

SETTLEMENT AGREEMENT

This Settlement Agreement (“Agreement”) is made and entered into, and shall be effective, this ____ day of _____, 2006 (“Effective Date”), by and between the UNITED STATES OF AMERICA, Department of Energy, acting by and through the BONNEVILLE POWER ADMINISTRATION (“BPA”), the SLICE CUSTOMERS (“Slice Customers” as defined in Section IV), and NORTHWEST REQUIREMENTS UTILITIES (“NRU” as defined in Section IV), referred to collectively as the Parties.

RECITALS

WHEREAS, BPA and the Slice Customers are signatories to certain Slice Contracts pursuant to which the Slice Customers purchase power from BPA; and

WHEREAS, BPA is a federal power marketing agency within the United States Department of Energy and markets power from Federal resources in the Pacific Northwest; and

WHEREAS, each of the Slice Customers is a public body, municipality, or consumer-owned, not-for-profit cooperative, organized respectively under the laws of the States of Oregon, Washington or Idaho; and

WHEREAS, NRU is a non-profit corporation organized under the laws of the State of Oregon and is comprised of utility members, each of which purchases power from BPA under contracts other than Slice Contracts; and

WHEREAS, the Slice Customers purchase power from BPA under the Slice Contracts, at the Slice Rate, consistent with the Slice Rate Methodology; and

WHEREAS, pursuant to the terms of the Slice Contracts, the Slice Rate, and Slice Rate Methodology, payments made by Slice Customers for the purchase of power under the Slice Contracts are annually trued-up to reflect the actual costs incurred by BPA during each Contract Year; and

WHEREAS, the Parties are currently engaged in litigation in the United States Court of Appeals for the Ninth Circuit (“Ninth Circuit”), in petitions filed by NRU under *Northwest Requirements Utilities, et al. v. Bonneville Power Administration*, No. 03-73849 and *Northwest Requirements Utilities v. Bonneville Power Administration*, No. 04-71311, and the Slice Customers under *Benton County PUD, et al. v. Bonneville Power Administration*, No. 03-74179, for Contract Years 2002 and 2003; and

WHEREAS, the Parties are also currently engaged in disputes regarding True-Up Matters not in litigation arising from audits conducted pursuant to the Slice Contracts for Contract Years 2004 and 2005; and

WHEREAS, the Parties desire to settle the pending litigation and resolve all other pending disputes and outstanding issues arising from True-Up Matters for Contract Years 2002, 2003, 2004, and 2005, and to put in place certain procedures, commitments and agreements in order to avoid disputes in the future.

NOW, THEREFORE, the Parties agree as follows:

I. RESOLUTION OF DISPUTES, DISMISSAL OF LITIGATION, WITHDRAWAL OF ARBITRATION AND INJUNCTION, PAYMENT OF CERTAIN SUMS AND AGREEMENT NOT TO CONTEST

A. Background

BPA, the Slice Customers, and NRU desire to settle their disputes concerning True-Up Matters for Contract Years (“CYs”) 2002, 2003, 2004, and 2005. In consideration of payments by BPA and the acts and covenants set forth in this Agreement, the Parties will fully and finally settle their disputes and, further, will seek dismissal of all petitions for review pending in the Ninth Circuit, will seek dissolution of all orders for injunctive relief issued by the Ninth Circuit, will withdraw all requests for arbitration arising from True-Up Matters for CYs 2002 and 2003, and will not make requests for arbitration or judicial review of True-Up Matters for CYs 2004 and 2005.

B. Dismissal of All Pending Litigation and Dissolution of Injunctions

1. Within two (2) business days of the time when the last of each of the Parties to this Agreement has executed it, counsel for the Slice Customers, NRU and BPA shall jointly file with the Ninth Circuit original versions of joint motions in the forms set out in **Exhibit A** attached hereto, for a ninety-five (95) day stay, the dissolution of the Ninth Circuit’s Orders enjoining arbitration, and for the dismissal of the pending Ninth Circuit litigation, Docket Nos. 03-73849, 03-74179, and 04-71311. Such joint motions shall state that each True-Up Matter constitutes a separate and independent cause of action, and that the dismissal of the causes of action pending in Docket Nos. 03-73849, 03-74179, and 04-71311 shall be with prejudice and without costs to any Party as to those causes only. Except as otherwise provided in this Agreement, such dismissal with prejudice shall preclude assertion or re-assertion for CYs 2002 and 2003 of any claim or issue that was, or could have been, raised in such litigation. Except as otherwise provided in this Agreement, such dismissal with prejudice shall not prejudice or preclude any claim or argument which any Party may wish to make in connection with a cause of action arising after CY 2005. The Parties will support such dissolutions and dismissals, and will not contest any of them, nor shall any Party contest or otherwise challenge the legality of this Agreement for any reason whatsoever.

2. The dismissal of the pending petitions for review and dissolution of injunctions shall not constitute agreement by any Party that the Ninth Circuit has, or does not have, jurisdiction over any or all of the matters that are the subject of the pending Ninth Circuit litigation, Docket Nos. 03-73849, 03-74179, and 04-71311, or any True-Up Matters that may arise in the future, and no Party shall argue or assert to the

contrary in any forum. Further, nothing in this Agreement shall be interpreted to prohibit or impose any limit on the ability of any Party to argue on any basis it deems appropriate that the Ninth Circuit has or lacks jurisdiction to hear a True-Up Matter arising in the future, and no Party shall argue or assert to the contrary in any forum. The Parties agree not to cite this Agreement, or any actions taken or not taken pursuant to this Agreement, as evidence that any True-Up Matters are or are not rate or contract matters for purposes of determining whether the Ninth Circuit has or lacks jurisdiction to hear the matter in controversy.

C. Withdrawal of All Pending Requests for Arbitration

1. Within two (2) business days of the date when the last of each of the Parties to this Agreement has executed it, counsel for the Slice Customers shall transmit to the International Institute for Conflict Prevention and Resolution, formerly the CPR Institute for Dispute Resolution, the original version of the document included in **Exhibit B** attached hereto, concerning the CY 2002 and CY 2003 True-Up Matters.

2. The withdrawal of requests for arbitration shall not constitute agreement by any Party that the Ninth Circuit has, or does not have, jurisdiction over any or all of the matters that are the subject of the pending Ninth Circuit litigation, Docket Nos. 03-73849, 03-74179, and 04-71311, or any True-Up Matters that may arise in the future, and no Party shall argue or assert to the contrary.

3. The Slice Customers shall make no request for the arbitration of, and no Party shall seek judicial review of, any matter under the Slice Contract, Slice Rate or Slice Rate Methodology regarding the True-Up Matters for CY 2004 or for CY 2005.

D. Full and Final Resolution of CYs 2002, 2003, 2004, and 2005 True-Up Matters and All Claims Related Thereto

Effective immediately upon the execution of this Agreement by the last of each of the Parties hereto, and upon the entry of a final order by the Ninth Circuit dismissing the pending litigation in Docket Nos. 03-73849, 03-74179, and 04-71311, and in consideration of the payment, mutual covenants, actions and commitments made by the Parties hereto as specified herein:

1. The Slice Customers, collectively and individually, release all claims against BPA that they have, or may have, whether known or unknown, asserted or unasserted, relating to True-Up Matters for CYs 2002, 2003, 2004, and 2005, and any BPA action, decision or determination under the Slice Contracts or as implementation of the Slice Rate or Slice Rate Methodology with respect to such True-Up Matters for each such Contract Year.

2. NRU, on behalf of itself and each of its members, releases all claims against BPA that it has, or may have, whether known or unknown, asserted or unasserted, relating to True-Up Matters for CYs 2002, 2003, 2004, and 2005, and any BPA action, decision or determination under the Slice Contracts or as implementation of

the Slice Rate or Slice Rate Methodology with respect to such True-Up Matters for each such Contract Year.

3. BPA releases all claims against the Slice Customers, and each of them, that it has, or may have, whether known or unknown, asserted or unasserted, relating to True-Up Matters for CYs 2002, 2003, 2004, and 2005 (including without limitation any claims for those Contract years relating to any other charges under the Slice Contracts or the Slice Rate or Slice Rate Methodology that could have been included in a Slice True-Up Adjustment Charge or a True-Up Adjustment Charge for those Contract Years) and the implementation of the Slice Rate or Slice Rate Methodology with respect to such charges for each such Contract Year.

4. The Slice Customers, collectively and individually, BPA, and NRU, on behalf of itself and each of its members, hereby mutually agree not to assert, maintain or reassert any claims for relief brought, or which could have been brought, regarding the CY 2002, 2003, 2004, and 2005 True-up Matters in the pending Ninth Circuit litigation, Docket Nos. 03-73849, 03-74179, and 04-71311, or which have been released pursuant to Sections I.D.1, 2 and 3 above. This Section does not preclude any Party from asserting, in disputes concerning *future* CY True-up Matters, claims or legal arguments that are reserved as provided in Sections I.B.2 and I.C.2. or are not resolved or otherwise expressly agreed to in this Agreement.

E. Payment by BPA

1. Effective immediately upon the filing of the joint motion referenced in Section I.B.1 by the Parties in Docket Nos. 03-73849, 03-74179, and 04-71311, in consideration of the mutual covenants, actions and commitments made by the Parties hereto as specified herein, BPA shall have an unconditional and fully matured obligation to pay the following amounts:

SETTLEMENT PAYMENT PLUS INTEREST TO EACH SLICE CUSTOMER

The interest amounts below assume that this Agreement will be executed on or before 9/30/06. The interest amounts below will be revised if this Agreement is executed after 9/30/06.

Customer	Selected Slice %	% for Allocation of Settlement Payment and Interest	Total Settlement Payment	Total Interest on Settlement Payment	Settlement Payment Plus Interest by Utility
Benton Co. PUD	1.7641%	7.7962%	\$ (1,643,275.00)	\$ (380,130.00)	\$ (2,023,405.00)
Blachly-Lane Elec. Coop.	0.0658%	0.2906%	\$ (61,263.00)	\$ (14,172.00)	\$ (75,435.00)
Central Electric Coop.	0.2296%	1.0149%	\$ (213,920.00)	\$ (49,485.00)	\$ (263,405.00)
Clatskanie PUD	0.9755%	4.3111%	\$ (908,687.00)	\$ (210,202.00)	\$ (1,118,889.00)
Clearwater Power Company	0.0822%	0.3634%	\$ (76,602.00)	\$ (17,720.00)	\$ (94,322.00)
Consumers Power	0.1452%	0.6416%	\$ (135,233.00)	\$ (31,283.00)	\$ (166,516.00)
Coos-Curry Elec. Coop.	0.1327%	0.5865%	\$ (123,615.00)	\$ (28,595.00)	\$ (152,210.00)
Douglas Elec. Coop.	0.0652%	0.2881%	\$ (60,717.00)	\$ (14,045.00)	\$ (74,762.00)
EWEB	2.4328%	10.7514%	\$ (2,266,175.00)	\$ (524,223.00)	\$ (2,790,398.00)
Fall River Rural Elec. Coop.	0.0734%	0.3244%	\$ (68,387.00)	\$ (15,820.00)	\$ (84,207.00)
Franklin Co. PUD	0.7851%	3.4696%	\$ (731,328.00)	\$ (169,174.00)	\$ (900,502.00)
Grays Harbor Co. PUD	1.1681%	5.1622%	\$ (1,088,096.00)	\$ (251,704.00)	\$ (1,339,800.00)
Idaho Falls Power	0.6931%	3.0630%	\$ (645,629.00)	\$ (149,350.00)	\$ (794,979.00)
Lane Electric Coop.	0.0946%	0.4182%	\$ (88,154.00)	\$ (20,392.00)	\$ (108,546.00)
Lost River Elec. Coop.	0.0246%	0.1086%	\$ (22,881.00)	\$ (5,293.00)	\$ (28,174.00)
Northern Lights	0.0642%	0.2836%	\$ (59,786.00)	\$ (13,830.00)	\$ (73,616.00)
Okanogan Co. Elec. Coop.	0.0182%	0.0805%	\$ (16,976.00)	\$ (3,927.00)	\$ (20,903.00)
Okanogan Co. PUD	0.4951%	2.1880%	\$ (461,190.00)	\$ (106,685.00)	\$ (567,875.00)
Pend Oreille Co. PUD	0.3819%	1.6877%	\$ (355,743.00)	\$ (82,292.00)	\$ (438,035.00)
PNGC	2.8000%	12.3742%	\$ (2,608,225.00)	\$ (603,347.00)	\$ (3,211,572.00)
Raft River Rural Elec. Coop.	0.0395%	0.1745%	\$ (36,777.00)	\$ (8,507.00)	\$ (45,284.00)
Salmon River Elec. Coop.	0.0785%	0.3468%	\$ (73,104.00)	\$ (16,911.00)	\$ (90,015.00)
Seattle City Light	4.6676%	20.6277%	\$ (4,347,912.00)	\$ (1,005,780.00)	\$ (5,353,692.00)
Snohomish Co. PUD	4.9929%	22.0653%	\$ (4,650,931.00)	\$ (1,075,876.00)	\$ (5,726,807.00)
Umatilla Elec. Coop.	0.3275%	1.4473%	\$ (305,059.00)	\$ (70,568.00)	\$ (375,627.00)
West Oregon Elec. Coop.	0.0304%	0.1344%	\$ (28,337.00)	\$ (6,555.00)	\$ (34,892.00)
	22.6278%	100.0000%	\$ (21,078,002.00)	\$ (4,875,866.00)	\$ (25,953,868.00)

Note: Due to rounding, the sum of the Settlement payments by utility does not match the Settlement total on Exhibit C. Negative dollar amounts denote payment from BPA to the customer.

BPA's calculation of the foregoing payment amounts is set forth on **Exhibit C** to this Agreement. These payment amounts constitute implementation of Section II.B for CYs 2002, 2003, 2004, and 2005.

2. Each payment listed in Section I.E.1 above shall be completed by BPA by a credit on the first Expedited Bill that is issued more than seven (7) days subsequent to the filing of the joint motion referenced in Section I.B.1. If the payment is not completed because the credit exceeds the billed amount, then such balance of the credit due will be carried forward and applied to the next Expedited Bill.

3. If any payment required under Section I.E.1, or portion thereof, is not completed by credit by BPA within the time specified in Section I.E.2, then the Slice Customer may deduct the amount of such payment due by credit under Section I.E.2 from

the amounts owed BPA by such Slice Customer in such Expedited Bill. BPA waives any and all objections and defenses to a deduction as provided herein. Any such deduction properly made as provided herein shall not be considered non-payment of an Expedited Bill under section 10 of the Slice Contract.

4. Except as required by Section I.G.9, or the application of the resolutions set forth in Section II.B.1-7, no portion of BPA's costs of the payments required by this Agreement will be subsequently reallocated to or recaptured from the Slice Customers through the Slice Rate, the Slice Rate Methodology or by any other means, *provided, however*, that nothing in this Section shall prohibit BPA from including in all of its power rates other than the Slice Rate the costs of making such payments.

F. Agreement to Defend and Reimburse

1. If a utility which is a member of NRU files an action challenging this Agreement, in whole or in part, in the Ninth Circuit, NRU agrees to reimburse the Slice Customers for costs incurred in participating in such an action, including reasonable attorneys' fees and costs. For purposes of this paragraph, a utility is not a member of NRU unless the utility is a member as of the date this Agreement has been executed by all Parties.

2. If a Party to this Agreement challenges the lawfulness of this Agreement, such Party shall be considered to be in breach of this Agreement, and the other Parties shall be entitled to recover from the breaching Party, in addition to any other remedies available, reasonable attorneys' fees and costs associated with defending this Agreement.

G. Settlement Implementation and Third Party Challenge

1. If a petition is filed by a third party seeking review of this Agreement or BPA's execution thereof in the Ninth Circuit, then the Parties shall notify Judges Reinhardt, Fletcher and Bybee in writing of the pendency of such petition within five (5) days of the filing thereof. The Parties shall concurrently file a joint motion requesting that the stay granted in Docket Nos. 03-73849, 03-74179, and 04-71311 in response to the Parties' joint motion filed pursuant to Section I.B.1 of this Agreement be extended until the Ninth Circuit disposes of such petition with a final, non-appealable order, and requesting that Judges Reinhardt, Fletcher and Bybee recuse themselves from the adjudication of such petition to avoid any potential of prejudice to a decision on the merits, if such decision is rendered, in Docket Nos. 03-73849, 03-74179, and 04-71311.

2. If the stay requested by the Parties in accordance with Section I.G.1 is not granted, then the Slice Customers may elect to terminate this Agreement by providing BPA and NRU written notice not later than thirty (30) days after the issuance of the order denying the requested stay, stating their election to terminate the Agreement. Within five (5) days of the Slice Customers providing such notification, the Parties shall jointly withdraw their joint motion requesting entry of an order dismissing Docket Nos.

03-73849, 03-74179, and 04-71311, filed in accordance with Section I.B.1 of this Agreement. In such case, this Agreement shall have no further force or effect, and the Parties shall no longer be bound thereby, except for Sections I.G.8 and 10, which shall remain in effect until fully performed.

3. Alternatively, if the stay requested by the Parties in accordance with Section I.G.1 is not granted, then the Slice Customers may elect to proceed with the implementation of this Agreement by providing BPA and NRU with written notice not later than thirty (30) days after the issuance of the order denying the requested stay, in which case the Parties shall file a joint motion requesting entry of an order dismissing Docket Nos. 03-73849, 03-74179, and 04-71311 in accordance with Section I.B.1 of this Agreement.

4. In the event that the Slice Customers do not provide BPA and NRU with written notice of their election, as provided in Sections I.G.2 and I.G.3, within the thirty (30) day period, then the Slice Customers will be conclusively presumed to have elected to terminate this Agreement as of the day after the end of such thirty (30) day period. In such case, this Agreement shall have no further force or effect, and the Parties shall no longer be bound thereby, except for Sections I.G.8 and 10, which shall remain in effect until fully performed.

5. If the petition seeking review of this Agreement or BPA's execution thereof is dismissed without reaching the merits, or if a final, non-appealable order is entered sustaining this Agreement in all material respects, or BPA's execution thereof, then within five (5) days of the entry of such order, the Parties shall file a joint motion requesting that the stay granted in Docket Nos. 03-73849, 03-74179, and 04-71311 be lifted, and requesting entry of an order dismissing Docket Nos. 03-73849, 03-74179, and 04-71311 in accordance with Section I.B.1 of this Agreement.

6. If a final, non-appealable order is entered in response to a petition for review that holds this Agreement or BPA's execution thereof to be void, unenforceable, or unlawful in any material respect, then the Parties will negotiate in good faith new provisions that will replace those held to be unlawful, void, or unenforceable with the objective of placing the Parties in the same financial and relational situation as applied prior to such final, non-appealable order.

7. If the Parties are unable in good faith to negotiate replacement provisions placing the Parties in the same financial and relational situation as applied prior to such final, non-appealable order within ninety (90) days of the issuance of such order, then this Agreement shall have no further force or effect, and the Parties shall no longer be bound thereby, except for Sections I.G.8 and 10, which shall remain in effect until fully performed.

8. If this Agreement is terminated pursuant to Sections I.G.2 or I.G.4, or is no longer binding on the Parties pursuant to Section I.G.7, then the Parties will file within five (5) days thereafter a joint motion requesting that the stay in Docket Nos. 03-

73849, 03-74179 and 04-71311 be lifted if such stay is still in effect, and that the issues in Docket Nos. 03-73849, 03-74179 and 04-71311 be adjudicated on the merits based on the briefs and oral arguments already before the Court. The Parties shall not request the opportunity to present additional briefing or oral argument on such issues.

9. If the Ninth Circuit issues a final, non-appealable decision on the merits in all or any of Docket Nos. 03-73849, 03-74179, and 04-71311, then this Agreement shall have no further force or effect, and the Parties shall no longer be bound thereby, except for Section I.G.10, which shall remain in effect until fully performed.

10. If this Agreement is terminated pursuant to Sections I.G.2 or I.G.4, or is no longer binding on the Parties pursuant to Sections I.G.7 or I.G.9, then in that event each Slice Customer will repay to BPA the amount it received pursuant to Section I.E.1 of this Agreement, with interest computed at the interest rate specified in the Prompt Payment Act, 31 U.S.C. §§3901-07, and computed from the ninety-first (91st) day after this Agreement has been executed by all of the Parties through the date payment is made to BPA. Such payments by each Slice Customer to BPA shall be due no later than ninety (90) days after (i) the date of termination with respect to termination under Sections I.G.2 or I.G.4, (ii) the expiration of the ninety (90) day negotiation period set forth in Section I.G.7, whichever is applicable, or (iii) the entry of a final, non-appealable decision on the merits in all or any of Docket Nos. 03-73849, 03-74179, and 04-71311. If such payment is not timely made, then the Slice Customer shall incur interest from the time such payment was originally made by BPA, until such repayment is completed by the Slice Customer, at the same interest rate applicable to late payment by BPA as specified in Section I.E.3.

H. Limitation of Challenges to Debt Optimization

Except as expressly provided in this Agreement, the Slice Customers will continue to have whatever rights they, and other BPA customers, may have to challenge the Debt Optimization Program. The Slice Customers agree not to challenge under the Slice Contract, the Slice Rate, or the Slice Rate Methodology, or as improper ratemaking or improper implementation of BPA rates, the inclusion of Debt Optimization Program transactions in the Slice Revenue Requirement (forecasted or actual) for purposes of calculating the Slice True-Up Adjustment Charge or True-Up Adjustment Charge in the manner as was done in any of the Slice True-Up Adjustment Charges or True-Up Adjustment Charges for CYs 2002, 2003, 2004, or 2005, *provided, however*, that the Slice Customers may challenge on any basis an attempt by BPA to recover from them a percentage of such costs greater than the sum of the Slice Customers' Selected Slice Percentages.

II. TREATMENT OF SPECIFIC ISSUES

A. Application of Issues Resolved in this Agreement

Except as otherwise provided therein, the resolutions of issues set forth in Section II.B of this Agreement will be treated as precedent and binding on BPA, NRU and the Slice Customers for purposes of any True-Up Matters during the remaining term of the Slice Contract. Issues relating to True-Up Matters for CYs 2002, 2003, 2004, and 2005, respectively, which were not raised by the Slice Customers, NRU or BPA in the Litigation, and which are not resolved by this Agreement (whether or not raised by the Slice Customers in the respective audit), are resolved as reflected in the Slice True-Up Adjustment Charges or True-Up Adjustment Charges for CYs 2002, 2003, 2004, and 2005, respectively.

B. Resolution of Issues Raised in Audit Reports for CYs 2002, 2003, 2004, and 2005

1. Revenue Requirement Used to Calculate Annual True-Up Adjustment for Actual Costs

The Slice True-Up Adjustment Charges or True-Up Adjustment Charges for each Contract Year will be calculated by subtracting the line item “Annual Slice Revenue Requirement [(average)]” as shown on Table D of the General Rate Schedule Provisions in effect, and also shown on Exhibit I of the Slice Contract for each Contract Year, from the Actual Slice Revenue Requirement for the applicable Contract Year. For each Contract Year of the period CY 2002-2006, the Slice True-Up Adjustment Charges or True-Up Adjustment Charges will be calculated by subtracting the “Annual Slice Revenue Requirement [(average)]” shown on line 125 of Table D of the General Rate Schedule Provisions in effect for such period, and also shown on Exhibit I of the Slice Contract for each such Contract Year, from the Actual Slice Revenue Requirement for the applicable Contract Year.

2. TBL Allocations

BPA will follow its internal accounting procedures and cost allocation methodologies, which taken together constitute BPA’s allocation policy, in allocating Corporate General & Administrative (G&A) expenses, such as safety and security costs, to transmission and generation functions for the term of the Slice Contract.

3. Capitalization of Slice Implementation Costs

Slice Implementation Costs for CY 2002 will be credited and thereafter charged as if capitalized in a manner consistent with BPA’s applicable capitalization policy. When called for by BPA’s Software Capitalization Policy or Personal Property

Capitalization Policy, software developed and hardware acquired for implementing the Slice Contract will be capitalized over the shorter of a five year period or the remainder of the Slice Contract term.

4. Section 4(h)(10)(c) and Fish Cost Contingency Funds

The Section 4(h)(10)(c) and Fish Cost Contingency Funds (FCCF) credits for its fiscal year 2001 were adjusted by BPA. Both adjustments will be included in the Slice True-Up Adjustment Charge or True-Up Adjustment Charge for CY 2002. The FCCF credits have been expended, and are no longer available to BPA. In future Contract Years increases and decreases in the amount of the Section 4(h)(10)(c) credit will be included in the Actual Slice Revenue Requirement and the Slice True-Up Adjustment Charge or True-Up Adjustment Charge.

5. Allowances for Cal ISO and Cal PX

In regard to Cal ISO and Cal PX bad debt, BPA will reverse the charges to the Slice Customers for the bad debt arising out of transactions with the Cal ISO or Cal PX prior to October 1, 2001, and with regard to any outstanding receivables collected from the Cal ISO and Cal PX, Slice Customers will not receive credit for recovery of receivables that BPA collects. No future write-off of bad debt expense for secondary or surplus marketing activities with the Cal ISO or the Cal PX will be directly or indirectly allocated to the Slice Rate or Slice True-Up Adjustment Charge or True-Up Adjustment Charge, whether by way of the Slice Rate Methodology or otherwise. BPA's re-determination of the Slice True-up Adjustment Charge or True-Up Adjustment Charge and the Parties' agreement regarding the Cal ISO and Cal PX bad debt or receivables will not have precedential effect for other than Cal ISO and Cal PX bad debt or receivables, and the Parties will not argue otherwise.

6. Excess Slice Implementation Staff Costs

BPA staff costs to implement Slice are limited to \$80,000/full time equivalent (FTE) annually. BPA staff costs required to implement Slice included in the Actual Slice Revenue Requirement for purposes of calculating the Slice True-Up Adjustment Charge or True-Up Adjustment Charge will be limited to \$80,000/FTE for each Contract Year, including each Contract Year in the CY 2002-2006 period.

7. DSI Uncollectible Receivables

Allowances for uncollectible DSI liquidated damages for CY 2002 or prior years will not be included in the Actual Slice Revenue Requirement or Slice True-Up Adjustment Charge or True-Up Adjustment Charge. Slice Customers will not receive credit for recovery of receivables that BPA collects from DSIs.

C. Treatment of Issues Not Included in the Audit Reports

As necessary parts of their settlement of their disputes as set forth in this Agreement, the Slice Customers, BPA and NRU agree to the following resolutions to the issues described below.

1. Debt Optimization Program

The Parties will execute **Exhibit D**, Memorandum of Understanding Concerning the BPA Debt Optimization Program (DOP MOU), concurrently with the execution of this Agreement. The DOP MOU is not incorporated into this Agreement, and is not legally enforceable. The DOP MOU shall not be of any force or effect if this Agreement does not take effect, is terminated or is no longer binding on the Parties.

2. Augmentation Costs

BPA has proposed in its initial rate proposal for CY 07-09 and will propose in all future rate cases for rates applicable to the Slice Product during the current term of the Slice Contract that any costs of power augmentation necessary to serve BPA customer loads, whether collected by allocation to rates or by means of a cost recovery adjustment clause or similar mechanisms, will be allocated to the Slice Product in an amount equal to the sum of the Selected Slice Percentages of the Slice Customers (currently 22.6%), and will not be allocated to power rates based on revenues generated by the rates paid by customers.

3. Slice True-Up Adjustment Protocol

BPA and Slice Customers have reached agreement on Slice True-Up and audit communication protocols, which are attached hereto as **Exhibit E**. These protocols are not a binding contract. The Parties put these protocols in place for CY 2005, and plan to use them for subsequent audits conducted during the remaining term of the Slice Contract. The protocols may be revised by BPA and the Slice Customers from time to time.

4. **Balancing between Slice and Block**

For the term of the Slice Contract, two or more Slice Customers may request that BPA amend their current Slice Contract to implement an exchange, on a mutually agreeable basis, of equal amounts of Block and Slice products among Slice Customers, provided that the redistribution of the Block and Slice products purchased does not exceed for any Slice Customer its BPA net requirement load under the Slice Contract, and that the amount of Slice Product sold by BPA to the Slice Customers under their current Slice Contracts does not exceed 1600 aMWs. Such redistribution may only occur after BPA determines that the exchange will not result in any increase in private use under IRS rulings applicable to Energy Northwest bonds, and that such redistribution does not unreasonably increase, as determined by the Administrator, cost or risk to BPA.

III. **TREATMENT OF DISPUTE RESOLUTION**

The Parties agree that the procedures set forth in **Exhibit F** will be used to resolve any issue identified therein. **Exhibit F** is hereby incorporated by reference as if fully set forth in the body of this Agreement.

IV. **COUNTERPART EXECUTION**

This Agreement may be executed in counterparts, each of which shall be an original and all of which when executed shall constitute the same Agreement.

V. **DEFINITIONS**

For purposes of this Agreement, the following definitions will apply. Terms used in this Agreement with initial capitalization that are not defined below, and that are defined terms in the Slice Contract, the Slice Rate or the Slice Rate Methodology, shall have the meaning given such terms therein.

1. **“Northwest Requirements Utilities”** means Northwest Requirements Utilities, an Oregon non-profit corporation, and the following member utilities of NRU; Ashland, City of, Benton REA, Big Bend Electric Co-Operative, Inc., Bonners Ferry, City of, Burley, City of, Cascade Locks, City of, Central Lincoln PUD, Cheney, City of, Columbia Basin Electric Co-op, Columbia Power Cooperative, Columbia REA, Columbia River PUD, East End Mutual Electric Co., LTD., Ferry County PUD #1, Flathead Electric Cooperative, Forest Grove, City of, Glacier Electric Cooperative, Inc., Harney Electric Cooperative, Hermiston Energy Services, Hood River Electric Co-op, Idaho County Light & Power, Inland Power & Light, Klickitat County PUD, Kootenai Electric Cooperative, Inc., Lincoln Electric Cooperative, Inc., Lower Valley Energy, McMinnville Water & Light, Midstate Electric Cooperative, Mission Valley Power, Missoula Electric Coop, Modern Electric Water Company, Monmouth, City of, Nespelem Valley Cooperative, Northern Wasco County PUD, Orcas Power & Light Cooperative, Oregon Trail Electric Co-op, Peninsula Light Co., Ravalli County Electric

Cooperative, Richland, City of, Rupert, City of, Salem Electric, Skamania County PUD, Springfield Utility Board, Surprise Valley Electrification Corp., Tanner Electric Cooperative, Tillamook PUD, United Electric Cooperative, Vera Water & Power, Vigilante Electric Cooperative, Inc., Wasco Electric Cooperative, and Wells Rural Electric.

2. **“Parties”** means the Bonneville Power Administration (BPA), each customer that is a party to a Slice Contract, and the Northwest Requirements Utilities.

3. **“Slice Contract”** means each of those contracts denominated as a “Block and Slice Power Sales Agreement” executed by BPA and certain of its customers, and effective continuing through September 30, 2011, unless terminated earlier pursuant to specified sections of the Slice Contract. The Slice Contracts are identified by BPA’s contract numbers as follows:

BLOCK AND SLICE CONTRACT NUMBERS

Customer	Block/Slice Contract Number
Benton Co PUD	00PB-12180
Blachly-Lane Elec Coop	00PB-10723
Central Electric Coop	00PB-12142
Clatskanie PUD	01PB-12220
Clearwater Power Company	01PB-12210
Consumers Power	00PB-10724
Coos-Curry Elec Coop	00PB-12112
Douglas Elec Coop	00PB-10725
EWEB	00PB-12041
Fall River Rural Elec Coop	00PB-12183
Franklin Co PUD	00PB-12150
Grays Harbor Co PUD	00PB-12079
Idaho Falls Power	00PB-12173
Lane Electric Coop	00PB-10726
Lost River Elec Coop	00PB-12182
Northern Lights	00PB-12144
Okanogan Co Elec Coop	00PB-12148
Okanogan Co PUD	00PB-12145
Pend Oreille Co PUD	00PB-12174
PNGC	01PB-11026
Raft River Rural Elec Coop	00PB-12143
Salmon River Elec Coop	00PB-12181
Seattle City Light	00PB-12176
Snohomish Co PUD	00PB-12177
Umatilla Elec Coop	00PB-12207
West Oregon Elec Coop	00PB-12122

4. **“Slice Customers”** means each of the following utilities in its individual capacity: Public Utility District No. 1 of Benton County, Washington; Eugene Water & Electric Board; City of Idaho Falls, Idaho, Electric Division; City of Seattle, Washington, City Light Department; Clatskanie People’s Utility District; Public Utility District No. 1 of Franklin County, Washington; Public Utility District No. 1 of Grays Harbor County, Washington; Public Utility District No. 1 of Okanogan County, Washington; Pacific Northwest Generating Cooperative; Blachly-Lane County Cooperative Electric Association; Central Electric Cooperative, Inc.; Clearwater Power Company; Consumers Power, Inc.; Coos-Curry Electric Cooperative, Inc.; Douglas Electric Cooperative; Fall River Rural Electric Cooperative, Inc.; Lane Electric Cooperative; Lost River Electric Cooperative, Inc.; Northern Lights, Inc.; Okanogan County Electric Cooperative, Inc.;

Raft River Rural Electric Cooperative, Inc.; Salmon River Electric Cooperative, Inc.; Umatilla Electric Cooperative Association; West Oregon Electric Cooperative, Inc.; Public Utility District No. 1 of Pend Oreille County, Washington; and, Public Utility District No. 1 of Snohomish County, Washington.

5. **“Slice Rate”** means the Slice Rate of the Schedule PF-02 Priority Firm Power Rate as finally approved by the Federal Energy Regulatory Commission on July 21, 2003, *U.S. Department of Energy - Bonneville Power Administration*, 104 FERC ¶ 61,093 (2003) (reproduced at DOE/BP-3576 (May 2004)), and as thereafter amended or established by BPA and subsequently approved, either on an interim or final basis, by the Federal Energy Regulatory Commission.

6. **“Slice Rate Methodology”** means the Slice Rate Methodology as finally approved by the Federal Energy Regulatory Commission on July 21, 2003, *U.S. Department of Energy - Bonneville Power Administration*, 104 FERC ¶ 61,093 (2003) (reproduced at DOE/BP-3576, Appendix A (May 2004)), and as thereafter amended or established by BPA and subsequently approved, either on an interim or final basis, by the Federal Energy Regulatory Commission. This definition does not constitute agreement that BPA may or may not change the Slice Rate Methodology and the Parties waive no position or arguments they may have that BPA may or may not change the Slice Rate Methodology before October 1, 2011.

7. **“True-Up Matter”** means any matter that arises from or out of an Annual Slice True-Up Adjustment or Annual True-Up Adjustment for Actual Costs to determine a Slice True-Up Adjustment Charge or a True-Up Adjustment Charge, including any matter properly contained in a final audit report, but excluding any matter that is excluded from audit pursuant to section 4(b)(6)(D)(iv) of the Slice Contract or is a policy or Federal Operating Decision not subject to arbitration pursuant to section 14(a) of the Slice Contract.

VI. REPRESENTATIONS AND WARRANTIES

1. BPA warrants and represents to each of the other Parties that upon execution and delivery of this Agreement, this Agreement shall be binding in accordance with its terms consistent with applicable BPA statutes. BPA agrees to defend any and all challenges to the validity and enforceability of this Agreement, and the rights and duties contained herein.

2. Each of the Parties, other than BPA, warrants and represents to each of the other Parties, including BPA, that upon execution and delivery of this Agreement:

a. This Agreement constitutes a legal and valid obligation of such Party enforceable in accordance with the terms thereof.

b. The execution and delivery of this Agreement by such Party, and compliance with the provisions thereof by such Party, do not and will not conflict with or constitute a breach of or default under any constitutional provision, state or federal law, or administrative regulation.

c. All authorizations and approvals required of such Party to execute and enter into this Agreement have been obtained.

d. The signatories are authorized to enter into this Agreement on behalf of the Party for whom they sign.

Dated: _____, 2006.

PUBLIC UTILITY DISTRICT NO. 1 OF BENTON COUNTY, WASHINGTON

James W. Sanders
General Manager

Dated: _____, 2006.

EUGENE WATER & ELECTRIC BOARD

Randy L. Berggren
General Manager

Dated: _____, 2006.

CITY OF IDAHO FALLS

Jackie Flowers
Manager

Dated: _____, 2006.

CITY OF SEATTLE, CITY LIGHT DEPARTMENT

Jorge Carrasco
Superintendent

Dated: _____, 2006.

CLATSKANIE PEOPLES UTILITY DISTRICT

Greg Booth
General Manager

Dated: _____, 2006.

PUBLIC UTILITY DISTRICT NO. 1 OF FRANKLIN COUNTY, WASHINGTON

Jean Ryckman
Manager

Dated: _____, 2006.

PUBLIC UTILITY DISTRICT NO. 1 OF GRAYS HARBOR COUNTY, WASHINGTON

Richard D. Lovely
General Manager

Dated: _____, 2006.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON

Chuck Berrie
Manager

Dated: _____, 2006.

PUBLIC UTILITY DISTRICT NO. 1 OF PEND OREILLE COUNTY, WASHINGTON

Robert Geddes
General Manager

Dated: _____, 2006.

PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON

Steve Klein
General Manager

Dated: _____, 2006.

NORTHWEST REQUIREMENTS UTILITIES

John D. Saven
Chief Executive Officer

Dated: _____, 2006.

BONNEVILLE POWER ADMINISTRATION

Stephen J. Wright
Administrator & Chief Executive Officer

Dated: _____, 2006.

PACIFIC NORTHWEST GENERATING COOPERATIVE

R. Patrick Reiten
President & Chief Executive Officer

Dated: _____, 2006.

BLACHLY-LANE COUNTY COOPERATIVE ELECTRIC ASSOCIATION

Bud Tracy
General Manager

Dated: _____, 2006.

CENTRAL ELECTRIC COOPERATIVE, INC.

Al Gonzalez
President & Chief Executive Officer

Dated: _____, 2006.

CLEARWATER POWER COMPANY

K. David Hagen
General Manager

Dated: _____, 2006.

CONSUMERS POWER, INC.

Roman Gillen
President & Chief Executive Officer

Dated: _____, 2006.

COOS-CURRY ELECTRIC COOPERATIVE, INC.

Werner Buehler
General Manager & Chief Executive Officer

Dated: _____, 2006.
DOUGLAS ELECTRIC COOPERATIVE

Dave Sabala
General Manager

Dated: _____, 2006.
FALL RIVER RURAL ELECTRIC COOPERATIVE, INC.

Dee Reynolds
General Manager

Dated: _____, 2006.
LANE ELECTRIC COOPERATIVE

Rick Crinklaw
General Manager

Dated: _____, 2006.
LOST RIVER ELECTRIC COOPERATIVE, INC.

Richard Reynolds
General Manager

Dated: _____, 2006.
NORTHERN LIGHTS, INC.

Jon Shelby
President & Chief Executive Officer

Dated: _____, 2006.
OKANOGAN COUNTY ELECTRIC COOPERATIVE, INC.

Craig Boesel
President

Dated: _____, 2006.
RAFT RIVER RURAL ELECTRIC COOPERATIVE, INC.

James Powers
General Manager

Dated: _____, 2006.
SALMON RIVER ELECTRIC COOPERATIVE, INC.

Ken Dizes
General Manager

Dated: _____, 2006.
UMATILLA ELECTRIC COOPERATIVE ASSOCIATION

M. Steven Eldrige
General Manger & Chief Executive Officer

Dated: _____, 2006.
WEST OREGON ELECTRIC COOPERATIVE, INC.

Marc Farmer
General Manager

EXHIBIT A1

**IN THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT**

Nos. 03-73849, 03-74179 (Consolidated)

NORTHWEST REQUIREMENTS UTILITIES,

Petitioners,

v.

BONNEVILLE POWER ADMINISTRATION,

Respondent.

BENTON COUNTY (WASHINGTON) PUBLIC UTILITY DISTRICT, *et al.*,

Petitioners,

v.

BONNEVILLE POWER ADMINISTRATION,

Respondent.

JOINT MOTION FOR A STAY AND DISMISSAL WITH PREJUDICE

Docket Nos. 03-73849 and 03-74179 were argued before Circuit Judges Stephen Reinhardt, William A. Fletcher and Jay S. Bybee on Wednesday, November 16, 2005

The Bonneville Power Administration (“BPA”), the Northwest Requirements Utilities (“NRU”) and the Slice Customers (collectively, the “Parties”) move this Court pursuant to FRAP 27 for an Order suspending its consideration of the merits and staying this matter¹ for a period of ninety-five (95) days and, unless the Parties move within that time to extend such stay, for the entry, upon the expiration of such ninety-five (95) days, of an order dismissing these consolidated cases, and dissolving all interlocutory orders granting stays or enjoining arbitration processes that have previously been issued in this litigation to implement a settlement of this litigation, as well as related matters not subject to this litigation, all more fully described below.² The purpose of the requested stay is to allow the Parties to determine, before they dismiss this litigation, whether any third party will file a timely petition seeking review of such settlement during the applicable ninety (90) day statute of limitations period. Docket Nos. 03-73849 and 03-74179 have been fully briefed, and were argued before the Honorable Judges Stephen Reinhardt, William A. Fletcher and Jay S. Bybee on Wednesday,

¹ The Parties are filing a similar motion in *Northwest Requirements Utilities v. Bonneville Power Administration*, 9th Cir. Ct. App. Docket No. 04-71311.

² There are currently in place orders staying pursuit of arbitration as follows: Order dated December 17, 2003 in *Northwest Requirements Utilities, et al. v. Bonneville Power Administration*, 9th Cir. Ct. App. Docket No. 03-73849; order dated April 1, 2004 in *Northwest Requirements Utilities v. Bonneville Power Administration*, 9th Cir. Ct. App. Docket No. 04-71311.

November 16, 2005.³ The Court has not yet rendered a decision in Docket Nos. 03-73849 and 03-74179. In addition, Docket No. 04-71311 has been stayed by the Court.

As a condition of this settlement, the Parties have agreed that the claims arising out of True-Up Matters⁴ for each of Contract Year (“CY”) 2002 and CY 2003 constitute a separate and independent cause of action, and that the dismissal of the causes of action pending in Docket Nos. 03-73849, 03-74179 and 04-71311 shall be with prejudice and without costs to any Party as to those causes only. Except as otherwise provided in their Settlement Agreement, the Parties have agreed that such dismissal with prejudice shall preclude assertion or re-assertion for CY 2002 and CY2003 of any claim or issue that was, or could have been, raised in Docket Nos. 03-73849, 03-74179 and 04-71311. Except as otherwise provided in their Settlement Agreement, the Parties have agreed that such dismissal with prejudice shall not prejudice or preclude any claim or argument which any

³ BPA, NRU and the Slice Customers filed briefs and participated in the oral argument in these cases.

⁴ For purposes of this Motion, “True-Up Matter” means any matter that arises from or out of an Annual Slice True-Up Adjustment or Annual True-Up Adjustment for Actual Costs to determine a Slice True-Up Adjustment Charge or a True-Up Adjustment Charge, including any matter properly contained in a final audit report for Contract Years 2002 and 2003, but excluding any matter that is excluded from audit pursuant to section 4(b)(6)(D)(iv) of the Slice Contract or is a policy or Federal Operating Decision not subject to arbitration pursuant to section 14(a) of the Slice Contract.

Party may wish to make in connection with a cause of action arising after CY 2005.

While this litigation has been pending, the Parties have engaged in settlement discussions, which efforts included the services of the Honorable Edward Leavy as a mediator.

The settlement efforts have now produced a Settlement Agreement that has been executed by all Parties that resolves the claims and issues pending before this Court. Accordingly, the Parties request dismissal of all petitions pending before this Court, with prejudice, and the dissolution of all interlocutory orders granting stays or enjoining arbitration processes. Also as part of the settlement, all requests for arbitration of the matters raised in these cases will be withdrawn by the requesting parties. Each party will bear its own costs and no party is responsible to the other for the payment of any costs or expenses of this litigation.

The Settlement Agreement contains resolutions agreed to by the parties for CY 2002 and 2003 that are before this Court, and some additional resolutions that will apply for the remaining term of the Slice Contracts as specifically indicated in the Settlement Agreement. Finally, the proposed settlement will also resolve additional business issues that are not currently

pending before this Court, and hopefully avoid the prospect of future litigation.

Respectfully submitted,

Susan K. Ackerman, OSB #83138
Attorney for Northwest Requirements Utilities
P. O. Box 10207
Portland, Oregon 97296-0207
Phone: (503) 297-2392
Fax: (503) 297-2398

STOEL RIVES LLP

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STEPHEN J. ODELL, Assistant United States
Attorney

David J. Adler, OSB #82175
Special Assistant United States Attorney
Attorneys for Respondent Bonneville Power
Administration
P. O. Box 3621
Portland, OR 97208
Phone: (503) 230-4201
Fax: (503) 230-7405

EXHIBIT A2

No. 04-71311

NORTHWEST REQUIREMENTS UTILITIES,

Petitioners,

v.

BONNEVILLE POWER ADMINISTRATION,

Respondent.

**JOINT MOTION FOR A STAY AND
DISMISSAL WITH PREJUDICE**

The Bonneville Power Administration (“BPA”), the Northwest Requirements Utilities (“NRU”) and the Slice Customers (collectively, the “Parties”) move this Court pursuant to FRAP 27 for an Order staying this

matter¹ for a period of ninety-five (95) days and, unless the Parties move within that time to extend such stay, for the entry, upon the expiration of such ninety-five (95) days, of an order dismissing this case, and dissolving all interlocutory orders granting stays or enjoining arbitration processes that have previously been issued in this litigation to implement a settlement of this litigation, as well as related matters not subject to this litigation, all more fully described below.² The purpose of the requested stay is to allow the Parties to determine, before they dismiss this litigation, whether any third party will file a timely petition seeking review of such settlement during the applicable ninety (90) day statute of limitations period. Docket Nos. 03-73849 and 03-74179 have been fully briefed, and were argued before the Honorable Judges Stephen Reinhardt, William A. Fletcher and Jay S. Bybee on Wednesday, November 16, 2005.³ The Court has not yet rendered a

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prejudice shall not prejudice or preclude any claim or argument which any Party may wish to make in connection with a cause of action arising after CY 2005.

While this litigation has been pending, the Parties have engaged in settlement discussions, which efforts included the services of the Honorable Edward Leavy as a mediator.

The settlement efforts have now produced a Settlement Agreement that has been executed by all Parties that resolves the claims and issues pending before this Court. Accordingly, the Parties request dismissal of all petitions pending before this Court, with prejudice, and the dissolution of all interlocutory orders granting stays or enjoining arbitration processes. Also as part of the settlement, all requests for arbitration of the matters raised in these cases will be withdrawn by the requesting parties. Each party will bear its own costs and no party is responsible to the other for the payment of any costs or expenses of this litigation.

The Settlement Agreement contains resolutions agreed to by the parties for CY 2002 and 2003 that are before this Court, and some additional resolutions that will apply for the remaining term of the Slice Contracts as specifically indicated in the Settlement Agreement. Finally, the proposed settlement will also resolve additional business issues that are not currently

pending before this Court, and hopefully avoid the prospect of future litigation.

Respectfully submitted,

Susan K. Ackerman, OSB #83138
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KARIN J. IMMERGUT, United States Attorney
STEPHEN J. ODELL, Assistant United States
Attorney

David J. Adler, OSB #82175
Special Assistant United States Attorney
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Portland, OR 97208
Phone: (503) 230-4201
Fax: (503) 230-7405

EXHIBIT B

August 25, 2006

VIA OVERNIGHT COURIER

Mr. Jack Kelly
International Institute for Conflict Prevention and Resolution
366 Madison Avenue
New York, NY 10017

Re: *Slice Customers/Bonneville Power Administration Arbitration*

Dear Mr. Kelly:

I represent the Claimants in matters for which arbitrations were sought under the CPR Rules for Non-Administered Arbitration then in effect. On August 5, 2003 and February 2, 2004, I served Notices of Arbitration on the Respondent, the Bonneville Power Administration ("BPA"). Prior to the commencement of the arbitration proceeding for Contract Year 2002, BPA obtained from the United States Circuit Court of Appeals for the Ninth Circuit an order enjoining such arbitration, which order has remained in place. Pursuant to such order, the arbitration requested for Contract Year 2003 was also stayed.

BPA, the Claimants and other interested parties have reached a settlement of the issues that served as the basis for the above referenced Notices of Arbitration. As a consequence, I hereby withdraw any and all requests for arbitration on behalf of the Claimants arising from audits conducted on their behalf for Contract Years 2002 and 2003. No further action should be taken by the Institute on any such request, and the Institute should consider the matters for which arbitrations were requested to be finally resolved.

Thank you for your courtesy and cooperation in this matter.

Very truly yours,

Stephen S. Walters

Enclosure

cc: Randy Roach (w/o encl)

EXHIBIT C

**SLICE MEDIATION SETTLEMENT PAYMENT
BPA CALCULATION**

Slice Mediation Settlement payment

Note: The Slice Contract Year is from October 1 through September 30, which is the same period as BPA's Fiscal Year

CY 2002 amount				\$ (26,570,000.00)	
CY 2003 amount				\$ 6,338,000.00	
CY 2004 amount				\$ (1,076,000.00)	
CY 2005 amount				\$ 230,000.00	
Total Settlement Payment:					(21,078,000.00)
Int. Rate on October 1, 2002	4.75%	Interest on CY 2002 amount and calculated from 10/1/02 through 9/30/03		\$ (1,262,075.00)	
Int. Rate on October 1, 2003	4.00%	Interest on CY 2002 amount plus interest and CY 2003 amount and calculated from 10/1/03 through 9/30/04		\$ (859,763.00)	
Int. Rate on October 1, 2004	4.75%	Interest on CY 2002 amount plus interest, CY 2003 amount plus interest, and CY 2004 amount and calculated from 10/1/04 through 9/30/05		\$ (1,112,917.00)	
Int. Rate on October 3, 2005	6.75%	Interest on CY 2002 amount plus interest, CY 2003 amount plus interest, and CY 2004 amount plus interest, and CY 2005 amount and calculated from 10/1/05 through 9/30/06		\$ (1,641,111.00)	
Total Interest on Settlement Payment:					<u>(4,875,866.00)</u>
Total Settlement Payment plus Interest Due Slice Customers:					<u><u>(25,953,866.00)</u></u>

EXHIBIT D

Memorandum of Understanding Concerning the BPA Debt Optimization Program

PARTICIPANTS

This Memorandum of Understanding (MOU) is made and entered into this ____ day of _____, 2006, by and between the UNITED STATES OF AMERICA, Department of Energy, acting by and through the BONNEVILLE POWER ADMINISTRATION (“BPA”), SLICE CUSTOMERS (“Slice Customers”), and NORTHWEST REQUIREMENTS UTILITIES (“NRU”).

The above entities are collectively known as the Participants.

RECITALS

WHEREAS, BPA and the Participants recognize that BPA’s customers and other stakeholders are directly impacted by how BPA manages and communicates its Debt Optimization Program (“DOP”) and uses of capital; and

WHEREAS, BPA is committed to improving its communications with customers and other stakeholders concerning the development and implementation of DOP, and other issues of BPA financial management; and

WHEREAS, the Participants desire to formalize BPA’s commitments to manage the DOP consistent with its authorities and responsibilities and its undertakings herein and to otherwise effectively communicate with customers and other stakeholders regarding uses of capital, including for purposes of assuring transmission adequacy;

NOW, THEREFORE, the Participants have reached the following understanding:

A. Purpose

The Participants intend this MOU to result in a better and sounder business relationship between BPA and the other Participants. It memorializes BPA’s commitments made with respect to the development and implementation of DOP, and the processes by which it will honor those commitments. This MOU also provides for

improvements in BPA's communications concerning the development and implementation of DOP. This MOU is entered in connection with the settlement of certain litigation involving the Participants. The settlement separately provides for certain actions that will resolve issues in the litigation concerning DOP and other financial issues, and are intended to avoid similar disputes in the future. The Participants intend this MOU to restore and maintain confidence that BPA is effectively managing the DOP in accordance with its commitments and to the benefit of its customers and public purposes.

B. BPA Commitments Concerning the Debt Optimization Program

1. BPA, working with Energy Northwest ("EN"), has developed the DOP to increase its available borrowing authority from the United States Treasury using proceeds accomplished as a result of EN bond refinancings.
2. One of the fundamental principles of the DOP, created at the time Debt Service Reassignment (DSR) (described more fully in Section B.4 below) was developed, is that the rates of each of BPA's business lines (Transmission Business Line ("TBL") and Power Business Line ("PBL")) are no higher with the DOP than they would have been in the absence of the DOP. BPA will manage the DOP in conformance with, and to achieve realization of, this principle, notwithstanding that the mechanics of recording the DOP transactions and understanding their impact on rates are complex. BPA annually demonstrates achievement of this principle by running repayment studies that compare a base repayment study that includes all debt management activities completed to date with a DOP repayment study that includes new DOP projections for the upcoming years, the results of which comply with such principle. BPA will continue to so demonstrate achievement of this principle annually and in the next and subsequent general wholesale power and transmission rate proceedings so long as new DOP refinancings occur. The demonstration for power rates will be made in the power rate case, and for the transmission rates in the transmission rate case. The Participants agree that for purposes of making its demonstration in the next general transmission rate proceeding, BPA will introduce the information for the first time in its rebuttal case, and the Administrator will direct the hearing officer in writing to provide parties a reasonable period of time to respond to such information with surrebuttal testimony and, if requested by any party (including BPA), a further reasonable period of time to respond to such surrebuttal with sur-surrebuttal testimony. Furthermore, BPA will adhere to this principle and will not move away from adherence to this principle without a public review and comment period, consistent with Section C of this MOU and any requirements of law.

3. In a letter to the EN Executive Board on December 11, 2000, BPA's Administrator stated that the success of the DOP in achieving its objectives depends both on the successful completion of the extension of the Columbia Generating Station debt and on the disciplined application of the proceeds from that action by BPA to amortize more Federal debt than would otherwise be scheduled for amortization. The Administrator gave the EN Executive Board BPA's commitment that this increased amortization would equal the reduction in BPA's net billing obligation resulting from debt management actions under this program on an annual basis and that only under extreme financial pressure would BPA consider deviating from the actions required to implement this program. These assurances also apply to extensions of Projects 1 and 3 debt. BPA will adhere to this principle and will not move away from adherence to this principle without a public review and comment period, consistent with Section C of this MOU and any requirements of law.

4. Customers have expressed a desire for assurance that BPA match, by business line, the benefit received (prepayment of Federal debt) with the obligation incurred (issuance of new EN debt). BPA has researched and believes it has implemented the appropriate accounting treatment and rate case methodologies to ensure that costs are recovered (per the repayment study) and debt service expense is attributed accurately as reflected in BPA's PBL and TBL income statements, thereby matching, by business line, the benefit received (prepayment of Federal debt allocated to a business line) with the obligation incurred (issuance of new EN debt) under DOP. When EN debt is issued and there is a resulting benefit to TBL, the original EN debt that was due in that particular year (and refinanced) is considered "paid" by the PBL. The original debt is no longer in existence due to the refinancing and the TBL responsibility for paying the debt service on the new debt is reflected in the accounting and rate case methodologies mentioned above. This all describes DSR, which is a component of DOP. References in this MOU to DOP shall include DSR, unless the context clearly requires otherwise.

BPA intends and will act to ensure that any EN debt service assigned to TBL through DSR cannot be later reassigned or reallocated to PBL customers during the term of such debt, consistent with law and contract. While net billing constraints, priority of payment requirements, and BPA ratemaking requirements to assure total cost recovery make it possible—though a very remote possibility—that BPA could find itself in a position unable to fulfill this commitment, BPA will seek to prevent that and, if it cannot, will inform the Participants consistent with Section C of this MOU. BPA does not now see any reason why it could or would not continue to set transmission rates to recover transmission costs and power rates to recover power costs, *i.e.*, it does not anticipate being in the situation where a transmission cost (*e.g.*, in this context, obligations

resulting from DSR) would need to be reallocated or reassigned to PBL for recovery, but in any event BPA will utilize the Communication Protocols set forth in Section C of this MOU to keep customers apprized of any change in circumstances.

Under BPA's priority of payment requirements, obligations resulting from DSR must be repaid before BPA repays Federal interest and amortization. That priority of payments makes it even more unlikely that obligations resulting from DSR would ever need to be allocated or assigned from TBL to PBL in order to assure total BPA cost recovery. However, in the event BPA did find itself in the situation where obligations resulting from DSR needed to be allocated or assigned back from TBL to PBL in order to assure total BPA cost recovery, BPA commits to treat the allocation or assignment in a manner where the costs would be tracked and the PBL would be fully compensated for its recovery of the TBL cost. The means of compensation would be proposed in a rate case and would be subject to review and comment by parties in that rate case, as addressed below.

5. In each general BPA PBL and TBL wholesale rate proceeding conducted while EN bonds refinanced under DOP, including EN debt service reassigned under DSR to TBL, are still outstanding, BPA will include the language of Sections B.1, B.2, B.3 and B.4 above in its Revenue Requirement Study, will clearly and transparently describe the DOP-related costs for the business line (PBL or TBL) for which rates are then being set, and will draw attention to that language in its testimony, except that the references to "Section C of this MOU" will be changed to give a complete citation to this MOU. After BPA's rate proceeding, and when BPA files its proposed rates with the Federal Energy Regulatory Commission (FERC), BPA will draw FERC's attention to such Revenue Requirement Study language in its cover letter. BPA will take all necessary and appropriate actions to defend the commitments made in this Section B, before FERC and elsewhere. In the event BPA were to propose to allocate or assign obligations resulting from DSR from TBL to PBL for recovery, BPA agrees that allocation or assignment must be implemented through a section 7(i) hearing and that it will not argue or otherwise assert that the Participant(s) are precluded from arguing or otherwise asserting in any such section 7(i) rate proceeding and thereafter in any proceeding before the FERC for approval of BPA wholesale rates, and thereafter in any proceeding for judicial review of BPA's rates, that BPA's proposal violates the equitable allocation standard or other standard of law.

C. Annual Communication and Management Protocols

1. Participants have requested and BPA will provide them early annual estimates of potential refinancings under DOP. While these preliminary estimates will be provided by BPA to customers and constituents even if

BPA is not relying on the estimates for decisions pertaining to DOP, the Participants understand, and BPA will communicate, that the recipient relies on the preliminary information at its own risk and is solely responsible for its use of the information. Specifically, BPA will provide each year in the late fall/early winter timeframe, the following:

- i. What DOP activities/transactions occurred through the prior fiscal year;
 - ii. What the current expectation is for DOP activities/transactions in the current fiscal year, including an estimate of the total amount of debt optimization and estimated allocation to each business line; and
 - iii. What the current estimate is for DOP activities/transactions beyond the current fiscal year, both in total and allocation by business lines.
2. a. Subject to the provisions of Section C.2.b, the Participants and other interested stakeholders will meet annually following BPA's late fall/early winter release of the information called for in Section C.1(i-iii) above to discuss the information and BPA's plans. The Participants commit to participate in these meetings and to discuss their concerns and information needs. The annual DOP updates and reports called for in Section C.1(i-iii) above will be the primary sources of information used in discussions by the Participants.
- b. BPA may discontinue such annual meetings after the passage of one year from the date BPA completes the latest of (i) the last planned refunding bond issue for DOP, (ii) the last planned debt reassignment from PBL to TBL under DSR, or (iii) the last planned DOP-related advanced payment to Treasury not already included in rates, *provided, however*, that if BPA resumes any such refunding, reassignment or advanced payment activities after having ceased them, then BPA will again be obligated to take the steps set forth in Sections C.1-C.4 so long as it continues such activities. During any period when BPA is not conducting such annual meetings, BPA will provide an annual letter to the Participants and interested stakeholders which states that there have been no changes to the program, and that the repayment obligation on the debt by business line has not changed as a result of DOP related activities/transactions.
3. The annual meetings referenced in Section C.2 above will also serve to:
- a. Discuss how to improve public awareness concerning the DOP.
 - b. Distribute other information BPA determines would be informative to the Participants and other stakeholders.

- c. Continue to involve a broad array of other interested stakeholders in discussions of the DOP.
4. If more current information than that provided pursuant to Section C.1(i-iii) becomes available, BPA will assess the significance of the information to BPA decision-making and, in the event it determines the information is significant, it will release in a timely fashion the information to customers and others prior to the time BPA makes a final decision based upon it so long as providing such information does not delay a bond issue. In that event, BPA shall provide such information as soon as practicable after the bond issue. The Participants understand, and BPA will communicate, that the recipient relies on this information at its own risk and is solely responsible for its use of the information.
5. BPA will, in connection with any then-anticipated future EN bond refinancing as a part of the DOP, share with the EN Executive Board the information provided by BPA and any conclusions arrived at by BPA as a consequence of the process set forth in Sections C.1-3 above. The conclusions set forth in the transmittal to the EN Executive Board will also be communicated by letter to the Pacific Northwest Congressional delegation. In the event that an outside third party has been called for, as provided in the next paragraph, then that fact shall be included in the transmittal, with an indication that the third party's evaluation will be provided to the recipients once it is available.
6. Each year after BPA has concluded the steps described in Sections C.1-3, or at any time if such steps are no longer required under this MOU, in the event that:
 - (a) BPA, NRU, or a majority by number of Slice Customer Participants reach differing conclusions with respect to a specific issue from the materials presented and discussed, or
 - (b) NRU or a majority by number of Slice Customer Participant(s) believes:
 - (i) that BPA has not complied with Sections C.1-3 of this MOU,
 - (ii) that BPA is proposing DOP activities/transactions described in Section C.1(i), (ii), or (iii) that are inconsistent with Sections B.2, B.3, or the second paragraph of Section B.4, or
 - (iii) that during such time as the annual meetings described in Section C.2 are suspended pursuant to Section C.2.b, BPA is proposing DOP activities/transactions that are

inconsistent with Sections B.2, B.3, or the second paragraph of Section B.4,

then NRU or a majority by number of the Slice Customer Participants, as promptly as practicable, may notify BPA, EN and all other Participants in writing stating with specificity the nature of the alleged disagreement or non-compliance (“Notice”). In such event, BPA and such Participant(s) shall meet and attempt in good faith to resolve the matters stated in the Notice. If BPA or those Participant(s) that issued the Notice conclude at any time that the matters stated in the Notice cannot be resolved by further good faith discussion, BPA and those Participant(s) that issued the Notice shall by mutual agreement appoint a neutral outside third party with a strong accounting and financial background to make an independent determination of the disputed issue within no more than 45 calendar days of the neutral’s appointment. In the event that BPA and those Participants cannot agree on a neutral outside party, BPA and those Participants shall each appoint a representative, and the two representatives so appointed will select the neutral outside third party.

The neutral’s findings and conclusions shall be based upon materials that BPA has made publicly available, materials the Participants have previously provided to BPA, new or additional materials and/or interviews voluntarily furnished to the neutral by BPA and/or the Participants, and arguments on the materials submitted by BPA and the Participants to the neutral. The neutral’s findings and conclusions shall be transmitted to the Participants and the EN Executive Board. Participants are free to voice their views to the EN Executive Board as to what use, if any, the Board should make of the materials submitted to it. This MOU neither creates nor limits any power in the EN Executive Board to make any decision or take any action based upon the neutral’s findings and conclusions or the views of the Participants that it is otherwise authorized or required to take.

7. BPA will also prior to each general wholesale rate proceeding, beginning after FY 2006, engage the Participants and other interested stakeholders in a capital review process to review and discuss BPA’s total capital investment forecasts. This capital review process may be combined with one or more BPA processes conducted prior to a BPA general wholesale rate proceeding.
8. The Participants will, no later than twelve (12) months after October 1, 2011, review and determine whether:
 - i. To delete the capital review process set forth in Section C.7 for the remainder of the term of this MOU; or

- ii. To amend the trigger mechanism for invoking the third party fact finding process set out in Section C.6.

D. Miscellaneous Provisions

1. Nothing in the MOU obligates any Participant to enter into any contract or otherwise creates new or additional legal obligations.
2. This Memorandum of Understanding is intended by BPA to provide certain commitments and processes to the other Participants regarding the management and communication of the DOP and its effects. The Participants understand and agree that this MOU is not a contract, and that this MOU is neither intended to, nor does it create or destroy or limit any right, benefit, or trust responsibility, substantive or procedural, enforceable in a court of law against BPA, whether by legal or equitable remedy. Without limiting the applicability of rights granted to any of the Participants or the public pursuant to any law, this MOU does not and will not create any right or interest in the public, or any member thereof, as an intended or incidental beneficiary hereof, nor will it authorize anyone to maintain a suit for enforcement of the MOU, injury, damages or other remedy. The duties, obligations, and responsibilities of BPA with respect to the other Participants and the public will remain as imposed under existing law and applicable contracts.
3. This MOU does not delegate any authority or responsibility of BPA established by law. If the processes and procedures related to this MOU would, in the Administrator's estimation, delay any action or the implementation of any action which BPA is obligated to take under law, BPA reserves the right to proceed with fulfilling such obligations in the manner it deems appropriate or necessary. BPA will take actions called for by this MOU as soon thereafter as reasonably possible.

E. MOU Duration, Modification, Execution, and Termination

1. This MOU will become effective upon the date of signature of the last of the Participants and, except as otherwise provided herein, will remain in effect until October 1, 2024, or until such later date as any DSR-related bonds have been retired.
2. This MOU may be modified or amended only with the written consent of all Participants. This MOU may also be suspended or terminated upon unanimous written agreement of all Participants. Documentation of modification, amendment, suspension, or termination of the MOU will be provided to the BPA Chief Financial Officer.

3. This MOU may be executed in counterparts, each of which shall be an original and all of which when executed shall constitute the same MOU.

The undersigned agree to the Memorandum of Understanding Concerning the BPA Debt Optimization Program.

Dated: _____, 2006.

PUBLIC UTILITY DISTRICT NO. 1 OF BENTON COUNTY, WASHINGTON	
James W. Sanders	
General Manager	
Dated: _____, 2006.	
EUGENE WATER & ELECTRIC BOARD	

Randy L. Berggren	
General Manager	
Dated: _____, 2006.	
CITY OF IDAHO FALLS	

Jackie Flowers	
Manager	
Dated: _____, 2006.	
CITY OF SEATTLE, CITY LIGHT DEPARTMENT	

Jorge Carrasco	
Superintendent	

Dated: _____, 2006.	
CLATSKANIE PEOPLES UTILITY DISTRICT	

Greg Booth	
General Manager	

Dated: _____, 2006.

PUBLIC UTILITY DISTRICT NO. 1 OF FRANKLIN COUNTY, WASHINGTON

 Jean Ryckman
 Manager

Dated: _____, 2006.

PUBLIC UTILITY DISTRICT NO. 1 OF GRAYS HARBOR COUNTY, WASHINGTON

 Richard D. Lovely
 General Manager

Dated: _____, 2006.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON

 Chuck Berrie
 Manager

Dated: _____, 2006.

PACIFIC NORTHWEST GENERATING COOPERATIVE

 Patrick Reiten
 President & CEO

Dated: _____, 2006.
PUBLIC UTILITY DISTRICT NO. 1 OF PEND OREILLE COUNTY, WASHINGTON

Robert Geddes
General Manager

Dated: _____, 2006.
PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON

Steve Klein
General Manager

Dated: _____, 2006.
NORTHWEST REQUIREMENTS UTILITIES

John D. Saven
Chief Executive Officer

Dated: _____, 2006.
BONNEVILLE POWER ADMINISTRATION

Stephen J. Wright
Administrator & Chief Executive Officer

Dated: _____, 2006.

BLACHLY-LANE COUNTY COOPERATIVE ELECTRIC ASSOCIATION

Bud Tracy
General Manager

Dated: _____, 2006.

CENTRAL ELECTRIC COOPERATIVE, INC.

Al Gonzalez
President & Chief Executive Officer

Dated: _____, 2006.

CLEARWATER POWER COMPANY

K. David Hagen
General Manager

Dated: _____, 2006.

CONSUMERS POWER, INC.

Roman Gillen
President & Chief Executive Officer

Dated: _____, 2006.

COOS-CURRY ELECTRIC COOPERATIVE, INC.

Werner Buehler
General Manger & Chief Executive Officer

Dated: _____, 2006.
DOUGLAS ELECTRIC COOPERATIVE

Dave Sabala
General Manager

Dated: _____, 2006.
FALL RIVER RURAL ELECTRIC COOPERATIVE, INC.

Dee Reynolds
General Manager

Dated: _____, 2006.
LANE ELECTRIC COOPERATIVE

Rick Crinklaw
General Manager

Dated: _____, 2006.
LOST RIVER ELECTRIC COOPERATIVE, INC.

Richard Reynolds
General Manager

Dated: _____, 2006.
NORTHERN LIGHTS, INC.

Jon Shelby
President & Chief Executive Office

Dated: _____, 2006.
OKANOGAN COUNTY ELECTRIC COOPERATIVE, INC.

Craig Boesel
President

Dated: _____, 2006.
RAFT RIVER RURAL ELECTRIC COOPERATIVE, INC.

James Powers
General Manager

Dated: _____, 2006.
SALMON RIVER ELECTRIC COOPERATIVE, INC.

Ken Dizes
General Manager

Dated: _____, 2006.
UMATILLA ELECTRIC COOPERATIVE ASSOCIATION

M. Steven Eldrige
General Manager & Chief Executive Officer

Dated: _____, 2006.
WEST OREGON ELECTRIC COOPERATIVE, INC.

Marc Farmer
General Manager

EXHIBIT E

PROTOCOL REGARDING THE CONDUCT OF SLICE TRUE-UP ADJUSTMENT CHARGE AUDITS

The Bonneville Power Administration (“BPA”) and the preference customers that purchase power from BPA under Block and Slice Power Sales Agreements (“Slice Customers”) intend to utilize this Protocol, setting out steps and procedures in order to facilitate the conduct of future True-Up Adjustment audits under section 4(b)(6) of the Block and Slice Power Sales Agreements (“Contracts”). This Protocol does not amend or otherwise alter any provision of the Contracts.

Entrance Conference

BPA staff involved in the audit, the BPA and Slice Representative, and the Slice auditors will conduct a formal entrance conference. At this conference, the parties will exchange the following information, and will discuss other issues relevant to the audit.

- The BPA Slice manager and the Slice Representative will each designate a financial person to serve as the chief point of contact for their respective audit teams;
- The Slice audit team will present BPA with an audit plan outlining the major areas of inquiry, consistent with section 4(b)(6)(D)(iv) of the Contracts, that are expected to be pursued;
- To the extent practicable, the Slice auditor will provide BPA with a listing of requested documents and spreadsheets, and the sequence in which they will be used, to be prepared by BPA prior to the Entrance Conference;
- The parties will discuss audit objectives and testing procedures to confirm audit objectives;
- BPA will provide the Slice Representative with written consent to review the work-papers of BPA’s external auditor for the most recent audit of the Federal Columbia River Power System (FCRPS); and
- BPA and the Slice representatives will exchange executed confidentiality letters, substantially in the form used in the CY 2005 audit process. .

Use of External Auditor Work-Papers

Prior to making any information requests of BPA, the Slice auditor will endeavor to review the relevant final work-papers of BPA’s external auditor from the most recent annual audit of the FCRPS. The purpose of this review will be to obtain as much of the information as is needed for the audit as possible, thereby reducing the data that BPA will need to produce for the audit. If requested by either BPA or the Slice auditor, a BPA financial person will attend the review of the external auditor work-papers.

Information Requests by Slice Customers

Prior to submitting each written information request, the Slice auditors will discuss with the relevant BPA financial staff the information requests to be submitted, and the nature of the information that is being sought. The purpose of such discussions is to provide BPA financial staff and the Slice auditor with the opportunity to work collaboratively to ensure the BPA financial staff understands the nature of the request, and to identify ways in which the information request can be shaped to provide the requested information while minimizing the effort required by BPA staff to provide it. BPA will not be required to modify the form of BPA's financial books, accounts and ledgers.

The Slice Representative, the Slice auditors, BPA Slice Manager and BPA financial staff should meet and discuss the written information request responses completed by BPA to clarify the responses if need be and address questions and concerns.

Scope of Audit Information Requests

Policies and Methodologies

Upon request, BPA will make available to the Slice auditor BPA's internal accounting policies and procedures, and its cost allocation methodologies. Consistent with section 4(b)(6)(D)(iv) of the Contracts, the Slice auditor may use such internal accounting policies and procedures, and cost allocation methodologies, to verify that BPA has complied with them. Nothing in this Protocol gives any party a right to challenge BPA's internal accounting policies and procedures, or the cost allocation methodologies. To perform such verification, the Slice auditor can request from BPA reasonable amounts of relevant back up information, and BPA will provide such requested information. The Slice auditor may also request details of specific numbers to map costs and expenditures from Exhibit I to BPA accounts in order to trace and understand the flow of costs.

Tracing

To obtain source documentation (such as contracts and invoices) the Slice auditor will request that BPA staff run a query on a specific topic area of interest (such as line item from Exhibit I of the Contract). BPA will run the query and provide the information produced. The Slice auditor and BPA staff will consult to determine a reasonable number of specific transactions to sample by obtaining the source documentation for them. Both the Slice auditor and the BPA staff will attempt to do this in a manner that provides the Slice auditor with adequate information to fulfill its audit responsibility, and in a manner that does not unduly burden the BPA staff. Subject to any confidentiality requested by third parties over such information, BPA will provide to the Slice auditor the documentation for sample transactions so identified. Sample information requests and responses are attached to this Protocol as Attachment 1. The use of information provided pursuant to any information request will be subject to the limits contained in the Contracts.

Confidentiality of Information Requests

When the information requested by the Slice auditor is held by BPA subject to a confidentiality obligation, BPA will make reasonable efforts to obtain a release from such confidentiality obligation so that such information can be provided to the Slice auditor. In the event that BPA is unsuccessful in such effort, then the Slice auditor shall execute the reasonably requested documents necessary to maintain the confidentiality of the requested information. If confidentiality is not released by the third party or if no agreement on confidentiality is executed by the Slice auditor, then BPA will not be required to provide the documentation.

Meetings During the Audit

The Slice Representative, the Slice auditors, BPA Slice Manager and BPA financial staff will meet at least three (3) times during the field work and discuss the progress of the audit, and any areas where issues have arisen during the audit. Either party can request additional meetings as they deem necessary during the field work period.

Exit Conference

The Slice auditor will meet with BPA financial staff for an exit conference upon completion of field work. The purpose of the meeting will be to discuss initial findings and conclusions of the Slice auditor, and receive any comments from BPA financial staff regarding the accuracy of such initial findings and conclusions.

The Slice auditor may provide to BPA financial staff suggested list of audit tasks that could be added to the scope of work of BPA's external auditor in conducting their FCRPS audit that, if performed, would reduce the work of both BPA and the Slice auditor in the True-Up Adjustment Charge for the then current fiscal year and subsequent fiscal years. BPA may or may not include such suggested tasks in its scope of work for its external auditor.

Draft Audit Report

The Slice Representative will provide to BPA a draft audit report containing the draft findings and conclusions in accordance with section 4(b)(6)(D)(v) of the Contract, and if requested by BPA, the Slice auditor will meet with BPA financial staff to receive their comments on the draft audit report.

Final Audit Report

The Slice Representative will send a final audit report to BPA within ten (10) days after receipt of the document, but no later than one hundred twenty (120) calendar days from receipt by the Representative of BPA's True-Up Adjustment Charge, as set forth in section 4(b)(6)(D)(v) of the Contract, unless such deadline is extended by agreement of the parties.

Timeline

Attached as Attachment 3 is a timeline that sets out graphically the timing of the steps contained in this Protocol.

ATTACHMENT 1

INFORMATIONAL REQUEST TO BPA

General Information

Information of a general nature, such as general ledger account descriptions, changes in BPA's accounting practices, etc., will be included in the PBC listing (*see* Attachment 2).

Examples of First Information Request

- For the O&M charges on lines #6, 8, 10, and 28, please provide a list of the O&M payments made during the contract year to the Corp of Engineers, U.S. Fish and Wildlife, the Bureau of Reclamation, and to the Columbia Generating Station. This information will be tied to the charges on the specified lines of the True-up, and Slice auditors will select a sample of the payments for further audit.
- For the Renewables charges (line #68), a workpaper listing the charges, by general ledger account, for each project included in the charges. This information will be tied to the charges on the specified lines of the True-up, and Slice auditors will select a sample of the payments for further audit.

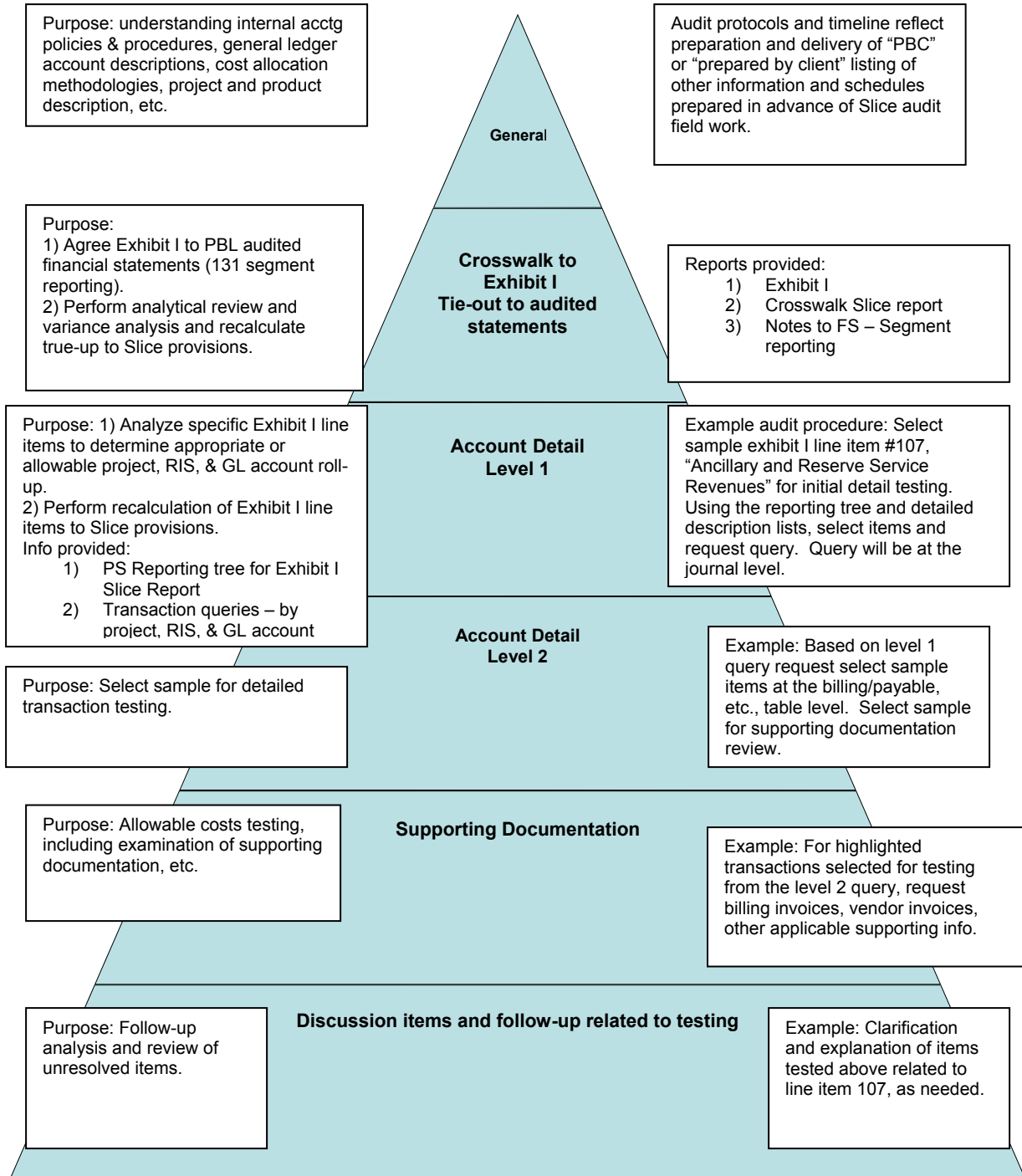
Examples of Second Information Request

- For the sample of specific O&M transactions listed below, please provide copies of invoices that have been approved for payment, as well as other related supporting documentation.
- For the sample of specific Renewables transactions listed below, please provide copies of invoices that have been approved for payment, as well as other related supporting documentation.

The Slice auditors' objective is to obtain support to conclude on the amounts in the true-up revenue requirement calculation. Therefore if information is available in a format different from the format originally requested, the Slice auditors are willing to discuss the available information with the BPA to determine the least time consuming method of providing the needed information. In some cases, this could involve providing electronic information that is more detailed than that requested such as transaction detail of general ledger accounts that make up the true-up schedule line items. The Slice auditors could then use spreadsheet and other software to summarize, combine, analyze, and print the needed information.

ATTACHMENT 2

Slice Audit Information Request Protocol



Slice Audit Timeline

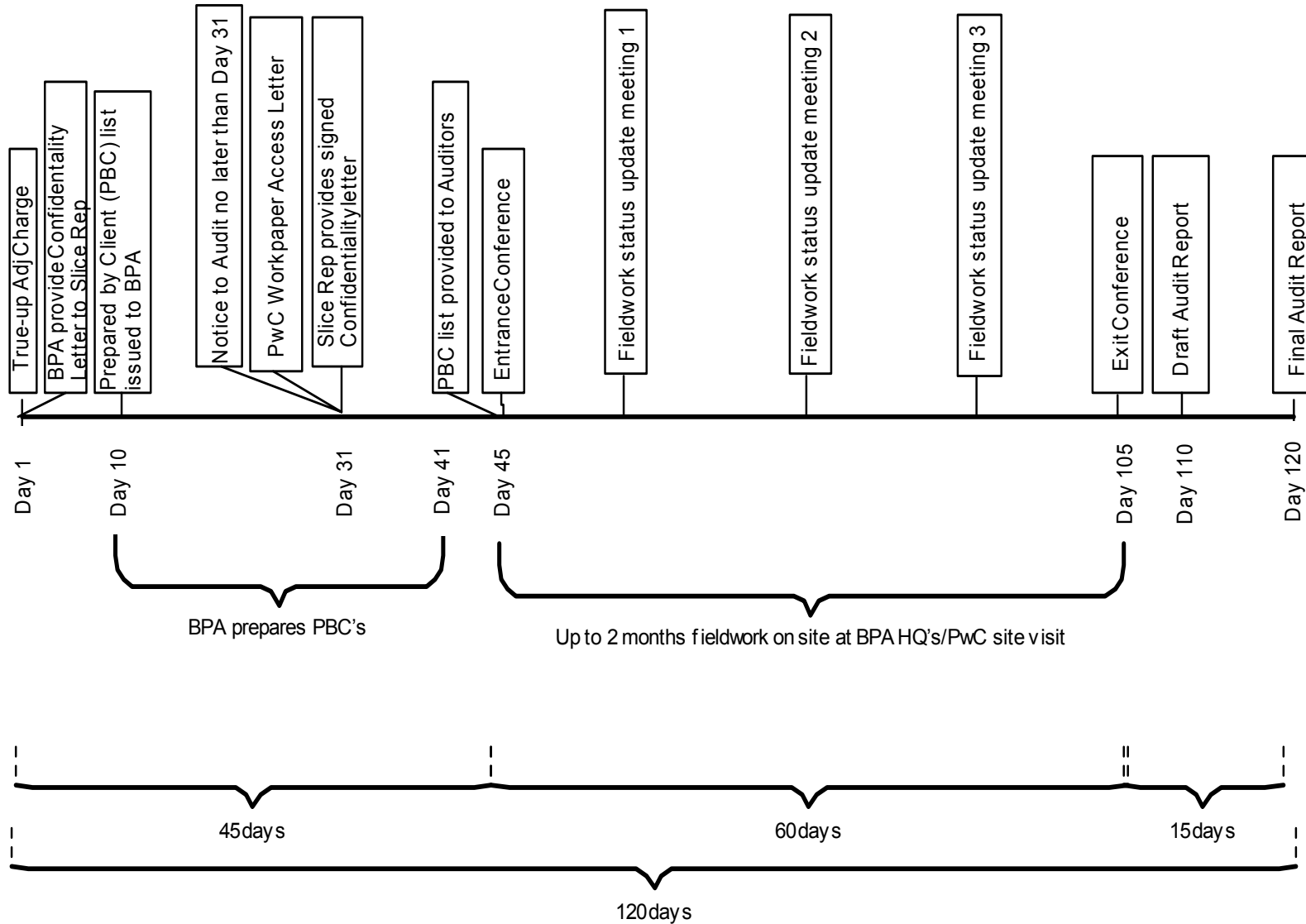


EXHIBIT F

TRUE-UP MATTERS DISPUTE RESOLUTION AGREEMENT

A. Background

BPA has taken the position that True-Up Matters involving the determination, interpretation or application of the Slice Rate and/or Slice Rate Methodology, or any portion of one or both of them, must be considered to concern implementation of rates and therefore subject to the exclusive jurisdiction of the United States Court of Appeals for the Ninth Circuit (“Ninth Circuit”) and not subject to binding arbitration under the Slice Contract, notwithstanding that the language in dispute or some variant of it is incorporated into or otherwise found in the Slice Contract.

The Slice Customers have taken the position that issues arising from True-Up Matters, including adjustments proposed in final audit reports, are matters involving the determination, interpretation or application of language in or incorporated into the Slice Contract, and must be considered to be contract matters subject to binding arbitration under the Slice Contract.

While the Parties continue to disagree whether such disputes are appropriately characterized as rate or contract disputes, it is their desire to forestall and hopefully avoid such disagreements in the future by clarifying certain provisions of the Slice Contract and the processes associated with True-Up Matters, as set forth in this True-Up Matters Dispute Resolution Agreement (Dispute Resolution Agreement).

As a consequence thereof, the Parties agree as follows:

B. Dispute Resolution and Subsequent Review

1. Executive Slice Facilitation Process

a. Condition To Arbitration or other Form of Dispute Resolution

As a condition to, and prior to initiating, any permissible dispute resolution regarding a True-Up Matter arising for Contract Year 2006 and after, the Slice Customers shall first utilize a sixty (60) day discussion period to conduct the Executive Slice Facilitation Process (ESFP) to attempt to resolve the matter. No such matter can be raised in dispute resolution that has not been subjected to the ESFP, unless otherwise agreed to in writing by BPA’s Chief Slice Representative (BSR) and the Slice customers’ Chief Slice Representative (CSR). In no case can such matter be raised in dispute resolution, whether judicial or non-judicial review, other than by way of the arbitration process or a petition for review by the United States Court of Appeals for the Ninth Circuit (“Ninth Circuit”), each as provided for in this Dispute Resolution Agreement. Arbitration of a True-Up Matter conducted pursuant to this Dispute Resolution Agreement is nonbinding, except as provided for in Section B.2.d.(2).

b. Conduct of ESFP

(1) Representatives to the ESFP shall include (i) for BPA: the BPA Chief Financial Officer, General Counsel, Power Business Line VP or Senior VP, and the Slice Manager, or any of

their designees, who shall designate a BSR; and (ii) for Slice customers: any Chief Financial Officers, Assistant General Managers or Deputy Superintendents, legal counsel, designated utility staff and any interested Slice CEOs, or any of their designees, who shall collectively designate a standing CSR for the process.

(2) The ESFP consideration period for the above-referenced representatives' meetings shall be thirty (30) days, and shall commence upon the first day of the sixty (60)-day period for issue resolution under Slice Contract section 4(b)(6)(D)(v), following issuance of the audit firm's final audit report. In the case where the Slice Representative has notified BPA that the Slice Customers waive their right to conduct an audit for the contract year, the thirty (30) days shall commence upon the 1st day after BPA's receipt of the notification. The ESFP may be longer or shorter if the BSR and CSR agree in writing.

(3) The representatives shall meet in Portland, and consult in good faith in an effort to resolve any True-Up Matter. In preparation for the ESFP meetings, the BSR and CSR shall encourage BPA and Slice Customer staff to meet and identify issues that remain outstanding.

(4) In the event the representatives' ESFP efforts are unsuccessful, the CSR may request on behalf of the Slice Customers, and the Administrator shall agree, to meet on the unresolved True-Up Matters within the time remaining in the sixty (60)-day ESFP period or, if less than ten (10) business days remain in it, within the next ten (10) business days unless the BSR and CSR agree upon a different time. At the conclusion of the process, the Administrator and the Slice Customers shall issue an agreed-upon joint statement that lists the resolved and unresolved True-Up Matters ("Joint Statement"). If, at the conclusion of that process, there are no unresolved True-Up Matters, the Administrator shall issue a final decision reflecting the agreed-upon resolutions of the True-Up Matters, and BPA and each of the Slice Customers agrees to be bound by the resolution of such True-Up Matters resulting from the ESFP process conducted pursuant to this section as agreed to by the Slice Customers, unless BPA's decision is reversed on appeal by a third party to the Ninth Circuit. If unresolved True-Up Matters remain in dispute at the conclusion of the process, then the Administrator shall issue a draft report on the unresolved and any resolved True-Up Matters as set forth on the Joint Statement within ten (10) business days, setting forth the Administrator's rationale for the resolutions of the resolved True-Up Matters and for the Administrator's proposed resolution of the unresolved True-Up Matters. The Administrator shall not issue a final decision until the period for initiating arbitration has expired. The Slice Customers shall not be bound by, or in any way deemed to have agreed to, the Administrator's rationales set forth in the draft report. If arbitration is not initiated by the CSR within the time permitted for such action under this Dispute Resolution Agreement, the Administrator will issue a final decision that adopts the draft report as final. If arbitration is initiated by the CSR within the time permitted for such action under this Dispute Resolution Agreement, then the Administrator will not issue a final decision until the conclusion of the arbitration process as specified in Section B.2.d.(1) below, and the dispute resolution process outlined in Section B.2 below shall apply.

(5) At any time prior to or during the ESFP, the Slice Customers may submit to the Administrator such publicly available documents as they consider appropriate to demonstrate that True-Up Matters are contract matters rather than matters of rate establishment or implementation. In the event of an appeal to the Ninth Circuit pursuant to this Dispute Resolution Agreement, the Slice Customers' submissions shall be included by the Administrator in the administrative record filed with the Ninth Circuit.

2. Arbitration

a. Condition To Petition for Review

In the event the Slice Customers elect to seek arbitration of any unresolved True-Up Matter (hereafter referred to as a “Disputed True-Up Matter”), they must initiate arbitration by notifying the Parties in writing of their election within thirty (30) days of the Administrator’s issuance of the draft report pursuant to Section B.1.b.(4) above. As a condition to, and prior to, filing a petition for review to the Ninth Circuit regarding any True-Up Matter, the Slice customers shall engage first in, and the Administrator agrees to engage first in, arbitration as described herein. However, if the CSR notifies the Administrator that the Slice Customers waive their right to arbitration, the Administrator shall issue a final decision, which may then be timely appealed to the Ninth Circuit.

b. Scope of Arbitration

The scope of arbitration shall be confined to a determination whether each Disputed True-Up Matter is consistent with the Slice Rate or Slice Rate Methodology or, if there is a clear and material conflict in the way a True-Up Matter is specifically dealt with between the language of the Slice Rate or the Slice Rate Methodology and the language of the Slice Contract, or if a True-Up Matter is not explicitly dealt with by the language of the Slice Rate or the Slice Rate Methodology but is explicitly dealt with by the language of the Slice Contract, then with the Slice Contract. In those instances where the dispute concerns consistency with the Slice Rate or Slice Rate Methodology, the agency administrative record developed pursuant to Section 7(i) of the Pacific Northwest Electric Power Planning and Conservation Act in connection with establishment of the Slice Rate or Slice Rate Methodology may be looked to for evidence relevant to consistency, and no party may introduce and the arbitrator shall not consider any evidence of contract negotiations to show contractual intent with respect to the True-Up Matter. However, in those instances where the dispute concerns consistency with the Slice Contract, any party may also introduce and the arbitrator may consider evidence relevant to show contractual intent with respect to the True-Up Matter.

c. Conduct of Arbitration

(1) If the CSR notifies the Administrator that it is initiating arbitration of a Disputed True-Up Matter(s), such arbitration will be conducted in accordance with the procedures, and will be subject to the limitations, set out in sections 14(c) and (e) of the Slice Contract, unless the BSR and CSR agree otherwise. In any case, the arbitrator shall have experience in or demonstrated familiarity with finance or accounting matters, contract law, and administrative law. In addition, in the event of a conflict between any provision of this Dispute Resolution Agreement and any provision of the International Institute for Conflict Prevention and Resolution’s Rules for Non-Administered Arbitration (formerly known as the CPR Institute for Dispute Resolution’s arbitration procedures for commercial arbitration, Non-Administered Arbitration Rules), the provisions of this Dispute Resolution Agreement shall be controlling.

(2) BPA preference customers shall be allowed to intervene and participate in arbitrations initiated pursuant to this Dispute Resolution Agreement. Other customers may be allowed to intervene and participate in the arbitration if they demonstrate and the arbitrator determines that such

customers have standing. Any BPA customer (or group of BPA customers) that has intervened in the arbitration will bear its own costs of the arbitration.

(3) Except for arbitration awards which declare the rights and duties of the Parties, the payment of monies shall be the exclusive remedy available in any arbitration proceeding under this Dispute Resolution Agreement. Under no circumstances shall the arbitrator appointed under this Dispute Resolution Agreement issue an award granting specific performance against BPA or the Slice Customers, and specific performance shall not be an available remedy against BPA or the Slice Customers.

d. Effect of Arbitration Award

(1) Within fifteen (15) calendar days of issuance of the arbitrators' decision and award concerning the Disputed True-Up Matter(s), the Administrator shall issue and provide to the Slice Customers (and any other parties to the arbitration) a final, written decision that (i) decides the Disputed True-Up Matter(s) and explains why he accepts or rejects the arbitrator's decision and award on each of the Disputed True-Up Matters, and (ii) makes final without change the disposition in the draft report of the resolved True-Up Matters. In the event that the Administrator's decision accepts the arbitrators' decision and award on a Disputed True-Up Matter, then the Slice Customers and any other party to the arbitration shall be bound by the Administrator's decision on that Disputed True-Up Matter and may seek no judicial review or any relief concerning the decision on that Disputed True-Up Matter, except that any party may seek review of the arbitration upon any of the grounds referred to in the Federal Arbitration Act, 9 U.S.C. §§ 1-16 (1988).

In the event the Administrator rejects the arbitrators' decision and award on any Disputed True-Up Matter, any party may timely file a petition for review of the Administrator's final decision on that Disputed True-Up Matter to the Ninth Circuit. Nothing in this Dispute Resolution Agreement precludes any non-Slice customer that participates in the arbitration from filing a timely petition for review to the Ninth Circuit of the Administrator's final decision on the resolved True-Up Matters.

The administrative record submitted by BPA to the Ninth Circuit shall include, but not be limited to, the Slice Contract, the final audit report, the record of the arbitration, the arbitrator's decision and award, the Administrator's final decision, and the evidence provided to the Administrator pursuant to Section B.1.b.(5) above. In the event of such an appeal, nothing in this Dispute Resolution Agreement shall be interpreted to prohibit or impose any limit on the ability of any party to argue on any basis it deems appropriate that the Ninth Circuit has or lacks jurisdiction to hear the matter in controversy, and no Party shall argue to the contrary in any forum. The Parties agree not to cite this Dispute Resolution Agreement, or any actions taken or not taken pursuant to this Dispute Resolution Agreement, as evidence that the True-Up Matters are or are not rate or contract matters for purposes of determining whether the Ninth Circuit has or lacks jurisdiction to hear the matter in controversy.

(2) In the event any party seeks a petition for review pursuant to Section B.2.d.(1) above and the Ninth Circuit rules that the True-Up Matter (or Matters) in dispute is a matter that is not subject to its exclusive jurisdiction, then unless the Ninth Circuit's ruling is reversed on appeal, BPA, the Slice customers and any third parties that participated in the arbitration shall treat the decision of the arbitrator on that True-Up Matter in arbitration as binding arbitration, with the

consequence that the arbitrator's decision and award will be binding on all of the parties, provided however that any party may seek judicial review of the arbitration based upon any of the grounds referred to in the Federal Arbitration Act, 9 U.S.C. §§ 1-16 (1988).

C. Availability of Binding Arbitration For Issues Not Covered by This Dispute Resolution Agreement

Binding arbitration shall continue to be available in accordance with section 14 of the Slice Contract to resolve disputes over any matter that is not a True-Up Matter and that is otherwise subject to arbitration under the Slice Contract.

D. Miscellaneous

1. The interpretation of any provision of this Dispute Resolution Agreement, other than Section B.2.c.(1), is not subject to arbitration, whether under this Dispute Resolution Agreement or section 14 of the Slice Contract.

2. The implementation of the terms of this Dispute Resolution Agreement and the pursuit of any remedy under this Dispute Resolution Agreement by BPA or a Slice Customer shall not be a breach of any terms or condition of the Slice Contract. Nothing in this Dispute Resolution Agreement shall constitute a precedent for any future agreement between BPA and the Slice Customers or other Party.

3. If one or more of the Slice Customers initiates arbitration of any Disputed True-Up Matter(s) pursuant to Section B.2 of this Dispute Resolution Agreement, then all Disputed True-Up Matters for the Contract Year during which the Disputed True-Up Matter(s) arose shall be resolved in a single arbitration process pursuant to this Dispute Resolution Agreement and no Slice Customer or any other party to the arbitration may file a petition for review of any such Disputed True-Up Matter(s) during the pendency of the arbitration.

E. Definitions

For purposes of this section to the Dispute Resolution Agreement, the following definitions will apply:

1. **“Northwest Requirements Utilities”** means Northwest Requirements Utilities, an Oregon non-profit corporation, and each of the following utilities in its individual capacity: Ashland, City of, Benton REA, Big Bend Electric Co-Operative, Inc., Bonners Ferry, City of, Burley, City of, Cascade Locks, City of, Central Lincoln PUD, Cheney, City of, Columbia Basin Electric Co-op, Columbia Power Cooperative, Columbia REA, Columbia River PUD, East End Mutual Electric Co., LTD., Ferry County PUD #1, Flathead Electric Cooperative, Forest Grove, City of, Glacier Electric Cooperative, Inc., Harney Electric Cooperative, Hermiston Energy Services, Hood River Electric Co-op, Idaho County Light & Power, Inland Power & Light, Klickitat County PUD, Kootenai Electric Cooperative, Inc., Lincoln Electric Cooperative, Inc., Lower Valley Energy, McMinnville Water & Light, Midstate Electric Cooperative, Mission Valley Power, Missoula Electric Coop, Modern Electric Water Company, Monmouth, City of, Nespelem

Valley Cooperative, Northern Wasco County PUD, Orcas Power & Light Cooperative, Oregon Trail Electric Co-op, Peninsula Light Co., Ravalli County Electric Cooperative, Richland, City of, Rupert, City of, Salem Electric, Skamania County PUD, Springfield Utility Board, Surprise Valley Electrification Corp., Tanner Electric Cooperative, Tillamook PUD, United Electric Cooperative, Vera Water & Power, Vigilante Electric Cooperative, Inc., Wasco Electric Cooperative, and Wells Rural Electric.

2. **“Parties”** means the Bonneville Power Administration (BPA), each customer that is a party to a Block and Slice Power Sales Agreement or Slice Power Sales Agreement, and the Northwest Requirements Utilities.

3. **“Slice Contract”** means each of those contracts denominated as a “Block and Slice Power Sales Agreement” executed by BPA and certain of its customers, and effective continuing through September 30, 2011, unless terminated earlier pursuant to specified sections of the Slice Contract. The Slice Contracts are identified by BPA’s contract numbers as follows:

BLOCK AND SLICE CONTRACT NUMBERS

Customer	Block/Slice Number	Contract
Benton Co PUD	00PB-12180	
Blachly-Lane Elec Coop	00PB-10723	
Central Electric Coop	00PB-12142	
Clatskanie PUD	01PB-12220	
Clearwater Power Company	01PB-12210	
Consumers Power	00PB-10724	
Coos-Curry Elec Coop	00PB-12112	
Douglas Elec Coop	00PB-10725	
EWEB	00PB-12041	
Fall River Rural Elec Coop	00PB-12183	
Franklin Co PUD	00PB-12150	
Grays Harbor Co PUD	00PB-12079	
Idaho Falls Power	00PB-12173	
Lane Electric Coop	00PB-10726	
Lost River Elec Coop	00PB-12182	
Northern Lights	00PB-12144	
Okanogan Co Elec Coop	00PB-12148	
Okanogan Co PUD	00PB-12145	
Pend Oreille Co PUD	00PB-12174	
PNGC	01PB-11026	
Raft River Rural Elec Coop	00PB-12143	
Salmon River Elec Coop	00PB-12181	

Seattle City Light	00PB-12176
Snohomish Co PUD	00PB-12177
Umatilla Elec Coop	00PB-12207
West Oregon Elec Coop	00PB-12122

4. **“Slice Customers”** means each of the following utilities in its individual capacity: Public Utility District No. 1 of Benton County, Washington; Eugene Water & Electric Board; City of Idaho Falls, Idaho, Electric Division; City of Seattle, Washington, City Light Department; Clatskanie People’s Utility District; Public Utility District No. 1 of Franklin County, Washington; Public Utility District No. 1 of Grays Harbor County, Washington; Public Utility District No. 1 of Okanogan County, Washington; Pacific Northwest Generating Cooperative; Blachly-Lane County Cooperative Electric Association; Central Electric Cooperative, Inc.; Clearwater Power Company; Consumers Power, Inc.; Coos-Curry Electric Cooperative, Inc.; Douglas Electric Cooperative; Fall River Rural Electric Cooperative, Inc.; Lane Electric Cooperative; Lost River Electric Cooperative, Inc.; Northern Lights, Inc.; Okanogan County Electric Cooperative, Inc.; Raft River Rural Electric Cooperative, Inc.; Salmon River Electric Cooperative, Inc.; Umatilla Electric Cooperative Association; West Oregon Electric Cooperative, Inc.; Public Utility District No. 1 of Pend Oreille County, Washington; and, Public Utility District No. 1 of Snohomish County, Washington.

5. **“Slice Rate”** means the Slice Rate of the Schedule PF-02 Priority Firm Power Rate as finally approved by the Federal Energy Regulatory Commission on July 21, 2003, *U.S. Department of Energy - Bonneville Power Administration*, 104 FERC ¶ 61,093 (2003) (reproduced at DOE/BP-3576 (May 2004)), and as thereafter amended or established by BPA and subsequently approved, either on an interim or final basis, by the Federal Energy Regulatory Commission.

6. **“Slice Rate Methodology”** means the Slice Rate Methodology as finally approved by the Federal Energy Regulatory Commission on July 21, 2003, *U.S. Department of Energy - Bonneville Power Administration*, 104 FERC ¶ 61,093 (2003) (reproduced at DOE/BP-3576, Appendix A (May 2004)), and as thereafter amended or established by BPA and subsequently approved, either on an interim or final basis, by the Federal Energy Regulatory Commission. This definition does not constitute agreement that BPA may or may not change the Slice Rate Methodology and the Parties waive no position or arguments they may have that BPA may or may not change the Slice Rate Methodology before October 1, 2011.

7. **“True-Up Matter”** means any matter that arises from or out of an Annual Slice True-Up Adjustment or Annual True-Up Adjustment for Actual Costs to determine a Slice True-Up Adjustment Charge or a True-Up Adjustment Charge, including any matter properly contained in a final audit report, but excluding any matter that is excluded from audit pursuant to section 4(b)(6)(D)(iv) of the Slice Contract or is a policy or Federal Operating Decision not subject to arbitration pursuant to section 14(a) of the Slice Contract.