LLSA governs interconnection, the substation, and most day-to-day activities related to managing the load, power supply, and system reliability. After interconnection construction is complete, the Large Load Interconnection Agreement (described above) will terminate, and the substation and load interconnection will be governed by the LLSA.

The MPSA governs long-term power supply, including how power supply is identified and procured. The MPSA is supplemented by "power supply riders" that address the terms of specific sources of power. The initial set of documents includes two power supply riders: the Interim Rider and the WSPP Rider. The Interim Rider governs power supply for August through December 2025. The WSPP Rider enables Chelan PUD to purchase power to serve the data center through WSPP transactions, which is a form of power transactions commonly used by Chelan PUD and many other utilities in the region. As future power supply is identified, Chelan PUD and Microsoft can incorporate this power supply to serve the data center by adding power supply riders to the MPSA.

The Chelan PUD Rate Schedule 4, Large Loads, includes many charges that are incorporated in the proposed Microsoft agreements. Proposed revisions to Rate Schedule 4 incorporate the large load guiding principles and power supply framework that have been reviewed by the Board of Commissioners. It also updates charges and adds new charges necessary for the Microsoft agreements.