

Annual Wheeling Charge Determination

This Exhibit shows the calculation of the Annual Wheeling Charge based on FERC account balances from Tacoma Power's December 2017 Financial Statements

1	Transfer Facility Investment (from Exhibit B, page2)	12,483,928.32	
2	Transfer Facility Loading (KW):	630,000	kW
	Mossyrock	378,000	
	Mayfield	182,000	
	Cowlitz Falls	70,000	
		630,000	
3	Transfer Facility Investment Ratio	19.82	/kW
4	Annual Fixed Cost Ratio	6.63%	
5	Annual Variable Cost Ratio		
	Operations and Maintenance Costs	4.05%	
	Admin & General Costs	1.55%	
	General Plant Depreciation Expenses	0.37%	
	General Plant Interest Costs	0.10%	
		6.07%	
6	Annual Cost Ratio (sum of #4 and #5)		12.70%
7	Transfer Facility Wheeling Demand		70,000
8	Annual Wheeling Charge (before taxes) (#3 x #6 x #7)		176,189.41
9	Tax Recovery @	12.832942%	
	City Gross Earnings Tax	7.50%	
	Washington State Utility Tax	3.8734%	
10	Annual Wheeling Charge (including taxes)		198,799.69

Investment in Transfer Facilities

Balances as of 12/31/17

Acct.	Description	Investment
Land and Land Rights		
350.14	Hydro Project Lines, Mayfield-Mossyrock 230KV	625,569.17
Structures and Improvements		
352.15	Mayfield	1,686,606.52
352.16	Mossyrock	1,432,075.73
Station Equipment		
353.15	Mayfield	4,104,608.75
353.16	Mossyrock	13,390,380.23
Towers and Fixtures		
354.124	Mayfield-Mossyrock Tie (Single)	397,622.84
354.125	Mayfield-Mossyrock Tie (Double)	624,594.28
Overhead Conductors & Devices		
356.124	Mayfield-Mossyrock Tie (Single)	405,905.55
Roads and Trails		
359.125	Mayfield-Mossyrock Tie (Double)	12,245.58
		22,679,608.65
Less Sole City-Use Facilities		
	Mayfield	(426,816.00)
	Mossyrock	(9,768,864.33)
Plus facilities installed by the district		
	Net investment	12,483,928.32

TRANSMISSION SERVICE AGREEMENT.
BETWEEN THE CITY OF TACOMA AND
PUBLIC UTILITY DISTRICT NO. 1 OF LEWIS COUNTY, WASHINGTON

This Agreement, executed on the 16th day of
December, 1993, by the City of Tacoma ("City") and the
Public Utility District No. 1 of Lewis County, Washington
("District"), municipal corporations of the State of Washington,
sometimes hereafter referred to collectively as "Parties" or
individually as a "Party",

WITNESSETH:

Whereas, the District holds a license from the Federal
Energy Regulatory Commission ("FERC") to construct and operate a
hydroelectric generating facility on the Cowlitz River in Lewis
County, Washington, commonly known as the Cowlitz Falls Project;
and

Whereas, under the terms of a contract between District and
the Bonneville Power Administration ("Bonneville") for the sale
and purchase of the electric power from the Project, the District
commenced construction of the Project in June, 1991 and expects
commercial operation by December, 1993; and

Whereas, upon completion of the construction and
commencement of commercial operation of the Project, Bonneville
will have the right under said contract to receive all electric
power generated by the Project, less station service and
transmission losses; and

Whereas, the City currently holds a FERC license for the Cowlitz Project, under which it operates two hydroelectric generating facilities which are downstream from the site of the Project, commonly known as Mossyrock and Mayfield; and

Whereas, the Parties are executing an Interconnection Agreement under which the Project will be connected with the City's switchyard located at the Mossyrock Project; and

Whereas, the Parties desire to establish the terms and conditions for the third party wheeling arrangement in which the City provides the District with transmission services to allow the District to transfer Project power for Bonneville across the City's facilities to Bonneville's 230 KV transmission system; and

Whereas, the Parties desire to establish terms and conditions for the wheeling arrangement in which the City provides the District with transmission services to allow transfer of Project power if owned by the District across the City's facilities to Bonneville's 230 KV transmission system;

Now, therefore, the Parties agree as follows:

Section 1. Definitions.

Whenever used in this Agreement with initial letters capitalized, the following terms shall have the following meanings:

1.1 "Accepted Utility Practice" means, at any particular time, the generally accepted practices, methods, and acts in the electrical utility industry existing prior to the

subject action or the practices, methods or acts, which, in the exercise of reasonable judgment in the light of the facts known at the time the decision was made, could have been expected to accomplish the desired result consistent with reliability and safety.

1.2 "Annual Wheeling Charge" means the charge to be paid by the District to the City for transfer services, the methodology of which is set forth on Exhibit A, and the calculation of which is set forth in Exhibit B.

1.3 "Cowlitz Project" means the Mayfield hydroelectric generating project and appurtenant facilities and the Mossyrock hydroelectric generating project and appurtenant facilities, both located on the Cowlitz River in Lewis County, Washington, and operated by the City pursuant to FERC License No. 2016.

1.4 "Operating Year" means any consecutive twelve (12) month period during the Term which commences at 2400 hours, July 31 and ends at 2400 hours the following July 31.

1.5 "Point of Interconnection" means the point where the District's 230 KV facilities connect with the City's 230 KV facilities at or near the City's Mossyrock Switchyard.

1.6 "Project" means the Cowlitz Falls Hydroelectric Project located on the Cowlitz River in Lewis County, Washington, and to be constructed and operated by the District pursuant to FERC License No. 2833.

1.7 "Project Operating Date" means the date when construction of the Project is substantially completed, and the Project is ready to commence operational testing..

1.8 "Transfer Facilities" means those transmission facilities owned by the City that are used to transfer electric power produced by the Project from the Point of Interconnection to the Bonneville 230 KV Chehalis transmission line, which facilities are set forth on Exhibit B.

1.9 "Transfer Facility Demand" means the sum of nameplate generating capacities for projects transferred over Transfer Facilities.

1.10 "Uncontrollable Force" means an act or event beyond the reasonable control of a Party, and which by exercise of due diligence and foresight such Party could not reasonably have been expected to avoid or remove, which impairs the ability of the Party to perform, and includes, but is not limited to, failure of or threat of failure of facilities, flood, earthquake, storm, accident, fire, lightning and other natural catastrophes, epidemic, war, labor or material shortage, strike or labor dispute, or sabotage, and also includes restraint by an order of a court of competent jurisdiction or by regulatory authorities against any action taken or not taken by a Party, after a good faith effort by the appropriate Party to obtain: (i) relief from such order; or (ii) any necessary authorizations or approvals from any governmental agency or regulatory authority.

1.11 "Wheeling Demand" means the nameplate capacity of the Project.

Section 2. Term.

2.1 After this Agreement has been executed by both Parties, it shall take effect one day prior to the Project Operating Date.

2.2 The District shall notify the City in writing as soon as practicable after execution of this Agreement of the proposed Project Operating Date.

2.3 This Agreement will expire on the earlier of:

2.3.1 The expiration date of FERC License No. 2016, and any renewal or extension thereof;
or

2.3.2 The expiration date of FERC License No. 2833, and any renewal or extension thereof.

2.4 Prior the expiration of this Agreement, if the District has applied for or been granted the authority to operate and maintain the Project beyond the expiration date of this Agreement, the Parties shall negotiate in good faith a new Agreement for the provision of transmission services with similar terms and conditions.

2.5 Any obligations incurred pursuant to this Agreement shall continue until satisfied.

Section 3. Transfer Service

3.1 During the Term, the District will deliver to the City at the Point of Interconnection the entire amount of electric power generated by the Project, less transmission losses and amounts used for station service.

3.2 During the Term, the City will accept the electric power generated at the Project and delivered to it by the District at the Point of Interconnection, and transfer the electric power so delivered, over the Transfer Facilities to Bonneville's 230 KV Chehalis transmission lines, except for periods when generation reduction is in effect pursuant to Section 9.

Section 4. Transmission Losses.

4.1 The City shall be compensated for transmission losses resulting from transfer of Project power across the City's transmission facilities. Losses shall be calculated as the amount of power equal to the product obtained by multiplying the Annual Loss Factor as calculated in Exhibit C, by the amount of Project output, measured at the Project and reduced by station service and transmission losses incurred from transferring Project power across the District's transmission system.

4.2 Losses shall be returned to the City, at its option, by one of the following two methods.

4.2.1 The amount of Project power transferred across the City's transmission facilities

will be reduced by the amount of losses -- calculated pursuant to paragraph 4.1, prior to delivery to Bonneville.

4.2.2 The City and the District will make arrangements with the District's power purchaser, Bonneville, for Bonneville to return losses, calculated pursuant to paragraph 4.1 above, to the City's Cowlitz Substation at the corresponding hour 168 hours later, or at another hour mutually agreed upon.

Section 5. Charge for Transfer Service.

5.1 The District will pay the City the Annual Wheeling Charge calculated pursuant to Exhibits A and B, each Operating Year during the Term that electric power is delivered to the City by the District at the Point of Interconnection and transferred by the City over the Transfer Facilities to the Bonneville 230 KV transmission line.

5.2 The Annual Wheeling Charge shall be paid pursuant to Section 10.

Section 6. Calculation of Annual Wheeling Charge and Termination Right.

6.1 The Annual Wheeling Charge shall be established pursuant to the methodology set forth on Exhibit A, and shall be calculated as set forth on Exhibit B.

6.2 No later than April 15 of the Operating Year in which an Annual Wheeling Charge will expire, or on or before any April 15 during the three year effective period of an Annual Wheeling Charge, the City may propose revisions to the Annual Wheeling Charge Calculation by providing the District revised Exhibit B, and the documentation used by the City to calculate the revised Exhibit B.

6.3 The District shall have forty-five days to review the information provided pursuant to paragraph 6.2. As a result of such review, and if agreed to by the Parties, Exhibit B will be amended as necessary to reflect the revisions agreed to by the Parties, effective on the first day of the next Operating Year.

6.4 Should the Parties be unable to agree on revised Exhibit B within the forty-five day period set forth on paragraph 6.3, then either Party may seek resolution pursuant to Section 11 of this Agreement. The revised Exhibit B shall take effect on the first day of the next Operating Year, subject to subsequent modification pursuant to the arbitration decision.

6.5 Exhibit B shall remain in effect for three consecutive Operating Years, unless revision is sought pursuant to paragraph 6.2.

6.6 No more frequently than every sixth Operating Year during the Term, the City may review the methodology for the Annual Wheeling Charge, as set forth on Exhibit A, to determine if changes in generally accepted practice for transmission

pricing, accounting or calculation methodology) warrant.

modification of the methodology set forth on Exhibit A.

6.7 Should the City conclude, pursuant to paragraph 6.6, that changes in generally accepted practices for transmission pricing, accounting or calculation methodology warrant revision of the Annual Wheeling Charge methodology set forth on Exhibit A, then in that event the City shall provide to the District, on or before April 15 of the Operating Year in which such determination was made, revised Exhibits A and B, setting forth the revised methodology for the Annual Wheeling Charge, and the calculation of the Annual Wheeling Charge. The revised Exhibits A and B will take effect on the first day of the next Operating Year. The revised Exhibit A will remain in effect for the next six Operating Years, and Exhibit B will remain in effect for the next three Operating Years, unless revised pursuant to paragraphs 6.2 and 6.3.

6.8 Should the District receive from the City revised Exhibits A and B pursuant to paragraph 6.7, then in that event the District may elect to terminate this Agreement by providing to the City written notice of its election to terminate, stating an effective date of such termination, on or after the later of: (i) the first day of the second Operating Year after the Operating Year in which the District received the revised Exhibits A and B pursuant to paragraph 6.7; or (ii) if either Party has submitted the Exhibits A and B prepared pursuant to

paragraph 6.7 to dispute resolution pursuant to Section 11, then the first day of the second Operating Year after the Operating Year in which the decision of the arbitrator resolving such dispute is rendered.

6.9 The City shall have the right to revise Exhibits A and B, in accordance with this Section 6, prior to the effective date of any notice of termination issued by the District pursuant to paragraph 6.8.

Section 7. Scheduling Deliveries.

7.1 No later than January 1 of each Operating Year during the Term, the District will provide the City with a projection of the hourly amounts of energy and capacity to be delivered by the District to the City at the Point of Interconnection during the next Operating Year, based upon one representative day for each month of the next Operating Year.

7.2 At any time during the Operating Year, should the District expect that actual deliveries of capacity and energy will substantially exceed the projected deliveries, the District shall notify the City of such divergencies as soon as practicable.

Section 8. Maintenance Schedules.

8.1 No later than January 1 of each Operating Year during the Term, the District will provide the City with a schedule of the planned maintenance outages for the Project for the next Operating Year.

8.2 Should the schedule of planned maintenance outages change during the Operating Year or should the Project experience forced outages for maintenance, the District will notify the City of such changes and outages as soon as practicable.

8.3 The Parties will make a good faith effort to schedule maintenance outages for the Project, and on the City's transmission facilities located in Lewis County, in a manner which minimizes adverse impacts on both Parties' systems.

Section 9. Loss of Transmission Line Capacity

9.1 When Bonneville Is Acquiring Project Output.

9.1.1 Under normal conditions, the City's transmission facilities between the Mossyrock Project, the Mayfield Project and the Bonneville 230 KV Chehalis lines have sufficient additional capability to also transfer the electrical power generated at the Project and delivered at the Point of Interconnection.

9.1.2 Should one of the Bonneville 230 KV transmission lines which link the City's facilities to the Bonneville Chehalis Substation go out of service, or certain portions of the City's transmission facilities fail, the remaining transmission facilities may be incapable of carrying the combined output of the Project, the Mossyrock Project, and the Mayfield Project. Bonneville recognizes that this is a problem and is planning to upgrade its

facilities by 1998 to provide single-line out transfer capability for the combined output of all four projects.

9.1.3 Should failure of Bonneville's or the City's transmission facilities result in reduced transmission capacity, the City will make best efforts to protect the transmission system and equipment. The City will as soon as practicable notify the District of transmission capacity available for transfer of Project power. If necessary, the District will immediately reduce generation to the specified available transfer capacity. As soon as the transmission system is back to normal operation, the City will notify the District.

9.1.4 Failure of the Bonneville 230 KV Chehalis lines or failure of the City's transmission facilities may result in the inability of the City to transfer all or a part of Project generation. The City shall not be liable for any damages, loss of generation, or spilling of water at the Project due to said inability of the City to transfer Project power.

9.2 When Project Output Serving District Load.

9.2.1 If the Bonneville 230 KV lines which link the City's facilities to the Chehalis substation have not been upgraded to carry the combined output of the Project and the Cowlitz Project by the time Project Output is dedicated to serving District load, then in that event the

Parties will make a good faith effort to negotiate a mutually acceptable generation reduction agreement.

Section 10. Billing and Payment.

10.1 For the transfer service provided by the City, the District shall pay the City each month during each Operating Year during the Term one-twelfth (1/12) of the Annual Wheeling Charge established pursuant to Section 5 for that Operating Year. Payment shall be due to the City not later than the fifteenth (15th) day of each month during the Term.

10.2 Payments not received when due shall bear an additional charge, commencing ten (10) days after the payment due date, of one-twentieth percent (0.05%) of the amount remaining unpaid, which additional charge shall be added on each succeeding day until the entire amount, including the additional charge, is paid in full.

10.3 Failure to receive any statement shall not release a Party from liability for payment.

10.4 Payments due for amounts payable under this Agreement shall be made either by check or by electronic funds transfer to a financial institution designated by each of the Parties.

10.5 In the event that a Party disputes a statement, the Party disputing the statement shall pay the statement under protest. The Parties shall in good faith attempt to resolve such dispute by consultation. Any subsequent adjustment to such

statement resulting from consultation by the Parties or arbitration shall include interest from the date payment was made. The Parties may challenge statements and seek adjustments anytime within three (3) years after the date the statement is issued, and shall thereafter be foreclosed from seeking adjustment.

10.6 In the event that a Party submits for dispute resolution, pursuant to Section 11, any Exhibit A and/or B revised pursuant to Section 6, and payment has been made by the District pursuant to such revised Exhibit A and/or B, and the final decision of the arbitrator modifies such revised Exhibit A and/or B; then in that event an adjustment shall be made to the payments made by the District to reflect the arbitrator's decision.

Section 11. Resolution of Disputes.

11.1 The Parties shall make a good faith effort to implement this Agreement in a manner which is acceptable to both Parties. If the Parties should disagree over any matter arising out of this Agreement, the Parties shall endeavor to resolve such disagreement through informal consultation.

11.2 The Parties agree to submit to binding arbitration all issues, disputes and controversies arising out of this Agreement which cannot be otherwise resolved by consultations between the Parties.

11.3 All arbitration proceedings under this Agreement shall be conducted as follows:

11.3.1 The Party which believes that agreement by the Parties on any issue, dispute or controversy regarding this Agreement is unlikely; may invoke binding arbitration by sending written notification to the other Party stating that it is invoking binding arbitration, and stating the issues to be resolved.

11.3.2 The Party receiving notice of arbitration shall have ten (10) days from the receipt of the notice of arbitration to notify in writing the Party invoking arbitration of any additional issues that remain unsolved and warrant arbitration.

11.3.3 The Parties shall have fifteen (15) days from the date the notice of arbitration is mailed to mutually agree upon an arbitrator.

11.3.4 If the Parties are unable to mutually agree on an arbitrator, then no later than twenty-five (25) days after the date of notice of arbitration, each Party shall by written notification to the other Party designate a representative.

11.3.5 No later than thirty-five (35) days after the date of notice of arbitration, the Parties' representatives shall send to the Parties written notice

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stating the arbitrator the representatives) have mutually selected to conduct the proceeding.

11.3.6 If the Parties' representatives are unable to mutually agree on an arbitrator, either Party may petition the Chief Judge of the U. S. District Court for the Western District of Washington to appoint an arbitrator.

11.3.7 No later than twenty (20) days after the appointment of the arbitrator, however appointed, each Party shall submit to the arbitrator in writing the proposal it recommends to resolve each of the issues that are the subject of the arbitration. These written proposals shall be accompanied by a written submittal, not exceeding fifty pages (not including exhibits) stating the rationale for the Party's proposed resolution. If requested, the arbitrator may permit the submittals to exceed fifty pages for good cause shown.

11.3.8 The arbitrator shall decide the issues subject to arbitration based on the written submittals only, unless the arbitrator decides that a hearing to receive oral testimony is necessary.

11.3.9 The conduct of any hearing to receive oral testimony is left to the sole discretion of the arbitrator, subject to the right of both Parties to have representatives present at any hearing.

11.3.10 No later than thirty (30) days after the written submittals by the Parties, the arbitrator shall issue a written opinion deciding each of the issues submitted for arbitration. In deciding each issue, the arbitrator shall select one of the two proposed resolutions submitted by the Parties on each issue, and shall have no authority to fashion any alternative proposal or resolution.

11.4 The arbitrator selected or appointed under this paragraph 11 shall be an individual having demonstrated expertise in the subject matter being arbitrated.

11.5 When resolving issues submitted for arbitration, the arbitrator shall choose the proposed resolution for any disputed issue which most completely conforms with Prudent Utility Practice and the provisions of this Agreement.

Section 12. Environmental Provision.

12.1 When the Project Is Serving Other Than District Load

12.1.1 During any period during the Term when Bonneville has a contractual right to receive the power and energy generated by the Project, to the extent the District has control over the operation of the Project;

12.1.1.2 The District shall have a continuing obligation throughout the term of this Agreement to comply fully with all applicable licenses, permits, laws and regulations.

12.1.1.3 If required by applicable licenses, permits, laws and regulations to keep records, the District shall maintain records and upon the City's request, shall provide to the City copies of such records to determine if the Project is being operated in compliance with environmental requirements of such licenses, permits, laws and regulations.

12.1.1.4 The District shall provide to the City or its contractors, at reasonable times and upon reasonable notice, access to the Project lands and facilities to evaluate environmental conditions and operating practices.

12.1.2 A breach of this General Environmental Provision exists only if a final determination including all appeals has been entered by a court, the Federal Energy Regulatory Commission, a fish and wildlife agency, a pollution control agency, Indian tribe, or other agency having jurisdiction over any Project facility that such facility is not in compliance with applicable laws, regulations, permits or licenses respecting the control abatement and mitigation of environmental impact.

12.1.3 The City, after consulting with the appropriate jurisdictional authority described in paragraph 12.1.2 above, may restrict, suspend, and/or terminate

transmission service otherwise provided for the noncompliant Project pursuant to this contract if the City determines that:

12.1.3.1 a breach of this Environmental Provision exists based upon a determination made as described in paragraph 12.1:2 above;

12.1.3.2 such breach will continue to result in a significant adverse effect on the environment; and

12.1.3.3 restriction, suspension or termination of delivery is an appropriate remedy for the environmental harm.

12.1.4 Before restricting, suspending and/or terminating transmission services pursuant to this section, the City shall give the District and Bonneville written notice and a reasonable opportunity to cure the breach by taking appropriate mitigative action.

12.1.5 In the event that service is interrupted pursuant to these Environmental Provisions, the City has no obligation to compensate or mitigate any loss to any other Party resulting from such interruption of service.

12.1.6 These Environmental Provisions are for the sole benefit of the Parties. No Party intends to create any legal right whatsoever on behalf of a third party who is not a signatory to this Agreement. No third party shall be entitled to maintain any cause of action based upon the

above provisions against any Party. The City's determinations, actions or enforcements of the above provisions shall be solely at the City's discretion.

12.2 When the Project Is Serving District Load

12.2.1 The Parties agree that they have a mutual interest in ensuring that any actions or activities with respect to the Cowlitz Project and the Project to protect or enhance the environment are done in a coordinated manner to ensure the effectiveness of such activities or actions, and to minimize their impact on power and energy generated by such projects. To promote communication and coordination on such matters, the Parties agree to take the following steps:

12.2.1.1 The Parties shall have a continuing obligation during the term of this Agreement to comply fully with all applicable licenses, permits, laws and regulations.

12.2.1.2 If required by applicable licenses, permits, laws or regulations to keep records relating to the Cowlitz Project or the Project, which records are not privileged or confidential pursuant to applicable state law, each Party shall upon the written request of the other Party provide the requesting Party copies of all or any portion of such records as may be requested.

12.2.1.3 The Parties will periodically meet and discuss current and prospective actions and activities related to the Cowlitz Project and the Project for the enhancement and protection of the environment.

12.2.1.4 Provide the other Party with reasonable prior written notice of any meeting, hearing or conference with any group, organization, court, or any local, state or federal agency having jurisdiction over the Cowlitz Project or the Project, the purpose of which is to discuss or determine current or future actions or activities regarding the Cowlitz Project or the Project to enhance and protect the environment.

12.2.1.5 Prior to executing any memorandum of understanding, letter of agreement, contract, stipulation or any other type of binding arrangement regarding current or prospective actions or activities related to the Cowlitz Project or the Project to enhance and protect the environment, the Party considering such execution shall provide the other Party with reasonable written notice of such pending execution, and the Parties shall consult on the likely impacts to the Cowlitz Project and the Project of such execution. The Party considering execution shall make

a good faith effort to minimize any adverse impacts on the other Party from such execution.

Section 13. Notice.

13.1 Any notice, demand, approval, proposal, consent, direction or request provided for in this Agreement shall be effective from the date mailed or transmitted by facsimile or other means, and shall be directed as follows:

If to the District: Public Utility District No. 1
of Lewis County
Manager
P. O. Box 330
Chehalis, WA 98532

If to the City: Tacoma Public Utilities
Power Manager
3628 South 35th Street
P. O. Box 11007
Tacoma, WA 98411

13.2 Either Party may change their recipient of notice at any time by designating a new recipient by letter delivered to the other Party.

Section 14. Uncontrollable Force:

14.1 Any obligation of a Party to perform under this Agreement shall be excused when failure to perform such obligations is due to an Uncontrollable Force. In the event that either Party is unable to perform due to an Uncontrollable Force, such Party shall exercise due diligence to remove such inability with reasonable dispatch. Nothing in this section shall be construed to require either Party to settle any strike or labor dispute in which it may be involved.

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14.2 Each Party shall notify the other as soon as practicable of any Uncontrollable Force which may impair performance under this Agreement. Failure to give such notice within a reasonable period shall be deemed a waiver of such Uncontrollable Force.

Section 15. Hold Harmless.

15.1 The District shall indemnify and hold the City harmless from all claims, damages, losses, liability and expenses arising from the negligent or other tortious acts or omissions of the District, its employees, agents, or contractors arising under this Agreement.

15.2 The City shall indemnify and hold the District harmless from all claims, damages, losses, liability and expenses arising from the negligent or other tortious acts or omissions of the City, its employees, agents, or contractors arising under this Agreement.

Section 16. Assignment.

16.1 Each Party agrees that it shall not sell, assign or transfer its interests, rights, or obligations under this Agreement without the written consent of the other Party.

16.2 This Agreement shall inure to the benefit of and shall be binding upon the respective successors and assigns of the Parties.

Section 17. Obligations and Liabilities Are Several.

17.1 The obligations and liabilities of the Parties under this Agreement are several, and are not joint. Neither Party shall be obligated or liable for any obligation or liability of the other Party. Neither Party shall have, by virtue of this Agreement any right, power or authority to incur any obligation or liability of, to act as the agent or representative of, or to otherwise bind the other Party.

Section 18. Governing Law.

This Agreement shall be interpreted, governed by, and construed under the laws of the State of Washington.

Section 19. Regulation.

19.1 In undertaking the planning, financing, construction, acquisition, operation and maintenance of this interconnection, the Parties must comply with the requirements of all licenses, permits and regulatory approvals necessary for such planning, financing, construction, acquisition, operation and maintenance. It is also agreed that this Agreement is made subject to the provisions of all such licenses, permits and regulatory approvals.

19.2 Should the relicensing of the Cowlitz Project by the Federal Energy Regulatory Commission result in terms and conditions which necessitate changes to this Agreement, the Parties agree to negotiate in good faith amendments to this Agreement required by such relicensing terms and conditions.

Section 20. Waivers.

Except as agreed by the Parties, no provision of this Agreement may be waived except as confirmed in writing. Any waiver at any time by a Party of its right with respect to a default under this Agreement or with any other matter arising in connection herewith, shall not be deemed a waiver with respect to any subsequent default or matter. Either Party may waive any notice or agree to accept a shorter notice than specified in this Agreement. Such waiver of notice or acceptance of shorter notice by a Party at any time regarding a notice shall not be considered a waiver with respect to any subsequent notice required under this Agreement.

Section 21. Invalid Provision.

The invalidity or unenforceability of any provision of this Agreement shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provisions were omitted.

Section 22. No Unspecified Third-Party Beneficiaries.

There are no third-party beneficiaries of this Agreement. Nothing contained in this Agreement is intended to confer any right or interest on anyone other than the Parties, their respective successors, assigns and legal representatives.

Section 23. Amendment.

No change, amendment or modification of any provision of this Agreement shall be valid unless set forth in a written amendment to this Agreement signed by both Parties.

Section 24. Headings Not Binding.

The headings and captions in this Agreement are for convenience only and in no way define, limit, or describe the scope or intent of any provisions or sections of this Agreement.

Section 25. Agreement of the Parties.

This Agreement represents the entirety of the agreement between the Parties, and this Agreement supersedes any prior written or oral agreements between the Parties.

Section 26. Future Consideration for Transmission Services.

If requested by the City, the District agrees to enter into negotiations for a mutually acceptable agreement to facilitate the transmission of power from the City's planned Barrier Dam Hydroelectric Project to Bonneville's transmission system in a manner consistent with this Agreement, consistent with the City's facilitation of the Project, and may include but not be limited to the granting of easements for use of right-of-ways, sharing of District right-of-ways, and joint ownership of transmission facilities.

Section 27. Interpretation of Agreement.

The Parties agree that both Parties drafted this Agreement, and that if any ambiguities arise in the later

interpretation of this Agreement, such ambiguities shall not be construed against either Party as the sole drafter of the Agreement.

Section 28. Computation of Days.

For purposes of this Agreement, all references to days contained herein shall mean calendar days.

Section 29. Exhibits.

The following Exhibits are attached hereto and are incorporated into this Agreement as if fully set forth herein:

Exhibit A - Annual Wheeling Charge Methodology

Exhibit B - Annual Wheeling Charge Calculation.

Exhibit C - Calculation of Annual Loss Factor.

Section 29. Signature Clause.

Each Party hereto represents that it has the authority to execute this Agreement and that it has been duly authorized to enter into this Agreement.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement in counterparts.

PUBLIC UTILITY DISTRICT NO. 1
OF LEWIS COUNTY, WASHINGTON

CITY OF TACOMA, WASHINGTON

By *Darryl H. Kalish*

Title Manager

Date December 6, 1993

By *Mark Jensen*

Title Director of Utilities

Date 12/16/93

Approved as to form & legality:
Mark B. Burt
Chief Asst. City Attorney

Annual Wheeling Charge Methodology

The methodology for determining the Annual Wheeling Charge shall be as set forth on this Exhibit A, and the Annual Wheeling Charge Calculation shall be as set forth on Exhibit B. For purposes of Exhibits A and B, the following terms are defined as set out below.

I. Definitions

(1) "Administrative and General Costs" (A&G Costs) means those costs incurred by the City to administer the City's electrical system, and which are allocated to transmission, as such costs are booked in accounts 920 through 983, and 408 of the FERC Uniform System of Accounts.

(2) "Annual Fixed Cost Ratio" means the capital recovery factor, expressed as a percentage, which the City must recover annually to amortize its Transmission Plant Investment, using the average facility life of transmission facilities used to calculate the City's depreciation rate for transmission facilities and the City's weighted average interest rate on outstanding long term debt issued by the City's Light Division.

(3) "Annual Variable Cost Ratio" means the sum of the quotients of O & M Costs, A & G Costs, General Plant Depreciation and General Plant Interest Costs, each divided by Total Transmission Plant.

(4) "General Plant Depreciation Costs" means the annual straight-line depreciation expense of total depreciable plant booked in FERC Accounts 389 through 399 and not otherwise included in production, transmission, and distribution plant. The rate of depreciation based on the average useful life of General Plant facilities shall be furnished by the City.

(5) "General Plant Interest Costs" means the annual interest expense of the City for General Plant allocated to transmission pursuant to the following steps. First, net interest expense is determined as annual interest expense (FERC Accounts 427 through 431) minus annual interest income (FERC Account 419). Second, net interest expense is

allocated to General Plant by the ratio of total General Plant investment (Accounts 389 through 399) to Total Plant in Service (Account 101). Third, the General Plant allocation is further allocated to transmission by the ratio of Total Transmission Plant in Service (Accounts 350 through 359) divided by the difference of Total Plant in Service and General Plant investment.

(6) "Operations and Maintenance Costs" (O & M) means those expenses incurred by the City to operate and maintain the transmission system, as such costs are booked to accounts 560 through 574 of the FERC Uniform System of Accounts.

(7) "Total Transmission Plant" means the total amount of the City's transmission plant in service expressed in dollars, as booked in accounts 350 through 359 of the FERC Uniform System of Accounts.

II. Methodology for Calculating the Annual Wheeling Charge

A. The Annual Wheeling Charge for the first three Operating Years of the Term and subsequent revisions of the Annual Wheeling Charge, shall be calculated using the average of the accounting data for the most recent three calendar years preceding the first Operating Year for which the Annual Wheeling Charge will take effect.

B. The Annual Wheeling Charge shall include those amounts necessary to provide the City with full recovery of all taxes incurred by the City during the Operating Year for the provision of service or receipt of Annual Wheeling Charges under this Agreement.

C. The Annual Wheeling Charge will be calculated as set forth on Exhibit B.

Annual Wheeling Charge Calculation

This Exhibit shows the calculation of the Annual Wheeling Charge for the initial three Operating Years of the Term, and is based on an average of FERC Account balances from the City's Light Division for the most recent three calendar years.

1.	Transfer Facility Investment:	\$6,150,241	
	(as recorded in FERC Accounts 350 through 359)		
2.	Transfer Facility Demands (kW):	532,000 kW	
	Mossyrock:	300,000	
	Mayfield:	162,000	
	Cowlitz Falls	70,000	
	Total	532,000	
3.	Transfer Facility Investment Ratio		\$11.56/kW
4.	Annual Fixed Cost Ratio:	7.88%	
5.	Annual Variable Cost Ratio:		
	a) Operations & Maintenance Costs	6.38%	
	b) Admin. & General Costs	3.10%	
	c) General Plant Depreciation expenses	0.25%	
	d) General Plant Interest Costs	0.15%	
	Total:	9.88%	
6.	Annual Cost Ratio (sum of #4 and #5)		17.76%
7.	Transfer Facility Wheeling Demand		70,000 kW
8.	Annual Wheeling Charge (before taxes) (#3 x #6 x #7)		\$143,694
9.	Tax Recovery @ 10.9545%		\$15,741
	Estimated City Gross Earnings Tax	6.00%	
	Washington State B&O Tax	3.87%	
10.	Annual Wheeling Charge (after taxes)		\$159,435

Investment in Transfer Facilities

Acc't.	Description	Investment
	LAND AND LAND RIGHTS:	
350.14	Hydro Project Lines, Mayfield-Mossyrock 230 kv	\$625,569.17
	STRUCTURES & IMPROVEMENTS:	
352.15	Mayfield	\$1,679,067.71
352.16	Mossyrock	\$318,462.33
	STATION EQUIPMENT:	
353.15	Mayfield	\$1,458,126.96
353.16	Mossyrock	\$1,284,207.50
	TOWERS AND FIXTURES:	
354.124	Mayfield-Mossyrock Tie (Single)	\$397,412.84
354.125	Mayfield-Mossyrock Tie (Double)	\$624,594.28
	OVERHEAD CONDUCTORS & DEVICES:	
356.124	Mayfield-Mossyrock Tie (Single)	\$405,905.55
	ROADS AND TRAILS:	
359.125	Mayfield-Mossyrock Tie (Double)	<u>\$12,245.58</u>
	Total	\$6,805,591.92
	LESS SOLE CITY-USE FACILITIES:	
	Main Transformers: Mayfield (per voucher 12348)	\$426,816.00
	Main Transformers: Mossyrock (per W.O. 82 detail)	<u>\$537,016.56</u>
		\$5,841,759.36
	Transfer facilities installed by the District at Mossyrock Switchyard (estimated)	<u>\$308,482.00</u>
	Net Investment	\$6,150,241.36

Note: Investment amounts taken from the City's Light Division December 1992 Trial Balance unless otherwise noted.

Calculation of Annual Loss Factor

1. The District and the City recognize that there will be losses over the City's system between the Point of Interconnection and the points of delivery at the Bonneville 230 kV Chehalis lines.
2. The Annual Loss Factor for the facilities described in Paragraph 1 above shall be calculated as follows:
 - a) Calculate annual KWh losses to transmit both the Cowlitz Project and the Project.
 - b) Calculate annual KWh losses to transmit only the Cowlitz Project.
 - c) The Annual Loss Factor equals the quotient of (a-b) divided by the expected annual generation of the Project.
3. The Annual Loss Factor calculated pursuant to Paragraph 2 above is 0.5%.
4. Either Party may request review and revision of the Annual Loss Factor due to changed conditions. This Exhibit may be amended no more often than once every three years by mutual agreement of the Parties.