

Attachment B

ER 604

AGREEMENT TO CONVEY OWNERSHIP INTEREST IN
JACKSON PRAIRIE STORAGE PROJECT EXPANSION

THIS AGREEMENT is entered into this 5th day of October, 1998, by and between THE WASHINGTON WATER POWER COMPANY, a Washington corporation with its principal place of business located at 1411 E. Mission Avenue, Spokane, Washington, and AVISTA ENERGY, INC., a Washington corporation with its principal place of business at 201 W. North River Drive, Spokane, Washington.

RECITALS

WHEREAS, The Washington Water Power Company (hereinafter "WWP") is a one-third owner of the Jackson Prairie Storage Project (hereinafter "Storage Project"), an underground natural gas storage facility utilized to serve the needs of its owners, as well as third parties; and

WHEREAS, the owners of the Storage Project, including WWP, presently intend to expand the storage capacity and daily withdrawal and injection capability, with such expanded capability projected to be available for use on or about November 1, 1999; and

WHEREAS, WWP's one-third share of the expanded Storage Project is projected to provide an additional 1,000,000 decatherms of storage capacity, with 100,000 decatherms of daily withdrawal and injection capability; and

WHEREAS, WWP, after an analysis of the costs and benefits of this additional storage capability, has determined that it would be in the best interests of its core customers to assign its interests, for a period of years, to the expanded storage to a third party, subject to recall at some later date; and

WHEREAS, WWP desires to enter into an arrangement with Avista Energy, Inc. (hereinafter "Avista") whereby Avista will contribute moneys sufficient to cover WWP's share of the capital costs related to this expansion, together with ongoing operating expense related thereto, in return for which Avista will acquire, for a limited term, an ownership interest in the expanded Storage Project,

NOW, THEREFORE, in consideration of the mutual covenants and premises contained herein, WWP and Avista hereby agree to the following terms and conditions:

1. Conveyance of Ownership Interest in Jackson Prairie Storage Project Expansion. As of the effective date of this Agreement, WWP will convey to Avista, and Avista will accept such conveyance, WWP's ownership interest in the expanded Jackson Prairie Storage capacity and withdrawal and injection capacity, subject to the terms and conditions contained herein. It is presently anticipated that the expanded storage capacity, representing WWP's one-third share which is hereby being conveyed to Avista, will approximate 1,000,000 decatherms and will allow for approximately 100,000 decatherms of daily withdrawal and injection capability. The precise amount of storage capacity and withdrawal and injection capability, however, will depend on the characteristics of the Storage Project as of the completion date of the expansion.

2. Responsibilities of Avista. Avista will acquire the ownership interests of WWP associated with the aforementioned expansion, subject, however, to the provisions of the 1989 Storage Project Agreement as well as the superceding 1998 Storage Project Agreement, which, it

is anticipated, will soon become effective upon receipt of necessary regulatory approvals. The 1989 and 1998 Storage Project Agreements are hereby incorporated by reference. Accordingly, the parties acknowledge and agree that WWP will retain all voting and management rights associated with its ownership interest, including rights associated with the project expansion, consistent with the terms of the 1998 Storage Project Agreement. Accordingly, Avista will be subject to the obligations and limitations set forth in the 1989 and 1998 Storage Project Agreements, in all respects, including those relating to the management of the project and operating characteristics and limitations thereof. Avista, for its part, shall otherwise be responsible for all nominations and scheduling associated with deliveries to and from the Project, as well as arranging for the necessary transportation to and from the Project, as expanded.

3. Conditions Precedent.

a. While Avista's obligations with respect to contributions toward the capital and operating costs shall commence as of the effective date of this Agreement, Avista's use of the expansion capability hereby conveyed is subject to the receipt of necessary regulatory approvals, including the issuance of a certificate of convenience and necessity by FERC authorizing the expansion;

b. Receipt of any necessary consents/waivers from the other owners of the Storage Project, sufficient to effectuate this transfer.

4. Contribution of Funds by Avista. As of the effective date of this Agreement, Avista shall be responsible for contributing WWP's share of all capital costs relating to the expansion, including reimbursement of those costs incurred by WWP to date. All such capital costs, already incurred, and so projected, are presently estimated at \$8 million; Avista, however, shall be responsible for actual costs incurred, notwithstanding this estimate. In addition, Avista shall, as and from the effective date, provide for the payment of all operating and maintenance expense and administrative and general expense, as well as other ongoing development costs which would otherwise be incurred by WWP, with respect to the expansion project. Avista will remit payment directly to the designated Project Operator, responsible for the project expansion. In the event of a failure of any condition precedent, WWP shall refund any funds contributed by Avista.

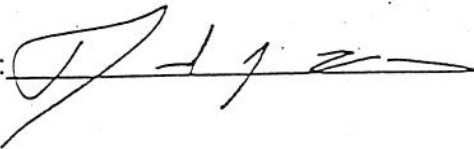
5. Term of Agreement. This Agreement shall become effective as of the date first above written (i.e., "the Effective Date") and will continue for a period of ten years, commencing with the in-service date of the expansion (i.e., the "Primary Term"), and will evergreen on a year-to-year basis thereafter, unless sooner terminated by WWP by written notice delivered to Avista not less than 12 months prior to the end of the primary term or any anniversary date thereafter.

6. Recall of Interests. Upon termination, Avista shall take all necessary actions to arrange for a transfer of the ownership interest back to WWP. Upon recall, WWP will compensate Avista in an amount equal to the lesser of the depreciated book value or market value, as determined by WWP, which is associated with that portion of the ownership interest which is being recalled. The depreciation method used for purposes of this section, shall be half year convention straight line depreciation.

7. Severability. If any term, provision, covenant or condition of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the provisions shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

DATED this 5th day of October, 1998.

WASHINGTON WATER POWER COMPANY

By: 

AVISTA ENERGY, INC.

By: 

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