Power Sales Agreement with Clark Public Utilities

Box Canyon History

- Constructed in 1952-56
- First WA PUD dam
- Designed beyond load needs
- Run-of-river project
- Z-Canyon & Boundary Assignment
- PNC used from 1989-2019
- Relicensed in 2005
- Fully mitigated

Remarketing Efforts

- PNC Settlement
- Portland General Electric (2019-2020)
- Shell Energy (2021-2025)
- Post-2025

Step 1 – Portland General Electric

Summary

- Term: July 2019 – December 2020
- Negotiated: December 2018 – June 2019

Description

- Swap Box output for market power plus payment stream
- Power sales are market-based index plus adder

Goals

- De-couple Box output from PNC load
- Monetize Box zero-carbon attributes (for PNC benefit, while operating)
- Partially protect ratepayers from possible PNC bankruptcy
- Gain experience in third-party wholesale market transactions

Step 2 – Shell Energy

Summary

- Term: January 2021 – December 2025
- Negotiated: October 2019 – December 2020

Description

- Swap Box output for GSL-shaped market power plus payment stream
- Power sales are market-based fixed price plus adder

Goals

- Sell Box as generated, buy GSL-shaped wholesale power
- Continue to monetize Box zero-carbon attributes
- Transfer Pend Oreille River water risk from ratepayers to Shell
- Transfer wholesale electricity market price risk from ratepayers to Shell
- Transfer related transmission risk from ratepayers to Shell

Step 3 – Clark Public Utilities (proposed)

Summary

- Term: January 2026 – December 2041*
- Negotiated: October 2020 – Present

Description

- Sell Box Canyon output for payment stream
- Escalated, fixed-price power sales based on Box cost forecast, plus adders

Goals

- Incorporate advantages of prior transactions
  - Water risk transfer
  - Market price-risk transfer
  - Transmission risk transfer
- Cover forecast Box costs on long-term basis; transfer up to 6% inflation risk to Clark
- Secure Box Canyon long-term future

*Subject to mutual extension rights

Remarketing Priorities

- Long-term cost recovery
- Risk mitigation
  - Water risk
  - Market price risk
  - Transmission risk
- Creditworthy counterparty
- Value for environmental attributes

Competitive Selection Process

Process to identify potential long-term off-takers began in earnest in Fall 2020

- High level discussions held with PUDs, municipal utilities, IOUs, Merchants
- District provided historic Box data for high level due diligence
- Indicative term-sheets requested as confirmation of counterparty interest

Investor-Owned Utilities (3 entities)

- Tax beneficial bond defeasance challenging given internal investment return hurdles
- Complicated by UTC approval and procedural requirements
- Full Pend Oreille River water risk transfer challenging

Wholesale Power Merchants (3 entities)

- Tax beneficial bond defeasance challenging given internal investment return hurdle rates
- One Merchant showed interest throughout the process

PUDs, Municipals, Cooperatives (5 entities)

- Some showed interest for partial output, short-term transactions, delivered to Mid-C hub
- Clark Public Utilities showed early, sustained interest for full Box production; selected for bilateral Box off-take contract negotiations **end 2021**

Clark PUD as a Long-Term Counterparty

- Transacting with another PUD has distinct transactional advantages for Pend Oreille over IOUs, Merchants
  - No tax-beneficial bond complications
  - Shared obligation to service territory rate-payers; similar risk-return profiles
  - Same transaction approval processes—no regulator procedural considerations
- Common customers of BPA—appreciation for requirements and restrictions this brings
- Outstanding credit profile, rate-making authority, financial strength, long history

Comparison of Pend Oreille and Clark

	Pend Oreille PUD	Clark Public Utilities
Founded	1936	1938
Service territory	~1,470 sq mi	~630 sq mi
Electric Customers	9,730	225,000
2021 Operating Revenue	$57,500,000	$460,000,000
2021 Electricity sales	272,000 MWh	5,400,000 MWh
2021 Own generation	475,000 MWh hydro	1,940,000 MWh, nat gas
Credit Rating, Outlook	A-, positive (Fitch)	AA, stable (Fitch)
Governance	3 elected Commissioners	3 elected Commissioners

Opportunity Cost vs. Opportunity Lost

<u>Main risks to Pend Oreille in transacting:</u>

- Operating cost exceeds CPU payments
  - Mitigated by annual inflationary adjustment to non-fixed costs (~50% of op. costs)
  - Mitigated by long history operating Box Canyon and managing variable expense timing and amounts
- Unforeseen capital expense
  - Would occur irrespective of this Transaction
- Prolonged outage
  - >120-day inability to deliver
  - Mitigated by no-fault termination. District no worse off than without Transaction
- Opportunity cost
  - Value of Environmental Attributes ($/MT) increases above the Adder
  - Wholesale electricity price ($/MWh) plus Box capacity value ($/kW-mo) increases sustainably above Box operating cost
  - Box Canyon not available to fulfill CETA compliance obligations or high load-growth scenarios, should Boundary power be insufficient

Opportunity Cost vs. Opportunity Lost

<u>Main risks to Pend Oreille in not transacting:</u>

- Water risk, market price risk, transmission risk must be managed by District
- CETA-driven interest in long-term Box off-take dissipates
  - Clean Energy Implementation Plans must lay out roadmap to 2030 compliance
  - New renewable resource projects continue to multiply
- BPA post-2028 product offering clarifies
- Willingness to accept Box cost-based pricing disappears

Transaction Overview

Effective Date; Delivery Period

- PSA effective upon mutual execution
- Delivery Period = January 1, 2026 through December 31, 2041 (with mutual extension rights)
- Agreement will continue past 2041 unless either party gives 4 year's notice of termination, or unless the parties fail to negotiate a successor Annual Product Cost and Environmental Attributes Adder values by January 1 of second year preceding the extension period

Product

- 100% of output of Box Canyon Dam, plus Imbalance Energy
- Box Canyon Product includes all energy, capacity, pondage, and environmental attributes

•Delivery Point; Transmission

- Delivery Point is Pend Oreille system boundary (POPD.BPAT)
- Clark responsible for transmission beyond Delivery Point

Transaction Overview

Payment Obligation

- Clark to pay 100% of Annual Product Cost, plus Environmental Attributes Adder
- APC = Fixed Costs + (Variable Costs x Inflationary Adjustment)
- Monthly invoicing and payment within 15 Business Days

Fixed Costs

- Fixed Costs include debt, known license obligations
- Fixed Costs are set forth in Exhibit B; not subject to adjustment

•Variable Costs and Inflationary Adjustment

- Baseline Variable Cost set using 2022 forecasted costs ($8,024,000)
- 2026 Variable Costs set using Baseline x Inflationary Adjustment through 8/31/2025
- Inflationary Adjustment uses CPI-U, with a 1% minimum and 6% maximum

Fixed Costs Schedule

Year	Fixed Costs
2026	$12,750,000
2027	$12,730,000
2028	$12,720,000
2029	$12,810,000
2030	$12,180,000
2031	$11,570,000
2032	$11,560,000
2033	$11,560,000

Year	Fixed Costs
2034	$11,550,000
2035	$11,550,000
2036	$11,540,000
2037	$11,530,000
2038	$11,530,000
2039	$11,530,000
2040	$10,930,000
2041	$6,160,000

Transaction Overview

Environmental Attributes Adder

- January 1, 2026 – December 31, 2033 = $4.00 per MWh delivered
- January 1, 2034 – December 31, 2037 = $5.25 per MWh delivered
- January 1, 2038 – December 31, 2041 = $6.50 per MWh delivered
- Parties to negotiate new adder if agreement is extended beyond 2041

•Operational Control and Scheduled Outages

- Pend Oreille retains exclusive operational control over Box Canyon
- Scheduled Outages submitted with at least 30 days' notice
- Pend Oreille to submit non-binding schedule of planned outages by June 30 for following year
- Pend Oreille to provide commercially reasonable notice of changes

Transaction Overview

Forced Outages

- Unplanned outages lasting more than 3 days, not due to Uncontrollable Force
- Any planned outage with less than 30 days' notice
- Monthly invoice to include credit for any Forced Outage Energy losses

•Prolonged Outage

- Pend Oreille's failure to deliver Product due to Forced Outage or Uncontrollable Force lasting 120 days may result in termination, but no termination payment would be owed

•Uncontrollable Forces

- Event or circumstance which prevents performance (not including inability to pay or transmission curtailment)

Transaction Overview

Scheduling

- Pend Oreille submits daily power schedules to Clark (preschedule estimate)
- Pend Oreille submits Hourly Power Schedule by T-120 minutes
- Hourly Power Schedule becomes Firm Energy commitment
- Clark prepares and submits E-Tags

Use of Product

- Clark will not use or resell Box Canyon power in violation of federal laws, including BPA’s 5(b)(9)(c) policy
- Clark will use Box Canyon power primarily for its own retail load, consistent with the IRS regulations for private use of output facilities

Transaction Overview

Events of Default

- Failure to make timely payment
- Material representation or warranty is materially false or misleading
- Failure to perform a material covenant or obligation, including failure to make or take delivery
- Bankruptcy
- Failure to satisfy credit requirements
- Cross-default in excess of $50 million

•Termination Payment

- Settlement Amount = Costs + (Losses-Gains), based on quantity of product that would have been delivered in the Delivery Period

Transaction Overview

Security and Credit

- Either party must provide adequate assurances in the event their credit rating falls below BBB- (Fitch or S&P) or Baa3 (Moody's)

•BPA 5(b)(1) Dedication

- Pend Oreille will continue to retain Box as a dedicated resource
- Result: Pend Oreille will not likely be entitled to any additional BPA preference power

•Dispute Resolution

- Arbitration process provided; no jury trials permitted

Projected Value to District Ratepayers

	YOY CPI-U, 2022 - 2041			
Financial Metric	1%	2%	4%	6%
CPU Term Box Cost Payments	$ 328 MM	$ 346 MM	$ 389 MM	$ 444 MM
CPU Term Enviro Attributes Payment	$ 36 MM	$ 36 MM	$ 36 MM	$ 36 MM
Total CPU Payments	$ 227 MM	$ 237 MM	$ 262 MM	$ 292 MM
NPV to the District	$ 22 MM	$ 22 MM	$ 22 MM	$ 22 MM
Avg effective Term mill rate ($/MWh)	50.00	52.40	58.30	65.90
Highest effective annual mill rate ($/MWh)	52.70	56.50	66.20	80.80

Assumptions:
52 aMW annual production
Actual operating costs = CPI-U escalated operating costs
Annual cash flows discounted at 4% per annum
Effective mill rate = Total CPU Payments / MWh

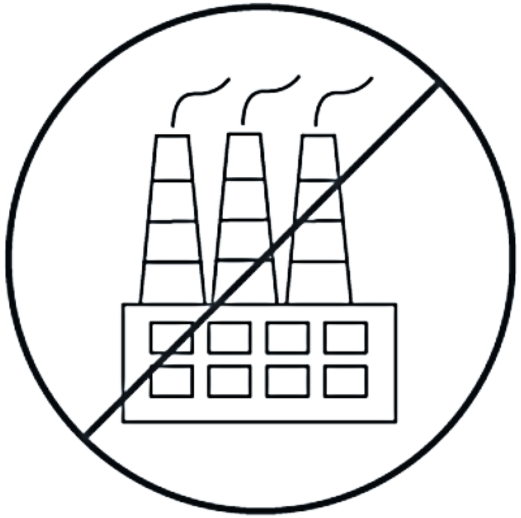
Energy West's Opinion

The Transaction affords Pend Oreille PUD the opportunity to prudently secure Box Canyon's long-term financial viability through a specified source sale of physical electricity and Environmental Attributes while largely transferring water risk, market price risks, transmission risk and partial Box Canyon operating cost inflation risk from District ratepayers to Clark.

The Transaction also transfers to Clark the administrative burden of managing the necessary transmission portfolio and scheduling Box Canyon output into regional transmission systems. Due to its size, very strong credit, reputational standing, and long PUD history in the Pacific Northwest, we believe Clark is an ideal counterparty for a transaction of this duration, size and importance to Pend Oreille PUD.

Subject to the discussion and scope limitations contained in our Opinion, Energy West recommends that the Pend Oreille PUD Commission approve this Transaction with Clark.

CETA Milestones

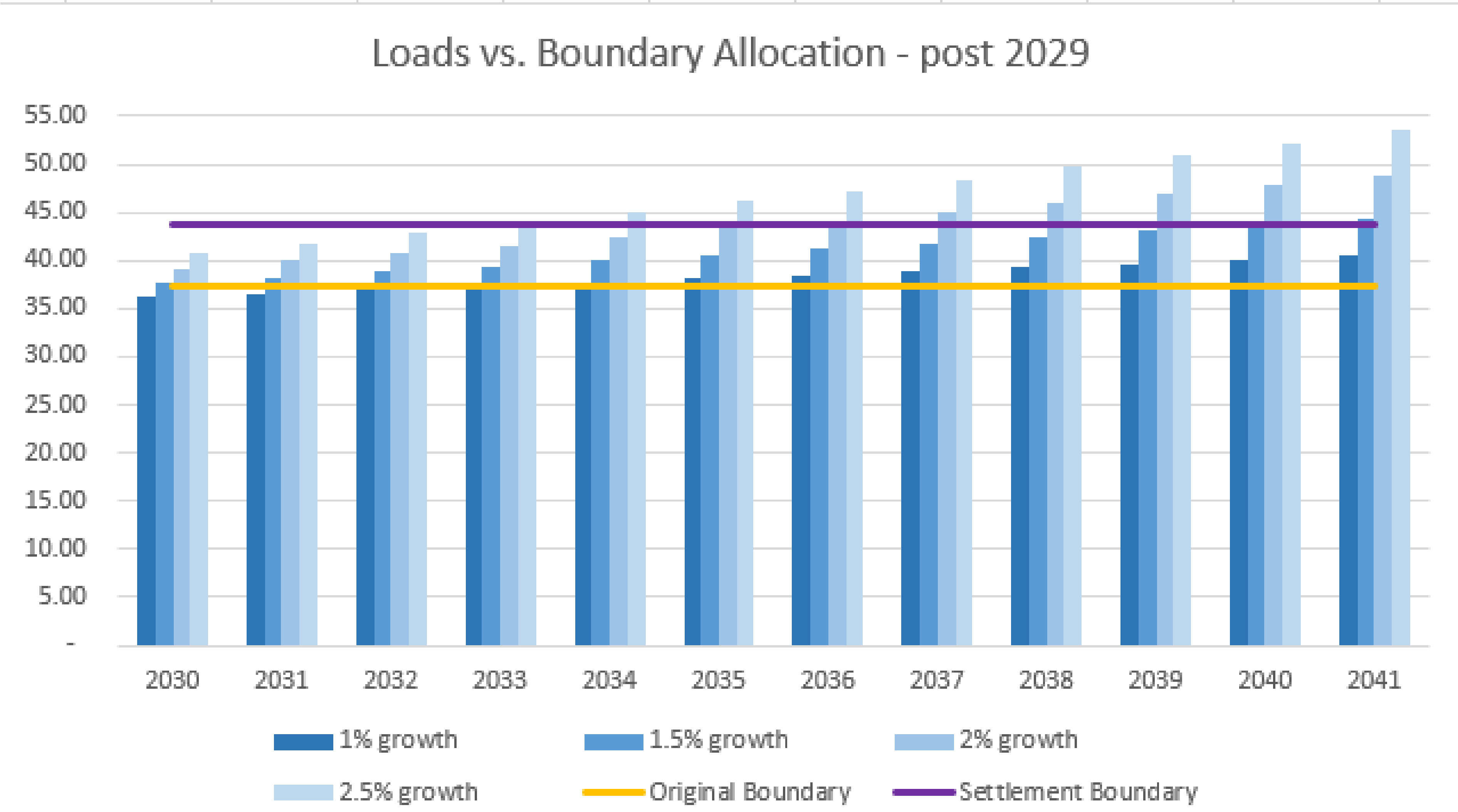


2025
NO COAL
STANDARD

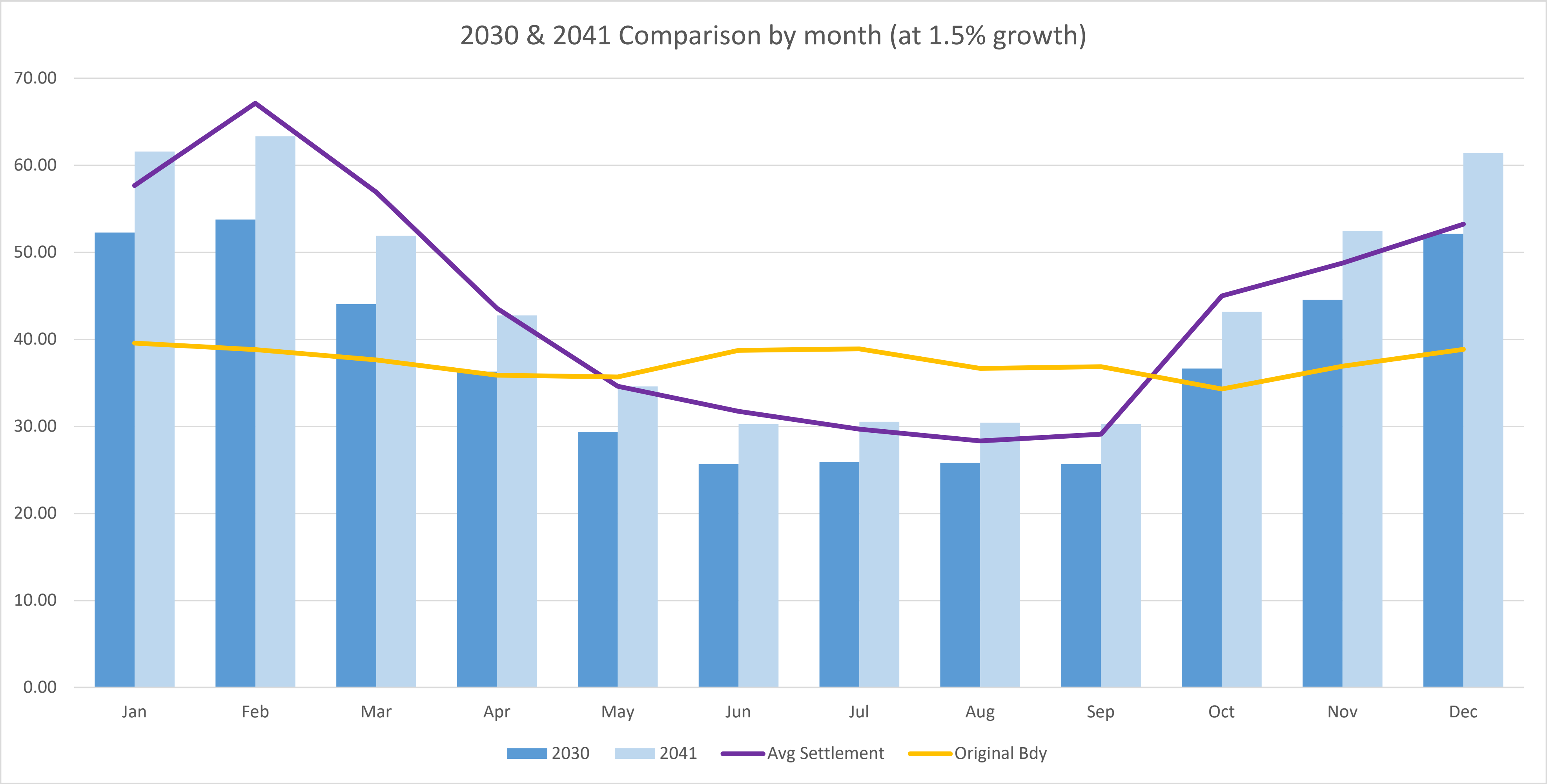
2030
GHG NEUTRAL
STANDARD

2045
100% CLEAN
STANDARD

CETA Compliance



Shaped Boundary & Load (2030 vs. 2041)



PEND OREILLE

PUBLIC UTILITY DISTRICT