

SULLIVAN CREEK HYDROELECTRIC PROJECT

SETTLEMENT AGREEMENT

Table of Contents

	Page
1. Parties.....	1
2. Recitals.....	1
TERMS OF AGREEMENT	3
3. General Provisions	3
3.1 Effective Date of Settlement Agreement	3
3.2 Offer of Settlement	3
3.3 Term of Settlement Agreement.....	4
4. Definitions.....	4
5. Scope of Settlement Agreement.....	7
5.1 Purpose.....	7
5.2 No Precedent for Other Proceedings.....	8
5.3 Disclaimer	8
6. Reservation of Rights and Satisfaction of Legal Responsibilities	8
6.1 No Pre-Decisional Determination.....	8
6.2 Reservation of Rights.....	8
6.3 Water Rights	9
7. Settlement Agreement Commitments and Implementation.....	9
7.1 Filings and Submittals Consistent with Settlement Agreement.....	9
7.2 Support Adoption of License Surrender and SUA Conditions.....	9
7.3 ESA Consultation.....	10
7.4 Clean Water Act.....	11
7.5 Surrender of Project License and Issuance of SUA.....	12
7.6 Requests for Stay or Extension of Implementation	14
7.7 Responsibility for Implementation	14
7.8 Availability of Funds	14
7.9 Permits	14
7.10 Amendment of License Surrender Order or SUA.....	15
7.11 Amendment of Settlement Agreement.....	17
7.12 Cooperation Among Parties.....	17
7.13 Removal of Mill Pond Dam and Restoration of Sullivan Creek	17
7.14 Cold Water Release From Sullivan Lake.....	18
7.15 Water Supply Program.....	20

7.16	Sullivan Creek Diversion Dam and Conduit	20
8.	Resource Committee.....	20
8.1	Committee Representation.....	21
8.2	Authority and Purpose of the Resource Committee	21
8.3	Meetings.....	21
8.4	Chair of the Resource Committee.....	21
8.5	Meeting Notice.....	21
8.6	Voting	21
8.7	Reports and Meeting Minutes.....	22
8.8	Federal Advisory Committee Act.....	22
9.	Dispute Resolution.....	23
9.1	General Applicability.....	23
9.2	Dispute Resolution Procedures	23
9.3	Remedies.....	25
10.	Withdrawal from Settlement Agreement.....	25
10.1	Withdrawal of a Party from Settlement Agreement	25
10.2	Effective Date of Withdrawal	26
10.3	Termination of Settlement Agreement.....	26
11.	Miscellaneous	26
11.1	Settlement Agreement Negotiations Privileged and Confidential	26
11.2	Severability of Terms of Settlement Agreement	27
11.3	No Third Party Beneficiaries	27
11.4	Successors, Transferees and Assigns.....	27
11.5	No Liability for Force Majeure.....	28
11.6	Process to Respond to Force Majeure Event	28
11.7	Waiver.....	28
11.8	Governing Law and Venue	28
11.9	Elected Officials, Employees and Agents Not to Benefit.....	29
11.10	Relationship of the Parties	29
11.11	Notice.....	29
11.12	Entire Agreement.....	29
11.13	Section Titles for Convenience Only.....	30
11.14	Costs.....	30
11.15	Time	30
12.	Execution of Settlement Agreement	30
12.1	Signatory Authority	30
12.2	Signing in Counterparts	30
13.	List of Appendices, Exhibits and Attachments.....	31
13.1	Appendices.....	31
13.2	Attachments	31

Settlement Agreement
Surrender of Sullivan Creek Project License
and Application for Special Use Authorization

1. Parties

1.1 This Settlement Agreement (“Agreement”) is entered into this 9th day of March, 2010, between and among Public Utility District No. 1 of Pend Oreille County, Washington (“PUD”), Seattle City Light (“SCL”), the Bureau of Indian Affairs (“BIA”), the US Fish and Wildlife Service (“USFWS”), the US Forest Service (“USFS”), the Kalispel Tribe of Indians (“Tribe”), the Washington State Department of Fish and Wildlife (“WDFW”), the Washington State Department of Ecology (“Ecology”), the Lands Council, American Whitewater, the Selkirk Conservation Alliance (“SCA”), Town of Cusick, Washington, Rick Larson and Al Six (collectively, the “Parties”).

1.2 Additional entities may become Parties to this Agreement with the unanimous consent of all Parties and by executing a signature page and submitting it to PUD, USFS and the Federal Energy Regulatory Commission (“FERC”).

1.3 This Agreement is binding on and shall inure to the benefit of the Parties and their successors and assigns only, except as otherwise specified in this Agreement.

2. Recitals

WHEREAS,

2.1 The Sullivan Creek Project No. 2225 (“Project or “Sullivan Creek Project”) is owned and operated by the PUD, the sole FERC licensee for the Project.

2.2 The Project occupies National Forest System (“NFS”) lands and is operated as a storage project for the benefit of generation at downstream hydroelectric projects. The Project is also located within the aboriginal territory claimed by the Tribe and may affect resources held in trust by the federal government.

2.3 The Project is located on Sullivan Creek, Outlet Creek and Sullivan Lake, which are tributaries of the Pend Oreille River in northeastern Washington. On September 23, 2003 the PUD filed a notice of intent not to file an application for new license for the Project. By orders issued April 21, 2008 and July 18, 2008, FERC determined that the Project is subject to its mandatory licensing jurisdiction under the Federal Power Act (“FPA”) and that the PUD is required to file an application for surrender of the Project License.

2.4 The Project License expired on September 30, 2008.

2.5 On September 19, 2008, the FERC issued a notice of authorization of continued Project operation under the FPA pursuant to an annual license, which is renewed automatically until disposition of the Project facilities pursuant to an order accepting surrender of the Project License.

2.6 On July 1, 2008 the PUD filed a schedule for filing a License Surrender Application by December 1, 2010, which was approved by FERC on July 29, 2008. The PUD engaged in pre-filing consultations and collaborated with interested parties through a mediation process. Pursuant to a Joint Motion and an Agreement in Principle filed with FERC on September 30, 2009, the PUD agreed to expedite preparation of its License Surrender Application (“LSA”) based on an assumed filing date of February 1, 2010. Thereafter, FERC granted a request for extension of the filing date until March 29, 2010.

2.7 The Parties to this Settlement Agreement have reached resolution of issues related to the surrender of the Project License and the Special Use Authorization (“SUA”) by the USFS for the use and occupancy of NFS lands by certain Project facilities, as described in this Settlement Agreement.

2.8 In addition, a group of state and federal agencies and other stakeholders that are largely the same as the settling Parties herein have negotiated a separate settlement agreement (the “Boundary Project Settlement Agreement”) relating to the issuance of a new license to SCL for the continued operation of the Boundary Hydroelectric Project, FERC No. 2144 (the “Boundary Project”).

2.9 Sullivan Creek enters the Pend Oreille River about ten miles upstream of Boundary Dam on the eastern edge of the Boundary Project reservoir.

2.10 As originally constructed, the PUD’s Sullivan Creek Project included Sullivan Lake Dam and Reservoir, Sullivan Creek diversion dam and conduit, Mill Pond Dam and Reservoir, a conduit, penstock, powerhouse, and transmission facilities.

2.11 Mill Pond Dam is located approximately three miles upstream from the mouth of Sullivan Creek and is within the FERC boundary for the Sullivan Creek Project.

2.12 Through an Interlocal Agreement (“Mill Pond Interlocal Agreement”) between SCL and the PUD (an off-license agreement included as Attachment 1 to this Settlement Agreement), SCL will remove Mill Pond Dam and restore the Mill Pond/Sullivan Creek vicinity pursuant to the Mill Pond Decommissioning Plan (attached as Appendix E to this Settlement Agreement). SCL will perform this work as a cooperating agency of the PUD for the time period when the facilities and area are subject to the PUD’s Sullivan Creek Project License.

2.13 After removal of the Mill Pond Dam and FERC’s issuance of the License Termination Order, SCL will continue to monitor and maintain the Mill Pond area pursuant to proposed provisions in the Boundary Fish and Aquatics Management Plan (“FAMP”) included as Exhibit 11 to the Boundary Project Settlement Agreement and the Boundary application for 401 Certification included as Appendix 3 to the Boundary Project Settlement Agreement.

2.14 The Parties to this Settlement Agreement believe that removal of Mill Pond Dam, as set forth in this Settlement Agreement, the Mill Pond Decommissioning Plan and the Boundary Project Settlement Agreement will remove a fish barrier in the vicinity of the Boundary Project, providing potential access to 16 miles of spawning, rearing, overwintering and foraging habitat. Bull trout are listed as threatened under the Endangered Species Act and providing access to additional, good quality habitat is a high priority for the Resource Agencies.

Sullivan Creek up to Mill Pond Dam, Boundary Reservoir and the lower 0.75 miles of Outlet Creek were proposed as critical habitat for bull trout on January 14, 2010.

2.15 Sullivan Lake Dam also is within the FERC project boundary for the Sullivan Creek Project. Sullivan Lake is a natural lake, which is increased in size by the presence of the Sullivan Lake Dam. Currently, the Sullivan Creek Project stores and releases about 31,000 acre-feet of water annually, in accordance with the Pacific Northwest Coordination Agreement (“PNCA”) and the Project License. Sullivan Lake pool covers 1,240 acres and is maintained to the extent possible at a constant elevation of 2,588.66 feet above mean sea level (“msl”) during the months of May through September. Beginning in October, the reservoir is drawn down for the benefit of downstream power production under the PNCA.

2.16 Pursuant to a Memorandum of Agreement between SCL and PUD (“Cold Water Release MOA”), an off-license agreement included as Attachment 2 to this Settlement Agreement, SCL and the PUD will cooperate in the development of facilities that will release cold water from Sullivan Lake to Outlet Creek and Sullivan Creek within the boundaries of the Sullivan Creek Project.

2.17 The Parties to this Settlement Agreement believe that provision of a Sullivan Lake cold water release, as set forth in the Cold Water Release MOA and this Agreement, will cool water temperatures and improve native salmonid habitat conditions in Sullivan Creek (below the confluence with Outlet Creek), and provide cooler water input to the Pend Oreille River. In combination with the Mill Pond Dam removal, the Sullivan Lake cold water release also will improve habitat for bull trout and westslope cutthroat trout.

2.18 The Mill Pond Dam removal, Sullivan Creek restoration, and cold water release measures link the relicensing of SCL’s Boundary Project to the PUD’s surrender of the Project License so as to provide significant resource benefits through the removal of Mill Pond Dam, sediment management, channel restoration and monitoring activities at the restored stream channel and through the release of cold water to Outlet Creek and Sullivan Creek under certain circumstances.

TERMS OF AGREEMENT

The Parties hereby agree as follows:

3. General Provisions

3.1 Effective Date of Settlement Agreement

This Settlement Agreement shall become effective upon its execution by all Parties.

3.2 Offer of Settlement

Within 15 days of the Effective Date, the PUD shall file the License Surrender Application with FERC. In addition, the PUD shall, on behalf of the Parties, file an Offer of Settlement with

FERC pursuant to Rule 602 of FERC's Rules of Practice and Procedure, 18 C.F.R. § 385.602. This filing shall consist of an executed copy of this Settlement Agreement, including the Appendices, Exhibits and Attachments, a Joint Explanatory Statement and the SUA Application. The Joint Explanatory Statement shall request that FERC: (a) approve the Offer of Settlement; and (b) accept surrender of the Project License pursuant to an order that incorporates – without modification – the Proposed License Surrender Conditions set forth in Appendix B of this Settlement Agreement.

Within 15 days of the Effective Date, the PUD shall also file the SUA Application, set forth in Appendix C of this Settlement Agreement, with the USFS for the use and occupancy of NFS lands by certain Project facilities for a term of 30 years and request that the USFS issue a Special Use Authorization that incorporates – without modification – the Proposed SUA Conditions set forth in Appendix D of this Settlement Agreement.

3.3 Term of Settlement Agreement

The term of this Settlement Agreement shall commence on the Effective Date and shall continue through the term of the SUA unless terminated as provided in Section 7.4.3.1 or Section 10.

4. Definitions

“401 Certification” means the water quality certification decision to be made by Ecology in connection with surrender of the Project License and issuance of the SUA pursuant to Section 401 of the CWA, 33 U.S.C. § 1341.

“Appeal” means a request for rehearing, an administrative or judicial petition or appeal, or other formal agency adjudication.

“Boundary Project Settlement Agreement” means the Settlement Agreement filed with FERC for the settlement of the Boundary Project relicensing proceeding.

“Cold Water Release MOA” means the Memorandum of Agreement between SCL and the PUD set forth in Attachment 2 hereto.

“Cold Water Release Facility Plan” means the plan for the installation of the Sullivan Lake Dam Cold Water Release Facility which is set forth in Appendix F.

“Consultation” means the process described in Section 8 of this Agreement. Unless specifically noted, the use of the term “consultation” in this Settlement Agreement does not refer to the consultation process prescribed in the Endangered Species Act, 16 U.S.C. §§ 1531, *et seq.*, or the National Historic Preservation Act, 16 U.S.C. § 470, *et seq.*

“Columbia River Basin Water Management Program” means the program authorized by the Washington State legislature (Ch. 90.90 RCW) to establish a water supply development account for a variety of purposes, including expenditures to improve or alter operations of existing storage facilities.

“CWA” means the Clean Water Act, 33 U.S.C. §§ 1251, *et seq.*

“Dispute Resolution Committee” means the committee established by Section 9 of this Agreement.

“DOI” means Department of the Interior, acting through BIA or USFWS as appropriate.

“Effective Date” means the date set forth in Section 3.1 of this Settlement Agreement.

“ESA” means Endangered Species Act, 16 U.S.C. §§ 1531, *et seq.*

“Exhibits” means Exhibit 1 and Exhibit 2 to Appendix A of this Agreement.

“FERC” or “Commission” means the Federal Energy Regulatory Commission.

“Fisheries Management MOA” means the Memorandum of Agreement between the PUD and WDFW for the funding of fisheries management activities on Sullivan Lake and its tributaries set forth in Attachment 3 hereto.

“FLPMA” means the Federal Land Policy and Management Act of 1976, as amended.

“FPA” means Federal Power Act, 16 U.S.C. §§ 791a, *et seq.*

“License Surrender Application” means the PUD’s application for surrender of the Project License.

“License Surrender Order” means a FERC order accepting or approving the surrender of the Project License subject to terms and conditions with respect to the disposition of Project facilities.

“License Termination Order” means the FERC order or notice finding that all conditions of the License Surrender Order have been satisfied and that the surrender of the Project License has become effective.

“Material Modification” means a modification of (including additions to or deletions from) this Settlement Agreement, the Proposed License Surrender Conditions or the Proposed SUA Conditions; provided, that such modification(s), individually or collectively, substantially affects a Party’s bargained-for benefits under this Settlement Agreement, including but not limited to costs, power generation, regulatory responsibilities, or resource protection measures; provided, that only a Party that is adversely affected by the modification can assert that a Material Modification has taken place.

“Material Modification” does not include the following: (a) FERC’s insertion of its approval or its reservation of authority to require changes to implementation schedules or plans set forth in any Proposed License Surrender Condition; (b) FERC’s requirement to file a subsequent application or plan to implement any Proposed License Surrender Condition; (c) FERC’s

removal of language in any of the Proposed License Surrender Conditions that sets forth the rationale for the condition, provided there are not changes to the obligation contained in the condition; (d) FERC's modification of the Project boundary; (e) the inclusion in any 401 Certification of Ecology's reservation of authority to reopen its conditions, provided, that such reservation of authority is consistent with this Settlement; (f) construction of the cold water release facility pursuant to a SUA for the use and occupancy of NFS lands, rather than as a condition of surrender of the Project License; or (g) non-substantive modifications or additional administrative conditions contained in the final SUA as a result of the USFS NEPA process.

"Mill Pond Interlocal Agreement" means the Interlocal Agreement for Mill Pond Decommissioning between SCL and the PUD set forth in Attachment 1 hereto.

"Notice" means a written communication that meets the requirements of Section 11.11 of this Settlement Agreement.

"Party" or "Parties" means the signatories to this Settlement Agreement.

"Permit" means a necessary federal, state, regional, or local permit, license, authorization, certification, determination, or other governmental approval for purposes of implementing this Settlement Agreement, the License Surrender Order or the SUA.

"PM&E" means protection, mitigation, and enhancement.

"Mill Pond Decommissioning Plan" means the plan for the removal of Mill Pond Dam and restoration of Mill Pond/Sullivan Creek proposed in the License Surrender Application and attached hereto as Appendix E.

"Project" or "Sullivan Creek Project" means the Sullivan Creek Hydroelectric Project, FERC No. 2225.

"Project License" means the FERC license for the Sullivan Creek Project, which expired September 30, 2008, and any subsequent annual license for the Sullivan Creek Project.

"Proposed License Surrender Conditions" means the terms and conditions set forth in Appendix B of this Settlement Agreement that the Parties will request that FERC include, without modification, in the License Surrender Order for the Project.

"PUD" means Public Utility District No. 1 of Pend Oreille County, Washington.

"Proposed SUA Conditions" means the terms and conditions set forth in Appendix D of this Settlement Agreement that the Parties will request that USFS include, without modification, in the SUA for the use and occupancy of NFS lands by certain of the Project facilities.

"Resource Agencies" means the Tribe, BIA, USFS, USFWS, Ecology, and WDFW.

"SCL" means Seattle City Light, the licensee for the Boundary Project.

“Settlement Agreement” or “Agreement” means the entirety of this Settlement Agreement document and its Appendices, Exhibits and Attachments 1, 2 and 3 (the Mill Pond Interlocal Agreement, the Cold Water Release MOA and the Fisheries Management MOA). As to the Commission license surrender proceeding, Attachments 1, 2 and 3 are included for informational purposes.

“SUA” means the Special Use Authorization that the PUD is requesting from the USFS authorizing the use and occupancy of NFS lands by Sullivan Lake Dam, Sullivan Lake Reservoir and related facilities for a term of 30 years pursuant to FLPMA and other applicable law.

“SUA Application” means the PUD’s application for a Special Use Authorization as set forth in Appendix C of this Settlement Agreement.

“SUA Effective Date” means the date on which the surrender of the Project License becomes effective as provided in the License Termination Order, or the date on which the USFS issues an SUA pursuant to Section 7.14.5(c) of this Agreement. The term of the SUA shall commence on the SUA Effective Date.

5. Scope of Settlement Agreement

5.1 Purpose

The Parties have entered into this Settlement Agreement for the purpose of resolving among them issues that have or could have been raised by the Parties in connection with the FERC order accepting the surrender of the PUD’s Project License and the USFS SUA authorizing the use and occupancy of NFS lands by certain of the Project facilities. Pursuant to the Parties’ obligations and authorities under the FPA and FLPMA and subject to the reservations of authorities set forth in Section 6, 7.3, 7.4, and 7.10, this Settlement Agreement establishes the PUD’s obligations for the protection, mitigation and enhancement (“PM&E”) of resources affected by the Project. A description of such PM&E measures is set forth in Appendix A to this Agreement. The PUD’s obligations to implement such PM&E measures are set forth in Appendices B and D to this Agreement as Proposed License Surrender Conditions and Proposed SUA Conditions, respectively. Each Party intends that this Settlement Agreement is consistent with and satisfies its currently applicable statutory and regulatory rights and responsibilities: (1) under the FPA and other applicable law with respect to surrender of the Project License; and (2) under FLPMA and other applicable law with respect to issuance of the USFS SUA. Each Party intends further that, subject to the terms of this Settlement Agreement, no resource protection measure or other Project License surrender or SUA provision, other than those provided in Appendices A, B and D, is necessary to be included as a condition of the License Surrender Order or SUA in order to address Project effects or to satisfy the FPA with respect to the disposition of the Project facilities or FLPMA with respect to the use and occupancy of NFS lands. It also specifies the procedure to be used among the Parties to ensure that implementation of the License Surrender Order and SUA is not inconsistent with the Settlement Agreement. The Parties agree that this Settlement Agreement is fair and reasonable, and consistent with the standards under the FPA and implementing regulations for FLPMA. The Parties further agree that this Settlement

Agreement provides sufficient PM&E measures for FERC to find that the issuance of the License Surrender Order is in the public interest under the FPA.

5.2 No Precedent for Other Proceedings

This Settlement Agreement is made upon the express understanding that it constitutes a negotiated resolution among the Parties. Accordingly, nothing in the Settlement Agreement shall be construed as a precedent with regard to any other proceeding, and this Settlement Agreement (including its Appendices, Exhibits and Attachments) shall not be offered in evidence in any pending or future proceeding in which a Party participates except in a proceeding to establish the existence or validity of, or to defend, implement, or enforce this Settlement Agreement. This section shall survive any termination of this Settlement Agreement.

5.3 Disclaimer

The Parties have entered into this Settlement Agreement in part to avoid the costs and uncertainty of a contested license surrender proceeding at FERC, a contested SUA proceeding at USFS and the costs and uncertainty of litigation. A Party shall not be deemed to have consented to any operation, management, valuation, or other principle underlying any of the matters covered by this Settlement, except as expressly provided herein. By entering into this Settlement, a Party shall not be deemed to have made any admission or waived any contention of fact or law that it did make or could have made in any FERC proceeding relating to the surrender of the Project License or the USFS proceeding relating to the issuance of the SUA.

6. Reservation of Rights and Satisfaction of Legal Responsibilities

6.1 No Pre-Decisional Determination

Nothing in this Settlement Agreement is intended or shall be construed to be a pre-decisional determination by USFWS, BIA, USFS, WDFW or Ecology. Each Party may give due consideration to any material new information arising in the FERC license surrender proceeding, the USFS SUA proceeding, 401 Certification process or ESA consultation, as appropriate under applicable law.

6.2 Reservation of Rights

6.2.1 Nothing in this Settlement Agreement is intended to, or shall be construed to, affect or limit the authority or obligation of any Party to fulfill its constitutional, statutory and regulatory responsibilities or to comply with any applicable judicial decision or order. Among other things, this reservation permits a reservation of authority in a 401 Certification, provided that each other Party reserves its right to contest the exercise of such reservation. This reservation also permits a reservation of authority under other applicable law, provided that each other Party reserves its right to contest the exercise of such reservation.

6.2.2 Each Party reserves any authority it may have pursuant to the FPA or FLPMA in the event that: (a) this Agreement is not filed with FERC; (b) the Party withdraws from this Agreement pursuant to the procedures set forth in Section 10.1; or (c) this Agreement

is terminated pursuant to Section 7.4.3.1 or Section 10.3. Any other Party reserves the right to contest the existence and/or exercise of any such authority.

6.2.3 Nothing in this Settlement Agreement is intended to change, expand or reduce the application or interpretation of applicable laws. Throughout this Settlement Agreement, certain entities are recognized as having “approval authority” for the purposes of surrender of the Project License and/or issuance of the SUA and it is the Parties’ intent that such “approval authority” is only based on expected application of existing law, specifically the FPA, FLPMA, and CWA Section 401. Lastly, nothing in this Settlement Agreement changes, expands or reduces the legal jurisdiction or management authority of the individual Resource Agencies over natural resources.

6.3 Water Rights

Nothing in this Settlement Agreement is intended to, or shall be construed to, modify or alter any Party’s existing, inchoate, or reserved water rights, if any.

7. Settlement Agreement Commitments and Implementation

7.1 Filings and Submittals Consistent with Settlement Agreement

7.1.1 Except as provided in Section 7.4.2.1, each Party intends that, throughout the term of this Settlement Agreement, none of that Party’s filings or other submittals regarding the Sullivan Creek Project with FERC, USFS or another regulatory agency will propose Material Modifications or will otherwise be inconsistent with this Settlement Agreement, unless necessary based on material new information, or changed circumstances, or if required to fulfill new statutory, regulatory, or court-ordered responsibilities that become effective after the execution of this Agreement. Any Party who believes another Party has breached this provision must give the breaching Party Notice and a 30-day opportunity to cure the breach prior to initiating dispute resolution under Section 9 of this Settlement Agreement.

7.1.2 If a Party files a pleading or other document before FERC, USFS or another regulatory agency advocating a Material Modification or a measure otherwise inconsistent with this Settlement Agreement, any other Party may defend by: (a) stating its opposition; (b) requesting that FERC or other regulatory agency disapprove the proposal; and (c) explaining what other reasonable provisions should be included in and/or excluded from the License Surrender Order or SUA if the proposal is approved. Since the Parties recognize that a dispute that results in any of the defenses described in this section may threaten the viability of this Settlement, the Parties affirm their commitment to make best efforts to resolve any such dispute in a timely manner to avoid such results.

7.2 Support Adoption of License Surrender and SUA Conditions

In the FERC proceeding and all related proceedings in which they participate, all Parties shall support, as appropriate, incorporation of the Proposed License Surrender Conditions in the License Surrender Order issued by FERC. In the USFS proceeding and all related proceedings in which they participate, all Parties shall support issuance of a SUA for a term of 30 years from the SUA Effective Date and incorporation of the Proposed SUA Conditions in the SUA,

provided that the Parties acknowledge that USFS is not making a pre-decisional determination of the outcome of the SUA proceeding.

The Parties shall work together to promptly provide any necessary information to FERC and USFS, including but not limited to, any information needed to fulfill their obligations under the ESA or NEPA for the surrender of the Project License and/or issuance of the SUA, until such time as the conditions of the License Surrender Order have been satisfied and the surrender of the Project License is effective and the SUA is issued.

Recommendations under the FPA, FLPMA or other applicable law shall not contain or recommend a Material Modification. Any comments or responses to comments filed in the context of the Project License surrender or SUA process shall not request a Material Modification.

7.3 ESA Consultation

7.3.1 Notwithstanding Section 5.1, the Parties recognize that FERC and USFS will consult and may confer with USFWS pursuant to Section 7 of the ESA on issuance of the License Surrender Order and SUA. USFWS anticipates that the measures in this Settlement Agreement will be adequate to: (a) avoid a jeopardy finding for species presently listed as threatened or endangered; (b) avoid a finding of destruction or adverse modification of designated or proposed critical habitat for species presently listed as threatened or endangered; and (c) minimize incidental take of species presently listed as threatened or endangered. USFWS shall use reasonable efforts to exercise its authority under the ESA in a manner that allows this Agreement to be fulfilled. By signing this Settlement Agreement, however, USFWS is not making a pre-decisional determination of the outcome of any consultation and expressly reserves the right to take such future actions as may be necessary to meet its obligations under the ESA.

7.3.2 If FERC or USFS requests a draft Biological Opinion (“BiOp”), the USFWS shall provide one to FERC. With FERC approval, USFWS will share the draft BiOp with the PUD prior to issuing it in final form. If USFS requests a draft BiOp, the USFWS shall provide one to USFS. With USFS approval, USFWS will share the draft BiOp with the PUD prior to issuing it in final form. If appropriate, USFWS will consider consolidating its Section 7 consultations for both the License Surrender Order and the SUA.

7.3.3 Nothing in this Settlement Agreement limits or waives the authority of USFWS to take whatever action it deems necessary if FERC modifies the Proposed License Surrender Conditions or if USFS modifies the Proposed SUA Conditions in a manner causing effects to listed species or critical habitat not previously analyzed, or if either agency fails to adopt as Project License surrender conditions or SUA conditions the terms and conditions in the Incidental Take Statements.

7.3.4 If the ESA consultation process results in an inconsistency that would require a Material Modification of this Settlement Agreement, this Settlement Agreement shall be deemed modified to conform to the provisions of the BiOp, Incidental Take Statement or Reasonable and Prudent Alternatives, unless a Party provides notice to the other Parties that it

objects to such modifications and initiates dispute resolution under Section 9 of this Settlement Agreement within 30 days after the BiOp is submitted to FERC or USFS. If the provisions of the BiOp, Incidental Take Statement or Reasonable and Prudent Alternatives contain a Material Modification of this Settlement Agreement, a Party may withdraw from this Settlement Agreement after the Parties comply with the dispute resolution process in Section 9 of this Settlement Agreement.

7.3.5 A disputing Party may, in addition and to the extent provided by applicable law, seek administrative and/or judicial review of any BiOp, Incidental Take Statement, or Reasonable and Prudent Alternative that would require a Material Modification of this Settlement Agreement. The Parties shall follow the dispute resolution process set forth in Section 9 of this Settlement Agreement to the extent reasonably practicable, in order to consider modification of this Settlement Agreement, while such administrative or judicial review is pursued. If all Parties subsequently agree to modify this Settlement Agreement, the disputing Party or Parties shall withdraw or dismiss any administrative or judicial action, or recommend such withdrawal or dismissal as appropriate.

7.3.6 Unless this Settlement Agreement is terminated pursuant to Section 7.4.3.1 or Section 10, if any BiOp contains a Material Modification of this Settlement Agreement after a final and non-appealable administrative or judicial decision, this Settlement Agreement shall be deemed modified to conform to that decision.

7.4 Clean Water Act

7.4.1 Authorities under the CWA

Nothing in this Settlement Agreement is intended to or shall be construed to restrict or affect the authorities of Ecology under the CWA and other appropriate requirements of state law.

7.4.2 401 Certification

7.4.2.1 The Parties recognize that Ecology has not issued a 401 Certification related to surrender of the Project License or issuance of the SUA. Pursuant to applicable regulations, PUD will file the application set forth in Appendix I to request a Section 401 Water Quality Certification from Ecology. By entering into this Settlement Agreement, Ecology is not making a pre-decisional determination of the outcome of the 401 Certification. Implementation of the PM&Es set forth in Appendices A, B and D is not an admission by PUD that the Project causes or contributes to a violation of applicable water quality standards for temperature or that the Project reservoirs fail to comply with applicable water quality standards for temperature. Nor do the PM&Es serve as an admission by Ecology that the Project or reservoirs are in compliance with applicable temperature standards. As necessary to preserve the above understanding regarding temperature, PUD reserves the right to appeal the 401 Certification as it relates to temperature, regardless of whether the certification contains a Material Modification of this Settlement Agreement. Further, entry into this Agreement does not restrict the right of any Party to appeal the temperature Total Maximum Daily Load (“TMDL”) for the applicable segment of the Pend Oreille River.

7.4.2.2 As to PUD's application for a 401 Certification, the Parties, other than Ecology, respectfully request that Ecology accept and incorporate, without modification, as conditions to the 401 Certification issued to PUD, all Proposed License Surrender and SUA Conditions that are within Ecology's jurisdiction pursuant to Section 401 of the CWA. The Parties further request that Ecology not include in the 401 Certification conditions that constitute a Material Modification of the License Surrender Order or SUA.

7.4.2.3 Consistent with Section 5.1, Ecology anticipates, based upon existing analyses and information, that the Proposed License Surrender and SUA Conditions will be consistent with Section 401 of the CWA.

7.4.2.4 Ecology reserves the right to amend its 401 Certification by further administrative order if it determines that, based upon new information, the provisions hereof are no longer adequate to provide reasonable assurance of compliance with applicable water quality standards or other appropriate requirements of state law.

7.4.3 401 Certification Inconsistent with Settlement Agreement

7.4.3.1 If Ecology denies with prejudice PUD's request for a 401 Certification, and such denial becomes final or is affirmed by a final and non-appealable administrative or judicial decision, and therefore prevents surrender of the Project License and/or issuance of the SUA, this Settlement Agreement shall terminate.

7.4.3.2 If any 401 Certification contains a Material Modification of this Settlement Agreement, this Settlement Agreement shall be deemed modified to conform to the provisions of the Certification, unless a Party provides Notice to the other Parties that it objects and initiates dispute resolution within 30 days after the Certification is filed with FERC or USFS. If any 401 Certification contains a Material Modification of this Settlement Agreement, an aggrieved Party may withdraw from this Settlement Agreement after the Parties comply with the dispute resolution process in Section 9 of this Agreement. A disputing Party may, in addition and to the extent provided by applicable law, seek administrative and/or judicial review of: (a) any denial with prejudice of a PUD request for 401 Certification; or (b) any 401 Certification that contains a Material Modification of this Settlement Agreement. The Parties shall follow the dispute resolution process set forth in Section 9 of this Settlement Agreement to the extent reasonably practicable, in order to consider modification of this Settlement Agreement or amendment of the 401 Certification, while such administrative or judicial review is pursued. Ecology shall not be required to participate in such dispute resolution. If all Parties subsequently agree to modify this Settlement Agreement or amend the 401 Certification, the disputing Party or Parties shall withdraw or dismiss any administrative or judicial action, or recommend such withdrawal or dismissal, as appropriate.

7.4.3.3 Unless this Settlement Agreement is terminated pursuant to Section 7.4.3.1 or Section 10, if the final 401 Certification contains a Material Modification of this Settlement Agreement after a final and non-appealable administrative or judicial decision, this Settlement Agreement shall be deemed modified to conform to that decision.

7.5 Surrender of Project License and Issuance of SUA

7.5.1 License Surrender Order and SUA that Do Not Materially Modify the Settlement Agreement

The Parties have entered into this Settlement Agreement with the express expectation and condition that FERC will issue a License Surrender Order that incorporates, without Material Modification, the Proposed License Surrender Conditions as enforceable conditions of such order, and that the USFS will issue a SUA to the PUD that incorporates, without Material Modification, the Proposed SUA Conditions as enforceable conditions of the SUA. The Parties agree that if FERC and USFS do so, none of the Parties will seek rehearing of the FERC License Surrender Order as to the Proposed License Surrender Conditions or an appeal of the SUA as to the Proposed SUA Conditions, or support any such request for rehearing or appeal by a non-Party to this Settlement Agreement. If FERC issues a License Surrender Order that contains a modification other than a Material Modification of the Settlement Agreement, the PUD shall comply with both the License Surrender Order and the Settlement Agreement to the extent legally permissible; if PUD cannot comply with both the License Surrender Order and the Settlement Agreement, this Settlement Agreement shall be deemed modified to conform to the License Surrender Order. If FERC issues a License Surrender Order that incorporates, without Material Modification, the Proposed License Surrender Conditions as enforceable conditions, and if the USFS issues a SUA that incorporates, without Material Modification, the Proposed SUA Conditions as enforceable conditions, the Parties may only seek rehearing or appeal on issues not covered by the Settlement Agreement, Proposed License Surrender Conditions or Proposed SUA Conditions. Any Party seeking rehearing or appeal on any issue shall provide Notice to the Parties as far in advance as practicable before filing a rehearing request or appeal. This provision shall not apply to Ecology if the License Surrender Order or SUA is inconsistent with the 401 Certification, and shall not apply to a Party submitting a term and condition of a BiOp, if the License Surrender Order or SUA is inconsistent with that BiOp term or condition.

7.5.2 License Surrender Order or SUA that Materially Modifies the Settlement Agreement

If the License Surrender Order or SUA contains a Material Modification of the Settlement Agreement, this Settlement Agreement shall be deemed modified to conform to such modification unless: (a) the Material Modification results from an omission of a requirement that obligated the PUD to take some action and the PUD can still take such action pursuant to the Settlement Agreement without violating any condition of the License Surrender Order or SUA; or (b) a Party adversely affected by the Material Modification provides Notice to the other Parties that it objects and initiates dispute resolution under Section 9 of this Settlement Agreement within 30 days of issuance of the License Surrender Order or SUA. For Modifications that fall within subpart (a), the PUD shall comply with the Settlement Agreement regardless of whether dispute resolution has been initiated.

7.5.2.1 Disputing Inconsistencies

The disputing Party or Parties may petition FERC for rehearing, file an appeal with the USFS pursuant to 36 C.F.R. § 251.80, request a stay or extension, or seek judicial review of any FERC or USFS condition or omission of any Proposed License Surrender Condition or Proposed SUA Condition, that results in a Material Modification of the Settlement Agreement. The Parties shall

follow the dispute resolution process set forth in Section 9 of this Settlement Agreement while any such rehearing, appeal or request for stay or extension is pursued. Any disputing Party or Parties may ask FERC, USFS or the court to defer action on the merits of any rehearing request or appeal while dispute resolution is pursued. If all Parties subsequently agree to modify this Settlement Agreement to conform to the inconsistent action, the disputing Party or Parties shall withdraw or dismiss any administrative or judicial action, or recommend such withdrawal or dismissal, as appropriate.

7.6 Requests for Stay or Extension of Implementation

7.6.1 If the License Surrender Order or SUA is challenged, a Party may at its discretion request from FERC, USFS or a court a stay or extension of any challenged obligation in the License Surrender Order or SUA for the duration of the administrative or judicial review process. Any other Party may oppose the request for stay or extension.

7.6.2 The requesting Party shall contact the other Parties in advance of seeking a stay or extension and make reasonable efforts to discuss the scope of any request. Any Party that opposes a request for stay or extension shall contact the other Parties and make reasonable efforts to discuss the scope and extent of its opposition, prior to making any filing in opposition to FERC, USFS or the court.

7.7 Responsibility for Implementation

The PUD shall implement its obligations under this Settlement Agreement, License Surrender Order and SUA. The PUD shall not be excused from this obligation due to a failure by any other Party, entity or person to provide funding or carry out a duty, obligation, or responsibility it may have with respect to the PUD's Project pursuant to other laws or agreements. Notwithstanding, the PUD shall have no obligation to reimburse or otherwise pay any other Party for its assistance, participation, or cooperation in any activities pursuant to this Settlement Agreement, the License Surrender Order or SUA unless expressly agreed to by the PUD or as required by law. In the event of administrative rehearing or judicial review, Parties shall bear their own costs and attorneys' fees, unless otherwise provided by applicable law.

7.8 Availability of Funds

Implementation of this Settlement Agreement by any Party other than the PUD is subject to the availability of funds. Nothing in this Settlement Agreement shall be interpreted as, or constitute a commitment or requirement that the federal agencies obligate or pay funds in violation of the Anti-Deficiency Act, 31 U.S.C. § 1341, *et seq.*, and other applicable law. Nothing in this Settlement Agreement is intended or shall be construed to commit a federal official to expend federal funds not appropriated by Congress.

7.9 Permits

7.9.1 The PUD shall apply for and use active and diligent efforts to obtain in a timely manner and in final form all applicable federal, state, regional, and local permits, licenses, authorizations, certifications, determinations, and other governmental approvals ("Permits") for purposes of implementing the License Surrender Order and SUA. Active and diligent efforts

include, but are not limited to, seeking appropriate administrative review of permitting decisions, reapplying as necessary, or timely submitting requested additional information. Permit applications shall be consistent with this Settlement Agreement. The PUD shall pay all fees required by law related to such Permits. The PUD shall not be held in breach of this Settlement Agreement if it cannot legally implement an action because all applicable Permits required for that action have been applied for but are not yet obtained, or because a necessary Permit has been denied or includes a Material Modification of the Settlement Agreement.

7.9.2 If a proceeding challenging any Permit required for the action has been commenced, the PUD shall be under no obligation under this Settlement Agreement to implement the action or any related action until any such proceeding is terminated. If any Permit has been denied or challenged, includes a Material Modification of the Settlement Agreement, or is not obtained in a timely manner, the Parties shall confer to evaluate the effect of such event on implementation of this Settlement Agreement, License Surrender Order and SUA and to seek to develop actions to respond to that event.

7.9.3 The Parties recognize that a Permit delay or denial, or a Permit that contains a Material Modification of the Settlement Agreement, in itself does not alleviate the PUD's responsibility to comply with a License Surrender Order or SUA condition but may be the basis for requesting FERC or USFS to amend the License Surrender Order or SUA. If the Parties do not agree on actions to respond to that event, a Party may initiate dispute resolution pursuant to Section 9 to address the issue of necessary actions to respond to Permit delays or denials or Material Modifications. In the event that the Parties do not agree on actions to respond to a Permit delay or denial or Material Modifications, then the Permit delay or denial or Material Modifications may constitute material new information or a basis for withdrawal pursuant to Section 10.

7.9.4 Nothing in this Section shall be construed to limit the PUD's right to apply for a Permit before issuance of the License Surrender Order or SUA, provided that any such applications shall not contain a Material Modification of the Settlement Agreement.

7.10 Amendment of License Surrender Order or SUA

7.10.1 Amendment by a Party Other than the PUD

A Party other than the PUD may request FERC to amend the License Surrender Order or request USFS to amend the SUA, if necessary, based on material new information or changed circumstances, or if required to fulfill new statutory, regulatory, or court-ordered responsibilities that become effective after the execution of this Agreement. Each Party reserves all rights under applicable law to challenge any exercise of reserved authority at the time of the exercise of such authority, including any rights provided under the FPA or FLPMA, if the action would constitute a Material Modification of the Settlement Agreement, License Surrender Order or SUA.

7.10.2 Amendments by PUD

7.10.2.1 Amendments that Do Not Contain a Material Modification of the Settlement Agreement

The PUD may seek amendments of the License Surrender Order or SUA for operational improvements or efficiencies, routine amendments, or similar Project modifications that do not contain a Material Modification of the Settlement Agreement. Each Party reserves all rights under applicable law to challenge or comment on any application for such amendment.

7.10.2.2 Amendments that Contain a Material Modification of Settlement Agreement

The PUD may seek an amendment of the License Surrender Order or SUA as necessary for the Project that would contain a Material Modification of the Settlement Agreement to comply with any FERC, State or USFS directive pertaining to dam safety, flood control, or Project security. The PUD may seek such amendment following discussions with the Parties, in an effort to achieve consensus on the amendment proposal, including, if necessary, the initiation of dispute resolution under Section 9 of this Settlement Agreement.

Additionally, the PUD may seek such an amendment that would contain a Material Modification of the Settlement Agreement in response to: (a) material new information, changed circumstances, or if required to fulfill new statutory, regulatory, or court-ordered responsibilities that become effective after the execution of this Agreement; (b) another Party's proposal to amend under Section 7.10.1; (c) a non-Party's proposal to amend the License Surrender Order or SUA that would contain a Material Modification of the Settlement Agreement; or (d) a BiOp that would result in a Material Modification of the Settlement Agreement issued after the time period for appeal of the License Surrender Order or SUA has passed. Any proposal the PUD may submit under (b) or (c) above would be conditional and withdrawn if FERC or USFS, as applicable, declines to adopt the other Party or non-Party's initial proposal; and the PUD shall notify FERC or USFS of the conditional nature of its proposed amendment. Other Parties may oppose the PUD's proposed amendment and comment and/or propose counter-amendments.

Each Party reserves all rights under applicable law to challenge or comment on any application for amendment of the License Surrender Order or SUA. The provisions of this Settlement Agreement shall remain in effect as unmodified by any amendment until the effective date such amendment is approved by FERC or USFS, as applicable.

7.10.3 Notice and Consultation Requirement for Amendment of License Surrender Order or SUA

Prior to seeking an amendment of the License Surrender Order or SUA under Sections 7.10.1 or 7.10.2, a Party shall provide the proposed amendment to the other Parties for review and comment at least 90 days before initiating the amendment process with FERC or USFS, and shall consult with the Parties starting at least 60 days before initiating the amendment process with FERC or USFS regarding the need for and purpose of the amendment.

A Party shall not be required to comply with this 90-day Notice and comment process if it reasonably believes an emergency situation exists or the Parties otherwise agree; and provided further, that the Party shall comply with any statutory or regulatory requirements for notice or consultation.

If a Party proposes an amendment that another Party believes would contain a Material Modification of the Settlement Agreement or would adversely affect resources under its authority, and objects, then the dispute resolution provisions in Section 9 of this Settlement Agreement shall apply, and the objecting Party must invoke dispute resolution during the 90-day Notice period or waive its objection.

7.11 Amendment of Settlement Agreement

Except as otherwise provided, this Settlement Agreement may be amended at any time from the Effective Date throughout its term, by written unanimous agreement of all Parties still in existence, including any successors.

7.12 Cooperation Among Parties

The Parties shall cooperate in the implementation of this Settlement Agreement, the License Surrender Order and SUA.

7.13 Removal of Mill Pond Dam and Restoration of Sullivan Creek

SCL and the PUD shall undertake the removal of the Mill Pond Dam and related restoration, monitoring and maintenance work as provided in this Section. The Parties agree that this work will remove a fish passage barrier in the vicinity of the Boundary Project, providing potential access to 16 miles of spawning, rearing, overwintering and foraging habitat.

7.13.1 Mill Pond Dam Removal and Restoration Definition

Mill Pond Dam removal and restoration shall consist of all of the activities described in the Mill Pond Decommissioning Plan to be submitted as part of the PUD's application for surrender of the Project License and set forth as Appendix E to this Agreement.

7.13.2 Mill Pond Dam Monitoring and Maintenance Definition

Mill Pond monitoring and maintenance shall include all of the activities described in the Mill Pond Dam Site Monitoring and Maintenance license article for the Boundary Project set forth in Article 9(F) of Exhibit 1 to the Boundary Project Settlement Agreement.

7.13.3 Roles and Responsibilities

7.13.3.1 SCL's Roles and Responsibilities

Through the Mill Pond Interlocal Agreement, SCL shall, as a cooperating agency of the PUD, undertake all aspects of the removal of the Mill Pond Dam, as described in the Mill Pond Decommissioning Plan and as approved by the Commission, other than those relating to the assessment and protection of cultural and historic resources. SCL shall also implement the Mill Pond Dam Site Monitoring and Maintenance license article for the Boundary Project as approved by the Commission.

7.13.3.2 PUD's Roles and Responsibilities

The PUD shall be responsible for the removal of the Mill Pond Dam, in the manner and according to the schedule described in the Mill Pond Decommissioning Plan set forth in Appendix E hereto, and in the PUD's License Surrender Application. Through the Mill Pond Interlocal Agreement, the PUD authorizes SCL to undertake all aspects of the removal of the Mill Pond Dam, as described in the Mill Pond Decommissioning Plan and as approved by the Commission, other than those relating to the assessment and protection of cultural and historic resources. The PUD shall be responsible for undertaking those aspects of the Mill Pond Decommissioning Plan relating to the assessment and protection of cultural and historic resources.

7.13.3.3 USFS's Roles and Responsibilities

USFS shall be responsible for the maintenance of the existing or new bridge to the heritage interpretative site at the Mill Pond Dam following the completion of construction activities relating to dam removal and channel restoration required by the Mill Pond Decommissioning Plan.

7.13.4 Material Modification

If, for any reason, Mill Pond Dam is not removed as provided in this Section, it shall constitute a Material Modification.

7.14 Cold Water Release From Sullivan Lake

SCL and the PUD shall jointly undertake the funding, design, permitting, construction, monitoring, operation, and maintenance of the cold water release facility as provided in this Section to improve native salmonid habitat conditions in Sullivan Creek and to provide cooler water input to the Pend Oreille River.

7.14.1 Cold Water Release Facility Definition

The cold water release facility shall consist of a gravity water supply 48 inches in diameter, with fish screens at the inlet, and using an existing low-level outlet from Sullivan Dam, all as described in Appendix F of this Agreement.

7.14.2 Roles and Responsibilities

7.14.2.1 SCL's Roles and Responsibilities

SCL shall be responsible for funding fifty percent (50%) of the actual design, permitting and construction costs, and 50% of the projected monitoring, operation, and maintenance costs, of the cold water release facility. As provided in the Cold Water Release MOA between SCL and the PUD, SCL shall pay its share of design costs, and projected monitoring and O&M costs, after final design, and SCL shall pay its share of permitting and construction costs after construction.

7.14.2.2 PUD's Roles and Responsibilities

The PUD shall include construction of the cold water release facility in its application for surrender of the Project License, with construction of the facility to be complete within three years of FERC's issuance of the License Surrender Order. The PUD shall be responsible for funding all remaining costs, other than costs payable by SCL, of the design, permitting, construction, monitoring, operation, and maintenance of the cold water release facility. The PUD shall implement the design, permitting, construction, monitoring, operation, and maintenance of the cold water release facility in accordance with the Cold Water Release Facility Plan set forth in Appendix F hereto. The PUD shall monitor, operate and maintain the cold water release facility in accordance with this Agreement, specifically including the Proposed License Surrender and SUA Conditions relating to Sullivan Lake discharge rates and lake levels, and in accordance with Washington water quality standards as provided in the 401 Certification to be issued to the PUD.

7.14.3 Acknowledgements and Agreements

The Parties acknowledge that SCL's participation in the cold water release facility as provided in this Section, together with the other actions required under the Temperature Attainment Plan included as Exhibit 9 to the Boundary Project Settlement Agreement, will directly contribute towards meeting any obligations SCL may have under the forthcoming temperature TMDL (Water Quality Improvement Plan) for the Pend Oreille River. The Parties further acknowledge that Ecology has exclusive jurisdiction to implement the TMDL in the Boundary Reach of the Pend Oreille River (from the Box Canyon tailrace to the Canadian border), including preparation of any Water Quality Implementation Plan. The Parties, other than Ecology and the Tribe, agree that they will not request or advocate in any proceeding that Ecology, the Commission or another entity require of SCL any additional measures relating to temperature in the Boundary Reach, over and above SCL's participation in the cold water release facility as provided in this section and the other requirements of the TAP (including without limitation Mill Pond Dam removal). Subject to Section 7.4.2.1 of the Boundary Project Settlement Agreement, the Tribe agrees that, after the TMDL is issued by Ecology and the Tribe or by Ecology, the Tribe will not request or advocate in any proceeding that Ecology, the Commission or another entity require of SCL any additional measures relating to temperature in the Boundary Reach, over and above those required in the TMDL.

The Parties acknowledge that PUD's participation in the cold water release facility as provided in this Section will directly contribute towards meeting any obligations PUD may have under the forthcoming temperature TMDL for the Pend Oreille River.

7.14.4 Material Modification

If, for any reason, the cold water release facility is not constructed as provided in this Section, it shall constitute a Material Modification.

7.14.5 Construction of Cold Water Release Under SUA

In the event that the Commission does not require construction of the cold water release facility in the License Surrender Order:

(a) Within 60 days of such order, the PUD shall request that USFS process the PUD's application for the SUA. USFS costs for this work shall be reimbursed pursuant to Section 11.14;

(b) Within 180 days of such order, the PUD shall apply for an amendment to the Project License for authorization from the Commission to construct a cold water release facility or, in the alternative, request the Commission to remove Sullivan Lake Dam and Reservoir from the Project License; and

(c) The PUD shall construct the cold water release facility within three years of either of the following two events: (1) the Commission amends the Project License to authorize construction of the cold water release facility, or (2) USFS issues an SUA authorizing construction and operation of the cold water release facility and FERC has either removed Sullivan Lake Dam and Reservoir from the Project License or issued the License Termination Order.

7.15 Water Supply Program

The PUD shall have the right to sell or lease up to 5000 acre feet ("AF") of the useable storage in Sullivan Lake annually for use outside the Sullivan Creek drainage between June 1 and August 31. The total of up to 5000 AF includes water released under the new minimum discharge flow requirement in the Proposed SUA Conditions that is in excess of the old minimum flow requirement of 10 cfs in Outlet Creek. The PUD shall give priority consideration to the Columbia River Basin Water Supply Management Program. If the PUD files an application with Ecology for approval of such sale or lease pursuant to the Columbia River Basin Water Supply Management Program, the Parties other than the PUD and Ecology shall support the PUD's application before Ecology subject to the provisions of this Agreement. The manner in which such storage is released annually shall be subject to the Proposed SUA Conditions set forth in Appendix D of this Agreement.

The PUD shall make all revenue from any sale or lease of water from Sullivan Lake immediately available for operation and maintenance of Sullivan Lake Dam and the other Proposed SUA Conditions. Such revenue shall be placed in a separate internal account held and managed by the PUD for the purposes set forth in this subsection. Funding priority shall be given to operation and maintenance and mitigation measures. Remaining funds, if any, may be considered for use on future projects that are approved after consultation with the Resource Committee.

7.16 Sullivan Creek Diversion Dam and Conduit

No PM&E measures shall be required in connection with the prior use and occupancy of NFS lands by the Sullivan Creek diversion dam and conduit that were part of the original Sullivan Creek hydroelectric project that operated from 1910 to 1956.

8. Resource Committee

8.1 Committee Representation

The Parties have designated their representatives in Appendix G to serve on the Resource Committee. Each Party with representation on the Resource Committee shall have one vote.

8.2 Authority and Purpose of the Resource Committee

The Resource Committee shall be the forum for consultation and coordination among the Parties only for certain PM&E measures as specified in Appendix A to this Agreement. Such measures will be implemented in consultation with the Resource Committee as provided in Appendix A and subject to approval of the appropriate agencies as provided under this Agreement.

8.3 Meetings

The Resource Committee shall meet as necessary to discharge its responsibilities under Appendix A to this Agreement, including any consultations and/or approvals that may be required under Appendix A. The Resource Committee shall meet when requested by any member following Notice. Individuals representing entities that are not a Party to this Agreement may attend meetings following unanimous consent of all of the Parties.

8.4 Chair of the Resource Committee

The PUD shall serve as the administrative Chair of the Resource Committee and provide a forum for all meetings. The Chair shall prepare Notices of proposed meetings, agendas, meeting minutes, and an annual report on the implementation of the measures in Appendix A that are subject to consultation or approval of the Resource Committee..

8.5 Meeting Notice

The Chair shall provide all Committee members with a minimum of 10 days written Notice of all proposed meetings unless the members waive Notice in writing or such waiver is reflected in the approved meeting minutes. The Notice shall contain an agenda of all matters to be addressed and/or voted on during the meeting. To determine the date for a meeting, the Chair will poll the members in an effort to identify a meeting date on which all interested Parties are able to attend. If a date is not available for all Parties to meet within a reasonable time, the Chair will select the date that best accommodates the most Parties.

8.6 Voting

The Resource Committee shall act on any agenda item subject to its approval by consensus. Consensus is achieved when all voting members cast a supportive or neutral vote or have abstained from the decision. When any vote is taken at a meeting, the PUD shall provide the results to and seek the vote of non-present members within three days. Resource Committee members not present must inform the PUD of their vote within 10 days after the meeting or they shall be deemed to have abstained from the decision.

If the Resource Committee cannot reach consensus on an agenda item subject to its approval, then upon request by any Party, that item shall be referred to the dispute resolution process set forth in Section 9 of this Agreement. The Parties shall negotiate in good faith and attempt to resolve issues within the Committee prior to referring issues to dispute resolution.

Any entity that is not a Party to this Agreement shall not have voting rights on the Resource Committee or any subcommittee thereof.

8.7 Studies, Reports and Meeting Minutes

The Chair will make available any draft study plan or report to all members of the Resource Committee as soon as practicable. Draft study plans and reports will be distributed to Committee members for review and comment. Such comments will be provided to the Chair within 30 days of receipt of the draft study or report unless the Committee decides otherwise. At the conclusion of the 30 day comment period, if needed, the PUD shall convene a meeting of the Resource Committee to discuss the comments on the draft study plan or report and attempt to reach consensus. The PUD shall file with the Commission until the surrender of the Project License has become effective and thereafter with the USFS in accordance with the conditions of the SUA, the final study plan or report and documentation of consultations with the Resource Committee. Comments will be either addressed in order within the final study plan or report or made an appendix to such document. The PUD shall provide a copy of the final plan or report to Resource Committee members 10 days before filing it with the Commission or USFS.

The Chair will provide draft meeting minutes, including any proposed or final statements of agreement, within 10 days after each meeting. Statements of agreement shall be based on consensus of the Committee members. Minutes shall reflect all significant Committee discussions and decisions. All Party representatives who participated in the meeting will be allowed 10 days to provide corrections and comments in writing to the Chair. Final meeting minutes will be provided to the members of the Committee as soon as practicable after comments have been received. If disagreements exist as to the proposed meeting minutes, then the Chair will include all perspectives in the final minutes.

The Chair will prepare an annual report, which shall include all final reports, meeting minutes and statements of agreement, and a list of proposed actions approved by the Resource Committee. The Chair will provide the draft annual report to the Committee members for review and approval. Comments will be provided in writing to the Chair within 30 days of receipt unless the Resource Committee provides otherwise. The Chair will file the annual report with the Commission until the surrender of the Project License has become effective and thereafter with the USFS in accordance with the conditions of the SUA.

8.8 Federal Advisory Committee Act

Resource Committee participation by state or federal agencies does not affect their responsibilities and authorities. Issues involving the exercise of agencies' specific authorities can be discussed but decisions are not delegated to the Resource Committee. The Resource Committee does not provide consensus advice to any federal agency (consistent with the Federal Advisory Committee Act).

9. Dispute Resolution

9.1 General Applicability

9.1.1 The Parties agree to use the following alternative dispute resolution process to resolve disputes related to this Settlement Agreement, unless otherwise specifically provided in this Settlement Agreement or precluded by statute or agency regulation.

9.1.2 Within 5 days of a Party initiating dispute resolution under this Section, if the dispute resolution proceedings are relevant to a FERC filing or currently pending FERC filing, the Party shall provide notice to FERC that dispute resolution has been initiated. Such notice will identify the portions of the FERC filing that are related to dispute but need not discuss the nature of the dispute or the Parties' positions.

9.1.3 The Parties agree to devote such time and attention to dispute resolution as necessary and reasonable to attempt to resolve the dispute at the earliest time possible; and each Party will cooperate in good faith promptly to schedule, attend, and participate in dispute resolution. Each Party will promptly implement all final agreements reached, consistent with its applicable statutory and regulatory responsibilities.

9.1.4 The dispute resolution provisions of this Settlement shall not apply to Ecology insofar as Ecology is exercising its statutory authority to enforce the requirements of a 401 Certification, applicable water quality requirements, or other appropriate requirements of state law. However, Ecology, in its sole discretion, may choose, upon specific request, to participate in a dispute resolution process in such circumstances.

9.2 Dispute Resolution Procedures

9.2.1 Dispute Initiation Notice

A Party claiming a dispute shall provide timely Notice to the other Parties, describing the matter(s) in dispute and any proposed relief or resolution. Each Party that wishes to participate in dispute resolution shall provide written Notice to the other Parties within 20 days of receiving the dispute initiation Notice. If a dispute initially arises within the Resource Committee as described in Section 8, the Party claiming a dispute shall provide timely Notice to the other Parties that are members of such Committee. If the dispute is not resolved within the Committee as described in Section 8, the Party claiming a dispute shall provide timely Notice to all Parties when the dispute is referred to the Dispute Resolution Committee, describing the matter(s) still in dispute and any proposed relief or resolution.

9.2.2 General Dispute Resolution Procedures

9.2.2.1 The Parties that have upper-level management have designated their representatives in Appendix H to serve on the Dispute Resolution Committee in the event that the dispute resolution procedures in Section 9 of this Settlement Agreement are necessary. The Parties that do not have upper-level management will be represented on the Dispute Resolution Committee by their signatories.

9.2.2.2 Except as provided in Section 9.2.3, any dispute arising outside the context of the Resource Committee process will first be addressed among the disputing Parties. The disputing Parties shall hold at least two informal meetings to resolve the dispute, unless agreed otherwise, commencing within 30 days after the dispute initiation Notice and concluding within 60 days of the first meeting. The 60-day period may be extended upon mutual agreement of the disputing Parties. If the disputing Parties are unable to resolve the dispute by mutual agreement, at least one meeting will be held by the Dispute Resolution Committee to seek resolution. Each Party's representative to the Dispute Resolution Committee will be an upper-level management Party representative, except as otherwise provided in Section 9.2.2.1. If the Dispute Resolution Committee fails to resolve the dispute by consensus (as defined in Section 8) within 60 days of Notice to the Dispute Resolution Committee, the Dispute Resolution Committee may, by unanimous consent, agree to mediation and proceed as described in Section 9.2.6. The Party giving Notice of the dispute shall be responsible for coordinating all meetings under this Section and shall make good faith efforts to coordinate a meeting time and location satisfactory to all disputing Parties.

9.2.3 Resolution of Disputes for Resource Committee

Any dispute among the members of the Resource Committee will first be addressed at the level of the Committee. Members of the Resource Committee, pursuant to Section 8, have the right under this Settlement Agreement to initiate dispute resolution pursuant to Section 9. To initiate dispute resolution, a Resource Committee member claiming a dispute will give Notice of the dispute as described in Section 9.2.1. Within 20 days after such Notice of a dispute, PUD will convene at least one meeting of the Resource Committee in person or by conference call to attempt to resolve the dispute. The Resource Committee procedures set forth in Section 8 will apply to the meeting. If the dispute is not resolved by the Resource Committee within 15 days after the meeting, a Resource Committee member may notify the other Committee members that this effort to resolve the dispute has failed, in which case PUD will refer the dispute to the Dispute Resolution Committee and follow the procedure described in Section 9.2.2.2.

9.2.4 Costs for Dispute Resolution

Unless otherwise agreed among the Parties, each Party will bear its costs for its own participation in a dispute resolution process.

9.2.5 Continued Operation of the Project and Filings During Dispute Resolution

Pending resolution of any dispute under this Section 9, and subject to the authority of FERC, USFS or another agency with jurisdiction to order otherwise and the Parties' reservation of remedies, the PUD may continue operating the Project in the manner of its operation immediately before the time when the dispute arose. Pending resolution of any dispute, the PUD may make a FERC or USFS filing relating to a disputed issue in order to comply with applicable filing requirements. Any other Party may oppose or respond to the PUD's filing.

9.2.6 Mediation

If mediation is agreed to under Section 9.2.2.2, the Dispute Resolution Committee shall choose a mediator within 30 days of the conclusion of the meetings described in Section 9.2.2.2. Mediation shall not occur if the Dispute Resolution Committee cannot unanimously agree on the allocation of costs for the mediator or choice of mediator. The mediation process shall be concluded not later than 60 days after the mediator is selected. The above time periods may be shortened or lengthened by consensus (as defined in Section 8) of the Dispute Resolution Committee.

9.2.7 Dispute Resolution Notice

The Party initially giving Notice of the dispute shall provide Notice to all Parties of the result of the dispute resolution process.

9.2.8 FERC or USFS Filings after Dispute Resolution

If a dispute relating to an issue that was the subject of a FERC or USFS filing is successfully resolved, the PUD shall inform FERC or USFS of the outcome of dispute resolution. If the PUD is required to make a FERC or USFS filing relating to an issue that was not successfully resolved through dispute resolution, such filing will include the PUD's reasons, based on Project-specific information, for not adopting a Party's recommendation or for seeking FERC or USFS approval without obtaining agency approval. Any other Party may oppose or respond to the PUD's filing.

9.2.9 Effect of Dispute Resolution on Other Proceedings

The dispute resolution process in this Section 9 does not preclude any Party from timely filing and pursuing an action for administrative or judicial relief of any FERC order, USFS decision, compliance matter, or other regulatory action related to the License Surrender Order or SUA; provided that any such Party shall initiate dispute resolution pursuant to this Section 9 as soon as practicable thereafter or concurrently therewith.

9.3 Remedies

The Parties reserve all remedies for material breach of the License Surrender Order, SUA or this Settlement Agreement, including seeking an amendment of such order or SUA or other appropriate relief from FERC or USFS.

10. Withdrawal from Settlement Agreement

10.1 Withdrawal of a Party from Settlement Agreement

10.1.1 The Party whose interests are adversely affected by a Material Modification or a Party's action that is materially inconsistent with the terms of this Settlement Agreement, License Surrender Order or SUA may withdraw from this Settlement Agreement. A Party may withdraw under this Section only after the Parties comply with the dispute resolution process in Section 9 of this Settlement Agreement. Following completion of the dispute resolution process, the aggrieved Party shall provide Notice to the other Parties of its withdrawal from this Settlement Agreement pursuant to Section 11.11. In addition, when a Party ceases to

exist and has no successors or assigns, it will be deemed to have withdrawn from this Settlement Agreement, but such withdrawal will not give any other Party the right to withdraw.

10.1.2 If the PUD is required to make a FERC or USFS filing addressing an issue(s) not successfully resolved through dispute resolution pursuant to Section 9, no Party involved in that dispute may withdraw from this Settlement Agreement until FERC or USFS issues an order or decision on the PUD's filing. Any Party materially aggrieved by the FERC order or USFS decision as it relates to the disputed matter may then withdraw pursuant to this Section, seek rehearing before FERC or appeal before USFS as applicable, or exercise any other remedy available under applicable law. For issues that do not require a FERC or USFS filing, the disputing Party or Parties may withdraw from this Settlement Agreement following completion of the dispute resolution process set forth in Section 9.

10.2 Effective Date of Withdrawal

If dispute resolution is unsuccessful and the aggrieved Party provides Notice of withdrawal, the withdrawal shall become effective 10 calendar days after such Notice.

10.3 Termination of Settlement Agreement

Upon expiration of the SUA, or upon withdrawal from this Settlement Agreement by the PUD, or upon a denial of 401 Certification as set forth in Section 7.4.3.1, this Settlement Agreement shall terminate as to all Parties and have no force or effect, except that all Parties shall continue to be bound by Sections 5.2 and 11.1, which shall survive termination. The withdrawal of any Party other than the PUD does not automatically terminate this Settlement Agreement for the remaining Parties. However, the remaining Parties will meet within 20 days, or as otherwise agreed, to discuss the effect of the withdrawal and whether they will continue to operate under the Agreement. A withdrawing Party shall not be bound by any term contained in this Settlement Agreement, except Sections 5.2 and 11.1.

11. Miscellaneous

11.1 Settlement Agreement Negotiations Privileged and Confidential

Unless the Parties agree otherwise, all discussions, communications, drafts, work papers, and notes relating to this Settlement Agreement and created prior to the Effective Date shall be deemed confidential and shall not be discoverable or admissible in any forum or proceeding for any purposes to the fullest extent allowed by applicable law, including 18 C.F.R. § 385.606, except: (a) those documents submitted to FERC as a part of the Offer of Settlement; (b) all documents cited by the documents included with the Offer of Settlement; and (c) final resource studies developed for use by the Parties. This provision does not apply to any information that was in the public domain prior to the development of the Settlement Agreement or that became part of the public domain at some later time through no unauthorized act or omission by any Party. This provision does not apply to any information held by: (a) a federal agency that is not protected from disclosure pursuant to the Freedom of Information Act; or (b) a Washington State agency that is not protected from disclosure under the Public Records Act, Ch. 42.56 RCW, or other applicable law; provided, however, that prior to the release of any such information, the

federal or state agency shall make reasonable efforts to notify all Parties of receipt of a request for release of the information and a reasonable opportunity for any Party to seek a protective order preventing the disclosure of the information as is consistent with that agency's obligations under the law. This Section 11.1 shall survive termination of the Settlement Agreement.

11.2 Severability of Terms of Settlement Agreement

This Settlement Agreement is made on the understanding that each term is in consideration and support of every other term, and each term is a necessary part of the entire Settlement Agreement. Notwithstanding, if a court rules that any provision in this Settlement Agreement is invalid, the Parties agree to meet and confer regarding the continued viability of this Settlement Agreement.

11.3 No Third Party Beneficiaries

This Settlement Agreement shall not create any right or interest in any member of the public as a third-party beneficiary and shall not authorize any non-Party to maintain a suit at law or equity pursuant to this Settlement Agreement. The duties, obligations and responsibilities of the Parties with respect to third parties shall remain as imposed under applicable law.

11.4 Successors, Transferees and Assigns

This Settlement Agreement shall apply to and be binding on the Parties and their successors and assigns. Any voluntary assignment by a Party shall not be effective unless approved by the PUD, which approval shall not be unreasonably withheld. A partial assignment is not permitted. After the PUD's approval of the assignment, the assignee shall sign this Settlement Agreement and become a Party.

11.4.1 Succession

In the event of succession by any Party, whether by statute, executive order or operation of law or contract, or any other means, the successor shall become a Party to and be bound by the terms of this Settlement Agreement, to the extent permitted by law.

11.4.2 Continuation of Certain Obligations

Upon completion of a succession or assignment, the initial Party shall no longer be a Party to this Settlement Agreement. It shall continue to be bound by Sections 5.2 and 11.1.

No change in ownership of the Project or transfer of the Project License by the PUD shall in any way modify or otherwise affect any other Party's interests, rights, responsibilities or obligations under this Settlement Agreement. Unless prohibited by applicable law, the PUD shall provide in any transaction for a change in ownership of its Project or transfer of its Project License, that such new owner shall be bound by, and shall assume the rights and obligations of the PUD under this Settlement Agreement upon completion of the change of ownership and approval by FERC of the transfer of Project License and issuance of a new SUA by the USFS to the new Project owner.

11.4.3 Notice

The PUD transferring pursuant to Section 11.4 or an assigning Party shall provide Notice to the other Parties at least 30 days prior to the proposed effective date of such transfer or assignment.

11.5 No Liability for Force Majeure

No Party shall be in breach of its obligations or liable to any other Party for breach of this Settlement Agreement as a result of a failure to perform if said performance is made impracticable due to an event of *Force Majeure*. The term “*Force Majeure*” means any cause reasonably beyond the Party’s control, whether unforeseen, foreseen, foreseeable, or unforeseeable, including but not limited to: acts of God, fire, war, insurrection, civil disturbance, explosion; adverse weather conditions that could not be reasonably anticipated causing unusual delay in transportation and/or field work activities; restraint by court order or order of public authority; inability to obtain - after exercise of reasonable diligence, timely submittal of all applicable applications, and exhaustion of available administrative and judicial remedies - any necessary authorizations, approvals, Permits or licenses due to action or inaction of any governmental agency or authority; or labor disputes or strikes which are reasonably beyond the control of the Party seeking excuse from performance. *Force Majeure* does not include lack of resources.

11.6 Process to Respond to Force Majeure Event

The Party whose performance is affected by *Force Majeure* shall provide Notice to the other Parties as soon as reasonably practicable. This Notice shall include: (a) a description of the event causing the delay or anticipated delay; (b) an estimate of the anticipated length of the delay; (c) a description of the measures taken or to be taken to avoid or minimize the delay; and (d) a proposed timetable for the implementation of the measures or performance of the obligation. The affected Party shall make all reasonable efforts to promptly resume performance of the obligation. It shall provide verbal and written Notice when it resumes performance of the obligation. If an event of *Force Majeure* prevents performance of one or more PM&E measures for a prolonged period, the Parties recognize that re-initiation of consultation under the ESA may be required.

11.7 Waiver

The failure of any Party to insist, on any occasion, upon strict performance of any provision of this Settlement Agreement shall not be considered a waiver of any obligation, right or duty of, or imposed upon, such Party.

11.8 Governing Law and Venue

11.8.1 Governing Law

The License Surrender Order and SUA shall be governed, construed, and enforced in accordance with federal law and regulation.

11.8.2 Venue

By executing this Settlement Agreement, no federal agency is consenting to the jurisdiction of a state court unless such jurisdiction otherwise exists. In the event an action proceeds in state court, the action shall be brought in the courts of the State of Washington.

11.8.3 Tribal Sovereign Immunity Waiver and Consent to Federal Court Jurisdiction

The Tribe expressly waives any claim or assertion of sovereign immunity from an action by the PUD to interpret or enforce any provision or rights granted in this Settlement Agreement. The Tribe consents to the jurisdiction of the federal courts for any dispute involving the interpretation or enforcement of this Settlement Agreement.

11.9 Elected Officials, Employees and Agents Not to Benefit

No elected officials, employees or agents thereof shall be entitled to any share or part of this Settlement Agreement or to any benefit that may arise from it.

11.10 Relationship of the Parties

Except as otherwise expressly set forth herein, nothing contained in this Settlement Agreement is intended or shall be construed to create an association, trust, partnership or joint venture, or impose any trust or partnership duty, obligation or liability on any Party, or create an agency relationship between or among the Parties or between any Party and any employee of any other Party.

11.11 Notice

11.11.1 Any Notice required by this Settlement Agreement shall be written. If practicable, Notice shall be provided by e-mail or facsimile to all Parties. Notice shall also be sent to all Parties by first-class mail or comparable method of distribution, and as applicable shall be filed with FERC and/or USFS.

11.11.2 For the purposes of this Settlement Agreement, and unless otherwise specified, a Notice, including Notice via e-mail or facsimile, shall be effective upon receipt, but if provided only by U.S. Mail, seven days after the date on which it is mailed. When this Settlement Agreement requires Notice in fewer than seven days, Notice shall be provided by facsimile or e-mail and shall be effective when provided.

11.11.3 For the purpose of Notice, the list of authorized representatives of the Parties as of the Effective Date is attached as Appendix G. The Parties shall provide Notice of any change in the authorized representatives designated in Appendix G, and the PUD shall maintain the current distribution list of such representatives. The Parties acknowledge their responsibility to keep the other Parties informed of their current address, telephone, facsimile and e-mail information. Notice obligations under this Section are in addition to any notice provisions required by applicable law.

11.12 Entire Agreement

This Settlement Agreement contains the complete and exclusive agreement among all of the Parties with respect to the subject matter thereof, and supersedes all discussions, negotiations, representations, warranties, commitments, offers, contracts, agreements in principle, and other writings prior to the Effective Date of this Settlement Agreement, with respect to its subject matter. Nothing in this Agreement shall be interpreted to supersede, modify or limit the effectiveness of the Boundary Project Settlement Agreement.

11.13 Section Titles for Convenience Only

Section titles in this Settlement Agreement are used only for convenience of reference and organization, and shall not be used to modify, explain, or interpret any Settlement Agreement provisions or the Parties' intentions.

11.14 Costs

Unless otherwise provided in this Settlement Agreement, each Party shall bear its own costs of implementing this Settlement Agreement.

The PUD shall reimburse the USFS for the cost to the USFS of issuing the SUA to the PUD and of monitoring the Project facilities that will occupy NSF lands during the term of the SUA. The PUD shall provide cost recovery of these expenses to the USFS under a USFS master agreement to be negotiated and approved as provided for in 36 C.F.R. § 251.58, as amended or superseded by other USDA regulations.

11.15 Time

All time is specified in number of days. The day of the triggering event is excluded from the count. For any time period that is five days or less, intervening Saturdays, Sundays and legal holidays are excluded. For any time period over five days, all intervening Saturdays, Sundays and legal holidays are included. The last day is included, but if it falls on a Saturday, Sunday or legal holiday, the time is extended to the following non-Saturday, Sunday or legal holiday.

12. Execution of Settlement Agreement

12.1 Signatory Authority

Each signatory to this Settlement Agreement certifies that he or she is authorized to execute this Settlement Agreement and to legally bind the Party he or she represents, and that such Party shall be fully bound by the terms hereof upon such signature without any further act, approval, or authorization by such Party.

12.2 Signing in Counterparts

This Settlement Agreement may be executed in any number of counterparts, and each executed counterpart shall have the same force and effect as if all signatory Parties had signed the same instrument. The signature pages of counterparts of this Settlement Agreement may be compiled without impairing the legal effect of any signatures thereon.

13. List of Appendices, Exhibits and Attachments

13.1 Appendices

Appendix A: PM&E Measures for License Surrender and SUA

Exhibit 1: Decision Tree for Spring Filling Rate Adjustments

Exhibit 2: Decision Tree for Dry Year Flow Releases

Appendix B: Proposed License Surrender Conditions

Appendix C: Special Use Authorization Application

Appendix D: Proposed Special Use Authorization Conditions

Appendix E: Mill Pond Decommissioning Plan

Appendix F: Cold Water Release Facility Plan

Appendix G: Authorized Party Representatives for Resource Committee and Communications

Appendix H: Authorized Party Representatives for Dispute Resolution Committee

Appendix I: Sullivan Creek Clean Water Act § 401 Certification Application

13.2 Attachments

Attachment 1: Mill Pond Interlocal Agreement

Attachment 2: Cold Water Release Memorandum of Agreement

Attachment 3: Fisheries Management Memorandum of Agreement

IN WITNESS WHEREOF the Parties have executed this Settlement Agreement as of the date last signed below.

Date 3/17/10

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

By *Robert D. Geddes*
NAME *Robert D. Geddes*
TITLE *General Manager*

Date _____

U.S. FOREST SERVICE

By _____
NAME _____
TITLE _____

Date _____

U.S. FISH AND WILDLIFE SERVICE

By _____
NAME _____
TITLE _____

Date _____

BUREAU OF INDIAN AFFAIRS

By _____
NAME _____
TITLE _____

Date _____

SEATTLE CITY LIGHT

By _____
NAME _____
TITLE _____

Date March 19, 2010

U.S. FOREST SERVICE

By 

NAME Mary Wagner

TITLE Regional Forester

IN WITNESS WHEREOF the Parties have executed this Settlement Agreement as of the date last signed below.

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

Date _____

By _____
NAME _____
TITLE _____

U.S. FOREST SERVICE

Date _____

By _____
NAME _____
TITLE _____

U.S. FISH AND WILDLIFE SERVICE

Date 3/26/2010

By Ken S. Berg
NAME Ken S. Berg
TITLE Manager, WFWO

BUREAU OF INDIAN AFFAIRS

Date _____

By _____
NAME _____
TITLE _____

SEATTLE CITY LIGHT

Date _____

By _____
NAME _____
TITLE _____

IN WITNESS WHEREOF the Parties have executed this Settlement Agreement as of the date last signed below.

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

Date _____

By _____
NAME _____
TITLE _____

U.S. FOREST SERVICE

Date _____

By _____
NAME _____
TITLE _____

U.S. FISH AND WILDLIFE SERVICE

Date _____

By _____
NAME _____
TITLE _____

BUREAU OF INDIAN AFFAIRS

Date 3/18/2018

By 
NAME Stanley Spears
TITLE Northwest Regional Director

SEATTLE CITY LIGHT

Date _____

By _____
NAME _____
TITLE _____

IN WITNESS WHEREOF the Parties have executed this Settlement Agreement as of the date last signed below.

Date _____

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

By _____
NAME _____
TITLE _____

Date _____

U.S. FOREST SERVICE

By _____
NAME _____
TITLE _____

Date _____

U.S. FISH AND WILDLIFE SERVICE

By _____
NAME _____
TITLE _____

Date _____

BUREAU OF INDIAN AFFAIRS

By _____
NAME _____
TITLE _____

Date 3/18/10

SEATTLE CITY LIGHT

By Jorge Carrasco
NAME Jorge Carrasco
TITLE Superintendent

Date 3-16-10

WASHINGTON DEPARTMENT OF FISH AND WILDLIFE

By 
NAME Philip ANDERSON
TITLE Director

Date _____

WASHINGTON DEPARTMENT OF ECOLOGY

By _____
NAME _____
TITLE _____

Date _____

KALISPEL TRIBE OF INDIANS

By _____
NAME _____
TITLE _____

Date _____

SELKIRK CONSERVATION ALLIANCE

By _____
NAME _____
TITLE _____

Date _____

THE LANDS COUNCIL

By _____
NAME _____
TITLE _____

Date _____

AMERICAN WHITEWATER

By _____
NAME _____
TITLE _____

Date _____

WASHINGTON DEPARTMENT OF FISH AND WILDLIFE

By _____
NAME _____
TITLE _____

Date 18 March 2010

WASHINGTON DEPARTMENT OF ECOLOGY

By *Grant D. Pfeifer*
NAME Grant D. Pfeifer
TITLE Regional Director

Date _____

KALISPEL TRIBE OF INDIANS

By _____
NAME _____
TITLE _____

Date _____

SELKIRK CONSERVATION ALLIANCE

By _____
NAME _____
TITLE _____

Date _____

THE LANDS COUNCIL

By _____
NAME _____
TITLE _____

Date _____

AMERICAN WHITEWATER

By _____
NAME _____
TITLE _____

Date _____

WASHINGTON DEPARTMENT OF FISH AND WILDLIFE

By _____
NAME _____
TITLE _____

Date _____

WASHINGTON DEPARTMENT OF ECOLOGY

By _____
NAME _____
TITLE _____

Date 3-16-10

KALISPEL TRIBE OF INDIANS

By R. Pierre III
NAME Ray Pierre III
TITLE vice-chairman

Date _____

SELKIRK CONSERVATION ALLIANCE

By _____
NAME _____
TITLE _____

Date _____

THE LANDS COUNCIL

By _____
NAME _____
TITLE _____

Date _____

AMERICAN WHITEWATER

By _____
NAME _____
TITLE _____

Date _____

WASHINGTON DEPARTMENT OF FISH AND WILDLIFE

By _____
NAME _____
TITLE _____

Date _____

WASHINGTON DEPARTMENT OF ECOLOGY

By _____
NAME _____
TITLE _____

Date _____

KALISPEL TRIBE OF INDIANS

By _____
NAME _____
TITLE _____

Date 03/17/2010

SELKIRK CONSERVATION ALLIANCE

By _____
NAME Mark Sprangel
TITLE Exec. Dir

Date _____

THE LANDS COUNCIL

By _____
NAME _____
TITLE _____

Date _____

AMERICAN WHITEWATER

By _____
NAME _____
TITLE _____

P.U.D. NO. 1
of Pend Oreille Co.
MAR 18 2010
Received By _____
OK To File _____

Date _____

WASHINGTON DEPARTMENT OF FISH AND WILDLIFE

By _____
NAME _____
TITLE _____

Date _____

WASHINGTON DEPARTMENT OF ECOLOGY

By _____
NAME _____
TITLE _____

Date _____

KALISPEL TRIBE OF INDIANS

By _____
NAME _____
TITLE _____

Date _____

SELKIRK CONSERVATION ALLIANCE

By _____
NAME _____
TITLE _____

Date _____

THE LANDS COUNCIL

By Steve Lewellen
NAME Steve Lewellen
TITLE Board President

Date _____

AMERICAN WHITEWATER

By _____
NAME _____
TITLE _____

Date _____

WASHINGTON DEPARTMENT OF FISH AND WILDLIFE

By _____
NAME _____
TITLE _____

Date _____

WASHINGTON DEPARTMENT OF ECOLOGY

By _____
NAME _____
TITLE _____

Date _____

KALISPEL TRIBE OF INDIANS

By _____
NAME _____
TITLE _____

Date _____

SELKIRK CONSERVATION ALLIANCE

By _____
NAME _____
TITLE _____

Date _____

THE LANDS COUNCIL

By _____
NAME _____
TITLE _____

Date 3/18/10

AMERICAN WHITEWATER

By 
NAME KEVIN R. COLBURN
TITLE NATIONAL STEWARDSHIP DIRECTOR

Date 3/18/10

Richard Larson
RICK LARSON

Date 3/17/2010

Alan C. Six
AL SIX

Date 3/15/10

TOWN OF CUSICK, WASHINGTON
By Robert Spencer
NAME ROBERT SPENCER
TITLE MAYOR

APPENDIX A TO SULLIVAN CREEK SETTLEMENT AGREEMENT

**PM&E MEASURES FOR LICENSE SURRENDER AND SPECIAL USE
AUTHORIZATION**

APPENDIX A
Protection, Mitigation and Enhancement Measures
Settlement Agreement for Sullivan Creek Project
Surrender of FERC License No. 2225 and
Issuance of USDA Forest Service Special Use Authorization

Protection, Mitigation and Enhancement Measures

A. Sullivan Dam Operation and Maintenance and Sullivan Lake Reservoir Operation

1. Sullivan Dam Operation and Maintenance PUD shall be responsible for all operation and maintenance (O&M) of Sullivan Lake Dam, including applicable measures consistent with the Washington State Department of Ecology Dam Safety Program, the USFS Dam Management Program and/or FERC License Surrender Order. This will include:
 - 1.1. Developing and maintaining an O&M manual.
 - 1.2. Conducting regularly scheduled piezometer inspections and recordings.
 - 1.3. Conducting annual surficial inspections and maintaining records of findings and of actions taken to correct problem conditions.
 - 1.4. Submitting to the Department of Ecology and the USFS a copy of the annual inspection checklist and inspection findings. The annual report will be available to the Resource Committee upon request (either written or verbal).
 - 1.5. Developing, maintaining, and implementing an Emergency Action Plan (EAP) as directed by the appropriate agencies.
 - 1.6. Cooperating and participating in scheduled and/or unscheduled inspections by the Department of Ecology and USFS.
 - 1.7. PUD shall be responsible for application inspection fees charged by the Department of Ecology. Upon request (either written or verbal), PUD shall provide Resource Committee representatives access to Sullivan Dam and to pertinent Project records for the purpose of inspecting the facilities to determine compliance with these conditions; provided that Resource Committee representatives show proper credentials, give responsible notice of such inspections, and follow PUD's standard safety procedures when engaged in such inspections.
2. Cold Water Release from Sullivan Lake SCL and the PUD shall jointly undertake the funding of design, permitting, construction, monitoring, operation, and maintenance of a cold water release facility consisting of a 48 inch diameter pipe, with fish screens at the inlet and routed through one of the three existing low-level outlet gates at Sullivan Dam as provided in this section and the Cold Water Release Facility Plan in Appendix F to the Settlement Agreement (EES, February, 2010).

- 2.1. The PUD shall complete construction of the cold water release facility within three years of FERC's issuance of the License Surrender Order.
 - 2.2. SCL shall be responsible for funding fifty percent (50%) of the actual design, permitting, and construction costs, and 50% of the projected monitoring, operation, and maintenance costs of the cold water release facility. PUD's share of the total costs shall be fifty percent (50%) of the actual costs of design, permitting and construction, and the remainder of the costs of monitoring, operation and maintenance over the term of the SUA. As provided in the Cold Water Release Memorandum of Agreement between SCL and the PUD, SCL shall pay its share of design costs and projected monitoring and O&M costs after final design, and SCL shall pay its share of permitting and construction costs after construction.
3. Temperature Gauges
 - 3.1. Below Confluence Water Temperature Gauge To achieve the criteria for mixed water temperature after the confluence of Sullivan Creek and Outlet Creek described in section A.4. below, a continuous water temperature monitoring station (gauge) shall be installed and maintained by PUD on Sullivan Creek at least 300 feet downstream of the confluence with Outlet Creek.
 - 3.2. Above Confluence Water Temperature Gauge A continuous water temperature monitoring station (gauge) shall be installed and maintained by PUD on Sullivan Creek upstream of its confluence with Outlet Creek.
 4. Reservoir Level Operations and Requirements Upon completion of the cold water release facility, PUD shall operate Sullivan Lake Reservoir in the following manner each year:
 - 4.1. Spring Operations
 - 4.1.1. Each year PUD shall start refilling Sullivan Lake on or before April 1st and shall seek to achieve and maintain a full Sullivan Lake elevation of 2588.66 ft MSL (as measured at Sullivan Lake Dam) subject to hydrologic conditions, water availability and dam discharge flow requirements defined in sections A.6, A.9 and A.11. Refilling rates shall also be adjusted as necessary to accommodate the Harvey Creek Bedload Mobilization activities, as described in section A.9 below.

4.2. Summer Operations

- 4.2.1. During the summer period, defined as June 1 through Labor Day each year, the target Sullivan Lake level will be 2588.66 ft (full pool). Although lake level modeling indicates that in dry years the lake may not be completely full by June 1 and in wet years water may be spilled, PUD shall use its best efforts to reach and maintain that level.
- 4.2.2. PUD shall comply with the required minimum dam discharge flows during the summer period as described in section A.6.
- 4.2.3. PUD shall manage the discharges from the cold water pipe and the Sullivan Lake Dam gates: (1) to meet state water temperature standards (WAC 173-201A-200); (2) with the goal of preventing the daily average “below confluence water temperature” from exceeding 14 degrees C; and (3) with the goal of preventing the daily average “below confluence water temperature” from deviating from the daily average Sullivan Creek “above confluence water temperature” by more than 1 degree C, when daily average “above confluence water temperature” is less than 14 degrees C.

4.3. Fall Operations

- 4.3.1. Drawdown shall be initiated the day following Labor Day each fall and shall be conducted in the manner described below.
 - 4.3.1.1. PUD shall manage the discharges from the cold water pipe and the Sullivan Lake Dam gates: (1) to meet state water temperature standards (WAC 173-201A-200); (2) with the goal of preventing the daily average “below confluence water temperature” from exceeding 14 degrees C; and (3) with the goal of preventing the daily average “below confluence water temperature” from deviating from the daily average Sullivan Creek “above confluence water temperature” by more than 1 degree C, when daily average “above confluence water temperature” is less than 14 degrees C.
 - 4.3.1.1.1. PUD will strive to maintain the operation described in the goal (3) immediately above until fall turnover. Once fall turnover occurs in Sullivan Lake (mid-October), Sullivan Creek temperatures may fall below Outlet Creek temperatures by several degrees, and it may not be possible to maintain a 1 degree C water temperature difference.
 - 4.3.1.2. Subject to the temperature constraints above, PUD shall strive to maximize discharge flows through the cold water pipe and minimize the use of the low-level gates at the dam during fall drawdown. When low level gates are used, releases shall be made from two gates simultaneously.
 - 4.3.1.3. Discharge flows shall be ramped up no more than 80 cfs per day as measured at the Outlet Creek gauge.

- 4.3.1.4. PUD shall strive to reach a drawdown target lake water surface elevation of 2577 ft by no later than November 15. After November 15 PUD shall strive to release all water through the cold water pipe.
 - 4.3.1.5. Discharge flows shall be forecasted and posted online one week in advance to support recreational use. To the extent consistent with other constraints in this subsection, drawdown will be managed to provide discharge flows between 180 and 220 cfs on at least 3 weekends in September or October to support whitewater paddling.
 - 4.3.1.6. Down ramping rate when changing release flows shall not exceed 10 cfs per hour as measured at the Outlet Creek gauge.
 - 4.3.1.7. To prevent thermal shock of the downstream system, flows shall be up ramped or down ramped to prevent waters below the confluence from changing daily average temperature more than 2 degrees C per day.
 - 4.3.1.8. Drawdown shall be managed with the goal of reaching a lake water surface elevation of 2570.0 ft by December 31.
5. Interim Operations Following FERC's issuance of the Sullivan Creek License Surrender Order, and prior to the construction of the Cold Water Release Facility, PUD shall operate as follows:
- 5.1. Spring Operations
 - 5.1.1. Each year PUD shall start refilling Sullivan Lake on or before April 1st and shall seek to achieve and maintain a full Sullivan Lake elevation of 2588.66 ft MSL (as measured at Sullivan Lake Dam) subject to hydrologic conditions, water availability and dam discharge flow requirements defined in sections A.6, A.9, A.11. Refilling rates shall also be adjusted as necessary to accommodate the Harvey Creek Bedload Mobilization activities, as described in section A.6, below.
 - 5.2. Summer Operations
 - 5.2.1. During the summer period, defined as June 1 through Labor Day each year, the target Sullivan Lake level will be 2588.66 ft (full pool). Although lake level modeling indicates that in dry years the lake may not be completely full by June 1 and in wet years water may be spilled, PUD shall use its best efforts to reach and maintain that level.
 - 5.2.2. PUD shall comply with the required minimum dam discharge flows during the summer period as described in section A.6.
 - 5.3. Fall Operations

- 5.3.1. PUD shall initiate drawdown the day following Labor Day each fall and shall operate in a manner that reaches the maximum flow target as quickly as possible, given the following constraints:
 - 5.3.1.1. Discharge flows shall be managed to meet state water temperature standards (WAC 173-201A-200) and will under no circumstances cause the combined waters of Outlet Creek and Sullivan Creek as measured at “below confluence water temperature gauge” to exceed 16 degrees C.
 - 5.3.1.2. PUD shall strive to reach a drawdown target lake water surface elevation of 2577 ft by no later than November 15.
 - 5.3.1.3. Discharge flows will ramp up no more than 80 cfs per day but not to exceed a change of more than 2 degrees C in average daily temperature per day as measured at the below confluence water temperature gauge. This criterion shall be subject to monitoring and adaptive management, as approved by the Resource Committee.
 - 5.3.1.4. Discharge maximum flow target shall be 200 cfs, except during periods of higher than average precipitation the maximum flow target shall be 225 cfs.
 - 5.3.1.5. Down ramping rate shall not exceed 10 cfs per hour.
 - 5.3.1.6. Drawdown shall be managed with the goal of reaching a Lake water surface elevation of 2570.0 ft by December 31.
6. Sullivan Lake Dam Minimum Discharge Flows Each year PUD shall maintain minimum discharge flows in Outlet Creek, measured by the Outlet Creek USGS gauging station, as follows:
 - 6.1. June 1 through June 30, minimum discharge flows shall be 30 cfs.
 - 6.2. July 1 through the end of fall drawdown (when elevation reaches 2570.0 ft), minimum discharge flows shall be 20 cfs.
 - 6.3. From the date Sullivan Lake reaches elevation 2570.0 ft until the beginning of spring filling (per section A.4), discharge flows shall equal inflows from Harvey Creek.
 - 6.4. From April 1 through May 31, minimum discharge flows shall be 10 cfs or inflows, whichever is less.
7. Limitations Regarding Sullivan Lake Surface Elevations and Discharge Flow Requirements
 - 7.1. PUD shall comply with the Sullivan Lake water surface elevations and discharge flow requirements at all times; subject to short term deviations due to equipment failures, maintenance activities, electric and mechanical device limitations, safety inspections,

testing, natural disasters (floods), and Harvey Creek Bedload Mobilization activities described in section A.9, below.

- 7.2. PUD shall use the existing USGS stream gauge on Outlet Creek and install a new Sullivan Lake level recording gauge at Sullivan Dam to record data to demonstrate compliance with discharge flow requirements. If USGS ceases to maintain the Outlet Creek stream gauge, PUD will thereafter maintain the gauge.

8. Protecting Sport Fisheries

- 8.1. To assist in protecting sport fisheries in Sullivan Lake, PUD shall avoid fish entrainment at the Sullivan Lake Dam by screening the cold water intake pipe and managing lake discharge flows to minimize the use of the low level outlet gates in the dam. The screens shall meet NOAA design criteria of 0.2 feet per second (fps) approach velocity. These steps shall satisfy the WDFW requirements for a fish exclusionary device. PUD shall not be required to screen the dam low-level outlet gates.

- 8.2. To mitigate for fish entrainment that occurs due to spill over the dam or use of the unscreened low-level outlet gates, and for loss of productivity that occurs due to dam operations, PUD shall provide to WDFW pursuant to the MOA, included as Attachment 3, within one year of the issuance of the License Surrender Order, a one time initial payment of \$200,000 (adjusted for inflation from 2010 as agreed upon between WDFW and PUD), and thereafter \$20,000 annually for 17 years. Funds shall be used for fisheries management for Sullivan Lake and associated tributaries.

9. Harvey Creek Bedload Mobilization PUD shall manage Sullivan Lake surface elevations to facilitate the mobilization of Harvey Creek bedload consistent with the provisions of this Appendix and subject to future study and/or decision-making through consultation and approval of the Resource Committee.

These measures shall be referred to as the Harvey Creek Bedload Mobilization Project (“Harvey Creek Project”). The various lake operating scenarios to implement the Harvey Creek Project and the explanation of the basis for these measures are as described in the report entitled: “Sullivan Lake – Decisions About Filling and Draining Rates- An Interactive Approach” by EES Consulting, dated November 2009.

The Harvey Creek Project shall be implemented as summarized in the Decision Tree matrix (Exhibit 1) as follows:

- 9.1. PUD, in consultation with the Resource Committee, shall begin to examine available regional flow projections, snow pack data, and run-off forecasts by April 1 each year to determine if the spring run-off can reasonably be expected to be at least 120% of the long term average.
- 9.2. If the Resource Committee agrees, by April 20 each year, based on the forecasts above, that the forecasts predict it will be a 120% or greater spring run-off year, the decision

will be made to hold Sullivan Lake level at no more than elevation 2575.0 ft until May 20 of that year, and the operating provisions described below will be implemented.

- 9.3. Flows in Harvey Creek will be monitored. If before May 20, Harvey Creek reaches a flow of 250 cfs or more, when the flow begins to recede from its peak, the lake filling can resume at its normal rate.
- 9.4. On May 20, regardless of Harvey Creek flows, lake filling will resume at its normal rate.
- 9.5. After each year that the “lake level hold-down” is attempted as part of the Harvey Creek Project, the Resource Committee will meet after July 1 and examine the effectiveness of the lake level hold-down, whether or not the forecasts were correct, whether or not a high flow event actually occurred on Harvey Creek, and whether or not the Harvey Creek flow was adequate to move sediments and bedload, achieving the goal of reducing sediment buildup at the Harvey Creek stream entrance to the lake. After four lake level hold-downs, the Resource Committee will meet to evaluate whether or not further operating changes are warranted or whether the Harvey Creek Project should be discontinued.
- 9.6. PUD shall install a new stream gauge on Harvey Creek to USGS standards and shall operate and maintain this gauge to collect flow data required to implement the Harvey Creek Project.

10. Recreation Mitigation Measures

- 10.1. PUD shall, in consultation with Sullivan Lake dock and launch facility owners, evaluate the functionality of existing facilities under the operational regime of section A.11.
- 10.2. PUD shall, prior to beginning of operational changes under section A.11, mitigate all functional deficiencies for facilities that were in existence at the end of 2009.
- 10.3. Improvements to any USFS facilities must meet USFS standards and be approved by the USFS.
- 10.4. The PUD shall make all reasonable efforts to facilitate public recreational access to lower Sullivan Creek in the vicinity of Highway 31 for the life of the SUA. Efforts may include:
 - i) Negotiating land, easements, or binding agreements that provide access.
 - ii) Utilizing existing PUD property.
 - iii) Collaborating with WDOT during bridge reconstruction to assure access is provided.

10.5. The PUD shall construct and/or maintain simple parking facilities for at least two cars if property is available per subsection 10.4.i) or 10.4.ii) above, unless other parties adopt this responsibility by written agreement with the PUD.

10.6. Funding for subsection 10.4 and 10.5 above shall come from proceeds under the Water Supply Program, described in section A.11, subject to selection of the project for funding by the Resource Committee, in consultation with American Whitewater. Absent such funding, the PUD will also investigate the availability of additional sources of funding.

11. Water Supply Program PUD may sell or lease up to 5,000 acre feet (AF) of the useable storage in Sullivan Lake annually for use outside the Sullivan Creek drainage¹ between June 1 and August 31. The total of up to 5,000 AF includes water released under the new minimum discharge flow regime (described in section A.6 above) that is in excess of the old minimum flow of 10 cfs in Outlet Creek. PUD shall give priority consideration to the Columbia River Basin Water Supply Management Program.

For the purposes of this water supply program, the PUD shall release water at a rate described in Table 1, not to exceed 2.0 times the minimum discharge flow requirement of section A.6. Water shall be released at as steady a rate as possible, as measured by the day-to-day change in daily average cfs.

The higher discharge flows listed in Table 1 will occur in wet and average water years. In dry water years, the lower flows shown in Table 1 shall be released. Whether or not a dry year is occurring will be decided by May 20 each year by the Resource Committee utilizing adaptive management and the decision tree shown in Exhibit 2.

Table 1 shows the range of water supply discharge flows, which includes the minimum discharge flows (as described in section A.6).

Table 1. Water Supply Discharge Flows	
Period*	Discharge Flow (cfs)
June Week 1	50-60
June Week 2	50-60
June Week 3	50-60
June Week 4	50-60
July Week 1	40-45
July Week 2	35-40
July Week 3	30-35
July Week 4	30-35

¹ In order to realize the environmental, habitat, and conservation benefits of water released under section A.11, *outside the Sullivan Drainage* means downstream (in the Pend Oreille River / Columbia River system) of the calculated range of thermal mixing of Sullivan Creek water into the Pend Oreille River or presumptively, river mile 26 on the Pend Oreille River.

Aug Week 1	30-35
Aug Week 2	30-35
Aug Week 3	30-35
Aug Week 4	30-35
Sept Week 1	30-35

*Week 4 of each calendar month above maybe longer than seven days. Week 1 of each calendar month begins on the first day of that month.

PUD shall manage the discharges shown in Table 1 above: (1) to meet state water temperature standards (WAC 173-201A-200); (2) with the goal of preventing the daily average “below confluence water temperature” from exceeding 14 degrees C; and (3) with the goal of preventing the daily average “below confluence water temperature” from deviating from the daily average Sullivan Creek “above confluence water temperature” by more than 1 degree C, when daily average “above confluence water temperature” is less than 14 degrees C.

12. **Revenue** PUD shall make all revenue from any sale or lease of water from Sullivan Lake immediately available for operation and maintenance of Sullivan Lake Dam and mitigation measures required under the License Surrender Order, SUA and/or conditions required under the Sullivan Creek Settlement Agreement. Said funds will be placed in a separate internal account held and managed by PUD for the purposes as stated above. Priority of the revenue funds will be given to operations and maintenance and mitigation measures. Remaining funds, if any, may be considered for use on future projects that are approved after consultation with the Resource Committee.

B. Mill Pond Dam Decommissioning Plan

1. PUD shall implement the final Mill Pond Dam Removal and Restoration Design Plan (Final Design Plan) upon FERC approval.

The Final Design Plan shall be completed and filed with FERC within 24 months of FERC’s issuance of the License Surrender Order. The Final Design Plan will be approved by the USFS and Ecology prior to filing it with FERC. The Final Design Plan shall be a refinement of the Mill Pond Decommissioning Plan in Appendix E to the Settlement Agreement (included as part of the Sullivan Creek License Surrender Application) and contain final site specific designs and adaptive management provisions as described in the Mill Pond Decommissioning Plan.

2. PUD shall be responsible for undertaking appropriate measures to mitigate for impacts to heritage resources as a result of removal of Mill Pond Dam. The PUD shall be responsible for an archaeological survey and monitoring within the Area of Potential Effect prior to and during stream restoration activities. The PUD will consult with the Washington State Historic Preservation Office, the USFS, FERC, Kalispel Tribe, and other entities required by Section 106 requirements to develop mitigation measures to address adverse effects of the proposed Mill Pond Dam removal to National Register of Historic Places eligible resources. The agreed upon mitigation measures will be expressed in a Memorandum of Agreement (MOA)

to be signed by the PUD, the USFS, SCL, the Kalispel Tribe, the Washington State Historic Preservation Officer and the Advisory Council on Historic Preservation (if they choose). Implementation of the MOA will conclude the Project's National Historic Preservation Act Section 106 requirements.

Exhibit 1: Decision Tree for Spring Filling Rate Adjustments to Facilitate Harvey Creek Bedload Mobilization per A.9

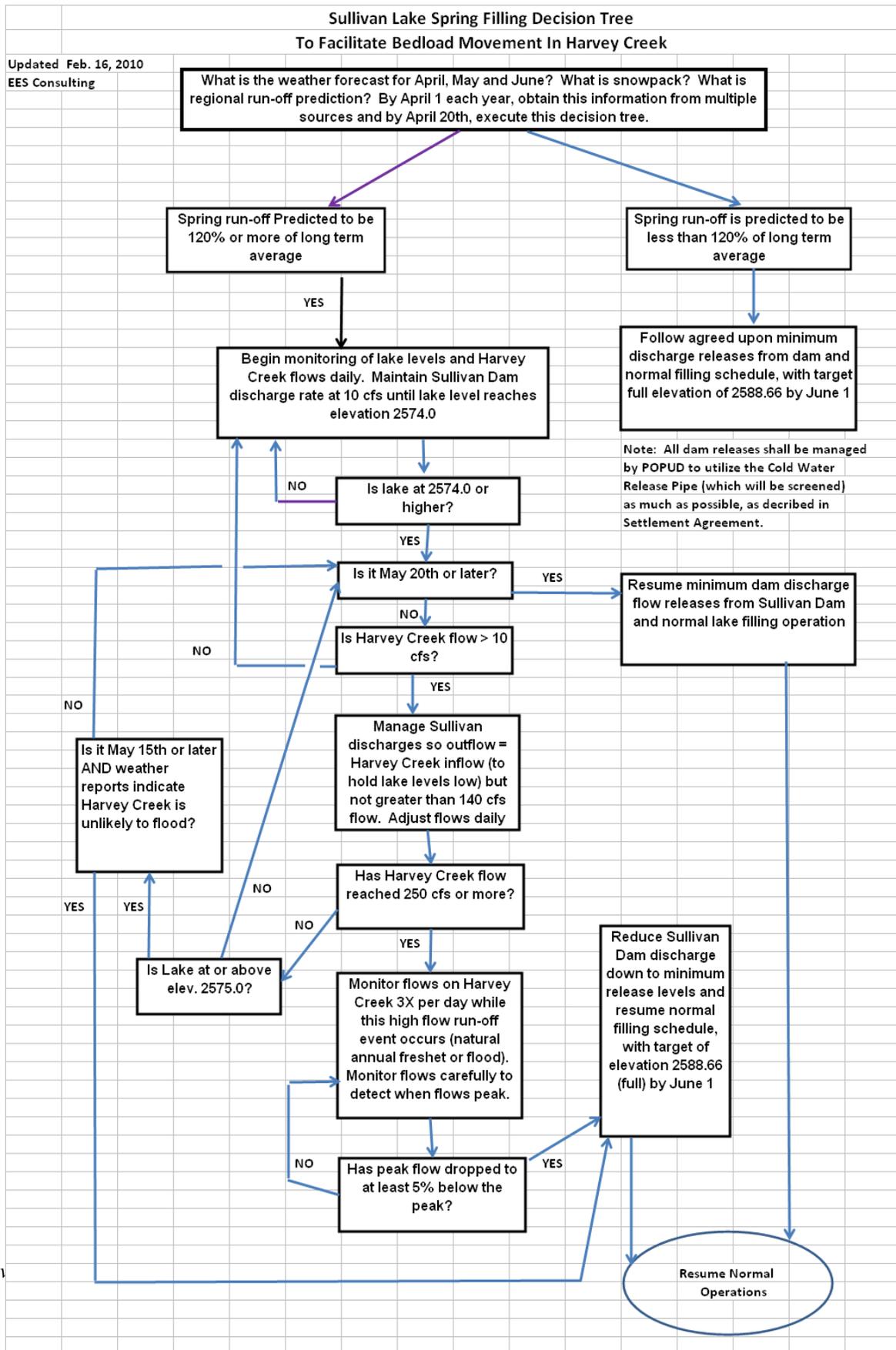


Exhibit 2: Decision Tree for Dry Year Flow Releases

