

TERM SHEET 2011 NON-TREATY STORAGE AGREEMENT

This Term Sheet is intended to set out for discussion purposes only, certain proposed terms related to an operational agreement between British Columbia Hydro and Power Authority (BC Hydro) and Bonneville Power Administration (BPA) all on proposed terms and conditions satisfactory to the parties. While the terms included in this Term Sheet will form the basis for negotiation of a definitive agreement, nothing in this Term Sheet will legally bind either party and either party may at any time propose different or additional terms or may withdraw from the negotiations without liability. Only a definitive agreement executed by the parties and approved by all necessary corporate (including management and board of directors) actions and other approvals will be legally binding on the parties. Such definitive agreement is referred to as the "Agreement" for purposes of this Term Sheet.

This Term Sheet is subject to approval by the BC Hydro Board of Directors, and subject to such approval, the parties intend to diligently pursue completion of a definitive agreement.

1. Purpose

As of January 23, 2011, the terms of BPA Contract No. DE-MS79-90BP92754 as between BPA and BC Hydro dated July 5, 1990 (commonly called the **1990 Non-Treaty Storage Agreement**) were fulfilled and the parties agreed such agreement was terminated. BPA and BC Hydro are proposing a new operational agreement to facilitate the utilization of BC Hydro's non-Treaty storage at its facilities on the Columbia River in Canada (**2011 Non-Treaty Storage Agreement**).

The purpose of the Agreement is for the parties to obtain additional operational flexibility and power and non-power benefits through the coordination of flow operations, provided that nothing in the Agreement will:

- (i) supercede or amend the terms and requirements of the Columbia River Treaty, and
- (ii) diminish BC Hydro's entitlement to determine the operation of its facilities, including its reservoirs.

BPA and BC Hydro will work diligently to negotiate the Agreement, and to obtain all necessary approvals, by August 31, 2011.

2. Term and Termination of Agreement

The term of the Agreement would commence on or about September 1, 2011, and continue until September 15, 2024. On or prior to the final termination date of the Agreement, the Active Storage Accounts, the Recallable Storage Accounts and the Recallable Release Accounts shall be returned to the initial storage positions as provided in Section 3.

Early termination provisions will be included in the Agreement, as agreed to by the parties, such as the ability to terminate due to:

- (i) operating requirements or other restrictions imposed after the effective date of the Agreement that would materially diminish the benefits received by a party under the Agreement, or
- (ii) non-power requirements or objectives on a party's system, such as water use planning and biological opinion requirements/objectives, that are materially negatively impacted by water transactions made under this Agreement.

In the event that a party provides notice resulting in an early termination of the Agreement, the Active Storage Accounts, Recallable Storage Accounts and Recallable Release Accounts will be returned to the initial storage positions and the parties will fulfill all other obligations under the Agreement within 2 years of the notice of termination, or as otherwise agreed to by the parties. Detailed terms for refill and release will be defined in the Agreement.

3. Establishment of Columbia River Non-Treaty Storage Accounts

The following non-Treaty storage accounts, totaling 6.17 cubic kilometers (km³) (5.0 million acre-feet (MAF)) shall be established as of the effective date of the Agreement:

- (i) **Active Storage Accounts:** BC Hydro will declare 3.70 km³ (3.0 MAF) of storage for use by the parties and each party's Active Storage Account will be deemed to be full at 1.85 km³ (1.5 MAF) on the effective date of the Agreement;
- (ii) **Recallable Storage Accounts:** BC Hydro will declare 0.62 km³ (0.5 MAF) of storage to be empty. BC Hydro may make such account available for storage by the parties on a recallable basis. Each Party shall be allocated 0.31 km³ (0.25 MAF) of storage, with each party's Recallable Storage Account set as empty on the effective date of the Agreement. If such account is available for storage, in BC Hydro's sole discretion, BC Hydro will notify BPA of the duration of its availability and the terms and conditions under which Recallable Storage Accounts may be operated. In addition, at BC Hydro's sole discretion, other available storage may at times be made available, on a recallable basis and under terms and conditions as determined by BC Hydro.
- (iii) **Recallable Release Accounts:** BC Hydro will declare 1.85 km³ (1.5 MAF) of storage as full. Each party's Recallable Release Account shall be deemed to be full at 0.93 km³ (0.75 MAF) on the effective date of the Agreement. BC Hydro may make these accounts available for release on a recallable basis. If such accounts are made available, BC Hydro will notify BPA of the duration of its availability and the terms and conditions under which the Recallable Release Accounts may be operated.

4. Storage and Release Accounting for Active Storage Water Transactions

A party may request a transaction to store into or release from its Active Storage Account a specified volume of water. The other party will make reasonable efforts to accommodate such

request. The parties recognize and acknowledge that there are numerous constraints, including non-power requirements, upon each party's respective operations that may limit the ability of a party to meet a transaction request of the other party.

Water transactions shall be made on a weekly flat basis. In accordance with a schedule as agreed to by the parties and included in the Agreement, confirmations and implementation of water transactions shall be agreed upon prior to the start of each week, with sufficient and reasonable lead time provided to allow for the implementation of energy schedules that are a result of the water transactions.

Storage and release transactions are effected by a change of flow, from what would otherwise occur on the Columbia River at the Keenleyside Dam (Arrow Lakes Reservoir) on the same day as the transaction. A storage transaction is assumed to result in a flow reduction and a release transaction is assumed to result in a flow increase. The associated energy considerations of such transactions are as provided in Sections 7 and 8.

5. Displacement of Storage

Subject to the provisions of Section 4 above, either party will have the option to request to store more than 1.85 km³ (1.5 MAF) into its respective Active Storage Account, subject to the following conditions:

- (i) the total Active Storage Accounts will not exceed 3.70 km³ (3.0 MAF); and
- (ii) if a party elects this option (the Storing Party), then the other party (the Other Party) shall have the right, without the consent of the Storing Party, to displace any water stored by the Storing Party above 1.85 km³ (1.5 MAF).

For the purpose of accounting under the Agreement, the water being displaced by the Other Party will be deemed to be water stored by such party, and the Storing Party will be deemed to have concurrently released its displaced water. There will be no requirement for the combined Active Storage accounts to be full at 3.70 km³ (3.0 MAF) in order for displacement to occur.

6. Forced Evacuation of Storage

If water stored in any non-Treaty account must be evacuated because:

- (i) the storage is no longer available,
- (ii) BC Hydro has determined that, an emergency evacuation of storage is necessary for flood control in British Columbia, safety, protection of structure, or any other cause that BC Hydro reasonably determines constitutes an emergency, or
- (iii) on-call flood control operation is required under the Columbia River Treaty,

then the priority for evacuation shall be the Recallable Storage Accounts, then the Active Storage Accounts, and then the Recallable Release Accounts. For each category of accounts, as between the parties, the party with the largest account balance will be required to release first until the parties' respective accounts are equal and then such accounts will be released concurrently on an equal basis. The parties will make reasonable efforts to mitigate losses associated with a forced evacuation.

In the event of a forced evacuation, the energy benefits derived in accordance with Sections 7 and 8 will apply.

Return of equivalent storage that has been released under the Forced Evacuation provisions shall be made by mutual agreement between BPA and BC Hydro.

7. **BPA Water Transaction Benefits**

Except as described in Section 12, for water transactions made by BPA under the Agreement, no associated energy benefits will be exchanged between the parties.

8. **BC Hydro Water Transaction Benefits**

For water transactions made by BC Hydro, the associated energy benefits will be governed by the following principles:

- (i) Energy and energy values associated with BC Hydro water transactions will be tracked in an account (**Transaction Benefit Account**). Energy will be calculated based upon the daily effective incremental (reduced by spill) U.S. Federal Columbia River mainstem system generation discharge factor (h/k). The daily energy value associated with BC Hydro water transactions will be calculated as a product of the energy in MWh, and flat energy block prices as provided in Section 11(i).
- (ii) A positive balance in the Transaction Benefit Account is value allocated to BC Hydro and a negative balance in the Transaction Benefit Account is value allocated to BPA. The value of the energy within the Transaction Benefit Account will be settled based on:
 - (a) Energy Deliveries – If the Transaction Benefit Account Balance is projected to afford a party with value on the upcoming September 30 (the **Requesting Party**), such party may request energy deliveries of the other party on a weekly time-step up to the Requesting Party's projected balance for the Transaction Benefit Account Balance and the other party will not unreasonably deny such request. Energy deliveries will be by mutual agreement and will be delivered at the Canada - U.S. border, or such other delivery point as mutually agreed to by the parties, and either party may, at its discretion, schedule on either a south to north or a north to south schedule. The value of such energy deliveries will be debited from the Transaction Benefit Account and will be calculated as a product of the energy delivered in MWh, and prices as provided in Section 11(i).
 - (b) Financial Settlement – On September 30th of each year, or as otherwise agreed to by the parties, based on the balance remaining in the Transaction Benefit Account, funds may be transferred either from BC Hydro to BPA (negative balance) or from BPA to BC Hydro (positive balance) to net the value of the Transaction Benefit Account to zero, or such other balance as may be included in the Agreement or as otherwise agreed to by the parties.

The Agreement will include mechanisms to manage credit risk, and other financial, issues as reasonably identified and determined by either party and the definitive agreement will be satisfactory to each party in relation to accounting and tax considerations.

9. BC Hydro Dry Period Release Rights

- (i) **Trigger for Release Rights:** For the purpose of the Agreement, BC Hydro Dry Period Conditions shall be defined as a threshold system inflow that will trigger the right to release under the BC Hydro critical planning period. This threshold is currently estimated at 88% of normal, and will be further defined in the Agreement. If BC Hydro Dry Period Conditions exist, and notwithstanding Section 4, then BC Hydro will have the option to declare a Dry Period Event (**BC Hydro Dry Period Event**) and the provision of this Section 9 will apply.
- (ii) **Conditions for Release:** If a BC Hydro Dry Period Event declaration has been made, then across the period of October through April, BC Hydro will have the option to release water from the BC Hydro Active Storage Account and then the BC Hydro Recallable Release Account, at a rate not to exceed 56.6 m³/s (2 kcfs) and such water transaction will be made on a weekly flat basis.
- (iii) **BPA Option:** When BC Hydro releases water under this Dry Period Event provision, BPA will have the option to match the BC Hydro release, with an equivalent release, from the BPA Active Storage Account and the BPA Recallable Release Account.
- (iv) **Conditions for Storage:** Storage of equivalent water to that which has been released under the BC Hydro Dry Period Event declaration shall be made by mutual agreement between BPA and BC Hydro.
- (v) **Energy Considerations:** For releases made under a BC Hydro Dry Period Event, BC Hydro water release transactions will not be tracked in the Transaction Benefit Account, as described in Section 8, nor will head loss compensation be credited to the Transaction Benefit Account, as described in Section 12. For a BC Hydro Dry Period Event, energy will be based upon the daily effective incremental (reduced by spill) U.S. Total Columbia River mainstem system generation discharge factor (h/k). BPA will deliver such energy, plus head loss compensation, to BC Hydro at the Canada-U.S. border.
- (vi) **Energy Deliveries to BC Hydro:** BPA shall schedule energy in flat daily energy blocks to be delivered by BPA at the Canada-U.S. border, but shall not be obligated to deliver energy due to capacity limitations that may compromise BPA's ability to serve its load obligations. The Agreement will contain provisions to more specifically address the rescheduling of energy not delivered flat due to capacity limitations.

The value of the energy delivered by BPA pursuant to a BC Hydro Dry Period Event will be calculated as the product of the energy delivered in MWh, and flat energy block prices as provided in Section 11(i). The Agreement will contain

detailed provisions to more specifically address the accounting and reporting obligations with respect to energy deliveries under this Section 9(vi), including the pricing and delivery of rescheduled energy if energy is not delivered flat due to capacity limitations.

BC Hydro will be responsible for transmission costs, including losses, on the U.S. system required to facilitate the delivery of the energy at the Canada-U.S. border for the BPA energy deliveries as contemplated in this paragraph (vi).

- (vii) **Energy Deliveries to BPA:** With the return of the equivalent storage that was released under a BC Hydro Dry Period Event declaration, BC Hydro shall deliver to BPA, as agreed to by the parties, the equivalent value of energy that was delivered to BC Hydro with the intent of holding BPA harmless for the energy deliveries provided in Section 9(vi) and the storage of equivalent water mutually agreed to by parties under Section 9(iv). BC Hydro shall schedule energy in flat daily energy blocks to be delivered by BC Hydro at the Canada-U.S. border, or such other delivery point as mutually agreed to by the parties, and may, at its discretion, schedule on either a south to north or a north to south schedule.

The value of energy delivered to BPA shall be based on the product of the energy delivered in MWh, and flat energy block prices as provided in Section 11(i).

BC Hydro will also be responsible for transmission costs, including losses, on the U.S. system required to facilitate the delivery of the BPA energy deliveries, as contemplated in this paragraph (vii), from the Canada-U.S. border to a delivery point on the BPA system.

10. BPA Dry Period Release Rights

- (i) **Trigger for Release Rights:** For the purposes of the Agreement, BPA Dry Period Conditions shall be defined as the lowest 20th percentile years as defined in the 2010 Federal Columbia River Power System (FCRPS) Biological Opinion. This threshold is based on a May-Final April-August volume forecast at The Dalles, issued by NWRFC, of less than 88.81 km³ (72 MAF). If BPA Dry Period Conditions exist, and notwithstanding Section 4, then BPA will have the option to declare a Dry Period Event (**BPA Dry Period Event**) and the provision of this Section 10 will apply, provided that BPA did not declare a Dry Period Event in the prior year.

If Dry Period Conditions exist, and BPA declared a Dry Period Event in the previous year, BPA may request releases under Section 10(ii) and BC Hydro, in its sole discretion, will determine whether it will accommodate such request.

- (ii) **Conditions for Release:** If a BPA Dry Period Event declaration has been made, BPA will have the option to call upon the release of Active Storage, up to the lesser of:

- (a) 0.62 km³ (0.5 MAF), and
- (b) the volume of water remaining in the BPA Active Storage Account.

The release period is defined as the period extending from the BPA Dry Period Event declaration through to the end of June of that calendar year.

BC Hydro will permit the release of this water from Active Storage. The rate of release will be by mutual agreement between BC Hydro and BPA and will be designed to provide a smooth delivery of the volume of water called upon by BPA. More specific terms will be included in the Agreement to ensure prompt planning and implementation of the required flow adjustments.

- (iii) **BC Hydro Option:** When BPA declares a Dry Period Event, BC Hydro will have the option to release a portion of the BPA requested volume of water from BC Hydro's Active Storage Account, up to the lesser of:
 - (a) 50% of the water called upon by BPA; and
 - (b) the volume of water remaining in the BC Hydro Active Storage Account.

The additional volume required to achieve the volume of BPA Dry Period Event water called upon by BPA, shall be made from the BPA Active Storage Account.

- (iv) **Conditions for Storage:** Storage of equivalent water to that which has been released under the BPA Dry Period Event declaration shall be made by mutual agreement between BPA and BC Hydro.
- (v) **Energy Considerations:** There will be no energy benefits exchanged between the parties, associated with BPA releases from storage or return of storage water resulting from a BPA Dry Period Event declaration, except for BC Hydro storage system head losses as provided in Section 12.

In the event that BC Hydro elects to exercise its option to release a portion of the BPA Dry Period Event water as provided in this Section 10, then the energy considerations as defined under Section 8 shall apply.

11. Energy Prices and Deliveries

- (i) Subject to Section 11(ii) and unless otherwise specified, energy prices will be calculated from a prevailing transparent and representative pre-schedule daily index for valuing energy in the Mid-Columbia region, such as the Mid C Peak ICE Day Ahead index and Mid-C Off-Peak ICE Day Ahead index, or as otherwise agreed to by the parties.
- (ii) For purposes of determining energy value, prices will be limited to a minimum of \$0.00 for all hours, including both Heavy Load Hours and Light Load Hours, unless otherwise agreed. Such limitation shall be in effect so long as BPA does not purchase or sell negative priced energy, except as may inadvertently occur when BPA makes price taker bids to purchase energy out of the California ISO (or other jurisdictions that may offer price taker bids) and the Locational Marginal Price (LMP), at the point of purchase, is negative. BPA will promptly

notify BC Hydro of any change to its negative pricing policy and practices and the Agreement will include provisions for the parties to amend this limitation, subject to agreement by the parties, in the event that BPA's negative pricing policy and practices are amended or replaced.

- (iii) Unless otherwise specified, each party will be responsible for transmission scheduling and costs, including losses, for its energy deliveries under the Agreement. Any energy deliveries may be scheduled on available non-firm transmission.

12. BC Hydro Storage System Head Losses

For water transactions made by BPA under the Agreement, BPA shall compensate for BC Hydro energy generation losses calculated as if they had occurred at Mica due to BPA's use of the BPA Active Storage Account and the BPA Recallable Release Account. The value of the energy owed to BC Hydro will be credited to the BC Hydro Transaction Benefits Account, and will be calculated as a product of the energy in MWh, and the flat energy block prices as provided in Section 11(i).

13. BPA Coordination Responsibilities

BPA shall coordinate flow changes resulting from the terms of the Agreement with the U.S. Corps of Engineers, the Bureau of Reclamation and affected Mid-Columbia utilities.

14. Mid-Columbia Utilities

- (i) The Agreement will include an indemnity from BPA to BC Hydro for payments of judgments or settlements by BC Hydro to Mid-Columbia utilities for actions BC Hydro takes pursuant to and consistent with the terms of the Agreement in the event that BPA does not enter into companion agreements with all Mid-Columbia utilities that confirm BC Hydro's right to act consistent with the terms of the Agreement. Any such settlements made by BC Hydro will be subject to the prior approval of BPA.
- (ii) If BPA enters into companion agreements with participants in the Mid-Columbia projects, which do not stem from the Pacific Northwest Coordination Agreement, that would result in participation with respect to BC Hydro water transactions as contemplated under the Agreement, it shall notify BC Hydro and the parties will agree to reasonable amendments to the Agreement, as such amendments relate to the sharing of BPA benefits among BPA and the Mid-Columbia Utility(s) and any other relevant terms as agreed to by the parties.

15. Reassignment of Rights/Obligations

Neither party may assign its rights or obligations under the Agreement to a third party, except with the consent of the other party, and the other party will not unreasonably deny such request. BPA acknowledges and agrees that BC Hydro may assign to its subsidiary, Powerex Corp., BC Hydro's obligation to obtain and deliver any energy required to be delivered by BC Hydro to BPA under this Agreement.

16. Columbia River Treaty and Applicable Law

This Term Sheet and the Agreement to be negotiated shall not be construed to amend or modify the Treaty or the obligations of Canada or of the United States under it. The parties intend that this Term Sheet and the Agreement are to be operational agreements governed by relevant domestic law and are not to be governed by international law.

17. Approvals

The definitive agreement will be subject to BC Hydro and BPA obtaining and maintaining all necessary and applicable regulatory and governmental licenses, permits or other approvals necessary to satisfy each party's respective obligations under the definitive agreement. In addition, the definitive agreement will be subject to the review and approval of the U.S. and Canadian entities designated pursuant to the Columbia River Treaty.

18. First Nations

The parties acknowledge and agree that they do not contemplate entering into the definitive agreement until BC Hydro has been satisfied that to do so would be consistent with maintaining the honour of the Crown.

19. Dispute Resolution

If a dispute arises out of or relates to the Agreement, or the breach thereof, and if said dispute cannot be settled by the Operating Committee, as to be included and defined in the Agreement, or through other negotiation, the parties agree first to try in good faith to settle the dispute by mediation or some other dispute resolution procedure, as to be included and defined in the Agreement, before resorting to litigation.

20. Signing of Term Sheet

BPA has signed this Term Sheet to evidence its intention to negotiate towards a definitive 2011 Non-Treaty Storage Agreement.

BC Hydro has signed this Term Sheet to evidence its intention, subject to board of directors approval, to negotiate towards a definitive 2011 Non-Treaty Storage Agreement.

Both parties agree that such definitive Agreement shall be generally consistent with the terms and principles contained herein, but acknowledge that nothing in this Term Sheet or in any prior or subsequent discussion, correspondence or documentation, will legally bind either party involved in this negotiation and either party may at any time propose different or additional terms or may withdraw from the negotiations for any or no reason without liability.

This Term Sheet may be executed in counterparts, each of which is deemed to be an original document and all of which are deemed one and the same document.

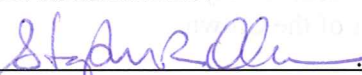
**BRITISH COLUMBIA HYDRO
AND POWER AUTHORITY**

By: 

Chris O'Riley, Vice President,
Generation

Date: APRIL 28, 2011

**BONNEVILLE POWER
ADMINISTRATION**

By: 

Stephen Oliver, Vice President,
Generation Asset Management

Date: 4-22-11