

LAKE TAPPS ASSET PURCHASE AGREEMENT

by and between

PUGET SOUND ENERGY, INC.

and

CASCADE WATER ALLIANCE

dated as of

April 23, 2008

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LAKE TAPPS ASSET PURCHASE AGREEMENT

This LAKE TAPPS ASSET PURCHASE AGREEMENT dated as of April __, 2008 ("*Agreement Date*") is made and entered into by and between Cascade Water Alliance, a Washington nonprofit corporation, ("*Cascade*") and Puget Sound Energy, Inc., a Washington corporation, ("*PSE*").

RECITALS

A. PSE owns the White River Hydroelectric Project in Pierce County, Washington ("*Project*").

B. PSE holds a water right from the State of Washington to draw, store and use water from the White River for generating electricity, and it has pending applications for water rights to put water in the Lake Tapps reservoir to beneficial use as a municipal water supply.

C. The Interlocal Cooperation Act Chapter RCW 39.34 authorizes any two or more public agencies, including municipal corporations and special purpose districts, to enter into an agreement to exercise powers jointly and to form a watershed management partnership under the provisions of the Interlocal Cooperation Act, for the purpose of implementing a watershed management plan.

D. The Cities of Bellevue, Issaquah, Kirkland, Redmond and Tukwila, Covington Water District, Sammamish Plateau Water and Sewer District and Skyway Water and Sewer District (the "governmental members"), pursuant to an Amended and Restated Interlocal Contract dated December 15, 2004 (the "Interlocal Contract"), have formed Cascade to develop a regional water supply and as a watershed management partnership that is established as a separate legal entity in the form of a nonprofit corporation organized under Chapter 24.06 RCW for the purpose, among other purposes, of acquiring, constructing, owning, operating, maintaining and managing water supply facilities.

E. Cascade is eligible to be treated as an instrumentality of its governmental members within the meaning of Internal Revenue Service Ruling 57-128 and as a constituted authority acting on behalf of its governmental members within the meaning of Treasury Regulations § 1.103-1(b) and Internal Revenue Service Revenue Ruling 57-187 in that: (i) Cascade is organized to act on behalf of its governmental members pursuant to the express statutory authority provided by RCW 39.34.210, including the authority of Cascade to contract indebtedness and to issue and sell general obligation bonds and revenue bonds to carry out the cooperative undertaking of its governmental members; (ii) Cascade is used by its government members to carry out a governmental purpose and perform essential governmental functions of a municipal utility that supplies water on behalf of its governmental members; (iii) Cascade is not organized or operated for profit, no private

interests are involved in Cascade, and its governmental members have the powers and interests of owners of Cascade in that (1) its members consist exclusively of municipal corporations serving the area described in the Interlocal Contract, (2) no part of its net earnings is permitted to inure to the benefit of any private person, and (3) upon its dissolution, all of its net assets after paying or making provision for payment of its liabilities are required to be returned or distributed to its members; (iv) control and supervision of Cascade is vested in public authorities in that (1) it is governed by a board of directors that consists of one individual representative of each member who is appointed by the legislative authority of the member, and (2) all actions of the board of directors must be approved by at least a majority vote of all member representatives on the board of directors; and (v) Cascade is not financially autonomous in that the sole source of revenues required for its operating and maintenance costs, capital expenditures and debt service payments consists of payments required to be made to Cascade by its members for Member Charges as defined in the Interlocal Contract.

F. PSE desires to retire and salvage value from certain assets of the Project and assign those assets, including the above-referenced water rights, to Cascade.

G. Cascade desires to acquire those assets, including the above-referenced water rights, from PSE.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual representations, warranties, covenants and agreements set forth in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE 1. DEFINITIONS

1.1 Definitions

The terms defined in Exhibit A shall have the same meaning when used in this Agreement.

1.2 Construction of Certain Terms and Phrases

Unless the context of this Agreement otherwise requires, (i) words of any gender include each other gender; (ii) words using the singular or plural number also include the plural or singular number, respectively; (iii) the terms "hereof," "herein," "hereby" and derivative or similar words refer to this entire Agreement; (iv) the terms "Article," "Exhibit," or "Section" refer to the specified Article, Exhibit or Section of this Agreement; and (v) "include" or "including" means including without limiting the generality of any description preceding such term. Whenever this Agreement refers to a number of days, such number shall refer to calendar days unless Business Days are specified.

ARTICLE 2. TRANSFER AND ASSIGNMENT

2.1 The Property

At the Closing, subject to the conditions set forth in this Agreement, PSE shall assign, convey, sell and deliver to Cascade, and Cascade shall accept from PSE, PSE's right, title and interest in and to the following (collectively, the "*Transferred Assets*"):

- (a) the Water Rights;
- (b) the Parcels;
- (c) the Cascade Easements;
- (d) the Improvements;
- (e) the Personal Property;
- (f) the Permits;
- (g) the Assumed Contracts; and.
- (h) the Project Documents.

2.2 Excluded Property

The Transferred Assets do not include any, and Cascade shall have no right, title or interest in and to any, real property, personal property or other assets of PSE or its Affiliates not identified or described in Section 2.1. Without limiting the generality of the foregoing and for avoidance of doubt, PSE or its Affiliates are retaining, and nothing in this Agreement or any instrument made in connection herewith shall be construed as assigning or conveying, any right, title or interest in and to any of the Excluded Property.

2.3 Assumption of Obligations

At Closing, subject to the conditions set forth in this Agreement, PSE shall assign to Cascade, and Cascade shall accept, assume and pay, discharge and perform as and when due, the Assumed Obligations. If the agreement to assign or attempt to assign any Assumed Contract, Permit or other right, without the consent of a third party, would constitute a breach thereof or in any way adversely affect the rights of PSE or Cascade thereunder, the Parties shall use their diligent, good faith efforts to obtain the consent of such third party or any rights necessary to effect a valid and binding assignment. Further, until such consent is obtained, or if an attempted assignment thereof would be ineffective or would adversely affect the rights of PSE or Cascade thereunder so that Cascade would not in fact receive all such rights, PSE and Cascade shall cooperate with each other in any arrangement designed to provide for Cascade the benefits of any such Assumed Contract, Permit or other right.

2.4 Excluded Obligations

Except for the Assumed Obligations, Cascade does not assume or otherwise become liable for by virtue of this Agreement any other obligation or liability of PSE or any other Person.

ARTICLE 3. PURCHASE PRICE

3.1 Purchase Price.

The purchase price for the Transferred Assets is Thirty Million Dollars (\$30,000,000), subject to adjustment as provided in Section 3.2 below (such price, as the same may be adjusted, the "*Purchase Price*").

3.2 Payment of Purchase Price

Cascade shall pay the Purchase Price to PSE as follows:

(a) Twenty Five Million Dollars (\$25,000,000) will be due and payable in a single cash payment at Closing.

(b) Five Million Dollars (\$5,000,000) (the "Final Payment") will be due and payable upon either of the following conditions being satisfied: (i) issuance of the Municipal Water Rights with the Cascade Flow Regime or (ii) issuance of the Municipal Water Rights with an Acceptable Flow Regime. No Final Payment shall be required if neither of the immediately preceding conditions is satisfied. The Final Payment Amount will be due and payable on the later of: (x) Closing; or (y) forty-five (45) days following the satisfaction of either of the conditions set forth in this Section.

3.3 [Intentionally Omitted]

3.4 [Intentionally Omitted]

3.5 Allocation of Purchase Price

The Purchase Price shall be allocated among the Transferred Assets as set forth in Exhibit B. The Parties shall be bound by such allocations for all purposes, shall account for and report the purchases and sales contemplated hereby for federal and state tax purposes in accordance with such allocations, and shall not take any position (whether in tax returns, tax audits or otherwise) inconsistent with such allocations without the prior written consent of the other Party, except to the extent, if any, required by applicable Law or generally accepted accounting principles.

ARTICLE 4. CLOSING

4.1 Time and Place of Closing

The Closing shall take place at the offices of Perkins Coie LLP, at 10885 NE 4th Street, Suite 700, Bellevue, Washington, at 10:00 a.m. on the Closing Date, or at such other location or time as the Parties may mutually agree.

4.2 Conditions to Closing

The Closing is subject to the fulfillment of each of the following conditions (all or any of which may be waived in whole or in part by the mutual agreement of the Parties in their respective sole discretion):

(a) PSE has obtained the approval of the WUTC to PSE's sale of the Transferred Assets on terms reasonably satisfactory to PSE;

(b) The Real Property Separation has been completed as contemplated in Exhibit C and Exhibit D whereby each Parcel and Cascade Easement is legally conveyable as contemplated under this Agreement;

(c) The Title Company is irrevocably committed to issue to Cascade the Title Policy for the Land with such endorsements as set forth in Exhibit E, subject only to the Permitted Exceptions;

(d) Necessary instruments have been obtained to Cascade's reasonable satisfaction removing the Gaps;

(e) The Transferred Assets have been released from the lien and security interest created under the PSE Mortgage and any other lien or security interest created or caused by or arising through PSE other than the Permitted Exceptions or the Title Company has irrevocably committed to issuing the Title Policy with an endorsement insuring against the lien of the PSE Mortgage after Closing;

(f) All consents, approvals and actions of, filings with and notices to any other Person or Governmental or Regulatory Authority necessary to permit PSE and Cascade to perform their obligations under this Agreement and to consummate the transactions contemplated hereby shall have been duly obtained, made or given and shall be in full force and effect as required to consummate the transactions contemplated hereby and all terminations or expirations of waiting periods imposed by any such Person or Governmental or Regulatory Authority necessary for the consummation of the transactions contemplated by this Agreement shall have occurred;

(g) There shall not be in effect, pending or threatened on the Closing Date, any Order or Law restraining, enjoining or otherwise prohibiting or making illegal the consummation of any of the transactions contemplated by this Agreement; and

(h) Any grants, easements, conveyances or encumbrances necessary, as determined by WDOE, to satisfy the requirement of the Municipal Water Rights that a certain portion of the Excluded Property be preserved for natural and/or conservation purposes (the "Conservation Transfer") shall have occurred prior to Closing. In the event all other conditions of Closing have been satisfied and the Conservation Transfer has not occurred, PSE shall record against the property legally described on Exhibit F, or such portion thereof acceptable to WDOE, ("the Riparian Corridor") a covenant, (the "Riparian Corridor Restrictive Covenant") in a form reasonably acceptable to Cascade, requiring either that the Conservation Transfer of said property occur by a date certain approved by WDOE or that the property be transferred to Cascade.

4.3 PSE's Deliveries at Closing

At Closing, PSE shall deliver to Cascade the following items:

- (a) Two original counterparts of each of the Hydropower Water Right Assignment and the Municipal Water Rights Assignment, each duly executed and acknowledged by PSE;
- (b) An original Deed for each Parcel, duly executed and acknowledged by PSE;
- (c) An original Quit Claim Deed duly executed and acknowledged by PSE for the Gaps;
- (d) An original Cascade Easement Grant for each of the Cascade Easements, duly executed and acknowledged by PSE or in the case of the easement designated as Exhibit G-1-H by Puget Western, Inc., and substantially in the forms set out at Exhibit G-1;
- (e) Two original counterparts of the Bill of Sale, duly executed by PSE;
- (f) Two original counterparts of the Assignment and Assumption Agreement, duly executed by PSE;
- (g) The original of the Non-Foreign Affidavit, duly executed and acknowledged by PSE;
- (h) Original counterparts of all necessary State of Washington real estate excise tax affidavits for the transfer of the Real Property, duly executed and acknowledged by PSE;
- (i) Two original counterparts of the Riparian Corridor Restrictive Covenant duly executed and acknowledged by PSE, if required under the provisions of Section 4.2(h);
- (j) Two original counterparts of the Asset Operations Agreement, duly executed by PSE;
- (k) Two original counterparts of the Assignment of Project Documents, duly executed by PSE;

(l) An affidavit or commercially reasonable indemnity agreement as may be reasonably requested by the Title Company to issue the Title Policy;

(m) a legal opinion from PSE's counsel, dated the Closing Date, opining substantially as provided in Exhibit H; and

(n) Any other documents required by this Agreement to be delivered by PSE.

4.4 Cascade's Deliveries at Closing

At Closing, Cascade shall deliver to PSE the following items:

(a) Two original counterparts of the Assignment and Assumption Agreement, duly executed by Cascade;

(b) Two original counterparts of each of the Hydropower Water Right Assignment and the Municipal Water Rights Assignment, each duly executed and acknowledged by Cascade;

(c) Two original counterparts of the Bill of Sale, duly executed and acknowledged by Cascade;

(d) Two original counterparts of the Asset Operations Agreement, duly executed by Cascade;

(e) Original counterparts of all necessary State of Washington real estate excise tax affidavits for the transfer of the Real Property, duly executed and acknowledged by Cascade;

(f) An original PSE Easement Grant for each of the PSE Easements, duly executed and acknowledged by Cascade, substantially in the forms set out at Exhibit G-2;

(g) a legal opinion from Cascade's counsel, dated the Closing Date, opining substantially as provided in Exhibit I; and

(i) Any other documents required by this Agreement to be delivered by Cascade.

4.5 Possession

Cascade shall be entitled to possession of the Transferred Assets upon Closing.

4.6 Prorations and Closing Costs

Cascade and PSE shall be responsible for taxes, Closing costs and other third party charges arising out of the consummation of the transactions contemplated under this Agreement as follows:

(a) Real property and personal property ad valorem taxes and utility expenses for the Transferred Assets shall be prorated as of the Closing Date, based upon the actual days involved. PSE shall be responsible for and pay all such ad valorem taxes and expenses for any period prior to the Closing Date and Cascade shall be responsible for and pay for all such ad valorem taxes and expenses for any period on or after the Closing Date. To the extent that the amounts of such charges are unavailable on the Closing Date or in the event of prorations made on the basis of erroneous information or clerical errors or there is a tax charge to the incorrect Party due to processing delay or error by the applicable Governmental or Regulatory Authority, a readjustment of these items shall be made within thirty (30) days after the Closing Date or as soon as practical after discovery of any erroneous information, clerical error or delay;

(b) Cascade and PSE will each be responsible for fifty percent (50%) of any real estate excise taxes and sales, use or other transfer taxes due on the conveyance of the Transferred Assets;

(c) Cascade and PSE will each be responsible for fifty percent (50%) of any premiums for the Title Policy (excluding the cost of any endorsements or any extended coverage thereto, the cost of which shall be the sole responsibility of Cascade);

(d) Cascade shall be responsible for and pay all recording fees relating to the recording of the Deed, and other Transferred Assets conveyance instruments and PSE shall be responsible for and pay all recording fees related to the PSE Easements; and

(e) Rent and other income and expense items related to the Assumed Contracts, the limited use permits applicable to the Transferred Assets, and the Pierce County Agreement related to storm drainage recorded under Pierce County recording number 9906280010 shall be prorated between the Parties as of the Closing Date, based upon the actual days involved. PSE shall be entitled to the rent and other income and shall be responsible for and pay expenses related to the period prior to the Closing Date and Cascade shall be entitled to the rent and other income and shall be responsible for and pay for expenses for any period on or after the Closing Date. To the extent that the amounts of such charges are unavailable on the Closing Date or in the event of prorations made on the basis of erroneous information or clerical errors, a readjustment of these items shall be made within thirty (30) days after the Closing Date or as soon as practical after discovery of any erroneous information, clerical error or delay;

ARTICLE 5. PRE-CLOSING COVENANTS

5.1 PSE Covenants

From the Agreement Date to the earlier of the termination of this Agreement or the Closing Date, PSE shall:

(a) Take commercially reasonable steps necessary or desirable and proceed diligently and in good faith to obtain the approval of the WUTC to PSE's sale of the Transferred Assets contemplated by this Agreement;

(b) Take commercially reasonable steps necessary or desirable and proceed diligently and in good faith to complete the Real Property Separation not completed as of the Agreement Date so that each Parcel, Cascade Easement and PSE Easement is legally conveyable at Closing as contemplated under this Agreement, subject to such terms, conditions, boundary line adjustments and restrictions as are reasonably acceptable to PSE and Cascade and PSE shall deliver to Cascade for its review and reasonable approval all applications for boundary line adjustments or other regulatory approvals required for the Real Property Separation prior to submittal to the applicable Governmental or Regulatory Authority and keep Cascade informed and give Cascade reasonable opportunity to participate with PSE in the regulatory processes to secure the Real Property Separation;

(c) Take commercially reasonable steps necessary or desirable and proceed diligently and in good faith to obtain from WDOE the change in use for the Hydropower Water Right to expressly provide for uses for maintenance of recreational and winter reservoir levels, protect and enhance fish and wildlife, maintenance of water quality for recreational purposes in the reservoir and other regulatory purposes;

(d) Continue to provide Cascade and its Representatives with reasonable access to the Transferred Assets and the related books and records as reasonably requested by Cascade from time to time; provided, however, that PSE will have no obligation to provide Cascade with access to any books and records that include any (i) privileged attorney-client communication, (ii) confidential attorney work product or (iii) other confidential information that if furnished to Cascade may be treated as a public record of Cascade subject to public disclosure under applicable law, and provided further that access to the Real Property shall be subject to the terms of this Agreement, the Limited Use Permit and the NDA.

(e) Continue, as reasonably requested and directed by Cascade, to participate in the pursuit of the Municipal Water Rights applications, including the incorporation of the Cascade Flow Regime and the defense of any Municipal Water Rights Appeals and any appeal(s) of any WDOE approved change of use for the Hydropower Water Right in coordination with Cascade, including participation in the negotiations and other activities with the various third parties, such as WDOE, the Lake Tapps Homeowners Association, the Corps (including negotiations for the interim operation agreement and real property transfers) and the parties to any Municipal Water Rights Appeals with a view toward obtaining and perfecting any Report of Examination and permits from WDOE with respect to the Municipal Water Rights and resolving any Municipal Water Rights Appeals (including, without limitation, satisfying WDOE's requirement that a portion of the Excluded Property be used as a conservation area). PSE will bear its own internal staff expenses for such activities and prior to earlier of Closing or the termination of this Agreement will continue to share equally with Cascade, as provided in the MOU, the third party costs and expenses incurred with respect to such efforts;

(f) Not, directly or through its Representatives, initiate discussions with, engage in negotiations with, enter into any agreements with, or provide any information to any Person or group regarding the possible transfer, assignment, assumption, acceptance, purchase or sale of the Transferred Assets (or any interest therein) to any Person other than Cascade;

(g) Not incur or permit to exist any lien on the Transferred Assets (except the PSE Mortgage); provided, however, that PSE may in good faith and with due diligence contest any such liens that it believes unwarranted or excessive and may defer payment of such liens pending conclusion of such contest if legally permitted to do so and bonds the liens or provides other security against the foreclosure thereof in a form reasonably satisfactory to Cascade;

(h) Not amend or modify in any material way, terminate (partially or completely) or give any material consent under any Assumed Contract or any existing right-of-way, easement, surface use agreement or license with regard to the Real Property;

(i) Promptly provide Cascade with copies of any notices received by PSE from any Governmental Regulatory Authority concerning the Transferred Assets that could reasonably be expected to affect Cascade's intended use of the Transferred Assets;

(j) Promptly provide Cascade with copies of any notices received by PSE from any Governmental Regulatory Authority concerning proposed land use actions on adjacent or nearby properties that could reasonably be expected to affect Cascade's intended use of the Transferred Assets;

(k) Should PSE elect to remove from any portion of Land or any part of the Improvements any Excluded Property prior to Closing, PSE shall leave the applicable portion of the Land or applicable part of the Improvements in a commercially reasonable safe condition free of debris related to PSE's removal of such Excluded Property; and

(l) Satisfy each condition to the obligations of PSE herein and shall not take or fail to take any action that could reasonably be expected to result in the non-fulfillment of any such condition.

5.2 Cascade Covenants

From the Agreement Date to the earlier of the termination of this Agreement or the Closing Date, Cascade shall:

(a) Take all commercially reasonable steps necessary or desirable and proceed diligently and in good faith to satisfy each condition to the obligations of Cascade herein and shall not take or fail to take any action that could reasonably be expected to result in the non-fulfillment of any such condition;

(b) Provide reasonable cooperation to PSE as requested by PSE from time to time in obtaining and accomplishing the consents, approvals or actions described in Section 5.1;

(c) Cooperate with and assist PSE in good faith with prosecuting any Real Property Separation that is not completed as of the Agreement Date so that each Parcel, Cascade Easement and PSE Easement is legally conveyable at Closing as contemplated under this Agreement, subject to such terms, conditions, boundary line adjustments and restrictions as are reasonably acceptable to PSE and Cascade; and

(d) Continue diligently and in good faith to pursue the Report of Examination and permits from WDOE with regard to the Municipal Water Rights applications, including the incorporation of the Cascade Flow Regime and to defend any Municipal Water Rights Appeals in coordination with PSE, including participation in the negotiations and other activities with the various third parties, such as WDOE, the Lake Tapps Homeowners Association, the Corps (including negotiations for the interim operation agreement and real property transfers) and the parties to any Municipal Water Rights Appeals with a view toward obtaining and perfecting the Report of Examination and permits from WDOE with respect to the Municipal Water Rights and to resolving any Municipal Water Rights Appeals. Prior to earlier of Closing or the termination of this Agreement, Cascade will continue to share equally with PSE, as provided in the MOU, the third party costs and expenses incurred with respect to such efforts.

5.3 Title Insurance

(a) Upon the completion of the Real Property Separation, the Parties shall cause the Title Company to provide Cascade and PSE with (a) the Updated Preliminary Title Commitment and (b) a copy of all documents and exceptions referenced in the Updated Preliminary Title Commitment pertaining to the Land. Cascade shall give written notice to PSE of any new defects or encumbrances in PSE's title to the Land, other than the Initial Permitted Exceptions, identified in the Updated Preliminary Title Commitment to which Cascade objects. Such notice shall be given within twenty (20) days following delivery of the Updated Preliminary Title Commitment to Cascade, or all objections to such defects and encumbrances shall be deemed waived. PSE shall have the option of curing prior to Closing such defects and encumbrances to which Cascade objects and shall give Cascade written notice of its intent to do so, or not do so, within twenty (20) days after PSE's receipt of Cascade's notice of title objections. In the event PSE elects not to cure such defects or encumbrances, Cascade must elect by written notice to PSE to either accept such defects or encumbrances in PSE's title as PSE declines to cure (which defects shall thereafter be deemed "***Additional Permitted Exceptions***") or terminate this Agreement within twenty (20) days after receipt of PSE's notice of its election regarding defects and encumbrances. Notwithstanding the foregoing, PSE shall remove all encumbrances on the Real Property, if any, which secure the payment of money including liens and mortgages.

(b) Pursuant to the Reimbursement Agreement, PSE shall provide Cascade with draft surveys for Cascade's review and approval. Cascade shall give written notice to PSE of

any additional defects or encumbrances in PSE's title to the Land that are shown on each survey. Such notice shall be given within twenty (20) days following delivery of each survey to Cascade, or all objections to such defects and encumbrances shall be deemed waived. PSE shall have the option of curing prior to Closing such defects and encumbrances to which Cascade objects and shall give Cascade written notice of its intent to do so, or not do so, within twenty (20) days after PSE's receipt of Cascade's notice of survey objections. In the event PSE elects not to cure such defects or encumbrances, Cascade must elect by written notice to PSE to either accept such defects or encumbrances as Additional Permitted Exceptions or terminate this Agreement within twenty (20) days after receipt of PSE's notice of its election regarding defects and encumbrances.

ARTICLE 6. DAMAGE OR CONDEMNATION

6.1 Damage or Condemnation

If, after the Agreement Date but prior to Closing, a Material Loss occurs or if there is any damage or destruction to any Real Property the cost of repair of which is more than Two Hundred Thousand Dollars (\$200,000) in damage or if condemnation proceedings (or proceedings in lieu thereof) are commenced against all or any part of the Real Property or the Water Rights, then PSE shall promptly give written notice to Cascade of such fact and the following provisions in this Article 6 shall apply.

6.2 Minor Loss

If, prior to Closing, any Real Property is damaged or destroyed and the cost of repair does not exceed Two Hundred Thousand Dollars (\$200,000) and such damage or destruction is not a Material Loss, then Cascade shall proceed with its acquisition of the Transferred Assets as provided in this Agreement.

6.3 Minor Condemnation

In the event any portion of the Real Property is taken in a condemnation proceeding (or in proceedings or conveyance in lieu thereof), but such taking does not constitute a Material Loss, then Cascade shall proceed with its acquisition of the Transferred Assets as provided in this Agreement, and PSE shall assign to Cascade at the Closing Date all of PSE's right, title and interest in and to any award made or to be made in the condemnation proceedings as it relates to such Real Property.

6.4 Material Loss

If, prior to Closing, a Material Loss occurs or the Real Property is damaged or destroyed with the estimated cost of repair exceeding Two Hundred Thousand Dollars (\$200,000), then Cascade shall have the right to terminate this Agreement as provided in Section 11.1(f). If Cascade elects to not terminate this Agreement, then PSE shall assign to Cascade at the Closing Date all of PSE's right, title and interest in and to any award made or to be made in the condemnation proceedings as it relates to such Real Property or in the case

of a casualty loss all proceeds from PSE's insurance related to such Material Loss, but PSE shall have no obligation to pay to Cascade the amount of any insurance deductible or self-insured retention related to such Material Loss.

ARTICLE 7. REPRESENTATIONS AND WARRANTIES

7.1 By PSE

As an inducement to Cascade to enter into this Agreement and to consummate the transactions contemplated hereby, PSE represents and warrants that as of the date of this Agreement and as of the Closing Date:

(a) PSE is a corporation, duly organized and validly existing under the Laws of the State of Washington;

(b) PSE has all requisite corporate power and authority to enter into, execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby;

(c) The execution and delivery by PSE of this Agreement and the performance by PSE of its obligations hereunder have been duly and validly authorized by all necessary corporate action on its behalf;

(d) This Agreement constitutes PSE's legal, valid and binding obligation, enforceable against it in accordance with its terms, except as the same may be limited by bankruptcy, insolvency, reorganization, arrangement, moratorium or other similar Laws relating to or affecting the rights of creditors generally or by general equitable principles;

(e) The execution and delivery by PSE of this Agreement does not, and the performance by PSE of its obligations hereunder and the consummation of the transactions contemplated hereby shall not:

(i) conflict with or result in a violation or breach of any of the terms, conditions or provisions of the organizational documents of PSE or any resolution adopted by its board of directors; or

(ii) be in violation of or result in a default (or give rise to any right of termination, cancellation or acceleration) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, agreement or other instrument or obligation to which PSE is a party or by which it or the Transferred Assets may be bound where such violation or default would have a material adverse effect on PSE's ability to consummate the transactions contemplated in this Agreement; or

(iii) to PSE's Knowledge require the consent, approval, authorization or permit, or filing with or notification to, any Governmental or Regulatory Authority or

any Person except for WUTC's approval of the sale of the Transferred Assets, WDOE's approval of the modification and transfer of the Hydropower Water Right and the transfer of the Municipal Water Rights and the approval of the each applicable Governmental or Regulatory Authority of boundary line adjustments and other approvals relating to the Real Property Separation; or

(iv) to PSE's Knowledge and subject to PSE obtaining the approvals specified in clause (iii) above, materially conflict with or result in a material violation or breach of any term or provision of any Laws or Order applicable to PSE or any of the Transferred Assets;

(f) Except for the Permitted Exceptions, title to the Transferred Assets shall be conveyed free from any claim, encumbrance or lien arising by, through or under PSE;

(g) To PSE's Knowledge, the Transferred Assets include the assets utilized by PSE for its current (as of the Agreement Date) operations at the Project.

(h) The Excluded Property identified on Exhibit J does not include any assets necessary for such operations.

(i) There are no actions or proceedings involving or before any Governmental or Regulatory Authority that are pending or, to PSE's Knowledge, threatened against PSE (i) relating to the Transferred Assets or (ii) which would reasonably be expected to result in the issuance of an Order restraining, enjoining or otherwise prohibiting or making illegal the consummation of any of the transactions contemplated by this Agreement;

(j) On January 16, 2004, Federal Energy Regulatory Commission ("FERC") rescinded the FERC license that was issued for the Project (FERC Project No. 2494) on December 19, 1997. PSE is not in material violation of or material default under any Laws or Order and has materially complied with all requirements and any Governmental or Regulatory Authority applicable to ceasing the operation of the hydroelectric generating facilities at the Project. To PSE's Knowledge, it is not in material violation of or in material default under any Laws or Order applicable to PSE with respect to the Transferred Assets; provided, however, that this representation and warranty does not extend or apply to compliance with any regulations and guidelines administered by the Washington State Department of Ecology's Dam Safety Office.

(k) To PSE's Knowledge, the Assumed Contracts includes all contracts and agreements related to the Transferred Assets to which PSE is a party and that will survive Closing and to PSE's Knowledge there are no existing material breaches or defaults of such Assumed Contracts by PSE or any other party thereto; and

(l) Except as otherwise set forth in Exhibit K, to PSE's Knowledge:

(i) There are no additional Pre-Existing Releases; and

(ii) PSE has not received any additional written notice from any Governmental or Regulatory Authority of any investigation or potential liability relating to the Release or threatened Release of Hazardous Substances on, on to, under or within the Land.

7.2 By Cascade

As an inducement to PSE to enter into this Agreement and to consummate the transactions contemplated hereby, Cascade represents and warrants that as of the date of the Agreement and as of the Closing Date:

(a) Cascade is a nonprofit corporation, duly organized and validly existing under the Laws of the State of Washington;

(b) Cascade has all requisite corporate power and authority to enter into, execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby;

(c) The execution and delivery by Cascade of this Agreement and the performance by Cascade of its obligations hereunder have been duly and validly authorized by all necessary corporate action on its behalf;

(d) This Agreement constitutes Cascade's legal, valid and binding obligation, enforceable against it in accordance with its terms, except as the same may be limited by bankruptcy, insolvency, reorganization, arrangement, moratorium or other similar Laws relating to or affecting the rights of creditors generally or by general equitable principles;

(e) The execution and delivery by Cascade of this Agreement, the performance by Cascade of its obligations hereunder and the consummation of the transactions contemplated hereby shall not (with or without the giving of notice or lapse of time or both):

(i) conflict with or result in a violation or breach of any of the terms, conditions or provisions of the organizational documents of Cascade or any resolution adopted by its board of directors; or

(ii) be in violation of or result in a default (or give rise to any right of termination, cancellation or acceleration) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, agreement or other instrument or obligation to which Cascade is a party or by which any of its assets or property may be bound where such violation or default would have a material adverse effect on Cascade's ability to consummate the transactions contemplated in this Agreement;

(iii) to Cascade's Knowledge require the consent, approval, authorization or permit, or filing with or notification to, any Governmental or Regulatory Authority or any Person except for the WUTC's approval of the sale of the Transferred Assets, the

WDOE's approval of the modification and transfer of the Hydropower Water Right and the transfer of the Municipal Water Rights and the approval of each applicable Governmental or Regulatory Authority of the boundary line adjustments and other approvals relating to the Real Property Separation; or

(iv) to Cascade's Knowledge, materially conflict with or result in a material violation or breach of any term or provision of any Laws or Order applicable to Cascade or any of its assets and properties;

(f) Cascade has been provided the opportunity to inspect and make such investigations regarding the Transferred Assets and related books and records and has performed such due diligence inspection and investigation of the Transferred Assets and their suitability for Cascade's purposes (including review of documents and information provided by PSE, Governmental or Regulatory Authorities or others and site visits and interviews with PSE employees and consultants), as Cascade deems appropriate, necessary and prudent for Cascade to enter into this Agreement and, except as expressly provided otherwise in this Agreement or the Exhibits attached hereto, consummate the transactions contemplated hereunder and that Cascade will rely solely upon the Title Policy, the warranties and terms contained in the Deed and other Closing documents executed by PSE and Cascade as part of the Closing and the results of Cascade's due diligence investigation with regard to the status of the quality, condition, merchantability, fitness for a particular purpose, title and other aspects of the Transferred Assets; and

(g) Cascade has covenanted, for as long as any Parity Bonds are outstanding to establish, maintain and collect Member Charges consistent with the Interlocal Contract and further covenanted in Cascade's 2006 Bond Resolution, to enforce the provisions of the Interlocal Contract, including the provisions providing for payment of Member Charges and the Step Up provision.

7.3 Acknowledgement; Disclaimer

CASCADE SPECIFICALLY ACKNOWLEDGES THAT, EXCEPT AS SPECIFICALLY SET FORTH IN SECTION 7.1, PSE IS DISCLAIMING AND MAKING NO REPRESENTATIONS OR WARRANTIES REGARDING THE CONDITION OF THE TRANSFERRED ASSETS AND THAT CASCADE IS ACQUIRING AND ACCEPTING THE TRANSFERRED ASSETS "AS IS," "WHERE IS" AND "WITH ALL FAULTS AND DEFECTS" and that, except as expressly set forth in Section 7.1 or the Deeds or in any other Closing documents executed by PSE and Cascade as part of the Closing, neither PSE nor its Representatives has made nor will be making any warranty or representation, express or implied, or arising by operation of Law, regarding the Transferred Assets, including any warranty of quality, condition, state of repair, merchantability or fitness for a particular purpose of the Transferred Assets or specifically as to any of the following: (a) the condition of the Real Property or any portion thereof or its suitability for Cascade's intended use or for any use whatsoever, (b) compliance of the Transferred Assets with applicable Laws including any access, building, zoning or fire Laws, (c) the requirement of, existence of, or compliance

with, any licenses, certificates of authority, authorizations, registrations, franchises or similar approvals of any Governmental or Regulatory Authority or (d) the availability or existence of any water, sewer or other utilities or utility rights.

ARTICLE 8. POST CLOSING COVENANTS

8.1 Water Rights Appeals

PSE, as reasonably requested and directed by Cascade, will continue to participate in the pursuit of the Municipal Water Rights applications and the defense of any Municipal Water Rights Appeals and any appeal(s) of any WDOE approved change of use for the Hydropower Water Right in coordination with Cascade including participation in the negotiations and other activities with the various third parties, such as the WDOE, the Lake Tapps Homeowners Association, the Corps and the parties to any Municipal Water Rights appeals to obtain the Report of Examination and permits from WDOE with respect to the Municipal Water Rights and finally resolve any Municipal Water Rights Appeals. PSE will bear its own internal staff expenses for such activity, but Cascade will be responsible for its own expenses and all payments to third parties retained by Cascade with respect to such efforts and will reimburse PSE for any third party charges reasonably incurred by PSE, and authorized in advance by Cascade related to the above activities, including legal fees, and consulting and technical services. Cascade may contract directly with any third parties, including legal counsel, used by PSE in the Municipal Water Rights application and procurement process and have access to any and all information and analysis produced during that process.

8.2 Modifications to Easements and Rights-of-Way

The Parties have used their good faith efforts as part of the Real Property Separation prior to Closing to identify and include in the Cascade Easements all easements and rights-of-way on the PSE real property included within the Excluded Property that are reasonably necessary or desirable for Cascade's operation and maintenance of the Lake Tapps reservoir or the contemplated municipal water supply system and to reserve in the Deeds all easements and rights-of-ways on the Land that are reasonably necessary or desirable for PSE's operation and maintenance of its electrical and natural gas distribution and transmission system and for other utilities serving the Excluded Property. If a Party notifies the other Party that it has determined that such easements or rights-of-way are inadequate for such purposes, then the Parties shall cooperate in good faith to identify and implement modifications to such existing easements and rights-of-way or the creation of new easements or rights-of-way reasonably necessary or desirable to accomplish such purpose, subject to and in a manner consistent with applicable Laws, prudent utility practices and that in each case such easements and rights-of-way will not unreasonably impair the intended use of the property to be burdened by such easements or right-of-way.

8.3 PSE's Right of First Offer

If an electrical generating facility is placed on or about the Real Property, Cascade shall first offer to sell or cause to be offered to sell the net electrical output from such facility on commercially reasonable terms to PSE. If PSE has not accepted the offer or if PSE and Cascade have not arrived at mutually acceptable terms within ninety (90) days, the offer shall be deemed rejected, and Cascade shall be free to offer to sell the net electrical output from the facility to any other prospective purchaser.

8.4 Hydropower Water Right

If not obtained prior to Closing, the Parties shall continue to take commercially reasonable steps necessary or desirable and proceed diligently and in good faith to obtain from the WDOE the change in use for the Hydropower Water Right to expressly allow use of water for maintenance of recreational and winter reservoir levels, protect and enhance fish and wildlife, maintenance of water quality for recreational purposes in the reservoir and other regulatory purposes.

8.5 [Intentionally omitted.]

8.6 Transfer of Property Interests to the Corps

PSE shall continue, as reasonably requested and directed by Cascade, to participate in the negotiations with the Corps regarding the transfer of certain real property interests relating to the proposed White River diversion dam replacement (the "Corps Transfer") and will not unreasonably withhold its consent to transfers to the Corps of real property interests in certain Excluded Property in the vicinity of the current diversion dam included in the Transferred Assets and consistent with the negotiations with the Corps that occurred prior to the Agreement Date. Any monetary compensation received by Cascade from the Corps for any Land or Excluded Property, net of Cascade's legal, consultant, and transaction costs incurred by Cascade with respect to such Land or Excluded Property, will be divided between Cascade and PSE equally, and Cascade shall promptly transfer to PSE the full amount owed to PSE; provided, that the value of any offset granted by the Corps against an obligation of Cascade to the Corp with respect to such Land or Excluded Property in lieu of payment of money shall not be considered monetary compensation received by Cascade from the Corps for the purposes of this section. Prior to the Closing Date, PSE will not effectuate the Corps Transfer without first obtaining Cascade's prior written consent to such transfer, which consent shall not be unreasonably withheld, conditioned or delayed considering the other terms and intent of this section.

8.7 Environmental Matters

(a) Soil Excavation. Cascade shall provide PSE with at least fifteen (15) days' prior written notice (or, in the event of an emergency or other similar circumstance, such advance notice as is reasonable under the circumstances) of any planned Soil Excavation and

shall provide PSE with a description and the location of such planned Soil Excavation. PSE shall have the right to have one or more observers present at all times during such Soil Excavation and Cascade shall provide such observers reasonable access to the Soil Excavation. If any Pre-existing Release or indicia of a Pre-existing Release is uncovered or disturbed during any Soil Excavation, Cascade shall provide notice to PSE's Environmental Services Department within 48 hours and the Parties shall cooperate in good faith to determine whether the Hazardous Substance is a Pre-Existing Release and, if so, the provisions of Sections 8.7(c)-(e) and 9.2(c)-(d) shall apply. Cascade's pre-notification obligation under this paragraph shall terminate for any area where the Pre-Existing Release is remediated such that all identified Hazardous Substances above levels of concern have been removed.

(b) Power Plant Area Remediation. PSE agrees to investigate and complete any required Remedial Actions with regard to the Releases in the vicinity of the power plant building identified in the report by SLR International dated August 2006. PSE shall prepare an Environmental Work Plan for such investigation and Remedial Actions in accordance with the procedures set forth in subsection (c) below. PSE will undertake and complete such Remedial Actions in accordance with Washington's Model Toxics Control Act (Chapter 70.105D RCW "MTCA") and subsection (e)(ii) below.

(c) Environmental Work Plans. Prior to any investigation or remediation of any Hazardous Substances which are, or reasonably may be, a Pre-Existing Release, PSE shall prepare a work plan consistent with applicable standards and regulations and submit a draft for review by Cascade. Cascade shall be afforded fourteen (14) days to review and comment on the work plan for the investigation of the Hazardous Substances and associated Remedial Actions ("Work Plan"). The Work Plan shall incorporate as appropriate under the circumstances considering generally accepted industry standards and practices for environmental remediation to satisfy the requirements of applicable Environmental Laws, applicable procedures that will vary depending upon the particular circumstances of an investigation or remediation, but will address the following elements.

1. Adherence to applicable Environmental Laws and generally accepted industry standards and practices for environmental remediation;
2. Abatement or removal of such Pre-Existing Release including consideration and evaluation of the impacts and associated costs of the Pre-Existing Release or any related Remedial Actions, on any Cascade construction project on the Land for which PSE was previously notified by Cascade or the re-routing of improvements planned by Cascade to avoid the location of such Pre-Existing Release where the cost of such re-routing is less than the monitoring, abatement or removal, and costs of impacts on construction that would be incurred absent such re-routing, together with consideration and evaluation of Construction Impact Costs (as defined in paragraph 9.2 (c));

3. A provision that all analytical data from all characterization, testing, sampling, monitoring and reporting encompassed within said Work Plan shall be submitted for Cascade's review and comment as soon as reasonably available;
4. Written notice provided by PSE to Cascade of at least fifteen (15) days (or, in the event of an emergency or other similar circumstance, such advance notice as is reasonable under the circumstances) prior to any planned Remedial Actions and which shall provide Cascade with a description and the location of such planned Remedial Actions;
5. The opportunity for Cascade to have one or more observers present at all times during Remedial Actions; and
6. A proposed mechanism (the "Closure Plan") that will serve to finalize the investigation and/or remediation under applicable laws and generally accepted industry standards at the time the Work Plan is developed (e.g., Closure Report, No Further Action Letter, or documentation with notice to WDOE).

The Work Plan shall provide that all Remedial Actions will be conducted in such a way to minimize, to the extent it is commercially reasonable, the disruption to the orderly use and occupancy of the Transferred Assets following Closing and consider clean-up levels that may be the least restrictive of any then-current standards specified by applicable Law, considering Cascade's intended use of the property. In the event Cascade and PSE cannot reasonably agree on a Work Plan that satisfies the requirements of this Section 8.7(c) the terms and conditions of the Work Plan shall be submitted to dispute resolution in accordance with the provisions of Section 8.7(d) below. However, in the event of an emergency, the requirement for a Work Plan shall not be applicable. However, at such time as the emergency is abated, the Party responding to the emergency shall communicate to the other Party the emergency measures implemented.

(d) Dispute Resolution. In the event a dispute arises between Cascade and PSE relating to: (i) whether Remedial Actions are required due to the operation of applicable Environmental Laws for Hazardous Substances under the provisions of this Agreement, (ii) the scope of such Remedial Actions, (iii) the terms and conditions of a Work Plan, (iv) whether a Release is a Pre-Existing Release or (v) whether under the provisions of subsection 9.2(c) below, Construction Impact Costs and consulting fees incurred by Cascade were reasonable and necessary; (an "Environmental Dispute") and if the parties are unable to resolve the dispute within thirty (30) days, they shall follow the following process:

(i) Mediation. An Environmental Dispute shall be submitted to mediation. The mediator shall have experience in Hazardous Substances and Remedial Actions. If the Parties are unable to agree on a mediator one shall be appointed by the American Arbitration Association. The mediator shall be impartial in fact and appearance, not an advocate of either Party. The mediation shall be completed no later than thirty (30)

days after the request for mediation. If, after eight (8) hours of good faith mediation, the parties are unable to resolve the dispute it shall be settled by binding arbitration in accordance with the following provision, unless the parties otherwise agree to extend the mediation time. Each party shall be responsible for its own costs and expenses, including attorneys' fees, incurred pursuant to this subparagraph. Cost of the mediator and other common costs shall be divided equally between the Parties.

(ii) Arbitration. Environmental Disputes not settled by mediation shall be decided by arbitration in accordance with the AAA rules, as modified herein, unless the parties mutually agree to other arbitration procedures. Notice of the demand for arbitration shall be filed in writing with the other party and with the AAA. The demand shall be made within thirty (30) days after the date that either party or the mediator declares that the mediation is concluded. This agreement to arbitrate shall be specifically enforceable under prevailing state or federal arbitration law. A single arbitrator experienced in Hazardous Substances and Remedial Actions, shall arbitrate the dispute, provided that if the parties cannot agree on an arbitrator within ten (10) days following a party's initial demand for arbitration each party shall select an arbitrator and the two arbitrators so selected shall select a third arbitrator experienced in Hazardous Substances and Remedial Actions, who shall then arbitrate the dispute.

(a) Except as may be otherwise agreed by the parties to this Agreement, the arbitration shall be conducted in accordance with the AAA Commercial Arbitration Rules with Expedited Procedures, in effect at that time, as modified by this section. There shall be no dispositive motion practice. As may be shown to be necessary to ensure a fair hearing the arbitrator(s) may authorize limited discovery and may enter pre-hearing orders regarding (without limitation) scheduling, document exchange, witness disclosure and issues to be heard. The arbitrator(s) shall not be bound by the rules of evidence or of civil procedure, but may consider such writings and oral presentations as reasonable business people would use in the conduct of their day-to-day affairs, and may require the parties to submit some or all of their case by written declaration or such other manner of presentation as the arbitrator(s) may determine to be appropriate. The parties intend to limit live testimony and cross-examination except to the extent necessary to ensure a fair hearing on material issues.

(b) The arbitrator(s) shall take such steps as may be necessary to hold a private hearing within ten (10) days following the date the arbitrator has have been selected and to conclude the hearing within two (2) days; and the arbitrator's written decision shall be made not later than seven (7) calendar days after the hearing. The parties have included these time limits in order to expedite the proceeding, but they are not jurisdictional, and the arbitrator(s) may for good cause allow reasonable extension or delays, which shall not affect the validity of the award. The written decisions shall contain a brief statement of the claim(s) determined and the award made on each claim. In making the decision and award, the arbitrator(s) shall apply applicable substantive law. Absent fraud, collusion or willful misconduct by the arbitrator(s), the award shall be final, and judgment may be entered in any court having jurisdiction thereof. The arbitrator(s) may award injunctive relief or any other

remedy available from a judge, including the joinder of parties or consolidation of this arbitration with any other involving common issues of law or fact or which may promote judicial economy, and may award attorneys' fees and costs to the prevailing party but shall not have the power to award punitive or exemplary damages. Venue of any arbitration conducted pursuant to this paragraph shall be in Seattle or Bellevue, Washington.

(e) Applicable Standards.

(i) General. For any question of whether Remedial Actions are required due to the operation of Environmental Laws, adherence to MTCA or other applicable laws and the generally accepted industry standards and practices for environmental remediation shall be determinative, provided any and all conditions thereof are satisfied. Any proposed use of restrictions or restrictive covenants to be recorded against the Land as part of a Remedial Action shall be subject to Cascade's prior approval, and not to be unreasonably withheld considering Cascade's intended uses of the Transferred Assets.

(ii) Reporting and Closure Requirements. For any Pre-Existing Release that exceeds the reporting requirements of applicable Environmental Laws, PSE shall prepare and file the required release reports with WDOE or such other agency as may be required by applicable Environmental Laws and provide a copy of such reports to Cascade. Upon completion of the associated Remedial Actions, PSE will also file with such agency(ies) any required documentation, including (if necessary) a closure report documenting the Remedial Actions and provide a copy of such report(s) to Cascade and take such other actions, if any, included in the Closure Plan established under paragraph 8.7(c)(6) above. PSE may elect to pursue a supervised Remedial Action through an agreed order or consent decree with WDOE, or such other process as is authorized by applicable Environmental Law, but is not obligated to do so. If PSE obtains a closure approval from WDOE or such other agency with jurisdiction it shall deliver a copy to Cascade as soon as it is received.

(f) Survival. Notwithstanding any provision of this Agreement to the contrary, the provisions of this Section 8.7 shall survive the Closing of the transaction contemplated herein and the delivery of the Deed.

ARTICLE 9. INDEMNIFICATION

9.1 Cascade

Cascade shall, to the fullest extent permitted by Law, indemnify, defend and hold harmless the PSE Indemnitees from, against and with respect to any Claim or Loss of any kind or character, suffered, incurred or sustained by any Indemnitees or to which they become subject, arising out of or in any manner incident, relating or attributable to:

(a) Any violation of Cascade's representations and warranties set forth in Section 7.2;

(b) Any Loss or Remedial Action required under applicable Laws attributable to any Release on the Land on or after the Closing Date, but not including that portion of any continuing Pre-Existing Release;

(c) Any third party Claim for bodily injury (including death) or damage to tangible property relating to the Transferred Assets arising from any act or omission of Cascade or its employees or contractors (other than PSE and its Representatives) that occurred on or after the Closing Date;

(d) Any third party Claim for bodily injury (including death) arising out of or related to the consumption of any water furnished by Cascade through the contemplated municipal water supply project notwithstanding any representation, warranty or indemnification obligation of PSE;

(e) Any failure of Cascade to timely and properly perform any of the obligations Cascade assumed with regard to the Assumed Obligations or to comply with the terms of this Agreement or any applicable Laws regarding the Transferred Assets; and

(f) Any acts or omissions of Cascade or its Representatives in connection with their operation, maintenance and other dealings with the Transferred Assets or any part thereof.

9.2 PSE

PSE shall, to the fullest extent permitted by Law, indemnify, defend and hold harmless the Cascade Indemnitees from, against and with respect to any Claim or Loss of any kind or character, suffered, incurred or sustained by any Indemnitees or to which they become subject, arising out of or in any manner incident, relating or attributable to:

(a) Any violation of PSE's representations and warranties set forth in Section 7.1;

(b) Any third party Claim for bodily injury (including death) or damage to tangible property relating to the Transferred Assets arising from any act or omission of PSE or its employees or contractors that occurred prior to the Closing Date except as otherwise provided in the Limited Use Permit; and

(c) Any Claims or Loss, including Remedial Actions arising directly or indirectly from any Pre-Existing Release; provided, however, that PSE shall have no responsibility under this Section 9.2 with regard to any Claims, Loss or required Remedial Actions that are attributable to any higher standard of (i) care, (ii) Loss, or (iii) Remedial Actions applicable to Cascade's intended use of the Transferred Assets for a municipal water supply system as opposed to the current or past uses of those assets. Without limiting the generality of the foregoing and notwithstanding the limitations set forth in Section 10.4 below, the

indemnification provided by this paragraph shall specifically cover: (i) all costs, including capital, operating and maintenance costs of Remedial Actions; (ii) repair, replacement and reconstruction of improvements located on the Land which must be disturbed incident to any Remedial Actions; (iii) reasonable and necessary increased costs to any Cascade construction project on the Land resulting from the presence of Hazardous Substances from any Pre-Existing Release ("Construction Impact Costs") that are included in the Work Plan or triggered by an emergency response or a requirement of a governmental agency with jurisdiction over the Remedial Actions such as increased soil handling and disposal costs, incremental costs of utilization of specially trained or certified workers if required, project delays, or other incremental costs including re-routing improvements planned by Cascade to avoid the location of a Pre-Existing Release where after following the procedures of Section 8.7(c) it is determined that such costs are less than the cost of Remedial Actions that would be required absent such re-routing; and (iv) Cascade's reasonable and necessary consulting fees required in the review and monitoring of any Work Plan and Remedial Actions required by the terms of Section 8.7(c) hereof. However, PSE and Cascade will work together in good faith to minimize Construction Impact Costs, and other costs and logistical issues associated with any Remedial Actions.

(d) The foregoing indemnity shall be subject to an offset for any additional costs incurred by PSE resulting from Cascades failure to comply with the following requirements:

(i) Cascade shall, prior to commencing any project that will involve Soil Excavation, provide PSE written notice of such project as provided in Section 8.7(a) so that PSE may develop a Work Plan in accordance with the requirements of Section 8.7(c);

(ii) Cascade shall give written notice to PSE as provided in Section 8.7(a) if Cascade discovers any Pre-existing Release or any indicia of a Pre-existing Release;

(iii) Cascade shall immediately suspend any Soil Excavation or other disturbances of such materials or substances for a period reasonably necessary (which period will not exceed twenty (20) days) for the Parties to determine whether such Hazardous Substance is a Pre-Existing Release except in emergency situations where such suspension would pose a threat to human health or the environment;

(iv) Except in the event of an emergency, if Cascade discovers Hazardous Substances which are a Pre-Existing Release, Cascade shall provide PSE the opportunity to develop and implement a Work Plan in accordance with the requirements of Section 8.7(c);

(v) Cascade shall cooperate in good faith with PSE to determine means of minimizing or mitigating the extent and cost of any Construction Impact Costs, monitoring, abatement or removal of such Pre-Existing Release including consideration of re-routing improvements planned by Cascade to avoid the location of such Pre-Existing Release where the cost of such re-routing is less than the

monitoring, abatement or removal costs that would be incurred absent such re-routing;

(vi) Cascade shall provide PSE and its contractors reasonable access to the Pre-Existing Release location on the Land for purposes of investigating, evaluating, testing and, if there is a Pre-Existing Release, performing any monitoring, removal or abatement determined to be necessary in the Work Plan; and

(vii) all Remedial Actions will be performed at such times and manner as to not unreasonably interfere with Cascade's use of the Transferred Assets to operate and maintain the Lake Tapps reservoir or to construct, operate and maintain the Transferred Assets for a municipal water supply system.

9.3 Waiver

As between the Parties and solely for the purpose of effecting the indemnities contained in this Article 9, the Parties expressly waive any immunity, defense or protection that may be granted to either Party under the Washington State Industrial Act, Revised Code of Washington Title 51 or any other industrial insurance, workers' compensation or similar Laws of the State of Washington to the fullest extent permitted by applicable Law. This Section 9.3 shall not be interpreted or construed as a waiver of either Party's right to assert such immunity, defense or protection directly against any of its own employees or such employee's estate or other representatives. This Section 9.3 has been mutually negotiated by the Parties. Notwithstanding anything to the contrary set forth in this Agreement, the Parties agree that if the provisions of RCW 4.24.115 apply to any claim by an Indemnitee against an Indemnitor under this Agreement, then, with respect to such claim, (i) in no event shall the Indemnitor be obligated to indemnify the Indemnitee for damages arising out of bodily injury to persons or damage to property resulting from the sole negligence of the Indemnitee or its Representatives; and (ii) if indemnification is sought for damages arising out of bodily injury to persons or damage to property resulting from the concurrent negligence of the Indemnitor (or its Representatives) and any Indemnitee, the Indemnitor shall indemnify the Indemnitee for such damages only to the extent of the negligence of the Indemnitor or its Representatives.

9.4 Method of Asserting Claims

All claims for indemnification by any Indemnitee under this Article 9 shall be asserted and resolved as follows:

(a) In the event any Claim in respect of which an Indemnitee might seek indemnity under Section 9.1 or Section 9.2 is a Third Party Claim, Indemnitee shall deliver an Indemnity Notice with reasonable promptness to Indemnitor.

(i) If Indemnitor notifies Indemnitee within the Dispute Period that Indemnitor desires to defend Indemnitee with respect to the Third Party Claim

pursuant to this Section 9.4(a) and confirms its liability with respect thereto, then Indemnitor shall have the right to defend, at the sole cost and expense of Indemnitor, such Third Party Claim by all appropriate proceedings, which shall be vigorously and diligently prosecuted by Indemnitor, with counsel reasonably acceptable to Indemnatee, to a final conclusion or shall be settled at the discretion of Indemnitor (subject to the limitations set forth below). If requested by Indemnitor, Indemnatee shall, at Indemnitor's sole cost and expense, cooperate with Indemnitor and its counsel in contesting any Third Party Claim that Indemnitor elects to contest, or, if appropriate and related to the Third Party Claim in question, in making any counterclaim against the Person asserting the Third Party Claim or any cross-complaint against any Person (other than Indemnitees). Notwithstanding the generality of the foregoing, Indemnatee may take over the control of the defense or settlement of a Third Party Claim at any time if it irrevocably waives its right to indemnity under Section 9.1 with respect to such Third Party Claim. Should Indemnitor have interests that diverge materially from those of Indemnatee, Indemnatee shall have the right to request separate counsel from that representing Indemnitor, the expenses of such separate representation to be paid by Indemnitor.

(ii) If Indemnitor fails to notify Indemnatee within the Dispute Period that Indemnitor desires to defend the Third Party Claim pursuant to this Section 9.4(a), or if Indemnitor gives such notice but Indemnitor fails to prosecute vigorously and diligently or settle the Third Party Claim, then Indemnatee shall have the right to defend, at Indemnitor's sole cost and expense, the Third Party Claim by all appropriate proceedings, which shall be prosecuted by Indemnatee to a final conclusion or shall be settled at the discretion of Indemnatee. Indemnatee shall have full control of such defense and proceedings, including any settlement thereof; provided, that if requested by Indemnatee, Indemnitor shall, at the sole cost and expense of Indemnitor, cooperate with Indemnatee and its counsel in contesting any Third Party Claim that Indemnatee is contesting, or, if appropriate and related to the Third Party Claim in question, in making any counterclaim against the Person asserting the Third Party Claim or any cross-complaint against any Person (other than Indemnitees).

(iii) If Indemnitor notifies Indemnatee that Indemnitor does not dispute its liability to Indemnatee with respect to the Third Party Claim under this Section 9.4 or fails to notify Indemnatee within the Dispute Period whether Indemnitor disputes its liability to Indemnatee with respect to such Third Party Claim, the Damages arising from such Third Party Claim shall be conclusively deemed a liability of Indemnitor, and Indemnitor shall pay the amount of such Damages to Indemnatee on demand following the final determination thereof. If Indemnitor has timely disputed its liability with respect to such Claim, Indemnitor and Indemnatee shall proceed in good faith to negotiate a resolution of such Dispute, and if the Dispute is not resolved through negotiations within the Resolution Period, Indemnatee shall be entitled to seek such remedies against Indemnitor as may then be available to it under this Agreement and applicable Laws.

(b) In the event any Indemnitee should have a Claim under Section 9.1 against Indemnitor that does not involve a Third Party Claim, Indemnitee shall deliver an Indemnity Notice with reasonable promptness to Indemnitor. If Indemnitor notifies Indemnitee that it does not dispute the Claim or the amount of Loss therefrom described in such Indemnity Notice or fails to notify Indemnitee within the Dispute Period that Indemnitor disputes the Claim described in the Indemnity Notice, the Loss in the amount specified in the Indemnity Notice shall be conclusively deemed a liability of Indemnitor, and Indemnitor shall pay the amount of such Loss to Indemnitee on demand. If Indemnitor has disputed its liability with or the amount of the Loss therefrom with respect to such Claim, such Dispute shall be resolved in accordance with the provisions of Article 10 hereof.

ARTICLE 10. DISPUTE RESOLUTION; LIMITATIONS ON LIABILITY

10.1 Management Escalation

In the event a Dispute arises (other than an Environmental Dispute the resolution of which shall be governed by the provisions of Section 8.7(d) above), the aggrieved Party shall promptly notify the other Party of the Dispute after such Dispute arises. If the Parties fail to resolve the Dispute within ten (10) Business Days after delivery of such notice, each Party shall, within five (5) Business Days thereafter, nominate a senior officer of its management to meet to attempt to resolve the Dispute. The senior officers shall meet within twenty (20) Business Days after their nomination.

10.2 Mediation

If the Parties are unable to amicably resolve a Dispute pursuant to Section 10.1, then that Dispute shall be submitted, upon the request of either Party, to non-binding mediation before a single mediator mutually agreed upon by the Parties or, if the Parties are unable to so agree, appointed by the American Arbitration Association. The mediator shall be impartial in fact and appearance, not an advocate of either Party. Representatives of both Parties, having full authority to settle the Dispute, must attend the mediation session until dismissed by the mediator. The mediation shall be held in King County, Washington. Cost of the mediator and other common costs shall be divided equally between the Parties. Each Party shall bear the expense of preparing and presenting its own case in connection with the mediation. If the Dispute is not resolved within thirty (30) days of a Party's request for mediation, then either Party may commence litigation.

10.3 Access to Courts

Notwithstanding any provision of this Article 10 to the contrary, either Party may commence litigation within thirty (30) days prior to the date after which the commencement of litigation would be barred by any statute of limitations, statute of repose or other Law or Order of similar import or in order to request injunctive or other equitable relief necessary to prevent irreparable harm. In such event, the Parties shall (except as may be prohibited by judicial order) nevertheless continue to follow the procedures set forth in this Article 10.

10.4 Limitation on Liability

EXCEPT AS EXPRESSLY HEREINAFTER PROVIDED IN THIS SECTION 10.4 OR ELSEWHERE IN THIS AGREEMENT, UNDER NO CIRCUMSTANCES SHALL EITHER PARTY OR ITS AFFILIATES BE LIABLE TO THE OTHER PARTY OR ITS AFFILIATES UNDER OR PURSUANT TO THIS AGREEMENT FOR INDIRECT, INCIDENTAL, SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES, INCLUDING BUT NOT LIMITED TO DAMAGES FOR LOST PROFITS, LOSS OF BUSINESS OR USE OF PROPERTY, OR COST OF CAPITAL, WHETHER IN AN ACTION FOR CONTRACT OR TORT, EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OR EXISTENCE OF SUCH DAMAGES. NOTWITHSTANDING THE GENERALITY OF THE FOREGOING, THE PROVISIONS OF THIS SECTION 10.4 SHALL NOT IN ANY EVENT LIMIT THE OBLIGATIONS OR LIABILITY OF EITHER PARTY TO THE OTHER UNDER ARTICLE 9 OF THIS AGREEMENT FOR OR WITH RESPECT TO THIRD PARTY CLAIMS OR WITH REGARD TO PSE REIMBURSING CASCADE FOR CERTAIN COSTS AND DAMAGES (IF ANY) AS EXPRESSLY PROVIDED IN SECTION 9.2(c).

ARTICLE 11. TERMINATION

11.1 Termination

This Agreement may be terminated, and the transactions contemplated hereby may be abandoned, by written notice from the terminating Party to the non-terminating Party:

- (a) At any time before the Closing, by mutual written agreement of PSE and Cascade;
- (b) At any time before the Closing, by either PSE or Cascade, in the event that any Order or Law becomes effective restraining, enjoining, or otherwise prohibiting or making illegal the consummation of any of the transactions contemplated by this Agreement, upon notification of the non-terminating Party by the terminating Party;
- (c) At any time before the Closing, by PSE if Cascade shall be in material breach with respect to the due and timely performance of any of its covenants or agreements contained herein and such breach has not been waived, or if any of the representations and warranties of Cascade contained in this Agreement are untrue, inaccurate or breached in any material respect as of the Closing, and such breach or untrue or inaccurate representation or warranty, if capable of being cured, has not been cured or made true by Cascade within twenty (20) days following receipt by Cascade of written notice thereof or has not been waived by PSE;
- (d) At any time before the Closing, by Cascade if PSE shall be in material breach with respect to the due and timely performance of any of its covenants or agreements contained herein and such breach has not been waived, or if any of the representations and

warranties of PSE contained in this Agreement are untrue, inaccurate or breached in any material respect as of the Closing, and such breach or untrue or inaccurate representation or warranty, if capable of being cured, has not been cured or made true by PSE within twenty (20) days following receipt by PSE of written notice thereof or has not been waived by Cascade;

(e) At any time after two (2) years from the Agreement Date, by PSE or Cascade if the Closing shall not have occurred on or before such date and such failure to consummate is not caused by a breach of this Agreement by the terminating Party; or

(f) At any time before Closing by PSE or Cascade if the Real Property sustains damage or a condemnation taking of the type and magnitude described in Section 6.4.

11.2 Effect of Termination

If this Agreement is validly terminated pursuant to Section 11.1, there shall be no liability or obligation on the part of PSE or Cascade (or any of their Affiliates or any of its or their respective officers, directors, employees, agents or other Representatives) except that the provisions with respect to indemnification in Article 9 and confidentiality in Section 12.6 shall continue to apply following any such termination. Notwithstanding any other provision in this Agreement to the contrary, if this Agreement is validly terminated by PSE pursuant to Section 11.1(c) or by Cascade pursuant to Section 11.1(d) hereof as a result of the willful breach by the non-terminating Party, the terminating Party may recover such remedies, including damages, specific performance and fees and expenses of attorneys as may be available at Law or equity.

ARTICLE 12. MISCELLANEOUS

12.1 Notices

Unless this Agreement specifically requires otherwise, any notice, demand or request provided for in this Agreement, or served, given or made in connection with it, shall be in writing and shall be deemed properly served, given or made if delivered in person or sent by fax or sent by registered or certified mail, postage prepaid, or by an internationally recognized overnight courier service that provides a receipt of delivery, in each case, to the Parties at the addresses specified below:

If to Cascade:	Cascade Water Alliance 11400 SE 8th Street, Suite 440 Bellevue, WA 98004 Attn: Michael Gagliardo
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with a copy to: Inslee, Best, Doezie & Ryder, P.S.
Rainier Plaza, Suite 1900
777 108th Avenue NE
Bellevue, WA 98004
Attn: Michael Ruark

and a copy to: GordonDerr LLP
2025 1st Avenue, Suite 500
Seattle, WA 98121-3140
Attn: Joel Gordon

If to PSE: Puget Sound Energy, Inc.
P.O. Box 97034
Bellevue, WA 98009-9734
Attn: Vice President of Power Generation

with a copy to: Puget Sound Energy, Inc.
P.O. Box 97034
Bellevue, WA 98009-9734
Attn: General Counsel

Notice given by personal delivery, mail or overnight courier pursuant to this Section 12.1 shall be effective upon physical receipt. Notice given by fax pursuant to this Section 12.1 shall be effective as of (i) the date of confirmed delivery if delivered before 5:00 p.m. PT on any Business Day or (ii) the next succeeding Business Day if confirmed delivery is after 5:00 p.m. PT on any Business Day or during any non-Business Day.

12.2 Entire Agreement

This Agreement supersedes all prior discussions and agreements between the Parties with respect to the subject matter hereof) and contains the sole and entire agreement between the Parties with respect to the subject matter hereof, except that the terms of the MOU, the Limited Use Permit and the NDA shall continue in effect until the Closing Date at which time they shall automatically have no further force or effect except for terms thereof that survive the expiration or termination of such instruments as provided therein. Notwithstanding the foregoing, this Section 12.2 shall neither affect, alter nor extinguish the Reimbursement Agreement which remains in full force and effect in accordance with its terms and conditions. Notwithstanding anything to the contrary contained in this Agreement or the MOU, paragraph 2 (Exclusive Negotiations) of the MOU shall automatically expire and terminate upon the Agreement Date.

12.3 Expenses

Except as otherwise expressly provided in this Agreement, whether the transactions contemplated hereby are consummated, each Party shall pay its own costs and expenses,

including fees and disbursements of counsel, financial advisors, accountants and brokers or finders incurred by such Party in connection with this Agreement and the transactions contemplated hereby and thereby, whether or not the Closing shall have occurred. PSE and Cascade each represent to the other that they have not dealt with a real estate broker in connection with the negotiations leading to this Agreement. PSE and Cascade each agree to indemnify and hold the other harmless from and against the claims of all brokers or other intermediaries claiming to have had any dealing, negotiations or consultations with the indemnifying party in connection with this Agreement or the sale of the Transferred Assets.

12.4 Assignment

Cascade's rights under this Agreement shall not be assigned without the prior written consent of PSE. PSE's consent shall not be unreasonably withheld so long as either (i) the assignee is affiliated with and has financial strength and development capacity and experience equal to or greater than Cascade or (ii) such assignee concurrently with such assignment assumes, in a written instrument delivered to PSE, all of the obligations and liabilities of Cascade hereunder, such assignment does not release Cascade from its obligations under this Agreement, and such obligations remain jointly and severally binding upon Cascade and upon such assignee. In all other cases, PSE may grant or withhold consent to assignment in its sole discretion for any reason or for no reason. Subject to the foregoing restrictions on Cascade's assignment, this Agreement shall bind and inure to the benefit of the heirs, successors and assigns of the Parties hereto.

12.5 Public Announcements

Cascade and PSE will coordinate their respective external communications regarding the subject matter of this Agreement and their respective obligations arising hereunder. Except as and to the extent required by applicable Law, no public statements will be issued regarding this Agreement or any matter covered under this Agreement unless both Parties consent to the substantive content of such statements, provided that Cascade may discuss matters related to this Agreement that arise in the context of public meetings of the Board of Directors of Cascade so long as none of the statements made by any officer, member or agent of Cascade are attributed to PSE without PSE's prior written approval. Without the other Party's prior written consent, neither Cascade nor PSE shall, and each shall direct its Representatives not to, directly or indirectly, make any public comment, statement or communication regarding, or otherwise disclose or permit the disclosure of the existence of discussions regarding, any of the terms, conditions or other aspects of the transaction proposed in this Agreement except as provided otherwise in the immediately preceding sentence or in disclosures to Governmental or Regulatory Authorities. If a Party is required by applicable Law to make any such disclosure, it must first provide to the other Party the content of the proposed disclosure, the reasons that such disclosure is required by Law, and the time and place that the disclosure will be made.

12.6 Confidentiality

Each Party shall hold, and shall use commercially reasonable efforts to cause its Affiliates and their respective Representatives to hold, in strict confidence from any Person (other than any such Affiliate or Representative), unless (i) compelled to disclose by judicial or administrative process (including in connection with obtaining the necessary approvals of this Agreement and the transactions contemplated hereby of applicable Governmental or Regulatory Authorities) or by other requirements of applicable Law (including exchange rules) or (ii) disclosed in an action or proceeding brought by a Party hereto in pursuit of its rights or in the exercise of its remedies hereunder, all documents and information concerning the other Party or any of its Affiliates furnished to it by the other Party or such other Party's Representatives in connection with this Agreement or the transactions contemplated hereby, except to the extent that such documents or information can be shown to have been (a) previously known by the Party receiving such documents or information, (b) in the public domain (either prior to or after the furnishing of such documents or information hereunder) through no fault of such receiving Party or (c) later acquired by the receiving Party from another source if the receiving Party is not aware that such source is under an obligation to another Party hereto to keep such documents and information confidential. If Cascade is required by Law to make any disclosure of any such information of PSE, Cascade must, at a reasonable time prior to such disclosure, provide to PSE the content of the proposed disclosure, the reasons that such disclosure is required by law, and the time and place that the disclosure will be made, and cooperate with PSE as PSE requests in efforts to limit the extent and scope of such disclosure including establishing the applicability of any exemptions set forth in RCW 42.56.210 regarding any of the information otherwise subject to such disclosure. In the event the transactions contemplated hereby are not consummated, then upon the request of the other Party and subject to the requirements and limitations set forth in Chapter RCW 42.56, each Party hereto shall, and shall cause its Affiliates and their respective Representatives to, promptly (and in no event later than five (5) Business Days after such request) redeliver or cause to be redelivered all copies of confidential documents and information furnished by the other Party in connection with this Agreement or the transactions contemplated hereby and destroy or cause to be destroyed all notes, memoranda, summaries, analyses, compilations and other writings related thereto or based thereon prepared by the Party furnished such documents and information or its Representatives. The obligations contained in this Section 12.6 shall survive for two (2) years following the earlier of the termination of this Agreement or the Closing Date, as the case may be.

12.7 Waiver

Any term or condition of this Agreement may be waived at any time by the Party that is entitled to the benefit thereof, but no such waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the Party waiving such term or condition. No waiver by any Party of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion. All remedies, either under this Agreement or by Law or otherwise afforded, shall be cumulative and not alternative.

12.8 Amendment

This Agreement may be amended, supplemented or modified only by a written instrument duly executed by or on behalf of each Party.

12.9 No Third Party Beneficiary

The terms and provisions of this Agreement are intended solely for the benefit of the Parties and the Indemnitees and their respective successors or permitted assigns, and it is not the intention of the Parties to confer third party beneficiary rights upon any other Person.

12.10 Survival

The representations, warranties, covenants and agreements of Cascade and PSE set forth in this Agreement shall survive the execution and delivery of this Agreement, Closing and the transfer of title to the Transferred Assets and shall not merge into the Deeds. Articles 10 and 12 and Sections 7.3 and 11.2 of this Agreement shall survive termination of this Agreement prior to Closing.

12.11 Binding Effect

This Agreement is binding upon, inures to the benefit of and is enforceable by the Parties and their respective successors and assigns.

12.12 Headings

The headings used in this Agreement have been inserted for convenience of reference only and do not define or limit the provisions hereof.

12.13 Invalid Provisions

If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future Law, and if the rights or obligations of any Party under this Agreement shall not be materially and adversely affected thereby, (a) such provision shall be fully severable, (b) this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, (c) the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance therefrom and (d) in lieu of such illegal, invalid or unenforceable provision, there shall be added automatically as a part of this Agreement a legal, valid and enforceable provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible.

12.14 Governing Law

This Agreement shall be governed by and construed in accordance with the Laws of the State of Washington applicable to a contract executed and performed in such State, without giving effect to the conflicts of laws principles thereof.

12.15 Jurisdiction and Venue

Each of the Parties hereby irrevocably and unconditionally consents and agrees that any actions, suits or proceedings arising out of or relating to this Agreement and the transactions contemplated hereby may be brought in the federal and state courts located in King County, Washington, and, by execution and delivery of this Agreement and any other documents executed in connection herewith, each Party hereby (i) accepts the non-exclusive jurisdiction of the aforesaid courts, (ii) irrevocably agrees to be bound by any final judgment (after any and all appeals) of any such court with respect to such documents, (iii) irrevocably waives, to the fullest extent permitted by Law, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceedings with respect to such documents brought in any such court, and further irrevocably waives, to the fullest extent permitted by law, any claim that any such action, or proceeding brought in any such court has been brought in any inconvenient forum, (iv) agrees that service of any process, summons, notice or document in any such action may be effected by mailing a copy thereof by U.S. registered or certified mail, postage prepaid, to such Party at its address set forth in Section 12.1, or at such other address of which the other Party shall have been notified shall be effective service for any action, suit or proceeding brought against it in any such court and (v) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by Law or limit the right to bring any suit, action or proceeding in any other jurisdiction.

12.16 Memorandum of Agreement.

Cascade shall be permitted to record a memorandum of this Agreement, which PSE shall execute simultaneously herewith. In the event this Agreement is terminated for any reason other than the default of PSE, Cascade shall execute and deliver to PSE an appropriate release or discharge of its rights hereunder.

12.17 Attorneys' Fees

In the event of any suit or other proceeding between the Parties with respect to any of the transactions contemplated hereby or subject matter hereof, the prevailing Party shall, in addition to such other relief as the court or arbitrator may award, be entitled to recover reasonable attorneys' fees and costs (including at the trial and appellate levels) and expenses of investigation.

12.18 Time is of the Essence

With regard to all dates and time periods set forth or referred to in this Agreement, time is of the essence.

12.19 Construction

This Agreement and any documents or instruments delivered pursuant hereto shall be construed without regard to the identity of the Person who drafted the various provisions of the same. Each and every provision of this Agreement and such other documents and instruments shall be construed as though the Parties participated equally in the drafting of the same. Consequently, the Parties acknowledge and agree that any rule of construction that a document is to be construed against the drafting party shall not be applicable to this Agreement or such other documents or instruments.

12.20 Counterparts

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

12.21 Further Assurances; Access to Project Documents

PSE and Cascade each agree, upon the request of the other Party from time to time before and after the Closing Date, to do, execute, acknowledge and deliver such other acts, consents, instruments, documents and other assurances as may be reasonably necessary to carry out and perform the transactions contemplated by this Agreement. Notwithstanding anything to the contrary contained in this Agreement, on and after the Closing, Cascade shall provide PSE and its Representatives with reasonable access to the Project Documents as reasonably requested by PSE from time to time.


[The rest of this page is intentionally left blank. The next page is the signature page.]

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officer of each Party as of the date first above written. **With their signature, each Party expressly warrants that Section 10.4 has been mutually negotiated by the Parties.**

PSE:

Puget Sound Energy, Inc.,
a Washington corporation

By:



Kimberly Harris

Its:

Executive Vice President,
Chief Resource Officer

Cascade:

Cascade Water Alliance,
a Washington nonprofit corporation

By:

Lloyd Warren

Its:

Chair, Board of Directors

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officer of each Party as of the date first above written. **With their signature, each Party expressly warrants that Section 10.4 has been mutually negotiated by the Parties.**

PSE:

Puget Sound Energy, Inc.,
a Washington corporation

By: _____
Kimberly Harris
Its: Executive Vice President,
Chief Resource Officer

Cascade:

Cascade Water Alliance,
a Washington nonprofit corporation

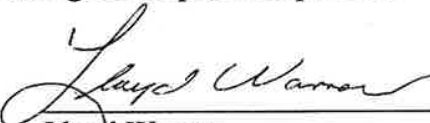
By:  _____
Lloyd Warren
Its: Chair, Board of Directors

EXHIBIT A

Terms and Definitions

As used in this Agreement, the following terms have the meanings indicated below:

"Acceptable Flow Regime" means a flow regime that contains flows different than the Cascade Flow Regime but that is acceptable to the Puyallup Tribe of Indians and Muckleshoot Indian Tribe. Acceptance by either tribe shall be determined either by (i) written agreement or (ii) the tribe not filing a Municipal Water Rights Appeal.

"Additional Permitted Exceptions" means the Initial Permitted Exceptions and those additional defects, encumbrances and/or exceptions to the title of the Real Property, if any, accepted by Cascade pursuant to Section 5.3.

"Affiliate" means any Person that directly, or indirectly through one or more intermediaries, controls or is controlled by or is under common control with the Person specified. For purposes of this definition, control of a Person means the power, direct or indirect, to direct or cause the direction of the management and policies of such Person whether by contract or otherwise, provided that the direct or indirect ownership of fifty percent (50%) or more of the voting securities of another Person shall be deemed to constitute control of such other Person.

"Agreement" means this Lake Tapps Asset Purchase Agreement and all Exhibits hereto, as the same is amended from time to time pursuant to the terms hereof.

"Agreement Date" has the meaning assigned to it in the introductory paragraph.

"Asset Operations Agreement" means the Asset Operations Agreement substantially in the form set forth in Exhibit L.

"Assignment and Assumption Agreement" means the Assignment and Assumption Agreement substantially in the form set forth in Exhibit M concerning the Assumed Contracts.

"Assignment of Project Documents" means the Assignment substantially in the form set forth in Exhibit N assigning all of PSE's right, title and interest, if any, to plans, specifications, warranties, surveys, development documents, historical documents and other information directly pertaining to the Transferred Assets that are in PSE's possession or control.

"Assumed Contracts" means the contracts identified or described on Exhibit O.

"**Assumed Obligations**" means the liabilities and obligations of PSE being assumed by Cascade pursuant to the Assignment and Assumption Agreement.

"**Bill of Sale**" means the Bill of Sale substantially in the form set forth in Exhibit P.

"**Business Day**" means a day other than Saturday, Sunday, any day on which banks in the State of Washington are authorized or obligated to close or any day on which the recording office of King County or Pierce County is not open for business.

"**Cascade**" has the meaning assigned to it in the introductory paragraph.

"**Cascade Easement Grant**" means a deed for the creation, conveyance or assignment of a Cascade Easement, substantially in the forms set forth in Exhibit G-1.

"**Cascade Easements**" means the easements, covenants and rights of way described in Exhibit D-1.

"**Cascade Flow Regime**" shall mean a written White River flow regime prepared by Cascade and provided to PSE within twenty (20) days of the Agreement Date.

"**Cascade Indemnitee**" means Cascade and its Affiliates and the respective directors, officers, agents, employees, contractors and members of the foregoing and their successors and assigns.

"**Cascade's Knowledge**" or any similar phrase shall mean the actual knowledge of Michael Gagliardo, Michael Ruark, or Joel Gordon as of the Agreement Date.

"**Claim**" means any claim, demand, cause of action, suit, proceeding, hearing or investigation.

"**Closing**" means the closing of the transactions contemplated by Sections 2.1 and 2.3.

"**Closing Date**" means the day that is forty five (45) Business Days after the conditions set forth in Section 4.2 have been satisfied or waived by the Parties.

"**Code**" means the Internal Revenue Code of 1986, as amended.

"**Corps**" means the U.S. Army Corps of Engineers.

"**Deed**" means a bargain and sale deed for each of the Parcels, substantially in the form set forth in Exhibit Q.

"**Dispute**" means any action, dispute, Claim, counterclaim or controversy that arises between the Parties arising out of or relating to this Agreement.

"**Dispute Period**" means the period ending ninety (90) days following receipt by an Indemnitor of an Indemnity Notice.

"**Dollars**" and "**\$**" means the lawful money of the United States.

"**Environmental Law**" means any Law or Order then in effect relating to the regulation or protection of human health and safety or to the regulation, protection and preservation of the environment or to Releases or threatened Releases of Hazardous Substances into the environment (including ambient air, soil, surface water, ground water, wetlands, land or subsurface strata), or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Substances, including, but not limited to: the Federal Endangered Species Act; the Federal Clean Air Act; the Federal Water Pollution Control Act; the Federal Safe Drinking Water Act; the Federal Clean Water Act; the Federal Comprehensive Environmental Response Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act of 1986; the Federal Resource Conservation and Recovery Act, as amended by the Solid and Hazardous Waste Amendments of 1984; the Federal Occupational Safety and Health Act; the Federal Emergency Planning and Right-to-Know Act of 1986; the Federal Hazardous Materials Transportation Control Act of 1980; the Federal Water Act of 1977; the Federal Insecticide, Fungicide and Rodenticide Act; the Federal Waste Management Recovery and Recycling Act; the Washington Hazardous Waste Management Act; the Washington Hazardous Waste Fees Act; Washington Model Toxics Control Act; the Washington Nuclear Energy and Radiation Act; the Washington Radioactive Waste Storage and Transportation Act; the Washington Underground Petroleum Storage Tanks Act; and any regulations promulgated thereunder from time to time.

"**Excluded Property**" means the property identified or described in Exhibit J.

"**Final Payment Amount**" has the meaning set forth in Section 3.2.

"**Gaps**" means those certain gaps in ownership identified in Exhibit R.

"**Governmental or Regulatory Authority**" means any federal, state or local government, any court, tribunal, arbitrator, authority, agency, commission, official or other instrumentality of the United States or any domestic or foreign state, county, city or other political subdivision or any Native American tribal council or similar governing entity.

"**Hazardous Substance**" means (i) any petroleum or petroleum products, flammable explosives, radioactive materials, asbestos in any form that is or could become friable, urea formaldehyde foam insulation and transformers or other equipment that contains dielectric fluid containing levels of polychlorinated biphenyls (PCBs); (ii) any chemicals or other materials or substances that are defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous wastes," "restricted hazardous wastes," "toxic substances," "toxic pollutants" or words of similar import under any Environmental Law; and (iii) any other chemical or other material or substance, exposure to which is prohibited, limited or regulated by any applicable Governmental or Regulatory Authority under any Environmental Law.

"Hydropower Water Right" means PSE's right, title and interest in the water rights, storage rights and other rights with respect to the conveyance facilities, including the water right to withdraw 2,000 cfs from the White River for diversion into the Lake Tapps reservoir derived from claims dated April 17, 1895 and April 27, 1901, and from the decree of the Superior Court of the State of Washington for Pierce County, *Pacific Coast Power Co. v. Quilquilion* (Decree No. 28120) and reflected in State of Washington Department of Ecology Claim No. _____, as the same may be modified to expressly provide for usage for maintenance of recreational and winter reservoir levels, protect and enhance fish and wildlife, maintenance of water quality for recreational purposes in the reservoir and other regulatory purposes, and subject to all terms and conditions applicable to that right including, to the extent applicable, the Muckleshoot Settlement Agreement dated _____.

"Hydropower Water Rights Assignment" means the Assignment of Hydropower Water Rights, substantially in the form set forth in Exhibit S-1.

"Improvements" means the buildings, fixtures, landscaping and other improvements upon and attached to the Land including the buildings, fixtures and other improvements identified or described in Exhibit T.

"Indemnitee" means the Party entitled to indemnification under Article 9.

"Indemnitor" means the Party required to indemnify the Indemnitee pursuant to Article 9.

"Indemnity Notice" means written notification pursuant to Section 9.4 of a claim for indemnity under Article 9 by an Indemnitee, specifying the nature of and basis for such claim, together with the amount or, if not then reasonably ascertainable, the estimated amount, determined in good faith, of such claim.

"Initial Permitted Exceptions" means those exceptions set forth on Exhibit U.

"Initial Preliminary Title Commitment" means preliminary commitment for title insurance issued by Title Company on June 24, 2005, as amended by Supplemental Report #1 of Second Report dated as of July 18, 2005; Supplemental Report #2 of Second Report dated as of August 2, 2005; Supplemental Report #3 of Second Report dated as of August 26, 2005; Supplemental Report #4 of Second Report dated as of August 26, 2005; and Supplemental Report #5 of Second Report dated as of September 28, 2005, setting forth the status of the title of the Real Property.

"Land" means (a) the Parcels and (b) the Cascade Easements.

"Laws" means all constitutions, treaties, laws, statutes, rules, regulations, ordinances and other pronouncements having the effect of law of the United States or any state, county, city or other political subdivision or of any applicable Governmental or Regulatory Authority.

"Limited Use Permit" means that certain Limited Use Permit, Permit No. 02-19-06-0114 dated August 23, 2005 between Cascade and PSE.

"Loss" means any and all damages (including incidental and consequential damages), assessments, fines, penalties, deficiencies, liabilities, losses, judgments, amounts paid in settlement or diminution in value, costs and expenses (including interest, court costs, reasonable fees and expenses of attorneys, accountants and other experts or other reasonable expenses incurred in investigating, preparing, defending against or prosecuting any litigation or Claim).

"Material Loss" means any reasonably unreparable damage or destruction to the Real Property or any taking of the Real Property in a condemnation proceeding (or in proceedings or conveyance in lieu thereof) that renders the Real Property in Cascade's commercially reasonable judgment unsuitable for Cascade's planned municipal water supply project.

"MOU" means that certain Memorandum of Understanding as of August 7, 2001 between Cascade and PSE, as amended.

"Municipal Water Rights" means the permits (diversion, withdrawal and storage) for municipal water supply (WDOE Applications Nos. R2-29935, S2-29920 and S2-29934), as approved by WDOE, or such Applications, if WDOE approval is pending at Closing.

"Municipal Water Rights Assignment" means the Assignment of Municipal Water Rights, substantially in the form set forth in Exhibit S-2.

"Municipal Water Rights Appeals" means any appeals filed by any Person appealing WDOE's issuance of the Municipal Water Rights permits to PSE or Cascade as the assignee of PSE.

"NDA" means that certain Confidentiality and Nondisclosure Agreement dated August 23, 2005 between Cascade and PSE.

"Non-Foreign Affidavit" means a certification as to PSE's non-foreign status, substantially in the form set forth in Exhibit V.

"Order" means any award, writ, judgment, decision, decree, stipulation, injunction, ruling or similar order of any Governmental or Regulatory Authority (in each such case whether preliminary or final).

"Parcel" means the parcels of real property described in Exhibit C.

"Parties" means Cascade and PSE.

"Party" means Cascade or PSE.

"Permits" means the licenses, permits, authorizations, registrations, franchises and similar consents granted or issued by any Governmental or Regulatory Authority that are identified or described in Exhibit W.

"Permitted Exceptions" means the Initial Permitted Exceptions and the Additional Permitted Exceptions.

"Person" means any natural person, corporation, general partnership, limited partnership, limited liability company, proprietorship, other business organization, trust, union, association or Governmental or Regulatory Authority.

"Personal Property" means the machinery, equipment, furnishings, materials, supplies, tools, inventories, parts and any other tangible personal property identified or described in Exhibit X.

"Pre-Existing Release" means any Release on, on to, under or within the Land or Transferred Assets or any adjacent property owned by PSE, that occurred prior to the Closing Date or is a continuing Release of Hazardous Substances that were placed or came to be located on the Land or Transferred Assets or adjacent property owned by PSE prior to the Closing Date.

"Project Documents" means all plans, specifications, warranties, surveys, development documents, historical documents and other information in PSE's possession or control (other than documents designated as privileged or as Excluded Property) regarding the Transferred Assets.

"PSE" has the meaning assigned to it in the introductory paragraph.

"PSE Easements" means the easements, covenants and rights of way described in Exhibit D-2.

"PSE Easement Grant" means a deed for the creation and conveyance of a PSE Easement, substantially in the forms set forth in Exhibit G-2.

"PSE Indemnitee" means PSE and its Affiliates and the respective directors, officers, agents, employees, contractors and shareholders of the foregoing and their successors and assigns.

"PSE Mortgage" means that certain First Mortgage dated as of June 2, 1924 from Puget Sound Power & Light Company as supplemented and amended by all indentures supplemental thereto including that certain Sixty-Sixth Supplemental Indenture dated August 12, 1986 between Puget Sound Power & Light Company, a Washington corporation and The First National Bank of Boston, a national banking association.

"PSE's Knowledge" or any similar phrase shall mean the actual knowledge of Eric Markell, Jennifer O'Connor and all other attorneys in PSE's General Counsel's office, Gene Galloway, Kurt Krebs, John Rork, Paul Wetherbee and Ed Schild as of the Agreement Date.

"Purchase Price" has the meaning assigned to it in Section 3.1.

"Real Property" means the Land, Improvements and any other appurtenances thereto.

"Real Property Separation" means the boundary line adjustments and such other processes and Government or Regulatory Authority consents and approvals on terms and conditions reasonably satisfactory to PSE and Cascade that are necessary to legally separate the Parcels from the real property included in the Excluded Assets as contemplated in Exhibits C, D-1, D-2 and J and create Parcels, Cascade Easements and PSE Easements that may be lawfully conveyed at Closing as contemplated under this Agreement.

"Reimbursement Agreement" means that certain Reimbursement Agreement dated as of June 16, 2007 between Cascade and PSE regarding reimbursement of survey costs as provided therein.

"Release" means any release, spill, emission, leak, injection, deposit, disposal, discharge, dispersal, leaching, migration, or other entry of Hazardous Substances into the indoor or outdoor environment, including the movement of Hazardous Substances through, or the existence of Hazardous Substances in, ambient air, soil, surface water, ground water, wetlands, land or subsurface strata.

"Remedial Action" means any action or expenditure consistent with the purposes of applicable Environmental Laws to identify, eliminate, contain, monitor, or minimize any threat posed by Hazardous Substances to human health or the environment including any investigative and monitoring activities with respect to any Release and any health assessments or health effects studies conducted in order to determine the risk or potential risk to human health.

"Representatives" means, for any Person, any director, officer, manager, employee, counsel, accountant, financial advisor or consultant of such Person; provided, however, in no event shall either Party be considered, for the purposes of this Agreement, a Representative of the other Party.

"Resolution Period" means the period ending thirty (30) days following receipt by an Indemnitee of a written notice from an Indemnitor stating that it disputes all or any portion of a claim set forth in an Indemnity Notice.

"Riparian Corridor" means that portion of the Excluded Property legally described on Exhibit F.

"Soil Excavation" means any soil boring, sampling, or excavation performed with mechanized equipment (as opposed to hand tools) on the Land.

"Third Party" means a Person other than the Party against whom indemnification is being sought by an Indemnitee pursuant to Article 9.

"Third Party Claim" means a Claim asserted against or sought to be collected from such Indemnitee by a Third Party.

"Title Company" means Pacific Northwest Title Company of Washington, Inc.

"Title Policy" means (i) an owner's extended coverage policy of title insurance issued by the Title Company for the Parcels identified on Exhibit E, Section 1 and (ii) an owner's standard coverage policy of title insurance issued by the Title Company for the remainder of the Parcels and the Cascade Easements in an amount equal to Ten Million Dollars (\$10,000,000), subject only to the Permitted Exceptions, together with the endorsements identified in Exhibit E, Section 2.

"Transferred Assets" has the meaning assigned to it in Section 2.1.

"Tribe" has the meaning assigned to it in Section 5.2(e).

"Updated Preliminary Title Commitment" means preliminary commitment for title insurance issued by Title Company after the Agreement Date and before Closing setting forth the status of the title of the Real Property after completion of the Real Property Separation.

"Water Rights" means the Municipal Water Rights and the Hydropower Water Right.

"WDOE" means the State of Washington Department of Ecology.

"WUTC" means the State of Washington Utilities and Transportation Commission.