



COMMISSIONERS
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March 10, 2010

As you know, the PUD has expended substantial time, effort and ratepayer funds on three previous occasions to investigate the potential for a biomass plant at the waterfront. The PUD recognizes that a renewable energy project in Shelton would provide benefits to both parties, as well as the general community. However, the District must insist on a price which reflects the true market value for biomass energy. PUD 3 must also protect its customers' interest in any risks that would be incurred (including up-front funding in the form of prepayment for power or otherwise) to offset capital costs by Simpson Lumber.

After much thought and analysis, consultations with experts in the business, and evaluations of other options available to meet both our remaining requirements under the renewable portfolio mandate, and the District's load growth needs, we have prepared a response to the proposal from Simpson Lumber presented on March 2, 2010.

Our experience with and observation of other prepayment contracts in the region has been that a prepayment offers the purchasing utility a discount in the purchase price of the power that rewards the utility for taking on the risk and responsibility of a substantial debt obligation. The numbers that we received from Simpson last week do not reflect that financial concept and we have therefore come to the conclusion that we are better off to stay with a straight power purchase agreement.

Attached is our offer for purchase of the output of your proposed biomass plant, which includes a 2% annual escalation on O&M costs, including fuel. We believe these costs to be 48% of the offered starting purchase price, and it would be to this portion of the starting purchase price that the 2% escalation would apply. With the addition of this escalator, and taking into consideration that the project could be constructed at a capacity that would not require substantial reliance on market fuel procurement, we believe that the District should not assume any fuel cost risk in addition to the 2% escalation discussed above.

As we have mentioned in previous meetings, there are a number of biomass plants in the Northwest either recently purchased or in the process of construction which have involved negotiations with local utilities. Our price offer is comparable to those contracts, which are all for long-term purchase agreements. It is our assessment that if our offer is a reflection of current market prices, then the incentive for the District's ratepayers to prepay for the energy is questionable. Please note that the attached term sheet does not take into account any prepayment of project capital costs by the PUD, which is a separate matter that would require further discussions regarding the amount of any such prepayment, and how such prepayment will benefit PUD 3 ratepayers.

We desire to move forward and be a partner with Simpson Lumber on this proposed project and hope that we can come to agreement. At this time, it is our conclusion that we have spent sufficient time on the price terms, and that it is now time to determine if we have an agreement on those terms so that we can move forward and memorialize the transaction in a contract. Given the possible benefits to both parties and the community, we are anxious to move forward with this. However, in the event that we cannot reach agreement, Mason County PUD No. 3 remains committed to providing Simpson with the most reliable and economical cost-based power it is possible to deliver.

CONFIDENTIAL INFORMATION
SIMPSON TIMBER COGENERATION PROJECT OUTPUT PURCHASE

Mason County PUD No. 3 ("District") offers to purchase from the Simpson Lumber Co. ("Seller") the electrical output of a proposed wood waste fired boiler and steam turbine to be located at the Simpson Waterfront Mill in Shelton, Mason County, Washington ("Project"). Information regarding the Project will be provided to the District during the discussions of this term sheet. The following information will be treated as confidential by the District and Simpson to the extent permitted by law.

GENERAL TERMS AND CONDITIONS

SELLER	Simpson Lumber Co.
PURCHASER	Mason County PUD No. 3
QUANTITY OF PROJECT	District is willing to purchase the entire variable output of the Project, less steam needed for process purposes by Seller. Each hour during the term, District shall be entitled to receive the entire actual electrical output of the Project.
FUEL	Seller will provide to the District all of the fuel (wood waste) needed to operate the Project at maximum steam capability for the production of electricity regardless of whether the Waterfront Mill is operating or has any need for steam. Seller will provide the District with information demonstrating sources and adequacy of fuel for Project operations.
TERM	Twenty year term beginning on Commercial Operations Date, COD which date shall occur no later than January 1, 2013.
DELAY IN COD	The power purchase agreement will provide for the payment of liquidated damages to District for delay of the COD beyond a date certain, in addition to complete reimbursement of any and all costs incurred by District associated with financing, engineering, procurement and/or construction if the project fails to achieve commercial operation altogether.
PRICE	<p>\$83 per MWhr in year one, escalating each year by a factor of two percent of the O&M costs which the District figures to be 48% of the starting price, or (.02 x \$39.84), an amount equal to \$.80/MWhr/yr., compounding, through year twenty.</p> <p>These prices are inclusive of all energy, capacity and green attributes, including carbon credits associated with the Project's electrical output.</p>
AVAILABILITY FACTOR	The electrical output of the Project will be subject to minimum performance standards, measured by actual Project output and annual Project availability factor, subject to liquidated damages for failure to meet minimums.
POINT OF DELIVERY	Project generation will be delivered at the Project's interconnection at the District's Mason Substation.

TRANSMISSION & ANCILLARY SERVICES	District will acquire and pay for all transmission and ancillary services to move the power not used to serve load from the Point of Delivery to other markets and/or load centers. District will be responsible for generation imbalance costs.
DISTRICT FACILITIES UPGRADES	District will assume all costs associated with required engineering studies and upgrading of District substation equipment necessary to accommodate Seller's energy production at the Point of Delivery. This does not include any costs incurred for Bonneville Power Administration studies or system upgrades.
SCHEDULING & DISPATCHING	District will be responsible for scheduling Project output (if necessary) consistent with current Northwest and BPA power operations practices and procedures.
POWER PURCHASE AGREEMENT	Upon agreement by Seller and District on this term sheet, parties will enter into good faith negotiations to complete a power purchase agreement within 3 months of such agreement.
SCADA	Seller agrees that the Project will include SCADA and other equipment necessary for the District to obtain real time operating information regarding the Project.
MANAGEMENT APPROVAL	District reserves the right to modify the term and conditions proposed above at any time. Any final agreement between Seller and the District will be subject to Management and Board approval of both of the parties.

Simpson Co-gen Offered Price (\$/MWhr) With Annual Escalation

* Year	Annual MWhr	Avg \$/MWhr	Annual Cost
	19.6 MW Avg		
2013	159,677	\$83.00	\$13,253,191.00
2014	159,677	\$83.80	\$13,380,421.63
2015	159,677	\$84.60	\$13,508,873.68
2016	159,677	\$85.40	\$13,636,104.31
2017	159,677	\$86.20	\$13,764,556.36
2018	159,677	\$87.00	\$13,891,787.00
2019	159,677	\$87.80	\$14,020,239.04
2020	159,677	\$88.60	\$14,147,469.68
2021	159,677	\$89.40	\$14,275,921.73
2022	159,677	\$90.20	\$14,403,152.36
2023	159,677	\$91.01	\$14,531,604.41
2024	159,677	\$91.80	\$14,658,835.04
2025	159,677	\$92.61	\$14,787,287.09
2026	159,677	\$93.40	\$14,914,517.72
2027	159,677	\$94.21	\$15,042,969.77
2028	159,677	\$95.01	\$15,170,200.40
2029	159,677	\$95.81	\$15,298,652.45
2030	159,677	\$96.61	\$15,425,883.08
2031	159,677	\$97.41	\$15,554,335.13
2032	159,677	\$98.21	\$15,681,565.77

* Reflects a 2% inflation on all O&M costs (48% of \$83 starting price)