Avista Corp.
1411 East Mission P.O. Box 3727
Spokane, Washington 99220-3727
Telephone 509-489-0500
Toll Free 800-727-9170

UE-991255
(AT)

AVISTA Corp.

August 6, 1999

Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive S.W.
PO Box 47250
Olympia, WA 98504-7250

Attention: Ms. Carole Washburn, Executive Secretary

Application to Sell the Centralia Power Plant

Please find enclosed an original and three copies of the Application of Avista Corporation ("Avista") for Authority to Sell its Interest in the Coal-Fired Centralia Power Plant. Avista is requesting an order authorizing the sale to TECWA Power, Inc. ("TECWA"). Avista is also requesting that the approval be granted on an expedited basis and that Avista be authorized to defer treatment of the gain on the sale to a future rate proceeding. Enclosed are four copies of direct testimony and exhibits that are being filed in support of Avista's Application.

TECWA intends to operate the Centralia Plant as an Exempt Wholesale Generator ("EWG"). In order to obtain the required EWG determination from the Federal Energy Regulatory Commission ("FERC"), the provisions of 15 U.S.C. § 79z-5a(c) require a determination from the Commission that allowing the facility to be eligible for purposes of becoming an EWG (1) will benefit consumers, (2) is in the public interest, and (3) does not violate State law. Accordingly, Avista requests that the Commission issue such a determination. Avista requests that the determination be made prior to and contingent upon approval of the sale. Avista requests that the Commission issue its determination as soon as possible to help expedite approval of the sale and issuance of an EWG status finding by the FERC.

If you have any questions, please call Ron McKenzie at (509) 495-4320.

Sincerely,

Thomas D. Dukich

Thomas D. Dukich
Manager, Rates and Tariff Administration

RM
Enclosure

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have served Avista Corporation's application to sell the Centralia Power Plant by mailing a copy thereof, postage prepaid to the following:

Kimberly J. Harris
Assistant General Counsel
411 108th Avenue N.E .OBC-15
Bellevue, WA 98004-5515

Andrea Kelly
Regulatory Policy Manager
825 N.E. Multnomah, Suite 800
Portland, OR 97232

A. W. Turner
General Counsel
Portland General Electric
121 S.W. Salmon Street
Portland, OR 97204

Gae Young
Box 1900, Station "M"
110 12th Avenue S.W.
Calgary, Alberta
T2P 2M1

Simon ffitch
Public Counsel Section
Office of the Attorney General
900 4th Avenue, Ste 2000
Seattle, WA 98164

Grant Tanner
Davis Wright Tremaine
1300 SE Fifth Avenue
2300 First Interstate Bank Tower
Portland, OR 97201

Dated at Spokane, Washington this 6th day of August 1999.

Jean T. Osterberg
Rates Coordinator

Thomas D. Dukich, Mgr. Rates & Tariff Admin.
Avista Corporation
E. 1411 Mission Ave., P.O. Box 3727
Spokane, Washington 99220
Phone: (509) 495-4724, Fax: (509) 495-8058

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR AUTHORITY TO SELL ITS INTEREST IN THE COAL-FIRED CENTRALIA POWER PLANT	))))	DOCKET NO. UE-99____ APPLICATION TO SELL THE CENTRALIA POWER PLANT

Pursuant to the provision of RCW Chapter 80.12 and WAC Chapter 480-143, Avista Corporation ("Avista") hereby requests that the Washington Utilities and Transportation ("Commission") authorize Avista to sell its 15% ownership interest in the coal-fired Centralia Power Plant. The following information and exhibits are submitted in support of this Application.

I. The Parties to the Purchase and Sale Transaction

Avista, applicant herein, proposes to sell its 15% interest in the Centralia Power Plant to TECWA Power, Inc. ("TECWA"), a Washington corporation and a subsidiary of TransAlta Corporation, headquartered in Calgary, Alberta, Canada.

Avista's principal business office is 1411 East Mission Avenue, Spokane, Washington. All correspondence with respect to this Application should be addressed to:

Thomas D. Dukich, Mgr. Rates & Tariff Admin.
Avista Corporation
P.O. Box 3727
Spokane, Washington 99220
Phone: (509) 495-4724, Fax: (509) 495-8058

and

David J. Meyer, Sr. Vice Pres. & General Counsel
Avista Corporation
P.O. Box 3727
Spokane, Washington 99220
Phone: (509) 495-4316, Fax: (509) 495-4361

Avista is an investor owned utility engaged in the generation, transmission, and distribution of electricity in certain portions of Eastern Washington and in Northern Idaho. Avista is further engaged in the distribution of natural gas in certain portions of Eastern and Central Washington, in Northern California, in Western and Central Oregon, and in Northern Idaho. Avista is subject to the jurisdiction of this Commission (RCW Title 80) with regard to its rates, charges, services and practices. At December 31, 1998 Avista provided service to approximately 305,000 electric customers and 262,000 natural gas customers throughout its service area. Approximately 204,000 electric customers were served in the state of Washington.

II. The Property to be Conveyed

Through this application Avista requests authority to sell its 15% interest in the Centralia Power Plant to TECWA. TECWA, has agreed to buy the 1340-megawatt, coal-fired Centralia Power Plant for $452,598,000 and the adjacent Centralia Mine for $101,400,000. Attached as Exhibit 1 is a copy of the Centralia Plant Purchase and Sale Agreement. Avista owns a 15% interest in the Centralia Power Plant. The other seven co-owners and their ownership shares are: PacifiCorp 47.5%, City of Seattle 8.0%, City of Tacoma 8.0%, Snohomish PUD 8.0%, Puget Sound Energy 7.0%, Grays Harbor County PUD 4.0%, and Portland General Electric 2.5% (see discussion below regarding Avista's purchase of this share). PacifiCorp is the sole owner of the Centralia Mine.

III. Issues Related to Sale

The Centralia Owners' Agreement allows any co-owner of the power plant to veto proposed capital expenditures. Continued operation of the Centralia Power Plant requires the installation of sulfur dioxide scrubbers and low nitrogen oxide burners to meet emission standards ordered by the Southwest Washington Pollution Control Authority. Portland General Electric ("PGE"), as well as some other co-owners, did not support the installation of scrubbers at the plant. Closure of the plant would result in mine closure costs, reclamation costs and plant

dismantling costs. In October 1998 the co-owners put the Centralia Power Plant and the Centralia Mine up for auction. The co-owners believed that a single owner, emerging from the auction, could deal most effectively with the issues pertaining to continued operation of the plant and the mine.

TransAlta/TECWA was selected as the winning purchaser. The terms of the Centralia Plant Purchase and Sale Agreement required the plant owners to contract by the end of May 1999 for the installation of required emission control equipment and to continue the installation of such equipment until the sale closes. PGE wished to avoid investment in the emission control equipment and the risk of not recovering such investment in the event the sale to TECWA did not close. In order to facilitate the sale to TECWA, and to begin the process of unifying the ownership of the plant, on May 5, 1999 Avista agreed to purchase PGE's 2.5% interest in the Centralia Power Plant. The purchase of PGE's 2.5% share is anticipated to close on or before November 30, 1999, enabling Avista to include that share in the sale to TECWA. On May 6, 1999 the co-owners of the Centralia Power Plant entered into the agreement with TECWA to sell the plant. A separate agreement was entered into on May 6, 1999 between PacifiCorp and TECWA to sell the mine. In addition, Avista entered into an agreement with Snohomish PUD to purchase their 8% share of the Centralia Power Plant in the event that the sale to TECWA does not close.

Avista is requesting that the Commission approve the sale of its 15% interest in the Centralia Power Plant to TECWA. Avista will also be selling the 2.5% share purchased from PGE to TECWA, but as that 2.5% share has never been part of Avista's ratebase and/or its jurisdictional facilities, this application does not seek approval for the sale of that share. In the event the sale to TECWA does not close, Avista will own a 25.5% (15% original Avista + 2.5% PGE + 8% Snohomish PUD) interest in the power plant.

IV. Transaction is Consistent with the Public Interest

The sale to TECWA and the continued operation of the Centralia Power Plant and the Centralia Mine is in the public interest. The installation of emission control equipment will place the power plant among the cleanest coal-fired plants in the United States, but that installation could not have occurred without the unanimous consent of the existing owners. As a new single owner, TECWA will be in a position to continue to employ the majority of the some 675 employees at the plant and mine. The region will retain a valuable 1340-megawatt resource, enough power for a city the size of Seattle. The power plant is strategically located along the Interstate 5 corridor and provides voltage stabilization for the transmission system on the west side of the state.

The sale to TECWA will also serve the public interest by providing benefits directly to Avista's electric customers. The sale eliminates the need to engage in sometimes contentious and costly disputes among the owners. Moreover, the sale frees each utility to conduct resource optimization decisions independently. The sale eliminates uncertainties to Avista and its customers regarding mine reclamation costs, as such costs will be borne by TransAlta Corporation.

Avista's after-tax gain resulting from the sale to TECWA is expected to amount to approximately $30 million. The net depreciated book value of the plant is approximately $17 million. Avista intends to defer the gain and will propose an allocation of the gain between shareholders and customers and will propose a ratemaking treatment of the customer share of the gain in a future proceeding. The customer share of the gain will serve the public interest by providing a direct benefit to customers. At this point in time Avista is not proposing a definitive treatment of the gain, but is proposing that the Commission allow Avista to defer the gain for resolution in a future proceeding. The sale to TECWA has not yet closed. Avista has not yet obtained replacement power and is continuing to evaluate replacement power options and costs. The gain at this point is an estimate and could be affected by a number of items including PacifiCorp's actual breakeven price of the mine compared to the sales price of the mine.

V. Incorporation of Financial Data

In order to satisfy the financial reporting requirements of WAC 480-143-120 in connection with the sale of property, Avista has attached as Exhibit 2, Avista's Form 10-K for the year ended December 31, 1998.

VI. Exempt Wholesale Generator Determination

TECWA intends to operate the Centralia Plant as an Exempt Wholesale Generator ("EWG"). In order to obtain the required EWG determination from the Federal Energy Regulatory Commission ("FERC"), the provisions of 15 U.S.C. § 79z-5a(c) require a determination from the Commission that allowing the facility to be eligible for purposes of becoming an EWG (1) will benefit consumers, (2) is in the public interest, and (3) does not violate State law. Accordingly, Avista requests that the Commission issue such a determination. Avista requests that the determination be made prior to and contingent upon approval of the sale. Avista requests that the Commission issue its determination as soon as possible to help expedite approval of the sale and issuance of an EWG status finding by the FERC.

VII. Request for Expedited Approval

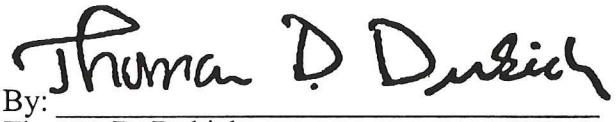
Avista seeks expedited approval of the sale of the Centralia Power Plant to TECWA. The termination date for the agreement with TECWA is May 5, 2000. There is also a provision in the contract that allows for termination if regulatory approvals are not received within 180 days of filing. Avista requests that the Commission issue its order approving the sale on an expedited basis so that the sale may close as soon as possible.

WHEREFORE, Avista respectfully requests the issuance of an order authorizing Avista to sell its 15% share of the Centralia Power Plant to TECWA. Avista requests an EWG determination from the Commission as outlined above as soon as possible. Such determination is requested prior to and contingent upon approval of the sale. Avista requests expedited

treatment for approval of the sale with such approval occurring as soon as possible. Avista requests authorization to defer the gain associated with the sale to a future rate proceeding.

DATED this 6th day of August 1999

I, Thomas D. Dukich, certify that the information included in this Application is true and correct to the best of my information and belief under penalty of perjury.



By: _____
Thomas D. Dukich
Manager, Rates and Tariff Administration

FINAL

CENTRALIA PLANT PURCHASE AND SALE AGREEMENT

******

PACIFICORP;
PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON;
PUGET SOUND ENERGY, INC.;
CITY OF TACOMA, WASHINGTON; AVISTA CORPORATION;
CITY OF SEATTLE, WASHINGTON;
PORTLAND GENERAL ELECTRIC COMPANY; and
PUBLIC UTILITY DISTRICT NO. 1 OF GRAYS HARBOR COUNTY, WASHINGTON

As Sellers

AND

TECWA POWER, INC.

As Buyer

Dated: May 6, 1999

Exhibit No. 1

CENTRALIA PLANT PURCHASE AND SALE AGREEMENT

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CENTRALIA PLANT PURCHASE AND SALE AGREEMENT

This CENTRALIA PLANT PURCHASE AND SALE AGREEMENT (the "Agreement") is made and entered into as of the 6th day of May, 1999 by and among PACIFICORP; PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON; PUGET SOUND ENERGY, INC.; CITY OF TACOMA, WASHINGTON; AVISTA CORPORATION; CITY OF SEATTLE, WASHINGTON; PORTLAND GENERAL ELECTRIC COMPANY; AND PUBLIC UTILITY DISTRICT NO. 1 OF GRAYS HARBOR COUNTY, WASHINGTON (each a "Seller" and collectively "Sellers"), and TECWA Power, Inc., a Washington corporation ("Buyer"), with reference to the following facts:

A. Sellers are engaged in the business of generating, transmitting and distributing electric energy and in connection therewith own as tenants in common the Centralia Steam Electric Generating Plant ("the Plant") located near Centralia, Washington, consisting of two generating units, each with 650 megawatt nameplate rating and other related facilities.

B. Buyer desires to purchase from Sellers, and Sellers desires to sell to Buyer, the Plant, the Supplies and the Coal Inventory (as those terms are hereinafter defined) upon the terms and subject to the conditions of this Agreement.

NOW, THEREFORE, in consideration of the foregoing recitals and the agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, do hereby agree as follows:

ARTICLE I
DEFINITIONS

Section 1.1 Certain Defined Terms . For purposes of this Agreement, the following terms shall have the following meanings:

(a) "Affiliate" of a specified Person shall mean any corporation, partnership, sole proprietorship or other Person which directly or indirectly through one or more intermediaries controls, is controlled by or is under common control with the Person specified. The term "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person.

(b) "Auction" means the procedures employed by Sellers through which the Plant was offered for sale to competing buyers.

(c) "Benefit Plan" means any employee benefit plan, as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended, or any other employee benefit arrangement, including but not limited to (i) any employment agreement, (ii) any arrangement providing for insurance coverage or workers' compensation benefits, (iii) any incentive or bonus arrangement, (iv) any arrangement providing termination or severance benefits, or (v) any deferred compensation plan that is or was sponsored, maintained or contributed to by any Seller or any ERISA Affiliate.

(d) "Business Day" means a day that is not a Saturday, a Sunday or a day on which banking institutions in the State of Washington are not required to be open.

(e) "Environmental Law" shall mean all applicable Laws and Licenses for or relating to: (i) air emissions, hazardous materials, storage, use and release to the environment of Hazardous Materials, generation, treatment, storage, and disposal of hazardous wastes, wastewater discharges and similar environmental matters, and (ii) the protection and enhancement of the environment, including without limitation the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601 et seq.; the Resource Conservation and Recovery Act, 42. U.S.C. § 6901 et seq.; the Federal Water Pollution Control Act, 33 U.S.C. § 1251 et seq.; the Clean Air Act, 42 U.S.C. § 7401 et seq.; the Hazardous Materials Transportation Act, 49 U.S.C. § 1801 et seq.; the Toxic Substances Control Act, 15 U.S.C. §§ 2601 et seq.; the Oil Pollution Act, 33 U.S.C. § 2701 et seq.; the Emergency Planning and Community Right-to-Know Act, 42 U.S.C. § 11001 et seq.; and the Safe Drinking Water Act, 42 U.S.C. §§ 300f et seq.; Surface Mining Control and Reclamation Act, Title 30 U.S.C. Ch. 25 (30 U.S.C. 1201 et.seq.).

(f) "ERISA Affiliate" means any other person that, together with any Seller as of the relevant measuring date, was or is required to be treated as a single employer under Section 414 of the Internal Revenue Code.

(g) "Existing Soils Contamination" shall mean the actual presence prior to the Closing of Hazardous Materials in the soil, subsurface strata, surface water, groundwater, drinking water supply, any sediments associated with any water bodies, or any other environmental medium (other than ambient air) ("environmental media") of the real properties conveyed to Buyer and included in the Assets, as well as the migration through soil or groundwater of Hazardous Materials actually present prior to the Closing through the environmental media of the real property conveyed to the Buyer and included in the Assets, if (i) Sellers, as of the date hereof, have Knowledge of such presence of such Hazardous Materials, it being agreed that Sellers have Knowledge of matters disclosed in the Phase I and Phase II environmental assessments referred to in Section 3.6 and of matters otherwise disclosed in Schedule 3.6, (ii) such presence of such Hazardous Materials prior to the Closing is demonstrated through the investigations that Buyer makes post-closing subject to the

provisions and conditions of Section 6.4, or (iii) such Hazardous Materials are otherwise proven by clear and convincing evidence on or before the fifteenth anniversary of the Closing to have been present in such environmental media prior to the Closing. Existing Soils Contamination does not include (a) the presence of Hazardous Materials arising from the normal application of pesticides, fungicides, or other agricultural products, or (b) contamination of a type or at levels below which would not require remediation under applicable Environmental Law in effect as of the date hereof. The written determination by a Governmental Body that remediation is not required or not further required shall be conclusive in regard to such issue.

(h) "Governmental Body" means any federal, state, local, municipal, or other government; any governmental, regulatory or administrative agency, commission, body or other authority exercising or entitled to exercise any administrative, executive, judicial, legislative, police, regulatory or taxing authority or power; and any court or governmental tribunal; but does not include any Seller, Buyer, Buyer Subsidiary, or any of their respective successors in interest or any owner or operator of the Assets (if otherwise a Governmental Body) acting in their role as owner or operator.

(i) "Hazardous Materials" means any chemicals, materials, substances, or items in any form, whether solid, liquid, gaseous, semisolid, or any combination thereof, whether waste materials, raw materials, chemicals, finished products, by-products, or any other materials or articles, which are listed as hazardous, toxic or dangerous under Environmental Law, including without limitation, petroleum products, asbestos, urea formaldehyde foam insulation, lead-containing paints or coatings and "hazardous debris," "hazardous substances" and "hazardous wastes" as defined by WAC 173-303-040.

(j) "Knowledge" of a party shall mean with respect to such party, the extent of the actual knowledge of the Persons listed on Schedule 1.1(j) with respect to such party. Actual knowledge of any individual Seller shall not be imputed to any other individual Seller.

(k) "Laws" shall mean all statutes, rules, regulations, ordinances, orders, common law and their legal and equitable principles, and codes of federal, foreign, state and local governmental and regulatory authorities.

(l) "Licenses" shall mean registrations, licenses, permits, authorizations and other consents or approvals of Governmental Bodies.

(m) "Person" means any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, labor union, or other entity or Governmental Body.

(n) "Plant Decommissioning Costs" means any decontamination or remediation of any portion of a site included in the Assets which is not required to be undertaken under Environmental Law (including as a result of action by a Governmental Body in connection with the administration of Environmental Law) until (i) the dismantling or demolition of all or a portion of the Plant on such site, including all or any portion of the substructure or foundation of the Plant, in a fashion that disturbs or exposes the soil or groundwater beneath such site, or (ii) the restoration of the real property on which the Plant or such material portion thereof is located to unrestricted use or a use not associated with generation of electrical power.

(o) "Release" means any release, spill, emission, leaking, pumping, emptying, dumping, injection, abandonment, deposit, disposal, discharge, dispersal, leaching, or migration of Hazardous Materials (including, without limitation, the abandonment or discarding of Hazardous Materials in barrels, drums, or other containers) into or within the environment, including, without limitation, the migration of Hazardous Materials into, under, on, through, soil, subsurface strata, surface water, groundwater, drinking water supply, any sediments associated with any water bodies, or any other environmental medium, regardless of where such migration originates.

(p) "Remediation Measures" means any (i) investigation, monitoring, clean-up, containment, remediation, mitigation, removal, disposal or treatment of Existing Soils Contamination to remediation standards required by applicable Laws in effect at the date hereof, including without limitation the preparation and implementation of any work plans and the obtaining of authorizations, approvals and permits from Governmental Bodies with respect thereto, and (ii) any response to, or preparation for, any inquiry, order, hearing or other proceeding by or before any Governmental Body with respect to any Existing Soils Contamination.

(q) "Sellers' Environmental Obligations" means:

(i) Any liability, fine, penalty, levy or assessment imposed upon Sellers or Buyer or Buyer Affiliate by any Governmental Body with respect to Sellers' operation of the Plant;

(ii) The offsite transport prior to the Closing of Hazardous Materials from the real property included in the Assets, or the treatment, storage or disposal of Hazardous Materials transported from the real property included in the Assets to another site prior to Closing;

(iii) The Release of Hazardous Materials from the Plant prior to the Closing into the atmosphere or any water course or body of water not included in the Assets; and

(iv) The obligations of Sellers for Remediation Measures in respect of Existing Soils Contamination as set forth in, and subject to the provisions and conditions of, Section 6.4;

provided that Sellers' Environmental Obligations do not include any obligations or liabilities to the extent that they arise from or are related to:

(v) The existence of Hazardous Materials used as construction materials in, on or otherwise affixed to structures or improvements included in the Assets, including without limitation, asbestos, urea, formaldehyde foam insulation and lead-based paint or coatings;

(vi) Hazardous Materials introduced after the Closing into the soil or groundwater of the real properties included in the Assets as well as the migration through soil or groundwater after the Closing of such Hazardous Materials;

(vii) Any increase in soils or groundwater contamination or exacerbation of Existing Soils Contamination, or any increase in the costs or burdens of any Remediation Measures required by any Governmental Body or any other third Person, as a result of the acts or omissions after the Closing of Persons other than Sellers and their Affiliates, including, without limitation, the imposition of any remediation standard with respect to Existing Soils Contamination that is different from the standard that is or would have been applicable to Sellers as of Closing; or

(viii) Any increase in the costs or burdens of any Remediation Measures required by any Governmental Body or any other third Person as a result of changes in Laws subsequent to the date hereof; or

(ix) Plant Decommissioning Costs.

(r) "Sellers Group" shall mean the Sellers acting hereunder in a collective capacity as a result of decisions of the Sellers Committee.

(s) "Taxes" shall mean (i) all federal, state, county and local sales, use, property, recordation and transfer taxes, and (ii) any interest, penalties and additions to tax attributable to any of the foregoing, but shall not include income and other taxes described in Section 2.4(b).

Section 1.2 Index of Other Defined Terms . In addition to those terms defined above, the following terms shall have the respective meanings given thereto in the Sections indicated below:

Defined Term	Section
Agreement	Preamble
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Approvals	8.4
Assets	2.1
Assigned Contracts	2.1(f)
Assumed Contracts	2.3(a)
Assumed Liabilities	2.3
Burner Contract	2.12
Burners	2.9
Buyer	Preamble
Buyer Subsidiary	2.7
Capital Expenditures	2.6(d)(i)
Charter Documents	3.2
Claim Notice	12.6
Closing	10.1
Closing Date	10.1
Coal Inventory	2.1(l)
Coal Inventory Purchase Price	2.6(5)
Collective Bargaining Agreement	5.4(a)
Computer Systems	3.15
Deductible Amount	12.3(b)(i)(B)
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Eligible Employees	6.10(a)
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Excluded Liabilities	2.4
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Indemnitor	12.5(a)
Independent Engineer Report	3.8
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Permitted Encumbrances	3.7
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Prepayments	2.1(i)
RACT Compliance	2.9
Related Agreements	2.5
Retiree Benefit Plans	6.10(a)
Service-Based Severance	5.4(f)
Sellers	Preamble
Sellers Committee	14.1
Scrubber Contract	2.10
Scrubbers	2.9
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Supplies Purchase Price	2.6(b)
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Third Party Claims	12.5(a)
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Title Policies	8.6
Transferred Employees	5.4(b)
Transmission Arrangements	2.5(b)
Union Employees	5.4(a)
Year 2000 Ready	3.15

ARTICLE 2
BASIC TRANSACTIONS

Section 2.1 Purchased Assets . On the terms and subject to the conditions contained in this Agreement, at the Closing Buyer shall, or shall cause the applicable Buyer Subsidiary to, purchase, and Sellers shall sell, convey, assign, transfer and deliver to Buyer, or the applicable Buyer Subsidiary, the following assets that (except to the extent otherwise noted) are used in and necessary for the conduct of the operations of the Plant (the "Assets"), but excluding all Excluded Assets (as defined in Section 2.2):

(a) All of Sellers' right, title and interest in and to the real property owned in fee (the "Owned Real Property") that is identified in Schedule 2.1(a) together with all buildings, fixtures and improvements located thereon (including all construction work-in-progress).

(b) All of Sellers' rights, privileges and easements appurtenant to its ownership of the Owned Real Property or associated with their operation of the Plant as set forth in Schedule 2.1(b) (the "Easements").

(c) The fixed or mobile machinery and equipment, as well as similar items of tangible personal property, including, without limitation, vehicle refueling tanks, pumps, pipelines, fittings, trucks, tractors, trailers and other vehicles, tools, water pumps and water

transport equipment, furniture and revenue metering equipment (including revenue metering equipment installed in contemplation of sale of the Assets) (collectively "Equipment") that (i) are not by their nature consumed in the ordinary course of business such that they constitute "Supplies" (as defined below), (ii) are used, owned or leased by Sellers as of the Closing Date, are used primarily in connection with the ownership or operation of the Plant and its related support facilities (including Assets temporarily off-site for repair or other purposes). All such items of Equipment (other than furnishings or office equipment) having a net book value of $10,000 or more as of the close of the most recent fiscal quarter ended at least one month prior to the date of this Agreement are identified on Schedule 2.1(c).

(d) The inventories of spare parts and non-coal fuels, lubricants and other fluids intended to be consumed in the ordinary course of business, maintenance, shop and office supplies, and other similar items of tangible personal property on hand at the Plant as of the Closing and intended to be consumed in the ordinary course of business ("Supplies").

(e) All of Sellers' right, title and interest in and to all written contracts and agreements specifically and exclusively relating to the Plant to which Sellers are a party at the Closing (the "Assigned Contracts") including, without limitation, the agreements identified on Schedule 2.1(e), which contains a list of the agreements (i) pursuant to which Sellers paid or received or expects to pay or receive in excess of $50,000 during the 365 days prior to the Closing, and (ii) which cannot be canceled by Sellers without penalty on written notice of 90 days or less. The Assigned Contracts shall also include, without limitation, construction contracts relating to construction work-in-progress at the Plant; equipment leases (whether operating or capital leases) and installment purchase contracts; contracts or arrangements binding on the Plant which restrict the nature of the business activities in which the Plant may engage; leases with respect to which Sellers are lessor or sublessor; and outstanding contracts related to the supply of external fuel to the Plant.

(f) All of Sellers' right, title and interest in and to all of the Licenses in favor of Sellers or any Sellers Affiliates as of Closing that relate to or are necessary for or used in connection with the operation of the Assets as heretofore operated by Sellers, all of such Licenses being included on Schedule 2.1(f), except for and to the extent that such Licenses relate to Excluded Assets; provided that such Licenses shall be included within the Assets only to the extent they relate exclusively to the Assets and are lawfully transferable to Buyer.

(g) All of Sellers' right, title and interest in and to all of the books, records, plans, sepias, drawings, instruction manuals and similar items, whether in written or electronic form, and which relate exclusively to the Plant and the Assets or the operation thereof, and other procedural manuals of Sellers related primarily to the operation of the Plant, subject to the rights of Sellers to make copies of and make non-exclusive use of the same and except to

the extent such materials are subject to confidentiality or non-disclosure agreements in favor of third parties whose consent to transfer is not obtained.

(h) All of Sellers' right, title and interest, if any, in and to unexpired warranties as of the Closing that are transferable to Buyer which Sellers have received from third parties which relate specifically to the Assets, including, without limitation, warranties set forth in any equipment purchase agreement, construction agreement, lease agreement, consulting agreement or agreement for architectural or engineering services, it being understood that nothing in this paragraph shall be construed as a representation by Sellers that any such unexpired warranty remains enforceable.

(i) All of Sellers' right, title and interest in and to advance payments, prepayments, prepaid expenses, deposits and the like (i) made by Sellers on their behalf in the ordinary course of business specifically with respect to the Assets prior to the Closing, (ii) which exist as of such Closing, and (iii) with respect to which Buyer will receive the benefit after the Closing (collectively, "Prepayments"), which Prepayments are listed by category and approximate amount in Schedule 2.1(i) as of the close of the most recent fiscal quarter ended at least one month prior to the date of this Agreement.

(j) All of Sellers' right, title and interest in and to certain emission allowances allocated to the Plant which are identified on Schedule 2.1(j).

(k) All of Sellers' right, title and interest in and to those miscellaneous and sundry assets identified by category on Schedule 2.1(k), if any, which assets are ancillary to the ownership and operation of the Assets and the Plant and customarily utilized in connection therewith but not otherwise enumerated above.

(l) All of Sellers' right, title and interest to coal owned and being held by Sellers for use at the Plant or which is in transit to the Plant ("Coal Inventory").

(m) Any rights respecting computer and data processing hardware, software or firmware and any computer and data processing hardware, software or firmware located at the Plant and used in the operation of the Plant, not including SAP accounting software or software that is part of the computer network of any Seller.

(n) All of Sellers' right, title and interest in certain 500 kV transmission facilities located near the Plant consisting of two 500 kV lines, each approximately 4,000 feet in length, two step-up transformers at the Plant and line termination facilities at the C.W. Paul Substation of the Bonneville Power Administration as delineated on Schedule 2.1(n).

(o) Any of the foregoing owned by an Affiliate of a Seller.

Section 2.2 Excluded Assets . The Assets shall not include any of the assets, properties, rights, Licenses, or contracts of Sellers not specifically enumerated in Section 2.1 above, all such other assets, properties, rights, Licenses, and contracts collectively constituting "Excluded Assets," including, without limitation, the following specifically enumerated Excluded Assets:

(a) The property comprising or constituting any part of any of the 230 kV transmission equipment and switchyard facilities located at or adjacent to the Plant and associated easements (but not step-up transformers or unit circuit breaker controls), including the radial transmission line from its interconnection with the 230 kV transmission facilities of the Bonneville Power Administration to the Plant and Centralia Mine Substation, as described on Schedule 2.2(a).

(b) The fixtures, equipment and other personal property located at the Plant comprising or constituting a part of the proprietary or specialized communications systems used by any or all of Sellers to communicate between and among their facilities or to transmit voltage and other control data and information utilized in Sellers' transmission and distribution systems as described on Schedule 2.2(b).

(c) Claims, choses in action, rights of recovery, rights of set-off, rights to refunds and similar rights of any kind in favor of any one or all of Sellers relating to or arising out of the period prior to Closing, including, but not limited to, any refund related to real estate or sales taxes paid prior to the Closing, whether such refund is received as a payment or as a credit against future real estate or other taxes.

(d) Subject to the provisions of Section 2.7, all privileged or proprietary (to any or all of Sellers) materials, documents, information, media, methods, and processes owned by or licensed to any or all of Sellers and any and all rights to use same, including, without limitation, intangible assets of an intellectual property nature such as trademarks, service marks and trade names (whether or not registered), computer software that is proprietary to any or all of Sellers, or the use of which under the pertinent license therefor is limited to operation by any or all of Sellers or their Affiliates or on equipment owned by any or all of Sellers or their Affiliates, all promotional or marketing materials (including all marketing computer software), and any and all trade names under which Sellers or the Plant prior to Closing have done business or offered programs, and all abbreviations and variations thereof.

(e) Any and all personnel and employment records of or related to the operation of the Plant or otherwise related to Sellers' personnel, whether or not maintained at or by the Plant.

(f) The rights of any or all of Sellers under any insurance policy, except to the extent such policy insures for occurrences that are included in the Assumed Liabilities (it

being understood, however, that Sellers will have no obligation to take any action under any such policy to seek any recovery except at the reasonable request, and at the sole expense, of Buyer or to continue any such policies in force except to the extent expressly set forth herein).

(g) Any and all rights respecting computer and data processing hardware or firmware that is proprietary to any or all of Sellers and any computer and data processing hardware or firmware, whether or not located at the Plant, that is part of a computer system the central processing unit of which is not located at the Plant.

(h) Except for the Prepayments, Supplies and items of petty cash that may be on hand at the Plant as of the time of Closing, all assets constituting working capital, whether cash, cash equivalents, securities, rights to payment, rights to refunds and other current assets and similar rights.

(i) Any and all of Sellers' rights arising under contracts related to Sellers' sale of electric power or transmission capacity and contracts related to the purchase of transmission capacity on the Bonneville Power Administration transmission network or on transmission facilities owned by any Seller.

(j) Any and all data and information pertaining to customers of Sellers or their Affiliates, whether or not located at the Plant.

(k) Miscellaneous and sundry assets, if any, identified by category on Schedule 2.2(k), which assets may have been utilized by Sellers in the ownership and operation of the Plant but which are not intended to be included in the Assets and which are not otherwise enumerated above.

Sellers may remove at any time or from time to time, up to ninety (90) days following the Closing, any and all of the Excluded Assets from the Plant (at Sellers' expense, but without charge by Buyer for storage), provided that Sellers shall do so in a manner that does not unduly or unnecessarily disrupt Buyer's normal business activities at the Plant, and provided further that Excluded Assets may be retained at the Plant pursuant to easements, licenses or similar arrangement retained by Sellers and described above or otherwise in the Schedules to this Agreement.

Section 2.3 Assumed Liabilities . Subject to the terms and conditions set forth in this Agreement, Buyer shall, and may also cause a pertinent Buyer Subsidiary or Buyer Subsidiaries to, jointly and severally with Buyer, assume and pay, discharge and perform as and when due, only the following obligations and liabilities of Sellers (the "Assumed Liabilities"):

(a) All liabilities and obligations of Sellers which both (i) pertain to or are to be paid or performed during the period following the Closing Date (except to the extent that,

but for the breach of Sellers, such liabilities and obligations would have been paid or performed prior to the Closing Date), and (ii) arise under any contract, License, agreement, arrangement, understanding or undertaking included in the Assets, including the Assigned Contracts, and any other obligation or liability of Sellers or any Affiliate of Sellers (including letters of credit and performance bonds) which is in the nature of a guaranty of the foregoing, to the extent the same are enumerated in Schedule 2.3(a) (together, the "Assumed Contracts").

(b) All liabilities and obligations of Sellers under open purchase orders pertaining to any Asset that were entered into by Sellers in the ordinary course of business with respect to operation of the Plant on or prior to the Closing and which provide for the delivery of goods or services subsequent to the Closing Date.

(c) Without limiting Sellers' representations and warranties contained in Article 3 or Buyer's right under Article 12 with respect to a breach thereof, any and all liabilities and obligations to third parties respecting any changes or improvements needed to the Plant, if any, for them to be in material compliance following the Closing with respect to safety, building, fire, land use, access (including, without limitation, the Americans With Disabilities Act ("ADA")) or similar Laws respecting the physical condition of the Plant.

(d) Without limiting Sellers' representations and warranties contained in Article 3 or Buyer's rights under Article 12 for a breach thereof, and except for the Excluded Liabilities specifically listed in Section 2.4 (including those described in Section 2.4(i)), any and all liabilities, claims, and expenses (including, without limitation, those arising under Environmental Laws, or otherwise) in any way arising out of or related to or associated with the ownership, possession, use or operation of the Assets or any business conducted therewith or therefrom after the Closing or any and all such liabilities, claims and expenses in any way arising from a change in Laws after the date hereof.

(e) Such miscellaneous and sundry liabilities, identified by category on Schedule 2.3(e), if any, which liabilities are ancillary to the ownership and operation of the Assets and the Plant but are not otherwise enumerated above.

Section 2.4 Excluded Liabilities . The parties agree that liabilities and obligations of Sellers not described in Section 2.3 as Assumed Liabilities are not part of the Assumed Liabilities, and Buyer shall not assume or become obligated with respect to any other obligation or liability of Sellers or any Affiliate of Sellers (collectively, "Excluded Liabilities"), including, without limitation, the liabilities and obligations described in this Section, all of which shall remain the sole responsibility of, and be discharged and performed as and when due by, Sellers. In particular, Buyer shall have no liability or obligation with respect to any of the following liabilities or obligations of Sellers as the same may exist at the Closing:

(a) Liabilities associated with or arising from the Excluded Assets and the ownership, operation and conduct of any business by Sellers or their successors in interest in connection therewith or therefrom, and liabilities associated with or arising from Sellers' obligations under the Related Agreements and Transmission Arrangements.

(b) Subject to Section 5.3 respecting certain expenses incurred in connection with the transactions contemplated hereby and by the Related Agreements, any of Sellers' or their Affiliates' liabilities or obligations with respect to franchise taxes and with respect to foreign, federal, state or local taxes imposed upon or measured, in whole or in part, by the income for any period of Sellers or any member of any combined or consolidated group of companies of which any of Sellers are, or were at any time, a part, or with respect to interest, penalties or additions to any of such taxes, and any income, franchise, tax recapture, transfer tax, sales tax or use tax that may arise upon consummation of the transactions contemplated hereby and be due from or payable by Sellers, it being understood that Buyer shall not be deemed to be Sellers' transferee with respect to any such tax liability.

(c) Liabilities or obligations of Sellers or their Affiliates arising from the breach by Sellers prior to the Closing Date of any term, covenant, or provision of any of the Assumed Contracts.

(d) Liabilities of Sellers for Third Party Claims (as defined in Section 12.5(a)) where the injury or damage involved occurred prior to the Closing, provided that Third Party Claims related to Existing Soil Contamination or to Remediation Measures shall be subject to the further provisions of Section 6.4.

(e) Liabilities of Sellers incurred in connection with Sellers' obtaining any consent, authorization or approval necessary for them to sell, convey, assign, transfer or deliver the Assets to Buyer hereunder.

(f) Any liability of Sellers representing indebtedness for money borrowed or the deferred portion of the purchase price for any of the Assets (and any refinancing thereof). With respect to any such indebtedness or obligation not so assumed by Buyer that constitutes a lien or encumbrance upon any Asset, Sellers agree that on or prior to the Closing they will either pay or discharge such indebtedness or obligation in full or otherwise cause such lien or encumbrance to be removed from the Asset, so that such Asset is sold, conveyed, assigned, transferred and delivered to Buyer at the Closing free and clear of such lien or encumbrance.

(g) Any liabilities of Sellers or any Affiliates of Sellers to employees at the Plant for pre-Closing activities, including but not limited to liabilities for such activities arising (i) under any collective bargaining agreement, (ii) under any Benefit Plan, (iii) for wages, overtime, bonuses, employment taxes, severance pay, transition payments, vacation pay, or workers' compensation benefits, or (iv) for personal injury, death, discrimination, harassment,

civil or human rights violations, wrongful discharge, grievances, or unfair labor practices, (it being understood, however, that nothing herein is intended to affect Buyer's obligations, if any, under the National Labor Relations Act).

(h) Liabilities which would be Assumed Liabilities but for other express provisions of this Agreement providing for their retention by Sellers and such other liabilities and obligations, if any, which would otherwise be Assumed Liabilities but which are identified on Schedule 2.4(h).

(i) Any and all liabilities arising out of or related to Sellers' Environmental Obligations.

Section 2.5 Other Agreements .

(a) Related Agreements . On even date herewith, the parties or their Affiliates have entered into the following agreements (the "Related Agreements"):

Mine Purchase and Sale Agreement (in substantially the form set forth in Schedule 2.5(a)(1))

Guarantee Agreement

Escrow Agreement (in substantially the form set forth in Schedule 2.5(a)(2)

(b) Transmission Arrangements . Prior to the Closing Date, (i) the Sellers other than PacifiCorp shall convey their interests in the facilities described in Section 2.2(a) to PacifiCorp pursuant to a separate purchase and sale agreement and (ii) PacifiCorp, the Buyer and the "Buyer" under the Centralia Coal Mine Purchase and Sale Agreement of even date herewith, or their Affiliates, shall enter into one or more contracts pursuant to which (A) PacifiCorp provides transmission services necessary to deliver certain electric power requirements of the Plant and the Centralia Coal Mine from the 230 kV facilities of the Bonneville Power Administration to the Plant and the Centralia Coal Mine and (B) such parties address access, maintenance and other matters with respect to these retained facilities. These agreements shall be collectively referred to as the "Transmission Arrangements."

Section 2.6 Purchase Price .

(a) Consideration for Plant . The purchase price for the Plant shall be U.S. $452,598,000, subject to such adjustments, if any, as may occur pursuant to this Section 2.6 and other provisions of this Agreement (the "Plant Purchase Price"). Buyer shall, or shall cause one or more Buyer Subsidiaries to, pay to Sellers the Plant Purchase Price in cash at the

Closing by wire transfer of immediately available funds in U.S. dollars to an account specified in writing by Sellers to Buyer not later than the second Business Day prior to the Closing Date.

(b) Consideration for Supplies and Coal Inventories . The purchase price for the Supplies (the "Supplies Purchase Price") shall equal Sellers' original cost basis in the Supplies as of the Closing Date. The purchase price for the Coal Inventory ("Coal Inventory Purchase Price") shall equal the product of the number of tons of coal constituting the Coal Inventory on the Closing Date and the average per ton price (F.O.B. Centralia) of the last 100,000 tons of coal delivered to the Plant by rail prior to the Closing Date; provided however; in respect to coal in the Coal Inventory which was delivered from the Centralia Mine, the per ton purchase price shall be multiplied by a fraction whose numerator is the average heating value of coal in the Coal Inventory that was delivered from the Centralia Mine and whose denominator is the average heating value of coal in the Coal Inventory delivered to the Plant by rail. Consistent with Section 6.3, Sellers agree not to alter their customary practices for coal procurement in effect prior to the date hereof with respect to coal deliveries that form the basis of such price adjustment. PacifiCorp shall notify Buyer of the amount of the Supplies Purchase Price and the Coal Inventory Purchase Price and deliver supporting workpapers to Buyer within 45 days following the Closing Date. Buyer shall, or shall cause one or more Buyer Subsidiaries to, pay to Sellers the Supplies Purchase Price and the Coal Inventory Purchase Price in cash (U.S.$) within 15 days of such notification by wire transfer of immediately available funds to the same account to which the Plant Purchase Price was paid.

(c) Consideration for RACT Compliance Costs . In addition to the Plant Purchase Price, Buyer shall reimburse Sellers for costs expended between the date of this Agreement and the Closing Date in connection with RACT Compliance, as such costs are described in Section 2.9. Costs reimbursed by Buyer pursuant to this Section 2.6(c) shall not include PacifiCorp's internal costs to the extent they are charged or accounted for in a manner that is inconsistent with the manner in which PacifiCorp has typically charged and accounted for its internal costs associated with the Plant that are partially reimbursed to PacifiCorp in its role as Plant Operator by the Sellers other than PacifiCorp. PacifiCorp shall notify Buyer of the amount of such costs and deliver supporting work papers to Buyer within 45 days following the Closing Date. Buyer shall pay or cause one or more Buyer subsidiaries to pay to Sellers the amount of such RACT Compliance costs in cash (U.S.$) within 15 days of such notification by wire transfer of immediately available funds to the same account which the Plant Purchase Price was paid.

(d) Reduction to Reflect Reclamation Accruals . The Plant Purchase Price shall be reduced by an amount equal to the amount that has been accrued by or on behalf of Sellers for reclamation costs at the Centralia Coal Mine as of the Closing Date in the form of liabilities on PacifiCorp's balance sheet and balances held in separate trust accounts by some Sellers. As of the date of this Agreement, Sellers have estimated this amount to be

approximately $54,000,000. The parties shall determine this amount based on a final accounting as of the Closing Date,

(e) Plant Purchase Price Allocation . No later than ten Business Days prior to the Closing, Buyer and the Sellers Group shall use their reasonable good faith efforts to reach agreement upon the manner in which the Plant Purchase Price is to be allocated among the Assets in accordance with the Internal Revenue Code. Upon any such agreement being reached, the agreed allocation shall be set forth in a schedule (the "Allocation Schedule") to be attached to this Agreement as Schedule 2.6. Sellers and Buyer shall allocate the Plant Purchase Price in accordance with the Allocation Schedule and shall be bound by such allocations for all purposes, shall account for and report the purchases and sales contemplated hereby for all purposes (including, without limitation, financial, accounting, and federal and state tax purposes) in accordance with such allocations, and shall not take any position (whether in financial statements, tax returns, or tax audits, or otherwise), which is inconsistent with such allocations without the prior written consent of the other party, except to the extent, if any, required by applicable Law or generally accepted accounting principles. In the event that Buyer and the Sellers Group do not agree on an allocation of the Plant Purchase Price pursuant to this Section, then the Plant Purchase Price shall be allocated among the Assets in proportion to Sellers' net book value therefor.

(f) Certain Post-Closing Adjustments . The Plant Purchase Price shall be subject to the following post-Closing adjustments, but only if such adjustments, in the aggregate, will result in a change in the Plant Purchase Price of $250,000 or more:

(i) The Plant Purchase Price shall be increased by the amount expended by Sellers between the date hereof and the Closing Date for capital additions to or replacements of property, plant and equipment included in the Assets and other expenditures or repairs on property, plant and equipment included in the Assets that would be capitalized by Sellers in accordance with their normal capitalization policies (together "Capital Expenditures"), which Capital Expenditures either appear on Schedule 2.6(f)(i) or, subject to the provisions of Section 6.3(f), are otherwise deemed reasonably necessary by Sellers for the continued operation or maintenance of the Plant and the Assets or for compliance with Law, provided that such Capital Expenditures shall not include Remediation Measures in respect of Existing Soils Contamination or spare parts, materials and supplies which constitute Supplies, Coal Inventories, or costs of RACT Compliance.

(ii) In order to implement the foregoing, PacifiCorp shall cause to be prepared and shall provide Buyer, as soon as possible after the Closing Date and in no event later than 60 days thereafter, with a schedule setting forth Sellers' Capital Expenditures between the date hereof and the Closing Date in reasonable detail so as to

permit Buyer to be able to determine the extent to which such Capital Expenditures are or are not listed on Schedule 2.6(f)(i).

Any adjustments to the Plant Purchase Price shall be consistent with the Allocation Schedule (if such schedule has been previously agreed to).

Section 2.7 License of Non-Transferred Intangible Assets . Although trade names of Sellers are Excluded Assets, such names appear on certain of the Assets, such as certain fixtures and Equipment, and on supplies, materials, stationery and similar consumable items which will be on hand at the Plant at the Closing. Notwithstanding that such names are Excluded Assets, Buyer and the Buyer Subsidiaries shall be entitled to use such consumable items for a period of three months following the Closing and shall have up to six months following the Closing to remove such names from fixed Assets, provided that Buyer shall not send correspondence or other materials to third parties on any stationery that contains a trade name or trademark of Sellers or any Affiliates of Sellers. Sellers hereby grant to Buyer the irrevocable, fully paid-up, royalty-free, nontransferable, non-exclusive right and license to use, solely in connection with the operation of the Plant, such proprietary computer software of Sellers located at the Plant that is presently used at the Plant's location exclusively in connection with the operation of such Plant and that is an Excluded Asset under Section 2.2(d) or (k), except for such computer software that is designed to be part of a networked computer system providing data processing capabilities or services beyond the Plant in question and provided that in no event shall Buyer or any successor have access under such license to Sellers' own computer networks. The licenses contained in this Section 2.7 may, at the Sellers' option, be made the subject of a separate agreement between the parties, in which case the parties shall negotiate the terms thereof in good faith.

Section 2.8 Assignment of Rights and Obligations to Buyer Subsidiaries . For purposes of this Agreement, the term "Buyer Subsidiary" shall refer to any direct or indirect subsidiary of Buyer and any constituent partner or participant in Buyer (if Buyer is a partnership, joint venture, consortium or other association or organization) to which any of Buyer's rights and obligations hereunder are assigned in compliance with the requirements of this Section. Notwithstanding any contrary provisions contained herein, the parties hereto agree that, prior to and after the Closing, Buyer, in its sole discretion, may assign any or all of its rights and obligations arising under this Agreement, any Related Agreement or any other agreement contemplated hereby to one or more Buyer Subsidiaries, provided that no such assignment shall relieve Buyer of any obligation or liability to Sellers hereunder or under any Related Agreement or any other agreement contemplated hereby, and provided further that the following shall apply:

(a) Buyer will provide Sellers with prior written notice of any such assignment.

(b) No such assignment shall be effective if the making of the assignment will result in Sellers' or Buyer's inability to obtain any consent or authorization reasonably required to consummate the transactions contemplated hereby or to avoid economic detriment to Sellers arising from the consummation of such transactions.

(c) Each such Buyer Subsidiary that is an assignee of Buyer shall irrevocably appoint Buyer as an authorized representative and agent authorized to act for, to bind and to receive notices and payments on behalf of the Buyer Subsidiaries in all matters arising from or related to this Agreement and the transactions contemplated hereby.

(d) Irrespective of any such assignment or the identity of the party or parties executing any Related Agreements or any other agreement contemplated hereby:

(i) Buyer shall remain jointly and severally liable with each Buyer Subsidiary to Sellers and to third parties with respect to any Assumed Liabilities transferred to or undertaken by a Buyer Subsidiary, and shall remain jointly and severally liable with each Buyer Subsidiary to Sellers with respect to any other covenant, obligation or liability to Sellers hereunder or under any Related Agreement or any other agreement contemplated hereby that is transferred to, or undertaken by, a Buyer Subsidiary, including without limitation, the payment of all sums due to Sellers hereunder or under any Related Agreement or any other agreement contemplated hereby, it being understood that all such covenants, obligations and liabilities shall constitute the direct and primary obligation of Buyer to Sellers (and to third parties in the case of the Assumed Liabilities); and

(ii) Without limiting the generality of the foregoing, if and to the extent that the application of any principle of Law would construe the retention by Buyer of the direct and primary obligation to perform any and all obligations, liabilities or covenants assigned to or assumed or undertaken by a Buyer Subsidiary to be a guaranty by Buyer of the Buyer Subsidiary's performance, then Buyer hereby irrevocably, absolutely and unconditionally guarantees to Sellers the full, prompt and faithful performance by such Buyer Subsidiary of all covenants and obligations to be performed by such Buyer Subsidiary under this Agreement and any Related Agreement or any other agreement contemplated hereby assigned to such Buyer Subsidiary.

(e) Buyer further hereby agrees that a separate action or actions may be brought and prosecuted against Buyer for any such covenant, obligation or liability assigned to a Buyer Subsidiary, whether action is brought against the pertinent Buyer Subsidiary or whether such Buyer Subsidiary is joined in any such action or actions (Buyer hereby waiving any right to require Sellers to proceed against a Buyer Subsidiary).

(f) Buyer hereby authorizes Sellers, without notice and without affecting Buyer's liability hereunder, from time to time to (i) renew, compromise, extend, accelerate, or otherwise change the terms of any obligations of a Buyer Subsidiary hereunder or under any Related Agreement or any other agreement contemplated hereby with the agreement of such Buyer Subsidiary, (ii) take and hold security for the obligations of any such Buyer Subsidiary and exchange, enforce, waive and release any such security, and (iii) apply such security and direct the order or manner of sale thereof as Sellers in its discretion may determine.

(g) Buyer hereby further waives:

(i) Any defense that may arise by reason of the incapacity or lack of authority of any Buyer Subsidiary;

(ii) Any defense based upon any Law or legal or equitable principle which provides that the obligations of a surety must be neither larger in amount nor in other respects more burdensome than those of the principal;

(iii) Any duty on the part of Sellers to disclose to Buyer any facts that Sellers may now or hereafter know about a Buyer Subsidiary; and

(iv) Any right to subrogation, reimbursement, exoneration or contribution or any other rights that would result in Buyer being deemed a creditor of a Buyer Subsidiary under the federal Bankruptcy Code or any other Law, in each case arising from the existence or performance by Buyer of any obligation of a Buyer Subsidiary hereunder or under any Related Agreement or any other agreement contemplated hereby.

Section 2.9 RACT Compliance . Buyer is aware that commencing in August 1995, the Southwest Washington Air Pollution Control Agency issued and reissued a series of "RACT" Orders pertaining to the Plant. The last such RACT Order was issued in February 1998, and provided for an annual limit of 10,000 tons of sulphur dioxide emissions and specified additional limits on nitrogen dioxide emissions. In order to comply with this RACT Order the Sellers have determined to initiate the actions necessary to install a flue gas desulferization system ("Scrubbers") and certain nitrogen dioxide control equipment ("Burners"). For purposes of this Agreement, the installation of the Scrubbers and the Burners as a means of timely complying with the RACT Order shall be referred to as "RACT Compliance." Upon the Closing, Buyer shall assume project management responsibility for RACT Compliance. Costs of RACT Compliance are estimated by PacifiCorp to be approximately $190,000,000, consisting of payments pursuant to a turn-key contract for installation of the Scrubbers; payments pursuant to a turn-key contract for the installation of the Burners; PacifiCorp's internal costs associated with project management, engineering and

support and capitalized interest. The cost of the Burners is estimated by PacifiCorp to be approximately $17,000,000.

Section 2.10 Scrubbers . No later than May 31, 1999, PacifiCorp on behalf of itself and the other Sellers shall use its best efforts to negotiate and execute a turn-key contract for Scrubber installation in substantially the form set out in Schedule 2.10 (the "Scrubber Contract") including terms and conditions no less favorable than those contained in the ABB Flakt, Inc. and Stone & Webster Corporation proposal dated April 1, 1999. Absent the written consent of Buyer, Sellers shall maintain the Scrubber Contract in full force and effect without any material breach by the Sellers. At the Closing, the Scrubber Contract shall be assigned by the Sellers and assumed by the Buyer. If, notwithstanding its best efforts, PacifiCorp is not able to timely enter into the Scrubber Contract or the "target price," "target price contingency amount" (as those terms are defined in the Scrubber Contract) or completion date are different than those provided for in the Scrubber Contract, the Sellers Group must elect, within 30 days of such occurrence, to either: (i) terminate this Agreement or (ii) agree to make the Buyer economically whole in regard to such difference and/or pay the amount of any such increased price and/or the amount of any fines or civil penalties that are incurred by Buyer as a result of not adhering to the milestone associated with a scrubber contract contained in the RACT Order.

Section 2.11 Escrow . At the Closing, Sellers shall deposit $6,000,000 in an escrow account held by an escrow agent identified by Buyer and acceptable to Sellers. To the extent that total costs ultimately paid pursuant to the Scrubber Contract for activities within the scope of the Scrubber Contract executed in accordance with Section 2.10 exceed $150,600,000, 50 percent of such exceedance shall be paid from the escrow account to Buyer and the balance remaining in the escrow account (if any) upon completion or termination of such Scrubber Contract shall be paid over to PacifiCorp on behalf of itself and the other Sellers. Except as provided for herein, Sellers shall have no liability or obligation for the payment of costs of RACT Compliance incurred subsequent to the Closing Date.

Section 2.12 Burners . If the Closing Date has not previously occurred, no later than January 1, 2000, PacifiCorp on behalf of itself and the other Sellers, shall use its best efforts to negotiate and enter into a turn-key contract for the installation of the Burners ("Burner Contract") on terms reasonably acceptable to Buyer and Sellers other than PacifiCorp. The Burner Contract shall provide that it is freely assignable to Buyer and it shall be assigned by the Sellers and assumed by the Buyer at the Closing. Prior to the Closing Date, absent the written consent of Buyer, Sellers shall maintain the Burner Contract in full force and effect without any material breach by the Sellers.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES OF SELLERS

Sellers hereby represent and warrant to Buyer, as of the date hereof, as follows, except as set forth in Schedules numbered in relation to the Sections set forth below:

Section 3.1 Authority and Enforceability . The execution, delivery and performance of this Agreement, the Related Agreements and all other agreements contemplated hereby and the consummation of the transactions contemplated hereby and thereby have been duly authorized by the board of directors or other applicable governing body of each Seller; no other corporate act or proceeding on the part of any Seller is necessary to authorize this Agreement or any Related Agreement or any other agreement contemplated hereby or the transactions contemplated thereby. This Agreement has been, and each of the Related Agreements and other agreements contemplated hereby will, as of the Closing, have been, duly executed and delivered by each of Sellers, and this Agreement constitutes, and each Related Agreements and such other agreements when executed and delivered will constitute, a valid and binding obligation of Sellers, enforceable against Sellers in accordance with its terms, except as it may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar Laws now or hereafter in affect relating to creditors' rights generally and that the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding may be brought.

Section 3.2 No Breach or Conflict. Subject to the provisions of Sections 3.3(a) and 3.3(b) below regarding private party and governmental consents, and except for compliance with the requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and any regulatory or licensing Laws applicable to the businesses and assets represented by the Assets, the execution, delivery and performance by Sellers of this Agreement and the Related Agreements and any other agreements contemplated hereby do not: (a) conflict with or result in a breach of any of the provisions of the Articles of Incorporation or Bylaws or similar charter documents (the "Charter Documents") of Sellers; (b) contravene any Law presently in effect or cause the suspension or revocation of any License presently in effect, which affects or binds Sellers or any of their properties, except where such contravention, suspension or revocation will not have a Material Adverse Effect (as defined below) on the Assets and will not affect the validity or enforceability of this Agreement, the Related Agreements or any other agreement contemplated hereby or the validity of the transactions contemplated hereby and thereby; or (c) conflict with or result in a breach of or a default (with or without notice or lapse of time or both) under any material agreement or instrument to which Sellers are a party or by which they or any of their properties may be affected or bound, the effect of which conflict, breach, or default, either individually or in the aggregate, would be a Material Adverse Effect on the Assets. As used

herein, a "Material Adverse Effect": (x) when used with respect to the Assets, means a material adverse effect on the Assets and on the operation thereof, taken as a whole; (y) when used with respect to any portion of the Assets (including, without limitation, the Plant), means a material adverse effect on such portion of the Assets and on the operation thereof, taken as a whole; and (z) when used with respect to a Person, such as a Seller or Buyer, means a material adverse effect on the business, condition (financial or otherwise) and results of operations of such Person taken as a whole (including any subsidiaries of such entity) or on the ability of such Person to consummate the transactions contemplated hereby.

Section 3.3 Approvals .

(a) Except as set forth in Schedule 3.3(a), the execution, delivery and performance by Sellers of this Agreement, the Related Agreements and any other agreements contemplated hereby do not require the authorization, consent or approval of any non-governmental third party of such a nature that the failure to obtain the same would have a Material Adverse Effect on the Assets or the Plant substantially as they have heretofore operated.

(b) Except as set forth in Schedule 3.3(b), the execution, delivery and performance by Sellers of this Agreement, the Related Agreements and any other agreements contemplated hereby do not require the authorization, consent, approval, certification, license or order of, or any filing, with, any court or Governmental Body of such a nature that the failure to obtain the same would have a Material Adverse Effect on the Assets.

Section 3.4 Permits. Except as set forth in Schedule 3.4, at the date hereof to Sellers' Knowledge, Sellers possess all Licenses necessary for their operation of the Plant at the locations and in the manner presently operated, other than those the absence of which would not have a Material Adverse Effect on the Assets. A true and correct copy of each such License has previously been delivered to or made available for inspection by Buyer.

Section 3.5 Compliance with Law. Except as set forth in Schedule 3.5, and except for the matters that are the subject of Sections 3.4 and 3.6 and the Schedules, if any, related thereto, to Sellers' Knowledge, Sellers are in compliance in all material respects with all pertinent Laws and Licenses related to the ownership and operation of the Assets, other than violations that would not, individually or in the aggregate, have a Material Adverse Effect on the ownership, use or operation of the Assets or on the ability of Sellers to execute and deliver this Agreement, the Related Agreements or any other agreements contemplated hereby and consummate the transactions contemplated hereby and thereby.

Section 3.6 Hazardous Materials. To Sellers' Knowledge, except as disclosed by the "Phase I" and Phase II" environmental site assessments prepared by Sellers' outside

environmental consultants and made available for inspection by Buyer, or as otherwise disclosed on Schedule 3.6:

(a) There has not been a Release of Hazardous Material on or otherwise affecting the Assets (other than Releases involving de minimis quantities of Hazardous Materials) that: (i) constitutes an unremedied material violation of any Environmental Law by Sellers or by any third party if the effect of such violation by such third party imposes a current remediation obligation on the part of Sellers; (ii) currently imposes any material release-reporting obligations on Sellers under any Environmental Law that have not been or are not being complied with; or (iii) currently imposes any material clean-up or remediation obligations of Sellers under any Environmental Law.

(b) Sellers, during at least the last three years, have complied, and currently are in compliance, in all material respects, with all Environmental Laws that govern the Assets;

(c) Sellers have all material Licenses required under Environmental Laws for its operation of the Assets, are in compliance in all material respects with all such Licenses and during the three-year period preceding the date of this Agreement have not received any notice that: (i) any such existing Licensing will be revoked; or (ii) any pending application for any new such License or renewal of any existing Licensing will be denied;

(d) Sellers have not received any currently outstanding written notice of any material proceedings, action, or other claim or liability arising under any Environmental Laws (including, without limitation, notice of potentially responsible party status under the Comprehensive Environmental Response, Compensation, and Liability Act , 42 U.S.C. §§ 9601 et seq. or any state counterpart) from any Person or Governmental Body regarding the Assets; and

(e) No portion of the Assets has ever contained an underground storage tank, surface impoundment or similar device used for the management of wastewater, or other waste management unit dedicated to the disposal, treatment, or long-term (greater than 90 days) storage of Hazardous Materials.

Section 3.7 Title to Personal Property. Sellers have good and defensible title, or valid and effective leasehold rights in the case of leased property, to all tangible personal property included in the Assets to be sold, conveyed, assigned, transferred and delivered to Buyer or a Buyer Subsidiary by Sellers, free and clear of all liens, charges, claims, pledges, security interests, equities and encumbrances of any nature whatsoever, except for those created or allowed to be suffered by Buyer or such Buyer Subsidiary and except for the following (individually and collectively, the "Permitted Encumbrances"): (i) the lien of current taxes not delinquent, (ii) liens listed on Schedule 3.7, (iii) the Assumed Liabilities, (iv) such consents, authorizations approvals and Licenses referred to in Section 3.3(a), 3.3(b)

and 3.4, and (v) liens, charges, claims, pledges, security, interests, equities and encumbrances which will be discharged or released either prior to, or substantially simultaneously with, the Closing Date and other liens and possible minor matters that in the aggregate are not substantial in amount and do not materially detract from or interfere with the present or intended use of such property.

Section 3.8 Independent Engineer Report . Sellers have reviewed the report, dated July 22, 1998, (the "Independent Engineer Report") of the independent engineers retained to assist the bidders in the Auction in their respective evaluations of the Assets, and while Sellers have not independently verified the information and data contained therein, to Sellers' Knowledge, except as may be set forth in Schedule 3.8, there is no misstatement of facts contained in the sections of the Independent Engineer Report specified in Schedule 3.8, other than matters which individually or in the aggregate do not have a Material Adverse Effect on the Assets.

Section 3.9 Contracts. Except for such matters which individually and in the aggregate do not have a Material Adverse Effect on the Assets, or except as otherwise disclosed on Schedule 3.9, to Sellers' Knowledge (a) there is no liability to any third party by reason of the default by Sellers under any Assumed Contract, (b) Sellers have not received notice that any Person intends to cancel or terminate any Assumed Contract, and (c) all of the Assumed Contracts are in full force and effect; provided that notwithstanding the foregoing representations and warranties, Sellers make no separate representation or warranty under this Section 3.9 respecting compliance with the provisions of Laws generally, Hazardous Materials, title to or condition of property, Licenses, environmental conditions or Environmental Laws, it being the intent of the parties that warranties respecting such matters shall be made exclusively under the provisions of Sections 3.4, 3.5, 3.6, and 3.7. Sellers have previously made available for inspection by Buyer true and complete copies of all written Assumed Contracts except where the failure to so deliver a copy thereof will not have a Material Adverse Effect on Buyer.

Section 3.10 Litigation. Except for (a) ordinary routine claims and litigation incidental to the businesses represented by the Assets (including, without limitation, actions for negligence, workers' compensation claims and the like), (b) Governmental Body inspections and reviews customarily made of businesses such as those operated from the Plant, (c) proceedings before regulatory authorities, and (d) as set forth on Schedule 3.10, there are no actions, suits, claims or proceedings pending, or to Sellers' Knowledge, threatened against or affecting the Assets or relating to the operations of the Assets, at law or in equity, or before or by any Governmental Body. Except as disclosed on Schedule 3.10, there is no condemnation proceeding pending or, to Sellers' Knowledge, threatened against any of the Assets.

Section 3.11 Plant Data. Attached hereto as Schedule 3.11, is the following selected historical operating or performance data of the generating units included in the Assets (the "Operating Data"): (i) PacifiCorp's most recent recorded measurement of the "dependable operating capacity" (as defined in such Schedule) of each such unit for which PacifiCorp has historical records of such measurements and the dependable operating capacity recorded by PacifiCorp at such time in accordance with the procedures and parameters described in such Schedule; (ii) PacifiCorp's most recent annual so-called "wide-open valve heat rate test" for each such unit and the outcomes of such tests recorded by PacifiCorp, subject to the procedures, parameters and assumptions that are further described in such Schedule; and (iii) the last major scheduled turbine overhaul recorded for each unit included in the Assets and the results recorded by PacifiCorp, if any (as part of its customary overhaul procedure), of a so-called "wide-open valve heat rate test" immediately prior to such overhaul and immediately after such overhaul, subject to the procedures, parameters and assumptions that are further described in such Schedule. To Sellers' Knowledge, the measurements and tests referred to in clauses (i) through (iii) above were all conducted in accordance with practices reasonably likely to result in information that was materially accurate as of the dates on which it was recorded, subject to the accuracy of the measurement devices used and the other assumptions and qualifications contained in such Schedule. Since the date of the Independent Engineer Report referred to in Section 3.8, Sellers have operated the Plant only in the usual and ordinary course, except as identified in Schedule 3.11, and there has not been:

(a) Any material casualty, physical damage, destruction or physical loss respecting, or, to Sellers' Knowledge, material adverse change in the physical condition of, the Plant, subject to ordinary wear and tear and to routine maintenance;

(b) Any sale or other disposition other than in the ordinary course of business of any fixed Asset that has a net book value in excess of $100,000;

(c) Any material pledge or imposition of lien on any of such Assets, except for such as will be removed as of the Closing or except for Permitted Encumbrances; or

(d) Any material amendment (other than general amendments which the insurance carrier makes for a category of policy) or termination or failure to renew any material insurance covering the Assets.

Section 3.12 Brokers. Except as shown on Schedule 3.12, no broker, finder, or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with this Agreement or the transactions contemplated hereby based upon any agreements or arrangements or commitments written or oral, made by or on behalf of Sellers. Sellers shall be solely responsible for the payment of any such fee or commission to any Person listed on Schedule 3.12.

Section 3.13 Assets Used in the Operation of the Plant. Except as delineated on Schedule 3.13, there are no material assets or properties that are used in and necessary for the conduct of the operations of the Plant that are owned by Sellers and that individually or in the aggregate are necessary for the operation of the Assets as currently operated by Sellers that are not included in the Assets.

Section 3.14 Option Rights. None of the Persons constituting Sellers retain any rights of first refusal, option rights or other similar rights to purchase all or any portion of the Assets in connection with a sale of the Assets to the Buyer pursuant to this Agreement.

Section 3.15 Real Property . The Owned Real Property and Easements constitute all the real property that is necessary for the ownership and operation of the Plant pursuant to good industry practices. As of the Closing Date, Sellers will have good, valid and marketable title to all such real property free and clear of all liens, mortgages, deed restrictions, charges, claims, pledges, security interests, equities and encumbrances that could materially affect the value of such real property or the use of such real property in connection with the ownership and operation of the Plant.

Section 3.16 Year 2000 Readiness . PacifiCorp hereby represents and warrants to Buyer that except as delineated on Schedule 3.16, all of the hardware, software and firmware product (including embedded microcontrollers in non-computer equipment) which are included in the Assets (the "Computer Systems") are (and will remain) Year 2000 Ready and will reliably operate the Assets into the Year 2000, and that Computer Systems delineated on Schedule 3.16 are either not necessary for the reliable operation of the Assets into the Year 2000 or will be made Year 2000 Ready prior to January 1, 2000. For purposes hereof, "Year 2000 Ready" shall mean a Computer System or component thereof that has been determined to be suitable for continued use into the Year 2000, but is not necessarily Year 2000 compliant, which implies fully correct date manipulations. PacifiCorp has developed and will maintain and implement a plan to achieve Year 2000 Readiness using standard industry practices and shall consult and cooperate with the Buyer regarding such implementation during the period prior to the Closing Date.

Section 3.17 Taxes . Those Sellers which are for-profit corporations hereby warrant to Buyers that such Sellers have filed all returns required to be filed by them with respect to Taxes, and such Sellers have paid all Taxes that have become due, except where such Tax is being contested in good faith by appropriate proceedings. Sellers which are for-profit corporations have complied with all applicable laws, rules and regulations relating to withholding of Taxes and have, within the time and manner prescribed by law, paid over to the proper governmental authorities all amounts so withheld. All tax returns filed by such Sellers are true, correct and complete. None of the Assets is property that is required to be treated as being owned by any other person pursuant to the so-called "safe harbor lease" provision of former Section 168(h) of the Internal Revenue Code of 1954, and none of the Assets is

"tax-exempt use" property within the meaning of Section 103(a) of the Internal Revenue Code. Those Sellers which are for-profit corporations are not "foreign persons" as defined in Internal revenue Code Section 1445(f)(3). Schedule 3.17 sets forth the taxing authorities to which notification of any of the transaction contemplated by this Agreement must be made or which require the Buyer to withhold any portion of the Mine Purchase Price. Those Sellers which are for-profit corporations do not have any liability pursuant to Section 6901 of the Internal Revenue Code or otherwise under applicable state or federal law by virtue of the acquisition by it of any of the Assets (or interest or interests therein), and Buyer will not be subject to such liability as a result of any of the transactions contemplated by this Agreement.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer hereby represents and warrants to Sellers, as of the date hereof, as follows, except as set forth in Schedules numbered in relation to the Sections set forth below:

Section 4.1 Organization and Corporate Power . Buyer is a corporation duly incorporated and validly existing under the Laws of, and is authorized to exercise its corporate powers, rights and privileges and is in good standing in, the State of Washington and has full corporate power to carry on its business as presently conducted and to own or lease and operate its properties and assets now owned or leased and operated by it and to perform the transactions on its part contemplated by this Agreement and all other agreements contemplated hereby.

Section 4.2 Authority and Enforceability . The execution, delivery and performance of this Agreement, the Related Agreements and any other agreements contemplated hereby and the consummation of the transaction contemplated hereby and thereby have been duly authorized by the board of directors of Buyer; no other corporate act or proceeding on the part of Buyer is necessary to authorize this Agreement, any Related Agreement any other agreement contemplated hereby, or the transactions contemplated hereby and thereby. This Agreement has been, and each of the Related Agreements and other agreements contemplated hereby will, as of the Closing, have been, duly executed and delivered by Buyer, and this Agreement constitutes, and each Related Agreement and such other agreement when executed and delivered will constitute, a valid and binding obligation of Buyer, enforceable against Buyer, in accordance with its terms, except as it may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar Laws now or hereafter in effect relating to creditors' rights generally and that the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding may be brought.

Section 4.3 No Breach or Conflict . Subject to the provisions of Sections 4.4(a) and 4.4(b) below regarding private party and governmental consents, and except for compliance

with the requirements of the HSR Act and any regulatory or licensing Laws applicable to the businesses and assets represented by the Assets, the execution, delivery and performance by Buyer and the Buyer Subsidiaries of this Agreement, the Related Agreements and any other agreement contemplated hereby do not: (a) conflict with or result in a breach of any of the provisions of the Charter Documents of Buyer or any Buyer Subsidiary; (b) contravene any Law or cause the suspension or revocation of any License presently in effect, which affects or binds Buyer or any Buyer Subsidiary or any of their material properties; or (c) conflict with or result in a breach of or default under any material agreement or instrument to which Buyer or any Buyer Subsidiary is a party or by which it or they or any of their properties may be affected or bound.

Section 4.4 Approvals .

(a) Except as set forth on Schedule 4.4(a), the execution, delivery and performance by Buyer and any Buyer Subsidiary of this Agreement, the Related Agreements and any other agreement contemplated hereby do not require the authorization, consent or approval of any non-governmental third party.

(b) Except as set forth on Schedule 4.4(b), the execution, delivery and performance by Buyer and any Buyer Subsidiary of this Agreement, the Related Agreements and any other agreement contemplated hereby do not require the authorization, consent, approval, certification, license or order of, or any filing with, any court or Governmental Body, to consummate the transactions contemplated hereby and to permit Buyer to acquire the Assets and to generate electricity therefrom for sale.

Section 4.5 Litigation . Except as set forth on Schedule 4.5, there are no actions, suits, claims or proceedings pending, or to Buyer's Knowledge, threatened against Buyer or any Buyer Subsidiary likely to impair the consummation of the transactions contemplated thereby or otherwise material to such transactions or to Buyer or any Buyer Subsidiary, and Buyer is not aware of facts likely to give rise to such litigation.

Section 4.6 Brokers . Except as set forth on Schedule 4.6, no broker, finder, or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with this Agreement or the transactions contemplated hereby based upon any agreements or arrangements or commitments, written or oral, made by or on behalf of Buyer. Buyer shall be solely responsible for the payment of any such fee or commission to any Person listed on Schedule 4.6.

Section 4.7 Exculpation . BUYER AGREES THAT EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN THIS AGREEMENT, THE ASSETS ARE BEING SOLD ON AN "AS IS" BASIS AND IN "WITH ALL FAULTS" CONDITION, AND, WITHOUT LIMITING THE GENERALITY OF THE

FOREGOING, SELLERS MAKES NO WRITTEN OR ORAL REPRESENTATION OR WARRANTY, EITHER EXPRESS OR IMPLIED, WITH RESPECT TO THE FITNESS, MERCHANTABILITY, OR SUITABILITY OF THE ASSETS FOR ANY PARTICULAR PURPOSE OR THE OPERATION OF THE ASSETS BY BUYER.

Section 4.8 Financing . Buyer has liquid capital or committed sources therefor sufficient to permit it and the pertinent Buyer Subsidiaries, if any, to perform timely its or their obligations hereunder, under the Related Agreements and under any other agreements contemplated hereby.

Section 4.9 No Knowledge of Sellers' Breach . Buyer has no Knowledge of any breach of any representation or warranty by Sellers or of any other condition or circumstance that would excuse Buyer from its timely performance of its obligation hereunder. Buyer shall notify Sellers as promptly as practicable if any such information comes to its attention prior to Closing.

Section 4.10 Qualified for Licenses . To Buyer's Knowledge, Buyer and any pertinent Buyer Subsidiary are, or by Closing will be, qualified to obtain any Licenses necessary for the operation by Buyer or such Buyer Subsidiary of the Assets as of the Closing in substantially the same manner as the Assets are presently operated by Sellers.

Section 4.11 Buyer Subsidiaries .

(a) As of the Closing, each Buyer Subsidiary will be an entity duly organized, validly existing and in good standing under the Laws of its state of incorporation. Each Buyer Subsidiary will at the Closing have all requisite power and authority to carry on its business as then conducted and to own or lease and operate its properties and assets then owned or leased and operated by it and to perform the transactions on its part contemplated by this Agreement and all other agreements contemplated hereby.

(b) The governing body of each Buyer Subsidiary and, if required, its shareholders or other owners, will have, by the date of the Closing, duly and effectively authorized (i) the purchase of the Assets to be purchased by such Buyer Subsidiary, and (ii) the execution, delivery and performance of this Agreement, the Related Agreements and any other agreements contemplated hereby and thereby to which such Buyer Subsidiary is a party. No other organizational act or proceeding on the part of any Buyer Subsidiary, its governing body or its shareholders or other owners will be necessary to authorize this Agreement, any Related Agreement or other agreement contemplated hereby and thereby or the transactions contemplated hereby and thereby.

(c) This Agreement, the Related Agreements and all other agreements contemplated hereby and thereby to which any Buyer Subsidiary is a party will, as of the

Closing, have been duly executed and delivered by each such Buyer Subsidiary, and each such agreement, when executed and delivered will constitute, a valid and binding obligation of such Buyer Subsidiary, enforceable against such Buyer Subsidiary in accordance with its terms, except as it may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar Laws now or hereafter in effect relating to creditors' rights generally and that the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding may be brought.

ARTICLE 5
COVENANTS OF EACH PARTY

Section 5.1 Efforts to Close.

(a) Reasonable Efforts . Subject to the terms and conditions herein provided including, without limitation, Articles 8 and 9 hereof, each of the parties hereto agrees to take all reasonable actions and to do all reasonable things necessary, proper or advisable under applicable Laws to consummate and make effective, as soon as reasonably practicable, the transactions contemplated hereby, including the satisfaction of all conditions thereto set forth herein and including, without limitation, enforcing the provisions of the Auction Protocol Agreements entered into with those proposing to bid to purchase the Plant. Such action shall also include, without limitation, exerting their reasonable efforts to obtain the consents, authorizations and approvals of all private parties and Governmental Bodies whose consent is reasonably necessary to effectuate the transactions contemplated hereby, and effecting all other necessary registrations and filings, including, without limitation, filings under Laws relating to the transfer, reissuance or otherwise obtaining of necessary Licenses, under the HSR Act and all other necessary filings with any Governmental Bodies. Sellers shall cooperate with Buyer's efforts to obtain the requisite Licenses and regulatory consents, provided Sellers shall not be obligated to incur any liabilities or assume any obligations in connection therewith. Other than Buyer's and Sellers' obligations under Section 5.3, no party shall have any liability to the other parties if, after using its reasonable commercial efforts, it is unable to obtain any consents, authorizations or approvals necessary for such party to consummate the transactions contemplated hereby. As used herein, the terms "reasonable efforts" or "reasonable actions" do not include the provision of any consideration to any third party, the commencement of litigation or the suffering of any economic detriment to a party's ongoing operations for the procurement of any such consent, authorization or approval except for the costs of gathering and supplying data or other information or making any filings, the fees and expenses of counsel and consultants and the customary fees and charges of Governmental Bodies. Sellers shall fully cooperate with Buyer regarding the making of offers of employment to employees whose principal work location is at the Plant and Buyer's hiring of such employees and Sellers shall use reasonable efforts to facilitate the orderly hiring of such employees. Furthermore, Sellers and Buyer shall execute and deliver such other agreements, documents and instruments as are required to be delivered by such party or prior to closing to effectuate the transactions contemplated by this Agreement.

(b) Control Over Proceedings. All analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals made or submitted by or on behalf of any party before any Governmental Body (other than any governing board or other governing body of any of the publicly owned utility Sellers) in connection with the approval of the transactions contemplated hereby shall be subject to the joint approval or disapproval and the joint control of Buyer and the Sellers, it being the intent that the Parties will consult and

cooperate with one another, and consider in good faith the views of one another, in connection with any such analysis, appearance, presentation, memorandum, brief, argument, opinion and proposal; provided that nothing will prevent a party from responding to a subpoena or other legal process as required by Law or submitting factual information in response to a request therefor. Each Party will promptly provide the other with copies of all written communications from Governmental Bodies relating to the approval or disapproval of the transactions contemplated by the Agreement and the Related Agreements. The Sellers will promptly report to Buyer with respect to matters and events involving Governmental Bodies that could have a Material Adverse Effect on the Assets and shall timely provide Buyer with copies of relevant documents and notices. Sellers shall consult and cooperate with Buyer in good faith in regard to such matters and events and incorporate Buyer's suggestions where they deem reasonably appropriate. Provided, however, nothing herein shall limit Buyer's ability to intervene or otherwise participate in regulatory proceedings related to the Assets.

Section 5.2 Post-Closing Cooperation . After the Closing, upon prior reasonable written request, each party shall cooperate with the other parties in furnishing records, information, testimony and other assistance in connection with any inquiries, actions, audits, proceedings or disputes involving any of the parties hereto (other than in connection with disputes between the parties hereto) and based upon contracts, arrangements or acts of Sellers which were in effect or occurred on or prior to Closing and which relate to the Assets, including, without limitation, arranging discussions with (and the calling as witness of) officers, directors, employees, agents, and representatives of Buyer and Buyer Subsidiaries. The requesting party shall in each instance be responsible for payment of any costs and expenses incurred by any other party in affording such cooperation, including any out-of-pocket expenses incurred by such party to third parties; provided, however, that in no event shall the costs and expenses for which any such requesting party shall be liable include any wages or other benefits paid or provided by any such cooperating party to its officers, directors or employees.

Section 5.3 Expenses . Whether or not the transactions contemplated hereby or by the Related Agreements are consummated, except as otherwise provided in this Agreement and the Related Agreements, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby or thereby shall be paid by the party incurring such expenses. Notwithstanding the foregoing:

(a) Costs associated with preliminary title reports and title insurance policies shall be borne by Sellers up to the costs that would have been incurred had the title policies been standard coverage policies of title insurance, and the remaining costs, if any, including costs for extended coverage and any endorsements shall be borne by Buyer (except that any costs of surveys that are reasonably required shall be borne by Sellers);

(b) All costs of the "Phase I" and "Phase II" environmental site assessments provided by Sellers to Buyer shall be borne by Sellers, and except as specifically set forth herein, any additional environmental investigations shall be borne by Buyer;

(c) Costs associated with the Independent Engineer Report within the scope of its initial engagement shall be borne by Sellers, and additional costs for services requested by Buyer, if any, shall be borne by Buyer;

(d) Documentary transfer taxes will be borne by Sellers, and recording costs and charges respecting real property will be borne one-half by Buyer and one-half by Sellers;

(e) All fees and charges of Governmental Bodies shall be borne by the party incurring the fee or charge, except that all fees and charges of Governmental Bodies in connection with the transfer, issuance or authorization of any License shall be borne by Buyer; and

(f) All liabilities or obligations for Taxes in the nature of sales or use taxes or real estate excise taxes incurred as a result of the sale of the Assets hereunder to Buyer shall be borne by Buyer.

(g) Each party will bear its own expenses in preparing regulatory filings (including without limitation its own HSR Act filings) and seeking required consents and approvals.

All such charges and expenses shall be promptly settled between the parties at the Closing or upon termination or expiration of further proceedings under this Agreement, or with respect to such charges and expenses not determined as of such time, as soon thereafter as is reasonably practicable.

Section 5.4 Employees.

(a) Assumption of Collective Bargaining Agreements . PacifiCorp shall assign and Buyer shall assume the obligations of the employer to the employees at the Plant under the collective bargaining agreement with IBEW Local 125 (the "Collective Bargaining Agreement").

(b) Transferred Employees . Buyer shall, no later than three months following the date of this Agreement, notify Sellers of the names of employees not covered by the Collective Bargaining Agreement whose principal work location is at the Plant to whom Buyer will make offers of employment. Except as provided in this Agreement, such offers shall be on such terms as Buyer shall decide. Sellers shall cooperate with Buyer regarding the making of such offers of employment and shall use reasonable efforts, within the meaning of Section 5.1(a), to facilitate the orderly hiring by Buyer of such employees. Employees of Seller with a principal work location at the Plant who accept Buyer's offer and who are not Union Employees ("Transferred Employees") shall commence employment with Buyer on the Closing Date.

(c) Nonsolicitation . Except to the extent that refraining from doing so would be inconsistent with the provisions of the Collective Bargaining Agreement, without the prior consent of Buyer, Sellers shall refrain and PacifiCorp, Avista Corporation and Puget Sound Energy, Inc. shall use their best efforts to cause any Affiliate to refrain, from offering or otherwise making available any employment or transfer from the date of this Agreement through the date that is 12 months following the Closing Date to any employee whose principal work location is at the Plant as of the date of this Agreement.

(d) Benefits in General . Buyer shall provide the Transferred Employees with Benefit Plans that are comparable, in the aggregate, to the Benefit Plans of PacifiCorp covering them just prior to the Closing Date but are no less favorable than those provided by the Buyer to its similarly situated employees. Such Benefit Plans provided by Buyer shall include, but not be limited to, a defined benefit pension plan and a group health plan that provides medical, dental, and vision coverage. The Transferred Employees and their dependents shall be eligible for immediate participation on the Closing Date in such group health plan of Buyer, with no preexisting condition limitations. Amounts incurred prior to the Closing Date by the Transferred Employees and their dependents toward deductibles and out-of-pocket limits shall be counted by Buyer toward parallel limits under its Benefit Plans. Buyer shall give credit to the Transferred Employees for service with Seller for purposes of eligibility to participate and vesting under Buyer's defined benefit pension plan and any other retirement plans of Buyer and for purposes of benefit accruals under Buyer's paid time-off and other service-based welfare benefit plans. Buyer shall provide post-retirement welfare benefits to Transferred Employees and Union Employees that are comparable to those provided to such employees under Sellers' Benefit Plans.

(e) Transition of Pension Benefits . Sellers shall cause the PacifiCorp Retirement Plan to make available to each Transferred Employee and to each Union Employee a lump sum distribution equal to the actuarial equivalent present value of the employee's accrued benefit under the terms of such plan as of the Closing Date. Buyer shall cause its defined benefit pension plan to accept, for a period of 90 days beginning on the Closing Date, a direct rollover of the entire lump sum distribution elected by a Transferred Employee or

Union Employee and to provide to each employee making such an election a life annuity benefit that is no less than the life annuity benefit accrued under the PacifiCorp Retirement Plan as of the Closing Date, including any increases in compensation from the Closing Date to the date of the employee's termination of all employment with the controlled group of corporations of which the Buyer is a member. The Purchase Price provided by Section 2.6 has been reduced by U.S. $1,000,000 in the aggregate for this Agreement and the Centralia Coal Mine Purchase and Sale Agreement of even date herewith, on account of the obligation described in the preceding sentence. If counsel to Buyer and counsel to Sellers agree there is a material risk that the provisions of this paragraph (e) will prevent Buyer's defined benefit pension plan from qualifying under Section 401(a) of the Internal Revenue Code, the parties shall agree upon an alternative which achieves, in the opinion of an actuarial firm, substantially the same economic result for each party as well as affected employees. Such actuarial firm shall be selected jointly by Buyer and Sellers or, if they cannot agree on such selection, by the actuarial firms selected by each of them.

(f) Severance . In the event a Transferred Employee is involuntarily terminated from employment with Buyer within two years after the Closing Date, Buyer shall pay such Transferred Employee a severance benefit equal to an amount based on the employee's compensation level (the "Guideline Severance") plus an additional amount based on the employee's length of service (the "Service-Based Severance). The Guideline Severance shall be determined under the following table based on the employee's annual base salary plus target annual bonus level in effect at the time of termination from employment with Buyer:

Base Salary Plus Target Bonus	Severance Amount
$30,000 or less	1 month's base salary
$30,001 to $45,000	2 month's base salary
$45,001 to $60,000	3 month's base salary
$60,001 to $75,000	4 month's base salary
$75,001 to $100,000	5 month's base salary
over $100,000	6 month's base salary

The Service-Based Severance shall be one week of base salary for each year of service. For this purpose, year of service means the number of completed 12-month periods between the employee's original date of hire with Seller and the date of employment termination with Buyer.

(g) Workers' Compensation and Disability . Seller shall retain the obligation to provide disability and workers compensation benefits with respect to Plant employees who do not become employed by Buyer. Buyer shall provide disability and workers compensation benefits to Transferred Employees and Union Employees. In addition, Buyer shall use reasonable efforts, within the meaning of 5.1(a), to provide return-to-work

opportunities for Plant employees for whom Seller retained the obligation to provide disability and workers compensation benefits.

ARTICLE 6
ADDITIONAL COVENANTS OF SELLERS

Sellers hereby additionally covenant, promise and agree as follows:

Section 6.1 Access . Subject to the restrictions set forth in Section 5.4 respecting confidentiality and provided that Buyer has complied with each and every provision thereof, PacifiCorp, on behalf of the Sellers, shall, in accordance with the terms and subject to the conditions of that certain Auction Protocols Agreement by and among Buyer and Sellers, afford Buyer, and the counsel, accountants and other representative of Buyer, reasonable access, throughout the period from the date hereof to the Closing Date, to the Assets and the managerial and technical personnel associated therewith and all the properties, books, contracts, commitments, and records included in the Assets which Sellers have in their possession or to which they have access in order to facilitate transition planning. Such records shall include, but not be limited to, personnel records with respect to employees whose principal work location is at the Plant. Such access shall be afforded to Buyer after no less than 24 hours' prior written notice, during normal business hours and only in such manner as not to disturb or interfere with the normal operation of Sellers, and may include, without limitation, discussion and access relating to Buyer's engineering of Plant air pollution and other modifications Buyer plans to construct after Closing. In addition, with the reasonable approval of the Sellers Group, during the period prior to the Closing Date, Buyer make modifications to the Assets at Buyer's sole cost and expense in order to reduce the requirement for transition services provided for in Section 6.9. PacifiCorp's covenants under this Section are made with the understanding that Buyer shall use all such information in compliance with all Laws. The foregoing notwithstanding, Buyer acknowledges and agrees that Buyer's access to the books and records of the Assets shall not include access to, and PacifiCorp shall not have any obligation to deliver to Buyer, any information concerning any alleged dispute or any pending litigation, investigation or proceeding involving Sellers or their Affiliates that is protected by or subject to the attorney-client privilege, or the disclosure of which is restricted by an agreement entered into in connection with such dispute, litigation, investigation or proceeding or an order entered by any court.

Section 6.2 Updating . Sellers shall notify Buyer of any changes or additions to any of Sellers' Schedules to this Agreement with respect to the Assets or Assumed Liabilities related thereto by the delivery of updates thereof, if any, as of a reasonably current date prior to the Closing not later than three Business Days prior to the Closing. No such updates made pursuant to this Section shall be deemed to cure an inaccuracy of any representation or warranty made in this Agreement as of the date hereof, unless Buyer specifically agrees thereto in writing nor shall any such notification be considered to constitute or give rise to a waiver by

Buyer of any condition set forth in this Agreement. Without limiting the generality of the foregoing, Sellers shall notify Buyer reasonably promptly of the occurrence of any material casualty, physical damage, destruction or physical loss respecting, or, to Sellers' Knowledge, material adverse change in the physical condition of, the Plant, not including ordinary wear and tear and routine maintenance.

Section 6.3 Conduct Pending Closing . Prior to consummation of the transactions contemplated hereby or the termination or expiration of this Agreement pursuant to its terms, unless Buyer shall otherwise consent in writing, which consent shall not be unreasonably withheld or delayed, and except for actions taken pursuant to Assumed Contracts, or which are required by Law or arise from or are related to the anticipated transfer of the Assets or as otherwise contemplated by this Agreement or disclosed in Schedule 6.3 or another Schedule to this Agreement, Sellers shall:

(a) Operate and maintain the Assets only in the usual and ordinary course, materially consistent with practices followed prior to the execution of this Agreement;

(b) Except as required by their terms, not amend, terminate, renew, or renegotiate any existing material Assumed Contract or enter into any new Assumed Contract, except in the ordinary course of business and consistent with practices of the recent past, or default (or take or omit to take any action that, with or without the giving of notice or passage of time, would constitute a default) in any of its obligation under any such contracts;

(c) Not (i) sell, lease, transfer or dispose of, or make any contract for the sale, lease, transfer or disposition of, any assets or properties which would be included in the Assets, other than sales in the ordinary course of business which would not individually, or in the aggregate, have a Material Adverse Effect upon the operations or value of the Plant; (ii) incur, assume, guaranty, or otherwise become liable in respect of any indebtedness for money borrowed which would result in Buyer assuming such liability hereunder after the Closing; (iii) delay the payment and discharge of any liability which, upon Closing, would be an Assumed Liability, because of the transactions contemplated hereby; or (iv) encumber or voluntarily subject to any lien any Asset (except for Permitted Encumbrances); or (v) sell, lease, transfer or dispose of, to any Seller or any Affiliate of any Seller, any assets or properties which would be included in the Assets, or remove any such assets or property to or for the benefit of any Seller or any Affiliate of any Seller;

(d) Maintain in force and effect the material property and liability insurance policies related to the Assets;

(e) Subject to Section 6.2, not take any action which would cause any of Sellers' representations and warranties set forth in Article 3 to be materially false as of the Closing;

(f) Not make Capital Expenditures, other than those contemplated on Schedule 2.6(f)(i), which would, pursuant to the provisions of Section 2.6(f), result in an upward adjustment of the Purchase Price pursuant to Section 2.6(f)(i) in excess of $1,000,000 in the aggregate, except for purchases under agreements in existence as of the date hereof that would constitute Assumed Liabilities as of such date, Capital Expenditures set forth on Schedule 2.6(f)(i), or Capital Expenditures otherwise approved in writing by Buyer;

(g) Not (i) adopt any new plan or program for severance, continuation or termination pay for employees at the Plant, (ii) enter into any new collective bargaining agreement or any amendment to the existing collective bargaining agreement for employees at the Plant, (iii) increase benefits payable under any Benefit Plan, (iv) increase compensation payable to employees at the Plant, (v) represent to any employee at the Plant that Buyer would assume or continue to maintain any Benefit Plan after the Closing Date, or (vi) hire out or transfer any employees to or from the Plant unless essential to maintain the business or operations of the Plant.

Provided that nothing in this Section shall (i) obligate Sellers to make expenditures other than in the ordinary course of business and consistent with practices of the recent past or to otherwise suffer any economic detriment, (ii) preclude Sellers from paying, prepaying or otherwise satisfying any liability which, if outstanding as of the Closing Date, would be an Assumed Liability or an Excluded Liability, (iii) preclude Sellers from incurring any liabilities or obligations to any third party in connection with obtaining such party's consent to any transaction contemplated by this Agreement, the Related Agreements or any other agreement contemplated hereby, provided such liabilities and obligations under this clause (iii) shall be Excluded Liabilities pursuant to Section 2.4(h) hereof if not approved in advance by Buyer (which approval shall not be unreasonably withheld or delayed), or (iv) preclude Sellers from instituting or completing any program designed to promote compliance or comply with Laws or other good business practices respecting the Plant.

Section 6.4 Environmental Matters .

(a) Remediation of Existing Soils Contamination . Subject to the terms and conditions of this Agreement, including but not limited to the terms and conditions of this Section, Sellers shall remain responsible for the cost and performance of Remediation Measures. In addition, subject to Section 6.4(b), the Sellers may undertake such Remediation Measures when and as they reasonably determine are required under Environmental Law or which they otherwise reasonably believe are appropriate. Notwithstanding the foregoing, Sellers shall have no obligation to undertake Remediation Measures in respect of environmental conditions that are excluded from Sellers' Environmental Obligations by virtue of the provisos to Section 1.1(r) and neither shall the Sellers have any responsibility for the cost or performance of Remediation Measures undertaken by the Buyer, any Buyer Subsidiary or any Affiliate of Buyer or of any Buyer Subsidiary, except to the extent such costs are included in Losses (as defined in Section 12.3(a)) for which Buyer or such Buyer Subsidiary is entitled to indemnification under Article 12. With respect to any Remediation Measure undertaken by Sellers pursuant to the first sentence of this paragraph, Sellers shall be deemed to have discharged such undertaking and their obligation with respect thereto whenever they have paid the cost of such Remediation Measure and they have either received written notice from the pertinent Governmental Body or Bodies that no further material Remediation Measures are then required with respect to the Existing Soils Contamination in question or, if such Governmental Body or Bodies have not responded within a reasonable time to Sellers' request for such written notice, whenever Sellers have reasonably and in good faith determined that no such further material Remediation Measures are then required.

(b) Performance of Work . Prior to commencing any Remediation Measures after the Closing or presenting after the Closing any plan for Remediation Measures to any Governmental Body having jurisdiction over such Remediation Measures or to any Person making a Third Party Claim for which Sellers are responsible under the provisions of Article 12, the Sellers Group shall meet and consult with Buyer in good faith concerning such Remediation Measures or plan, as the cases may be. In connection with the performance of any Remediation Measures by Sellers, the Sellers Group shall:

(i) Provide Buyer with reasonable notice of any meetings with any such Governmental Body or any such other Person to afford Buyer or its representatives the right to participate in such meetings, and provide Buyer with copies of all correspondence and documents (hard copy or electronic) to and from such Governmental Body or other Person;

(ii) Provide the Buyer with a reasonable opportunity to preview and comment upon any submissions the Sellers Group plans to deliver or submit to any such Governmental Body or any such other Persons and

incorporate Buyer's requests which are reasonably justified to avoid adverse impact in accordance with paragraph (iii) below;

(iii) Meet and consult with the Buyer in good faith over the time, manner and conditions for the completion of the Remediation Measures, so as to avoid, to the extent reasonably practicable and consistent with the effective, economical, efficient and timely completion of the Remediation Measures, unreasonable interference with business conducted or planned to be conducted at the site in question;

(iv) Except to the extent that exigencies require shorter or no notice, provide the Buyer with five business Days' prior notice (which may be oral) of material action to be taken at the site in question in connection with Remediation Measures undertaken by Sellers, and permit Buyer the opportunity to have its representatives present to observe such Remediation Measures and take and/or receive from Sellers samples of removed and adjacent materials;

(v) Properly dispose of all Hazardous Materials removed from the soil or groundwater of the site in question in connection with such Remediation Measures, Sellers hereby agreeing that they shall be deemed to be the "owner," "operator," "generator," or other Person responsible for "arranging for the transportation" of such Hazardous Materials and "in charge" of the "facility" for such purposes, as such terms are defined in applicable Environmental Laws, and further agreeing that no such removed Hazardous Materials shall be stored on any real estate included in the Assets for longer than is reasonably necessary (which may, if necessary, include time to characterize such materials and arrange for disposal);

(vi) Defend and protect the site in question, and indemnify the Buyer, any applicable Buyer Subsidiary and any applicable lender from the imposition of any lien of contractors and subcontractors performing work in connection with the Remediation Measures;

(vii) Be responsible for, and indemnify, defend and protect Buyer and any applicable Buyer Subsidiary against, any property damage or personal injury incurred by Buyer or such Buyer Subsidiary or any other Person as a result of Remediation Measures conducted by or under the auspices of Sellers except to the extent that such damage or injury is caused by or results from or arise out of any negligence or intentional misconduct of Buyer or any Buyer Subsidiary; and

(viii) After completion of any remediation project, make reasonable efforts to restore the surface of the site involved to a condition substantially similar to its condition prior to the performance of the Remediation Measures, subject to any intervening changes in surface conditions not caused by such Remediation Measures.

(ix) Retain a reputable environmental consulting firm for the purpose of consulting upon such Remediation Measures;

(x) Comply with all applicable Law, including Laws relating to worker safety; and

(xi) Permit the Buyer to have one or more representatives present to observe physical work conducted at the Plant or Owned Real Properties in the course of carrying out such Remediation Measures, and provide Buyer with reasonable access to and copies of records concerning the performance of such physical work, including copies of all correspondence to and from pertinent Governmental Bodies.

(c) Buyer Covenants . With respect to Sellers' rights and obligations in respect of Remediation Measures, Buyer agrees as follows:

(i) It will grant to Sellers any easements or licenses (in recordable form, and in form and substance reasonably acceptable to Sellers or as required by Governmental Bodies) allowing Sellers and their representatives and agents, at any time, to enter upon the real property included in the Assets after reasonable notice and shall have reasonable use of all facilities or equipment located thereon and to install equipment for the purpose of performing the Remediation Measures and carrying out their rights and obligations under this Section 6.4, and it will not relocate, disturb or interfere with such equipment or the performance of such Remediation Measures in compliance with the provisions of this Section 6.4;

(ii) It will provide Sellers and their representatives and agents with reasonable access to environmental and other relevant records respecting the site for the purpose of carrying out such Remediation Measures subject to reasonable confidentiality agreements and will provide Sellers with copies of all material correspondence and communications with Governmental Bodies about Existing Soils Contamination and Remediation Measures or otherwise pertaining to Sellers' Environmental Obligations;

(iii) It will not submit, or cause to be submitted, to any Governmental Body any information or comments concerning any Existing Soils Contamination or Remediation Measures undertaken by Sellers except for information routinely submitted to Governmental Bodies or as may be otherwise required by Law nor will it urge a Governmental Body to require more expensive or stringent remediation than reasonably required to protect health or the environment; and

(iv) It will consult with Sellers in good faith prior to extracting, excavating or removing any soil or groundwater at the Plant or otherwise disturbing or disrupting the same and will otherwise make reasonable efforts to avoid taking any action, and will take reasonable steps to cause others to avoid taking any action, that will increase or accelerate any of Sellers' Environmental Obligations hereunder including with respect to Remediation Measures, it being understood, however that nothing herein shall prohibit Buyer from engaging in any modifications of the Assets which Buyer deems desirable.

Section 6.5 Skookumchuck Dam. Sellers shall not convey to others the Skookumchuck Dam or any rights with respect to the reservoir formed by such dam, without reserving for the benefit of the Plant and the Assets, and the owners from time to time thereof, the level of flow therefrom as the Sellers now enjoy for the benefit of the Plant. The form and substance of any such rights shall be subject to the approval of Buyer, which shall not be unreasonably withheld.

Section 6.6 Curing of Title Defects. Sellers shall seek diligently to cure prior to Closing any material defects in title to real property other than those permitted by clauses (a), (b) and (c) of Section 8.6, provided Sellers shall not be obligated to expend in the aggregate more than $1,000,000 in connection with effecting any such cures. In addition, Sellers shall remove of record on or before Closing any liens, defects or encumbrances which evidence or secure any obligations for payment of money, without regard to the limitations set forth in the previous sentence.

Section 6.7 COBRA. Sellers agree to retain the obligation to provide continuation coverage pursuant to the provisions of the Consolidated Omnibus Budget Reconciliation Act, as amended ("COBRA"), for any individual with respect to whom a "qualifying event", as defined under COBRA, has occurred on or prior to the Closing Date.

Section 6.8 WARN Act. As of the Closing Date Sellers shall terminate the employment of all employees whose principal work location is at the Plant. Sellers agree to be responsible for giving notice of such termination under the WARN Act and to be solely responsible for all wages and compensation earned or accrued prior to the Closing Date or payable on account of termination, including without limitation any amount attributable to the period for which a WARN Act notice was required but not given.

Section 6.9 Transition Services . PacifiCorp agrees to provide the transition services delineated on Schedule 6.9 for a period up to 90 days after the Closing Date with all reasonable expenses paid by Buyer.

Section 6.10 Benefit Plans

(a) With respect to any Transferred Employee or Union Employee who meets the age and service requirements for eligibility for benefits under the retiree welfare benefit plans of PacifiCorp (referred to in the aggregate as "Retiree Benefit Plans"), as of the Closing Date or who will meet such age and service requirements before the end of the current term of the Collective Bargaining Agreement covering such employee ("Eligible Employees"). Buyers shall provide, and shall recover, the cost of providing benefits to Eligible Employees as set forth in (b) below. Sellers shall retain the obligation of providing benefits to former employees who have retired prior to the Closing Date.

(b) Buyer shall assume the obligation of Sellers to provide benefits under the Retiree Benefit Plans to Eligible Employees. The Purchase Price under Section 2.6 has been reduced by U.S. $1,100,000 in the aggregate for this Agreement and for the Centralia Coal Mine Purchase and Sale Agreement of even date herewith. Buyer shall indemnify and hold harmless Sellers from any claim by such Eligible Employees for benefits provided by the Retiree Benefit Plans.

ARTICLE 7
ADDITIONAL COVENANTS OF BUYER

Section 7.1 Waiver of Bulk Sales Law Compliance . Subject to the indemnification provisions of Section 12.3(a)(iii) hereof, Buyer hereby waives compliance by Sellers with the requirements, if any, of Article 6 of the Uniform Commercial Code as in force in any state in which Assets are located and all other similar Laws applicable to bulk sales and transfers.

Section 7.2 Resale Certificate . Buyer agrees, and will cause each Buyer Subsidiary, to furnish to Sellers any resale certificate or certificates or other similar documents reasonably requested by Sellers to comply with pertinent sales and use tax Laws.

Section 7.3 Conduct Pending Closing . Prior to consummation of the transactions contemplated hereby or the termination or expiration of this Agreement pursuant to its terms, unless Sellers shall otherwise consent in writing, which consent shall not be unreasonably withheld or delayed, and except for actions which are required by Law or arise from or are related to the anticipated transfer of the Assets, Buyer shall not take any action which would cause any of Buyer's representations and warranties set forth in Article 4 to be materially false as of the Closing.

Section 7.4 Securities Offerings . Buyer hereby agrees to indemnify and hold harmless Sellers and each of them, and the Affiliates of Sellers and each of them, in accordance with the provisions of Section 12.4(a)(ii), against any and all Losses, as incurred, arising out of the offer or sale by Buyer or any Buyer Subsidiary of securities, except to the extent that such Loss arises from any untrue statement or alleged untrue statement of a material fact contained in any such securities offering materials or prospectus used by Buyer or any Buyer Subsidiary or its or their representatives, or from the omission or alleged omission therefrom of a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, which untrue or alleged untrue statement or omission or alleged omission is made in reliance upon and in conformity with written information furnished to Buyer by Sellers under a cover letter from Sellers' counsel stating that such information is expressly for use in such offering materials or prospectus.

Section 7.5 Release . Without limiting Sellers' obligations hereunder, under any Related Agreement or under any other agreement contemplated hereby, including without limitation their obligations under Section 6.4 and Article 12, Buyer on behalf of itself and each Buyer Subsidiary hereby waives its right to recover from Sellers and each of them, and forever releases and discharges and indemnifies and holds harmless Sellers and each of them, from and against any and all damages, claims, losses, liabilities, penalties, fines, liens, judgments, costs, or expenses whatsoever (including, without limitation, attorneys' fees and costs), whether direct or indirect, known or unknown, foreseen or unforeseen, that may arise on account of or in any way be connected with the application of any Environmental Law to Sellers' ownership, possession, use or operation of the Assets.

ARTICLE 8
BUYER'S CONDITIONS TO CLOSING

The obligations of Buyer to consummate the transactions contemplated with respect to the Plant and the Assets and Assumed Liabilities related thereto shall be subject to fulfillment at or prior to the Closing of the following conditions, unless Buyer waives in writing such fulfillment.

Section 8.1 Performance of Agreement . Except for such matters which individually and in the aggregate do not have a Material Adverse Effect on the Plant or on the Assets, Sellers shall have performed in all material respects their agreements and obligations contained in this Agreement required to be performed on or prior to the Closing.

Section 8.2 Accuracy of Representations and Warranties . The representations and warranties of Sellers set forth in Article 3 of this Agreement shall be true in all material respects as to the Assets in question and as of the date of this Agreement (unless the inaccuracy or inaccuracies which would otherwise result in a failure of this condition have been cured as

of the Closing) and as of the Closing (as updated by the revising of Schedules contemplated by Section 6.2) as if made as of such time, provided that any such update shall not have disclosed any change in the physical condition, ownership, or transferability of the Assets that would have a Material Adverse Effect on the Assets.

Section 8.3 Officers' Certificate . Buyer shall have received from Sellers an officers' certificate, executed on behalf of each Seller by its chief executive officer, president, superintendent, general manager, vice president, chief financial officer or treasurer (in his or her capacity as such) dated the Closing Date and stating that to the Knowledge of such individual, the conditions in Sections 8.1 and 8.2 above have been met with respect to such Seller.

Section 8.4 Approvals . The waiting period under the HSR Act shall have expired or been terminated, and all approvals, consents, authorizations and waivers from Governmental Bodies (as delineated on Schedule 4.4(b)) and all approvals, consents, authorizations and waivers from other third parties (collectively "Approvals") required for Sellers to transfer the Assets and for Buyer to purchase the Assets and operate the Plant materially in accordance with the manner in which it was operated by Sellers prior to the Closing, shall have been obtained.

Section 8.5 No Restraint . There shall be no:

(a) Injunction, restraining order or order of any nature issued by any court of competent jurisdiction or Governmental Body which directs that the transactions contemplated hereby shall not be consummated as herein provided or compels or would compel Buyer to dispose of or discontinue, or materially restrict the operations of, the Plant or any significant portion of the Assets with respect thereto as a result of the consummation of the transactions contemplated hereby;

(b) Suit, action or other proceeding by any Governmental Body pending or threatened (pursuant to a written notification), wherein such complainant seeks the restraint or prohibition of the consummation of the transactions contemplated hereby or seeks to compel, or such complainant's actions would compel, Buyer to dispose of or discontinue, or materially restrict the operations of, the Plant or any significant portion of the Assets as a result of the consummation of the transactions contemplated hereby; or

(c) Action taken, or Law enacted, promulgated or deemed applicable to the transactions contemplated hereby, by any Governmental Body which would render the purchase and sale of the Plant illegal or which would threaten the imposition of any penalty or material economic detriment upon Buyer if such purchase and sale were consummated;

Provided that the Parties shall use their reasonable efforts to litigate against, and to obtain the lifting of, any such injunction, restraining or other order, restraint, prohibition, action, suit, Law or penalty.

Section 8.6 Title Insurance . Title to Assets comprised of interests in real property shall have been evidenced by the willingness (evidenced as set forth below) of Stewart Title Company (or an Affiliate thereof) or other title company mutually acceptable to the parties (the "Title Insurer") to issue at regular rates ALTA owner's, or lessee's, as the case may be, extended coverage policies of title insurance (1990 Form B) (the "Title Policies"), with the general survey and creditors' rights exceptions removed, in amounts equal to the respective portions of the Plant Purchase Price allocated to such interests, showing title to such interests in such real property vested in Buyer or the pertinent Buyer Subsidiary subject to transfer of such interest to Buyer or the pertinent Buyer Subsidiary. Such Title Policies shall show title vested in Buyer or the pertinent Buyer Subsidiary, subject only to:

(a) A lien or liens to secure payment of real estate taxes not delinquent;

(b) Exceptions disclosed by the current standard ALTA Preliminary Title Reports and surveys, delivered to and approved (except as shown on Schedule 8.6(b)) by Buyer prior to the Closing Date (as indicated by Buyer's signature of approval appended thereto);

(c) Matters created by, or with the consent of, Buyer; and

(d) Other possible matters that in the aggregate are not substantial in amount and do not materially detract from or interfere with the present or intended use of such real property, including such minor matters as may be disclosed by surveys taken after the date hereof.

The willingness of the Title Insurer to issue the Title Policies shall be evidenced either by the issuance thereof at the Closing or by the Title Insurer's delivery of written commitments or binders, dated as of the Closing, to issue such Title Policies within a reasonable time after the Closing Date, subject to actual transfer of the real property in question. If the Title Insurer is unwilling to issue any such Title Policy, it shall be required to provide Buyer and Sellers, in writing, notice setting forth the reason(s) for such unwillingness as soon as practicable. Sellers shall have the right to seek to cure any defect which is the reason for such unwillingness, and to extend the Closing and the Termination Date, if necessary, for a period of up to ten Business Days to provide to Sellers the opportunity to cure. In the event that, despite Sellers' efforts to cure, the Title Insurer remains unwilling to issue any such Title Policy on the Closing Date (as may be extended as provided herein), then Buyer, at its option, may terminate this Agreement. Notwithstanding the foregoing, Buyer or the pertinent Buyer Subsidiary may accept such title to any such property interests as the Sellers may be able to convey, and such

title insurance with respect to the same as the Title Insurer is willing to issue, in which case such interests shall be conveyed as part of the Assets without reduction of the Purchase Price or any credit or allowance against the same and without any other liability on the part of Sellers.

Section 8.7 Related Agreements . Sellers shall have executed and delivered, effective upon consummation of the Closing, each of the Related Agreements.

Section 8.8 Casualty; Condemnation .

(a) Casualty . If any part of the Plant is damaged or destroyed (whether by fire, theft, vandalism or other casualty) in whole or in part prior to the Closing, and the fair market value of the damaged Assets or destruction or the cost of repair of the Assets that were damaged, lost or destroyed is less than 15 percent of the aggregate Plant Purchase Price, the Sellers Group shall, at its option, either (i) reduce the Plant Purchase Price by the lesser of the fair market value of the Assets damaged or destroyed (such value to be determined as of the date immediately prior to such damage or destruction), or the estimated cost to repair or restore the same, (ii) upon the Closing, transfer the proceeds or the rights to the proceeds of applicable insurance to Buyer, provided that the proceeds or the rights to the proceeds are obtainable without delay and are sufficient to fully restore the damaged Assets, or (iii) repair or restore such damaged or destroyed Assets and, at Sellers' election, delay the Closing and the Termination Date for a reasonable time necessary to accomplish the same. If any part of the Assets related to the Plant are damaged or destroyed (whether by fire, theft, vandalism or other cause or casualty) in whole or in part prior to the Closing and the lesser of the fair market value of such Assets or the cost of repair is greater than 15 percent of the aggregate Plant Purchase Price, then Buyer may elect to terminate this Agreement or require Sellers upon the Closing to transfer the proceeds (or the right to the proceeds) of applicable insurance to Buyer and Buyer may restore or repair the Assets.

(b) Condemnation . From the date hereof until the Closing, in the event that any material portion of the Plant becomes subject to or is threatened with any condemnation or eminent domain proceedings, then Buyer, at its option, may, (i) if such condemnation, if successful, would not practically preclude the operation of the balance of the Plant for the purposes for which it was intended, elect to terminate this Agreement with respect only to that part which is condemned or threatened to be condemned with a reduction in the Purchase Price determined as provided in Section 8.8(a) above, or (ii) if such condemnation, if successful, would practically preclude the operation of the balance of the Plant for purposes for which it is intended, elect to terminate this Agreement.

Section 8.9 Opinion of Counsel . Buyer shall have received, on and as of the Closing Date, a closing opinion in respect to this Agreement and the Related Agreements of either inside or outside counsel for each Seller, subject to customary conditions and limitations.

Section 8.10 Receipt of Other Documents . Buyer shall have received the following:

(a) Certified copies of the resolutions of each of Seller's board of directors or governing bodies respecting this Agreement, the Related Agreements and any other agreement contemplated hereby;

(b). Certified copies of each Seller's Charter Documents, together with a certificate of the corporate secretary (or equivalent official of Sellers that are public agencies) of each Seller that none of such documents have been amended;

(c) One or more certificates as to the incumbency of each officer of a Seller who has signed this Agreement, any Related Agreement, any other agreement contemplated hereby, or any certificate, document or instrument delivered pursuant to this Agreement, any Related Agreement or any other agreement contemplated hereby;

(d) A good standing certificate for each Seller which is a corporation from the Secretary of State of the state of its incorporation, dated as of a date not earlier than 15 Business Days prior to the Closing Date; and

(e) Copies of all current Licenses relevant to operation of the Plant and all third party and Governmental Body consents, permits and authorizations that Sellers has received in connection with this Agreement, the Related Agreements, any other agreement contemplated hereby and the transactions contemplated hereby and thereby to occur at the Closing; and

(f) All other documents, instruments and writings required to be delivered to Buyer at or prior to Closing pursuant to the Agreement and such other certificates of authority and documents as Buyer reasonably requests.

Section 8.11 Limitation on Adjustments . There shall not have been an increase to the Plant Purchase Price arising under Section 2.6(e) exceeding in the aggregate 5 percent of the aggregate Plant Purchase Price.

Section 8.12 RACT Orders . The RACT Order shall be in effect and Sellers shall be in compliance with the provisions of the RACT Order or shall have obtained an extension of the applicable material provisions of the RACT Order.

Section 8.13 Transmission and Interconnection Agreements . Bonneville Power Administration shall have offered to Buyer interconnection and transmission agreements with respect to the power generated at the Plant, on terms and conditions typical in transactions of this type.

Section 8.14 All Sellers . All of the Persons constituting Sellers shall have delivered all documents, instruments and writings required to be delivered to Buyer at or prior to Closing pursuant to this Agreement and none of the Persons constituting Sellers shall have retained any right, title or interest in any of the Assets.

Section 8.15 Material Adverse Effect . There shall not have been an impairment of any Asset, as a result of a degradation of its physical condition, a change in Law, or provision of any approval that could reasonably be expected to have a Material Adverse Effect on Buyer's ability to operate the Assets.

Section 8.16 Transmission Arrangements . Transmission Arrangements shall have been entered into on a basis reasonably acceptable to the parties.

Section 8.17 Centralia Coal Mine Sale . The closing of the sale of the Centralia Coal Mine to the Buyer or an Affiliate of the Buyer shall have occurred.

Section 8.18 Title . Title reports and surveys shall have established that the Owned Real Property and Easements constitute all real property that is necessary for the ownership and operation of the Plant pursuant to good industry practices and that Sellers have good, valid and marketable title to such real property free and clear of all liens, mortgages, deed restrictions, charges, claims, pledges, security interests, equities and encumbrances that could materially affect the value of such real property or the use of such real property in connection with the ownership and operation of the Plant.

ARTICLE 9
SELLERS' CONDITIONS TO CLOSING

The obligations of Sellers to consummate the transactions contemplated hereby with respect to the Plant and the Assets and Assumed Liabilities related thereto shall be subject to the fulfillment at or prior to the Closing of the following conditions, unless Sellers waives in writing such fulfillment.

Section 9.1 Performance of Agreement . Buyer shall have performed in all material respects its agreements and obligations contained in this Agreement required to be performed on or prior to the Closing.

Section 9.2 Accuracy of Representations and Warranties . The representations and warranties of Buyer set forth in Article 4 of this Agreement shall be true in all material respects as of the date of this Agreement (unless the inaccuracy or inaccuracies which would otherwise result in a failure of this condition have been cured by the Closing) and as of the Closing as if made as of such time.

Section 9.3 Officers' Certificate . Sellers shall have received from Buyer an officers' certificate, executed on Buyer's behalf by its chief executive officer, president, chief financial officer or treasurer (in his or her capacity as such) dated the Closing Date and stating that to the Knowledge of such individual, the conditions in Sections 9.1 and 9.2 above have been met.

Section 9.4 Approvals . The waiting period under the HSR Act shall have expired or been terminated, and all approvals, consents, authorizations and waivers from Governmental Bodies as delineated on Schedule 3.3(b) shall have been obtained in form and substance (including the regulatory treatment and financial impacts thereof) satisfactory to each Seller affected by any such approval in its reasonable discretion. All approvals, consents, authorizations and waivers from other third parties required for Sellers to transfer the Assets and for Buyer to purchase the Assets shall have been obtained.

Section 9.5 No Restraint . There shall be no:

(a) Injunction, restraining order or order of any nature issued by any court of competent jurisdiction or Governmental Body which directs that the transactions contemplated hereby shall not be consummated as herein provided;

(b) Suit, action or other proceeding by any Governmental Body pending or threatened (pursuant to a written notification), wherein such complainant seeks the restraint or prohibition of the consummation of the transactions contemplated hereby or otherwise constrains consummation of such transactions on the terms contemplated herein; or

(c) Action taken, or Law enacted, promulgated or deemed applicable to the transactions contemplated hereby, by any Governmental Body which would render the purchase and sale of the Plant and related Assets illegal or which would threaten the imposition of any penalty or material economic detriment upon Sellers if such transactions were consummated;

Provided that the Parties will use their reasonable efforts to litigate against, and to obtain the lifting of, any such injunction, restraining or other order, restraint, prohibition, action, suit, Law or penalty.

Section 9.6 Related Agreements . Buyer and each pertinent Buyer Subsidiary shall have executed and delivered, effective upon consummation of the Closing, each of the Related Agreements.

Section 9.7 Opinion of Counsel . Sellers shall have received, on and as of the Closing Date, a customary closing opinion in respect to this Agreement and the Related Agreements of outside counsel to Buyer, subject to customary conditions and limitations.

Section 9.8 Receipt of Other Documents . Sellers shall have received the following:

(a) Certified copies of the resolutions of Buyer's and each pertinent Buyer Subsidiary's board of directors respecting this Agreement, the Related Agreements, any other agreements contemplated hereby and the transactions contemplated hereby, together with certified copies of any shareholder resolutions which are necessary to approve the execution and delivery of this Agreement, the Related Agreements and any other agreement contemplated hereby, or performance of the obligations of Buyer and each pertinent Buyer Subsidiary hereunder and thereunder;

(b) Certified copies of Buyer's and each pertinent Buyer Subsidiary's Charter Documents, together with a certificate of the corporate secretary of Buyer and each pertinent Buyer Subsidiary that none of such documents have been amended;

(c) One or more certificates as to the incumbency of each officer of Buyer and each pertinent Buyer Subsidiary who has signed this Agreement, any Related Agreement, any other agreement contemplated hereby, or any certificate, document or instrument delivered pursuant to this Agreement, any Related Agreement or any other agreement contemplated hereby;

(d) Copies of all current Licenses of Buyer and each pertinent Buyer Subsidiary relevant to operation of the Plant and all third party and Governmental Body consents, permits and authorizations that Buyer and each pertinent Buyer Subsidiary has received in connection with this Agreement, the Related Agreements and any other agreements contemplated hereby; and

(e) All other documents, instruments and writings required to be delivered to Sellers at or prior to Closing pursuant to the Agreement and such other certificates of authority and documents as Sellers reasonably requests.

Section 9.9 Limitation on Adjustments . There shall not have been reductions to the Plant Purchase Price exceeding in the aggregate 30 percent of the aggregate Plant Purchase Price arising pursuant to Section 8.8.

Section 9.10 Guarantee Agreement. A Guarantee Agreement substantially in the form set forth in Schedule 9.10 shall have been executed and delivered to Sellers and shall be in full force and effect.

Section 9.11 Mine Sale. Closing shall have occurred under the Mine Purchase and Sale Agreement.

ARTICLE 10
CLOSING

Section 10.1 Closing . Subject to the terms and conditions hereof, the consummation of the transactions contemplated hereby (the "Closing") shall occur at the offices of Stoel Rives LLC in Portland, Oregon, or a mutually agreeable place or places within five Business Days after all of the conditions set forth in Article 8 and Article 9 hereof have been satisfied or waived or at such other time as the parties may agree, but in no event later than the Termination Date set forth in Section 11.1(d). The date on which the Closing actually occurs is referred to herein as the "Closing Date". The Closing shall be effective for all purposes at 11:59 p.m., Pacific time, on the Closing Date. At the Closing and subject to the terms and conditions hereof, the following will occur:

(a) Deliveries by Sellers . Sellers shall deliver to Buyer such instruments of transfer and conveyance properly executed and acknowledged by Sellers in customary form mutually agreed to by the Sellers and Buyer necessary to transfer to and vest in Buyer or the pertinent Buyer Subsidiaries all of Sellers' right, title and interest in and to the Assets or which may be required by the Title Insurer, including, without limitation:

(i) Bills of Sale and assignment in respect of the Assets;

(ii) Grant deeds properly executed and acknowledged by Sellers with respect to each of the Owned Real Properties included in the Assets;

(iii) Assignment and assumption agreements properly executed and acknowledged by Sellers with respect to each Real Property Lease included in the Assets;

(iv) Instruments of transfer, sufficient to transfer personal property interests that are included in the Assets but not otherwise transferred by the bills of sale and assignment referred to in clause (i) above, properly executed and acknowledged in the form customarily used in commercial transactions in Washington; and

(v) Possession of the Assets which shall include without limitation, keys, codes, passcodes and/or combinations to all locks and vehicles.

(b) Deliveries by Buyer . Buyer shall, or shall cause the Buyer Subsidiaries to, deliver to Sellers immediately available funds, by way of wire transfer to an account designated by Sellers, in an aggregate amount equal to the Plant Purchase Price and such instruments of assumption properly executed and acknowledged by Buyer and the pertinent

Buyer Subsidiaries in customary form mutually agreed to by Buyer and Sellers necessary for Buyer to assume the Assumed Liabilities, including, without limitation:

(i) Assignment and assumption agreements properly executed and acknowledged by Buyer and the pertinent Buyer Subsidiaries with respect to each Real Property Lease included in the Assets; and

(ii) An assumption agreement or assumption agreements in favor of Sellers.

Section 10.2 Escrow . If either the Buyer or the Sellers Group desires to consummate the Closing through an escrow, an escrow shall be opened with, and the escrow agent shall be, the Title Insurer or an Affiliate thereof (the "Escrow Agent"), by depositing a fully executed copy of this Agreement with the Escrow Agent to serve as escrow instructions. This Agreement shall be considered the primary escrow instructions between the parties, but the parties shall execute such additional standard escrow instructions as the Escrow Agent shall require in order to clarify the duties and responsibilities of the Escrow Agent. In the event of any conflict between this Agreement and such additional standard escrow instructions, this Agreement shall prevail. If the Closing is to be consummated through the Escrow Agent, the parties shall deliver the funds, instruments of sale, assignment, conveyance and assumption called for by Section 10.1 to the Escrow Agent, and on the Closing Date, the Escrow Agent shall close the escrow by:

(a) Causing the deeds for the Owned Real Properties, the assignment of the Real Property Leases, and any other documents which the parties may mutually designate to be recorded in the official records of the appropriate counties in which the pertinent Assets are located;

(b) Delivering to Sellers by wire transfer of immediately available funds, to an account or accounts designated by Sellers, the amounts called for Section 10.1; and

(c) Delivering to Buyer or Sellers, as the case may be, the other instruments referred to in Section 10.1.

Section 10.3 Prorations . Items of expense and income (if any) affecting the Assets and the Assumed Liabilities that are customarily pro-rated, including, without limitation, real and personal property taxes, utility charges, charges arising under leases, insurance premiums, and the like, shall be pro-rated between Sellers and Buyer and the pertinent Buyers Subsidiaries as of the Closing Date.

ARTICLE 11
TERMINATION

Section 11.1 Termination . Any transactions contemplated hereby that have not been consummated may be terminated:

(a) At any time, by mutual written consent of the Sellers Group and Buyer; or

(b) By either Buyer or the Sellers Group, as the case may be, upon 30 days' written notice given any time after (i) the issuance of an order by a Governmental Body in a manner that fails to meet the conditions of the terminating party set forth in Sections 8.4 or 9.4, as the case may be, (ii) 180 days have elapsed from the filing after the date hereof of all applications for approval of this Agreement and the transactions contemplated hereby by Governmental Bodies and a final order has not been obtained with respect to each such Application, it being understood that such 180-day period shall not include any period after such order during which applications for rehearing or modification or judicial appeals or remedies are pending; or

(c) By one Party upon written notice to the other if there has been a material default or breach under this Agreement by another party which is not cured by the earlier of the Closing Date or the date 30 days after receipt by the other party of written notice from the terminating party specifying with particularity such breach or default; or

(d) By either Buyer or the Sellers Group upon written notice to the other Party, if (i) the Closing shall not have occurred by the Termination Date; or (ii) (A) in the case of termination by the Sellers Group, the conditions set forth in Article 9 for the Closing cannot reasonably be met by the Termination Date and (B) in the case of termination by Buyer, the conditions set forth in Article 8 for the Closing cannot reasonably be met by the Termination Date, unless in either of the cases described in clauses (A) or (B), the failure of the condition is the result of the material breach of this Agreement by the party seeking to terminate. The Termination Date for the Closing shall be the date that is twelve months from the date hereof. Such date, or such later date as may be specifically provided for in this Agreement (including any date arising under operation of Sections 8.6 and 8.8(a) hereof) or agreed upon by the parties, is herein referred to as the "Termination Date." Each Party's right of termination hereunder is in addition to any other rights it may have hereunder or otherwise.

Section 11.2 Effect of Termination . If there has been a termination pursuant to Section 11.1, then this Agreement shall be deemed terminated, and all further obligations of the parties hereunder shall terminate, except that the obligations set forth in Sections 5.3, 5.4, 11.1(b) and in Articles 12 and 13.9 shall survive. In the event of such termination of this

Agreement, there shall be no liability for damages on the part of a party to another under and by reason of this Agreement or the transactions contemplated hereby except as set forth in Article 12 and except for intentionally fraudulent acts by a party, the remedies for which shall not be limited by the provisions of this Agreement. The foregoing provisions shall not, however, limit or restrict the availability of specific performance or other injunctive or equitable relief to the extent that specific performance or such other relief would otherwise be available to a party hereunder.

Section 11.3 Modification of Terms . In the event any Governmental Body entertains, as an alternative to approval of this Agreement, the Related Agreements and any other agreement contemplated hereby, any proposal of one or more third parties to acquire the Assets from Sellers on terms and conditions that include a higher purchase price than the Purchase Price set forth herein, and such terms and conditions are acceptable to Sellers, then and in that event, subject to such restrictions and requirements as such Governmental Body may impose upon Sellers, Sellers shall exercise their best efforts to afford to Buyer the right to enter into appropriate amendments and modifications of this Agreement to match such proposed alternate terms and conditions. Buyer shall be entitled to exercise such right by delivery of written notice thereof to Sellers within three Business Days after its receipt of written notice from Sellers that, in Sellers' good faith belief, the proposals of such third party or parties makes it unlikely that such Governmental Body will approve this Agreement and the transactions contemplated hereby in a timely fashion and that the alternate terms and conditions are acceptable to Sellers. If such right is not exercised and such Governmental Body proceeds to decline to grant its approval, the termination provisions of Section 11.1 shall apply.

ARTICLE 12
SURVIVAL AND REMEDIES; INDEMNIFICATION

Section 12.1 Survival . Except as may be otherwise expressly set forth in this Agreement, the representations, warranties, covenants and agreements of Buyer and Sellers set forth in this Agreement, or in any writing required to be delivered in connection with this Agreement, shall survive the Closing Date.

Section 12.2 Exclusive Remedy . Absent intentional fraud or unless otherwise specifically provided herein, the sole exclusive remedy for damages of a party hereto for any breach of the representations, warranties, covenants and agreements of the other party contained in this Agreement shall be the remedies contained in this Article 12.

Section 12.3 Indemnity by Sellers .

(a) Sellers shall indemnify and hold harmless Buyer, each Buyer Subsidiary, and each Affiliate of Buyer or any Buyer Subsidiary from and against any and all claims, demands, suits, losses, liabilities, damages and expenses, including reasonable attorneys' fees and costs of investigation, litigation, settlement and judgment, and including any costs and expenses incurred by any such Indemnitee as a result or arising out of any obligation or election (whether arising out of or in connection with any Law, any contract, any Charter Document, or otherwise) of any such Indemnitee to indemnify its directors, officers, attorneys, employees, subcontractors, agents and assigns (collectively "Losses"), which they or any of them may sustain or suffer or to which they or any of them may become subject as a result of:

(i) The inaccuracy of any representation or the breach of any warranty made by Sellers in this Agreement;

(ii) The nonperformance or breach of any covenant or agreement made or undertaken by Sellers in this Agreement; and

(iii) If the Closing occurs, the failure of Sellers to pay, discharge or perform, as and when due, any of the Excluded Liabilities (including, without limitation, the Excluded Liabilities enumerated in Sections 2.4 (b), (c), (d) and (f)).

(iv) If the Closing occurs, the ongoing operations of Sellers (including in respect of the Excluded Assets and Excluded Liabilities) after the Closing Date.

(b) The indemnification obligations of Sellers provided above shall, in addition to the qualifications and conditions set forth in Sections 12.5 and 12.6, be subject to the following qualifications with respect to claims of indemnity for Losses:

(i) Written notice to Sellers of such claim specifying the basis thereof must be made, or an action at law or in equity with respect to such claim must be served, before the second anniversary of the earlier to occur of the Closing Date or the date on which this Agreement is terminated, as the case may be, except that such time limitation shall not apply to breaches of the covenants contained in Sections 6.7 or 6.10;

(ii) If the Closing occurs, Buyer, the Buyer Subsidiaries and their respective Affiliates shall be entitled only to recover the amount by which the aggregate Losses sustained or suffered by them exceed one percent of the Purchase Price (the "Deductible Amount"), provided, however, that individual claims of $5,000 or less shall not be aggregated for purposes of calculating either the Deductible Amount or the excess of Losses over the Deductible Amount and Buyer shall be entitled to recover on a dollar for dollar basis all claims for Losses covered under insurance maintained by Sellers; provided further that recovery of Losses sustained or suffered as a result of Sellers' failure to perform under Sections 6.4, 6.7 or 6.10 shall not be limited by the foregoing provision; and

(iii) If the Closing occurs, in no event shall Sellers and their Affiliates be liable to Buyer, the Buyer Subsidiaries and their respective Affiliates for Losses in the nature of consequential damages, incidental damages, indirect damages, punitive damages, special damages, lost profits, damage to reputation or the like, but such damages shall be limited to out-of-pocket Losses and diminution in value and damages for all Losses shall be limited to an aggregate limit under this Agreement and the Related Agreements and the Transmission Arrangements of $556,000,000.

(c) The liability of the Sellers under this Agreement shall be several and not joint or collective and no individual Seller shall be jointly or severally liable for the acts, omissions or obligations of any other Seller.

Section 12.4 Indemnity by Buyer .

(a) Buyer shall indemnify and hold harmless Sellers and each of them, and each Affiliate of Sellers or any of them, from and against any and all Losses which they or any of them may sustain or suffer or to which they may become subject as a result of:

(i) The inaccuracy of any representation or the breach of any warranty made by Buyer in this Agreement;

(ii) The nonperformance or breach of any covenant or agreement made or undertaken by Buyer in this Agreement;

(iii) If the Closing occurs, the failure of Buyer to pay, discharge or perform as and when due, any of the Assumed Liabilities; and

(iv) If the Closing occurs, the ongoing operations of Buyer, the Buyer Subsidiaries and the Assets after the Closing Date, including, without limitation, the continuation or performance by Buyer or the Buyer Subsidiaries after the Closing Date of any agreement or practice of Sellers.

(b) The indemnification obligations of Buyer provided above shall, in addition to the qualifications and conditions set forth in Sections 12.5 and 12.6, be subject to the following qualifications:

(i) Sellers and their Affiliates shall not be entitled to indemnity for Losses unless written notice to Buyer of such claim specifying the basis thereof is made, or an action at law or in equity with respect to such claim is served, before the second anniversary of the earlier to occur of the Closing Date or the date on which this Agreement is terminated, as the case may be;

(ii) If the Closing occurs, Sellers and their Affiliates shall be entitled only to recover the amount by which the aggregate Losses suffered or sustained by them exceed the Deductible Amount, provided, however, that individual claims of $5,000 or less shall not be aggregated for purposes of calculating either the Deductible Amount or the excess of Losses over the Deductible Amount; and

(iii) If the Closing occurs, in no event shall Buyer and its Affiliates be liable to Sellers or their respective Affiliates for Losses in the nature of consequential damages, incidental damages, indirect damages, punitive damages, special damages, lost profits, damage to reputation or the like, but such damages shall be limited to out-of-pocket Losses and diminution in value and all Losses shall be limited to an aggregate limit under this Agreement and the Related Agreements and the Transmission Arrangements of $556,000,000.

Section 12.5 Further Qualifications Respecting Indemnification . The right of a party (an "Indemnitee") to indemnity hereunder shall be subject to the following additional qualifications:

(a) The Indemnitee shall promptly upon its discovery of facts or circumstances giving rise to a claim for indemnification, including receipt by it of notice of any demand, assertion, claim, action or proceeding, judicial, governmental or otherwise, by any third party (such third party actions being collectively referred to herein as "Third Party Claims"), give notice thereof to the indemnifying party (the "Indemnitor"), such notice in any event to be given within 60 days from the date the Indemnitee obtains actual knowledge of the basis or alleged basis for the right of indemnity or such shorter period as may be necessary to avoid material prejudice to the Indemnitor provided, however, the failure to provide or timely provide the Indemnitor with notice of any Third Party Claim shall only affect the Indemnitee's rights to indemnification to the extent that the Indemnitor is materially prejudiced as a result of the Indemnitee's failure to give timely notice of such Third Party Claim; and

(b) In computing Losses, such amounts shall be computed net of any related recoveries to which the Indemnitee is entitled under insurance policies, or other related payments received or receivable from third parties, and net of any tax benefits actually received by the Indemnitee or for which it is eligible, taking into account the income tax treatment of the receipt of indemnification.

Section 12.6 Procedures Respecting Third Party Claims . In providing notice to the Indemnitor of any Third Party Claim (the "Claim Notice"), the Indemnitee shall provide the Indemnitor with a copy of such Third Party Claim or other documents received and shall otherwise make available to the Indemnitor all relevant information material to the defense of such claim and within the Indemnitee's possession. The Indemnitor shall have the right, by notice given to the Indemnitee within 15 days after the date of the Claim Notice, to assume and control the defense of the Third Party Claim that is the subject of such Claim Notice, including the employment of counsel selected by the Indemnitor after consultation with the Indemnitee, and the Indemnitor shall pay all expenses of, and the Indemnitee shall cooperate fully with the Indemnitor in connection with, the conduct of such defense. The Indemnitee shall have the right to employ separate counsel in any such proceeding and to participate in (but not control) the defense of such Third Party Claim, but the fees and expenses of such counsel shall be borne by the Indemnitee unless the Indemnitor shall agree otherwise; provided, however, if the named parties to any such proceeding (including any impleaded parties) include both the Indemnitee and the Indemnitor, the Indemnitor requires that the same counsel represent both the Indemnitee and the Indemnitor, and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them, then the Indemnitee shall have the right to retain its own counsel at the cost and expense of the Indemnitor. If the Indemnitor shall have failed to assume the defense of any Third Party Claim in accordance with the provisions of this Section, then the Indemnitee shall have the absolute right to control the defense of such Third Party Claim, and, if and when it is finally determined that the Indemnitee is entitled to indemnification from the Indemnitor hereunder, the fees and expenses of Indemnitee's counsel shall be borne by the Indemnitor, provided that the Indemnitor shall be entitled, at its expense, to participate in (but not control) such defense.

The Indemnitor shall have the right to settle or compromise any such Third Party Claim for which it is providing indemnity so long as such settlement does not impose any obligations on the Indemnitee (except with respect to providing releases of the third party). The Indemnitor shall not be liable for any settlement effected by the Indemnitee without the Indemnitor's consent except where the Indemnitee has assumed the defense because Indemnitor has failed or refused to do so. The Indemnitor may assume and control, or bear the costs, of any such defense subject to its reservation of a right to contest the Indemnitee's right to indemnification hereunder, provided that it gives the Indemnitee notice of such reservation within 15 days of the date of the Claim Notice.

ARTICLE 13
GENERAL PROVISIONS

Section 13.1 Notices . All notices, requests, demands, waivers, consents and other communications hereunder shall be in writing, shall be delivered either in person, by telegraphic, facsimile or other electronic means, by overnight air courier or by mail, and shall be deemed to have been duly given and to have become effective (a) upon receipt if delivered in person or by telegraphic, facsimile or other electronic means, (b) one (1) Business Day after having been delivered to an air courier for overnight delivery or (c) three (3) Business Days after having been deposited in the U.S. mails as certified or registered mail, return receipt requested, all fees prepaid, directed to the parties or their permitted assignees at the following addresses (or at such other address as shall be given in writing by a party hereto):

If to Sellers or the Sellers Group, addressed to:

Senior Vice President
Power Supply
PacifiCorp
One Utah Center, 23rd Floor
Salt Lake City, Utah 94140
Facsimile: (801) 220-4900

with a copy to:

George M. Galloway
Stoel Rives LLP
900 SW Fifth Avenue
Portland, OR
Facsimile: (503) 220-2480

If to Buyer or any Buyer Subsidiary, addressed to:

TECWA Power, Inc.
110 12th Avenue SW
Calgary, Alberta
Canada T2P 2M1
Attn: General Counsel
Facsimile: (403) 267-3734

with a copy to:

Joel H. Mack
Latham & Watkins
701 B Street
Suite 2100
San Diego, CA 92101
Facsimile: (619) 696-7419

Section 13.2 Attorney's Fees . Subject to the provisions of Section 13.9, in any litigation or other proceeding relating to this Agreement, the prevailing party shall be entitled to recover its costs and reasonable attorneys' fees.

Section 13.3 Successors and Assigns . Except as provided in Section 2.7, the rights under this Agreement shall not be assignable or transferable nor the duties delegable by any party without the prior written consent of the other; and nothing contained in this Agreement, express or implied, is intended to confer upon any Person, other than the parties hereto, their permitted successors-in-interest and permitted assignees and any Person who or which is an intended beneficiary of the indemnities provided herein, any rights or remedies under or by reason of this Agreement unless so stated to the contrary. Notwithstanding the foregoing, Buyer may grant to its lenders a security interest in its rights under this Agreement; provided that neither the grant of any such interest, nor the foreclosure of any such interest, shall in any way release, reduce or diminish the obligations of Buyer to Sellers hereunder, and Sellers shall enter into a consent to assignment with such lenders reasonably acceptable to Sellers.

Section 13.4 Counterparts . This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 13.5 Captions and Paragraph Headings . Captions and paragraph headings used herein are for convenience only and are not a part of this Agreement and shall not be used in construing it.

Section 13.6 Entirety of Agreement; Amendments . This Agreement (including the Schedules and Exhibits hereto), the Related Agreements and the other documents and instruments specifically provided for in this Agreement, the Related Agreements and any other agreements contemplated hereby contain the entire understanding between the parties concerning the subject matter of this Agreement and such other documents and instruments and, except as expressly provided for herein, supersede all prior understandings and agreements, whether oral or written, between them with respect to the subject matter hereof and thereof. There are no representations, warranties, agreements, arrangements or understandings, oral or written, between the parties hereto relating to the subject matter of this Agreement and such other documents and instruments which are not fully expressed herein or therein. This Agreement may be amended or modified only by an agreement in writing signed by each of the parties hereto. All Exhibits and Schedules attached to or delivered in connection with this Agreement are integral parts of this Agreement as if fully set forth herein.

Section 13.7 Construction . This Agreement and any documents or instruments delivered pursuant hereto shall be construed without regard to the identify of the Person who drafted the various provisions of the same. Each and every provision of this Agreement and such other documents and instruments shall be construed as though the parties participated equally in the drafting of the same. Consequently, the parties acknowledge and agree that any rule of construction that a document is to be construed against the drafting party shall not be applicable either to this Agreement or such other documents and instruments. Whenever in this Agreement the context so suggests, references to the masculine shall be deemed to include the feminine, references to the singular shall be deemed to include the plural, and references to "or" shall be deemed to be disjunctive but not necessarily exclusive.

Section 13.8 Waiver . The failure of a party to insist, in any one or more instances, on performance of any of the terms, covenants and conditions of this Agreement shall not be construed as a waiver or relinquishment of any rights granted hereunder or of the future performance of any such term, covenant or condition, but the obligations of the parties with respect thereto shall continue in full force and effect. No waiver of any provision or condition of this Agreement by a party shall be valid unless in writing signed by such party or operational by the terms of this Agreement. A waiver by any party of the performance of any covenant, condition, representation or warranty of any other party shall not invalidate this Agreement, nor shall such waiver be construed as a waiver of any other covenant, condition, representation or warranty. A waiver by any party of the time for performing any act shall not constitute a waiver of the time for performing any other act or the time for performing an identical act required to be performed at a later time.

Section 13.9 Arbitration .

(a) Agreement to Arbitrate . Any controversy or claim arising out of or relating to this Agreement, or the breach or alleged breach hereof, where the amount of damages sought is less than $5,000,000, shall, upon demand of either the Sellers Group or Buyer, be submitted to arbitration in the manner hereinafter provided. Sellers and Buyer will make every reasonable effort to resolve any such controversy or claim without resort to arbitration. But in the event the Parties are unable to effect a satisfactory resolution between themselves, such controversy shall be submitted to arbitration in accordance with the terms and provisions of this Section 13.9 and in accordance with the then current Commercial Arbitration Rules (hereinafter the "Rules") of the American Arbitration Association (or any successor organization) (hereinafter the "AAA"). Any such arbitration shall take place in Seattle, Washington and shall be administered by the AAA. The Sellers Group shall for purposes of this Agreement, be deemed a single party in any such proceeding. In the event of any conflict between the terms and provisions of this Section 13.9 and the Rules, the terms and provisions of this Section 13.9 shall prevail.

(b) Submission to Arbitration . A Party desiring to submit to arbitration any such controversy shall send a written arbitration demand to the AAA and to the opposing Party. The demand shall set forth a clear and complete statement of the nature of the claim, its basis, and the remedy sought, including the amount of damages, if any. The opposing Party may, within 30 days of receiving the arbitration demand, assert a counterclaim or set-off. The counterclaim or set-off, which shall be sent to the AAA and the opposing party, shall include a clear and complete statement of the nature of the counterclaim or set-off, its basis, and the remedy sought, including the amount of damages, if any.

(c) Selection of Arbitration Panel . The dispute shall be decided by a panel of three neutral arbitrators selected as follows. The AAA shall submit to the Parties, within ten days after receipt of an arbitration demand, a list of eleven potential arbitrators consisting of retired federal or state court judges; provided that none of the potential arbitrators shall have (or have ever had) any material affiliation of any kind with any Party or with legal counsel for any Party. Each Party shall, within five days, strike four, three, two, one or none of the arbitrators, rank the remaining arbitrators in order of preference (with "1" designating the most preferred, "2" the next most preferred and so forth) and so advise the AAA in writing. The AAA shall appoint the arbitrators with the best combined preference ranking on both lists and designate the most preferred arbitrator as presiding officer (in each case, selecting by lot, if necessary, in the event of a tie).

(d) Prehearing Discovery . There shall be no prehearing discovery except as follows. Subject to the authority of the presiding officer of the arbitration panel to modify the provisions of this paragraph before the arbitration hearing upon a showing of exceptional circumstances, each Party (i) shall propound to the other no more than 20 requests for production of documents, including subparts, and (ii) shall take no more than two (2) discovery depositions. Such discovery shall be conducted in accordance with the provisions and

procedures of the Federal Rules of Civil Procedure. No interrogatories or requests for admission shall be permitted. Disputes concerning discovery obligations or protection of discovery materials shall be determined by the presiding officer of the arbitration panel. The foregoing limitations shall not be deemed to limit a Party's right to subpoena witnesses or the production of documents at the arbitration hearing, nor to limit a Party's right to depose witnesses that are not subject to subpoena to testify in person at the arbitration hearing; provided, however, that the presiding officer of the arbitration panel may, upon motion, place reasonable limits upon the number and length of such testimonial depositions.

(e) Arbitration Hearing . The presiding officer of the arbitration panel shall designate the place and time of the hearing. The hearing shall be scheduled to begin within ninety (90) days after the filing of the arbitration demand (unless extended by the arbitration panel on a showing of exceptional circumstances) and shall be conducted as expeditiously as possible. In all events, the issues being arbitrated, which shall be limited to those issues identified in the initial claim and counter-claim submitted to the arbitration panel pursuant to Subsection (b) above, shall be submitted for decision within 30 days after the beginning of the arbitration hearing. At least 30 days prior to the beginning of the arbitration hearing, each party shall provide the other party and the arbitration panel with written notice of the identity of each witness (other than rebuttal witnesses) it intends to call to testify at the hearing, together with a detailed written outline of the substance of the anticipated testimony of each such witness. The arbitration panel shall not permit any witness to testify that was not so identified prior to the hearing and shall limit the testimony of each such witness to the matters disclosed in such outline. Subject to the foregoing, the Parties shall have the right to attend the hearing, to be represented by counsel, to present documentary evidence and witnesses, to cross-examine opposing witnesses and to subpoena witnesses. The Federal Rules of Evidence shall apply and the panel shall determine the competency, relevance, and materiality of evidence as appropriate. The panel shall recognize privileges available under applicable Law. A stenographic record shall be made of the arbitration proceedings.

(f) Award . The panel's award shall be made by majority vote of the panel. An award in writing signed by at least two of the panel's arbitrators shall set forth the panel's findings of fact and conclusions of Law. The award shall be filed with the AAA and mailed to the parties no later than 30 days after the last day of testimony at the arbitration hearing. The panel shall have authority to issue any lawful relief that is just and equitable, except consequential damages, incidental damages, indirect damages, punitive damages, special damages, lost profits, diminution in value, damage to reputation or the like. The award shall state that it dissolves and supersedes any provisional remedies entered pursuant to Subsection (g) below.

(g) Provisional Remedies . Pending the selection of the arbitration panel, upon request of a party, the AAA may appoint a retired judge to serve as a provisional arbitrator to rule on any motion for preliminary relief. Any preliminary relief ordered by the

provisional arbitrator may be immediately entered in any federal or state court having jurisdiction thereof even though the decision on the underlying dispute may still be pending. Once constituted, the arbitration panel may, upon request of a Party, issue a superseding order to modify or reverse such preliminary relief or may itself order preliminary relief pending a full hearing on the merits of the underlying dispute. Any such initial or superseding order of preliminary relief may be immediately entered in any federal or state court having jurisdiction thereof even though the decision on the underlying dispute may still be pending. Such relief may be granted by the appointed arbitrator or the arbitration panel only after notice to and opportunity to be heard by the opposing party. Such awards of preliminary relief shall be in writing and, if ordered by a panel of three arbitrators, must be signed by at least two of the panel members.

(h) Entry of Award by Court . The arbitration panel's arbitration award shall be final. The Parties agree and consent that judgment upon the arbitration award may be entered in any federal or state court having jurisdiction thereof.

(i) Costs and Attorney's Fees . The prevailing Party shall be entitled to recover its costs and reasonable attorneys' fees, and the party losing the arbitration shall pay all expenses and fees of the AAA, all costs of the stenographic record, all expenses of witnesses or proofs that may have been produced at the direction of the arbitrators, and the fees, costs, and expenses of the arbitrators. The arbitration panel shall designate the prevailing party for these purposes.

Section 13.10 Governing Law . This Agreement shall be governed in all respects, including validity, interpretation and effect, by the Laws of the State of Washington applicable to contracts made and to be performed wholly within the State of Washington, provided that federal Law, including the Federal Arbitration Act, shall govern all issues concerning the validity, enforceability and interpretation of the arbitration provision set forth in Section 13.9 hereof. Any judicial action or proceeding arising under this Agreement shall be adjudicated in Seattle, Washington.

Section 13.11 Severability . Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be valid, binding and enforceable under applicable Law, but if any provision of this Agreement is held to be invalid, void (or voidable) or unenforceable under applicable Law, such provision shall be ineffective only to the extent held to be invalid, void (or voidable) or unenforceable, without affecting the remainder of such provision or the remaining provisions of this Agreement.

Section 13.12 Consents Not Unreasonably Withheld . Wherever the consent or approval of any Party is required under this Agreement, such consent or approval shall not be unreasonably withheld or delayed, unless such consent or approval is to be given by such Party at the sole or absolute discretion of such Party or is otherwise similarly qualified.

Section 13.13 Time Is of the Essence . Time is hereby expressly made of the essence with respect to each and every term and provision of this Agreement. The parties acknowledge that each will be relying upon the timely performance by the others of their obligations hereunder as a material inducement to each party's execution of this Agreement.

Section 13.14 Liability . The liability of Sellers under this Agreement shall be several and not joint or collective and no individual Seller shall be jointly or severally liable for the acts, omissions or obligations of any other Seller.

Section 13.15 Execution . This Agreement may be executed in counterpart and executed signature pages delivered by facsimile.

Section 13.16 Third Party Beneficiaries . The "Buyer" as such term is defined in the Mine Purchase and Sale Agreement is a third party beneficiary of Section 2.5(b) of this Agreement.

ARTICLE 14
SELLERS COMMITTEE

Section 14.1 Function . Pursuant to a separate agreement among the Sellers, the Sellers have formed a committee (the "Sellers Committee") charged with administering this Agreement on behalf of the Sellers and determining what actions should be taken hereunder by the Sellers Group.

ARTICLE 15
POTENTIAL SALE

Section 15.1 Sale of Portland General Electric Company's ("PGE's") Interest to Avista Corporation ("Avista") . The parties are aware that PGE has entered into an agreement to sell its 2.5% interest to Avista. Avista hereby represents and warrants to the other Sellers that at the close of the sale of PGE's interest to Avista, Avista shall fully assume all of PGE's rights and obligations with respect to said interest under all applicable agreements among the owners of the Plant, including this Agreement and the Centralia Fuel Supply Agreement and the parties to this Agreement consent to such sale, and agree that at such time, PGE shall thereafter be released from its obligations as a Seller under this Agreement, and the parties to this Agreement shall thereafter look to Avista as the Seller with respect to said 2.5% interest; provided, however subsequent to such sale, PGE shall refrain from any effort to interfere in the consummation of the transactions contemplated by this Agreement and the Related Agreements and the Transmission Arrangements. The Sellers hereby waive any and all rights of first refusal pursuant to Section 24(e) of the Agreement for the Construction and Ownership

of Centralia Steam Electric Generating Plant of May 15, 1969. PGE and Avista shall ensure that Buyer and Other Sellers are promptly notified of the closing between Avista and PGE.

IN WITNESS WHEREOF, the parties have duly executed this Agreement on the date first above written.

BUYER:

TECWA Power, Inc.

By:_____
Name:
Title:

BUYER:

TECWA Power, Inc.

By:_____
Name:
Title:

SELLERS:

PACIFICORP

By:_____
Name:
Title:

AVISTA CORPORATION

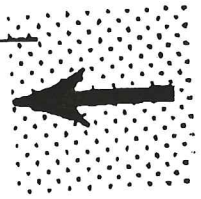
By:_____
Name:
Title:

PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON

By:_____
Name:
Title:

CITY OF SEATTLE, WASHINGTON

By:_____
Name:
Title:



PUGET SOUND ENERGY, INC.

By:_____
Name:
Title:

PORTLAND GENERAL ELECTRIC COMPANY

By: Stephen M. Quennoz
Name: STEPHEN M. QUENNOZ
Title: VICE PRESIDENT

CITY OF TACOMA, WASHINGTON

By:_____
Name:
Title:

PUBLIC UTILITY DISTRICT NO. 1 OF GRAYS HARBOR COUNTY, WASHINGTON

By:_____
Name:
Title:

Schedule 3.3(b)

Sellers' Government Consents

Approval of the sale of the Assets and/or Findings Required for Buyer's Exempt Wholesale Generator status:

1. The Oregon Public Utility Commission (with respect to PacifiCorp and Portland General Electric Company)

2. The Washington Utilities and Transportation Commission (with respect to Puget Sound Energy, Inc., Avista Corporation and PacifiCorp)

3. The Utah Public Service Commission (with respect to PacifiCorp)

4. The California Public Utilities Commission (with respect to PacifiCorp)

5. The Wyoming Public Service Company (with respect to PacifiCorp)

6. The Idaho Public Utility Commission (with respect to Avista Corporation and PacifiCorp)

7. The Federal Energy Regulatory Commission (with respect to PacifiCorp, Avista Corporation, Puget Sound Energy, Inc. and Portland General Electric Company)

INDEX

ACRONYMS AND TERMS
(The following acronyms and terms are found in multiple locations within the document)

Acronym/Term	Meaning
aMW	- Average Megawatt - a measure of electrical energy over time
AFUCE	- Allowance for Funds Used to Conserve Energy; a carrying charge similar to AFUDC (see below) for conservation-related capital expenditures
AFUDC	- Allowance for Funds Used During Construction; represents the cost of both the debt and equity funds used to finance utility plant additions during the construction period
Avista Corp.	- Avista Corporation, the Company
Avista Capital	- Parent company to the Company's non-regulated businesses
BPA	- Bonneville Power Administration
Capacity	- a measure of the rate at which a particular generating source produces electricity
Centralia	- the coal fired Centralia Power Plant in western Washington State
Colstrip	- the coal fired Colstrip Generating Project in southeastern Montana
CPUC	- California Public Utilities Commission
CT	- combustion turbine; a natural gas fired unit used primarily for peaking needs
DSM	- Demand Side Management - the process of helping customers manage their use of energy resources
Energy	- a measure of the amount of electricity produced from a particular generating source over time
FERC	- Federal Energy Regulatory Commission
IPUC	- Idaho Public Utilities Commission
KV	- Kilovolt - a measure of capacity on transmission lines
KW, KWH	- Kilowatt, kilowatthour, 1000 watts or 1000 watt hours
MW, MWH	- Megawatt, megawatthour, 1000 KW or 1000 KWH
OPUC	- Public Utility Commission of Oregon
Pentzer	- Pentzer Corporation, a wholly owned subsidiary of the Company which is the parent company to the majority of the Company's non-energy businesses
Therm	- Unit of measurement for natural gas; a therm is equal to one hundred cubic feet (volume) or 100,000 BTUs (energy)
Watt	- Unit of measurement for electricity; a watt is equal to the rate of work represented by a current of one ampere under a pressure of one volt
WUTC	- Washington Utilities and Transportation Commission

operations fall within Energy Delivery and Generation and Resources. The Energy Delivery business includes retail electric and natural gas distribution and transmission services. The Generation and Resources business includes generation and production, resource optimization, electric and natural gas commodity trading and wholesale marketing. Both the Energy Delivery and Generation and Resources lines of business fall within Avista Utilities, an operating division of Avista Corp. Avista Capital, which is a wholly-owned subsidiary of Avista Corp., owns all of the companies engaged in the National Energy Trading and Marketing and Non-energy lines of Business. The National Energy Trading and Marketing line of business includes Avista Advantage, Inc. (Avista Advantage), Avista Energy, Inc. (Avista Energy) and Avista Power, Inc. (Avista Power). See Item 1. Business - National Energy Trading and Marketing and Notes 1, 3 and 4 of Notes to Financial Statements for additional information. As of December 31, 1998 the Company had common equity investments of $216.6 million ($493.4 million including convertible securities) and $271.8 million in Avista Utilities and Avista Capital, respectively. The Non-energy line of business, also owned by Avista Capital, includes Avista Fiber, Inc. (Avista Fiber), Avista Development, Inc. (Avista Development), Avista Labs, Inc. (Avista Labs), Avista Communications, Inc. (Avista Communications) and Pentzer Corporation, which is the parent company to the majority of the Company's non-energy businesses. See Item 1. Business - Non-energy Business and Notes 1 and 17 of Notes to Financial Statements for additional information.

Below is the list of major companies owned by Avista Capital:

Avista Energy - An electricity and natural gas marketing and trading company.

Avista Advantage - A leading provider of Internet-based specialty billing and information services.

Avista Power - Created in December 1998 to develop and own generation assets, primarily in support of Avista Energy.

Pentzer - A wholly owned subsidiary of Avista Capital and the parent company for a majority of Avista Corp.'s Non-energy subsidiaries.

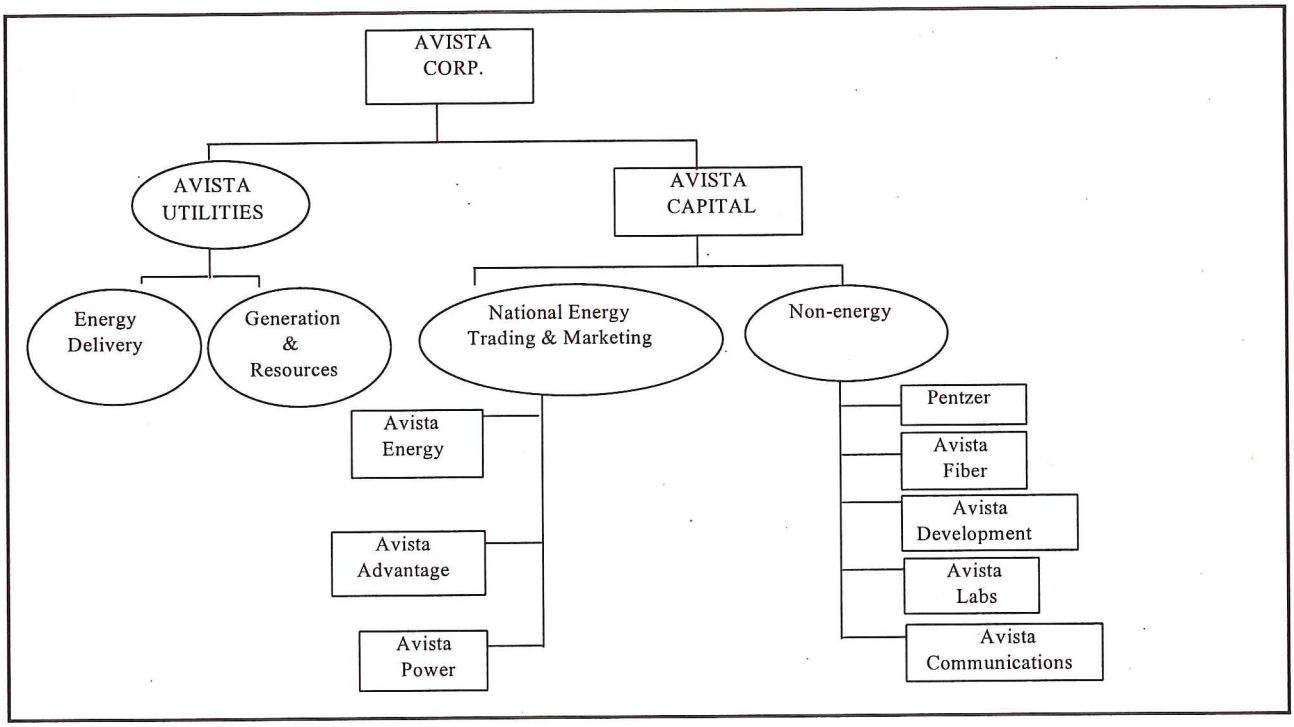
Avista Fiber - Designs, builds and manages metropolitan area fiber optic cable networks.

Avista Development - Real-estate and other investments.

Avista Labs - The developer of proton exchange membrane fuel cell technology.

Avista Communications - Created in January 1999 to provide local high-speed telecommunications services to under-served Northwest communities.

The Company's lines of business are illustrated below:



☐ - denotes a business entity.
○ - denotes an operating division or line of business.

Energy Delivery

General

Energy Delivery provides electricity and natural gas distribution and transmission services in a 26,000 square mile area in eastern Washington and northern Idaho with a population of approximately 825,000. Energy Delivery also provides natural gas service in a 4,000 square mile area in northeast and southwest Oregon and in the South Lake Tahoe region of California, with the population in these areas approximating 495,000.

At the end of 1998, retail electric service was supplied to approximately 305,000 customers in eastern Washington and northern Idaho; retail natural gas service was supplied to approximately 262,000 customers in parts of Washington, Idaho, Oregon and California.

The Company expects economic growth to continue in its eastern Washington and northern Idaho service area. The Company, along with others in the service area, is continuing its efforts to facilitate expansion of existing businesses and attract new businesses to the Inland Northwest. Agriculture, mining and lumber were the primary industries for many years, but health care, education, electronic and other manufacturing, tourism and the service sectors have become increasingly important industries that operate in the Company's service area. The Company also anticipates moderate economic growth to continue in its Oregon service area.

The Company anticipates residential and commercial electric load growth to average approximately 2.3% annually for the next five years primarily due to increases in both population and the number of businesses in its service territory. The number of electric customers is expected to increase and the average annual usage by residential customers is expected to remain steady on a weather-adjusted basis.

The Company anticipates natural gas load growth, including transportation volumes, in its Washington and Idaho service area to average approximately 2.7% annually for the next five years. The Oregon and South Lake Tahoe, California service areas are anticipated to realize 3.1% growth annually during that same period. Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Results of Operations: Future Outlook for additional information.

Electric Operations

Energy Delivery currently receives all of its electric supply from Generation and Resources. (See Generation and Resources - Electric Resources for additional information.)

Challenges facing the retail electric business include cost management, self-generation and fuel switching by commercial and industrial customers, the costs of increasingly stringent environmental laws and the potential for stranded or non-recoverable utility assets. In April 1996, the Federal Energy Regulatory Commission (FERC) issued Orders No. 888 and No. 889 which require electric utility companies to provide third-party access to their transmission systems and to establish an Open Access Same-time Information System (OASIS) to provide transmission customers with information about available transmission capacity, prices and other information, by electronic means. In addition, state legislatures in the Company's service territory are continuing to evaluate restructuring the retail electric business to full competition. When electric utility companies are required to provide retail wheeling service, which is the transmission of electric power from another supplier to a customer located within such utility's service area, the Company believes it will face minimal risk for stranded generation, transmission or distribution assets due to its low cost structure. However, the Company cannot predict the potential impact, if any, of restructuring the electric utility industry on the Company's future financial condition and results of operations. (See Industry Restructuring and Note 1 of Notes to Financial Statements for additional information.)

Natural Gas Operations

Natural gas remains competitively priced compared to alternative fuel sources for residential, commercial and industrial customers. Because of abundant supplies and competitive markets, natural gas should sustain its market advantage. The Company continues to advise electric customers as to the cost advantages of converting space and water heating needs to natural gas. Significant growth has occurred in the Company's natural gas business in recent years due to increased demand for natural gas in new construction. The Company also makes sales and provides transportation service directly to large natural gas customers and makes non-retail sales to marketers and producers where points of delivery are outside the Company's retail distribution area.

operating expenses, an opportunity to earn a reasonable return on "rate base." "Rate base" is generally determined by reference to the original cost (net of accumulated depreciation) of utility plant in service, subject to various adjustments for deferred taxes and other items (see Note 1 of Notes to Financial Statements for additional information about regulation, depreciation and deferred taxes). Over time, rate base is increased by additions to utility plant in service and reduced by depreciation of utility plant. As the energy business is restructured, traditional "cost of service" ratemaking may evolve into some other form of ratemaking. Rates for transmission services are based on the "cost of service" principles and are set forth in tariffs on file with the FERC. (See Industry Restructuring for additional information.)

General Rate Cases The Company's last general electric rate cases were effective in March 1987 for the State of Washington and September 1986 for the State of Idaho; both allowed a return on equity of 12.90%.

On December 18, 1998, the Company filed for a general electric rate increase of $14,223,000 or 11.56% with the IPUC. The Company is requesting a return on equity of 12.00%. An order is expected in the latter part of 1999. The Company anticipates filing for a retail increase in the State of Washington later in 1999.

On June 27, 1997, the Company filed a general natural gas rate increase of $7.87 million with the WUTC. A settlement agreement resulted in a $5 million, or 7.5%, increase effective January 1, 1998. Included in the settlement agreement was a stated return on equity of 10.75%. However, the agreements reached in the settlement do not set a precedent for future rate filings. The Company's last general natural gas rate cases involving litigated cost of capital resulted in allowed return on equity of 12.90% for the State of Washington, effective August 1990 and 12.75% for the State of Idaho, effective October 1989.

Power Cost Adjustment (PCA) The Company has a PCA in Idaho which tracks changes in hydroelectric generation, surplus energy prices, related changes in thermal generation and the Public Utility Regulatory Policies Act of 1978 (PURPA) contracts, but not changes in revenues or costs associated with other wheeling or power contracts. Rate changes are triggered when the deferred balance reaches $2.2 million, provided no more than two surcharges or rebates are in effect at the same time. See Note 1 of Notes to Financial Statements for additional information.

Service Territory Agreement In August 1998, the Company executed a new electric service territory agreement with Inland Power and Light Company. Inland Power and Light is an electric cooperative serving approximately 30,000 customers in various suburban and rural areas of Eastern Washington, including areas around Spokane. The Company had an existing service territory agreement with Inland Power and Light that was due to expire in December 1998. The Company entered into the new agreement in order to protect service provided to existing customers and to establish rules for service to new customers. Under the agreement, generally, the utility with the closest electric facilities will serve a new customer. However, new customers with loads larger than 3 megawatts can choose their service provider. The agreement is for a fifteen year term and was approved by the WUTC on October 9, 1998.

Purchased Gas Adjustment (PGA or Natural Gas Trackers) Natural gas trackers are supplemental tariffs filed with state regulatory commissions which are designed to pass through changes in purchased natural gas costs and therefore, do not normally result in any changes in net income to the Company. On September 30, 1998, the Company filed a PGA with the WUTC. This filing requested a net revenue reduction of $42,000 or .06%. On December 1, 1998, a modified version of the original filing became effective with rates subject to change based on the WUTC's continuing audit. In January 1999, the audit was concluded with no adjustment to rates, and in February 1999, the Commission closed the investigation. In November 1998, the OPUC approved a $1.1 million, or 2.25% decrease effective December 1, 1998. In October 1998, the Company filed a natural gas tracker with the IPUC requesting a $1.1 million, or 4.0%, increase which was approved, effective December 7, 1998.

Natural Gas Benchmark Mechanism
On December 1, 1998, the Company filed a proposal with the WUTC and IPUC to eliminate gas procurement operations within Avista Utilities and consolidate gas procurement operations under Avista Energy. A smaller natural gas staff would remain in Avista Utilities to prepare load forecasts and support regulatory activities. The ownership of the natural gas assets would remain with Avista Utilities, but would be managed by Avista Energy through an agency agreement.

Consolidation of natural gas procurement operations under Avista Energy would allow the Company to gain synergies and better manage its risk by combining and operating the two portfolios as one portfolio and to gain efficiencies by eliminating duplicate functions. The proposal to state regulators includes a Gas Benchmark mechanism that is designed to provide certain guaranteed benefits to retail customers as well as provide Avista Corp. the opportunity to improve earnings, i.e., a performanced-based mechanism.

ENERGY DELIVERY OPERATING STATISTICS

	Years Ended December 31,		
	1998	1997	1996
RETAIL ELECTRIC OPERATIONS			
ELECTRIC OPERATING REVENUES (Thousands of Dollars):			
Residential	$157,019	$160,411	$160,345
Commercial	149,767	144,952	144,717
Industrial	64,662	58,391	62,067
Public street and highway lighting	3,387	3,352	3,359
Total retail electric revenue	374,835	367,106	370,488
Transmission revenues	19,455	19,503	11,907
Other revenues	6,636	8,685	6,740
Transfer to Generation and Resources (1)	(184,381)	(180,544)	(180,018)
Total electric energy delivery revenues	$216,545	$214,750	$209,117
ELECTRIC ENERGY SALES (Thousands of MWhs):			
Residential	3,217	3,270	3,220
Commercial	2,810	2,716	2,674
Industrial	1,878	1,759	1,839
Public street and highway lighting	24	24	24
Total retail energy sales	7,929	7,769	7,757
ELECTRIC AVERAGE HOURLY LOAD (aMW)	971	954	973
NUMBER OF ELECTRIC CUSTOMERS (Average for Period):			
Residential	265,891	261,873	257,726
Commercial	34,407	33,681	33,043
Industrial	1,169	1,145	1,133
Public street and highway lighting	383	371	363
Total retail electric customers	301,850	297,070	292,265
ELECTRIC RESIDENTIAL SERVICE AVERAGES:			
Annual use per customer (KWh)	12,099	12,489	12,493
Revenue per KWh (in cents)	4.88	4.90	4.98
Annual revenue per customer	$590.54	$612.55	$622.15
NATURAL GAS OPERATIONS			
NATURAL GAS OPERATING REVENUES (Thousands of Dollars):			
Residential	$92,614	$81,855	$85,904
Commercial	49,539	42,731	51,006
Industrial - firm	3,685	3,563	3,949
Industrial - interruptible	1,639	512	1,131
Total retail natural gas revenues	147,477	128,661	141,990
Non-retail sales	24,846	19,559	9,862
Transportation	12,100	12,678	12,154
Other revenues	8,715	4,884	7,305
Total natural gas energy delivery revenues	$193,138	$165,782	$171,311
THERMS DELIVERED (Thousands of Therms):			
Residential	187,571	182,037	183,927
Commercial	122,263	118,494	132,744
Industrial - firm	11,494	12,509	12,757
Industrial - interruptible	6,053	3,217	4,174
Total retail sales	327,381	316,257	333,602
Non-retail sales	126,522	105,297	67,656
Transportation	226,139	245,139	237,894
Interdepartmental sales and Company use	32,647	2,087	22,215
Total therms - sales and transportation	712,689	668,780	661,367

(1) Transfer to Generation and Resources represents the portion of revenues collected by Energy Delivery from retail customers attributable to the sale of the electric energy commodity delivered by Energy Delivery.

Generation and Resources

General

The Generation and Resources line of business manages the Company's natural gas and electric energy resource portfolio, which is used to serve Energy Delivery's retail customers and Generation and Resources' wholesale customers. The primary business focus of Generation and Resources is to optimize the availability and operation of generation resources. The Company owns and operates eight hydroelectric projects, a wood-waste fueled generating station and two natural gas combustion turbine (CT) peaking units. See Item 2. Properties - Generation and Resources for additional information. The Company also owns a 15% share in two coal-fired generating facilities and leases two additional gas CT peaking units. With this diverse energy resource portfolio, the Company remains one of the nation's lowest-cost producers and sellers of electric energy services.

The Company's wholesale marketing and trading business units within the Generation and Resources line of business are a secondary, but very important part of the Company's overall business strategy. Since 1987, the Company has entered into a number of long-term power sales contracts that have increased its wholesale electric revenues, and the Company is continuing to actively pursue electric wholesale marketing and energy trading business opportunities. Energy trading includes short-term sales and purchases such as next hour, next day and monthly blocks of energy. Wholesale marketing includes sales and purchases under long-term contracts with one-year and longer terms. Wholesale sales are affected by weather and streamflow conditions and may eventually be affected by the restructuring of the electric utility industry. (See Industry Restructuring for additional information.)

Generation and Resources competes in the wholesale electric market with other western utilities, federal marketing agencies and power marketers. The Company's participation in the wholesale electric market allows the Company to maintain presence in and knowledge of the market, resulting in maximum optimization of the Company's resources. The wholesale electric market has changed significantly over the last few years with respect to market participants, level of activity, variability of prices, and per-unit margins. These changes have contributed to the increased liquidity of the market, which in turn has increased transactional volumes in the market. It is expected that competition in the wholesale power market will remain vigorous.

Challenges facing Generation and Resources include evolving technologies, which provide alternate energy supplies and deregulation of the retail electric market. The Company believes it faces minimal risk for stranded generation assets resulting from deregulation due to its low cost generation portfolio. However, in a deregulated environment, evolving technologies which provide alternate energy supplies could affect the market price of power, and certain generating assets could have operating costs above the adjusted market price. The Company continues to assess the costs and operation of its generation portfolio in order to optimize the resources of the Company.

Electric Requirements

The Company's 1998 annual peak requirements, including long-term and short-term contractual obligations, were 4,765 MW. This peak occurred on December 21, 1998, at which time the maximum capacity available from the Company's generating facilities, including long-term and short-term purchases, was 4,991 MW. The electric requirements include both Energy Delivery's electric needs and Generation and Resources' wholesale short-term and long-term commitments, which limits the amount of excess capacity available to support Generation and Resources energy trading business.

Electric Resources

The Company's diverse resource mix of hydroelectric projects, thermal generating facilities and power purchases and exchanges, combined with strategic access to regional electric transmission systems, enables the Company to remain one of the nation's lowest-cost producers and sellers of electric energy services. At December 31, 1998, the Company's total owned resources available were 58% hydroelectric and 42% thermal. See Generation and Resources Operating Statistics on page 13 for the Company's energy resource statistics.

Hydroelectric Resources Hydroelectric generation is the Company's lowest cost source of electricity and the availability of hydroelectric generation has a significant effect on the Company's total energy costs. Under average operating conditions, the Company meets about one-third of its total energy requirements (both retail and long-term wholesale), with its own hydroelectric generation and long-term hydroelectric contracts. The streamflows to Company-owned hydroelectric projects were 94%, 172% and 145% of normal in 1998, 1997 and 1996, respectively. Total hydroelectric resources provide 524 aMW annually.

Thermal Resources The Company has a 15% interest in each of two twin-unit coal-fired facilities - the Centralia Power Plant in western Washington and Units 3 and 4 of the Colstrip Generating Project in southeastern Montana. In addition, the Company owns a wood-waste-fired facility known as the Kettle Falls Generating Station in northeastern Washington and two natural gas-fired CTs, located in Spokane, used for peaking needs. The Company also operates and leases two natural gas-fired CTs in northern Idaho, used for peaking needs. Total thermal resources provide 339 aMW annually.

manner similar to retail rates. See Energy Delivery - Regulatory Issues for additional information. Generally, rates for wholesale electric sales by the Company for terms up to five years are based on market prices.

National Energy Trading and Marketing

The companies within the National Energy Trading and Marketing line of business are Avista Energy, Avista Advantage and Avista Power, each of which is a wholly-owned subsidiary of Avista Capital. Avista Capital's total equity investment in this line of business was approximately $104.6 million on December 31, 1998.

Avista Energy

Avista Energy is one of the nation's fastest growing electricity and natural gas marketing and trading companies. Avista Energy's headquarters are in Spokane, Washington with offices in Houston, Texas; Boston, Massachusetts; Vancouver, British Columbia, Canada; and Portland, Oregon. Avista Energy is in the business of buying and selling natural gas and electricity. Avista Energy purchases natural gas and electricity directly from producers and other trading companies, and Avista Energy's customers include commercial and industrial end-users, electric utilities, natural gas distribution companies and other trading companies. Avista Energy also trades natural gas and electricity derivative financial instruments, including futures, options, swaps and other contractual arrangements on national exchanges and through other unregulated exchanges and brokers from whom these commodity derivatives are available. In 1998, Avista Energy sold approximately 54.4 million MWh of electric energy and 424.2 million dekatherms of natural gas. This compares with approximately 4.5 million MWh of electric energy and 67.3 million dekatherms of natural gas during five months of operations in 1997.

Avista Energy's business is affected by several factors, including:

- the demand for and availability of energy throughout the United States,
- lower unit margins on new sales contracts,
- fewer long-term power contracts being entered into, resulting in a heavier reliance on short-term power contracts which have lower margins than long-term contracts,
- marginal fuel prices, and
- deregulation of the electric utility industry

Avista Energy operates in North America, principally within the West and Mid-West United States and Western Canada. Avista Energy seeks to strengthen its position of leadership in energy trading and marketing on a regional and national basis through a focus on acquisitions and strategic alliances. Avista Energy has entered new markets throughout North America, and will continue to strategically acquire additional assets and customers.

Effective February 1, 1999, Avista Energy purchased Vitol Gas & Electric, LLC, one of the top 20 energy marketing companies in the United States. With this acquisition, Avista Energy now has an additional platform from which it can further grow its national presence. The combined operation expands Avista Energy's successful coast-to-coast commercial energy platform to the eastern seaboard.

On December 16, 1998, Avista Energy Canada, Ltd., a wholly-owned subsidiary of Avista Energy, acquired Coast Pacific Management, Inc. (Coast Pacific), a natural gas marketing company based in Vancouver, British Columbia, Canada. Coast Pacific manages and transports approximately 70,000 MMBtu of natural gas per day to some 70 large and medium size industrial customers throughout British Columbia. Coast Pacific acts as gas manager for more than 40 percent of the large industrial market in the interior of British Columbia. The Coast Pacific acquisition strengthened Avista Energy's Canadian operations with more access to end-use customers, ties with British Columbia natural gas producers and expanded Avista Energy's presence in Pacific Northwest natural gas markets.

In April 1997, Avista Energy contracted with Chelan County Public Utility District (Chelan PUD), located in Washington State. The terms of the alliance made this announcement the first of its kind in the Northwest. The agreement allows the Company to market, on a "real-time" basis, a portion of the significant output from Chelan PUD's hydroelectric resources and to jointly market energy products and services to other utilities in the region. Twenty-eight percent or 557 megawatts of total generated capacity of the dams are available for real-time scheduling and resource optimization. The two entities offer a variety of products, all designed to help smaller utilities adjust to the emerging energy market. On October 20, 1997, a complaint for declaratory and injunctive relief was filed in Chelan County Superior Court by James A. Brown, a taxpayer and ratepayer of the District, in order to determine whether the joint marketing and real-time scheduling efforts of Chelan PUD and Avista Energy are within Chelan PUD's lawful authority to undertake. Avista Energy and Chelan PUD continue to operate under the contractual alliance. The outcome of this litigation is still pending and Avista Energy is unable to assess the likelihood of an adverse outcome or estimate an amount or range of potential loss in the event of an adverse outcome.

In June 1997, Avista Energy formed an alliance with Energy West Incorporated, a diversified energy and retail propane company in Montana, to develop and implement a direct access, retail power marketing business in Montana. The alliance has not been active since its formation and both companies have agreed to discontinue the alliance in 1999.

Effective November 30, 1998, Avista Energy sold its 50% ownership interest in Howard/Avista Energy, LLC to H&H Star Energy, Inc. The sales price, which represented Avista Energy's equity investment, was $25 million in the form of a short

NATIONAL ENERGY TRADING AND MARKETING OPERATING STATISTICS

	Years Ended December 31,	
	1998	1997
AVISTA ENERGY		
REVENUES (Thousands of Dollars):		
Natural gas marketing	743,386	135,684
Electric power marketing	1,665,348	111,344
Total revenues	2,408,734	247,028
VOLUMES:		
Natural gas (Thousands of Therms)	424,152	67,319
Electricity (Thousands of MWhs)	54,430	4,540

Industry Restructuring

Federal Level

Industry restructuring to remove certain barriers to competition in the electric utility industry was initially promoted by federal legislation. The Energy Policy Act of 1992 (Energy Act) confers expanded authority upon the FERC to issue orders requiring electric utilities to transmit power and energy to or for wholesale purchasers and sellers, and to require electric utilities to enlarge or construct additional transmission capacity for the purpose of providing these services.

The FERC issued its final rule in Order No. 888 in April 1996. That order requires public utilities operating under the Federal Power Act to provide access to their transmission systems to third parties pursuant to the terms and conditions of the FERC's pro-forma open access transmission tariff. Utilities were required to file an open access tariff, allowing only limited variations to the pro-forma tariff to reflect regional operating practices. Utilities were also required to take transmission service under this same tariff. The Company filed its open access tariff with the FERC in July 1996 and subsequently began providing transmission service under the tariff. The FERC issued its initial order accepting the non-rate terms and conditions of the Company's tariff in November 1996.

In the FERC's Order No. 889, the companion rule to Order No. 888, the FERC required public utilities to establish a system, OASIS, to provide transmission customers with information about available transmission capacity, prices and other information, by electronic means. This enables customers to obtain transmission service in a non-discriminatory fashion. The final rule requires each public utility subject to the rule to functionally separate its transmission and wholesale power merchant functions, and prescribed standards of conduct under which it assures that the utility's wholesale power merchant function and competitors obtain information about its transmission system in the same manner. The Company filed its "Procedures for Implementing Standards of Conduct under FERC Order No. 889" with the FERC in December 1996 and adopted these Procedures effective January 3, 1997. FERC Orders No. 888 and No. 889 have not had a significant material effect on the operating results of the Company.

The Company and various Northwest utilities began investigating the feasibility of transferring certain operational responsibilities associated with a regional transmission grid to an independent grid operator. In November 1997, the Company withdrew from the effort to establish an independent grid operator in the Northwest because the costs were greater than the perceived benefits. The Company is exploring other regional transmission alternatives intended to help facilitate a competitive electric power market, including the development of an independent grid scheduling entity which might provide quantifiable efficiencies in administering access to the Northwest transmission system in a non-discriminatory fashion.

The North American Electric Reliability Council and the WSCC have undertaken initiatives to establish a series of security coordinators to oversee the reliable operation of the regional transmission system. Accordingly, the Company, in cooperation with other utilities in the Pacific Northwest, has established the Pacific Northwest Security Coordinator (PNSC) which will oversee daily and short-term operations of the northwest sub-regional transmission grid, and have limited authority to direct certain actions of control area operators in the case of a pending transmission system emergency. The Company executed its service agreement with the PNSC in September 1998. The PNSC is currently operating in a limited fashion and is expected to be fully operational by May 1999.

State Level

Further competition may be introduced by state action. Competition for retail customers is not generally allowed in the Company's service territory. While the Energy Act precludes the FERC from mandating retail wheeling, state regulators and legislators could open service territories to full competition at the retail level. Legislative action at the state level would be required for full retail wheeling to occur in Washington and Idaho.

During 1997, the Idaho Legislature enacted legislation requiring the IPUC to compile utilities' costs separately by generation, transmission and distribution. Early in 1998, the IPUC opened individual cases for each of the investor owned utilities and pursued audits of their cost of service studies, including results of operations, methodology, and allocations. In August 1998, the Commission ordered the cases closed, concluding that these studies met the legislative requirement and that further examination of unbundled costs would be more appropriate in general rate proceedings.

Two restructuring "study bills" were adopted in the 1998 Washington Legislative session covering examination of cost unbundling, development and disclosure of consumer protection policies, and studies of deregulation and system reliability. The first study bill, known as "ESSHB2831", was implemented by the WUTC as a collaborative effort, including stakeholders, to examine unbundling and related issues. Unbundling would require utilities to compile costs separately by generation, transmission and distribution. In September 1998, unbundled cost filings were submitted by Washington's investor-owned utilities and by various public utilities that met certain size or customer density parameters. The WUTC staff and the State Auditor jointly reviewed the studies and prepared a report presenting the results of the individual utilities' studies. The report was prepared in a format intended to allow the legislature to analyze the potential impacts of restructuring and deregulation. The WUTC staff summary report did not include recommendations for restructuring, it merely presented pros and cons of restructuring on an issue by issue basis. From this, the legislature will determine whether or not to pursue changes in the laws governing the industry.

More Options for Power Services II (MOPS II) While MOPS allowed customers to purchase from alternative energy suppliers, MOPS II provides access to the Company's portfolio of traditional service, monthly market, annual market and renewable resource pricing. (See PA Model above for additional information.) Approximately 7,300 customers in the towns of Deer Park, Washington and Hayden, Idaho were able to elect alternative energy service from the Company as of July 1998. The Company received approval on this program on December 31, 1997 and January 27, 1998 from the WUTC and IPUC, respectively. This trial tariff is effective through mid-2000.

Avista Utilities' average production cost for a Washington residential customer is 2.37 cents/kWh. For customers to save money under MOPS II, the average monthly or annual market prices would need to be below this rate. During the first eight months of MOPS II implementation, electric market rates were above Avista Utilities' average retail rate in every month except February 1999. Thus, participation in the annual and monthly market options has been low, with only 69 customers. Participation in the renewable resource offerings was also low.

Item 2. Properties

Energy Delivery

Electric Distribution and Transmission Plant

The Company operates approximately 12,200 miles of primary and secondary distribution lines in its electric system in addition to a transmission system of approximately 550 miles of 230 kV line and 1,550 miles of 115 kV line. The Company also owns a 10% interest in 495 miles of a 500 kV line between Colstrip, Montana and Townsend, Montana, and a 15% interest in three miles of a 500 kV line from Centralia, Washington to the nearest Bonneville Power Administration (Bonneville) interconnection.

The 230 kV lines are used to transmit power from the Company's Noxon Rapids and Cabinet Gorge hydroelectric generating stations to major load centers in the Company's service area as well as to transfer power between points of interconnection with adjoining electric transmission systems. These lines interconnect with Bonneville at five locations and at one location each with PacifiCorp, Montana Power and Idaho Power Company. The Bonneville interconnections serve as points of delivery for power from the Colstrip and Centralia generating stations as well as for the interchange of power with entities outside the Pacific Northwest. The interconnection with PacifiCorp is used to integrate Mid-Columbia hydroelectric generating facilities to the Company's loads as well as for the interchange of power with entities within the Pacific Northwest.

The 115 kV lines provide for transmission of energy as well as providing for the integration of the Spokane River hydroelectric and Kettle Falls wood-waste generating stations with service area load centers. These lines interconnect with Bonneville at nine locations, Grant County Public Utility District (PUD), Seattle City Light and Tacoma City Light at two locations and one interconnection each with Chelan County PUD, PacifiCorp and Montana Power.

Natural Gas Plant

The Company has natural gas distribution mains of approximately 3,897 miles in Washington and Idaho and 1,755 miles in Oregon and California, as of December 31, 1998.

The Company, NWP and Puget Sound Energy each own a one-third undivided interest in the Storage Project, which has a total peak day deliverability of 5.7 million therms, with a total working natural gas inventory of 155.2 million therms.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Outstanding shares of Common Stock are listed on the New York and Pacific Stock Exchanges. As of February 26, 1999, there were approximately 23,758 registered shareholders of the Company's no par value Common Stock.

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Future Outlook for additional information about common stock dividends.

Refer to Notes 1 and 17 of Notes to Financial Statements for additional information. For high and low stock price information, refer to Note 23 of Notes to Financial Statements.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Avista Corporation (Avista Corp. or the Company), formerly The Washington Water Power Company, operates as a regional utility providing electric and natural gas sales and services and as a national entity providing both energy and non-energy products and services. The utility portion of the Company, doing business as Avista Utilities, consists of two lines of business which are subject to state and federal price regulation -- (1) Energy Delivery and (2) Generation and Resources. The national businesses are conducted under Avista Capital, which is the parent company to the Company's subsidiaries.

The Energy Delivery line of business includes transmission and distribution services for retail electric operations, all utility natural gas operations, and other energy products and services. Costs associated with electric energy commodities, such as purchased power expense, as well as the revenues attributable to the recovery of such costs from retail customers, have been eliminated from the Energy Delivery line of business and are reflected in the results of the Generation and Resources line of business. The results of all natural gas operations are included in the Energy Delivery line of business because natural gas trackers allow natural gas costs to pass through within this line of business without the commodity prices having a material income effect. Usage by retail customers varies from year to year primarily as a result of weather conditions, customer growth and the economy in the Company's service area. Other factors which may influence long-term energy usage include conservation efforts, appliance efficiency and other technology.

The Generation and Resources line of business includes the generation and production of electric energy, and short- and long-term electric and natural gas sales trading and wholesale marketing, primarily to other utilities and power brokers in the Western Systems Coordinating Council (WSCC). Energy trading includes short-term sales and purchases, such as next hour, next day and monthly blocks of energy. Wholesale marketing includes sales and purchases under long-term contracts with one-year and longer terms. Generation and Resources manages the Company's electric energy resource portfolio, which is used to serve Energy Delivery's retail electric customers and Generation and Resources' wholesale electric customers. In managing the electric energy resource portfolio, Generation and Resources seeks to optimize the availability and operations of generation resources. Revenues and the cost of electric power purchases vary from year to year depending on the electric wholesale power market, which is affected by several factors, including the availability of water for hydroelectric generation, the availability of base load plants in the region, marginal fuel prices and the demand for power in other areas of the country. Other factors affecting the wholesale power market include lower unit margins on new sales contracts than were realized in the past, fewer long-term power contracts being entered into, deregulation of the electric utility industry and competition from low cost generation being developed by independent power producers.

Avista Capital is the parent company to the National Energy Trading and Marketing and Non-energy businesses. In order to proactively respond to deregulation, the Company created the National Energy Trading and Marketing line of business, which is comprised of Avista Energy, Avista Advantage and Avista Power. Avista Energy focuses on commodity trading, energy marketing and other related businesses on a national basis, which includes conducting business within the WSCC. Avista Energy's business is affected by several factors, including the demand for and availability of power throughout the United States, lower unit margins on new sales contracts, fewer long-term power contracts being entered into, marginal fuel prices and deregulation of the electric utility industry. Avista Advantage provides a variety of energy-related products and services to commercial and industrial customers on a national basis. Its primary product lines include consolidated billing, resource accounting, energy analysis and load profiling. Avista Power was formed in December 1998 to develop and own generation assets primarily in support of Avista Energy. See Liquidity and Capital Resources: Risk Management.

The Non-energy business is conducted primarily by Pentzer Corporation (Pentzer), which is the parent company to the majority of the Company's Non-energy businesses. Pentzer's business strategy is such that its earnings result from both transactional and non-transactional earnings. Transactional gains arise from a one-time event or a specific transaction, such as the sale of an investment or individual company from Pentzer's portfolio of investments. Non-transactional earnings arise out of the ongoing operations of the individual portfolio companies.

Changes underway in the utility and energy industries are creating new opportunities to expand the Company's businesses and serve new markets. In pursuing such opportunities, the Company is shifting its strategic direction to growth in order to achieve its goal of becoming a diversified North American energy company.

RESULTS OF OPERATIONS

Overall Operations

1998 compared to 1997

Overall reported earnings per share for 1998 were $1.28, compared to $1.96 in 1997. The primary factors causing the decrease from 1997 were an income tax recovery, net of associated items, which increased 1997 earnings per share by $0.49, and decreased operating income from the Generation and Resources line of business in 1998. In addition, in December 1998, the Company exchanged 15,404,595 shares of its common stock for shares of

$47 million in accrued interest, which in total contributed $41.4 million, or $0.74 per share, to net income. (See Note 8 of Notes to Financial Statements for additional information about the income tax recovery.)

Income taxes increased $11.6 million, or 23%, in 1997 over 1996. The increased taxes in 1997 were primarily due to the taxes on the interest income received as a part of the income tax recovery, partially offset by an $11.4 million income tax benefit associated with the income tax recovery and adjustments related to revised estimates on certain tax issues.

Preferred stock dividend requirements decreased $2.6 million in 1997 from 1996 due to the redemption of $20 million in Preferred Stock, Series I in June 1997 and the redemption of the entire $50 million Flexible Auction Preferred Stock, Series J in August 1997. These securities were redeemed with a portion of the proceeds of the Preferred Trust Securities which were issued in January and June 1997. However, as described above, distributions on the Preferred Trust Securities are accounted for in interest expense, not preferred dividends.

Energy Delivery

1998 compared to 1997

Energy Delivery's income from operations increased $3.2 million in 1998 over 1997 primarily due to increased revenues in 1998. Energy Delivery's operating revenues increased $29.2 million, while operating expenses increased $26.0 million during 1998 as compared to 1997.

Total electric retail revenues increased $1.8 million in 1998 as compared to 1997, primarily as a result of increased commercial and industrial revenues, partially offset by decreased revenues from residential customers. Total natural gas revenues increased $27.4 million in 1998 over 1997, primarily due to a combination of 4.4% customer growth, increased natural gas prices approved by the Washington Utilities and Transportation Commission (WUTC), effective in January 1998, and an increase in non-retail sales, partially offset by decreased customer usage as a result of weather 13% warmer than normal in 1998 as compared to 5% warmer than normal in 1997.

Natural gas purchased costs increased $15.3 million in 1998 due to increased sales volumes as a result of customer growth and higher non-retail sales. Administrative and general expenses increased $7.0 million due primarily to executive changes, corporate name change expenses and incentives. Depreciation and amortization increased $2.0 million due to higher amounts of plant-in-service.

1997 compared to 1996

Energy Delivery's income from operations increased $24.3 million, or 27%, in 1997 over 1996 primarily due to $17.1 million in pre-tax expenses associated with the storm damage on the Company's electric distribution system in 1996. Energy Delivery's operating revenues increased $0.1 million, while expenses decreased $24.2 million during 1997 as compared to 1996.

On November 19, 1996, the eastern Washington and northern Idaho region experienced an ice storm that resulted in damage to the Company's electric transmission and distribution system. The Company's service area was affected by continuing snow and rain, which hampered the Company's efforts to restore electric service to some customers until December 1, 1996. Initially, over one-third, or 100,000, of the Company's retail electric customers were without electric service. Repairing the damage to the Company's system cost approximately $21.8 million, of which $17.1 million (pre-tax) was attributable to operations and maintenance expenses, including labor and materials, for the repair of damaged lines, transformers and other equipment. The remainder of the cost represents capital expenditures to replace poles and other equipment damaged beyond repair.

Total electric retail revenues increased $5.6 million in 1997 as compared to 1996, primarily as a result of increased transmission revenues, partially offset by decreased revenues from retail electric customers. Transmission revenues increased $7.6 million in 1997 over 1996 due to increased wholesale electric sales. Electric retail revenues decreased $3.4 million, primarily due to decreased industrial sales as a result of the DADS tariff and other adjustments, partially offset by a 1.6% growth in retail customers during 1997. Total natural gas revenues decreased $5.5 million in 1997 from 1996, primarily due to decreased therm sales as a result of weather 5% warmer than normal in 1997, compared to 9% colder than normal in 1996, and decreased natural gas prices, partially offset by an increase in non-retail sales and 5.7% customer growth.

Operating and maintenance expenses decreased $21.4 million in 1997 from 1996 primarily due to the $17.1 million in expenses recorded in 1996 related to the storm damage on the Company's electric distribution system. Natural gas purchased expense decreased $2.7 million in 1997 from 1996 primarily due to lower therm sales as a result of warmer weather.

National Energy Trading and Marketing's total assets and liabilities increased by approximately $739.9 million from December 31, 1997 to December 31, 1998. This increase resulted primarily from the increased volume of transactions, as well as the impact of the market's price volatility on forward price curves, which increased the valuation of Avista Energy's mark-to-market assets and liabilities.

1997 compared to 1996

National Energy Trading and Marketing's income from operations increased $4.0 million in 1997 over 1996. This increase was primarily due to Avista Energy becoming operational, partially offset by continued start-up costs at both Avista Energy and Avista Advantage and, for the energy services business, customers and revenue streams that did not materialize as expected and a longer than anticipated sales cycle. National Energy Trading and Marketing's operating revenues and expenses increased $247.5 million and $243.5 million, respectively, during 1997 as compared to 1996.

Non-Energy

1998 compared to 1997

Non-energy income available for common stock for 1998 was $9.8 million, which was a $1.8 million decrease from 1997 earnings. Transactional gains decreased to $4.3 million in 1998 from $7.3 million in 1997, while non-transactional earnings from Pentzer's portfolio companies increased $2.2 million. The non-transactional earnings included an approximate $4.4 million after-tax loss in the fourth quarter at a Pentzer operating company due to a business repositioning and an inventory adjustment.

Income from operations totaled $9.7 million, which was a $0.8 million increase over 1997. Non-energy operating revenues and expenses increased $68.3 million and $67.5 million, respectively, primarily as a result of acquisitions and increased business activity from several of Pentzer's portfolio companies.

1997 compared to 1996

Non-energy net income for 1997 was $11.5 million, which represents a $10.7 million, or 48%, decrease from 1996. The decrease in 1997 earnings primarily resulted from transactional gains recorded by Pentzer in 1997 totaling $7.3 million, from the sale of Itron stock and the sale of a portfolio company, compared to transactional gains during 1996 totaling $15.1 million, net of taxes and other adjustments, as a result of the sale of property by one of its subsidiary companies and the sale of stock in Itron.

Operating income decreased $6.1 million in 1997 from 1996 primarily as a result of lower earnings contributions from Pentzer portfolio companies. Non-energy operating revenues and expenses increased $18.2 million and $24.2 million, respectively, primarily as a result of acquisitions.

From time to time the Company enters into sale/leaseback arrangements for various long-term assets which provide additional sources of funds. See Note 12 of Notes to Financial Statements for additional information.

In December 1998, the Company assigned and transferred certain rights under a long-term power sales contract to a funding trust. In return, the Company received approximately $143.4 million, representing the present value of the cash flows for the majority of the remaining payments due under the long-term sales contract. The Company utilized the funds to repay short-term bank borrowings and other debt.

The Company is restricted under various agreements as to the additional securities it can issue. Under the most restrictive test of the Company's Mortgage, an additional $623 million of First Mortgage Bonds could be issued as of December 31, 1998. As of December 31, 1998, under its Restated Articles of Incorporation, approximately $715 million of additional preferred stock could be issued at an assumed dividend rate of 6.95%.

During the 1999-2001 period, utility capital expenditures are expected to be $283 million, and $127.5 million will be required for long-term debt maturities and preferred stock sinking fund requirements. During this three-year period, the Company estimates that internally-generated funds will provide approximately 80% of the funds needed for its capital expenditure program. External financing will be required to fund a portion of capital expenditures, maturing long-term debt and preferred stock sinking fund requirements. Sources of funds would include, but are not necessarily limited to, cash flows from the reduction in the Company's common stock dividend, sales of certain assets, additional long-term debt, leasing or other equity securities. These estimates of capital expenditures are subject to continuing review and adjustment. Actual capital expenditures may vary from these estimates due to factors such as changes in business conditions, construction schedules and environmental requirements.

See Notes 2, 10, 11, 12, 13, 14, 15, 16 and 17 of Notes to Financial Statements for additional details related to financing activities.

National Energy Trading and Marketing Operations

During 1998, the Company invested $65.1 million in the common equity of Avista Capital. Avista Capital utilized the majority of the proceeds from this investment to increase its total investment in the common equity of Avista Energy to $106.7 million. Avista Energy funds its ongoing operations with a combination of internally-generated cash and external financing. The Company expects continued significant growth in Avista Energy's national energy trading and marketing business activities. This rapid growth will require increased capital investment, as well as an increased need for credit and financial support.

Effective December 23, 1998, Avista Energy arranged for an increase in its credit facility with a commercial bank from $50 million to $100 million. The credit agreement expires April 1, 1999. The facility provides capital resources to accommodate growth, principally in the form of letters of credit used to enhance credit for natural gas and electricity purchases. The credit facility also provides Avista Energy liquidity in the form of short-term borrowings used to finance inventory and receivables. The maximum cash component of credit extended by the bank is $30 million, with availability of up to $100 million in the issuance of letters of credit. The credit agreement may be terminated by the bank at any time and all extension of credit under the agreement are payable upon demand, in either case at the bank's sole discretion. The facility is guaranteed by Avista Capital and is secured by substantially all of Avista Energy's assets. At December 31, 1998 and 1997, there were no cash advances (demand notes payable) outstanding. Letters of credit outstanding under the facility totaled approximately $20.2 million and $2.8 million at December 31, 1998 and 1997, respectively. See Note 11 of Notes to Financial Statements for additional information.

At December 31, 1998, the National Energy Trading and Marketing operations had $38.0 million in cash and cash equivalents and $0.9 million in long-term debt outstanding.

The 1999-2001 National Energy Trading and Marketing capital expenditures are expected to be $10.1 million.

Non-Energy Operations

Capital expenditures for the non-energy operations were $28.0 million for the 1996-1998 period. During this period, $45.5 million of debt was repaid and capital expenditures were partially financed by the $62.6 million in proceeds from new long-term debt.

The Company's growth strategy will expose the Company to risks associated with rapid expansion, challenges in recruiting and retaining qualified personnel, risks associated with acquisitions and joint ventures and increasing competition. In addition, growth in the energy trading and marketing business will expose the Company to increased financial and credit risks associated with commodity trading activities. The Company believes that its extensive experience in the electric and natural gas business, coupled with its strong management team, will allow the Company to effectively manage its transition to a diversified North American energy company.

Energy

The Company seeks to strengthen its position of leadership in energy delivery and generation as well as energy trading and marketing on a local, regional and national basis. The Company will seek to increase its asset and customer base through a focus on acquisitions and strategic alliances in all parts of its business. The Company intends to focus on growing its core energy business by seeking to acquire control of physical assets, specifically power generation assets and electric and natural gas transmission and distribution assets. The Company expects that initial growth will come at a local and regional level, with national growth to follow. Key strengths of the Company today include its position as one of the lowest cost producers of power in the nation, expertise in hydroelectric and power system management, plus capabilities in trading and wholesale and retail marketing of natural gas and electric energy. The Company is also continuing to develop a unique approach to commercialization of fuel cell technology.

Locally. The Company is a long-standing leader in the Northwest region of the United States, providing some of the lowest cost energy to its customers. The Company's strategy is to add selectively to its already strong foundation of state-regulated utility assets to solidify its position as a leading supplier of low-cost electric and natural gas energy services.

Regionally. The Company intends to add to its regulated and non-regulated assets on a regional basis and participate in industry consolidation to further optimize its assets and create greater economies of scale. In addition to energy delivery and generation, the Company plans to concentrate on growing its energy trading and marketing business. The strong growth in this business is driven by the Company's significant base of knowledge and experience in the operation of physical systems – for both natural gas and electric energy – in the region, as well as its relationship-focused approach to the customer. The Company will also focus on expanding its telecommunications business through its newest subsidiary, Avista Communications. (See Note 21 of Notes to Financial Statements for additional information about this subsidiary.)

Nationally. The Company's strong regional energy trading and marketing skills serve as a platform for the Company's growing national presence. The Company will seek to expand its customer base through relationships with other energy providers outside the Company's Northwest stronghold, thereby leveraging its existing trading and marketing skills, as well as through its Internet-based specialty billing and information services.

Non-Energy

The Company conducts the majority of its non-energy business through Pentzer, its wholly owned subsidiary. Pentzer's business strategy is to acquire controlling interests in a broad range of middle market companies, facilitate improved productivity and growth, and ultimately sell such companies to the public or a strategic buyer.

Competition and Business Risk

The Company continues to compete for new retail electric customers with various rural electric cooperatives and public utility districts in and adjacent to its service territories. Challenges facing the retail electric business include evolving technologies that provide alternate energy supplies, the cost of the energy supplied, the potential for retail wheeling, self-generation and fuel switching by commercial and industrial customers and increasingly stringent environmental laws. When electric utility companies are required to provide retail wheeling service, the Company believes it will be in a position to benefit since it is committed to remaining one of the country's lowest-cost providers of electric energy. Consequently, the Company believes it faces minimal risk for stranded generation, transmission or distribution assets due to its low cost structure. The Company's need for new future electric resources to serve retail loads is expected to remain very minimal.

Natural gas remains priced competitively compared to other alternative fuel sources for residential, commercial and industrial customers and is projected to remain so into the future due to abundant supplies and competition. Challenges facing the Company's retail natural gas business include the potential for customers to by-pass the Company's natural gas system. To reduce the potential for such by-pass, the Company prices its natural gas services,

River that are being directly impacted by ongoing mitigation measures for spring chinook, salmon and steelhead. The reduction in generation at these projects is relatively minor, resulting in minimal economic impact on the Company at this time. It is currently not possible to accurately predict the likely economic costs to the Company resulting from all future actions.

The Company is currently in the process of relicensing the Cabinet Gorge and Noxon Rapids hydroelectric projects on the Clark Fork River in northern Idaho and western Montana. The restoration of native salmonid fish, in particular bull trout, is a principal focus for the members of the collaborative relicensing team. Bull trout are native to this area and a "threatened" listing for bull trout occurred in 1998 under the ESA. The Company is working closely with the U.S. Fish and Wildlife Service, Native American tribes and the states of Idaho and Montana to institute coordinated recovery measures on the lower Clark Fork River. A settlement agreement reached in conjunction with the filing in February 1999 for new FERC licenses establishes a plan for bull trout restoration, including annual budget estimates.

Relicensing studies in 1997 and 1998 indicated very high levels of atmospheric gas supersaturation below Cabinet Gorge Dam during periods of heavy spill. The settlement agreement provides for additional studies to identify what, if any, effects there are to aqueous resources and whether abatement measures, and what type, will be required at Cabinet Gorge.

See Note 20 of Notes to Financial Statements for additional information.

Year 2000

The Company continues to move forward with a comprehensive program to address areas of risk associated with the Year 2000. Systems and programs that may be affected by the Year 2000 problem have been identified and activities are underway to make these systems Year 2000 ready. At this time, it is the Company's belief that all identified modifications that are within the Company's operating control will be made within the required time frames.

State of Readiness

In order to address Year 2000 issues, several project activity teams were created and a comprehensive readiness plan was developed to bring the Company's business critical systems into Year 2000 readiness by the middle of 1999. The Company defines business critical systems as systems that directly affect the Company's ability to deliver energy services to customers. The Company's Year 2000 project was originally divided into four major categories of activities: Desktop Computer Systems, Business Systems, Supply Chain and Embedded Systems. Contingency Planning developed into its own category in late 1998.

Desktop Computer Systems All desktop computer hardware has been Year 2000 tested and an inventory and assessment of desktop resident third-party software has been completed. The Company expects hardware remediation to be completed by mid-1999. All non-compliant third-party software programs and critical business desktop applications are expected to be upgraded, converted, tested and made Year 2000 ready by the middle of 1999.

Business Systems Many of the Company's critical business systems would not have operated correctly in the year 2000 and beyond, and thus have been or are in the process of being re-programmed, upgraded or replaced. Key business systems have been inventoried and assessed. The Company has completed remediating all mainframe computer code that required fixing to address the Year 2000 issue and testing has been completed on all but two of the Company's mainframe computer business systems. Testing of the two remaining mainframe business systems is scheduled to be completed before the end of April 1999. Implementation of a new Materials Management system is scheduled for late 1999. The Company is in the process of developing alternative plans in the unlikely event the Company is unable to implement the new Materials Management System before the year 2000. A failure of these systems would not jeopardize the Company's ability to deliver energy services to customers, but might affect its ability to perform selected accounting and business-related functions. The Company has completed testing and remediation of approximately 85% of its business critical systems.

Supply Chain The Company recognizes its dependence on outside suppliers of goods and services and is working to assure that the necessary products and services are available. To address these issues, the Company has communicated with suppliers and identified critical suppliers in order to investigate their efforts to become Year 2000 ready. In addition, the Company has made site visits to select key suppliers and will be reviewing their contingency plans.

experience Year 2000 problems (including, but not limited to, problems arising out of failures in the generation or transmission systems of utilities or other energy suppliers), such problems could impair the ability of Avista Energy or any of its counterparties to fulfill their contractual obligations. Avista Energy is in the process of contacting its counterparties to assess their Year 2000 readiness and of developing contingency plans. See "Energy Trading Business".

Natural Gas The Company has performed an inventory and assessment of the equipment in its natural gas distribution systems and believes that there are no devices in the systems that will cause a disruption in the delivery of natural gas to customers due to a Year 2000 problem. However, the Company depends on natural gas pipelines which it does not own or control, and if one or more of the pipelines is unable to deliver natural gas, the Company in turn will be unable to deliver natural gas to customers. In order to address this issue, the Company has contacted each of the natural gas pipeline companies with which it has contracts to assess their Year 2000 readiness efforts and will continue to take reasonable steps to ensure that these suppliers are addressing any Year 2000 related problems that would result in a disruption in natural gas services to customers.

Energy Trading Business

The participants in the emerging wholesale energy market are public utility companies and, increasingly, power marketers which may or may not be affiliated with public utility companies or other entities. The participants in this market trade not only electricity and natural gas as commodities but also derivative commodity instruments such as futures, forwards, swaps, options and other instruments. This market is largely unregulated and most transactions are conducted on an "over-the-counter" basis, there being no central clearing mechanism (except in the case of specific instruments traded on the commodity exchanges). Power marketers, whether or not affiliated with other entities, generally do not own production facilities and are not subject to net capital or other requirements of any regulatory agency.

The Company (to the extent that the Generation and Resources segment conducts energy trading) and Avista Energy are subject to the various risks inherent in commodity trading including, particularly, market risk and credit risk.

Market risk is, in general, the risk of fluctuation in the market price of the commodity being traded and is influenced primarily by supply (in the case of electricity, adequacy of generating reserve margins as well as scheduled and unscheduled outages of generating facilities) and demand (extreme variations in the weather, whether or not predicted). Market risk includes the risk of fluctuation in the market price of associated derivative commodity instruments. All market risk is influenced to the extent that the performance or non-performance by market participants of their contractual obligations and commitments affect the supply of, or demand for, the commodity.

Credit risk relates to the risk of loss that the Company (to the extent of Generation and Resources' trading activities) and/or Avista Energy would incur as a result of non-performance by counterparties of their contractual obligations under the various instruments with the Company or Avista Energy, as the case may be. Credit risk may be concentrated to the extent that one or more groups of counterparties have similar economic, industry or other characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in market or other conditions. In addition, credit risk includes not only the risk that a counterparty may default due to circumstances relating directly to it, but also the risk that a counterparty may default due to circumstances which relate to other market participants which have a direct or indirect relationship with such counterparty. The Company and Avista Energy seek to mitigate credit risk (and concentrations thereof) by applying specific eligibility criteria to prospective counterparties. However, despite mitigation efforts, defaults by counterparties occur from time to time. To date, no such default has had a material adverse effect on the Company or Avista Energy.

Avista Capital provides guarantees for Avista Energy's line of credit agreement, and in the course of business may provide guarantees to other parties with whom Avista Energy may be doing business. The Company's investment in Avista Capital totaled $271.8 million at December 31, 1998.

Risk Management

The risk management process established by the Company is designed to measure both quantitative and qualitative risk in the business. The Company and Avista Energy have adopted policies and procedures to manage the risks inherent in their businesses and have established a comprehensive Risk Management Committee, separate from the units that create the risk exposure and overseen by the Audit and Finance Committee of the Company's Board of Directors, to

(see Note 21 for additional information about these acquisitions). The Company's exposure to foreign currency risk and other foreign operations risk was immaterial to the Company's consolidated results of operations and financial position in 1998 and is not expected to change materially in the near future.

Other

On July 28, 1998, the United States District Court for the District of Idaho issued its finding that the Coeur d' Alene Tribe of Idaho (Tribe) owns the bed and banks of the Coeur d' Alene Lake and the St. Joe River lying within the current boundaries of the Coeur d' Alene Reservation. The disputed bed and banks comprise approximately the southern one-third of the Coeur d' Alene Lake. This action had been brought by the United States on behalf of the Tribe against the State of Idaho. The decision has been appealed by the State of Idaho to the Ninth Circuit. While the Company is not a party to this action, it is meeting with the Tribe to evaluate the impact of this decision on storage rights on the reservoir and operation of the Company's hydroelectric facilities on the Spokane River, downstream of the Coeur d' Alene Lake, which is the reservoir for these plants.

The Board of Directors considers the level of dividends on the Company's common stock on a continuing basis, taking into account numerous factors including, without limitation, the Company's results of operations and financial condition, as well as general economic and competitive conditions. The Company's net income available for dividends is derived from its retail electric and natural gas utility operations.

Safe Harbor for Forward-Looking Statements

The Company is including the following cautionary statement in this Form 10-K to make applicable and to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions (many of which are based, in turn, upon further assumptions) and are all statements which are other than statements of historical fact, including without limitation those that are identified by the use of the words "anticipates," "estimates," "expects," "intends," "plans," "predicts," and similar expressions. From time to time, the Company may publish or otherwise make available forward-looking statements of this nature. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of the Company, are also expressly qualified by these cautionary statements.

Forward-looking statements involve risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed. The Company's expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including without limitation management's examination of historical operating trends, data contained in the Company's records and other data available from third parties, but there can be no assurance that the Company's expectations, beliefs or projections will be achieved or accomplished. Furthermore, any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances that occur after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on the Company's business or the extent to which any such factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

Energy Delivery and Generation and Resources Operations --

In addition to other factors and matters discussed elsewhere herein, some important factors that could cause actual results or outcomes for the Company and its Energy Delivery and Generation and Resources operations to differ materially from those discussed in forward-looking statements include prevailing legislative developments, governmental policies and regulatory actions with respect to allowed rates of return, financings, or industry and rate structures, weather conditions, wholesale and retail competition (including but not limited to electric retail wheeling and transmission cost), availability of economic supplies of natural gas, present or prospective natural gas distribution or transmission competition (including but not limited to prices of alternative fuels and system deliverability costs), recovery of purchased power and purchased gas costs, present or prospective generation, operations and construction of plant facilities, and acquisition and disposal of assets or facilities.

INDEPENDENT AUDITORS' REPORT

Avista Corporation
Spokane, Washington

We have audited the accompanying consolidated balance sheets and statements of capitalization of Avista Corporation and subsidiaries (the Company) as of December 31, 1998 and 1997, and the related consolidated statements of income, comprehensive income and retained earnings, and cash flows, which include the schedule of information by business segments for each of the three years in the period ended December 31, 1998. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

Seattle, Washington
January 29, 1999
(February 1, 1999, as to Note 21 and March 10, 1999, as to Note 20)

CONSOLIDATED BALANCE SHEETS

Avista Corporation

At December 31

Thousands of Dollars

	1998	1997
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$72,836	$30,593
Temporary cash investments	5,786	22,641
Accounts and notes receivable-net	456,857	176,882
Energy commodity assets	335,224	76,449
Materials and supplies, fuel stock and natural gas stored	42,140	42,148
Prepayments and other	55,753	28,130
Total current assets	968,596	376,843
UTILITY PROPERTY:		
Utility plant in service-net	2,095,301	2,031,026
Construction work in progress	45,391	37,446
Total	2,140,692	2,068,472
Less: Accumulated depreciation and amortization	669,750	635,349
Net utility plant	1,470,942	1,433,123
OTHER PROPERTY AND INVESTMENTS:		
Investment in exchange power-net	62,577	69,013
Non-utility properties and investments-net	206,773	195,046
Energy commodity assets	236,644	13,103
Other-net	26,016	20,065
Total other property and investments	532,010	297,227
DEFERRED CHARGES:		
Regulatory assets for deferred income tax	171,037	176,682
Conservation programs	49,114	53,338
Unamortized debt expense	28,414	23,978
Prepaid power purchases	5,273	18,134
Other-net	28,250	32,460
Total deferred charges	282,088	304,592
TOTAL	$3,253,636	$2,411,785
LIABILITIES AND CAPITALIZATION:		
CURRENT LIABILITIES:		
Accounts payable	$406,457	$154,312
Energy commodity liabilities	330,957	70,135
Taxes and interest accrued	38,628	35,705
Other	88,151	79,586
Total current liabilities	864,193	339,738
NON-CURRENT LIABILITIES AND DEFERRED CREDITS:		
Non-current liabilities	34,815	25,515
Deferred revenue (Note 1)	145,124	-
Energy commodity liabilities	207,948	10,556
Deferred income taxes	357,702	352,749
Other deferred credits	11,571	17,230
Total non-current liabilities and deferred credits	757,160	406,050
CAPITALIZATION (See Consolidated Statements of Capitalization)	1,632,283	1,665,997
COMMITMENTS AND CONTINGENCIES (Notes 9, 12 and 20)		
TOTAL	$3,253,636	$2,411,785

The Accompanying Notes are an Integral Part of These Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

Avista Corporation

For the Years Ended December 31

Thousands of Dollars

	1998	1997	1996
OPERATING ACTIVITIES:			
Net income	$ 78,139	$ 114,797	$ 83,453
NON-CASH ITEMS INCLUDED IN NET INCOME:			
Depreciation and amortization	70,547	69,893	72,097
Provision for deferred income taxes	10,402	37,122	12,505
Allowance for equity funds used during construction	(1,283)	(1,323)	(1,072)
Power and natural gas cost deferrals and amortizations	(3,512)	(16,470)	666
Monetization of contract			
Deferred revenues and other-net	(6,313)	(389)	(215)
(Increase) decrease in working capital components:			
Sale of customer accounts receivables-net	(15,000)	-	-
Receivables and prepaid expense	(246,873)	(39,733)	(26,333)
Materials & supplies, fuel stock and natural gas stored	9,524	(8,050)	7,741
Payables and other accrued liabilities	246,208	55,163	21,618
Other	(17,336)	13,774	7,103
Monetization of contract	143,400	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	267,903	224,784	177,563
INVESTING ACTIVITIES:			
Construction expenditures (excluding AFUDC-equity funds)	(92,942)	(89,016)	(91,279)
Other capital requirements	(14,920)	(11,696)	(1,399)
(Increase) decrease in other noncurrent balance sheet items-net	27,266	(3,765)	18,565
Proceeds from sale of subsidiary investments	16,385	11,606	-
Assets acquired and investments in subsidiaries	(52,780)	(43,308)	(29,225)
NET CASH USED IN INVESTING ACTIVITIES	(116,991)	(136,179)	(103,338)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings	(108,500)	23,500	55,500
Proceeds from issuance of preferred trust securities	-	110,000	-
Proceeds from issuance of long-term debt	84,000	20,000	-
Redemption and maturity of long-term debt	(14,000)	(51,500)	(38,000)
Redemption of preferred stock	(10,000)	(70,000)	(20,000)
Sale (repurchase) of common stock	(1,475)	-	216
Cash dividends paid	(64,548)	(75,329)	(77,318)
Other-net	5,854	(22,894)	8,424
NET CASH USED IN FINANCING ACTIVITIES	(108,669)	(66,223)	(71,178)
NET INCREASE IN CASH & CASH EQUIVALENTS	42,243	22,382	3,047
CASH & CASH EQUIVALENTS AT BEGINNING OF PERIOD	30,593	8,211	5,164
CASH & CASH EQUIVALENTS AT END OF PERIOD	$ 72,836	$ 30,593	$ 8,211
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the period:			
Interest	$ 64,402	$ 63,608	$ 56,893
Income taxes	40,716	29,132	49,447
Noncash financing and investing activities:			
Property purchased under capitalized leases	1,209	4,521	4,356
Notes receivable in exchange for land	-	-	29,913
Net unrealized holding gains (losses)	-	(5,050)	(13,680)
Notes receivable for sale of investment	25,000	-	-
Common stock and retained earnings transfer to preferred stock	276,821	-	-

The Accompanying Notes are an Integral Part of These Statements.

INCOME AVAILABLE FOR COMMON STOCK:			
Energy Delivery and Generation and Resources	$47,898	$95,385	$54,426
National Energy Trading and Marketing	12,064	2,488	(1,161)
Non-energy	9,778	11,532	22,210
Total income available for common stock	$69,740	$109,405	$75,475
ASSETS:			
Energy Delivery	$1,120,323	$1,051,585	$1,014,451
Generation and Resources	619,086	620,142	683,599
Other utility	265,526	255,012	223,379
National Energy Trading and Marketing	957,421	214,630	899
Non-energy	291,280	270,416	254,970
Total assets	$3,253,636	$2,411,785	$2,177,298
CAPITAL EXPENDITURES (excluding AFUDC/AFUCE):			
Energy Delivery	$76,587	$75,499	$80,095
Generation and Resources	15,708	11,676	8,726
National Energy Trading and Marketing	2,985	4,056	-
Non-energy	10,990	7,951	2,339
Total capital expenditures	$106,270	$99,182	$91,160

The Accompanying Notes are an Integral Part of These Statements.

activity of each of the Company's lines of business is reported in the "Schedule of Information by Business Segments." Such information is an integral part of these financial statements.

The preparation of the Company's consolidated financial statements in conformity with generally accepted accounting principles necessarily requires management to make estimates and assumptions that directly affect the reported amounts of assets, liabilities, revenues and expenses.

Allocation of Revenues and Expenses for Reporting Business Segments
A portion of the utility's revenues and expenses have been allocated between the two business segments in order to report results of operations by the individual lines of business – (1) Energy Delivery and (2) Generation and Resources. The Energy Delivery business reports the results of the Company's transmission and distribution services for retail electric operations and all natural gas operations. Costs associated with electric energy commodities, such as purchased power expense, as well as the revenues attributable to the recovery of such costs from retail customers, have been eliminated from the Energy Delivery line of business and are reflected in the results of the Generation and Resources line of business. The transfer of revenues between the two utility lines of business occurs through the use of a transfer price, primarily based on cost of production studies, that is associated with the sale of a kilowatthour of electricity. The results of all natural gas operations are included in the Energy Delivery line of business because natural gas trackers allow natural gas costs to pass through within that line of business without the commodity prices having a material income effect. The Generation and Resources line of business includes the generation and production of electric energy, and short- and long-term electric and natural gas commodity trading and wholesale marketing primarily to other utilities and power brokers in the western United States.

System of Accounts
The accounting records of the Company's utility operations are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by the appropriate state regulatory commissions.

Regulation
The Company is subject to state regulation in Washington, Idaho and Montana for its electric operations. Natural gas operations are regulated in Washington, Idaho, Oregon and California. The Company is subject to regulation by the FERC with respect to its wholesale electric transmission rates and the natural gas rates charged for the release of capacity from the Jackson Prairie Storage Project.

Operating Revenues
The Company accrues estimated unbilled revenues for electric and natural gas sales and services provided through month-end. Avista Energy follows the mark-to-market method of accounting for energy contracts entered into for trading and price risk management purposes. Avista Energy recognized revenue based on the change in the market value of outstanding derivative commodity sales contracts, net of future servicing costs and reserves, in addition to revenue related to physical and financial contracts that have matured.

Other Income (Deductions)—net
Other income (deductions)-net is composed of the following items:

	Years Ended December 31,		
	1998	1997	1996
	(Thousands of Dollars)		
Interest income	$ 9,560	$ 6,392	$ 5,760
Capitalized interest (debt)	1,592	1,549	1,290
Gain (loss) on property dispositions	12	(1,222)	(152)
Minority interest	296	(574)	(1,193)
Capitalized interest (equity)	1,283	1,323	1,072
Other	(2,949)	(13,341)	(5,586)
Total	$ 9,794	$ (5,873)	$ 1,191

Earnings Per Share
Financial Accounting Standard (FAS) No. 128, "Earnings Per Share," became effective in the fourth quarter of 1997 and requires two presentations of earnings per share – "basic" and "diluted." Basic earnings per share (EPS) is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if dilutive securities, such as stock options and convertible stock, were exercised or converted into common stock that then shared in the earnings of the Company. See Note 18 for more information regarding the EPS calculations.

Utility Plant
The cost of additions to utility plant, including an allowance for funds used during construction and replacements of units of property and betterments, is capitalized. Costs of depreciable units of property retired plus costs of removal less salvage are charged to accumulated depreciation.

Power and Natural Gas Cost Adjustment Provisions
The Company has a power cost adjustment mechanism (PCA) in Idaho which allows the Company to modify electric rates to recover or rebate a portion of the difference between actual and allowed net power supply costs. The PCA tracks changes in hydroelectric generation, secondary prices, related changes in thermal generation and Public Utility Regulatory Policies Act of 1978 (PURPA) contracts. Rate changes are triggered when the deferred balance reaches $2.2 million. A $3.1 million (2.7%) rebate was effective February 1, 1999, which will expire January 31, 2000. The following surcharges and rebates were in effect during the past three years: a $2.7 million (2.4%) rebate effective June 1, 1998, which will expire May 31, 1999; a $2.6 million (2.3%) rebate effective September 1, 1997, which expired August 31, 1998; a $2.6 million (2.4%) rebate effective June 1, 1997, which expired May 31, 1998; a $2.5 million (2.3%) rebate effective September 1, 1996, which expired August 31, 1997; and a $2.3 million (2.4%) surcharge effective September 1, 1995, which expired August 31, 1996. The rebates balance and the deferred balance are included in the Current Liabilities - Other and Non-Current Liabilities and Deferred Credits - Other Deferred Credits lines, respectively, on the Consolidated Balance Sheets.

Under established regulatory practices, the Company is also allowed to adjust its natural gas rates from time to time to reflect increases or decreases in the cost of natural gas purchased. Differences between actual natural gas costs and the natural gas costs allowed in rates are deferred and charged or credited to expense when regulators approve inclusion of the cost changes in rates. In Oregon, regulatory provisions include a sharing of benefits and risks associated with changes in natural gas prices, as well as a sharing of benefits if certain threshold earnings levels are exceeded. The balance is included on the Consolidated Balance Sheets as Non-current Liabilities and Deferred Credits - Other Deferred Credits.

Income Taxes
The Company and its eligible subsidiaries file consolidated federal income tax returns. Subsidiaries are charged or credited with the tax effects of their operations on a stand-alone basis. The Company's federal income tax returns have been examined with all issues resolved, and all payments made, through the 1994 return.

Stock-Based Compensation
Compensation cost for stock options is measured as the excess of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. Restricted stock is recorded as compensation cost over the requisite vesting periods based on the market value on the date of grant. The Company accounts for its stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" rather than using the fair-value-based method of accounting for stock-based employee compensation plans as prescribed under FAS No. 123, "Accounting for Stock-Based Compensation." However, the Company has adopted the disclosure requirements of FAS No. 123. See Note 20 for more information about the Company's stock-based compensation plans.

Other Comprehensive Income
Effective January 1, 1998, the Company adopted FAS No. 130, "Reporting Comprehensive Income," which establishes new rules for the reporting and display of comprehensive income (net income plus all other changes in net assets from nonowner sources) and its components. The adoption had no impact on the Company's net income or stockholders' equity. Prior year financial statements have been reclassified to conform to these requirements. The following table reflects the accumulated balances of other comprehensive income:

	Unrealized Investment Gain/(Loss)	Foreign Currency Translation Adjustment	Comprehensive Income
Balance at January 1, 1996	$ 19,220	$	$ 19,220
Unrealized investment gain/(loss), net of tax of $4,769	(8,856)		(8,856)
Less: reclassification adjustment, net of tax of $2,510	(4,660)		(4,660)
Balance at December 31, 1996	5,704		5,704
Unrealized investment gain/(loss), net of tax of $810	1,504		1,504
Less: reclassification adjustment, net of tax of $2,762	(5,131)		(5,131)
Balance at December 31, 1997	2,077		2,077
Unrealized investment gain/(loss), net of tax of $1,105	(2,052)		(2,052)
Foreign currency translation adjustment		(366)	(366)
Balance at December 31, 1998	$ 25	$ (366)	$ (341)

National Energy Trading and Marketing

Avista Energy purchases natural gas and electricity directly from producers and other trading companies, and its customers include commercial and industrial end-users, electric utilities, natural gas distribution companies, and other trading companies. Avista Energy's marketing and energy risk management services are provided through the use of a variety of derivative commodity contracts to purchase or supply natural gas and electric energy at specified delivery points and at specified future dates. Avista Energy also trades natural gas and electricity derivative financial instruments on national exchanges and through other unregulated exchanges and brokers from whom these commodity derivatives are available, and therefore experiences net open positions in terms of price, volume, and specified delivery point.

The open position exposes Avista Energy to the risk that fluctuating market prices may adversely impact its financial position or results of operations. However, the net open position is actively managed with strict policies designed to limit the exposure to market risk and which require daily reporting to management of potential financial exposure. These policies include statistical risk tolerance limits using historical price movements to calculate daily earnings at risk as well as total Value-at-Risk (VAR) measurement.

Derivative commodity instruments sold and purchased by Avista Energy include: forward contracts, involving physical delivery of an energy commodity; futures contracts, which involve the buying or selling of natural gas, electricity or other energy-related commodities at a fixed price; over-the-counter swap agreements which require Avista Energy to receive or make payments based on the difference between a specified price and the actual price of the underlying commodity; and options, which mitigate price risk by providing for the right, but not the requirement, to buy or sell energy-related commodities at a fixed price.

Foreign currency risks associated with the fair value of the energy commodity portfolio are managed using a variety of financial instruments, including forward rate agreements.

Avista Energy's trading activities are subject to mark-to-market accounting, under which changes in the market value of outstanding electric, natural gas and related derivative commodity instruments are recognized as gains or losses in the period of change. Gains and losses on electric, natural gas and related derivative commodity instruments utilized for trading are recognized in income on a current basis (the mark-to-market method) and are included on the Consolidated Statements of Income in operating revenues or resource costs, as appropriate, and on the Consolidated Balance Sheets as current or non-current energy commodity assets or liabilities. Contracts in a receivable position, as well as the options held, are reported as assets. Similarly, contracts in a payable position, as well as options written, are reported as liabilities. Cashflows are recognized during the period of settlement.

Contract Amounts and Terms Under Avista Energy's derivative instruments, Avista Energy either (i) as "fixed price payor," is obligated to pay a fixed price or amount and is entitled to receive the commodity (or currency) or a variable amount or (ii) as "fixed price receiver," is entitled to receive a fixed price or amount and is obligated to deliver the commodity (or currency) or pay a variable amount. The contract or notional amounts and terms of Avista Energy's derivative commodity investments outstanding at December 31, 1998 are set forth below (volumes in thousands of mmBTUs and MWhs, dollars in thousands):

	Fixed Price Payor	Fixed Price Receiver	Maximum Terms in Years
Energy commodities (volumes)			
Natural gas	755,714,915	792,456,145	5
Electric	70,921,632	62,018,852	10
Financial products			
Foreign currency	-	$ 15,691	5

At December 31, 1998, Avista Energy also had sales and purchase commitments associated with contracts based on market prices totaling 898,316,063 mmBTUs, with terms extending up to 12 years. Fixed index electric transactions totaled 1,875,576 MWhs, with terms extending up to 10 years.

Contract or notional amounts reflect the volume of transactions, but do not necessarily represent the amounts exchanged by the parties to the derivative commodity instruments. Accordingly, contract or notional amounts do not accurately measure Avista Energy's exposure to market or credit risks. The maximum terms in years detailed above are not indicative of likely future cash flows as these positions may be offset in the markets at any time in response to Avista Energy's risk management needs.

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

The year-end balances of the major classifications of property, plant and equipment are detailed in the following table (thousands of dollars):

	At December 31,	
	1998	1997
Energy Delivery:		
Electric distribution	$ 593,787	$ 567,552
Electric transmission	266,344	262,393
Natural gas underground storage	18,732	18,646
Natural gas distribution	352,332	329,232
Natural gas transmission	3,217	3,059
Construction work in progress (CWIP) and other	176,022	163,949
Energy Delivery total	1,410,434	1,344,831
Generation and Resources:		
Electric production	709,144	702,092
CWIP and other	21,114	21,549
Generation and Resources total	730,258	723,641
Total utility	2,140,692	2,068,472
National Energy Trading and Marketing	7,304	4,345
Non-energy	37,749	44,831
Total	$2,185,745	$2,117,648

National Energy Trading and Marketing's and Non-energy's plant, property and equipment under capital leases totaled $13.3 million and $12.9 million and the associated accumulated depreciation totaled $2.8 million and $2.6 million in 1998 and 1997, respectively.

NOTE 6. JOINTLY OWNED ELECTRIC FACILITIES

The Company has investments in jointly owned generating plants. Financing for the Company's ownership in the projects is provided by the Company. The Company's share of related operating and maintenance expenses for plants in service is included in corresponding accounts in the Consolidated Statements of Income. See Note 17 for additional information related to potential impacts of Clean Air Act Amendments on these plants. The following table indicates the Company's percentage ownership and the extent of the Company's investment in such plants at December 31, 1998:

			Company's Current Share of				
Project	KW of Installed Capacity	Fuel Source	Ownership (%)	Plant in Service	Accumulated Depreciation	Net Plant In Service	Construction Work in Progress
				(Thousands of Dollars)			
Centralia	1,330,000	Coal	15%	$ 57,536	$ 38,352	$ 19,184	$ -
Colstrip 3 & 4	1,556,000	Coal	15	275,976	114,927	161,049	-

NOTE 7. PENSION PLANS AND OTHER POSTRETIREMENT BENEFIT PLANS

The Company has a pension plan covering substantially all of its regular full-time employees. Certain of the Company's subsidiaries also participate in this plan. Individual benefits under this plan are based upon years of service and the employee's average compensation as specified in the Plan. The Company's funding policy is to contribute annually an amount equal to the net periodic pension cost, provided that such contributions are not less than the minimum amounts required to be funded under the Employee Retirement Income Security Act, nor more than the maximum amounts which are currently deductible for tax purposes. Pension fund assets are invested primarily in marketable debt and equity securities. The Company also has other plans which cover the executive officers and key managers.

The Company provides certain health care and life insurance benefits for substantially all of its retired employees. The Company accrues the estimated cost of postretirement benefit payments during the years that employees provide services and allows recognition of the unrecognized transition obligation in the year of adoption or the amortization of such obligation over a period of up to twenty years. The Company elected to amortize this obligation of approximately $34,500,000 over a period of twenty years, beginning in 1993.

(WNP3). The $81 million recovery included $34 million in income taxes the Company overpaid in prior years plus $47 million in accrued interest, which in total contributed $41.4 million, or $0.74 per share, to net income.

The Company had claimed that it realized a loss in 1985 relating to its $195 million investment in WNP3 entitling it to current tax deductions. The IRS, however, originally denied the Company's claim and ruled that the investment should be written off over 32.5 years, the term of a settlement agreement between the Company and the Bonneville Power Administration relating to WNP3. The Company disagreed with this ruling and had been pursuing a reversal for several years. The IRS has now agreed with the Company's position.

The Company entered into settlement agreements with the WUTC and the IPUC in 1987 and 1988 providing for the recovery through retail prices of approximately 60% of the Company's $195 million investment in WNP3. As a result of these agreements, customers have been and will continue to receive the tax benefits relating to the recoverable portion of WNP3 over the recovery periods specified in the settlement agreements. The settlement agreements resulted in a write-off of approximately $75 million of the Company's WNP3 investment, with the entire write-off charged to shareholders. The tax recovery and related accrued interest from the IRS will flow through to the benefit of shareholders. The cash was used to fund new business investment, including growth opportunities in national energy markets, and reduced the need for issuance of long-term debt during 1997.

As of December 31, 1998 and 1997, the Company had recorded net regulatory assets of $171.0 million and $176.7 million, respectively, related to the probable recovery of FAS No. 109, "Accounting for Income Taxes," deferred tax liabilities from customers through future rates. Such regulatory assets will be adjusted by amounts recovered through rates.

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) tax credit carryforwards. The net deferred federal income tax liability consists of the following (thousands of dollars):

	1998	1997
Deferred tax liabilities:		
Differences between book and tax bases of utility plant	$375,881	$368,137
Loss on reacquired debt	4,979	5,504
Other	7,462	5,825
Total deferred tax liabilities	388,322	379,466
Deferred tax assets:		
Reserves not currently deductible	11,727	12,630
Contributions in aid of construction	7,159	6,277
Deferred natural gas credits	-	1,138
Centralia Trust	2,325	2,515
Gain on sale of office building	1,190	1,279
Other	8,219	2,878
Total deferred tax assets	30,620	26,717
Net deferred tax liability	$357,702	$352,749

A reconciliation of federal income taxes derived from statutory tax rates applied to income from continuing operations and federal income tax as set forth in the accompanying Consolidated Statements of Income and Retained Earnings is as follows (the current and deferred effective tax rates are approximately the same during all periods):

	For the Years Ended December 31,		
	1998	1997	1996
		(Thousands of Dollars)	
Computed federal income taxes at statutory rate	$50,468	$60,552	$46,103
Increase (decrease) in tax resulting from:			
Accelerated tax depreciation	9,929	5,014	23
Prior year audit adjustments	(1,526)	(31,458)	(3,491)
Reserve for WNP3	-	10,402	-
Other	(18,793)	12,500	3,955
Total federal income tax expense*	$40,078	$57,010	$46,590

NOTE 10. LONG-TERM DEBT

The annual sinking fund requirements and maturities for the next five years for long-term debt outstanding at December 31, 1998 are as follows:

Year Ending December 31	Maturities	Sinking Fund Requirements	Total
		(Thousands of Dollars)	
1999	$47,500	$4,452	$51,952
2000	55,000	4,242	59,242
2001	40,000	3,692	43,692
2002	50,000	3,542	53,542
2003	31,000	3,142	34,142

The sinking fund requirements may be met by certification of property additions at the rate of 167% of requirements. All of the utility plant is subject to the lien of the Mortgage and Deed of Trust securing outstanding First Mortgage Bonds.

In 1998, $84.0 million of Unsecured Medium-Term Notes were issued, while $14.0 million of Unsecured Medium-Term Notes matured or were redeemed. In 1997, $20.0 million of First Mortgage Bonds in the form of Secured Medium-Term Notes were issued, while $26.5 million of Secured Medium-Term Notes and $25.0 million of Unsecured Medium-Term Notes matured or were repurchased. As of December 31, 1998, the Company had remaining authorization to issue up to $89.0 million of Secured Medium-Term Notes, which were issued in January 1999, and $166.0 million of Unsecured Medium-Term Notes.

At December 31, 1998, the Company had no outstanding balances under borrowing arrangements. See Note 11 for details of credit agreements.

Included in other long-term debt are the following items related to non-energy operations (thousands of dollars):

	Outstanding at December 31, 1998	1997
Notes payable - variable rates through 2002	$50,288	$40,480
Capital lease obligations	7,176	7,601
Total non-energy	57,464	48,081
Less: current portion	15,165	12,177
Net non-utility long-term debt	$42,299	$35,904

NOTE 11. BANK BORROWINGS

At December 31, 1998, the Company maintained lines of credit with various banks under two separate credit agreements amounting to $200.0 million. The Company has one revolving line of credit, expiring June 29, 1999, which provides a total credit commitment of $125 million. The second revolving credit agreement, which expires on June 29, 2001, provides a total credit commitment of $75 million. The Company pays commitment fees of up to 0.09% per annum on the average daily unused portion of each credit agreement.

In addition, under various agreements with banks, the Company can have up to $100.0 million in loans outstanding at any one time, with the loans available at the banks' discretion. These arrangements provide, if funds are made available, for fixed-term loans for up to 180 days at a fixed rate of interest.

The amount of unused letter of credit available to Avista Corp. for use in Generation and Resources activities totaled $2.5 million at December 31, 1998. This letter of credit expires on February 28, 1999.

The payments under National Energy Trading and Marketing's and Non-energy's capital leases for the next five years are $3.0 million in 1999, $2.4 million in 2000, $1.0 million in 2001, $0.5 million in 2002 and $0.1 million in 2003.

NOTE 13. PREFERRED STOCK

Cumulative Preferred Stock Not Subject to Mandatory Redemption:

In December 1998, as part of a dividend restructuring plan, the Company issued 1,540,460 shares of its $12.40 Convertible Preferred Stock, Series L. See Note 14 for additional information.

The Company redeemed its $50 million of Flexible Auction Preferred Stock, Series J in August 1997. The dividend rate on this preferred stock was reset every 49 days based on an auction.

Cumulative Preferred Stock Subject to Mandatory Redemption:

Redemption requirements:

$6.95, Series K - On September 15, 2002, 2003, 2004, 2005 and 2006, the Company must redeem 17,500 shares at $100 per share plus accumulated dividends through a mandatory sinking fund. Remaining shares must be redeemed on September 15, 2007. The Company has the right to redeem an additional 17,500 shares on each September 15 redemption date.

There are $3.5 million in mandatory redemption requirements during the 1999-2003 period.

In June 1998, the Company redeemed the final $10 million, or 100,000 shares, of its $8.625 Series I.

NOTE 14. CONVERTIBLE PREFERRED STOCK

In December 1998, as part of a dividend restructuring plan, the Company issued 1,540,460 shares of its $12.40 Convertible Preferred Stock, Series L, in exchange for 15,404,595 shares of common stock, on the basis of a one-tenth interest in one share of preferred stock for each share of common stock. The Convertible Preferred Stock, Series L has a liquidation preference of $182.8125 per share.

Unless previously converted into common stock by the Company, on November 1, 2001 each share of the Convertible Preferred Stock, Series L will be converted into (1) ten shares of common stock (subject to antidilution adjustments) and (2) the right to receive an amount, in cash, equal to accrued and unpaid dividends.

The Convertible Preferred Stock, Series L may be converted, at the option of the Company, at any time prior to November 1, 2001, in whole but not in part, into, for each share so converted (1) a number of shares of common stock equal to the Optional Conversion Price then in effect, plus (2) the right to receive an amount, in cash, equal to the accrued and unpaid dividends thereon to but excluding the conversion date, plus (3) the right to receive the Optional Conversion Premium. As used above,

* the "Optional Conversion Price" will be, for each share of Convertible Preferred Stock, Series L so converted, a number of shares of common stock equal to the lesser of (a) the amount of $24 divided by an amount equal to the current market price of the common stock, multiplied by ten and (b) one share of common stock (subject to antidilution adjustments); and

* the "Optional Conversion Premium" will be, for each share of Convertible Preferred Stock, Series L so converted, an amount in cash, initially equal to $20.90, declining by $0.02111 for each day following December 15, 1998 to and including the optional conversion date and equal to zero on and after September 15, 2001; provided, however, that in lieu of delivering such amount in cash, the Company may, at its option, deliver a number of shares of common stock equal to the quotient of such amount divided by an amount equal to the current market price of the common stock.

NOTE 15. COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED TRUST SECURITIES

On January 23, 1997, Avista Capital I, a business trust, issued to the public $60,000,000 of Preferred Trust Securities having a distribution rate of 7 7/8%. Concurrent with the issuance of the Preferred Trust Securities, the Trust issued $1,855,675 of Common Trust Securities to the Company. The sole assets of the Trust are the

The Company has a Dividend Reinvestment and Stock Purchase Plan under which the Company's stockholders may automatically reinvest their dividends and make optional cash payments for the purchase of the Company's Common Stock at current market value.

The Company purchases stock on the open market to fulfill obligations of the 401(K) and Dividend Reinvestment Plans. Sales of Common Stock for 1998, 1997 and 1996 are summarized below (thousands of dollars):

	1998		1997		1996	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance at January 1	55,960,360	$594,852	55,960,360	$594,852	55,947,967	$594,636
Exchange for preferred stock	(15,404,595)	(213,451)	-	-	-	-
Stock options/restricted stock	(102,036)	-	-	-	-	-
Employee Investment Plan (401-K)	-	-	-	-	-	-
Dividend Reinvestment Plan	-	-	-	-	12,393	216
Total issues (exchanges/purchases)	(15,506,631)	(213,451)	-	-	12,393	216
Balance at December 31	40,453,729	$381,401	55,960,360	$594,852	55,960,360	$594,852

NOTE 18. EARNINGS PER SHARE

Average shares outstanding for basic EPS were 54,603,926 in 1998. At December 31, 1998, 1,540,460 shares of $12.40 Convertible Preferred Stock, Series L, which were convertible into 15,404,595 million shares of common stock, were outstanding. All of these potential common shares were excluded from the computation of diluted EPS for 1998 because their inclusion had an antidilutive effect on EPS. Options to purchase 647,900 shares of common stock were outstanding during 1998, but 150,000 shares were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares for the year and, therefore, the effect would be antidilutive. Average number of common shares outstanding for both basic and diluted EPS was 55,960,360 for both 1997 and 1996. Basic and diluted EPS were the same in 1997 and 1996 as the Company did not have any common stock equivalents outstanding in either of those years.

The computation of basic and diluted earnings per common share is as follows (in thousands, except per share amounts):

	1998	1997	1996
Net income	$78,139	$114,797	$83,453
Less: Preferred stock dividends	8,399	5,392	7,978
Income available for common stock-basic	69,740	109,405	75,475
Convertible Preferred Stock, Series L, dividend requirements	-	-	-
Income available for common stock-diluted	$69,740	$109,405	$75,475
Weighted-average number of common shares outstanding-basic	54,604	55,960	55,960
Conversion of Convertible Preferred Stock, Series L	-	-	-
Exercise of stock options	54	-	-
Weighted-average number of common shares outstanding-diluted	54,658	55,960	55,960
Earnings per common share			
Basic	$1.28	$1.96	$1.35
Diluted	$1.28	$1.96	$1.35

For additional information regarding the convertible preferred stock and stock option plans, see Notes 14 and 19, respectively.

NOTE 19. STOCK COMPENSATION PLANS

The Company and certain subsidiaries have adopted stock-based compensation plans.

Avista Corp.
In 1998, the Company adopted and shareholders approved an incentive compensation plan, the Long-Term Incentive Plan (Plan). Under the Plan, certain key employees, directors and officers of the Company and its

exercisable between three and five years from the date granted and terminate ten years from the date granted. Upon termination of employment, vested options may be exercised and the related subsidiary shares may be, but are not required to be, repurchased by the applicable subsidiary at fair value.

NOTE 20. COMMITMENTS AND CONTINGENCIES

The Company believes, based on the information presently known, the ultimate liability for the matters discussed in this note, individually or in the aggregate, taking into account established accruals for estimated liabilities, will not be material to the consolidated financial position of the Company, but could be material to results of operations or cash flows for a particular quarter or annual period. No assurance can be given, however, as to the ultimate outcome with respect to any particular lawsuit.

Nez Perce Tribe

On December 6, 1991, the Nez Perce Tribe filed an action against the Company in U. S. District Court for the District of Idaho alleging, among other things, that two dams formerly operated by the Company, the Lewiston Dam on the Clearwater River and the Grangeville Dam on the South Fork of the Clearwater River, provided inadequate passage to migrating anadromous fish in violation of rights under treaties between the Tribe and the United States made in 1855 and 1863. The Lewiston and Grangeville Dams, which had been owned and operated by other utilities under hydroelectric licenses from the Federal Power Commission (the "FPC", predecessor of the FERC) prior to acquisition by the Company, were acquired by the Company in 1937 with the approval of the FPC, but were dismantled and removed in 1973 and 1963, respectively. Allegations of actual loss under different assumptions ranged between $425 million and $650 million, together with $100 million in punitive damages.

On November 21, 1994, the Company filed a Motion for Summary Judgment of Dismissal. On March 28, 1996, a U.S. District judge entered a summary judgment in favor of the Company dismissing the complaint. The Tribe filed a notice of appeal to the Ninth Circuit Court of Appeals on April 24, 1996. A mediation conference was held on October 11, 1996. Following the conclusion of that conference, briefing schedules were vacated indefinitely to accommodate a mediation process, which ultimately resulted in a settlement of this matter on January 15, 1999. In accordance with that settlement, the Company will pay the Nez Perce Tribe $2.5 million initially, part of which was already expensed and the remainder deferred for possible future rate recovery. The Company will provide 44 annual payments thereafter in the amount of $835,498 for utility taxes, Tribal employment rights, fees and rights-of-ways, which will be expensed as paid.

Oil Spill

The Company completed an updated investigation of an oil spill from an underground storage tank that occurred several years ago in downtown Spokane at the site of the Company's steam heat plant. Underground soil testing conducted in 1993 showed that the oil had migrated approximately one city block beyond the steam plant property. The Clean-up Action Plan determined by the Department of Ecology (DOE) is underway, and remediation facilities have been constructed and installed and are being operated.

On August 17, 1995, a lawsuit was filed against the Company in Superior Court of the State of Washington for Spokane County by Davenport Sun International Hotels and Properties, Inc., the owner of a hotel property in downtown Spokane, Washington. The Complaint alleged that the oil released from the Company's Central Steamplant trespassed on property owned by the plaintiff. In addition, the plaintiff claimed that the Steamplant has caused a diminution of value of plaintiff's land. After mediation, the matter was resolved by settlement and compromise, subject to certain conditions. In December 1997, the settlement was restructured, certain amounts were paid, the litigation was dismissed with prejudice, a release was obtained, and other conditions remain to be fulfilled, none of which would affect the dismissal of this action.

The Company pursued recovery from insurers and reached settlement with one of the two insurance carriers. On December 13, 1996, the Company filed a Complaint for declaratory relief and money damages against Underwriters at Lloyds of London (Lloyds), the remaining carrier, in Spokane County Superior Court. The purpose of this action was to seek a declaration of the insurance policies issued to the Company by Lloyds with respect to any liabilities of the Company for environmental damage associated with the oil spill at the Central Steamplant and other environmental remediation efforts. The policies at issue were in effect during the period between 1926 and 1966; thereafter, the Company maintained its policies with a new underwriter, Aegis. The Company's Complaint sought money damages in excess of $16 million. On March 10, 1999, Avista Corp. and Lloyds signed a settlement agreement resolving the claim.

Spokane Gas Plant

The Company is participating with the Washington State Department of Transportation in an environmental study relating to the former Spokane Natural Gas Plant site (which was operated as a coal gasification plant for

NOTE 21. ACQUISITIONS AND DISPOSITIONS

In April 1998, Pentzer completed the purchase of two new companies that produce store fixtures -- Universal Showcase, Ltd., in Toronto, Canada and Triangle Systems, Inc., in New York. In October 1998, Pentzer acquired two additional store fixtures companies -- Horizon Terra, Inc., in Indiana and Pacific Coast Showcase, Inc., in Washington. During 1997, Pentzer acquired three new companies: Target Woodworks, Inc., a Florida-based company; White Plus, a California-based company; and Proco Wood Products, a Minnesota-based company. All three companies provide point-of-purchase and in-store merchandising services. During 1996, Pentzer acquired one company that provides point-of-purchase and in-store merchandising services.

During the first quarter of 1998, Pentzer sold Systran Financial Services, resulting in an after-tax gain of $5.5 million. In May 1997, Pentzer sold its interest in a portfolio company, Safety Speed Cut, resulting in a gain of approximately $2.0 million, net of taxes. In 1996, Pentzer Development Corporation, a subsidiary of Pentzer, sold the Spokane Industrial Park, resulting in a gain of approximately $10.8 million, net of taxes and other adjustments.

In November 1998, the Company reached an agreement in principal to purchase a majority ownership in One Eighty Communications, a competitive local exchange carrier that provided local dial tone and data services to commercial accounts in local communities. The acquisition was completed in January 1999, and the new company was renamed Avista Communications. It will provide local high-speed telecommunications services to under-served Northwest communities.

In December 1998, Avista Energy Canada, Ltd. acquired Coast Pacific Management, Inc. (Coast Pacific), a natural gas marketing company based in Vancouver, British Columbia, Canada. Coast Pacific manages and transports approximately 70,000 MMBtu of natural gas per day to some 70 large and medium size industrial customers throughout British Columbia. Coast Pacific also acts as gas manager for more than 40% of the large industrial market in the interior of British Columbia.

Effective February 1, 1999, Avista Energy completed and closed the purchase of Vitol Gas & Electric, LLC (Vitol), based in Boston, Massachusetts. Vitol is one of the top 20 energy marketing companies in the United States. Vitol trades gas, electricity, coal and SO2 allowances in markets in the eastern half of the United States. The acquisition was funded through the issuance of additional shares of common stock to Avista Capital.

NOTE 22. MERGER TERMINATION

On June 28, 1996, the Board of Directors of the Company terminated the Agreement and Plan of Reorganization and Merger, dated as of June 27, 1994 by and among the Company, Sierra Pacific Resources (SPR), Sierra Pacific Power Company, a subsidiary of SPR (SPPC), and Altus Corporation, a wholly owned subsidiary of the Company (Altus, formerly named Resources West Energy Corporation), which would have provided for the merger of the Company, SPR and SPPC with and into Altus. The Company had approximately $15.8 million, or $10.3 million after-tax, in merger-related transaction and transition costs that were expensed in 1996. No increase in rates occurred as a result of these costs being expensed.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information regarding the directors of the Registrant has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 13, 1999.

Executive Officers of the Registrant

Name	Age	Business Experience During Past 5 Years
Thomas M. Matthews	55	Chairman of the Board, President & Chief Executive Officer since October 1998; Chairman of the Board & Chief Executive Officer July 1998 - October 1998; prior to employment with the Registrant: President - Dynegy 1996 to July 1998; Vice President - Texaco, Inc. 1994 - 1996.
Jon E. Eliassen	52	Senior Vice President & Chief Financial Officer since November 1998; Senior Vice President, Chief Financial Officer & Treasurer December 1997 - November 1998; Senior Vice President & Chief Financial Officer August 1996 - December 1997; Vice President - Finance & Chief Financial Officer February 1986 - August 1996.
Gary G. Ely	51	Executive Vice President since February 1999; Senior Vice President & General Manager August 1996 – February 1999; Vice President - Natural Gas February 1991- August 1996.
David J. Meyer	45	Senior Vice President & General Counsel since September 1998; prior to employment with the Registrant: Attorney - Paine Hamblen Coffin Brooke & Miller 1974 - September 1998.
Robert D. Fukai	49	Vice President - External Relations since August 1996; Vice President - Human Resources, Corporate Services & Marketing January 1993 - August 1996.
JoAnn G. Matthiesen	58	Vice President - Human Resources since August 1996; Vice President - Organization Effectiveness, Public Relations & Assistant to the Chairman January 1993 - August 1996.
Ronald R. Peterson	46	Vice President and Treasurer since November 1998; Vice President and Controller February 1998 - November 1998; Controller August 1996 - February 1998; Treasurer February 1992 - August 1996.
Terry L. Syms	50	Vice President and Corporate Secretary since February 1998; Corporate Secretary March 1988 - February 1998.
Edward H. Turner	43	Vice President & General Manager - Energy Delivery since November 1998; prior to employment with the Registrant: Director of Industrial Sales and various other positions – Houston Lighting & Power Company and Houston Industries Incorporated for 24 years.
Roger D. Woodworth	42	Vice President - Corporate Development since November 1998; Director of Corporate Development and various other positions with the Company since 1979.

All of the Company's executive officers, with the exception of Messrs. Turner and Woodworth, were officers or directors of one or more of the Company's subsidiaries in 1998.

Executive officers are elected annually by the Board of Directors.

PART IV

Item 14. Financial Statements, Financial Statement Schedules, Exhibits and Reports on Form 8-K

(a) 1. Financial Statements (Included in Part II of this report):

Independent Auditors' Report

Consolidated Statements of Income, Comprehensive Income and Retained Earnings for the Years Ended December 31, 1998, 1997 and 1996

Consolidated Balance Sheets, December 31, 1998 and 1997

Consolidated Statements of Capitalization, December 31, 1998 and 1997

Consolidated Statements of Cash Flows for the Years Ended December 31, 1998, 1997 and 1996

Schedule of Information by Business Segments for the Years Ended December 31, 1998, 1997 and 1996

Notes to Financial Statements

(a) 2. Financial Statement Schedules:

None

(a) 3. Exhibits:

Reference is made to the Exhibit Index commencing on page 75. The Exhibits include the management contracts and compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(10)(iii) of Regulation S-K.

(b) Reports on Form 8-K:

Dated June 4, 1998, announcing the appointment of the Company's new Chief Executive Officer.

Dated August 19, 1998, regarding a dividend restructuring plan, a broad corporate refocus and the corporate name change.

Dated October 21, 1998, announcing third quarter earnings, a potential future rate increase in Idaho, a lawsuit filed against the Company, a potential change in capital expenditures in future periods and an update on the Company's progress on the Year 2000 issue.

Dated January 6, 1999, regarding the corporate name change effective January 1, 1999.

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 2-81697, 2-94816, 33-54791, and 33-32148 on Form S-8, and in Registration Statement Nos. 33-49662, 33-53655, 333-39551, 333-16353, 333-16353-01, 333-16353-02, and 333-16353-03 on Form S-3 of our report dated January 29, 1999 (February 1, 1999 as to Note 21 and March 10, 1999 as to Note 20), appearing in this Annual Report on Form 10-K of Avista Corporation for the year ended December 31, 1998.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

Seattle, Washington
March 19, 1999

EXHIBIT INDEX (continued)

Exhibit	Previously Filed* With Registration Number	Previously Filed* As Exhibit	
4(a)-24	1-3701 (with 1986 Form 10-K)	4(a)-24	Twenty-Third Supplemental Indenture, dated as of December 1, 1986.
4(a)-25	1-3701 (with 1987 Form 10-K)	4(a)-25	Twenty-Fourth Supplemental Indenture, dated as of January 1, 1988.
4(a)-26	1-3701 (with 1989 Form 10-K)	4(a)-26	Twenty-Fifth Supplemental Indenture, dated as of October 1, 1989.
4(a)-27	33-51669	4(a)-27	Twenty-Sixth Supplemental Indenture, dated as of April 1, 1993.
4(a)-28	1-3701 (with 1993 Form 10-K)	4(a)-28	Twenty-Seventh Supplemental Indenture, dated as of January 1, 1994.
4(b)-1	1-3701 (with 1989 Form 10-K)	4(e)-1	Loan Agreement between City of Forsyth, Rosebud County, and the Company, dated as of November 1, 1989 (Series 1989 A and 1989 B). Replaces Exhibit 4(e)-1 (agreement between the Company and City of Forsyth, Rosebud County, Montana, dated as of October 1, 1986) filed with Form 10-K for 1986 and Exhibit 4(g)-1 (agreement between the Company and City of Forsyth, Rosebud County, Montana, dated as of April 1, 1987) filed with Form 10-K for 1987.
4(b)-2	1-3701 (with 1989 Form 10-K)	4(e)-2	Indenture of Trust, Pollution Control Revenue Refunding Bonds (Series 1989 A and 1989 B) between City of Forsyth, Rosebud County, Montana and Chemical Bank, dated as of November 1, 1989. Replaces Exhibit 4(e)-2 (Indenture of Trust between City of Forsyth, Rosebud County, Montana and Chemical Bank dated as of October 1, 1986) filed with Form 10-K for 1986 and Exhibit 4(g)-2 (Indenture of Trust between City of Forsyth, Rosebud County, Montana and Chemical Bank, dated as of April 1, 1987) filed with Form 10-K for 1987.
4(c)-1	1-3701 (with 1988 Form 10-K)	4(h)-1	Indenture between the Company and Chemical Bank dated as of July 1, 1988 (Series A and B Medium-Term Notes).
4(d)-1	**		Credit Agreement between the Company and Toronto Dominion (Texas), Bank of America National Trust and Savings Association and The Bank of New York with Toronto Dominion as the agent, dated June 30, 1998.
4(d)-2	**		Credit Agreement between the Company and Toronto Dominion (Texas), Bank of America National Trust and Savings Association and The Bank of New York with Toronto Dominion as the agent, dated June 30, 1998.
4(e)-1	1-3701 (with Form 8-K dated February 16, 1990)	4(n)	Rights Agreement, dated as of February 16, 1990, between the Company and the Bank of New York as successor Rights Agent.
4(e)-2	1-3701 (with 1994 First Quarter Form 10-Q)	4(b)	Amendment No. 1 to Rights Agreement, dated as of May 10, 1994.

*Incorporated herein by reference.
**Filed herewith.

EXHIBIT INDEX (continued)

Exhibit	Previously Filed* With Registration Number	Previously Filed* As Exhibit	
10(g)-2	1-3701 (with Form 10-K for 1991)	10(h)-3	Centralia Fuel Supply Agreement between PacifiCorp Electric Operations, as the Seller, and the Company, Puget Sound Power & Light Company, Portland General Electric Company, Seattle City Light, Tacoma City Light and Grays Harbor and Snohomish County Public Utility Districts, as the Buyers of coal for the Centralia Steam Electric Generating Plant, dated as of January 1, 1991.
10(h)-1	2-47373	13(y)	Agreement between the Company, Bonneville Power Administration and Washington Public Power Supply System for purchase and exchange of power from the Nuclear Project No. 1 (Hanford), dated as of January 6, 1973.
10(h)-2	2-60728	5(m)-1	Amendment No. 1 to the Agreement between the Company between the Company, Bonneville Power Administration and Washington Public Power Supply System for purchase and exchange of power from the Nuclear Project No. 1 (Hanford), dated as of May 8, 1974.
10(h)-3	1-3701 (with Form 10-K for 1986)	10(i)-3	Agreement between Bonneville Power Administration, the Montana Power Company, Pacific Power & Light, Portland General Electric, Puget Sound Power & Light, the Company and the Supply System for relocation costs of Nuclear Project No. 1 (Hanford) dated as of July 9, 1986.
10(i)-1	2-60728	5(n)	Ownership Agreement of Nuclear Project No. 3, sponsored by Washington Public Power Supply System, dated as of September 17, 1973.
10(i)-2	1-3701 (with Form 10-Q for quarter ended September 30, 1985)	1	Settlement Agreement and Covenant Not to Sue executed by the United States Department of Energy acting by and through the Bonneville Power Administration and the Company, dated as of September 17, 1985, describing the settlement of Project 3 litigation.
10(i)-3	1-3701 (with Form 10-Q for quarter ended September 30, 1985)	2	Agreement to Dismiss Claims and Covenant Not to Sue between the Washington Public Power Supply System and the Company, dated as of September 17, 1985, describing the settlement of Project 3 litigation with the Supply System.
10(i)-4	1-3701 (with Form 10-Q for quarter ended September 30, 1985)	3	Agreement among Puget Sound Power & Light Company, the Company, Portland General Electric Company and PacifiCorp, dba Pacific Power & Light Company, agreeing to execute contemporaneously an irrevocable offer, to and for the benefit of the Bonneville Power Administration, dated as of September 17, 1985.
10(j)-1	2-66184	5(r)	Service Agreement (Natural Gas Storage Service), dated as of August 27, 1979, between the Company and Northwest Pipeline Corporation.
10(j)-2	2-60728	5(s)	Service Agreement (Liquefaction-Storage Natural Gas Service), dated as of December 7, 1977, between the Company and Northwest Pipeline Corporation.

*Incorporated herein by reference.
**Filed herewith.

EXHIBIT INDEX (continued)

Exhibit	Previously Filed* With Registration Number	Previously Filed* As Exhibit	
10(q)-1	1-3701 (with 1992 Form 10-K)	10(t)-8	Executive Deferral Plan of the Company. (***)
10(q)-2	1-3701 (with 1992 Form 10-K)	10(t)-10	The Company's Unfunded Supplemental Executive Retirement Plan. (***)
10(q)-3	1-3701 (with 1992 Form 10-K)	10(t)-11	The Company's Unfunded Supplemental Executive Disability Plan. (***)
10(q)-4	1-3701 (with 1992 Form 10-K)	10(t)-12	Income Continuation Plan of the Company. (***)
10(q)-5	**		Long-Term Incentive Plan. (***)
10(q)-6	**		Employment Agreement between the Company and T. M. Matthews. (***)
12	**		Statement re computation of ratio of earnings to fixed charges and preferred dividend requirements.
21	**		Subsidiaries of Registrant.
27	**		Financial Data Schedule.

* Incorporated herein by reference.
** Filed herewith.
*** Management contracts or compensatory plans filed as exhibits by reference per Item 601(10)(iii) of Regulation S-K.

Exhibit 21

Avista Corporation

SUBSIDIARIES OF REGISTRANT

Subsidiary	State of Incorporation
Altus Corporation	Nevada
Avista Capital, Inc.	Washington
Avista Advantage, Inc.	Washington
Avista Communications, Inc.	Washington
Avista Development, Inc.	Washington
Avista Energy, Inc.	Washington
Avista Fiber, Inc.	Washington
Avista International, Inc.	Washington
Avista Laboratories, Inc.	Washington
Avista Power, Inc.	Washington
Pentzer Corporation	Washington
WWP Receivables Corp.	Washington
Avista Energy Canada, Inc.	Alberta, Canada

OTHER-ITEMS-CAPITAL-AND-LIAB (2)	1,601,709
TOT-CAPITALIZATION-AND-LIAB	3,270,586
GROSS-OPERATING-REVENUE	3,683,984
INCOME-TAX-EXPENSE (3)	43,335
OTHER-OPERATING-EXPENSES	3,511,164
TOTAL-OPERATING-EXPENSES	3,511,164
OPERATING-INCOME-LOSS	172,820
OTHER-INCOME-NET	17,731
INCOME-BEFORE-INTEREST-EXPENSE (4)	190,551
TOTAL-INTEREST-EXPENSE	69,077
NET-INCOME	78,139
PREFERRED-STOCK-DIVIDENDS	8,399
EARNINGS-AVAILABLE-FOR-COMMON	69,740
COMMON-STOCK-DIVIDENDS	56,898
TOTAL-INTEREST-ON-BONDS	46,933
CASH-FLOW-OPERATIONS	267,903
EPS-PRIMARY	1.28
EPS-DILUTED	1.28

(1) LONG-TERM DEBT-NET DOES NOT MATCH THE AMOUNT REPORTED ON THE COMPANY'S CONSOLIDATED STATEMENT OF CAPITALIZATION AS LONG-TERM DEBT DUE TO THE OTHER CATEGORIES REQUIRED BY THIS SCHEDULE.

(2) OTHER ITEMS CAPITAL AND LIABILITIES INCLUDES THE CURRENT LIABILITIES, DEFERRED CREDITS AND MINORITY INTEREST, LESS CERTAIN AMOUNTS INCLUDED UNDER LONG-TERM DEBT-CURRENT PORTION AND LEASES-CURRENT, FROM THE COMPANY'S CONSOLIDATED BALANCE SHEET.

(3) THE COMPANY DOES NOT INCLUDE INCOME TAX EXPENSE AS AN OPERATING EXPENSE ITEM. IT IS INCLUDED ON THE COMPANY'S STATEMENTS AS A BELOW-THE-LINE ITEM.

(4) INCOME BEFORE INTEREST EXPENSE IS NOT A SPECIFIC LINE ITEM ON THE COMPANY'S INCOME STATEMENTS. THE COMPANY COMBINES TOTAL INTEREST EXPENSE AND OTHER INCOME TO CALCULATE INCOME BEFORE INCOME TAXES.

AVISTA® Corp.
PO Box 3727
Spokane, Washington 99220-3727

Bulk Rate
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Permit No. 2
Spokane, WA

CONFORMED

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED **DECEMBER 31, 1998** OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number 1-3701

AVISTA CORPORATION

(Exact name of Registrant as specified in its charter)

Washington	91-0462470
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1411 East Mission Avenue, Spokane, Washington	99202-2600
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 509-489-0500
Web site: http://www.avistacorp.com

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Each Exchange on Which Registered
Common Stock, no par value, together with Preferred Share Purchase Rights appurtenant thereto	New York Stock Exchange Pacific Stock Exchange
7 7/8% Trust Originated Preferred Securities, Series A	New York Stock Exchange
$12.40 Preferred Stock, Convertible Series L (depositary shares)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of Class
Preferred Stock, Cumulative, Without Par Value

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the Registrant's outstanding Common Stock, no par value (the only class of voting stock), held by non-affiliates is $662,429,812.38, based on the last reported sale price thereof on the consolidated tape on February 26, 1999.

At February 26, 1999, 40,453,729 shares of Registrant's Common Stock, no par value (the only class of common stock), were outstanding.

Documents Incorporated By Reference

Document	Part of Form 10-K into Which Document is Incorporated
Proxy Statement to be filed in connection with the annual meeting of shareholders to be held May 13, 1999	Part III, Items 10, 11, 12 and 13

Exhibit No. 2