

**MEMORANDUM OF UNDERSTANDING
THE CLIMATE TRUST AND PORTLAND GENERAL ELECTRIC COMPANY
CARBON DIOXIDE STANDARD IMPLEMENTATION
MONETARY PATH PAYMENT REQUIREMENT
WITH A STANDBY LETTER OF CREDIT FOR PHASE 1**

THIS MEMORANDUM OF UNDERSTANDING (this “Agreement”) is entered into as of the ___ day of _____, 200_, by and between Portland General Electric Company (the “Project Owner”) in its capacity as owner of the Port Westward Generating Project, and The Climate Trust (“The Trust”).

RECITALS

1. The Project Owner intends to design, finance, construct, own and operate Phase 1 of a natural gas-fired combined-cycle combustion turbine electric generating facility with a total base-load net electric power output for Phase 1 of about 389 MW and a peaking net electric power output of about 414 MW near the City of Clatskanie, Oregon. Phase 1 of the facility, together with its ancillary systems, shall be referred to herein as the “Project or Phase 1.”
2. The State of Oregon requires new energy facilities to meet a carbon dioxide emissions standard as described in OAR 345-024-0550 through -0710.
3. As a condition to the siting of the Project, the Project Owner is required to provide offset funds (“Offset Funds”) and selection and contracting funds (“Selection and Contracting Funds”) to The Trust. In accordance with Section D.15 of the Third Amended Site Certificate for the Port Westward Generating Project (the “Site Certificate”) that the Oregon Energy Facility Siting Council (the “Council”) granted to the Project Owner, dated January 28, 2005, as amended, the Project Owner shall establish a third-party standby letter of credit (the “Letter of Credit”) in The Trust’s name, acceptable to the Council, sufficient to meet the monetary path requirement. Under the terms and conditions of this Agreement, the monetary path payments will be disbursed to The Trust as specified in the Site Certificate and this Agreement and then by The Trust as specified in OAR 345-024-0710.
4. The Trust is a qualified organization within the meaning of OAR 345-001-0010(46).

NOW, THEREFORE, in consideration of the premises and mutual promises herein contained, the parties hereto agree as follows:

1. Initial Base-Load Monetary Path Payment and Initial Power Augmentation Monetary Path Payment for Phase 1.

- 1.1 The Project Owner has used the monetary path payment requirement calculations described in Section D.15 of the Site Certificate to calculate the Initial Base-Load Monetary Path Payment amount for Phase 1 and has submitted them to the Oregon Department of Energy (the “Department”) for verification. The Trust acknowledges that the calculation of the Initial Base-Load Monetary Path Payment in fourth quarter,

2002 dollars presented in Appendix A is correct and consistent with the Site Certificate.

- 1.2 The Project Owner has used the monetary path payment requirement calculations described in Section D.15 of the Site Certificate to calculate the Initial Power Augmentation Monetary Path Payment amount for Phase 1 and has submitted them to the Department for verification. The Trust acknowledges that the calculation of the Initial Power Augmentation Monetary Path Payment in fourth quarter, 2002 dollars presented in Appendix A is correct and consistent with the Site Certificate.
- 1.3 The Site Certificate requires that the Selection and Contracting Funds portion of both the Initial Base-Load Monetary Path Payment and the Initial Power Augmentation Monetary Path Payment for Phase 1 be adjusted for inflation to the date of disbursement to The Trust using the U.S. Gross Domestic Product Implicit Price Deflator, Chain-Weight, published in the then current "Oregon Economic and Revenue Forecast" (the "Index"). The Project Owner shall pay to The Trust the Inflation-Adjusted Selection and Contracting Funds in the amount of \$_____ contemporaneously with execution of this Agreement. The Trust acknowledges that the calculations of the Inflation-Adjusted Selection and Contracting Funds presented in Appendix A are correct and consistent with the Site Certificate.
- 1.4 Based on the verified calculations of the Initial Base-Load Monetary Path Payment and the Initial Power Augmentation Monetary Path Payment set forth in Appendix A, the Project Owner shall pay to the Trust \$_____ in Offset Funds in fourth quarter, 2002 dollars pursuant to Sections 1.6, 1.7, 1.8, and 1.9 below. The Site Certificate requires that the Offset Funds portion of both the Initial Base-Load Monetary Path Payment and the Initial Power Augmentation Monetary Path Payment for Phase 1 be adjusted for inflation from the fourth quarter, 2002, to the date of disbursement to The Trust using the Index.
- 1.5 The Project Owner shall establish a Letter of Credit in the amount of \$_____ in favor of The Trust, in the form attached as Appendix B to this Agreement. The effective date of the Letter of Credit shall be _____, 200_. The Trust shall be entitled to draw the entire amount of the Offset Funds secured by the Letter of Credit according to the procedures of this agreement and the Letter of Credit. The Project Owner shall pay the costs of establishing and maintaining the Letter of Credit and shall pay any transaction fees assessed by the issuer of the Letter of Credit.
- 1.6 The Trust shall have the right to draw Offset Funds from the Project Owner upon execution of a letter of intent to acquire an offset project. At the sole discretion of The Trust, the amount of Offset Funds drawn may equal the entire amount of Offset Funds available. The Trust may request from the Project Owner less than the entire amount of the Offset Funds, but in no case shall the cumulative amount of all requests exceed the total Monetary Path Payment Requirement, as adjusted for inflation.

- 1.7 If the Project Owner fails to pay Offset Funds as requested by the Trust within ten (10) business days from the date of such request, the Trust may draw the sum of the Letter of Credit for the full or remaining amount of the Offset Funds.
- 1.8 Notwithstanding Sections 1.6 and 1.7, if the Project Owner fails to renew the Letter of Credit in a timely manner, the Trust may draw the sum of the Letter of Credit for the full or remaining amount of Offset Funds prior to the Expiration Date of the Letter of Credit pursuant to Exhibit B of the Letter of Credit.
- 1.9 Because of the need to establish a Letter of Credit with sufficient funds to cover withdrawal up to the end of a future period calculated by application of the Index, the amount of the Letter of Credit on any date may be greater than the entire amount of Offset Funds required by the Monetary Path, as adjusted for inflation. If there are funds available in Letter of Credit after The Trust has withdrawn the entire amount of Offset Funds under the Monetary Path Payment Requirement, the Project Owner may terminate the Letter of Credit after The Climate Trust certifies to the Department that it has received full monetary path payments and verification by the Department that the funds remaining in the Letter of Credit are excess of the Project Owner's obligations pursuant to Section 1.

2. Year One True-Up Base-Load Monetary Path Payment and Year One True-Up Power Augmentation Monetary Path Payment for Phase 1.

- 2.1 The Project Owner shall, within 30 days of filing its Year One Test reports to Council, calculate the Year One True-Up Base-Load Monetary Path Payment, if any, and the Year One True-Up Power Augmentation Monetary Path Payment, if any, as required by Section D.15 of the Site Certificate. The Project Owner shall submit these calculations to the Oregon Department of Energy for verification, as required by Section D.15 of the Site Certificate.
- 2.2 Both the Year One True-Up Base-Load Monetary Path Payment and Year One True-Up Power Augmentation Monetary Path Payment, if any, shall be adjusted for fourth quarter 2002 dollars to the date of disbursement using the Index.
- 2.3 If any Year One True-Up Base-Load Monetary Path Payment and/or Year One True-Up Power Augmentation Monetary Path Payment is due, the Project Owner shall pay this amount directly to The Trust within 30 days of filing its Year One Test report to the Council.
- 2.4 In no case shall the calculations of this Section 2 cause the funding for the Initial Base-Load Monetary Path Payment and the Initial Power Augmentation Monetary Path Payment made available to The Trust by direct payment by the Project Owner and/or the Letter of Credit to diminish.

3. Periodic Five-Year Power Augmentation Monetary Path Payments for Phase 1.

- 3.1 Each five years after beginning commercial operation, the Project Owner shall report the annual average hours of usage of power augmentation to the Department as required by Section D.15 of the Site Certificate.
- 3.2 If the Department of Energy determines that there are excess emissions for the five-year report period, the Department will specify the amount of Selection and Contracting Funds and Offset Funds that the Project Owner shall make available to The Trust. Each Periodic Five-Year Power Augmentation Monetary Path Payment, if any, shall be adjusted for inflation from fourth quarter, 2002, to the Disbursement Date using the Index.
- 3.3 For any Periodic Five-Year Power Augmentation Monetary Path Payment, the Selection and Contracting Funds shall equal 20 percent of the value of any Offset Funds up to the first \$250,000 (in 2002 dollars) and 4.286 percent of the value of any Offset Funds in excess of \$250,000 (in 2002 dollars).
- 3.4 The Project Owner shall pay to The Trust the specified amount of any Periodic Five-Year Monetary Path Payment within 30 days of its notification by the Department of the amount that the Project Owner owes.

4. Undertaking by The Trust.

- 4.1 The Trust shall use the Initial Base-Load Monetary Path Payment and Initial Power Augmentation Monetary Path Payment, as well as any Year One True-Up Base-Load Monetary Path Payment, Year One True-Up Power Augmentation Monetary Path Payment, and/or Periodic Five-Year Power Augmentation Monetary Path Payments for Phase 1 in accordance with OAR 345-024-0710.
- 4.2 With respect to the Offset Funds portions of any Initial Base-Load Monetary Path Payment, Initial Power Augmentation Monetary Path Payment, Year One Base-Load Monetary Path Payment, Year One Power Augmentation Monetary Path Payment, and/or Periodic Five-Year Power Augmentation Monetary Path Payments for Phase 1, The Trust shall spend at least 80 percent of the Offset Funds for contracts to implement offsets, and may use up to 20 percent of the Offset Funds for monitoring, evaluation, administration, and enforcement of contracts to implement offsets. The Trust shall spend Offset Funds solely for contracts to implement offsets or for monitoring, evaluation, administration, and enforcement of contracts to implement offsets.
- 4.3 The Selection and Contracting Funds portions of any Initial Base-Load Monetary Path Payment, Initial Power Augmentation Monetary Path Payment, Year One Base-Load Monetary Path Payment, Year One Power Augmentation Monetary Path Payment, and/or Periodic Five-Year Power Augmentation Monetary Path Payments for Phase 1 shall compensate The Trust for its costs of selecting offsets and contracting for the implementation of offsets and administrative costs related to operating The Trust as a qualified organization.

- 4.4 The Trust shall use its best efforts to remain a qualified organization, as defined in OAR 345-001-0010(45), until The Trust has used all funds received from the Project Owner.

5. Limited Obligation of Project Owner.

The Trust acknowledges that, pursuant to OAR 345-024-0710(3), that the Project Owner and the Project shall have no obligation with regard to offsets for the Project other than to make available to The Trust the total amount of the monetary path payments.

6. Limited Participation by Project Owner in The Trust Decision Making.

The Project Owner may appoint one nonvoting member to the Board of Directors of The Trust for a term lasting until The Trust has completed the contracting for the offset funds provided by the Project Owner for Phase 1. The Project Owner shall have no approval rights over The Trust's offset contracts, disbursement of Offset Funds, or other day-to-day operations of The Trust.

7. Project Owner Agreement to Indemnify and Hold The Trust Harmless.

The Project Owner agrees to defend, hold harmless and indemnify The Trust from and against any and all claims, costs, liabilities, and expenses of any nature whatsoever, including reasonable attorneys' fees, resulting from or arising out of any failure by the Project Owner to make any payments required by this Agreement, or to establish and maintain the Letter of Credit described in Section 1.5 in a timely manner; PROVIDED, that the maximum amount of the Project Owner's liability to The Trust for claims, costs, liabilities and expenses, including attorneys' fees, arising out of the failure to make a payment or establish the Letter of Credit required by this Agreement in a timely manner shall not exceed twice the differential between the amount payable to The Trust on a particular date and the amount actually paid or made available to The Trust on or before that date. FURTHER PROVIDED, The Trust must make reasonable efforts to mitigate any losses, liabilities or expenses for which it seeks indemnification from the Project Owner.

8. General Provisions.

- 8.1 Governing Law: This Agreement shall be governed by and construed in accordance with the laws of the State of Oregon. Any ambiguity that may arise under this Agreement shall be given a fair and reasonable construction in accordance with the intention of the parties and without regard to which party caused or is deemed to have caused such ambiguity to exist.
- 8.2 Amendments and Waivers: This Agreement may not be modified, supplemented, altered or amended, nor any provision hereof or rights hereunder be waived, except

by an instrument in writing designated as an amendment of or waiver under this Agreement and signed by both parties. The waiver of any particular breach or default hereunder shall not constitute a waiver of any other breach or default. Failure or delay by any party to enforce any provision of this Agreement shall not in any way be construed as a waiver of such provision, nor shall it prevent such party from thereafter enforcing each and every provision of this Agreement.

- 8.3 Entire Agreement: This Agreement constitutes the entire agreement between the parties hereto as to the matters set forth herein, and all prior proposals, commitments, understandings and agreements, whether oral or in writing, as to such matters are superseded by this Agreement.

- 8.4 Assignment: The rights of the Project Owner under this Agreement may be assumed by any entity that acquires an ownership interest in the Project. Upon such assumption, such entity shall be deemed to be a party to this Agreement. The Trust may not assign this Agreement without the prior consent of the Project Owner and Council; provided that, if the proposed assignee is a “qualified organization” as defined in OAR 345-001-0010(45), the Project Owner shall not unreasonably withhold such consent.

- 8.5 Third-Party Beneficiaries: Nothing in this Agreement, whether express or implied, is intended to confer any rights or remedies on any persons other than the parties hereto and their respective authorized successors and permitted assigns.

IN WITNESS WHEREOF, the parties have caused this Memorandum of Understanding to be executed by their respective duly authorized representatives, as of the day and year first above written.

PORTLAND GENERAL ELECTRIC COMPANY

THE CLIMATE TRUST

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

APPENDIX A: CALCULATION OF INITIAL BASE-LOAD AND POWER AUGMENTATION MONETARY PATH PAYMENT REQUIREMENT [NOT INCLUDED IN SITE CERTIFICATE]

APPENDIX B: STANDBY LETTER OF CREDIT

APPENDIX B TO MEMORANDUM OF UNDERSTANDING
[FORM OF CLIMATE TRUST LETTER OF CREDIT]

IRREVOCABLE STANDBY LETTER OF CREDIT NUMBER SBLC _____

November __, 2004

THE CLIMATE TRUST
516 SE Morrison, Suite 300
Portland, OR 97214-2343

Ladies and Gentlemen:

At the request and for the account of Portland General Electric Company, (PGE), address 121 SW Salmon Street, Portland, OR 97204, and on behalf of Port Westward Generating Project, we, U.S. Bank National Association, hereby establish effective immediately, in favor of you, THE CLIMATE TRUST ("Beneficiary"), this Irrevocable Standby Letter of Credit Number SBLC _____ (the "Letter of Credit") in the amount of USD _____ (as such amount may be reduced from time to time by partial draws hereunder, the "Stated Amount").

This Letter of Credit is being issued in connection with Phase 1 in the Third Amended Site Certificate for the Port Westward Generating Plant with the STATE OF OREGON dated January 28, 2005, as may be amended from time to time.

This Letter of Credit is issued, presentable, and payable at our offices at U.S. Bank National Association, International Department, PD-OR-T5CE, Suite 500, 111 SW Fifth Avenue, Portland, OR 97204, and expires with our close of business on _____, 2005 (the present or any future expiration date is referred to herein as the "Expiration Date").

It is a condition of this Letter of Credit that it shall be automatically extended without amendment for successive one (1) year periods from the present or any future Expiration Date hereof, unless we provide you with written notice of our election not to renew this Letter of Credit at least sixty (60) days prior to any such Expiration Date. For the purposes hereof, "Business Day" shall mean any day on which commercial banks are not authorized or required to close in Portland, Oregon.

Subject to the terms and conditions herein, funds under this Letter of Credit are available at sight against your draft drawn on us bearing upon its face the clause "Drawn under U.S. Bank National Association, Portland, Oregon Letter of Credit Number SBLC _____ dated __, 20__" and accompanied by the following documents:

1. The original of this Letter of Credit and all subsequent amendments, if any; and
2. Your sight draft drawn on us; and
3. A dated draw certificate purportedly signed by an authorized officer of the Beneficiary and on Beneficiary's letterhead in the form of attached Exhibits A or B

to this Letter of Credit (incorporated herein by reference and made an integral part hereof).

Partial and multiple draws are permitted under this Letter of Credit, provided that the Stated Amount of this Letter of Credit shall be permanently reduced by the amount of each such draw.

This Letter of Credit may not be transferred or any of the rights hereunder assigned. Any purported transfer or assignment shall be void and of no force or effect.

U S Bank National Association agrees that a draft drawn and presented in conformity with the terms of this Letter of Credit will be duly honored upon presentation. If a draft made by Beneficiary does not conform to the terms and conditions of this Letter of Credit, we will give Beneficiary prompt notice that the demand for payment will not be effected. Such notice will include a statement of reasons for the denial. Upon being notified that the demand for payment was not effected in conformity with this Letter of Credit, Beneficiary may attempt to correct the nonconforming demand; provided, however, that any draft or document prescribed to correct such nonconforming demand must be provided or on prior to the Expiration Date.

This Letter of Credit sets forth in full our undertaking and such undertaking shall not in any way be modified, amended, amplified or limited by reference to any documents, instruments or agreements referred to herein, except only the exhibits referred to hereby and any such reference shall not be deemed to incorporate by reference any document, instrument or agreement except for such exhibits.

Except as otherwise expressly stated herein, this Letter of Credit is issued subject to the International Standby Practices ("ISP98"), International Chamber of Commerce Publication No. 590. As to matters not covered by the ISP98, this Letter of Credit shall be governed by the laws of the State of Oregon without regard to the principles of conflicts of laws thereunder.

Authorized Signature

EXHIBIT A

[THE CLIMATE TRUST LETTERHEAD]

DRAW CERTIFICATE

[DATE]

U.S. Bank National Association
International Dept
111 S.W. Fifth Avenue, Suite 500
Portland, Oregon 97204
Attention: Letter of Credit Manager

Drawn under Irrevocable Standby Letter of Credit Number SBLC_____ dated __, 20__

Ladies and Gentlemen:

Any capitalized term used herein shall have the meaning defined for that term by the Letter of Credit.

The undersigned, the duly elected and acting _____ of the Beneficiary, hereby certifies as follows:

1. Portland General Electric has failed to pay Offset Funds to The Climate Trust for the Monetary Path Payment Requirements for Phase 1 described in the Site Certificate for the Port Westward Generating Project, as amended from time to time, (the "Site Certificate") within the time provided in the Memorandum of Understanding between The Climate Trust and Portland General Electric Company for the Carbon Dioxide Standard Implementation of the Monetary Path Payment Requirement With A Standby Letter Of Credit, Phase 1, dated _____, 200_, ("Memorandum of Understanding").
2. As a result of said failure to pay, the Beneficiary is entitled pursuant to the provisions of the Site Certificate and the Memorandum of Understanding to make demand under the Letter of Credit in the amount of \$_____.
3. The undersigned has concurrently presented to you its sight draft drawn in the amount specified in Paragraph 2 above, which amount does not exceed the lesser of (a) the amount the Beneficiary is entitled to draw pursuant to the provisions of the Site Certificate and Memorandum of Understanding, and (b) the Stated Amount as of the date hereof. The date of the sight draft is the date of this Certificate, which is not later than the Expiration Date.
4. Funds paid pursuant to the provisions of the Letter of Credit shall be wire transferred to the Beneficiary in accordance with the following instructions:

IN WITNESS WHEREOF, the Beneficiary has executed and delivered this certificate as of the ___day
of _____, 200__.

THE CLIMATE TRUST as Beneficiary

By: _____

Title: _____

1
2 **EXHIBIT B**

3
4 [THE CLIMATE TRUST LETTERHEAD]

5
6 **DRAW CERTIFICATE**

7
8 [DATE]

9
10
11 U.S. Bank National Association
12 International Dept.
13 111 SW Fifth Ave., Suite 500
14 Portland, OR 97204

15
16 Attention: Letter of Credit Manager

17
18 Drawn under Irrevocable Standby Letter of Credit Number SBLC _____ dated __, 20__

19
20 Ladies and Gentlemen:

21
22 Any capitalized term used herein shall have the meaning defined for that term by the Letter of
23 Credit.

24
25 The undersigned, the duly elected an acting _____ of the Beneficiary, hereby certifies as
26 follows:

27
28 1. US Bank National Association has heretofore provided written notice to the
29 Beneficiary of the Bank's intent not to renew the Letter of Credit following the present Expiration
30 Date thereof.

31
32 2. Portland General Electric Co. is required to deliver to the Beneficiary and keep in effect, a
33 bond or letter of credit that satisfies the requirements of Condition D.15(1) of the Site
34 Certificate for the Port Westward Generating Project, as amended from time to time (the "Site
35 Certificate").

36
37 3. Neither Portland General Electric Co. nor any person acting on its behalf has, at least
38 thirty (30) days prior to the present Expiration Date of the Letter of Credit, delivered to Beneficiary
39 a bond or letter of credit that satisfies the requirements of Condition D.15(1) of the Site Certificate.

40
41 4. As a result of said failure to deliver a replacement bond or letter of credit at least
42 30 days prior to the present Expiration Date of the Letter of Credit, the Beneficiary is
43 entitled pursuant to the provisions of the Site Certificate and the Memorandum of Understanding to
44 make demand under the Letter of Credit in the amount of \$ _____.

45
46 5. The undersigned has concurrently presented to you its sight draft drawn in the amount
47 specified in Paragraph 4 above, which amount does not exceed the lesser of (a) the amount the

1 Beneficiary is entitled to draw pursuant to the provisions of the Site Certificate and the Memorandum
2 of Understanding, and (b) the Stated Amount as of the date hereof. The date of the sight draft is the
3 date of this Certificate, which is not later than the Expiration Date.
4

5 6. Funds paid pursuant to the provisions of the Letter of Credit shall be wire transferred to the
6 Beneficiary in accordance with the following instructions:
7

8 _____
9

10 _____
11

12 IN WITNESS WHEREOF, the Beneficiary has executed and delivered this certificate as of
13 the _____ day of _____, 200_.

14
15
16 THE CLIMATE TRUST as Beneficiary

17
18
19 By: _____

20
21 Title: _____
22