

Governance & Grant Procedures

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ARTICLE I: OFFICES

Section 1. Mailing Address. All notices and other communications given to the [Weatherization] [Economic and Community Development] [Energy Technology] Board (the “Grant Review Board”) under any provision of these Governance and Grant Procedures (these “Procedures”) shall be in writing and shall be sent to TransAlta Centralia Board Funding, LLC, attn: Lori Schmitt, 724 Columbia Street, NW, Ste 320, Olympia, Washington, 98501.

ARTICLE II: GRANT REVIEW BOARD MEMBERS

Section 1. Selection of Board Members. The Grant Review Board shall consist of [Weatherization: 11] [Economic and Community Development: 9] [Energy Technology: 15] members (the “Board Members”), who shall be selected in accordance with the provisions of Sections 8(b) and 8(c) of the Limited Liability Company Agreement of TransAlta Centralia Board Funding, LLC, a Washington limited liability company (the “Company”), as amended from time to time (as so amended, the “LLC Agreement”).

Section 2. Removal of Board Members. Board Members may be removed, with or without cause, in accordance with the provisions of Section 8(c) of the LLC Agreement.

Section 3. Resignation of Board Members. Any Board Member may resign at any time by notice given in writing or by electronic transmission to the Grant Review Board or the Chairperson. Such resignation shall take effect at the date of receipt of such notice by the Grant Review Board or the Chairperson, or at such later time as is therein specified.

Section 4. Board Authority. The authority of the Grant Review Board shall be limited to only those matters which are specifically delegated to the Grant Review Board by TransAlta Centralia Generation LLC, a Washington limited liability company and the sole member of the Company (the “Member”), pursuant to Section 8(e) of the LLC Agreement.

Section 5. Requirement of Action by Supermajority. Any action taken by the Grant Review Board must be approved by a number of Board Members equal to a majority of Board Members on the Grant Review Board, plus one (a “Supermajority”). Each Board Member shall have one vote.

Section 6. Board Member Compensation. Board Members shall not be entitled to any remuneration for their service on the Grant Review Board. Costs and expenses incurred by Board Members as a result of their service on the Grant Review Board may be reimbursed in accordance with the provisions of Section 8(g) of the LLC Agreement.

Section 7. Board Member Expense Reimbursement Process. All requests for reimbursement of costs and expenses incurred as a result of serving on the Grant Review Board shall be made in writing, accompanied by documentation of such expense, to the Member at the TransAlta Centralia Generation LLC, 913 Big Hanaford Road, Centralia, Washington, 98531, Attn: Lori Schmitt. Any and all such reimbursements shall be made out of the funds designated and contributed to the Company by the Member (the “Account”) in compliance with RCW 80.80.100 and that certain Memorandum of Agreement, dated as of December 23, 2011, by and between the Member and the State of Washington, acting through and by Governor Christine Gregoire (the “MOA”).

Section 8. Liability of Board Members; Limitation of Liability; Indemnification. The Company will indemnify, defend and hold harmless each Board Member from and against any claims, losses, liabilities, damages, fines, penalties, costs and expenses (including, without limitation, reasonable fees and disbursements of counsel and other professionals) arising out of or in connection with any act or failure to act by such Board Member in connection with the business and affairs of the Company, to the fullest extent permitted by law; provided, however, that a Board Member will not be entitled to indemnification hereunder from or on account of (a) acts or omissions of the Board Member which constitute intentional misconduct or a knowing violation of law; or (b) any transaction with respect to which the Board Member personally received a benefit in money, property or services to which the Board Member was not legally entitled.

Section 9. Board Members Code of Ethics; Conflicts of Interest. Each Board Member shall review and abide by the code of ethics and conflict of interests policies established by the Company from time to time. If any Board Member has a direct or indirect material interest in any grant proposal or any person or entity making a grant proposal, the Board Member must disclose the nature of such relationship to the Grant Review Board, and the vote of such Board Member shall not be counted for purposes of determining whether a Supermajority exists.

Section 10. Board Observer. The Grant Review Board shall invite a representative selected by the Member (the "Representative") to attend all meetings of the Grant Review Board in a nonvoting observer capacity, and, in this respect, the Representative shall be entitled to receive copies of all notices, minutes, consents, and other materials that are provided to Board Members at the same time and in the same manner as provided to its Board Members. The Representative agrees to hold in confidence and trust all information provided pursuant to this Section 10, except that the Representative may disclose such information to the Member and its employees, directors, agents, representatives and affiliates. The Member may elect, from time to time, to appoint a different representative to serve as the Representative by providing notice to the Chairperson of the Grant Review Board. The Representative shall initially be Lori Schmitt.

Section 11. Board Chairperson. The Grant Review Board shall by Supermajority vote appoint a Chairperson of the Grant Review Board, who shall preside at all meetings of the Grant Review Board. The Chairperson can be removed from his or her role as Chairperson with or without cause by the affirmative Supermajority vote of the Grant Review Board. Either the Chairperson or the Grant Review Board by Supermajority vote may elect a substitute to act as chairperson of and preside at any meeting of the Grant Review Board at which the Chairperson is absent.

Section 12. Board Secretary. The Grant Review Board shall invite the Representative to serve as Secretary of the Board in a non-voting capacity. The Secretary shall attend all meetings of the Grant Review Board and record all votes and minutes of the proceedings. The Secretary shall also give notice of all Grant Review Board meetings and shall perform any such other duties as may be prescribed by the Chairperson. If the Secretary is absent from any meeting of the Grant Review Board, the Chairperson may appoint any person to act as secretary of the meeting.

Section 13. Committees. There shall be a standing Screening Committee of the Grant Review Board, whose number and membership shall be determined by a resolution passed by a Supermajority of the Grant Review Board. The authority of the Screening Committee shall be limited to the preliminary review of grant applications pursuant to Section 9 of Article IV prior to meetings of the Grant Review Board.

There shall also be a standing Compliance Committee of the Grant Review Board, whose number and membership shall be determined by a resolution passed by a Supermajority of the Grant Review Board. The Compliance Committee shall monitor and review the compliance of each Grant Recipient pursuant to Section 13, Section 14 and Section 16 of Article IV following receipt of grant funding.

ARTICLE III: **GRANT REVIEW BOARD MEETINGS**

Section 1. Regular Meetings. Regular meetings of the Grant Review Board shall be held quarterly, at such times and at such places as may be determined by the Chairperson and stated in the notice of meeting; provided that the Chairperson shall use reasonable efforts to hold such meetings within two to four weeks following each grant submission deadline set forth in Section 6 of Article IV. Regular meetings of the Grant Review Board shall not be open to the public.

Section 2. Special Meetings. Special meetings of the Grant Review Board may be held at such times and at such places as may be determined by a Supermajority of the Grant Review Board. Special meetings of the Grant Review Board shall not be open to the public.

Section 3. Adjournment of Meetings. A majority of the Board Members present at any meeting of the Grant Review Board, including an adjourned meeting, whether or not a quorum is present, may adjourn and reconvene such meeting to another time and place. At least 24 hours notice of any adjourned meeting of the Grant Review Board shall be given to each Board Member whether or not present at the time of the adjournment. Any business may be transacted at an adjourned meeting that might have been transacted at the meeting as originally called.

Section 4. Notice for Meetings. Written, electronic or oral notice of regular or special meetings of each Grant Review Board shall be given at least two days prior to the date of the meeting.

Section 5. Waiver of Notice. A Board Member may waive notice of a meeting either before or after the meeting by written waiver or attendance at the meeting, except that a Board Member shall not be deemed to waive notice if such Board Member attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that the meeting was not properly called or convened.

Section 6. Quorum. The presence of a Supermajority of the Grant Review Board shall be necessary and sufficient to constitute a quorum for the transaction of business at any meeting of the Grant Review Board.

Section 7. Regular Meetings Agenda. The Chairperson shall establish the agenda or order of business for all meetings; provided, however, that a Supermajority of the Grant Review Board shall be entitled to amend the agenda for any regular or special meeting.

Section 8. Meetings by Telephone. Board Members may participate in a meeting of a Grant Review Board by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, with such participation constituting presence in person at such meeting. Telephonic participation by a Board Member in a meeting shall constitute presence in person at such meeting.

Section 9. Voting by Proxy. Board Members may vote at any meeting either in person or by proxy executed in writing.

Section 10. Action Without a Meeting. Any action required or permitted to be taken at any meeting of the Grant Review Board may be taken without a meeting if a Supermajority of the Grant Review Board consents thereto in writing or by electronic transmission, and the writings or electronic transmissions are filed with the minutes of proceedings of the Grant Review Board.

ARTICLE IV: **GRANT PROCEDURES**

Section 1. Mission Statements:

Weatherization Board: The mission of the Grant Review Board is to provide funding, in the form of grant awards, to projects to improve energy efficiency and weatherization for residents, employees, businesses, non-profit organizations, and local governments within Lewis County and South Thurston County, Washington.

Economic and Community Development Board: The mission of the Grant Review Board is to provide funding, in the form of grant awards, to projects focused on the education and training of workers, economic development, and community enhancement in Lewis County and South Thurston County, Washington, with emphasis on the needs of the community affected by the Member's coal-fired baseload electric generating facility in Centralia, Washington.

Energy Technology Board: The mission of the Grant Review Board is to provide funding, in the form of grant awards, to energy technology projects that have the potential to create considerable energy, air quality, haze, or other environmental benefits in the State of Washington.

The Grant Review Board will carry out its mission by reviewing all grant applications and approving funding for those applications that meet grant eligibility, criteria, and standards. The Grant Review Board is tasked with accepting appropriate grant applications and with assigning grant funding at levels suitable for a given recipient of a grant from the Account (a "Grant Recipient"). The Grant Review Board must also (1) oversee the administration of awarded grant funds [and (2) monitor Grant Recipient compliance.]

Section 2. Grant Funds. The funds for all grants to be made by the Grant Review Board will be designated and contributed to the Company by the Member in compliance with RCW 80.80.100 and in accordance with the terms and subject to the conditions set forth in the MOA and the LLC Agreement.

Section 3. Grant Eligibility. Projects eligible for funding are those that contribute to one or more of the objectives set forth in Section 1 of this Article IV.

Section 4. Grant Solicitation and Publicity. The Grant Review Board, together with the other grant review boards contemplated by the LLC Agreement and established by the Company (the “Other Boards”), will establish and maintain a single website announcing the solicitation of proposals and awards of bids. Such website will be readily available to the public, and will contain information helpful to grant applicants, including the application form set forth on Exhibit A hereto (the “Application Form”) and a schedule of regular meetings of the Grant Review Board as described in Section 6 of this Article IV. All press releases and other announcements regarding the solicitation, award or distribution of grants shall give recognition to the Member and may not be made without the Member’s prior consent. The Grant Review Board may also undertake other reasonable forms of proposal solicitation in a manner in which each Grant Review Board deems appropriate. The reasonable costs and expenses incurred as a result of the establishment or maintenance of such website and any such publicity shall be payable from the Account.

Section 5. Grant Criteria and Standards. The Grant Review Board will fund projects that are consistent with and in furtherance of the Grant Review Board’s purpose as set forth in the MOA. The Grant Review Board will give greater weight to grant applicants that (a) have additional sources of funds to contribute to approved programs; (b) have a history of service, compliance, and accomplishment in the relevant industry or local community; (c) can demonstrate community support for its intended projects or programs; (d) will have a broad impact in the local community; and (e) are resident in, or who propose to directly impact residents in, Lewis County and South Thurston County, and the State of Washington. The Grant Review Board will also give greater weight to previous applicants who were successful in utilizing grant funds.

Grant applicants must demonstrate fiscal responsibility and integrity and must be willing to open their financial records to review if requested by the Grant Review Board both during the application process and if a grant is eventually awarded. [Grant Recipients must agree to adhere to all Grant Review Board reporting requirements, financial information requirements, and records inspection requirements in addition to individual provisions in the Grant Recipient’s Grant Agreement.]

The Grant Review Board will not normally fund grants to the following:

- (a) organizations whose aims, interests or activities are in conflict with the Grant Review Board’s mission statement;
- (b) sectarian or denominational religious groups;
- (c) labor or fraternal organizations;
- (d) private foundations or clubs;
- (e) service clubs, fraternal organizations or commercial third-party fundraising groups;
- (f) individuals;
- (g) professional or technical associations;
- (h) endowments, contingency funds or deficit campaigns; or
- (i) programs that will duplicate services currently being provided to the local community.

Section 6. Grant Submission Process. The Grant Review Board will only consider grant application packages that are complete and that contain all information requested on the Application Form. Grant applications shall be reviewed and considered on a quarterly basis, based on grant applications that are either submitted electronically or that are mailed to the following address no later than March 31, June 30, September 30 and December 31 of each calendar year to the address stated in Article I, Section 1 above.

The website established and maintained by the Grant Review Board and the Other Boards shall set forth a schedule of the quarterly application deadlines.

Section 7. Disclosure and Handling of Confidential and/or Proprietary Information. Confidential and/or proprietary information may refer to sensitive information such as *research and development data* (diagrams, photos, specifications, designs, technical or scientific information, manuals, reports, testing results, or performance information); *operational information* (trade or manufacturing secrets, copyrights, manufacturing technology, design, or practices, supply or part information); *business or marketing information* (sales and product forecasts, customer lists, market research data); *corporate information* (contracts, plans, patents, patent applications, licensing arrangements, involvement in litigation); *financial information* (indebtedness, investments and holdings, costs, performance data); and *personal information* (employee data, personnel records, salary information, performance evaluations, personally identifiable information).

Grant applicants shall be responsible for clearly identifying information as confidential and/or proprietary when submitting application materials.

The Grant Review Board and each Board Member is responsible for maintaining the privacy of any and all confidential or proprietary information disclosed by any grant applicant, including those applications not selected for funding, except (a) to the extent that the Grant Review Board or Board Member reasonably believes that disclosure is required by law, and (b) each Board Member may disclose confidential information as necessary to the entity entitled to appoint such Board Member pursuant to the MOA, and such entity's employees, directors, agents, representatives and affiliates. In the event a board member believes that disclosure is required he or she shall immediately bring the request to the board chair for review prior to release of information.

Section 8. Grant Amounts. The Grant Review Board retains the discretion to determine the appropriate award amount for any particular proposal. The Grant Review Board may make grant award offers at levels it deems appropriate for each particular project, taking into consideration levels of funds remaining in the Account. The total amount of grants awarded by the Grant Review Board may not exceed the amount of cash in the Account. For the avoidance of doubt, grants that approve distributions in future years may be approved only if the total amount of all awarded grants does not exceed the amount of cash in the Account at the time of award.

Section 9. Procedure for Preliminary Review. Applications will be first reviewed by the Screening Committee for timeliness, completeness, and eligibility. Applications that meet these initial criteria will be reviewed in full.

Section 10. Procedures for Full Review. Grant applications that pass the Screening Committee's preliminary review will be forwarded to the full review process. Following full review, the decision to fund or not fund a grant application will be made by a supermajority vote of the Grant Review Board. If a project is approved for funding, the full Board will then review the applicant's budget proposal, make any necessary adjustments and vote to confirm such changes by Supermajority vote of the Grant Review Board. The Grant Review Board reserves the right to deny any grant applicant's proposal even if said proposal meets the criteria for preliminary review.

Section 11. Grant Approval. The Grant Review Board will make all final decisions to either approve or reject complete applications that are received on or before the application deadline. Funding decisions will be based on applicants' grant application package, although the Grant Review Board reserves the right to request supplemental information from any grant applicant if required. After approval, the Grant Recipient shall enter into a written agreement setting forth the terms and conditions of the grant (the "Grant Agreement"). The Grant Review Board is not obligated to approve a minimum amount or number of grants during any meeting of the Grant Review Board, and may in its sole discretion adjourn a meeting of the Grant Review Board without approving any grants. The Grant Review Board may also defer a final decision on a grant until a future meeting of the Grant Review Board, provided that the grant applicant is given notice that his, her or its grant application has been deferred and is given an opportunity to withdraw such grant application.

Section 12. Payment of Grants. Grants will be distributed to eligible Grant Recipients on the schedule set forth in the Grant Agreement between the Grant Recipient and the Grant Review Board. [Distributions will be made as long as required grant documents and reports have been received by the Grant Review Board as required by the Grant Agreement and as long as funds for distribution remain available in the Account.] Disbursement of funds shall be arranged through the Account Agent.

Section 13. Grant Recipient Reporting Requirements. All Grant Recipients are required to submit the following periodic reports to the Grant Review Board. The Grant Review Board maintains the following reporting requirements as a condition of award:

(a) *Annual Narrative Report.* Grant Recipients must submit an annual narrative report regarding the nature and use of all funds awarded pursuant to any grant distributed by a Grant Review Board. The report must be submitted in the format and on the time frame specified in the Grant Agreement. The narrative report must outline the Grant Recipient's progress in terms of meeting the objectives and purpose of the grant, as specifically outlined in the Grant Agreement.

(b) *Financial Report.* Grant Recipients must submit quarterly financial reports, consisting of an unaudited balance sheet of the Grant Recipient as of the end of the quarter then ended, and unaudited statements of income and cash flows for the quarter then ended. Such reports must be submitted by each Grant Recipient in a format and on the time frame specified in the Grant Agreement, and must outline the use of grant funds including dollars spent on items related to the project, receipts if appropriate, and other relevant financial details. The Grant Review Board may request audited financial statements from the Grant Recipients.

(c) *Other Deliverables.* Grant Recipients must submit any other deliverables specified in the Grant Agreement, in the format and on the time frame specified therein.

Failure to timely submit a required report to the Grant Review Board may result in a delay of grant disbursement, loss of grant funding, or termination of grant award, if so determined by a Supermajority of the Grant Review Board.

Section 14. Grant Recipient Financial Information Requirements. All Grant Recipients are required to submit, within six (6) months of the close of the fiscal year in which any funds from an approved grant are received, one of the following financial reports, depending on the level of funding received:

(a) *Grants equal to or greater than \$500,000:* An audit and management letter.

(b) *Grants between \$50,000 and \$499,999:* A financial review.

(c) *Grants of \$49,999 or less:* A copy of completed IRS Form 990 (including schedule A), copies of quarterly IRS Form 941, a year-end financial statement that conforms to generally accepted accounting principles is certified under oath by the president and treasurer of the Grant Recipient's board of directors.

If any Grant Recipient obtains an audit or financial review during a fiscal year, the Grant Recipient shall provide such audit or review to the Grant Review Board, regardless of Grant Recipient's funding level. The Grant Review Board may also request that any Grant Recipient submit an audit or financial review to the Grant Review Board upon 90 days' notice. Under some circumstances, the Grant Review Board may by Supermajority vote waive the above financial reporting requirements.

Section 15. Right to Suspend or Terminate Funds. The Grant Review Board may, by Supermajority vote, suspend, terminate, or recover awarded funds at any time if it determines that funds have been or will be misused, expended unreasonably or for purposes not agreed to in the Grant Agreement, or if the Grant Recipient fails to comply with the reporting or financial requirements outlined herein or in its Grant Agreement. The Grant Review Board further reserves the right to suspend or terminate funds based on availability of funds in the independent funding accounts.

Section 16. Right to Inspect Grant Recipient Records. Following the award of funding, the Grant Review Board reserves the right to inspect Grant Recipient's records and/or data pertaining to the administration, management, or performance of a Grant Review Board grant. The Grant Review Board may make a request to inspect records upon five (5) business days notice.

ARTICLE V:
BOOKS AND RECORDS

Section 1. Meeting Minutes. The Grant Review Board shall keep correct and complete books and records, and shall keep minutes of all regular and special meetings at the Company's principal place of business. Any books, records and minutes may be in a written form or any other form capable of being converted into written form within a reasonable time.

Section 2. Grant Records. The Grant Review Board shall maintain copies of all grant applications and all material written communications with grant applicants at the Company's principal place of business.

ARTICLE VI:
GENERAL PROVISIONS

Section 1. Amendment of Governance and Grant Procedures. These Procedures may be amended only with the consent of a Supermajority of the Grant Review Board.

EXHIBIT A

GRANT APPLICATION FORM

See attached.