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Idaho Public Utilities Commission
Office of the Secretary
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MAY 19 2004

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Boise, Idaho

May 18, 2004

Idaho Public Utilities Commission
472 West Washington
Boise, ID 83702-5983

PAC-E-04-06

Attention: Jean D. Jewell
Commission Secretary

Re: Agreement Regarding Payment of Residential Exchange Program Settlement Benefits During BPA Fiscal Years 2007 Through 2011

If offered by the Bonneville Power Administration ("BPA"), PacifiCorp expects it may execute as early as May 28, 2004, and in any event prior to June 3, 2004, an Agreement Regarding Payment of Residential Exchange Program Settlement Benefits During Fiscal Years 2007 Through 2011, between the Bonneville Power Administration and PacifiCorp, BPA proposed Contract No. 04PB-11468, comparable to the form of agreement that is attached to this letter (the "FY 2007-2011 Agreement"). This letter is intended to provide the Idaho Public Utilities Commission ("Commission") with information concerning the background and provisions of the FY 2007-2011 Agreement.

I. Overview of the FY 2007-2011 Agreement

The FY 2007-2011 Agreement would amend two existing agreements between PacifiCorp and BPA. Under these amendments, as more fully explained below, (1) PacifiCorp and BPA would modify provisions relating to calculation of monetary benefits payable to PacifiCorp by BPA during the October 1, 2006 through September 30, 2011 period (*i.e.*, BPA fiscal years ("FY") 2007-2011), and (2) PacifiCorp would waive one-half of the Reduction of Risk Discount payments it otherwise would be entitled to receive. The monetary benefits would be provided in settlement of rights that PacifiCorp's residential and small farm customers otherwise were entitled to receive under Section 5(c) of the Pacific Northwest Electric Power Planning and Conservation Act, P.L. 96-501 ("Northwest Power Act"). PacifiCorp is required to pass all such benefits through to its residential and small farm customers in Oregon, Washington and Idaho.

The prior related agreements are:

Oregon
Washington
California
Utah
Idaho



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- A. The Settlement Agreement between BPA and PacifiCorp (BPA Contract No. 01-PB-12229, dated 10/23/00) and the related Firm Power Block Power Sales Agreement between BPA and PacifiCorp (BPA Contract No. 01-PB-12229, dated October 24, 2000) (collectively, the "Settlement Agreement").

The Settlement Agreement, for FY 2002-2006, provides for the benefit of PacifiCorp's Idaho customers 74 aMW of firm power (out of 251 aMW provided PacifiCorp for its customers in all states) and 66 aMW of monetary benefits, in lieu of firm power (out of 225 aMW of such monetary benefits provided PacifiCorp for its customers in all states) Each megawatt-hour of monetary benefits currently is valued based on the difference between a forward flat-block electricity price forecast for the FY 2002-2006 period, as established by BPA in a power rate case, and the lower of (i) BPA's RL rate for sale of power during such period or (ii) the lowest PF rate applicable to the sale of power to public body and cooperative customers of BPA during such period.

For the period FY 2007-2011, the Settlement Agreement currently provides for the benefit of PacifiCorp's Idaho customers 140 aMW of combined firm power and monetary benefits (out of 586.8481 aMW of such benefits provided PacifiCorp for its customers in all states). BPA reserved the right to specify how much of the total benefit it would deliver as firm power and how much of the total benefit it would provide in the form of monetary benefits. If and to the extent BPA elected to provide monetary benefits, each megawatt-hour of monetary benefits would be valued based on the difference between a forward flat-block electricity price forecast for the FY 2007-2011 period, as established by BPA in a future power rate case, and the lower of (i) BPA's RL rate for sale power during such period or (ii) the lowest PF rate applicable to the sale of power to public body and cooperative customers of BPA during such period.

- B. Agreement Regarding Conditional Deferral of Reduction of Risk Discount Amount, between BPA and PacifiCorp (BPA Contract No. 02PB-11157) dated as of June 20, 2002 (the "Deferral Agreement").

The Deferral Agreement provides for a conditional waiver of Reduction of Risk Discount payments that PacifiCorp is entitled to receive under a Financial Settlement Agreement between BPA and PacifiCorp (BPA Contract No. 01PB-10854) (the "Financial Settlement Agreement"). The Deferral Agreement was executed at a time when discussions were in an advanced stage between PacifiCorp and the other investor-owned utilities in the Pacific Northwest and numerous publicly-owned utilities and cooperatives regarding a comprehensive settlement of various BPA matters, including litigation relating to subscription benefits. The deferral was intended to provide a window for completion of negotiations for a settlement that, if entered, would include



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a permanent waiver by PacifiCorp of the Reduction of Risk Discount payments. The Deferral Agreement, however, permitted unilateral termination of the deferral if either (1) PacifiCorp determined that the current comprehensive subscription settlement efforts were unlikely to be concluded successfully to PacifiCorp's satisfaction or (2) this Commission, the Oregon Public Utilities Commission, or the Washington Utilities and Transportation Commission objected to or disapproved continuation of the deferral period. To date the deferral has not been terminated and no Reduction of Risk Discount amounts have been paid by BPA to PacifiCorp.

II. Events Leading to Negotiation of the FY 2007-2011 Agreement

PacifiCorp negotiated and was prepared to enter a proposed (a) Stipulation and Agreement of Settlement, (b) Amendment No. 1 to the Financial Settlement Agreement between BPA and PacifiCorp (BPA Contract No. 01PB-10584) and (c) Amendment No. 2 to the Settlement Agreement between BPA and PacifiCorp (BPA Contract No. 01PB-12229) (collectively, the "Comprehensive Settlement").

The Comprehensive Settlement (1) would have settled all challenges related to the Settlement Agreement, the Financial Settlement Agreement or implementation thereof (and to comparable agreements and implementation between BPA and the other investor-owned utility parties) and (2) would have made changes to BPA's elections under the Settlement Agreement and calculation of benefits under the Settlement Agreement, to better assure continued benefits for PacifiCorp's retail customers in Oregon, Washington and Idaho for the period FY 2007-2011. In exchange, PacifiCorp would have (1) permanently surrendered all Reduction of Risk amounts provided under the Financial Settlement Agreement and (2) along with the other investor-owned utility parties, deferred each year for the three-year period FY 2004-2006, an additional \$75,000,000 in benefits under its Settlement Agreement and under similar agreements between BPA and the other public utility parties.

The Comprehensive Settlement could go into effect only if accepted by all of the municipal utilities, public utility districts, peoples' utility districts, and electric distribution cooperatives then challenging the benefits provided to residential and small farm customers of the investor-owned utilities through contracts with BPA (the "Public Litigants"). While most Public Litigants did in fact support the Comprehensive Settlement, a few holdouts prevented this region-wide agreement from becoming effective.

Following the failure of the Comprehensive Settlement, BPA and the region's investor-owned utilities have addressed whether certain portions of the Comprehensive Settlement that were beneficial to BPA and its customers, including the residential and small farm customers of



the investor-owned utilities, could be adopted in bilateral contracts without a requirement that the Public Litigants also be parties. These discussions led to the negotiation of a series of bilateral agreements between BPA and each of the region's investor-owned utilities, of which the FY 2007-2011 Agreement is the version applicable to PacifiCorp and BPA. Each of these agreements is subject to a BPA public process, in which BPA will consider comments from third parties. If following the comment period, BPA confirms its willingness to execute the FY 2007-2011 Agreement, PacifiCorp would expect that prior to June 3, 2004, such agreement would be executed by both BPA and PacifiCorp and BPA would release related Records of Decision; June 3, 2004 is the nearest deadline for PacifiCorp to provide notice of a termination of the deferral of the Reduction of Risk Discount.

III. Provisions of the FY 2007-2011 Agreement

Because of the inability to obtain unanimous consent of the Public Litigants, BPA and PacifiCorp are unable to enter an agreement settling litigation related to the Settlement Agreement. BPA and PacifiCorp, however, bilaterally would agree to provisions that were in the Comprehensive Settlement related to calculation of benefits for the period FY 2007-2011. Because of the value of these provisions to PacifiCorp's Oregon, Washington and Idaho residential and small farm customers, PacifiCorp would provide in return for such benefits a portion of the consideration it would have paid under the Comprehensive Settlement.

The specific provisions of the FY 2007-2011 Agreement are as follows:

- A. Calculation of Benefits under the Settlement Agreement for the period FY 2007-2011.

These provisions are identical to provisions the Commission earlier approved in the Comprehensive Settlement related to the calculation of benefits under the PacifiCorp's Settlement Agreement. These provisions are:

- (1) BPA will surrender its right to elect whether to deliver subscription power, or in the alternative monetary benefits, to the investor-owned utilities in the FY 2007-2011 period. Instead, all benefits will be delivered as monetary benefits.
- (2) BPA will accept a calculation of monetary benefits in the FY 2007-2011 period based on a forward flat-block electricity price forecast derived from an independent survey of the forward price curves of buyers and sellers of bulk power for resale in the Pacific Northwest, rather than based on BPA's findings as to such forward



prices in a future rate case. The reason for the shift to an independent methodology for the calculation of such monetary benefits is summarized well in BPA's Record of Decision on the Comprehensive Settlement:

“IOUs expressed concern that BPA views the IOUs' REP [residential exchange program] settlement benefits as agency costs and that BPA is frequently under pressure to reduce costs and therefore rates. The IOUs were concerned that such an environment could create the appearance that the Administrator would view the FBPF [forward flat-block price forecast] calculation as a means to reduce IOU benefits. It was suggested that an alternative method of calculating the FBPF should be determined. To achieve this goal, the parties developed the methodology described above. Through this methodology, an independent QFP [qualified third party] surveys numerous EDPs [eligible data providers] in order to obtain forward price data, which is averaged to determine the FBPF. This removes any appearance or opportunity for BPA to establish low or high FBPF rate case forecasts.” (ROD at page 55)

(3) The total annual monetary payments to all investor-owned utilities in the FY 2007-2011 period will be subject to an annual floor amount of \$100 million and an annual ceiling amount of \$300 million. For PacifiCorp, the Idaho annual benefit floor would be \$6,377,280 (\$26,732,104 system-wide) and the Idaho annual benefit cap would be \$19,119,576 (\$80,144,906 system-wide).¹ These floor and cap amounts would be exclusive of amounts received by PacifiCorp as deferred Reduction of Risk payments, as described at III.B below. Thus, for example, for PacifiCorp the maximum annual Idaho benefits would equal the Idaho-allocated rate cap of \$19,119,576, plus the amount of all deferred benefits returned by BPA to PacifiCorp with interest in that year.

¹ To put these floor and ceiling amounts in perspective, over the history of the residential exchange program, annual benefits to PacifiCorp's Idaho customers have varied from \$0 in some years to a maximum annual benefit of approximately \$35,275,138 in FY 2004.



B. Deferral and Partial Waiver of the Reduction of Risk Discount Payments.

Under the Comprehensive Settlement, all of PacifiCorp's right to Reduction of Risk Discount payments would have terminated. Under the FY 2007-2011 Agreement PacifiCorp (1) would continue to defer the Reduction of Risk Discount payments, for receipt in equal monthly installments for the period FY 2007-2011, (2) would modify the Deferral Agreement to provide interest on the deferrals at the rate of 4.46 percent per annum until October 1, 2004 and at the rate of 3.09 percent per annum thereafter until payment, and (3) would waive one-half of the Reduction of Discount payments then due. As a result of these adjustments, PacifiCorp would receive from BPA (for the benefit of residential and small farm customers in Oregon, Washington and Idaho), and in addition to any other amounts due PacifiCorp, \$778,289 per month for each of the designated 60 months as Reduction of Risk Discount payments.

C. Pass-through of Benefits.

In order to make PacifiCorp's distribution of federal benefits as uniform as possible over the FY 2007-2011 period, PacifiCorp will be allowed to accumulate up to 36 months of BPA monetary payments in a balancing account, provided that all payments must be distributed to residential and small farm customers by no later than April 1, 2012. This increase from the maximum 180-day accumulation allowed under the current Settlement Agreement is intended to give PacifiCorp the flexibility to smooth out, at the retail level, the effect of projected increases in BPA rates or reductions in market power price forecasts that would reduce BPA payment levels. Of course, the actual rate of disbursement of the rate credits in Idaho would remain under the regulatory supervision and control of the Commission.

D. Comparison of the Effects on Retail Customers of the Comprehensive Settlement with the Effects on Retail Customers of the FY 2007-2011 Agreement.

In recognition that the Public Litigants did not terminate their third party legal challenges to the Settlement Agreement, PacifiCorp will retain for collection with interest for the FY 2007-2011, one-half of the Reduction of Risk Discount payments it otherwise would have surrendered under the Comprehensive Settlement. PacifiCorp also will not be required to defer any of its current benefits during the FY 2007-2011 period. Those deferrals would have caused, under the Comprehensive Settlement, the loss of up to \$5,553,844 in currently-received Idaho-allocated benefits in each of those three BPA fiscal years and 9.2 percent to 21.9 percent bill increases to the various schedules entitled to share in the BPA benefits. The FY 2007-2011 Agreement, by contrast, will produce no upward pressure on PacifiCorp's retail rates during this three-year period.



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E. Frustration of Purpose Provision.

The parties to the FY 2007-2011 Agreement recognize that if the provisions for the payment of monetary benefits to PacifiCorp provided under Section 4(c) of the Settlement Agreement were successfully challenged, and thereby found to be void, unenforceable or unlawful, that the receipt by PacifiCorp of benefits as intended under the FY 2007-2011 Agreement would be frustrated. Therefore, in such event, the FY 2007-2011 Agreement provides that it will become void *ab initio*. As a result, the Deferral Agreement would be enforceable in accordance with its then unmodified terms, and PacifiCorp would be entitled to claim the full amount of deferred Reduction of Risk Discount payments, as set forth in the Deferral Agreement.

IV. Implementation of the FY 2007-11 Agreement.

PacifiCorp anticipates that if BPA does not execute and offer the FY 2007-2011 Agreement prior to June 3, 2004, it will exercise its right to terminate deferral of Reduction of Risk Discount payments, so as to begin receiving such payments at the earliest possible date. If, however, BPA offers such agreement to PacifiCorp prior to June 3, 2004, PacifiCorp instead would provide an alternate form of notice of termination of Reduction of Risk Discount payments; such alternate notice would be timed so as to commence the deferred payments as of October 2006.

Very truly yours,

Marcus A. Wood

MW:knp:jlf
Attachment

**AGREEMENT REGARDING PAYMENT OF
RESIDENTIAL EXCHANGE PROGRAM SETTLEMENT BENEFITS
DURING FISCAL YEARS 2007 THROUGH 2011**

**executed by the
BONNEVILLE POWER ADMINISTRATION
and
PACIFICORP**

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This AGREEMENT REGARDING PAYMENT OF RESIDENTIAL EXCHANGE PROGRAM SETTLEMENT BENEFITS DURING FISCAL YEARS 2007 THROUGH 2011 ("Agreement") is executed by the UNITED STATES OF AMERICA, Department of Energy, acting by and through the BONNEVILLE POWER ADMINISTRATION ("BPA"), and PACIFICORP ("PacifiCorp"). PacifiCorp is a corporation organized under the laws of the State of Oregon. BPA and PacifiCorp are sometimes referred to in the singular as "Party" or in the plural as "Parties."

RECITALS

Pursuant to Section 4(b) of the Financial Settlement Agreement, Contract No. 01PB-10854, between BPA and PacifiCorp ("Financial Settlement Agreement"), BPA would reduce its payments to PacifiCorp by a "Reduction of Risk Discount" commencing October 1, 2002, and continuing through September 30, 2006, if by December 1, 2001, PacifiCorp had entered into a certain settlement agreement with one or more of BPA's publicly-owned utility and cooperative customers (hereinafter referred to as "BPA Preference Utilities").

No such certain settlement agreement was entered into by December 1, 2001.

As of June 17, 2002, BPA and PacifiCorp entered into the Agreement Regarding Conditional Deferral of Reduction of Risk Discount Amount, Contract No. 02PB-11157 ("Conditional Deferral Agreement"), which amended the payment provisions of the Financial Settlement Agreement to provide for conditional deferral, with interest, of

payment by BPA to PacifiCorp of monthly amounts under the Financial Settlement Agreement equal to the monthly amount of Reduction of Risk Discount.

Under the Conditional Deferral Agreement, PacifiCorp has the right to elect, by giving a notice to BPA, to terminate such Reduction of Risk Discount deferrals under certain conditions. Such conditions have occurred, and PacifiCorp has given such notice, pursuant to which notice such deferrals will terminate as of September 30, 2006, and payment to PacifiCorp of Reduction of Risk Discount deferral amounts under such agreement will be made over a 48-month period commencing on October 1, 2006, as described below. As of September 30, 2006, the amounts to be paid to PacifiCorp by BPA under the Conditional Deferral Agreement will be equal to the sum of the deferral of \$80,757,816 plus interest (accrued monthly at an annual rate of 4.46 percent) of \$7,474,133. Upon such termination as of September 30, 2006, such sum is, pursuant to the Conditional Deferral Agreement, to be paid by BPA to PacifiCorp, with interest until paid (accrued monthly at an annual rate of 4.46 percent), in equal monthly installments over the 48-month period commencing October 1, 2006.

As of January 13, 2003, BPA and PacifiCorp entered into the Agreement Regarding Fiscal Year 2003 Deferral Amount, Contract No. 03PB-11262 ("FY 2003 Deferral Agreement"), which amended, among other things, the payment provisions of the Settlement Agreement to defer, with interest, payment by BPA to PacifiCorp of \$11,584,210.53 under the Settlement Agreement.

Subject and pursuant to the provisions of this Agreement, the Parties wish to amend, among other things, provisions in the Settlement Agreement, Contract No. 01PB-12229 (Settlement Agreement) regarding the methodology for determining the Forward Flat-Block Price Forecast used in determining the amounts of Monetary Benefit under the Settlement Agreement during the period that begins on October 1, 2006, and continues through September 30, 2011, and to specify that BPA will provide Monetary Benefit rather than Firm Power during such period. Further, the Parties wish to amend the Conditional Deferral Agreement to reduce the amounts that would otherwise be payable under the Financial Settlement Agreement and the Conditional Deferral Agreement and reduce the interest rate as of October 1, 2004, that would otherwise be applied in determining certain monthly payments after September 30, 2006.

The Parties agree:

1. **EFFECTIVE DATE.** This Agreement shall become effective upon execution and delivery by BPA and PacifiCorp ("Effective Date").
2. **AMENDMENT OF SETTLEMENT AGREEMENT.** The Settlement Agreement is amended as follows:
 - (a) Section 2(e) of the Settlement Agreement is deleted and replaced by the following:
 - "(e) "Forward Flat-Block Price Forecast" shall have the following meanings:

- (1) For the period from October 1, 2001, through September 30, 2006:

“Forward Flat-Block Price Forecast” or “FBPF” means, for the period from October 1, 2001, through September 30, 2006, BPA’s forecast, expressed in \$/MWh, of the wholesale market price for the purchase of additional amounts of power at 100 percent annual load factor established in the same BPA power rate case as that which established the RL Rate and for the period of the RL Rate established in a BPA power rate case Record of Decision (“ROD”) as finally approved by the Federal Energy Regulatory Commission and affirmed, if appealed, by the United States Court of Appeals for the Ninth Circuit.

- (2) For the period from October 1, 2006, through September 30, 2011:

“Forward Flat-Block Price Forecast” or “FBPF” means, for each Contract Year during the period from October 1, 2006, through September 30, 2011, the FBPF, expressed in \$/MWh, as determined pursuant to Exhibit C, which is attached to this Agreement.

- (b) Section 2(f) of the Settlement Agreement is deleted and replaced by the following:

“(f) “Lowest PF Rate” means the rates under the lowest cost-based power rate schedule for purchases by BPA’s preference customers of block product service to meet their general requirements at 100 percent load factor. Lowest PF Rate includes any applicable rate adjustment clauses.”

- (c) Section 2(j) of the Settlement Agreement is deleted and replaced by the following:

“(j) “RL Rate” means the then-current applicable Residential Load Firm Power rate schedule or its successor. RL Rate includes any applicable rate adjustment clauses.”

- (d) New sections 2(n), 2(o), and 2(p) as follows are added to the Settlement Agreement:

(n) “Monetary Benefit Cap,” or “MBC,” means, for the purposes of the formula in section 4(c)(2)(B) below, the maximum amount, expressed in \$/MWh, by which the FBPF may exceed the RL (or Lowest PF, as applicable) in the numerator of such formula for each Contract Year during the period from October 1, 2006, through September 30, 2011.

Such maximum amount shall be equal to \$15.59/MWh (\$15.55/MWh during a leap year).

- (o) "Monetary Benefit Floor," or "MBF" means, for the purposes of the formula in section 4(c)(2)(B) below, the minimum amount, expressed in \$/MWh, by which the FBPF may exceed the RL (or Lowest PF, as applicable) in the numerator of such formula for each Contract Year during the period from October 1, 2006, through September 30, 2011. Such minimum amount shall be equal to \$5.20/MWh (\$5.18/MWh during a leap year).
- (p) "Lowest PF" for a Contract Year means the hourly weighted annual average Lowest PF Rate, expressed in \$/MWh, for purchases for such Contract Year by BPA's preference customers of block product service at 100 percent annual load factor to meet their general requirements."
- (e) Section 4(b)(2) of the Settlement Agreement is deleted and replaced by the following:

"(2) October 1, 2006, through September 30, 2011

Notwithstanding any other provisions of this Agreement, no Firm Power will be provided by BPA to PacifiCorp under this Agreement during the period that begins on October 1, 2006, and continues through September 30, 2011."

- (f) Section 4(c)(1)(B) of the Settlement Agreement is deleted and replaced by the following:

"(B) October 1, 2006, through September 30, 2011

BPA shall provide the following Monetary Benefit amounts, expressed in annual aMW, to PacifiCorp from October 1, 2006, through September 30, 2011:

Period of Time	Monetary Benefit (annual aMW)	Oregon (annual aMW)	Idaho (annual aMW)	Washington (annual aMW)
10/1/06 through 9/30/11	586.8481	338.8481	140	108"

- (g) Section 4(c)(2)(B) of the Settlement Agreement is deleted and replaced by the following:

"(B) October 1, 2006, through September 30, 2011

(i) Monetary Benefit Monthly Payment Amounts

The Monetary Benefit monthly payment amounts for each Contract Year shall be determined in accordance with the following formula:

$$MP = \frac{(FBPF - RL) \times MB \times 8,760 \text{ hours (8,784 hours during a leap year)}}{12 \text{ months}}$$

Where:

MP = Monthly Payment Amount, expressed in dollars, for each month of such Contract Year.

FBPF = Forward Flat-Block Price Forecast, expressed in \$/MWh, for such Contract Year.

RL = The hourly weighted annual average RL Rate calculated at 100 percent annual load factor, expressed in \$/MWh, for such Contract Year.

MB = Monetary Benefit amount, expressed in annual aMW.

(ii) **Implementation of Monetary Benefit Cap and Monetary Benefit Floor**

For the purposes of the formula in section 4(c)(2)(B)(i) above for each Contract Year, RL shall be subtracted from FBPF for such Contract Year. If (FBPF - RL) is greater than \$15.59/MWh (\$15.55/MWh during a leap year), then (FBPF - RL) will be set equal to \$15.59/MWh (\$15.55/MWh during a leap year) for such Contract Year. If (FBPF - RL) is less than \$5.20/MWh (\$5.18/MWh during a leap year), then (FBPF - RL) will be set equal to \$5.20/MWh (\$5.18/MWh during a leap year) for such Contract Year.

(iii) **Calculation of Monthly Payment Amounts Each Time the RL Rate is Adjusted During a Contract Year**

The following procedure will apply to the calculation of Monetary Benefit payments each time the RL Rate is adjusted for a portion of a Contract Year:

(aa) Calculate a weighted average annual RL (RL_{weighted}) for such Contract Year as follows:

$$RL_{\text{weighted}} = \frac{(RLC \times \text{MONTHS}(C)) + (RLN \times \text{MONTHS}(N))}{12}$$

Where:

RL_{weighted} = The weighted average RL, in \$/MWh, calculated at 100 percent annual load factor.

RLC = A rate, expressed in \$/MWh, equal to the hourly weighted average RL Rate(s) at 100 percent load factor used in the months of such Contract Year prior to such RL Rate adjustment.

MONTHS(C) = Number of months that the RL Rate(s) applied in calculating RLC were used.

RLN = A rate, expressed in \$/MWh, equal to the hourly weighted average RL Rate at 100 percent load factor that becomes effective (as a result of such RL Rate adjustment) for the remaining months of such Contract Year after such RL Rate adjustment.

MONTHS(N) = Number of months that the RL Rate applied in calculating RLN was used.

(bb) Determine pursuant to section 4(c)(2)(B)(iii)(cc) below if $(FBPF - RL_{\text{weighted}})$ for such Contract Year is greater than MBC or less than MBF.

(cc) Calculate a Revised Annual Monetary Benefit (hereinafter referred to as "Revised AMB") for such Contract Year using the applicable formula in sections 4(c)(2)(B)(iii)(cc)(1), 4(c)(2)(B)(iii)(cc)(2), or 4(c)(2)(B)(iii)(cc)(3) below:

(1) If $(FBPF - RL_{\text{weighted}})$ is less than MBC and greater than MBF, then:

Revised AMB = $(FBPF - RL_{\text{weighted}}) \times 586.8481 \text{ MW} \times 8,760 \text{ hours}$ (8,784 hours during a leap year).

(2) If $(FBPF - RL_{\text{weighted}})$ is greater than MBC, then:

Revised AMB = $MBC \times 586.8481 \text{ MW} \times 8,760 \text{ hours}$ (8,784 hours during a leap year).

(3) If $(FBPF - RL_{\text{weighted}})$ is less than MBF, then:

Revised AMB = $MBF \times 586.8481 \text{ MW} \times 8,760 \text{ hours}$ (8,784 hours during a leap year).

- (dd) Subtract from the Revised AMB the sum of the amounts paid as Monthly Payment Amounts for the months during such Contract Year that the RL Rate(s) applied in calculating RLC were used. This amount may be positive or negative. Divide this amount by MONTHS(N), to determine the monthly payment amount.
 - (ee) The monthly payment amount determined in section 4(c)(2)(B)(iii)(dd) above will, if positive, be paid by BPA to PacifiCorp as Monetary Benefit for each month remaining in such Contract Year for which the RL Rate applied in calculating RLN is used, or, if negative, an amount equal to the absolute value of such monthly payment amount will be paid by PacifiCorp to BPA as a refund of Monetary Benefit for each month remaining in such Contract Year for which the RL Rate applied in calculating RLN is used.
 - (ff) If the RL Rate is adjusted more than one time during a Contract Year, then sections 4(c)(2)(B)(iii)(aa) through 4(c)(2)(B)(iii)(ee) of the above procedure shall be performed for each such RL Rate adjustment.
- (iv) **True-up of Monetary Benefit Following Rate Adjustments**
- During October following a Contract Year for which BPA has adjusted (whether pursuant to an adjustment clause or otherwise) the RL Rate or Lowest PF Rate for a portion of such Contract Year, BPA shall calculate a Monthly Payment Amount using the formula in section 4(c)(2)(B)(i), including application of the MBC and MBF in section 4(c)(2)(B)(ii), and setting RL equal to an amount based on the RL Rate(s) (or, if required by section 4(c)(3), the Lowest PF Rate(s) for such Contract Year) actually charged during such Contract Year. If (aa) the amount equal to such Monthly Payment Amount multiplied by 12 minus (bb) the sum of amounts previously determined pursuant to 4(c)(2)(B)(i), 4(c)(2)(B)(ii), and 4(c)(2)(B)(iii) and paid for each month of such Contract Year by BPA (and subtracting from such sum any amounts paid by PacifiCorp to BPA pursuant to section 4(c)(2)(B)(iii)(ee) for such Contract Year) is positive, such amount will be paid by BPA to PacifiCorp as additional Monetary Benefit on the monthly bill for October. If such amount is negative, an amount equal to the absolute value of such amount will be paid by PacifiCorp to BPA as a refund of Monetary Benefit on the monthly bill for October.”

- (h) Section 4(c)(3) of the Settlement Agreement is deleted and replaced by the following:

“(3) Exception to Use of RL Rate in Section 4(c)”

For the purposes of determining any Monetary Benefit amount (including without limitation any true-up of Monetary Benefit pursuant to section 4(c)(2)(B)(iv)) using the formulae shown in sections 4(c)(2)(A) and 4(c)(2)(B) above:

- (A) In the event there is no RL Rate in effect or RL exceeds Lowest PF for a Contract Year, Lowest PF shall replace RL in such formulae for calculating MP and (FBPF – RL); and
- (B) In the event RLC or RLN as calculated using the RL Rate exceeds RLC or RLN if calculated using the Lowest PF Rate (in lieu of the RL Rate), Lowest PF Rate shall replace RL Rate in such formulae for calculating RLC and RLN.

Use of the Lowest PF Rate in such event shall apply to Monetary Benefit provided in accordance with section 4(c)(1).”

- (i) Section 6 of the Settlement Agreement, as amended by the FY 2003 Deferral Agreement, is deleted and replaced by the following:

“6. PASSTHROUGH OF BENEFITS

- (a) Except as otherwise provided in this Agreement, cash payment amounts, Firm Power, and Monetary Benefit amounts received by PacifiCorp from BPA under this Agreement shall be passed through, in full, to all residential and small farm consumers comprising the Residential Load, as either: (1) an adjustment in applicable retail rates; (2) monetary payments; or (3) as otherwise directed by the applicable State regulatory authority(s).
- (b) Monetary payments shall be distributed to the Residential Load in a timely manner, as set forth in this section 6(b). The amount of benefits held in the account described in section 6(c) below shall not at any time exceed an amount equal to the greater of: (1) the expected receipts of monetary payments from BPA under this Agreement over the next 36 months, or (2) the receipts of monetary payments from BPA under this Agreement over the immediately preceding 36 months; *provided, however*, that any amount of benefits held in such account shall be distributed to the Residential Load no later than April 1, 2012. References in this Agreement to monetary payments mean monetary payments, whether with respect to Monetary Benefit or cash payment. If the annual monetary

payment is less than \$600,000, then PacifiCorp may distribute benefits on a less frequent basis provided that distributions are made at least once each Contract Year.

- (c) Benefits shall be passed through consistent with procedures developed by PacifiCorp's State regulatory authority(s). Such procedures shall address the maximum amount of benefits held in the account described in this section 6(c). Monetary Benefit and any cash benefits under section 5 shall be identified on PacifiCorp's books of account. Funds shall be held in an interest bearing account, and shall be maintained as restricted funds, unavailable for the operating or working capital needs of PacifiCorp. Benefits shall not be pooled with other monies of PacifiCorp for short-term investment purposes. Firm Power shall be delivered monthly, and only to Residential Load.
- (d) Nothing in this Agreement shall require that any power be delivered on an unbundled basis to residential and small farm customers of PacifiCorp or that PacifiCorp provide retail wheeling of such power."
- (j) Section 14(b) of the Settlement Agreement is deleted in its entirety.
- (k) A new Exhibit C (Determination of Forward Flat-Block Price Forecast for Contract Years 2007 through 2011) is attached hereto and made a part of the Settlement Agreement.

3. AMENDMENT OF CONDITIONAL DEFERRAL AGREEMENT

The Conditional Deferral Agreement is amended as follows:

- (a) Section 3 of the Conditional Deferral Agreement is deleted and replaced by the following:
 - "3. The deferral period described in section 2 above shall terminate on September 30, 2006, and BPA shall, for each month during the period that begins on October 1, 2006, and ends on September 30, 2011, pay PacifiCorp \$778,289. This amount is based on the following calculation:
 - (a) The aggregate amount deferred pursuant to section 1 during the period October 1, 2002, through September 30, 2006, of \$80,757,816 shall accrue interest on the amounts deferred each month, compounded monthly, at an annual rate of 4.46 percent for the period prior to October 1, 2004, and at an annual rate of 3.09 percent after September 30, 2004.
 - (b) The aggregate amount of deferral plus interest is \$86,434,754 as of September 30, 2006. Pursuant to this Agreement, on

September 30, 2006, PacifiCorp waives one-half of such amount, leaving a balance of deferral plus interest equal to \$43,217,377.

- (c) Such balance of deferral plus interest of \$43,217,377 shall accrue interest on unpaid amounts at an annual rate of 3.09 percent, compounded monthly until paid in 60 equal monthly amounts during the period that begins on October 1, 2006, and ends on September 30, 2011.

The Parties agree that any amounts PacifiCorp is entitled to receive after September 30, 2006, pursuant to this section 3:

- (1) shall be in addition to amounts PacifiCorp is otherwise entitled to receive under provisions of the Settlement Agreement, the FY 2003 Deferral Agreement, and the Financial Settlement Agreement; and
- (2) shall only reduce the amounts PacifiCorp is entitled to receive under section 4(c)(2)(B) of the Settlement Agreement after September 30, 2006, for the benefit of its residential and small farm customers under such agreement or otherwise, through its impact on the level of the Lowest PF Rate as defined in the Settlement Agreement.

The MBC and MBF applied under section 4(c)(2)(B)(ii) of the Settlement Agreement shall not affect amounts PacifiCorp is entitled to receive under this section.”

- (b) Section 4 of the Conditional Deferral Agreement is deleted in its entirety.
- (c) Section 6 of the Conditional Deferral Agreement is deleted and replaced by the following:

“This Agreement shall remain in effect until the date that all payments owed to PacifiCorp by BPA pursuant to section 3 above have been made.”

4. OTHER

- (a) The Financial Settlement Agreement, the Settlement Agreement (as amended by this Agreement), the Conditional Deferral Agreement (as amended by this Agreement), and the FY 2003 Deferral Agreement shall each be and continue in full force and effect;
- (b) If a court of competent jurisdiction issues a final, nonappealable order after the Effective Date that holds that any provision of this Agreement to be void, unenforceable, or unlawful, then the Parties agree to negotiate in good faith new provisions that will replace those held to be void, unenforceable, or

unlawful with the objective of placing the Parties in the same financial situation as applied prior to such final, nonappealable order. If the Parties are unable to agree to mutually acceptable replacement terms, then the Parties intend that the provisions of the Settlement Agreement and the Conditional Deferral Agreement in effect prior to the Effective Date shall apply and the provisions of this Agreement shall have no further force and effect;

- (c) If a court of competent jurisdiction issues a final, nonappealable order after the Effective Date that holds that section 4(c) of the Settlement Agreement is void, unenforceable, or unlawful, then this Agreement shall be void *ab initio*;
- (d) This Agreement sets forth the entire agreement of the Parties with respect to the subject matter hereof and may only be amended by writing hereafter signed by each of the Parties;
- (e) Either Party may deliver its executed Agreement by any of the following means: (i) delivered personally, (ii) sent by registered mail, with return receipt requested, (iii) sent by recognized overnight mail or courier service, or (iv) sent by facsimile. If the agreement is delivered by facsimile, the Party making delivery in such manner shall send the other Party a signed original agreement; and
- (f) Each signatory represents that he or she is authorized to enter into this Agreement on behalf of the Party for whom he or she signs.

PACIFICORP

UNITED STATES OF AMERICA
Department of Energy
Bonneville Power Administration

By _____

By _____

Name _____
(Print/Type)

Name _____
(Print/Type)

Title _____

Title Account Executive

Date _____

Date _____

Exhibit C
DETERMINATION OF FORWARD FLAT-BLOCK PRICE FORECAST
FOR CONTRACT YEARS 2007 THROUGH 2011

1. OVERVIEW

The Forward Flat-Block Price Forecast (hereinafter referred to as "FBPF"), as defined in section 2(e)(2) of the body of this Agreement, as amended, is an integral part of the formula used to calculate monthly Monetary Benefit payments during each Contract Year 2007 through 2011. This Exhibit C establishes a procedure to determine the FBPF during each Contract Year 2007 through 2011.

2. DEFINITIONS

- (a) "Committee" means a committee composed of one BPA representative, one Participating PNW Investor-Owned Utility representative, and one PNW Public representative.
- (b) "Eligible Data Provider," or "EDP," means an entity that (1) routinely buys and sells bulk power for resale in the Pacific Northwest; (2) routinely produces Forward Price Data for use in risk accounting in the normal course of business; (3) is regularly audited by an outside accounting firm; and (4) has been selected by an affirmative vote by each representative on the Committee for inclusion on the list of EDPs and submitted to the QTP in accordance with section 5 of this Exhibit C.
- (c) "Firm Power" means the power product containing the following attributes: Power (i) that is pre-scheduled as firm energy consistent with the then current rules of the Western Electricity Coordinating Council or its successor, and (ii) for which the seller or the buyer is liable for liquidated damages for failure to deliver or receive, as applicable, unless such failure is due to an uncontrollable force or force majeure event. At this time, a power product that meets the above criteria is Western Systems Power Pool Agreement Service Schedule C firm energy.
- (d) "Forward Price Data" means the forward price routinely used by the EDP for risk accounting in the normal course of business for a flat block of Firm Power for delivery at the Mid-C trading hub for a Contract Year. Such forward price shall be the midpoint between the bid price and the offer price, if the EDP's forward price curve shows both prices. If an EDP does not develop a single forward price for a flat block of Firm Power, but rather only develops a forward price for heavy load hour ("HLH") and light load hour ("LLH") Firm Power, then the QTP shall request such HLH and LLH forward prices and shall calculate the hourly weighted average of the two forward prices to determine the FBPF.

- (e) "Marketer" means an entity that sells bulk power for resale and has a market-based rate schedule on file with the Federal Energy Regulatory Commission (FERC), and is not a PNW Investor-Owned Utility, a PNW Public, or BPA.
- (f) "Mid-C" means the trading hub located in eastern Washington that is commonly recognized by EDPs and other industry participants as the Mid-C trading hub.
- (g) "PNW Investor-Owned Utility" means each of the following investor-owned utilities (and its investor-owned utility successors and assigns) that serves residential and small farm customers in the Pacific Northwest: Puget Sound Energy, Inc., PacifiCorp, Portland General Electric, Avista Corporation, Idaho Power Company, and NorthWestern Energy Division of NorthWestern Corporation. "Participating PNW Investor-Owned Utilities" means PacifiCorp and all other PNW Investor-Owned Utilities that have executed an agreement that includes provisions equivalent to this Exhibit.
- (h) "PNW Public" means a Pacific Northwest public or people's utility district, municipality, or cooperative that is entitled to preference and priority under the provisions of the Bonneville Project Act.
- (i) "Qualified Third Party," or "QTP," means a third party that has extensive expertise in the electric power industry, including experience in auditing FAS 133 (or its successor) compliance and risk accounting for publicly reporting entities in the electric power industry, and is selected by BPA in accordance with section 4 of this Exhibit C.
- (j) "Replacement Information Event" means (1) sufficient Forward Price Data as described in this Exhibit C is unobtainable for any reason, or (2) fewer than six entities (i) are on the list of EDPs, (ii) are willing and able to provide Forward Price Data, and (iii) have not been excluded pursuant to section 5.

3. COMMITTEE

- (a) The BPA representative will be selected by the Vice President, Bulk Marketing & Transmission Services or that person's successor. The PNW Public representative will be selected by the Public Power Council Executive Committee or that Committee's successor. The PNW Investor-Owned Utility representative will be selected by agreement of PacifiCorp and the other Participating PNW Investor-Owned Utilities. If a representative on the Committee is replaced, then the new representative

shall notify the other two representatives in writing of such replacement(s).

- (b) If a representative to the Committee has not been selected, the other representatives or representative shall provide written notice to the selecting entity or entities that have not provided a representative of the need to select a representative for the Committee. If any such entity does not appoint a representative within 30 days, the existing representatives of the Committee shall be authorized to act on all matters of the Committee requiring an affirmative vote by each representative on the Committee.
- (c) All actions and determinations by the Committee shall be by affirmative vote of each representative on the Committee.

4. QTP

- (a) Before each Contract Year, BPA shall select a QTP from among the Big 4 Accounting Firms or a list of additional qualified parties as may be compiled and submitted to BPA by the Committee. Each addition of a qualified party to be included on such list and each removal of a party from such list will require an affirmative vote by each representative on the Committee. As used in this Exhibit, "Big 4 Accounting Firms" shall mean the four largest internationally recognized accounting firms, which currently consists of KPMG, Deloitte and Touche, PricewaterhouseCoopers, and Ernst & Young.
- (b) BPA will consult with the PNW IOU and the PNW Public representatives on the Committee prior to selecting the QTP. The initial QTP selected shall be retained for the first Contract Year only, with an option to extend for subsequent Contract Years. BPA shall pay the costs for services provided by the QTP.
- (c) If, after consulting with the Committee, BPA determines that the contract for the then-current QTP will not be extended, BPA will, upon advice of the Committee, replace the existing QTP. The Committee will consult and decide whether to add additional qualified parties to the list.
- (d) Each contract with the QTP shall include a requirement that: (1) the QTP maintain the confidentiality of the data collected from the EDPs except for making the data available to a reviewer selected under section 8, (2) the QTP shall maintain the Forward Price Data it has collected under its contract until September 30, 2011, (3) the QTP shall submit, in writing, for resolution by the Committee, consistent with the purpose and requirements of this Exhibit C, any question it may have regarding the determination of the FBPF under section 6, and (4) the

QTP shall, not later than 60 days prior to its first survey under section 6(a), provide the Committee and each of the Participating PNW Investor-Owned Utilities a sample calculation of FBPF using hypothetical survey data.

- (e) All contracts and communications between BPA and the QTP with respect to the determination of the FBPF shall be shared promptly with the Committee and each of the Participating PNW Investor-Owned Utilities.

5. EDPs

- (a) Following the selection of the QTP by BPA, the Committee shall develop a list of EDPs and submit such list to the QTP. Each EDP included on such list will require an affirmative vote by each representative on the Committee. If possible, such list will contain at least 10 EDPs, and, if possible, each survey by the QTP will include at least two PNW Publics, two PNW Investor-Owned Utilities, and two Marketers. Such list may be modified from time to time to (a) add EDPs that meet the criteria in section 2(b) above, or (b) remove EDPs that no longer satisfy the criteria specified in section 2(b) above, as determined by an affirmative vote by each representative on the Committee.
- (b) In addition, if any EDP submits Forward Price Data two or more times during any period of four consecutive quarters and more than 50 percent of such submittals by such EDP are (pursuant to section 6(b) of this Exhibit) excluded as being the highest or lowest Forward Price Data, and such excluded Forward Price Data for any such quarter differs from the Quarterly FBPF for such quarter by more than 5 percent, the QTP shall, for the next four quarters following such period, not include such EDP in the selection for its surveys.

6. DETERMINATION OF FBPF FOR EACH CONTRACT YEAR

- (a) For each Contract Year, the QTP will randomly select six to eight EDPs separately for each of four consecutive quarters, the first of which commences 21 months prior to the beginning of such Contract Year and the last of which ends 9 months prior to such Contract Year, from the list of EDPs provided to it by the Committee. The QTP will then survey the EDPs that have been selected. If there are fewer than six EDPs on the list willing and able (and not excluded under section 5(b)) to provide Forward Price Data, then the QTP will ask the Committee to add EDPs to such list. If the Committee is unable to do so, and there are still fewer than six EDPs on the list willing and able to provide Forward Price Data, then the QTP will survey all of the EDPs on such list (excluding any EDP that has been excluded pursuant to section 5(b) above) until such time as

there are at least six EDPs on such list. The QTP will notify the Committee and each of the Participating PNW Investor-Owned Utilities in writing if an EDP chooses not to participate in future surveys. The QTP will ask each selected EDP to provide Forward Price Data for such Contract Year as of a date randomly selected separately for each EDP by the QTP during each such quarter; *provided, however*, that such date shall have occurred prior to date of request by the QTP.

- (b) Following the completion of each quarterly survey conducted pursuant to section 6(a) above, the QTP shall exclude the highest and lowest Forward Price Data from the EDPs surveyed during each such quarter. The QTP shall then calculate the arithmetic mean of the remaining Forward Price Data amounts to determine that quarter's FBPF (the "Quarterly FBPF") for such Contract Year.
- (c) Following the completion of the four quarterly surveys identified in section 6(a) above, the QTP shall calculate the arithmetic mean of the four Quarterly FBPFs. The result of this calculation will be the FBPF that will be used for such Contract Year, and the QTP shall promptly report such FBPF to the Committee and each PNW Investor-Owned Utility.

7. EDP AGREEMENT

BPA, each of the Participating PNW Investor-Owned Utilities, and each EDP shall be required to sign an agreement (hereinafter referred to as "EDP Agreement") which shall include without limitation the following provisions:

- (a) For each EDP, an affirmation by an executive officer of the EDP that the EDP is an active market participant in wholesale power markets of the Pacific Northwest, that the EDP routinely produces Forward Price Data in the normal course of business, that the process for producing such Forward Price Data is routinely audited by an outside certified public accounting firm, that the Forward Price Data is used in the normal course of business, and that such Forward Price Data has been validated by (1) the mid-office, e.g., Chief Risk Officer, or equivalent, or (2) the back-office, e.g., Chief Financial Officer, or equivalent;
- (b) A specification of the information to be provided as described in this Exhibit C which shall include without limitation power product definition, delivery point, contract period, and use of mid-point;
- (c) Subject to section 7(g) below, each EDP shall be required to keep confidential the dates on which it was surveyed and the Forward Price Data that it provided;

- (d) A release of liability for each EDP from the consequences of any use of surveyed Forward Price Data;
- (e) Each EDP will consent to an agreed upon procedure described in section 8 below to verify that the Forward Price Data provided to the QTP was the same Forward Price Data routinely used by the EDP for risk accounting in the normal course of business;
- (f) The term of the EDP Agreement; and
- (g) Forward Price Data will be made available to an independent reviewer and verifier on a confidential basis, for review and verification purposes only pursuant to section 8.

8. REVIEW PROVISIONS

(a) Verification of Use of Forward Price Data Provided by EDPs

- (1) Not later than 90 days after each Contract Year, the PNW Public representative on the Committee or any of the Participating PNW Investor-Owned Utility or BPA may request a review of the Forward Price Data provided by each surveyed EDP to the QTP for that Contract Year for the purpose of verifying that the Forward Price Data provided by the EDP to the QTP was the same Forward Price Data routinely used by such EDP for risk accounting in the normal course of business. Collectively, only one review may be requested by the PNW Public representative on the Committee, BPA, and the Participating PNW Investor-Owned Utilities for any Contract Year;
- (2) The review shall be conducted by one of the Big 4 Accounting Firms ("Reviewer"), unless otherwise agreed to by BPA and the Participating PNW Investor-Owned Utilities; *provided, however* that any such review shall not be conducted by the QTP;
- (3) For purposes of this section, a review is defined as "Agreed Upon Procedures" described in section 8(a)(4) below and performed in accordance with the standards established by the American Institute of Certified Public Accountants;
- (4) The Agreed Upon Procedures shall be limited to the Reviewer verifying through review of internal documents for each EDP that the Forward Price Data provided by the EDP to the QTP was the same Forward Price Data routinely used by such EDP for risk accounting in the normal course of business. The Agreed Upon Procedures shall not include any form of general audit of the

EDP's books, records, or documents. EDP methods for determining Forward Price Data, accounting policies or procedures, management decisions, activities or authorities, or any decisions related to Forward Price Data shall not be included in any such Agreed Upon Procedures and shall not be subject to dispute;

- (5) The representative or entity requesting a review will be responsible for the costs associated with the review in accordance with the Agreed Upon Procedures and for the execution of a confidentiality agreement with the Reviewer consistent with the provisions of this section 8(a); and
- (6) The agreement with the Reviewer will require the Reviewer to maintain the confidentiality of all entity-specific information provided by the EDPs in the review. The Reviewer will report to the entity requesting the review only the number of EDPs that were surveyed each quarter for the Contract Year covered by the review and the identity of any EDP where the Forward Price Data provided to the QTP for a quarter was not the same Forward Price Data routinely used by the EDP for risk accounting in the normal course of business. The representative or entity requesting the review shall promptly share such report with the Committee and each of the Participating PNW Investor-Owned Utilities.

(b) Verification of QTP Calculations

- (1) Not later than 90 days after each Contract Year, the PNW Public representative on the Committee, any of the Participating PNW Investor-Owned Utilities, or BPA may request a review to verify the procedures and calculations used by the QTP under this Exhibit C to determine the FBPF for each such Contract Year;
- (2) The review shall be conducted by one of the Big 4 Accounting Firms ("Verifier"), unless otherwise agreed to by BPA and the Participating PNW Investor-Owned Utilities; *provided, however* that any such review shall not be conducted by the QTP;
- (3) For purposes of this section, a review is defined as "Agreed Upon Procedures" described in section 8(b)(4) below and performed in accordance with the standards established by the American Institute of Certified Public Accountants;
- (4) The Agreed Upon Procedures shall be limited to verification of the procedures required in section 6(a) were followed and the

calculations required by sections 6(b) and 6(c) were performed correctly;

- (5) The representative or entity requesting a review will be responsible for the costs associated with the review in accordance with the Agreed Upon Procedures and for the execution of a confidentiality agreement with the Verifier consistent with the provisions of this section 8(a); and
- (6) The agreement with the Verifier will require the Verifier to maintain the confidentiality of all entity-specific information provided by the EDPs in the review. The Verifier will report to the entity requesting the review its analysis whether the procedures for section 6(a) were followed and its analysis of the correct calculations for section 6(b) and section 6(c). The representative or entity requesting the review shall promptly share such report with the Committee and each of the Participating PNW Investor-Owned Utilities.

9. REPLACEMENT INFORMATION EVENT

If BPA, or any of the Participating PNW Investor-Owned Utilities gives written notice to each of the others that it has concluded that a Replacement Information Event has occurred and describes the circumstances that give rise to such conclusion, then BPA, Puget, and such other PNW Investor-Owned Utilities shall endeavor to agree upon whether such Replacement Information Event has occurred. If such parties agree, then such parties shall endeavor to agree upon a reasonable and reliable substitute source of information that can be expected to reasonably closely replicate the same Forward Price Data as would have been developed under this Exhibit C in the absence of any Replacement Information Event. If and to the extent such parties are unable to agree (i) that a Replacement Information Event has occurred, or (ii) on a substitute source of information, then the disputed matter shall be settled by arbitration under the procedures set forth in section 11 of the body of this Agreement with BPA acting as one party in the arbitration and the Participating PNW Investor-Owned Utilities acting as the other party in the arbitration (including the selection of arbitrators). BPA and the Participating PNW Investor-Owned Utilities agree to be bound by the result of such arbitration as described in section 11 of the body of this Agreement. Prior to reaching agreement that a Replacement Information Event has occurred, and again prior to reaching agreement on a substitute source of information to remedy a Replacement Information Event, BPA shall consult with the PNW Public representative on the Committee. Such consultation shall include a discussion regarding whether a Replacement Information Event has occurred, and if so, a discussion regarding the alternatives being considered, and the alternative BPA believes most closely replicates the same Forward Price Data as would have been developed under this Exhibit C in the absence of any Replacement

Information Event. Subsequent to the selection of the arbitrators for an arbitration pursuant to this section 9, PNW Publics may intervene in such arbitration and participate as a single intervenor party in the conduct of such arbitration, with the same rights and obligations of any other party in such arbitration (including being subject to an apportionment of the costs of such arbitration). In resolving any dispute regarding a Replacement Information Event, the arbitrators shall select, from among the alternative solutions presented, the alternative that most closely replicates the same Forward Price Data as would have been developed under this Exhibit C prior to any Replacement Information Event. Any substitute source of information developed pursuant to this section 9 shall only apply prospectively.