



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

POWER BUSINESS LINE

January 29, 2003

In reply refer to: P-6

Letter of Agreement
Contract No. 03PB-11279

Mr. Keith Klein, Manager
U.S. Department of Energy A7-50
Richland Operations Office
P. O. Box 550
Richland, WA 99352

Mr. J. V. Parrish, Chief Executive Officer
Energy Northwest - MD 1023
P. O. Box 968
Richland, WA 99352

Mr. James O. Luce, Chairman
Washington Energy Facility Site Evaluation Council
P. O. Box 43172
Olympia, WA 98504-3172

Gentlemen:

In September 2002, Energy Northwest, the Department of Energy - Richland Operations Office ("RL") and the Bonneville Power Administration ("Bonneville") reached agreement on a proposed WNP-1/4 site restoration and funding plan. Since that time, Energy Northwest and Bonneville management and staff have held numerous discussions with the State of Washington's Energy Facility Site Evaluation Council ("EFSEC") Chair and staff in order to reach agreement on that proposal. The four entities (hereafter "Parties") have now concluded all discussions and have agreed on a new 9-point WNP-1/4 site restoration and funding proposal ("Proposal"). The purpose of this letter of agreement is to describe the Proposal and document our agreement with it.

Independent, outside consultants assessed the costs and benefits of a range of restoration alternatives for WNP-1 and WNP-4. Benefits were assessed in terms of protection of the public's health and safety and the environment. Based on those assessments, Energy Northwest recommended to EFSEC that a Level 3D (with the exception of leaving in place the turbine pedestals) restoration alternative would represent a proper balance between the priority objective of protecting the public's health and safety while being both environmentally responsible and cost effective. That level of restoration has been adopted in this Proposal.

Additionally, considerable effort has been focused on investigating reuse opportunities for the WNP-1 and WNP-4 facilities and clarifying site emergency preparedness procedures related to operations at the adjacent Columbia Generating Station. Based on interest expressed, there is some potential for economic development and reuse of a portion of the facilities at both sites.

Also, there are immediate health and safety concerns to address, mainly at WNP-4. However, starting major Level 3D restoration tasks beyond addressing these immediate concerns at this time would preclude the future use of these facilities. Thus, the immediate initiation of major site restoration activities at either site is neither appropriate nor necessary. Delaying major site restoration expenditures also provides a solution to the lack of funding for WNP-4 restoration, by allowing WNP-1 restoration funds to grow to the point that they can cover both projects.

Accordingly, the Proposal to assure funding for WNP-1 and WNP-4 restoration is as follows:

1. Within 18-24 months of EFSEC approval of a revised Level 3D site restoration plan (Plan)¹ enclosed herein, "health, safety and environmental protection" activities needed to assure that WNP-1 and WNP-4 remain in a "safe state" compatible with reuse shall be completed by Energy Northwest/Bonneville or their designated contractor. The cost for these near-term restoration activities is expected to be between \$3-4 million, with most activities occurring at WNP-4. These tasks are currently being prioritized and their costs estimated. If these costs exceed \$4 million, Energy Northwest/Bonneville may request a reasonable extension of time to complete these tasks. Approval of such extension shall not be unreasonably withheld by EFSEC.
2. Energy Northwest/Bonneville or their designated contractor shall: 1) commence by no later than 23 years; and 2) complete no later than 26 years from the date of EFSEC's approval of the Plan, all final Level 3D activities; provided, however, that at the request of Energy Northwest/Bonneville or RL if Energy Northwest elects not to maintain site control, EFSEC shall revisit either date without prejudice if facility reuse or sequencing of WNP-1/4 restoration activities with Columbia Generating Station decommissioning activities warrant extending either date. Approval of such extension of time shall not be unreasonably withheld by EFSEC.
3. Bonneville guarantees funding of restoration activities and environmental mitigation pursuant to the approved Plan and paragraph 6 below. The cost/funding requirement is estimated at \$45 million in 2003 dollars. In the event that the \$45 million estimate (appropriately adjusted for costs incurred) escalated to 2025 dollars proves to be inaccurate and results in insufficient funds being available to complete the restoration activities in 26 years, Bonneville shall make up the shortfall. Bonneville may make up the shortfall by requesting a reasonable extension of time to complete Plan tasks. Approval of such extension shall not be unreasonably withheld by EFSEC.
4. Bonneville shall establish an external trust fund, agree to review funding status every five years, and provide EFSEC with annual reports regarding the accumulated funds in the trust. At EFSEC's discretion, it may audit the trust.

¹ The revised Level 3D site restoration plan will not require removal of the turbine pedestals for WNP-1 and WNP- 4.

5. The provisions of paragraphs 1-4 above are included in the Plan that Energy Northwest submitted by letter dated December 5, 2002 for EFSEC approval. Implementation of the near-term "health, safety and environmental protection" activities will be reviewed and monitored by EFSEC.
6. Bonneville shall cause to be paid to EFSEC/the State \$3.5 million for offsite environmental mitigation and other EFSEC activities that improve the environment. This payment is made in recognition of the level of site restoration described in the Plan and the delay allowed for the completion of final site restoration. These funds shall be used in EFSEC's discretion after consultation with the Washington Department of Fish and Wildlife, with the bulk of the funds to be spent for mitigation in Benton County. Payment will be made in a lump sum after EFSEC approval of the Plan and within 30 days of a request for payment by EFSEC. This payment will be deemed to satisfy all requirements for wildlife or wildlife habitat mitigation under EFSEC Resolution No. 296, provided that if additional construction or changes in operation or operational conditions at the Columbia Generating Station result in the loss of additional wildlife or wildlife habitat then EFSEC may require Energy Northwest to undertake appropriate mitigation and Bonneville will guarantee payment pursuant to existing net-billing obligations.
- Amend. 2 appears to fulfill → 7. EFSEC shall amend the Site Certification Agreement (SCA) upon completion of the near term health, safety and environmental protection activities set out in the Plan. The amended SCA shall include only those requirements as EFSEC in the reasonable exercise of its discretion deems necessary to assure completion of Level 3D restoration actions pursuant to paragraph 2. Those requirements will replace any and all requirements in the existing SCA. Further, Bonneville may request Energy Northwest and/or Energy Northwest may request EFSEC to further amend or terminate the SCA to release those portions of the site and/or facilities that are proposed to be: 1) sold, leased or otherwise transferred and used for long-term economic development; and/or 2) no longer intended for the development of energy facilities larger than 350 MWs. Approval of such SCA amendment or termination shall not be unreasonably withheld by EFSEC.
8. Effective upon execution of this agreement and until final Level 3D restoration activities are completed, Energy Northwest will maintain general liability insurance on the leased property in the minimum amount of \$1,000,000 per incident and \$10,000,000 aggregate limit and will include RL as an additional named insured. Insurance coverage may include a deductible consistent with industry standards. The policy will be funded pursuant to generally accepted accounting principles. Bonneville will guarantee funding for the policy. These obligations shall not apply to any portion of the leased property that RL transfers ownership of, leases or otherwise permits the use of for other than WNP-1/4 purposes.
9. Upon approval of the Plan, the State shall provide to Energy Northwest, Bonneville, and the United States Government (including RL and all other components of the U.S.

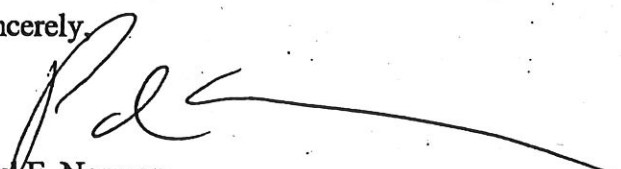
Department of Energy) an immediate release from all claims, damages, and causes of action, existing or otherwise, related to the restoration of the WNP-1 and WNP-4 sites beyond the level in the approved Plan.

It is important to note that each particular point in this Proposal is significant and rejection or revision of any particular point negates the Proposal in its entirety, unless the parties mutually agree otherwise. Additionally, until this Proposal has been agreed to and is effective, Bonneville does not and is not acknowledging any liability or responsibility for any WNP-4 costs.

However, once the Proposal has been agreed to and is effective, the parties will be bound by its terms. Once effective, Bonneville's guarantee for the payment of WNP-4 restoration costs shall be strictly limited to the obligations in the Proposal and is not intended to extend to any other WNP-4 cost.

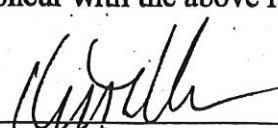
Please acknowledge your concurrence to the Proposal by signing all four originals. We will forward you one original after all have signed.

Sincerely,

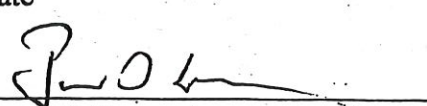

 Paul E. Norman
 Senior Vice President
 Power Business Line

Enclosure

I concur with the above Proposal and agree to be bound by its terms:

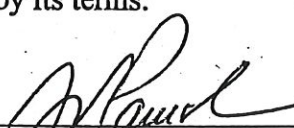

 Keith Klein
 Manager, Richland Operations Office
 U.S. Department of Energy

Date

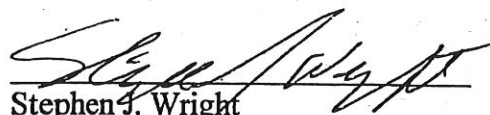

 James O. Luce
 Chair
 Washington Energy Facility Site Evaluation Council

DEC 03 2003

Date


 J. V. Parrish
 Chief Executive Officer
 Energy Northwest

Date



Stephen J. Wright
Administrator and Chief Executive Officer
Bonneville Power Administration

DEC 03 2003

Date



Gary Locke
Governor
State of Washington

DEC 03 2003

Date