

Exhibit No. 1
Docket No. UE-06_____

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Application of

PACIFICORP,

For an Order Authorizing the Sale of Its
Interest in the Centralia Transmission Line

Docket No. UE-06_____

APPLICATION

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STATE OF WASH.
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COMMISSION

PACIFICORP

APPLICATION EXHIBIT NO. 1

The Centralia 230 kV Transmission Facilities Purchase and Sale Agreement

January 2006

**CENTRALIA 230 kV TRANSMISSION FACILITIES
PURCHASE AND SALE AGREEMENT**

PACIFICORP
As Seller
and
TRANSALTA CENTRALIA GENERATION LLC
As Buyer

Dated: August 25, 2005

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CENTRALIA 230 kV TRANSMISSION FACILITIES PURCHASE AND SALE AGREEMENT

This CENTRALIA 230 kV TRANSMISSION FACILITIES PURCHASE AND SALE AGREEMENT (the "Agreement") is made and entered into as of the 25 day of August, 2005 by and between PACIFICORP., an Oregon corporation ("Seller"), and TRANSALTA CENTRALIA GENERATION LLC, a Washington limited liability company ("Buyer"), with reference to the following facts:

A. Seller is engaged in the business of generating, transmitting and distributing electric energy and in connection therewith owns certain 230 kV Transmission Facilities located near Centralia, Washington, consisting of approximately three miles of 230 kV line, a switching station and associated easements and rights of way, all as more fully described on Schedule 2.1 attached hereto (the "Assets").

B. Buyer desires to purchase from Seller, and Seller desires to sell to Buyer, Seller's interests in the Assets 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 1.

DEFINITIONS

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

1.1.1 "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.

1.1.2 "Capital Expenditures" means 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 Seller in accordance with its normal capitalization policies.

1.1.3 "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 Buyer, any Buyer Subsidiary, or any of their respective successors in interest or any owner or operator of the Assets (if otherwise a Governmental Body).

1.1.4 "Knowledge" of a party shall mean with respect to such party, the extent of the actual knowledge of any Person listed on Schedule 1.1.4 with respect to such party.

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

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

1.1.7 "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.

1.1.8 "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.

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
Approvals.....	8.3
Assets	Preamble
Buyer.....	Preamble
Charter Documents	3.3
Closing	9.1
Closing Date.....	9.1
Indemnitee.....	11.5
Indemnitor.....	11.5.1
Material Adverse Effect.....	3.3
Asset Purchase Price.....	2.3
Seller	Preamble
Termination Date	10.1.4
Third Party Claims.....	11.5.1

ARTICLE 2.

BASIC TRANSACTIONS

2.1 **Purchased Assets.** On the terms and subject to the conditions contained in this Agreement, at the Closing, Buyer shall purchase, and Seller shall sell, convey, assign, transfer, and deliver to Buyer all its right, title and interest in the Assets as described with particularity on Schedule 2.1.

2.2 **Excluded Liabilities.** The parties agree that liabilities and obligations of Seller not described herein 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 Seller or any

Affiliate of Seller (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, Seller. In particular, Buyer shall not have any liability or obligation with respect to any of the following liabilities or obligations of Seller as the same may exist at the Closing:

2.2.1 Liabilities or obligations of Seller or its Affiliates arising from Seller's ownership, operation or use of the Assets prior to the Closing Date.

2.2.2 Subject to Section 5.2 respecting certain expenses incurred in connection with the transactions contemplated hereby, any of Seller's or its 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 Seller or any member of any combined or consolidated group of companies of which Seller is are, or was 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 Seller, it being understood that Buyer shall not be deemed to be Seller's transferee with respect to any such tax liability.

2.2.3 Liabilities of Seller for Third Party Claims (as defined in Section 11.5.1) where the injury or damage involved occurred prior to the Closing.

2.2.4 Liabilities of Seller incurred in connection with Seller obtaining any consent, authorization or approval necessary for them to sell, convey, assign, transfer or deliver the Assets to Buyer hereunder.

2.2.5 Any liability of Seller 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, Seller agrees that on or prior to the Closing it 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.

2.3 **Asset Purchase Price.** The purchase price for the Assets shall be U.S. \$120,000 (the "Asset Purchase Price"). Buyer shall pay to Seller the Asset Purchase Price in cash at the Closing by wire transfer of immediately available funds in U.S. dollars to the accounts specified in writing by Seller to Buyer, not later than the second Business Day prior to the Closing Date.

ARTICLE 3.

REPRESENTATIONS AND WARRANTIES OF SELLER

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

3.1 Organization and Corporate Power. Seller 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 Oregon 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 transaction on its part contemplated by this Agreement.

3.2 Authority and Enforceability. The execution, delivery and performance of this Agreement and the consummation of the transaction contemplated hereby has been duly authorized by the board of directors or other applicable governing body of Seller; no other corporate act or proceeding on the part of Seller is necessary to authorize this Agreement. This Agreement has been and will, as of the Closing, have been duly executed and delivered by Seller, and this Agreement constitutes, and when executed and delivered, will constitute, a valid and binding obligation of Seller, enforceable against Seller 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.

3.3 No Breach or Conflict. Subject to the provisions of Sections 3.4.1 and 3.4.2 below regarding private party and governmental consents, and any regulatory or licensing Laws applicable to the businesses and assets represented by the Assets, the execution, delivery and performance by Seller of this Agreement and 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 Seller; (b) contravene any Law presently in effect or cause the suspension or revocation of any License presently in effect, which affects or binds Seller or any of its 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; 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 Seller is a party or by which it or any of its 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, 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 an entity, such as a Seller or Buyer, means a material adverse effect on the business, condition (financial or otherwise) and results of operations of such entity taken as a whole (including any subsidiaries of such entity) or on the ability of such entity to consummate the transaction contemplated hereby.

3.4 Approvals.

3.4.1 Except as set forth in Schedule 3.4.1, the execution, delivery and performance by Seller of this Agreement does 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 Assets substantially as they have heretofore operated.

3.4.2 Except as set forth in Schedule 3.4.2, the execution, delivery and performance by Seller of this Agreement does 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.

3.5 Compliance with Law. Except as set forth in Schedule 3.5, to Seller's Knowledge, Seller is 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 Seller to execute and deliver this Agreement or any other agreements contemplated hereby and consummate the transactions contemplated hereby and thereby.

3.6 Title to Property. Seller has good and defensible title to all tangible personal property, easements and rights of way included in the Assets to be sold, conveyed, assigned, transferred and delivered to Buyer by Seller, free and clear of all liens, charges, claims, pledges, security interests, equities and encumbrances of any nature whatsoever suffered or created by Seller, except for the following (individually and collectively, the "Permitted Encumbrances"): (i) the lien of current taxes not delinquent, (ii) liens listed on Schedule 3.6, (iii) such consents, authorizations approvals and Licenses referred to in Section 3.4.1 and 3.4.2, (iv) exceptions disclosed and approved pursuant to Section 7.5.2, 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 and other liens and possible minor matters that in the aggregate are not substantial in amount and do no materially detract from or interfere with the present or intended use of such property.

3.7 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 Mine, (c) proceedings before regulatory authorities, and (d) as set forth on Schedule 3.7, there are no actions, suits, claims or proceedings pending, or to Seller's 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 3.7, there is no condemnation proceeding pending or, to Seller's Knowledge, threatened against any of the Assets.

3.8 Brokers. Except as shown on Schedule 3.8, 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 Seller. Seller shall be solely responsible for the payment of any such fee or commission to any Person listed on Schedule 3.8.

ARTICLE 4.

REPRESENTATIONS AND WARRANTIES OF BUYER

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

4.1 Organization and Power. Buyer is a limited liability company duly formed and validly existing under the Laws of, and is authorized to exercise its limited liability company powers, rights and privileges and is in good standing in, the State of Washington and has full limited liability company 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 transaction on its part contemplated by this Agreement.

4.2 Authority and Enforceability. The execution, delivery and performance of this Agreement and the consummation of the transaction contemplated hereby has been duly authorized by the board of directors or other applicable governing body of Buyer; no other corporate act or proceeding on the part of Buyer is necessary to authorize this Agreement. This Agreement has been and will, as of the Closing, have been, duly executed and delivered by Buyer, and this Agreement constitutes, 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.

4.3 No Breach or Conflict. Subject to the provisions of Sections 4.4.1 and 4.4.2 below regarding private party and governmental consents, and any regulatory or licensing Laws applicable to the businesses and assets represented by the Assets, the execution, delivery and performance by Buyer of this Agreement, does not: (a) conflict with or result in a breach of any of the provisions of the Charter Documents of Buyer, (b) contravene any Law or cause the suspension or revocation of any License presently in effect, which affects or binds Buyer or any of its material properties; or (c) conflict with or result in a breach of or default under any material agreement or instrument to which Buyer is a party or by which it or any of its properties may be affected or bound.

4.4 Approvals.

4.4.1 Except as set forth on Schedule 4.4.1, the execution, delivery and performance by Buyer of this Agreement does not require the authorization, consent or approval of any non-governmental third party.

4.4.2 Except as set forth on Schedule 4.4.2, the execution, delivery and performance by Buyer of this Agreement does not require the authorization, consent, approval, certification, license or order of, or any filing with, any court or Governmental Body, necessary to consummate the transaction contemplated hereby and to permit Buyer to acquire the Assets.

4.5 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, SELLER 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.

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

4.7 Qualified for Licenses. To Buyer's Knowledge, Buyer is qualified to obtain any Licenses necessary for the operation by Buyer of the Assets as of the Closing in the same manner as the Assets are presently operated.

ARTICLE 5.

COVENANTS OF EACH PARTY

5.1 Efforts to Close. 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 transaction contemplated hereby, including the satisfaction of all conditions thereto set forth herein. Such action shall 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 transaction 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, and all other necessary filings with any Governmental Bodies. Seller shall cooperate with Buyer's efforts to obtain the requisite Licenses and regulatory consents, provided Seller shall not be obligated to incur any liabilities or assume any obligations in connection therewith. Other than Buyer's and Seller's obligations under Section 5.2, 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 transaction contemplated hereby. As used herein, the terms "reasonable efforts" or "reasonable actions" do not include the provision of any consideration to any third party 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.

5.1.1 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 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 Seller, acting with the advice of their respective counsel, 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 in the event of a disagreement concerning any such analysis, appearance, presentation, memorandum, brief, argument, opinion or proposal, the determinations of the Seller shall be controlling; and provided, further, 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 this Agreement. Seller 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. Seller 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 and appropriate. Provided, however, nothing herein shall limit Buyer's ability to intervene or otherwise participate in regulatory proceedings related to the Assets.

5.2 Expenses. Whether or not the transaction contemplated hereby is consummated, except as otherwise provided in this Agreement, all costs and expenses incurred in connection with this Agreement and the transaction contemplated hereby or thereby shall be paid by the party incurring such expenses. Notwithstanding the foregoing:

5.2.1 Costs associated with preliminary title reports and title insurance policies shall be borne by Seller 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 Seller)

5.2.2 Documentary transfer taxes will be borne by Seller, and recording costs and charges will be borne one-half by Buyer and one-half by Seller;

5.2.3 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

5.2.4 All liabilities or obligations for Taxes in the nature of sales or use taxes incurred as a result of the sale of the Assets hereunder to Buyer shall be borne by Seller.

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.

ARTICLE 6.

ADDITIONAL COVENANTS OF BUYER

6.1 Waiver of Bulk Sales Law Compliance. Subject to the indemnification provisions of Section 12.3.1(c) hereof, Buyer hereby waives compliance by Seller 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.

6.2 Resale Certificate. Buyer agrees to furnish to Seller any resale certificate or certificates or other similar documents reasonably requested by Seller to comply with pertinent sales and use tax Laws.

6.3 Access. Provided that Buyer has complied with each and every provision thereof, Seller shall 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 Seller has in its possession or to which they have access in order to facilitate transition planning. 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 Seller. Seller'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 Seller shall not have any obligation to deliver to Buyer, any information concerning any alleged dispute or any pending litigation, investigation or proceeding involving Seller or its 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.

6.4 Updating. Seller shall notify Buyer of any changes or additions to any of Seller's Schedules to this Agreement with respect to the Assets 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, Seller shall notify Buyer reasonably promptly of the occurrence of any material casualty, physical damage, destruction or physical loss respecting, or, to Seller's Knowledge, material adverse change in the physical condition of, the Assets, not including ordinary wear and tear and routine maintenance.

6.5 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 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, Seller shall:

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

6.5.2 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 Assets; (ii) incur, assume, guaranty, or otherwise become liable in respect of any indebtedness for money borrowed which would result in the 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 Affiliate of 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 Seller or any Affiliate of any Seller;

6.5.3 Maintain in force and effect the material property and liability insurance policies related to the Assets;

6.5.4 Subject to Section 6.4, not take any action which would cause any of Seller's representations and warranties set forth in Article 3 to be materially false as of the Closing;

6.5.5 Not make Capital Expenditures, other than those contemplated on Schedule 6.5.5, which would, pursuant to the provisions of Section 2.3, result in an increase of the Asset Purchase Price in excess of \$10,000 in the aggregate, except for Capital Expenditures set forth on Schedule 6.5.5, or Capital Expenditures otherwise approved in writing by Buyer,

Provided that nothing in this Section shall (i) obligate Seller 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 Seller from paying, prepaying or otherwise satisfying any liability, (iii) preclude Seller 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 or any other agreement contemplated hereby, provided such liabilities and obligations under this clause (iii) shall be Excluded Liabilities pursuant to Section 2.2.4 hereof if not approved in advance by Buyer (which approval shall not be unreasonably withheld or delayed), or (iv) preclude Seller from instituting or completing any program designed to promote compliance or comply with Laws or other good business practices respecting the Assets.

ARTICLE 7.

BUYER'S CONDITIONS TO CLOSING

The obligations of Buyer to consummate the transaction contemplated with respect to the Assets shall be subject to fulfillment at or prior to the Closing of the following conditions, unless Buyer waives in writing such fulfillment.

7.1 Performance of Agreement. Seller 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.

7.2 Accuracy of Representations and Warranties. The representations and warranties of Seller 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 6.4) 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.

7.3 Approvals. All approvals, consents, authorizations and waivers from Governmental Bodies and all approvals, consents, authorizations and waivers from other third parties (collectively "Approvals") required for Buyer to operate the Assets materially in accordance with the manner in which it was operated by Seller prior to the Closing, shall have been obtained in form and substance satisfactory to Buyer in its reasonable discretion.

7.4 No Restraint. There shall be no:

7.4.1 Injunction, restraining order or order of any nature issued by any court of competent jurisdiction or Governmental Body which directs that the transaction 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 transaction contemplated hereby;

7.4.2 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 transaction 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 Assets as a result of the consummation of the transaction contemplated hereby; or

7.4.3 Action taken, or Law enacted, promulgated or deemed applicable to the transaction contemplated hereby, by any Governmental Body which would render the purchase and sale of the Assets 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.

7.5 Title Insurance. Title to Assets comprised of interests in real property (that is, easements and rights of way) described on Schedule 2.1 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 Asset Purchase Price allocated to such interests, showing title to such interests in such real property vested in the Buyer subject to transfer of such interest to the Buyer. Such Title Policies shall show title vested in the Buyer, subject only to:

7.5.1 A lien or liens to secure payment of real estate taxes not delinquent;

7.5.2 Exceptions disclosed by the then current standard ALTA Preliminary Title Reports and surveys, delivered to and approved by Buyer in its reasonable discretion prior to the Closing Date;

7.5.3 Matters created by, or with the consent of, Buyer; and

7.5.4 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, then Buyer, at its option, may terminate this Agreement.

7.6 Casualty; Condemnation.

7.6.1 Casualty. If any part of the Assets 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 Asset Purchase Price, the Seller shall, at its option, either (i) reduce the Asset 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 Seller's 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 Assets 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 Asset Purchase Price, then Buyer may elect to terminate this Agreement or require Seller 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.

7.6.2 Condemnation. From the date hereof until the Closing, in the event that any material portion of the Assets 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 Assets for the purposes for which they were 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 Asset Purchase Price determined as provided in Section 7.6.1 above, or (ii) if such condemnation, if successful, would practically preclude the operation of the balance of the Assets for purposes for which it is intended, elect to terminate this Agreement.

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

7.7.1 A good standing certificate for 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

7.7.2 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.

7.8 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 the Buyer's ability to operate the Assets.

7.9 Title. The title reports and surveys shall have established that the real property interests (that is, easements and rights of way) included in the Assets and described on Schedule 2.1 constitute all real property interests that are necessary for the ownership and operation of the 230kV transmission line pursuant to good industry practices and that, subject to Permitted Encumbrances Seller has 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 suffered or created by Seller 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 230kV transmission line.

ARTICLE 8.

SELLER'S CONDITIONS TO CLOSING

The obligations of Seller to consummate the transaction contemplated hereby with respect to the Assets related thereto shall be subject to the fulfillment at or prior to the Closing of the following conditions, unless Seller waives in writing such fulfillment.

8.1 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.

8.2 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.

8.3 Approvals. All Approvals required for Seller to consummate the transaction contemplated shall have been obtained in form and substance (including the regulatory treatment and the financial impacts thereof) satisfactory to Seller affected by such Approval in its reasonable discretion.

8.4 No Restraint. There shall be no:

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

8.4.2 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 transaction contemplated hereby or otherwise constrains consummation of such transaction on the terms contemplated herein; or

8.4.3 Action taken, or law enacted, promulgated or deemed applicable to the transaction 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 Seller if such transaction 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.

8.5 Receipt of Other Documents. Seller shall have received all documents, instruments and writings required to be delivered to Seller at or prior to Closing pursuant to the Agreement and such other certificates of authority and documents as Seller reasonably requests.

ARTICLE 9.

CLOSING

9.1 Closing. Subject to the terms and conditions hereof, the consummation of the transaction contemplated hereby (the "Closing") shall occur at the offices of Stoel Rives LLP in Seattle Washington, or a mutually agreeable place or places within five Business Days after all of the conditions set forth in Article 7 and Article 8 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 10.1.3. 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:

9.1.1 Deliveries by Seller. Seller shall deliver to Buyer such instruments of transfer and conveyance properly executed and acknowledged by Seller in customary form mutually agreed to by the Seller and Buyer necessary to transfer to and vest in Buyer all of Seller's right, title and interest in and to the Assets including, without limitation:

- (a) Bills of Sale and assignment in respect of the Assets;
- (b) Assignments or partial assignments of easements properly executed and acknowledged by Seller with respect to each of the rights of way included in the Assets together with real estate excise tax affidavits; and
- (c) Possession of the Assets.

9.1.2 Deliveries by Buyer. Buyer shall deliver to Seller immediately available funds, by way of wire transfer to an account or accounted designated by Seller, in an aggregate amount equal to the Asset Purchase Price.

9.2 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 Seller and Buyer.

ARTICLE 10.

TERMINATION

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

10.1.1 At any time, by mutual written consent of the Seller and Buyer; or

10.1.2 By either Buyer or the Seller, 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 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

10.1.3 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

10.1.4 By either Buyer or the Seller 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 Seller, the conditions set forth in Article 8 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 7 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 one year from the date of this Agreement. Such date, or such later date as may be specifically provided for in this Agreement (including any date arising under operation of Sections 7.6 and 7.7 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.

10.2 Effect of Termination. If there has been a termination pursuant to Section 10.1, then this Agreement shall be deemed terminated, and all further obligations of the parties hereunder shall terminate, except that the obligations set forth in Section 5.2 and in Article 11 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 transaction contemplated hereby except as set forth in Article 11 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.

ARTICLE 11.

SURVIVAL AND REMEDIES; INDEMNIFICATION

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

11.2 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 11.

11.3 Indemnity by Seller.

11.3.1 Seller shall indemnify and hold harmless Buyer 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:

- (a) The inaccuracy of any representation or the breach of any warranty made by Seller in this Agreement;
- (b) The nonperformance or breach of any covenant or agreement made or undertaken by Seller in this Agreement;
- (c) If the Closing occurs, the failure of Seller to pay, discharge or perform, as and when due, any of the Excluded Liabilities,
- (d) If the Closing occurs, the ongoing operations of Seller after the Closing Date.

11.3.2 The indemnification obligations of Seller provided above shall, in addition to the qualifications and conditions set forth in Sections 11.5 and 11.6, be subject to the following qualifications with respect to claims for Losses:

- (a) Written notice to Seller 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;
- (b) In no event shall Seller be liable to Buyer for Losses in the nature of consequential damages, indirect damages, punitive damages, lost profits, damage to reputation or the like. Damages shall be limited to out-of-pocket Losses and diminution in value and to an aggregate limit of 100 percent of the Asset Purchase Price.

11.4 Indemnity by Buyer.

11.4.1 Buyer shall indemnify and hold harmless Seller, from and against any and all Losses which it may sustain or suffer or to which it may become subject as a result of:

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

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

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

11.4.2 The indemnification obligations of Buyer provided above shall, in addition to the qualifications and conditions set forth in Sections 11.5 and 11.6, be subject to the following qualifications:

(a) Seller 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; and

(b) Seller shall not be entitled to indemnity except for out-of-pocket Losses actually suffered or sustained by them, and such indemnity shall not include Losses in the nature of consequential damages, indirect damages, punitive damages, lost profits, diminution in value, damage to reputation or the like and to an aggregate limit of 100 percent of the Asset Purchase Price.

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

11.5.1 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 with 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; and

11.5.2 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.

11.6 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 12.

GENERAL PROVISIONS

12.1 Notices. All notices, requests, demands, waivers, consents and other communications hereunder shall be in writing, shall be delivered either in person, 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, (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 Seller, addressed to:

PacifiCorp
Attn: Gerit F. Hull
825 NE Multnomah, Suite 1700
Portland, OR 97232

Telephone: (503) 813-6559

with a copy to:

Kimberly A. Medford
Stoel Rives, LLP
900 SW Fifth Avenue
Portland, OR 97204
Telephone: (503) 294-9659

If to Buyer, addressed to:

TransAlta Centralia Generation LLC
110 - 12th Avenue SW
Calgary, Alberta T2P 2M1
CANADA
Attn: Counsel

12.2 Attorney's Fees. Subject to the provisions of Section 12.9, in any litigation or other proceeding relating to this Agreement, the prevailing party shall be entitled to recover its costs and reasonable attorneys' fees.

12.3 Successors and Assigns. Buyer may assign the Agreement, and Buyer's assignee shall succeed to all rights and obligations of Buyer as if identified as Buyer in the preamble of this Option Agreement. In addition, 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 Seller hereunder. The rights under this Agreement shall not be assignable or transferable nor the duties delegable by Seller without the prior written consent of Buyer. 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.

12.4 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.

12.5 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.

12.6 Entirety of Agreement; Amendments. This Agreement (including the Schedules and Exhibits hereto) contains the entire understanding between the parties concerning the subject matter of this Agreement 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.

12.7 Construction. This Agreement and any documents or instruments delivered pursuant hereto shall be construed without regard to the identity 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.

12.8 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.

12.9 Arbitration.

12.9.1 Disputes. All disputes or claims arising under this Agreement which cannot be promptly resolved by the good faith efforts of the disputing parties within 30 days of written notice of such dispute or claim, shall be resolved by binding, unappealable arbitration under the expedited Commercial Arbitration Rules of the American Arbitration Association, before a single arbitrator, provided that under no circumstances shall any party be liable to any other party hereunder on account of consequential, incidental, exemplary or punitive damages.

12.9.2 Agreement to Arbitrate. Any controversy or claim arising out of this Agreement, or the breach or alleged breach thereof, shall, upon demand of any party, be submitted to arbitration in the manner hereinafter provided. The parties will make every reasonable effort to resolve any such controversy or claim without resort to arbitration. In the event the parties are unable to effect a satisfactory resolution between or among themselves, such controversy shall be submitted to arbitration in accordance with the terms and provisions of this

Subsection 12.9.2 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. In the event of any conflict between the terms and provisions of this Subsection 12.9.2 and the Rules, the terms and provisions of this Section 12.9.2 shall prevail.

12.9.3 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 or parties. 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 or parties 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.

12.9.4 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).

12.9.5 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 60 days after completion of discovery (unless extended by the arbitration panel) 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 after completion of discovery, each party shall provide each 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 before 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 Civil Procedure shall apply in regard to discovery and the Federal Rules of Evidence shall apply to the conduct of the hearing. 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.

12.9.6 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, indirect damages, punitive damages, lost profits, damage to reputation or the like.

12.9.7 Costs and Attorney's Fees. The losing party or parties 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 losing party or parties for these purposes.

12.10 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 12.9 hereof. Any action or proceeding arising under this Agreement shall be adjudicated in Seattle, Washington.

12.11 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.

12.12 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, 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.

12.13 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.

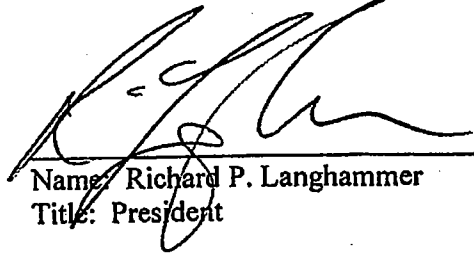
Signature Page Follows

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

BUYER:

TRANSALTA CENTRALIA GENERATION LLC,
a Washington limited liability company

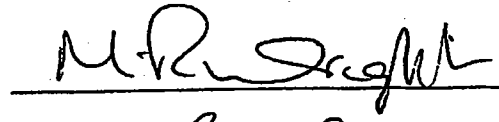
By:


Name: Richard P. Langhammer
Title: President

SELLER:

PACIFICORP,
an Oregon corporation

By:


Name: M.R. WRIGHT
Title: VP, POWER DELIVERY

**CENTRALIA 230kV TRANSMISSION FACILITIES
PURCHASE AND SALE AGREEMENT**

Schedule 1.1.4

Persons With Knowledge

“Knowledge” of a party shall mean with respect to such party, the extent of the actual knowledge of the following Persons with respect to such party:

For Seller:

Gerit Hull, Senior Counsel

For Buyer:

Son Tran, Corporate Counsel

CENTRALIA 230kV TRANSMISSION FACILITIES PURCHASE AND SALE AGREEMENT

Schedule 2.1

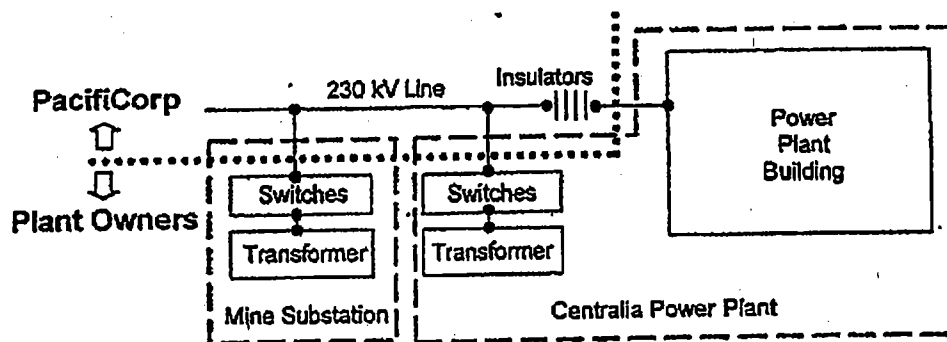
Description of Purchased Assets

Personal Property:

The Assets include the following transmission equipment and switchyard facilities located at or adjacent to the Centralia Plant:

That portion of the Centralia Plant 230 kV transmission facilities extending from and including the tap and disconnecting switches near Tower No. 47 of BPA's Chehalis-Covington Line to the dead-end structures at the Generating Plant with delineation points as follows:

- (a) At the Generating Plant – The delineation points shall be (i) the load-side connection on the flying taps that connect the 230 kV line to the high side switch assembly (comprised of switches 1Z501, 1Z502, and 1Z1) and (ii) the building-side connection of the dead end insulators. (See supplemental diagram below).
- (b) At the Mine Substation – The delineation point shall be the load-side connection of the flying taps that connect the 230 kV line to the high side switch assembly (comprised of switches 1Z503, 1Z504, and 1Z3). (See supplemental diagram below).



Easements and Rights of Way:

The Assets include easements and rights of way bounded by the following legal description:

THAT PORTION OF THE SOUTHWEST ONE-QUARTER OF SECTION 30 AND THAT PORTION OF THE WEST ONE-HALF OF SECTION 31, ALL IN TOWNSHIP 15 NORTH, RANGE 1 WEST, W.M.,

ALSO, THAT PORTION OF THE NORTH ONE-HALF OF SECTION 6 AND THE NORTHWEST ONE-QUARTER OF SECTION 5, ALL IN TOWNSHIP 14 NORTH, RANGE 1 WEST, W.M., MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHWEST CORNER OF SAID SECTION 31, SAID CORNER BEING COMMON WITH THE SOUTHWEST CORNER OF SAID SECTION 30; THENCE SOUTH 01°40'42" WEST ALONG THE WEST LINE OF SAID SECTION 31 A DISTANCE OF 1759.74 FEET TO A POINT ON THE NORTHEASTERLY MARGIN OF A CERTAIN EASEMENT GRANTED TO THE UNITED STATES OF AMERICA AS RECORDED UNDER LEWIS COUNTY AUDITOR'S FILE NUMBER 774581; THENCE SOUTH 31°01'50" EAST ALONG SAID NORTHEASTERLY MARGIN A DISTANCE OF 4456.34 FEET; THENCE CONTINUING ALONG SAID NORTHEASTERLY MARGIN SOUTH 63°32'10" EAST A DISTANCE OF 4442.53 FEET; THENCE CONTINUING ALONG SAID NORTHEASTERLY MARGIN SOUTH 44°23'10" EAST A DISTANCE OF 432.84 FEET; THENCE NORTH 45°36'50" EAST A DISTANCE OF 125.00 FEET; THENCE NORTH 44°23'10" WEST A DISTANCE OF 453.97 FEET; THENCE NORTH 63°32'10" WEST A DISTANCE OF 4427.13 FEET; THENCE NORTH 31°01'50" WEST A DISTANCE OF 4382.78 FEET; THENCE NORTH 01°40'42" EAST A DISTANCE OF 1719.63 FEET; THENCE NORTH 01°25'39" EAST A DISTANCE OF 2372.95 FEET; THENCE NORTH 89°11'14" EAST A DISTANCE OF 1361.52 FEET; THENCE NORTH 00°48'46" WEST A DISTANCE OF 125.00 FEET; THENCE SOUTH 89°11'14" WEST A DISTANCE OF 1481.95 FEET, MORE OR LESS, TO A POINT ON THE WEST LINE OF SAID SECTION 30, SAID POINT BEING NORTH 01°25'39" EAST A DISTANCE OF 2488.82 FEET FROM THE NORTHWEST CORNER OF SAID SECTION 31; THENCE SOUTH 01°25'39" WEST ALONG THE WEST LINE OF SAID SECTION 30 A DISTANCE OF 2488.82 FEET TO THE SOUTHWEST CORNER OF SAID SECTION 30 AND THE POINT OF BEGINNING.

**CENTRALIA 230kV TRANSMISSION FACILITIES
PURCHASE AND SALE AGREEMENT**

Schedule 3.4.1

Sellers' Private Party Consents

The following exceptions to the representations of Section 3.4.1 of this Agreement:

None

**CENTRALIA 230kV TRANSMISSION FACILITIES
PURCHASE AND SALE AGREEMENT**

Schedule 3.4.2

Sellers' Governmental Consents

The following exceptions to the representations of Section 3.4.2 of this Agreement:

1. The Oregon Public Utility Commission
2. The Washington Utilities and Transportation Commission
3. The Idaho Public Utility Commission
4. The California Public Utilities Commission
5. The Wyoming Public Service Company
6. The Federal Energy Regulatory Commission

**CENTRALIA 230kV TRANSMISSION FACILITIES
PURCHASE AND SALE AGREEMENT**

Schedule 3.5

Non-Compliance with Law

The following exceptions to the representations of Section 3.5 of this Agreement:

None

**CENTRALIA 230kV TRANSMISSION FACILITIES
PURCHASE AND SALE AGREEMENT**

Schedule 3.6

Permitted Encumbrances

The following exceptions to the representations of Section 3.6 of this Agreement:

None

**CENTRALIA 230kV TRANSMISSION FACILITIES
PURCHASE AND SALE AGREEMENT**

Schedule 3.7

Litigation

The following exceptions to the representations of Section 3.7 of this Agreement:

None

**CENTRALIA 230kV TRANSMISSION FACILITIES
PURCHASE AND SALE AGREEMENT**

Schedule 3.8

Seller's Brokers

The following exceptions to the representations of Section 3.8 of this Agreement:

None

**CENTRALIA 230kV TRANSMISSION FACILITIES
PURCHASE AND SALE AGREEMENT**

Schedule 4.4.1

Buyer's Private Party Consents

The following exceptions to the representations of Section 4.4.1 of this Agreement:

None

**CENTRALIA 230kV TRANSMISSION FACILITIES
PURCHASE AND SALE AGREEMENT**

Schedule 4.4.2

Buyer's Governmental Consents

The following exceptions to the representations of Section 4.4.2 of this Agreement:

1. The Federal Energy Regulatory Commission.
2. Customary waivers and approvals from Securities and Exchange Commission or relevant state commission, including state commission approvals or declarations of nonjurisdiction required for Buyer to acquire, own and operate the Assets in substantially the same manner as Seller.
3. Any other permits, licenses, whether transferred, reissued or applied for by Buyer, from applicable federal, state or local agencies required for Buyer to acquire, own and operate the Assets in substantially the same manner as Seller.

**CENTRALIA 230kV TRANSMISSION FACILITIES
PURCHASE AND SALE AGREEMENT**

Schedule 6.5.5

Capital Expenditures

The following Capital Expenditures are scheduled for the Assets:

None