

**SCHILLER STATION UNIT 5 FUEL SUPPLY AGREEMENT BETWEEN
NEW HAMPSHIRE TIMBERLAND OWNERS ASSOCIATION AND PUBLIC
SERVICE COMPANY OF NEW HAMPSHIRE**

WHEREAS New Hampshire Timberland Owners Association (“NHTOA”), a New Hampshire-based nonprofit organization representing New Hampshire’s timberland owners and forest products industry, and Public Service Company of New Hampshire (“PSNH”), an electric utility serving customers in New Hampshire, share a concern about the State’s economy;

WHEREAS the New Hampshire legislature has found the New Hampshire forest products industry is an important part of the State’s entire economy (RSA 227-G:1 and RSA 672:1, IIIc) and markets for low-grade wood are critical to the overall health of this industry as codified in Chapter 104 of the 2002 legislative session;

WHEREAS PSNH has proposed the replacement of a coal-fired boiler at Schiller Station in Portsmouth, New Hampshire, with a wood-fired boiler (“the Schiller project”) which will burn approximately 400,000 tons of wood annually, beginning on or about December 2005;

WHEREAS the new wood-fired boiler is expected to be permitted to burn whole tree chips (forestry, non-forestry, and land-clearing), sawmill residues, and other Renewable Portfolio Standard eligible fuel;

WHEREAS NHTOA represents New Hampshire sources and suppliers of wood whose support is desired to ensure the long-term viability of the Schiller project;

WHEREAS PSNH and NHTOA (together, “the Parties”) agree that the Schiller project has the potential to make a positive impact on the low-grade wood market in New Hampshire;

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the Parties hereby agree as follows:

1. Support for Project

As consideration for PSNH’s performance under this Agreement, NHTOA fully supports the Schiller project as presently represented with this Agreement and New Hampshire Public Utilities filings submitted as of the date hereof. PSNH’s performance hereunder is conditioned upon the New Hampshire Public Utilities Commission’s approval of this Agreement.

2. Fuel Source

PSNH agrees to procure fuel for the Schiller project in accordance with the following procurement strategy, provided that such fuel is available on essential terms (price, quality, quantity, timeliness and consistency of delivery) equal to alternatives:

- a. In the year 2005, prior to the boiler being placed in-service, PSNH agrees to purchase approximately 30% of the total quantity of wood for the new boiler from New Hampshire sources or suppliers;
- b. In the year 2006, the first year the new boiler is in service, PSNH agrees to purchase a minimum of 35% of the total quantity of its wood fuel from New Hampshire sources or suppliers;
- c. In the year 2007, PSNH agrees to purchase a minimum of between 35-40% of the total quantity of its wood fuel from New Hampshire sources or suppliers;
- d. In the year 2008, PSNH agrees to purchase a minimum of 40% of the total quantity of its wood fuel from New Hampshire sources or suppliers.
- e. In the year 2008, the Parties agree to use their best efforts to negotiate a successor agreement for the purpose of continuing the procurement priority provided to New Hampshire sources and suppliers established herein. Any such successor agreement must be provided to the NHPUC.

3. Long-term contracts

- a. The Parties agree that it is in the best interests of PSNH customers, NHTOA members, and the economy of the State of New Hampshire, in order to provide certainty in the market and to ensure consistency of supply at fair prices, for a certain percentage of the Schiller project wood fuel requirements to be procured through long-term fuel supply contracts (defined as having a duration of 12 months or greater). PSNH agrees, subject to the provisions of subparagraph 3(b) below, that in the year 2006, a minimum of 10% of the wood fuel for the Unit 5 boiler will be procured through long-term contracts, and in the years 2007 and 2008, a minimum of 15% of the wood fuel for the Unit 5 boiler will be procured through long-term contracts. Furthermore, PSNH agrees to make a good-faith effort to increase the percentage of long-term contracts entered into for wood fuel procurement in 2008 so long as it remains economically feasible.
- b. The Parties agree to address the issue of long-term contracts in negotiating the successor agreement in 2008, referred to in 2(e), and identify an annual minimum percentage of long-term wood fuel supply contracts to be entered into as part of PSNH's wood fuel procurement program.
- c. Prior to entering long-term contracts, PSNH will seek the best price and assurances of both timeliness and consistency of delivery from fuel suppliers throughout the region; however, once all bids have been submitted, New Hampshire suppliers will be awarded the contract if all essential factors (price, quality, quantity, timeliness and consistency of delivery) are equal to other proposals received.

4. Good Forest Management Standards

- a. The Parties agree that good forest management standards are essential to incorporate into an environmentally responsible wood fuel procurement program,

and for the years 2006 and 2007, PSNH agrees to track and annually report the percentage of wood purchased that meets one or more of the following criteria:

1. Is harvested from land that is a Certified Tree Farm; or
2. Is harvested on land third-party certified by the Sustainable Forestry Initiative or the Forest Stewardship Council; or
3. In New Hampshire and Maine, is harvested under the direction of a forester licensed by the State and harvested in a manner that the forester certifies is not a change in land use; or
4. In Massachusetts, is harvested following a cutting plan approved by the Department of Conservation and Recreation (also referred to as a Chapter 132 Forest Cutting Plan); or
5. Is harvested by a logger certified by a body recognized by the Sustainable Forestry Initiative State Implementation Committee in that State, and is harvested in a manner that the logger certifies both meets state Best Management Practices and is not a change in land use.

b. In order to track the percentage of wood that meets good forest management standards, PSNH shall request the appropriate certification from wood fuel sources or suppliers. At the end of 2006 and 2007, the Parties shall review the relevant records to assess PSNH's support of good forest management standards in order to identify achievable goals beginning in the year 2008.

c. The Parties agree that in 2008, based on information garnered primarily from experience with the new Unit 5 boiler's operations and wood fuel purchasing, but also including other relevant factors such as the costs of diverse low-grade wood fuel and the status of renewable energy legislation in the region, the Parties will determine a minimum annual percentage of wood fuel to be purchased by PSNH that shall meet the above-listed standards and can be enforced through a public accountability mechanism.

5. Reporting and Verification

a. No later than two months following the close of the calendar year, PSNH shall report to the NHTOA:

1. the volume of wood received from New Hampshire sources and suppliers,
2. the volume of wood procured using long-term contracts,
3. the volume of wood received from logging operations using good forest management standards (as defined in section 4), and
4. the total volume of wood received for use as fuel at Schiller Station.

b. As a mechanism to verify the reporting results, PSNH agrees to pay for a licensed forester to conduct an audit of a minimum of 3% of the reported wood fuel acquisitions from logging operations to confirm that those sources were accurately represented by the supplier.

c. It is understood by both NHTOA and PSNH that either or both parties may release the information in the annual report to other parties, including but not limited to members of the NHTOA, state agencies, conservation organizations, legislators and the media.

d. The NHTOA may, at its own expense, engage a third party to verify that:

1. the volume of wood procured from New Hampshire sources and suppliers meets with the terms of this Agreement, and
 2. the volume of wood procured that meets “good forest management standards” meets the terms of this Agreement.
- e. The third party will, subject to an agreement of confidentiality, have reasonable access to PSNH records for the purpose of confirming volumes from particular sources. The third party will be able to publicly report that PSNH is in compliance with the Agreement, or, in the event that PSNH has failed to procure the necessary volumes from the required sources, the volume that PSNH is deficient in procuring wood from the required sources.

6. Cooperation of the Parties

The Parties agree to undertake their obligations hereunder fairly and reasonably to achieve the purposes of this Agreement. The Parties shall cooperate with each other to effectuate the purposes of this Agreement, shall attempt to make decisions by consensus regarding any work to be undertaken under the terms of this Agreement, and shall attempt to reasonably resolve any disputes among them through good-faith negotiations.

7. Force Majeure

The Parties agree to perform in accordance with the provisions of this Agreement unless any act or occurrence beyond the reasonable control of a Party and which could not have been prevented, avoided or overcome by the exercise of due care, foresight, or due diligence on the part of the Party, prevents such performance. Such force majeure events may include, but are not limited to, acts of God, acts of terrorism or war, massive forest fires or floods, an order of court or regulatory body, a prohibition or inability arising under a federal, state or local statute, regulation, code, ordinance or by-law, or a catastrophic failure associated with Unit 5.

8. Governing Law and Venue

This Agreement shall be construed according to the laws of the State of New Hampshire, regardless of any conflict of law provisions which may apply.

9. Modification of this Agreement

Neither this Agreement nor any provisions hereof may be changed, waived, discharged or terminated orally, but only by instrument in writing signed by the other Party against whom enforcement of the change, waiver, discharge or termination is sought.

10. Notices

Notices effectuating the requirements of this Agreement shall be directed as follows:

To NHTOA: Jasen A. Stock

Executive Director
N.H. Timberland Owners Association
54 Portsmouth St.
Concord, NH 03301

To PSNH: Linda T. Landis
Senior Counsel
Public Service Company of New Hampshire
P.O. Box 330
Manchester, NH 03105

IN WITNESS WHEREOF, the undersigned Parties have executed this Agreement as designated on their respective signature pages. Each Party and the individual executing this Agreement represent and warrant that the individual executing this Agreement has been duly authorized to enter into this Agreement, and to bind the Party on whose behalf such individual is executing.