

**FIRST AMENDMENT TO
MEMORANDUM OF AGREEMENT**

This First Amendment ("Amendment") to the Memorandum of Agreement between the State of Washington and TransAlta Centralia Generation LLC dated December 23, 2011 (the "MOA") is made as of July 13, 2017 (the "Effective Date"), by and between the State of Washington, acting through and by Governor Jay Inslee (the "State"), and TransAlta Centralia Generation LLC, a Washington limited liability company (the "Company" and, together with the State, each a "Party" and together, the "Parties").

WHEREAS, acting pursuant to RCW 80.80.100, the State and the Company entered into the MOA, regarding the 1,340 megawatt coal-fired baseload electric generating facility located in Centralia, Washington, owned and operated by the Company, which utilizes two coal-fired generating boilers (the "Facility"), among other things, out of recognition that the Company's investments in emissions reductions for the Facility and early retirement of the Facility's two boilers pursuant to RCW 80.80.040 will substantially contribute to the State meeting its climate change policies and achieve greenhouse gas reductions under RCW 70.235.0201(1)(a);

WHEREAS, in exchange for the benefits of entering into the MOA, the Company also agreed, as more specifically described in the MOA and pursuant to the requirements of RCW 80.80.100, to provide financial assistance to constituencies affected by the closure of the Facility in the form of three independent grant funding accounts:

- 1) an account established to fund residential energy efficiency and weatherization measures for low-income and moderate-income residents of Lewis County and South Thurston County, Washington (the "Weatherization Fund");
- 2) an account established to fund education, retraining and economic development specifically targeting the needs of workers displaced from the Facility (the "Economic and Community Development Fund"); and
- 3) an account established to fund energy technologies with the potential to create considerable energy, air quality, haze or other environmental benefits located in or otherwise to the benefit of the State of Washington (the "Energy Technology Fund" and, together with the Weatherization Fund and the Economic and Community Development Fund, each a "Fund" and together, the "Funds").

WHEREAS, the Funds are each administered by a separate "Grant Review Board" made up of Board Members appointed by the entities set forth in the MOA, and each grant of financial assistance from a Fund requires, pursuant to the terms of the MOA, a supermajority vote of its Grant Review Board, defined to mean approval by a number of Board Members equal to a majority of Board Members on such Grant Review Board plus one;

WHEREAS, the Parties believe that the Grant Review Boards, as established by the MOA, have not resulted in the efficient administration of the Funds as originally intended; and

WHEREAS, in light of the foregoing, the Parties desire to amend the MOA to, among other things, modify (i) the number of Board Members appointed to each Grant Review Board; (ii) the entities authorized to designate such Board Members; and (iii) clarify the scope of proper purposes for which grants of financial assistance may be made from the Economic and Community Development Fund.

NOW THEREFORE, in consideration of the mutual benefits to be derived therefrom, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

1. Recitals; Obligations of the Company. Subsection D(5) of the Recitals to the MOA is hereby deleted in its entirety and replaced with the following language:

(5) permanently cease coal-fired power generation operations of one Boiler in 2020 and the other Boiler in 2025, which dates are prior to the 2035 end of their expected useful lives, in each case pursuant to the terms and subject to the conditions of this MOA.

2. Recitals; Obligations of the State. Subsection E(3) of the Recitals to the MOA is hereby deleted in its entirety and replaced with the following language:

(3) recognize investments by the Company in emissions reductions and confirm that based upon early cessation of coal-fired power generation operations of the Boilers, Facility power is a climate responsible transition product that will substantially contribute to the state meeting its climate change policies and achieve the greenhouse gas reductions in RCW 70.235.020(1)(a).

3. Proper Grant Purposes. Section 3(a)(ii) is hereby deleted in its entirety and replaced with the following section:

(ii) \$1,666,666.67 annually to an account established to fund education, retraining, economic development, and community enhancement, from which Grants are to be made pursuant to the terms of the Account Agreement and Section 4 (the "Economic and Community Development Fund"), of which an aggregate amount of at least \$5,000,000, calculated over the life of the Economic and Community Development Fund, shall be allocated to fund education, retraining and economic development specifically targeting the needs of workers displaced from the Facility including but not limited to direct support for displaced workers such as living expenses, supplies related to retraining or new employment, and financial assistance for the education or training of family members; and"

4. Composition of Grant Review Boards. Section 4(b) of the MOA is hereby deleted in its entirety and replaced with the following section:

(b) Initial Composition of Grant Review Boards. The Grant Review Boards shall initially consist of members (the "Board Members") as set forth below; provided that each Board Member shall have legal, financial, energy or other experience relevant to his or her service on such Grant Review Board, as determined by the party authorized to designate such Board Member pursuant this Section 4(b) in such party's reasonable discretion:

(i) The Grant Review Board with the authority to approve Grants from the Weatherization Fund (the "Weatherization Board"), the Grant Review Board with the authority to approve Grants from the Economic and Community Development Fund (the "Economic and Community Development Board"), and the Grant Review Board with the authority to approve Grants from the Energy Technology Fund (the "Energy Technology Board"), shall each consist of the following Board Members:

(A) one member selected by the Lewis County Economic Development Council;

(B) one local elected official from Lewis County, Washington, selected by the Lewis County Commissioners;

(C) one member selected by the Thurston-Lewis-Mason Central Labor Council;

(D) one member selected by the NW Energy Coalition;

(E) one employee of the Company, selected by the Company; and

(F) four representatives of the Company, selected by the Company.

(ii) Each entity authorized to designate a Board Member on a Grant Review Board shall designate the same Board Member for each Grant Review Board such that each Grant Review Board shall consist of the same Board Members. In the event that an entity authorized to designate a Board Member on a Grant Review Board removes or replaces such Board Member in accordance with Section 4(e), such removal or replacement shall also act to remove or replace such Board Member on each of the other Grant Review Boards, such that each Grant Review Board shall, at all times, consist of the same Board Members.

5. Conflicts of Interest; Supermajority. Section 4(d) of the MOA is hereby deleted in its entirety and replaced with the following section:

(d) Each Board Member shall have one vote, *provided, however*, that if any Board Member has a direct or indirect material interest in any Grant proposal or in any person or entity making a Grant proposal (an "Interested Board Member"), the Board Member must disclose the nature of such relationship to the applicable Grant Review Board, and no Board Member shall vote on any decision by a Grant Review Board for which such Board Member is an Interested Board Member. The affirmative vote of a number of Board Members equal to a majority of Board Members that are not Interested Board Members on any Grant Review Board plus one shall constitute a "Supermajority".

6. Recognition of Investments in Emissions Reductions. The second sentence in Section 7 of the MOA is hereby deleted in its entirety and replaced with the following:

Further, the State agrees to recognize the Company's cessation of coal fired generation at the Facility's boilers prior to the end of their useful lives by taking the early

cessation into consideration during future environmental regulatory processes that may adversely affect the Facility's operations.

7. No Other Amendments. Except as otherwise set forth in this Amendment, the MOA shall not otherwise be amended and shall continue in full force and effect.

8. Capitalized Terms. All capitalized terms used in this Amendment but not otherwise defined herein shall have the meaning ascribed to them in the MOA.

9. Counterparts. This Amendment may be executed electronically in counterparts and delivered via email, each of which shall be deemed an original and all of which taken together shall constitute a single instrument.

[Signature Page Follows]

IN WITNESS WHEREOF, the Parties have executed this First Amendment to the Memorandum of Agreement as of the day and year first set forth above.

THE STATE OF WASHINGTON



By: Jay Inslee
Title: Governor

THE COMPANY

TRANSALTA CENTRALIA GENERATION LLC



By: Bob Nelson
Title: President