

“Redacted Attachment A”

Avista Corporation
Monthly Power Cost Deferral Report
Month of September 2010

Long-term Power Transaction
(See attached)

**CONTRACT
FOR
SALE OF OUTPUT FROM THE ROCKY REACH
PROJECT AND CHELAN POWER SYSTEM**

**September 21, 2010: Slice Products 1, 2 and 3 (as
applicable)**

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**CONTRACT
FOR
SALE OF OUTPUT FROM THE ROCKY REACH PROJECT
AND CHELAN POWER SYSTEM**

Executed by
**PUBLIC UTILITY DISTRICT NO. 1
OF CHELAN COUNTY, WASHINGTON**
And

AVISTA CORPORATION

This contract is entered into as of September 21, 2010 ("Effective Date") between Public Utility District No. 1 of Chelan County, Washington (the "District"), a municipal corporation of the State of Washington, and Avista Corporation (the "Purchaser"), a corporation organized and existing under the laws of Washington State. The District and the Purchaser are referred to as a "Party" and collectively as "Parties."

SECTION 1. TERM OF CONTRACT

Except as otherwise provided herein, this Contract shall be in full force and effect from and after it has been executed by the District and the Purchaser. Unless sooner terminated pursuant to other provisions, this Contract shall remain in effect until the end of HE 2400 (midnight) Pacific Prevailing Time "PPT", December 31, 2014. Except as otherwise provided herein, all obligations accruing under this Contract are preserved until satisfied.

SECTION 2. DEFINITIONS

As used in this Contract, the following definitions shall apply throughout this Contract and Appendices. Other terms are defined in the text of the Contract, the Appendices and the Collateral Annex.

"Agreement for the Hourly Coordination of Projects on the Mid Columbia River" (MCHC) shall mean the 1997 Agreement, as amended from time to time, with the Mid-Columbia PUD project owners, purchasers, the U.S. Department of Energy via the Bonneville Power Administration, the U.S. Department of the Army via the Army Corps of Engineers, and the U.S. Department of Interior via the Bureau of Reclamation to coordinate real time operation of the seven projects from Grand Coulee through Priest Rapids on the Columbia River.

"Business Day" means any day other than a Saturday or Sunday or a national holiday (United States of America or Canadian). United States holidays shall be holidays observed by Federal Reserve member banks in New York, New York. If the Purchaser has its principal place of business in the United States, Canadian holidays shall not apply. If the Purchaser has its principal place of business in Canada, both United States and Canadian holidays shall apply. A Business Day shall open at 8:00 a.m. and close at 5:00 p.m. Pacific prevailing time (PPT).

“Capacity” means the generation potential of the Rocky Reach Project or the Chelan Power System, as applicable, as adjusted for limitations and obligations in accordance with Appendix A.

“Chelan Power System” means, collectively, Rocky Reach and Rock Island Hydroelectric Projects. The Chelan Power System shall also include any expansion of the generating capacity of the existing Projects, including efficiency improvements and upgrades that become a part of the respective Project, but shall not include any other power generation, transmission or distribution assets or rights, now owned or hereafter acquired by the District.

“Collateral Annex” means that agreement entered into between the Parties of even date herewith entitled Collateral Annex.

“Contract” shall mean this CONTRACT FOR SALE OF OUTPUT FROM THE ROCKY REACH PROJECT AND CHELAN POWER SYSTEM in its entirety.

“Defaulting Party” shall mean the Party who is responsible for or suffers an “Event of Default” as defined in Section 15.

“District System Emergency” means a condition or situation that, in the judgment of the District or in conformance with guidelines of FERC, NERC, the WECC or other entities with regulatory jurisdiction (whether by contract or operation of law) over the District concerning system emergencies, adversely affects or is likely to adversely affect or is necessary to protect: (i) public health, life or property; (ii) District’s employees, agents or property; (iii) District’s ability to maintain safe and reliable electric service to its customers; (iv) preserve, maintain or reestablish the safety, reliability, integrity or operability of the Western Interconnection and the District’s electric system and the hydroelectric projects owned and operated by the District; and (v) environmental and water quality standards and requirements.

“Energy” means the energy production, expressed in megawatt hours, of the Rocky Reach Project or Chelan Power System, as applicable, as measured in megawatts integrated over an hour and adjusted for limitations and obligations in accordance with Appendix A.

“Environmental Attributes” means the fuel, emissions, and other environmental characteristics, credits, allowances, claims, reductions, offsets, and benefits of the Rocky Reach Project and Chelan Power System, except any energy, capacity, reliability or other power attributes used to provide electricity service. Environmental Attributes, also known as non-power attributes, include but are not limited to: (1) any avoided emissions of pollutants to the air, soil or water such as (subject to the foregoing) sulfur oxides (SOx), nitrogen oxides (NOx), carbon monoxide (CO) and other pollutants; (2) any avoided emissions of carbon dioxide (CO₂), methane (CH₄) and other greenhouse gases (GHGs) that have been determined by the United Nations Intergovernmental Panel on Climate Change to contribute to the actual or potential altering of the Earth's climate by trapping heat in the atmosphere; and (3) the reporting rights to these avoided emissions.

“FERC” shall mean the Federal Energy Regulatory Commission or its successor.

“FERC License” shall mean the respective license for the Rocky Reach and Rock Island Hydroelectric Project issued by FERC, as applicable.

“Government Authority” means any federal, state, local, territorial or municipal government and any department, commission, board, bureau, agency, instrumentality, judicial or administrative body thereof.

“Guarantor” means the entity providing a guarantee pursuant to a guarantee agreement, if applicable.

“MW” means a megawatt, or one thousand (1,000) kilowatts

“MWh” means a megawatt hour or one thousand (1,000) kilowatt hours.

“NERC” means the North American Electric Reliability Corporation or its successor responsible for ensuring a reliable, adequate and secure bulk electric system.

“Operating Agreements” shall mean any agreements to which the District is or may become a party, which relate to the operation of the Rocky Reach Project and the Chelan Power System, including but not limited to, the Pacific Northwest Coordination Agreement, the Agreement for the Hourly Coordination of Projects on the Mid Columbia River, the Western Systems Coordinating Council Agreement, and the Northwest Power Pool Agreement, as such agreements currently exist or hereafter may be amended.

“Output” means an amount of Energy, Capacity, and certain related rights available from the Rocky Reach Project and the Chelan Power System, as applicable, in each case to the extent described in and determined pursuant to Appendix A hereof. Output does not include Environmental Attributes.

“Pacific Northwest Coordination Agreement” or “PNCA” shall mean the Agreement amongst northwest parties executed in 1997 for the coordinated operation of the Columbia River System which became effective August 1, 2003, as such Agreement may be amended from time to time.

“Pre-Schedule Day” shall mean days so designated by the District pursuant to the Western Electricity Coordinating Council Interchange Scheduling and Accounting Subcommittee daily scheduling calendar.

“Project(s)” means the Rocky Reach Hydroelectric Project and the Rock Island Hydroelectric Project, as applicable.

“Prudent Utility Practice” means any of the practices, methods and acts engaged in, or approved by, a significant portion of the electric utility industry in the Western Interconnection for operating facilities of a size and technology similar to the Project during the relevant time period or any of the practices, methods and acts, which, in the exercise of reasonable judgment in light of the facts known, at the time the decision was made, could have been expected to accomplish

the desired result at a reasonable cost consistent with applicable laws, longevity, reliability, safety and expedition. Prudent Utility Practice is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather to be a spectrum of commonly used practices, methods and acts.

“Purchaser’s Output” and “Purchaser’s Output Percentage” have the meanings set forth in Section 3 of this Contract.

“Rock Island” means the District’s Rock Island Hydroelectric Project as currently licensed by FERC under license number 943, and any successor license, including any efficiency improvements and upgrades that increase generating capacity, in each case made by the District from time to time during the Term.

“Rocky Reach” means the District’s Rocky Reach Hydroelectric Project as currently licensed by FERC under license number 2145, and any successor license, including any efficiency improvements and upgrades that increase generating capacity, in each case, made by the District from time to time during the term of this Contract.

“Slice Termination Payment” means the sum of the amounts due as described in Section 16.

“Uncontrollable Forces” shall mean any cause reasonably beyond the control of the Party and which the Party subject thereto has made reasonable efforts to avoid, remove or mitigate, including but not limited to acts of God, fire, flood, explosion, strike, sabotage, acts of terrorism, act of the public enemy, civil or military authority, including court orders, injunctions, and orders of government agencies (other than those of the District) with proper jurisdiction, insurrection or riot, an act of the elements, failure of equipment or contractors, or inability to obtain or ship materials or equipment because of the affect of similar causes on suppliers or carriers; provided, however, that in no event shall an Uncontrollable Force excuse the Purchaser from the obligation to pay any amount when due and owing under this contract. Uncontrollable Forces shall not be based on (i) the loss of Purchaser’s markets; (ii) Purchaser’s inability economically to use or resell the Output purchased hereunder; or (iii) the District’s ability to sell the Output at a price greater than the Purchase Price agreed upon in this Contract. Purchaser shall not be entitled to and may not raise a claim of Uncontrollable Forces based in whole or in part on the curtailment by a third-party transmission provider.

“Unit” means each generating unit or collectively the generating units at the Projects, as applicable.

“WECC” means the Western Electricity Coordinating Council or its successor, or such other entity or entities responsible for regional reliability as determined by the District.

“Western Interconnection” means the synchronously operated electric transmission grid located in the western part of North America, including parts of Montana, Nebraska, New Mexico, South Dakota, Texas and Mexico and all of Arizona, California, Colorado, Idaho, Nevada, Oregon, Utah, Washington, Wyoming and the Canadian provinces of British Columbia and Alberta.

“WSPP Transactions” mean all transactions between the Parties conducted under the WSPP Agreement including Service Schedules and Exhibits attached, as may be amended, and any confirmations of such transactions as defined in the WSPP Agreement.

SECTION 3. PURCHASE AND SALE OF OUTPUT

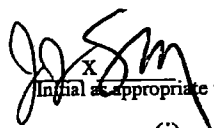
District shall sell and deliver, or cause to be delivered, and Purchaser shall purchase and receive, or cause to be received, Purchaser’s Output Percentage at the Point of Delivery and Purchaser shall pay the District the purchase price. The District shall be responsible for any costs or charges imposed on or associated with the generation of the Purchaser’s Output Percentage or the transmission of the Purchaser’s Output Percentage to the Point of Delivery. Purchaser shall be responsible for any costs or charges imposed on or associated with the transmission of the Purchaser’s Output Percentage from the Point of Delivery.

- (a) Purchaser’s Output. The District shall make available to the Purchaser and the Purchaser shall take and purchase an amount of Output equal to the total applicable Output multiplied by the corresponding Purchaser’s Output Percentage which amount is herein referred to as “Purchaser’s Output.”
- (b) Purchaser’s Output Percentage and Delivery Periods for Slice Products. The Purchaser’s Output Percentage shall be the following percentages of the Output from the Rocky Reach Project and Chelan Power System (only the Slice Product initialed below applies to this Contract):

N/A **SLICE PRODUCT 1:**
Initial as appropriate for product agreed upon

- (i) Delivery Period 1: For the period starting at 00:00 hours on December 1, 2010 and ending at hour 2400 on December 31, 2010, four and one-half percent (4.5%) of Rocky Reach Output;
- (ii) Delivery Period 2: For the period starting at 00:00 hours on January 1, 2011 and ending at hour 2400 on June 30, 2011, four and one-half percent (4.5%) of Rocky Reach Output;
- (iii) Delivery Period 3: For the period starting at 00:00 hours on July 1, 2011 and ending at hour 2400 on December 31, 2011, four and one-half percent (4.5%) of Rocky Reach Output;
- (iv) Delivery Period 4: For the period starting at 00:00 hours on January 1, 2012 and ending at hour 2400 on June 30, 2012, four and one-half percent (4.5%) of Rocky Reach Output;
- (v) Delivery Period 5: For the period starting at 00:00 hours on July 1, 2012 and ending at hour 2400 on December 31, 2012, three percent (3%) of Chelan Power System Output;
- (vi) Delivery Period 6: For the period starting at 00:00 hours on January 1, 2013 and ending at hour 2400 on December 31, 2013, three percent (3%) of Chelan Power System Output; and

- (vii) Delivery Period 7: For the period starting at 00:00 hours on January 1, 2014 and ending at hour 2400 on December 31, 2014, three percent (3%) of Chelan Power System Output.


Initial as appropriate for product agreed upon

SLICE PRODUCT 2:

- (i) Delivery Period 1: For the period starting at 00:00 hours on December 1, 2010 and ending at hour 2400 on December 31, 2010, zero percent (0.0%) of Rocky Reach Output;
- (ii) Delivery Period 2: For the period starting at 00:00 hours on January 1, 2011 and ending at hour 2400 on June 30, 2011, zero percent (0.0%) of Rocky Reach Output;
- (iii) Delivery Period 3: For the period starting at 00:00 hours on July 1, 2011 and ending at hour 2400 on December 31, 2011, four and one-half percent (4.5%) of Rocky Reach Output;
- (iv) Delivery Period 4: For the period starting at 00:00 hours on January 1, 2012 and ending at hour 2400 on June 30, 2012, four and one-half percent (4.5%) of Rocky Reach Output;
- (v) Delivery Period 5: For the period starting at 00:00 hours on July 1, 2012 and ending at hour 2400 on December 31, 2012, three percent (3%) of Chelan Power System Output;
- (vi) Delivery Period 6: For the period starting at 00:00 hours on January 1, 2013 and ending at hour 2400 on December 31, 2013, three percent (3%) of Chelan Power System Output; and
- (vii) Delivery Period 7: For the period starting at 00:00 hours on January 1, 2014 and ending at hour 2400 on December 31, 2014, three percent (3%) of Chelan Power System Output

N/A **SLICE PRODUCT 3 (combination of Slice Products 1 and 2):**
Initial as appropriate for product agreed upon

- (i) Delivery Period 1: For the period starting at 00:00 hours on December 1, 2010 and ending at hour 2400 on December 31, 2010, four and a half percent (4.5%) of Rocky Reach Output;
- (ii) Delivery Period 2: For the period starting at 00:00 hours on January 1, 2011 and ending at hour 2400 on June 30, 2011, four and a half percent (4.5%) of Rocky Reach Output;
- (iii) Delivery Period 3: For the period starting at 00:00 hours on July 1, 2011 and ending at hour 2400 on December 31, 2011, nine percent (9%) of Rocky Reach Output;
- (iv) Delivery Period 4: For the period starting at 00:00 hours on January 1, 2012 and ending at hour 2400 on June 30, 2012, nine percent (9%) of Rocky Reach Output;
- (v) Delivery Period 5: For the period starting at 00:00 hours on July 1, 2012 and ending at hour 2400 on December 31, 2012, six percent (6%) of Chelan Power System Output;

- (vi) Delivery Period 6: For the period starting at 00:00 hours on January 1, 2013 and ending at hour 2400 on December 31, 2013, six percent (6%) of Chelan Power System Output; and
- (vii) Delivery Period 7: For the period starting at 00:00 hours on January 1, 2014 and ending at hour 2400 on December 31, 2014, six percent (6%) of Chelan Power System Output

SECTION 4. OUTPUT AVAILABILITY

- (a) It is expressly acknowledged and agreed by the Parties that Output is dynamic and variable and is dependent upon a variety of factors including, without limitation, availability of water and operable Units of the Project(s), electric system reliability requirements, Operating Agreements, federal and state laws, rules, regulations and orders affecting river flows and operation of the Project regarding endangered species and other environmental matters, matters giving rise to curtailment and other restrictions on Output described in Appendix A, the terms of which Appendix are incorporated by reference. Output can and will vary substantially from hour-to-hour, season-to-season and year-to-year.
- (b) The District shall have the right, in its sole discretion, to temporarily interrupt, reduce or suspend generation and delivery (through manual operation, automatic operation or otherwise) of Output from the Project(s) during any one or more of the following circumstances: (i) to prevent damage to the District's system or to maintain the reliable and safe operation of the District's system; (ii) a District System Emergency; (iii) if suspension is required for relocation, repair or maintenance of facilities or to facilitate restoration of line outages; (iv) Uncontrollable Forces; (v) any Operational Constraints as described in Appendix A; (vi) negligent acts or intentional misconduct of Purchaser which are reasonably expected to present imminent threat of damage to property or personal injury; (vii) an Event of Default by the Purchaser; or (viii) any other reason consistent with Prudent Utility Practice.

Any available Output during each such interruption, reduction or suspension shall be allocated pro rata among the District, the Purchaser and the other purchasers of Rocky Reach Output and Chelan Power System Output, as applicable, except and to the extent the District determines (or had determined at any time prior to such interruption, reduction or suspension) in its sole discretion that due to a District System Emergency such pro-rata allocation of remaining Output due to such interruption, reduction or suspension is impracticable or infeasible. The District shall give advance notice, as circumstances permit, of the need for such suspension, reduction or interruption to employees of the Purchaser designated from time to time by the Purchaser to receive such notice. The District shall not be responsible for payment of any penalty or costs incurred by the Purchaser during or as a result of such interruption, reduction or suspension.

- (c) Notwithstanding any other provision of this Contract, the District shall at times have the right to operate the Project(s) in such manner as it deems to be in its best interests consistent with the FERC License, applicable laws and regulations and Prudent Utility Practice.

- (d) Notwithstanding any other provision of this Contract, the District shall have the unilateral right to restrict deliveries of Output as may be necessary to fulfill any non-power regulatory or other legal requirements and shall have the unilateral right to determine the amounts of spill required at the Project(s). Any such restrictions in delivery shall be made pro-rata with all purchasers of Output and with the District's share of Output.
- (e) Purchaser acknowledges that, notwithstanding any other provision of this contract to the contrary, the District's obligation to sell and deliver Output is expressly limited to Purchaser's percentage of any Output actually produced by the Rocky Reach Project and Chelan Power System, as applicable, and available for delivery to the Point of Delivery and that the District will not be liable to the Purchaser for the failure to deliver any Output that is not otherwise available from the applicable Project, regardless of the reason for such unavailability.

SECTION 5. PURCHASE PRICE AND PAYMENTS BY PURCHASER

- (a) The purchase price for the Purchaser's Output shall be the total dollar amounts submitted by Purchaser on its bid form, attached hereto as Appendix B and incorporated herein.
- (b) The Purchase Price for each Delivery Period will be equal monthly payments as determined by the dividing the Purchase Price on Appendix B for each Delivery Period by the number of calendar months in that Delivery Period (the "Monthly Payment."). Each Monthly Payment shall be due and payable on the 20th (twentieth) calendar day of the month following the end of the month in which delivery was made. If the 20th calendar day of the month is not a Business Day, the payment will be due on the next following Business Day. For example, for Delivery Period 3, the total Purchase Price for that Delivery Period as reflected on Appendix B will be divided by six (6) to determine the equal Monthly Payments. The first Monthly Payment for Delivery Period 3 would be August 22, 2011.
- (c) The payments set forth above shall be due and payable by electronic funds transfer to the District's account, designated in writing by the District.
- (d) If payment in full of any Monthly Payment amount set forth on a statement or revised statement is not received by the District on or before the close of business on the 20th calendar day of the month, amounts not paid shall be payable with interest calculated daily, at a rate equal to 200 basis points above the per annum Prime Rate reported daily in the Wall Street Journal for the period beginning on the day after the due date and ending on the day of payment, provided that such interest shall not exceed the amount permitted by law. Additionally, if payment due to the District remains unpaid three (3) Business Days after the due date, the District may thereafter suspend delivery of the Purchaser's Output until payment in full of all amounts due and owing (including any interest) is received by the District.
- (e) The payments required under this Section 5 shall be due and owing notwithstanding the fact that the actual amount of power from the Output Percentage made available to the Purchaser is less or more than that which was anticipated by either Party at the time of execution of this Contract. The District makes no warranties of any type as to the Output that will actually be

produced, available and delivered, other than, that the percentage of Output made available to the Purchaser will at all times be in accordance with Section 3(a), and Purchaser assumes all risks associated therewith. The Purchase Price submitted by the Purchaser as set forth above in subsection (a) is the price for the Purchaser's Output and delivery of that Output to the Point of Delivery. Except as otherwise provided in Sections 6 and 16, the Purchaser shall not be obligated to pay any other amounts relating to ownership or operation of the Rocky Reach Project or the Chelan Power System, as applicable. Purchaser is responsible for all costs of transmission from the Point of Delivery.

- (f) A Party may, in good faith, dispute the correctness of any invoice or any adjustment to an invoice rendered under this Contract. The District may in good faith adjust and the Purchaser may in good faith request adjustment of any invoice for any arithmetic or computational error within 12 months of the date of the invoice or adjustment. In the event an invoice is disputed, the entire invoice shall be paid with notice of the objection given to the other Party. Any invoice dispute or invoice adjustment shall be submitted to the other Party in writing within twelve (12) months of the receipt of such invoice or adjustment and shall state the basis for the dispute or adjustment. Any invoice or adjustment shall be conclusively deemed correct unless a dispute is duly submitted within said twelve (12) months period and all subsequent disputes with respect thereto shall be waived. This provision does not apply to the calculation of the Slice Termination Payment, if any.
- (g) The Parties hereby agree that all payment obligations due and owing to each other pursuant to this Contract and WSPP Transactions during the monthly billing period under this Contract and the WSPP Transaction shall be netted so that only the excess amount remaining due shall be paid by the Party owing the same. This netting provision also applies to the Slice Termination Payment as provided in Section 16, *provided, however*, that if there is a Slice Termination Payment owed by the District in excess of the sum of all other amounts owed by the Purchaser to the District under all WSPP Transactions, the District shall not be required to make any payment to the Purchaser unless there is an Event of Default by the District as set forth in Sections 15(a)(2), (5) or (7). Except for the amount of the net termination payment, the determination of the net amounts due under this Contract and the WSPP Transactions shall not be offset by, or take into account or include any Performance Assurance that may then be posted and in effect pursuant to the Collateral Annex between the Parties.

SECTION 6. SCHEDULING OF DELIVERIES OF OUTPUT

- (a) This Section 6 shall apply to the scheduling of the Purchaser's Output.
- (b) The Purchaser will be required to become a signatory of the MCHC Agreement.
- (c) Scheduling of Purchaser's Output shall be as requested by the Purchaser, or its designated scheduling agent, and shall be subject to the limitations set forth in this Contract. Purchaser may schedule its Purchaser's Output by the use of hourly schedules or by the use of a dynamic signal.
- (d) Scheduling Purchaser's Output with hourly schedules.

1. The Purchaser, or its designated scheduling agent, shall provide the District each Pre-Schedule Day, in conformance with prevailing scheduling procedures for scheduling generating resources in the WECC region, hourly schedules of desired Purchaser's Output deliveries for the following day or days. The schedules will be completed in a time frame consistent with standard industry practices in the WECC region and section 6(d). Such schedules shall be based on the rights and limits of Capacity and Output and on the probable water supply (inflow) of the Rocky Reach Project or Chelan Power System, as applicable. Revisions in schedules may be made at any time upon the request of the Purchaser in accordance with this section.
2. During all Delivery Periods for Slice Products 1 and 2, the District will allow up to four tags sourced at its Balancing Authority during the Pre-Schedule Day time frame and up to three additional tags sourced at its Balancing Authority per hour during real-time. For all Delivery Periods for Slice Product 3, the number of allowable tags will be eight tags sourced at its Balancing Authority during the Pre-Schedule Day time frame and up to six additional tags sourced at its Balancing Authority per hour during real-time. The District will not allow tags that sink in its Balancing Authority which the District considers to be "hubbing." The District will provide a "hubbing" service under a separate agreement if the Purchaser requests this service. It is the Purchaser's responsibility to follow all applicable standards and practices for tagging hourly schedules.
3. Purchaser must e-mail Preschedule tag paths and energy profiles to the District by 10 a.m. PPT on the Pre-Schedule Day. New real-time schedules and real-time revisions to existing schedules may be made at any time upon the request of the Purchaser but must be communicated and tagged by the Purchaser at least 30 minutes prior to the start of each hour.

(e) Scheduling Purchaser's Output with Dynamic Signal

1. Provided the Purchaser or its designated scheduling agent is a registered NERC Balancing Authority, the Purchaser may schedule its Output by dynamic signal in accordance with applicable NERC and WECC reliability criteria and in accordance with the requirements of this Section 6.
2. The dynamic signals must be compatible with the equipment of the District (or District's designee) and the signals must be delivered to the District's generation control computer (or the District's designee) at Purchaser's expense.
3. Upon the District's request from time to time, Purchaser shall provide, on a pre-schedule basis, a non-binding estimate of Purchaser's projected requests for Energy from the Rocky Reach Project and Chelan Power System, as applicable, for the next succeeding delivery day or days.

4. The District (or the District's designee) shall supply a return signal to the Purchaser which indicates the amount of the requested Energy actually delivered. The District (or the District's designee) shall provide an hourly pond balance to the Purchaser.
 5. The ability of the Projects to respond to signal changes is subject to Capacity limitations, Ramp Rates, and maximum signal rates of change to be established by the District. The Purchaser's ability to utilize the Rocky Reach Project's or Chelan Power System's, as applicable, response to changes in generation requests will be in proportion to Purchaser's Output Percentage.
- (f) These provisions apply to both the hourly schedules and the dynamic signal scheduling options:
- (i) Subject to the provisions of this Contract, the District shall make available to Purchaser, each hour, Purchaser's Output.
 - (ii) The District shall make all determinations concerning the Rocky Reach Project's or the Chelan Power System's, as applicable, maximum Capacity and minimum discharge; and the District shall have the unilateral right to determine the maximum allowable amount of change in Output during any time period. Purchaser's daily and hourly schedules shall be based on Purchaser's Output in accordance with the Rocky Reach Project's or Chelan Power System's, as applicable, operational parameters as established by the District from time to time.
 - (iii) Purchaser's aggregated hourly schedules shall not be less than Purchaser's Output Percentage of the minimum Capacity of the Rocky Reach Project or the Chelan Power System, as applicable, as determined by the District, nor shall it be greater than Purchaser's Output Percentage of the maximum Capacity of the Rocky Reach Project or Chelan Power System, as applicable, as determined by the District. Purchaser shall be responsible for keeping its schedules within all energy production limits applicable, including all limits imposed by the terms of the MCHC. Purchaser's schedules are also subject to immediate curtailment in the event of an unplanned outage or other sudden reduction in the Capacity of the Rocky Reach Project or Chelan Power System, as applicable, as a result of Operational Constraints or otherwise.
 - (iv) If the Purchaser does not provide schedules which comply with this section, and the District has to make sales or purchases in order to comply, the District will charge to the Purchaser all costs associated with the District having to purchase or sell energy due to non-compliance. Costs shall be calculated by the District in accordance with Prudent Utility Practice and will be limited to: (i) payment by the District to any entity to purchase the energy; (ii) broker fees, commissions and other similar transaction costs and expenses incurred in connection with actions taken by the District; and (iii) a fee equal to the greater of 20 percent of the Dow Jones hourly index (\$/MWh) or other recognized hourly index for that hour and

\$5 per MWh for any purchase or sales made by the District as a result of non-compliant schedules. If the District sells the energy or capacity, any proceeds received from such sales will be retained by the District. The amounts owing by the Purchaser to the District pursuant to this provision shall be due and payable per Section 5(c) and subject to the provisions of Sections 5(d)(f) and (g) of this Contract. The Purchaser's failure to provide schedules which comply with Section 6 shall also be a default by the Purchaser and subject to Section 15 hereof.

- (v) Purchaser shall be entitled to utilize a share of the Pond/Storage available at the Rocky Reach Project or Chelan Power System, as applicable. The Pond/Storage available shall be determined per MCHC. Purchaser shall be entitled to utilize the Purchaser's Percentage Share of the Pond/Storage available.
- (vi) MCHC will establish and maintain for Purchaser a Pond/Storage account that will reflect the use of Pond/Storage by the Purchaser associated with the Purchaser's Percentage of Output of the Rocky Reach Project or Chelan Power System, as applicable, during the relevant Delivery Periods. The District will transfer 30 MWh of paper Pond/Storage from their Pond/Storage account to the Purchaser's Pond/Storage account in order to establish a starting balance.

The Purchaser must have a minimum Pond/Storage balance of 30 MWh on the last hour of the term of this Contract which will then be transferred to the District's Pond/Storage account. If the Purchaser's Pond/Storage balance is less than 30MWh, then the District will invoice the Purchaser for the shortage quantity (MWh) at an hourly price equal to the Dow Jones hourly index (\$/MWh) or other recognized hourly index for the last hour of the Contract term. The Purchaser shall make payment pursuant to Sections 5(d) (f) and (g) above. The Purchaser may schedule more than its share of the Rocky Reach Project or Chelan Power System, as applicable, inflows determined in accordance with Section 6(c) if the Purchaser has sufficient amount of energy in its Pond/Storage account. The amount of the Energy scheduled from the Pond/Storage account shall not exceed the Purchaser's Output Percentage of the maximum Capacity of Rocky Reach or Chelan Power System, as applicable.

- (vii) During an hour that spill occurred at any non-federal Mid-C Project due to any reason, the spill will be allocated in accordance with the MCHC.
- (viii) The District may establish new or additional operating or scheduling procedures that the District considers necessary to effectuate this Contract and to conform to standard WECC scheduling and operating practices. Changes may also be made to conform to mandatory reliability standards and any applicable business practices, criteria and procedures of WECC, NWPP and transmission service providers. Changes for other reasons will be made by mutual agreement.
- (ix) In the event the Purchaser determines or has reason to believe that an error has occurred in the after-the-fact MCHC accounting, the Purchaser shall notify the District immediately. The District will assist the Purchaser in determining if an

error did occur and, if so, correct that error through the MCHC by re-running the hours or other correction. Any adjustment as a result of such errors shall not include or give rise to any monetary compensation or other adjustments to the payments by the Purchaser.

SECTION 7. POINTS OF DELIVERY/TRANSMISSION

- (a) Output power supplied hereunder shall be approximately 230 kV, three-phase, alternating current, at approximately 60 hertz.
- (b) The Rocky Reach Energy to be delivered hereunder shall be made available to the Purchaser, at its option, exercisable from time to time, at any one or more of the following Point(s) of Delivery:
 - (1) White River – Rocky Reach 230 kV Transmission Line
Location: The point(s) where the Chelan Transmission System interconnects with Puget’s White River – Rocky Reach 230 kV transmission line in the vicinity of the Rocky Reach Switchyard
Voltage: 230 kV
 - (2) Maple Valley – Rocky Reach 230/345 kV Transmission Line
Location: The point(s) where the Chelan Transmission System interconnects with BPA’s 230/345 kV step-up transformer facilities that in turn feed BPA’s Maple Valley – Rocky Reach 230/345 kV transmission line in the vicinity of the Rocky Reach Switchyard
Voltage: 230 kV
 - (3) Chelan Rocky Reach – Columbia #2 230 kV Transmission Line
Location: The point(s) where the Chelan Transmission System interconnects with BPA at 230 kV line in the vicinity of BPA’s Columbia Substation
Voltage: 230 kV
 - (4) Chelan Rocky Reach – Columbia #2 230 kV Transmission Line
Location: The point(s) where the Chelan Transmission System interconnects with Grant County PUD’s Columbia – Wanapum 230 kV line in the vicinity of BPA’s Columbia Substation
Voltage: 230 kV
 - (5) BPA Rocky Reach – Columbia #1 230 kV Transmission Line
Location: The point(s) where the Chelan Transmission System interconnects with BPA’s Rocky Reach – Columbia 230 kV line in the vicinity of the Rocky Reach Switchyard
Voltage: 230 kV
 - (6) Rocky Reach – Douglas 230 kV Tie Line
Location: The point(s) where the Chelan Transmission System interconnects with Douglas County PUD’s 230 kV system in the vicinity of the Rocky Reach Switchyard
Voltage: 230 kV

- (7) At any other location mutually agreed to by the District and Purchaser.
- (c) The Chelan Power System Energy to be delivered hereunder shall be made available to the Purchaser, at its option, exercisable from time to time, at any one or more of the following Point(s) of Delivery listed in (b) above and:
- (1) BPA Valhalla Substation (Rock Island)
Location: The point(s) where the Chelan Transmission System interconnects with BPA at 115 kV in the vicinity of the BPA 115 kV Switchyard and McKenzie 115 kV Switchyard.
Voltage: 115 kV
- (2) At any other location mutually agreed to by the District and Purchaser.
- (d) Purchaser is responsible for obtaining all necessary transmission capacity, arranging scheduling and paying associated costs to transmit all Energy obtained from its Purchaser's Output Percentage from the Point(s) of Delivery to Purchaser's system or any alternate point of receipt.
- (e) The District warrants that it will deliver to Purchaser the Purchaser's Percentage of Output free and clear of all liens, security interests, claims and encumbrances or any interest therein or thereby to any person arising prior to the Point of Delivery.

SECTION 8. METERING AND TRANSMISSION LOSSES

- (a) Metering Installation. The District has installed metering devices at each Point of Delivery to record the energy generated by the applicable Project(s). The District may from time to time install additional or replacement metering devices to measure energy from the applicable Project(s). All such metering devices, as so designated by the District from time to time ("Meters"), shall be used to measure Energy for all purposes of this contract and for purposes of any other agreement between the Parties related to the delivery of Energy.
- (b) Measurements. Except as may otherwise be provided in a contract between the Parties governing a specific transaction between them, all power flow and reactive power flow measurements from the Units shall be based on the measurement automatically recorded by the Meters.
- (c) Meter Testing. The District shall inspect, test and adjust the Meters at least once every two years. The District shall provide Purchaser with reasonable advance notice of, and permit a representative of Purchaser to witness and verify, such inspections, tests and adjustments.
- (d) Recalculations. If any of the District's metering devices are found to be defective or inaccurate by more than +/- 0.2%, it shall be adjusted, repaired, replaced and/or re-calibrated to bring the metering device to within the specifications provided for herein. If any of the District's metering devices are not found to be defective or inaccurate by more than the variances stated herein, then such Meters shall not be re-calibrated unless the District

determines to do so.

- (e) **Adjustment for Inaccurate Metering.** If any Meter fails to register, or if the measurement made by such Meter during a test varies by more than +/- 0.2% from the measurement made by the standard meter used in such test, or if an error in meter reading occurs, adjustment shall be made to correct all measurements for the period during which such inaccurate measurements were made, if such period can be determined. If such period cannot be determined, the adjustment shall be made for the period immediately preceding the test of such Meter which is equal to the lesser of (a) one-half the time from the date of the last preceding test of such Meter, or (b) six months. Such corrected measurements shall be used to recompute the amounts of Energy delivered by the District to Purchaser during the period of adjustment. Such adjustment shall not include or give rise to any monetary compensation or other adjustments to the payments by Purchasers.

SECTION 9. INFORMATION TO BE MADE AVAILABLE TO THE PURCHASER

- (a) The Purchaser, upon at least thirty (30) days advance written notice to the District, shall have the right at its sole cost and expense to examine operating records relating to the Purchaser's Output Percentage during the District's normal business hours. All reasonable costs incurred by the District associated with such examination of operating records, including, but not limited to, District labor, materials and reproduction services shall be promptly reimbursed to the District by the Purchaser.
- (b) The District shall exercise commercially reasonable efforts to provide to the Purchaser estimates and information reasonably necessary for the Purchaser to exercise its rights under this Contract. Purchaser may from time to time request that the District provide Purchaser with available operating data related to the Project(s), including planned outages, Fish Spill estimates and other anticipated events or circumstances that might affect Output over the ensuing 12 months. The District shall use commercially reasonable efforts to comply with such requests, to the extent such information is in the District's possession; provided, however, that the District shall not be liable to the Purchaser for any inaccuracies in such information or the failure of the District to deliver it in a timely manner. The Parties anticipate that the technology for the transfer of such information and the information required to operate Purchaser's Output Percentage will change over time. The Parties agree to transfer operating information reasonably needed by Purchaser to operate its Percentage of Output by means of a technology that is both cost-effective and timely, as mutually agreed by the Parties.

SECTION 10. ENVIRONMENTAL ATTRIBUTES

The District retains for its own use and benefit any and all Environmental Attributes associated with or related to the Output of the Rocky Reach Project and the Chelan Power System. It is the Parties' intent that the definition of Environmental Attributes as used herein and the District's retention of these rights shall be liberally applied and construed to be most inclusive in favor of the District. The District is willing to negotiate with Purchaser during the term of this Contract

for the sale of Environmental Attributes or a defined subset of Environmental Attributes to the Purchaser for additional value received.

SECTION 11. LIABILITY OF PARTIES/DISCLAIMER OF WARRANTIES

- (a) The Purchaser is purchasing Output from or attributable to the Rocky Reach Project or Chelan Power System, as applicable, as available and scheduled by the Purchaser. The Purchaser acquires no interest in or rights to any facilities forming part of the Rocky Reach Project or the Chelan Power System.
- (b) Except as expressly provided for herein, the District shall not be liable to Purchaser for any damages or losses sustained by Purchaser or its customers or third parties as a result of the curtailment, reduction or interruption of Output.
- (c) The District disclaims any and all warranties beyond the express terms hereof, including any implied warranties of merchantability or fitness for a particular purpose, and all other warranties with regard to all Energy and Capacity and other Output made available to Purchaser pursuant to this Contract are hereby expressly disclaimed.

THE FOREGOING IS IN LIEU OF ALL OTHER WARRANTIES, EXPRESSED OR IMPLIED, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, IN FACT OR BY LAW WITH RESPECT TO THE OUTPUT PROVIDED HEREUNDER. DISTRICT HEREBY DISCLAIMS ANY AND ALL OTHER WARRANTIES WHATSOEVER.

- (d) The Parties confirm that the express remedies and the express limitations as to remedies and damages provided in this Contract satisfy the essential purposes hereof. For breach of any provision hereof for which an express remedy or measure of damages is provided, such express remedy or measure of damages shall be the sole and exclusive remedy, the obligor's liability shall be limited as set forth in such provision and all other remedies or damages at law or in equity are waived.
- (e) Neither Party nor any Affiliate thereof may make application to FERC, or any other Government Authority having jurisdiction over this Contract, seeking any change in this Contract pursuant to the provisions of Sections 205 or 206 of the Federal Power Act or under any other statute, regulation or other provision promulgated by a Government Authority, nor support any such application by a third party. Absent the agreement of the Parties to any proposed change, the standard of review for changes to any Section of this Contract specifying the rate(s) or other material economic terms and conditions agreed to by the Parties herein whether proposed by a Party, a non-Party or FERC actions sua sponte, shall be the "public interest" standard of review set forth in *United Gas Pipe Line Co. v. Mobile Gas Service Corp.*, 350 U.S. 332 (1956) and *Federal Power Commission v. Sierra Pacific Power Co.*, 350 U.S. 348 (1956) (the "Mobile-Sierra" doctrine). The Parties, for themselves and their successors and assigns, (i) agree that this "public interest" standard shall apply to any proposed changes in any other documents, instruments or other agreements executed or entered into by the Parties in connection with this Contract and (ii) hereby expressly and

P.O. Box 3727
Spokane, WA 99220-3727

- (b) In computing any period of time from such notice, such period shall commence at HE 2400 (midnight) PPT on the date mailed.
- (c) The designations of the name and address to which any such notice or demand is directed may be changed at any time by either Party giving written notice as provided above.

SECTION 13. DISTRICT'S LICENSES

It is recognized by the Parties that the District, in its operation of the Rocky Reach Project and Rock Island Project, must comply with the requirements the FERC License together with amendments thereof from time to time made, and the Purchaser acknowledges that compliance with such requirements in a manner determined necessary and appropriate by the District may adversely affect the Output of the Project(s). If such actions will affect the Output of the Project(s), the District will provide written notice to the Purchaser as soon as is practicable under the circumstances.

SECTION 14. ASSIGNMENT OF CONTRACT

Neither the Purchaser nor the District shall by contract, operation of law or otherwise, assign this Contract or any right or interest in this Contract without the prior written consent of the other Party, which shall not be unreasonably withheld; provided, however, that the District may without the consent of the Purchaser (and without relieving itself from any obligations hereunder) pledge or encumber this Contract or the accounts, revenues or proceeds hereof in connection any financings or other financial arrangements.

SECTION 15. DEFAULT; REMEDIES ON DEFAULT

- (a) An "Event of Default" shall mean with respect to a Party ("Defaulting Party"):
 - (1) the failure by the Defaulting Party to make, when due, any payment required pursuant to this Contract if such failure is not remedied within two (2) Business Days after written notice of such failure is given to the Defaulting Party by the other Party ("the Non-Defaulting Party"); or
 - (2) the District's willful or intentional failure to deliver Output to the Purchaser as provided in this Contract and such failure is not cured within three (3) Business Days after written notice thereof from the Purchaser to the District; or
 - (3) the failure of the Purchaser to perform its obligations under Sections 3 and 6 of this Contract and such failure is not cured within three (3) Business Days after written notice thereof to the Purchaser; or

(4) the failure by the Defaulting Party to have made accurate representations and warranties as required in Section 23 of this Contract and such failure is not cured within three (3) Business Days after written notice thereof to the Defaulting Party; or

(5) the institution, with respect to the Defaulting Party, by the Defaulting Party or by another person or entity of a bankruptcy, reorganization, moratorium, liquidation or similar insolvency proceeding or other relief under any bankruptcy or insolvency law affecting creditor's rights or a petition is presented or instituted for its winding-up or liquidation; or

(6) the failure by either party to establish, maintain, transfer or extend Performance Assurance or Independent Amount, or return Excess Performance Assurance, in any such case when required pursuant to the Collateral Annex executed by the Parties of even date herewith; or

(7) the occurrence of an event of default, however defined, in respect to any transactions under any WSPP Transaction.

(8) With respect to Purchaser's Guarantor, if any, an Event of Default shall mean:

- (i) if a material representation or warranty made by a Guarantor in connection with this Contract, or any transaction entered into hereunder, is false or misleading in any material respect when made or when deemed made or repeated; or
- (ii) the failure of a Guarantor to make any payment required or to perform any other material covenant or obligation in any guarantee made in connection with this Contract, including any transaction entered into hereunder, and such failure shall not be remedied within three (3) Business Days after written notice; or
- (iii) the institution, with respect to the Guarantor, by the Guarantor or by another person or entity of a bankruptcy, reorganization, moratorium, liquidation or similar insolvency proceeding or other relief under any bankruptcy or insolvency law affecting creditor's rights or a petition is presented or instituted for its winding-up or liquidation; or
- (iv) the failure, without written consent of the other Party, of a Guarantor's guarantee to be in full force and effect for purposes of this Contract (other than in accordance with its terms) prior to the satisfaction of all obligations of such Party under each transaction to which such guarantee shall relate; or
- (v) a Guarantor shall repudiate, disaffirm, disclaim, or reject, in whole or in part, or challenge the validity of, any guarantee.

- (b) District's Remedies. If an Event of Default by the Purchaser occurs, the District may (i) immediately suspend deliveries of Output to Purchaser and sell such Output to third parties and retain funds received from such sales until the default is cured; (ii) terminate the Contract and recover a Slice Termination Payment as set forth below in Section 16; or (iii) seek specific performance or maintain successive proceedings for payment of amounts due.
- (c) Purchaser's Remedies. If an Event of Default by the District occurs, the following shall apply:
- (1) If the Event of Default is described in Section 15(a)(1), the Purchaser's sole remedy will be to set off amounts due by the District against amounts due or to become due by the Purchaser hereunder subject to the netting provisions and provisos in Section 5(g) and Section 16;
 - (2) If the Event of Default is described in Sections 15(a)(2), (5) or (7), the Purchaser's sole remedy will be to (i) initiate an action for mandamus to compel such performance; or (ii) terminate this Contract and receive or pay a Slice Termination Payment as set forth in Section 16 and Section 5(g). In the Event of Default by the District as described in Section 15 (a)(2),(5) or (7) and Purchaser chooses to continue the Contract and obtains an order requiring the District to perform or the District agrees to continue the Contract, the Purchaser shall be entitled to receive from the District a payment reflecting the market price of the Purchaser's Percentage of Output for the period of time that deliveries did not occur. The market price of that Output shall be calculated at a rate equal to the daily Mid-Columbia electricity price on peak and off peak indices for the respective hours. Payment by the District shall be subject to the provisions of Section 5 of this Contract.
 - (3) If the Event of Default is described in Sections 15(a)(4) or (6), the Purchaser shall be entitled, as its sole remedy, to either: (i) an order of specific performance directing the District to fulfill its obligations under this Contract; or (ii) terminate the Contract, it being specifically understood and agreed that such termination may result in a Slice Termination Payment becoming due to the District as set forth in Section 16 and Section 5(g), but will not result in a Slice Termination Payment being due or owing to the Purchaser by the District pursuant to this Contract as set forth in Section 5(g) and 16.
- (d) Failure of either Party to insist at any time on the strict observance or performance by the other Party of any of the provisions of this Contract shall not impair any right or remedy nor be construed as a waiver or relinquishment thereof in the future.

SECTION 16. TERMINATION PAYMENT.

A Slice Termination Payment as referenced in this Contract shall be calculated by the District in accordance with the protocol set forth in this section. For purposes of this Contract, the "Slice Termination Payment" shall mean the sum of (i) the amount calculated pursuant to clauses (b) or (c) below, as the case may be, plus (ii) all amounts then due and owing by the Defaulting Party

under this Contract as of the date of termination, whether or not billed or demanded as of that date, plus (iii) the Non-Defaulting Party's Costs. "Costs" for purposes of this Contract means all reasonable fees, costs and expenses incurred by a Non-Defaulting Party as a direct result of the other Party's non-performance or breach of its obligations hereunder, including, without limitation, administrative and overhead costs, brokerage fees, commissions and other third party transaction costs and expenses, other fees, charges, costs and expenses including court costs and reasonable fees of attorneys (external and internal), consultants and other professionals, incurred in connection with calculating the Slice Termination Payment, obtaining quotations, and in enforcing the Non-Defaulting Party's rights hereunder. "Costs" shall not include indirect incidental, consequential or punitive damages arising from the Defaulting Party's breach.

- (a) Calculation Agent. The calculation of the Slice Termination Payment will be performed by the District; provided, however, that in the event there is an Event of Default by the District as described in Sections 15 (a)(2), (5) or (7), then Purchaser shall be the Calculation Agent. Purchaser shall use the Alternative Determination Methodology described in Subsection (c) below in determining the Slice Termination Payment. The determination of the Slice Termination Payment by the District pursuant to the criteria set forth below shall be binding on the Parties and conclusive, absent manifest error.
- (b) Quotation Methodology. The District shall first endeavor to calculate the Slice Termination Payment obtaining, as soon as reasonably practical after the termination, quotations (either firm or indicative) for a Replacement Slice Contract from three or more third parties selected by the District who, in the District's reasonable discretion, are creditworthy, are qualified to enter into a Replacement Slice Contract and are parties to a WSPP Agreement (each a "Qualified Bidder"). Bids or quotations for less than the full remaining term or containing material conditions or deviations from this contract shall not be considered. If more than three quotations are received, the high and low quotation shall be disregarded and the Slice Termination Payment shall be calculated using the average of the remaining quotations, as compared to the total Purchase Price for all remaining Delivery Periods. If three or fewer quotations are received, the Slice Termination Payment shall be calculated using the average of the quotations received. It is expressly agreed that the District shall not be required to enter into a Replacement Slice Contract or any replacement transactions in order to determine the value of Purchaser's Output for the purposes of calculating the Slice Termination Payment under this section.

"Replacement Slice Contract" means a slice contract containing substantially the same terms and conditions as this contract, for the same Purchaser's Output Percentage, and for a term commencing on the quotation date contemplated in Section 16(b) and continuing for the remaining nominal term hereof.

- (c) Alternative Determination Methodology. If the District does not receive any bids or indicative quotations pursuant to the procedures set forth in clause (b) above, the Slice Termination Payment shall be determined by the District or the Purchaser, if Purchaser is the Calculation Agent pursuant to subsection (a) above, using commercially reasonable procedures in order to produce a commercially reasonable result utilizing the base methodology outlined in Appendix A to the Collateral Annex.

- (d) Present Value. The Slice Termination Payment calculated pursuant to clause (b) above shall be discounted to present value using the Present Value Rate as of the time of termination. The "Present Value Rate" shall mean the sum of 0.50% plus the yield reported on page "UISD" of the Bloomberg Financial Markets Services Screen (or if not available, any other nationally recognized trading screen reporting on-line intraday trading in United States government securities at 8:00 a.m. (Pacific Prevailing Time) for the United States government securities having a maturity that matches the average remaining term of this Contract.
- (e) Payment of Termination Amount. The District shall provide the Purchaser with written notification of the Slice Termination Payment, as calculated pursuant to this Section 16 as soon as practical after such amounts have been determined and shall provide Purchaser with supporting documentation showing in reasonable detail the bids, quotations and other factors used in making such calculations. The Slice Termination Payment shall be due within three (3) Business Days of delivery of such notice and payment shall bear interest at the Present Value Rate from the effective date of the notice of termination until the Slice Termination Payment is paid in full. Payment shall be made in conformance with Section 5 of this Contract. A negative value of the net Slice Termination Payment will result in a payment made by Purchaser to the District. A positive value may only result in an offset to any amounts owed to the Purchaser from the District under all WSPP agreements unless there is an Event of Default by the District pursuant to Section 15(a)(2), (5) or (7). If the positive value exceeds any amounts owed to the Purchaser from the District under all WSPP agreements, no payment will be made by the District unless there is an Event of Default by the District pursuant to Section 15(a)(2), (5) or (7). Under a Section 15(a)(2), (5) or (7) Event of Default by the District, a positive value of the net Slice Termination Payment will result in a payment made by the District to the Purchaser. It is specifically agreed that the intention of the parties is that the Purchaser's sole remedy for a District Event of Default, other than an Event of Default under Section 15(a)(2), (5) or (7), shall be as set forth above in Section 15(c) and no Termination Payment shall be due and owing by the District to the Purchaser.
- (f) Setoff and Netting. The District shall aggregate or set off any or all other amounts owing between the Parties under all WSPP Agreements and this Contract so that all such amounts are aggregated and/or netted into a single liquidated termination payment; *provided, however*, that the provisions of Sections 5(g) and 16(e) of this Contract are specifically incorporated herein.

SECTION 17. COLLATERAL REQUIREMENTS

The obligations and rights of the Parties under this Contract to call for and post collateral are set forth in the Collateral Annex and Cover Sheet Elections executed by the Parties on even date herewith.

SECTION 18. GOVERNING LAW, VENUE AND ATTORNEY FEES

The Parties agree that the laws of the State of Washington shall govern this Contract. Venue of any action filed to enforce or interpret the provisions of this Contract shall be exclusively in the United

States District Court for the Eastern District of Washington or the Superior Court of the State of Washington for Chelan County and the Parties irrevocably submit to the exclusive jurisdiction of any such court. In the event of litigation to enforce the provisions of this Contract, the prevailing Party shall be entitled to reasonable attorney's fees in addition to any other relief allowed. Each party waives its respective right to any jury trial with respect to any litigation arising under or in connection with this Contract.

SECTION 19. COMPLIANCE WITH LAW

- (a) The Parties understand and acknowledge that operation of the Project(s) must conform to and comply with all applicable laws, rules, regulations, license conditions or restrictions promulgated by the FERC, the State of Washington or any other governmental agency or entity having jurisdiction over the Project(s). The Purchaser shall take whatever actions are reasonably necessary to cooperate fully with the District in meeting such requirements. Obligations of the District contained in this Contract are hereby expressly made subordinate and subject to such compliance.
- (b) RCW 54.16.040 contains provisions relating to the District's sale of electric energy. The Parties understand and acknowledge that the District must comply with RCW 54.16.040 to the extent applicable to this Contract and the District's obligations and performance of this Contract are hereby expressly made subordinate and subject to such compliance.

SECTION 20. HEADINGS

The headings of sections and paragraphs of this Contract are for convenience of reference only and are not intended to restrict, affect or be of any weight in the interpretation or construction of the provisions of such sections and paragraphs.

SECTION 21. ENTIRE AGREEMENT; MODIFICATION; CONFLICT IN PRECEDENCE

This Contract constitutes the entire agreement between the Parties with respect to the subject matter of this Contract, and supersedes all previous communications between the Parties, either verbal or written, with respect to such subject matter. No modifications of this Contract shall be binding upon the Parties unless such modifications are in writing signed by each Party.

SECTION 22. NO PARTNERSHIP OR THIRD PARTY RIGHTS

- (a) This Contract shall not be interpreted or construed to create an association, joint venture or partnership between the Parties, or to impose any partnership obligations or liability upon any Party.
- (b) This Contract shall not be construed to create rights in or grant remedies to any third party as a beneficiary of this Contract.
- (c) This Contract is for the sale of Output only. Nothing in this Contract is intended to grant Purchaser any rights or interest in any specific District project, facility or resource.

SECTION 23. REPRESENTATIONS AND WARRANTIES

At the time of the Effective Date of this Contract, each Party represents and warrants to the other Party that:

- (a) It is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation.
- (b) It has full legal right, power and authority to execute, deliver and perform its obligations under this Contract; it has taken all appropriate and necessary action to authorize the execution, delivery and performance of this Contract including, without limitation, the approval by its Board of Commissioners or Board of Directors, as the case may be; and this Contract has been duly and validly executed and delivered by it; and this Contract does not violate any of the terms or conditions in its governing documents or any contract to which it is a party or any law, rule, regulation, order, writ, judgment, decree or other legal or regulatory determination applicable to it.
- (c) This Contract constitutes a legally valid and binding obligation enforceable against it in accordance with its terms, subject to equitable defenses and applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally.
- (d) There are no bankruptcy, insolvency, reorganization, receivership or other arrangement or proceedings pending or being contemplated by it, or to its knowledge threatened against it.
- (e) Each Party is acting for its own account, and has made its own independent decision to enter this Contract and this Contract is appropriate or proper for it based upon its own judgment. Neither Party is relying upon the advice or recommendations of the other Party in so doing, and each Party is capable of assessing the merits of and understanding, and understands and accepts, the terms, conditions and risks of the Contract.
- (f) Each Party has entered into this Contract in connection with the conduct of its business and it has the capacity or ability to make or take delivery of the Output referred to in this Contract.
- (g) Each Party acknowledges and agrees that this Contract is a "forward contract" and that each Party is either a "forward contract merchant" or "financial participant," in each case as those terms are used in the United States Bankruptcy Code.
- (h) The District represents that it is not immune on the grounds of sovereignty from suit for breach of contract brought in the courts of the State in connection with its obligations under this Agreement and each Transaction under this Agreement, and irrevocably agrees that it will not claim immunity on the grounds of sovereignty in any such proceeding. The District represents that it is subject to the filing of claims, service of process and suit for damages pursuant to and in accordance with the laws of the State of Washington.


SECTION 24. SEVERABILITY

If any term or provision of this Contract or the application thereof to any Party, or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Contract, or the application of such term or provision to the Parties or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each term and provision of this Contract shall be valid and enforceable to the fullest extent permitted by law. If any clause or provision of this Contract shall be deemed invalid or unenforceable, the Parties will promptly engage in good faith negotiations to modify such clause or provision to each Party's commercially reasonable satisfaction to alleviate the grounds for invalidity or enforceability and to preserve the respective rights and obligations of the Parties intended to be conferred by this Contract to the greatest extent reasonably practicable.

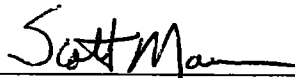
SECTION 25. AUTHORITY TO SIGN

Each of the individuals executing this Agreement warrant that they are the authorized signatory of the entity for which they are signing and have sufficient corporate authority to execute this Agreement.

PUBLIC UTILITY DISTRICT NO. 1
OF CHELAN COUNTY, WASHINGTON

By: 
Title: General Manager
Date: 9-24-10

AVISTA CORPORATION

By: 
Title: Chairman & CEO
Date: 9-23-2010

APPENDIX A

OUTPUT, SCHEDULING, PLANNING AND TRANSMISSION

This Appendix A shall govern the determination of the Output to be made available to Purchaser under this Contract.

Definitions

In addition to the terms elsewhere defined in this Contract, the following terms used in this Appendix A shall have the meanings ascribed to them below.

Biological Opinion - means any opinion issued by a Government Authority authorized to do so under the Endangered Species Act (ESA) that reviews and assesses whether the operating plan submitted by BPA, the U.S. Army Corps of Engineers and the Bureau of Reclamation will jeopardize the survival of any creature or creatures that have been determined to be threatened or endangered pursuant to the ESA.

Black Start Capability – The ability of generators to self-start without any source of off-site electric power and maintain adequate voltage and frequency while energizing isolated transmission facilities and auxiliary loads of other generators.

Bonneville Power Administration (BPA) - The Federal power marketing agency responsible for the selling of the output of all Columbia River Federal project generation, and ownership, operation and maintenance of a major share of the northwest high-voltage transmission system.

Canadian Entitlement – The amount of energy and capacity that Rocky Reach and Chelan Power System, as applicable, is [are] obligated to return to BPA in its capacity as the US Entity for the account of the Canadian government to fulfill obligations under the US-Canadian Columbia River Treaty of 1964.

Fish Spill – The required spill of water for the passage of fish past the Projects as required by FERC order, the District's HCP, spill for studies, or other Regulatory Authorities.

Habitat Conservation Plans (HCP) - The plans approved as part of the Projects licenses to protect anadromous fish passing upstream and downstream at the projects.

Hanford Reach Fall Chinook Protection Program (Vernita Bar) - The agreement which defines the Mid-Columbia projects' (Grand Coulee, Chief Joseph, Wells, Rocky Reach, Rock Island, Wanapum, and Priest Rapids) operational obligations for the fresh water life cycle protection of the Hanford Reach Fall Chinook which has been signed by the District, National Oceanic and Atmospheric Administration's Department of Fisheries (NOAA Fisheries), Washington Department of Fish and Wildlife, PUD No. 2 of Grant County, and PUD No. 1 of Douglas County.

Immediate Spill Replacement – The energy received from the Federal government for the purpose of moving spill from the Federal system to reduce total dissolved gas levels downstream

from Federal reservoirs.

Load Following/Regulation - The ability to adjust generation within an hour (or pursuant to dynamic scheduling) to follow variations in load. Load Following/Regulation is limited and constrained by the number of Units available, any limitations on the Units, Ramp Rate, and any other power or non-power restrictions.

Mid-Columbia Hourly Coordination (MCHC) - The 1997 Agreement For The Hourly Coordination Of Projects On The Mid-Columbia River (or its successor agreement) is an agreement among the principal parties that own or have rights to generation relating to the seven mid-Columbia hydro projects (Grand Coulee, Chief Joseph, Wells, Rocky Reach, Rock Island, Wanapum, and Priest Rapids). This Contract coordinates the hydraulic operation (generation, flows, and storage) among these projects.

Non-Spinning Operating Reserves – Those reserves that may be available at any time from all Units of the Rocky Reach Project and the Chelan Power System, as applicable, not then connected to the system but capable of being connected and serving demand within a specified time.

Operational Constraints - Constraints on the operation of the Units or a Project that are needed to meet any requirement due to the HCP, regulations, Laws, court orders, authority, safety, Operating Agreements or to minimize equipment wear, maintain equipment, or repair/replace equipment, or that are due to any other event or circumstance described in this Appendix A or in the Contract.

Pacific Northwest Coordination Agreement (PNCA) – Shall mean the agreement among Northwest parties for the coordinated operation of the Columbia River system on a seasonal and monthly basis. The PNCA defines the firm energy output of the Rocky Reach Project and the Chelan Power System, as applicable, as well as other rights and obligations, including provisional energy, interchange energy, in-lieu energy, and others defined in the contract. The PNCA does not allow resources above the head works of Bonneville Dam to be removed from coordination, and currently all Capacity and Energy of the Rocky Reach Project and the Chelan Power System, as applicable, are included in PNCA planning. PNCA serves as a settlement of the Federal Power Act Section 10(f) obligation to reimburse upstream Federal projects for energy gains as a result of the storage provided, as well as a FERC approved settlement among all Non-Federal parties for upstream benefit payments.

Pond/Storage – The volume of water, expressed in MWh, that can be stored behind a Project between its minimum and maximum headwater elevations.

Ramp Rate – means the rate of change in the level of generation for a specified period within all applicable Operational Constraints. The maximum Ramp Rate is a variable quantity based upon these limitations.

Remedial Action Schemes (RAS) - Any action implemented by the District utilizing the Rocky Reach Project and Rock Island Project, as applicable, to maintain the transfer capabilities and

stability of the Western Interconnection.

Rocky Reach Project Output and Chelan Power System Output includes adjustments for the following:

1. Canadian Entitlement
2. MCHC
3. PNCA
4. HCP
5. Biological Opinion
6. Hanford Reach Fall Chinook Protection Program
7. Immediate Spill Replacement

Spinning Operating Reserves – The difference at any time between total available Capacity of all Units of the Rocky Reach Project or Chelan Power System, as applicable, then on-line and the sum of the then current generation level of those on-line Units.

Spill – Water that passes over a spillway without going through turbines to produce energy.

Spill Past Unloaded Units - Spill that occurs while Units are not all fully loaded.

Unit - Each generating unit or collectively, the generating units at the Projects. The Units currently consist of the eleven generating Units C1 through C11 at Rocky Reach. Unit may also include any other generating Units installed in the Rocky Reach Project (for example attraction water turbines).

Voltage Support / MegaVars (MVARs) – Shall mean reactive power supplied or absorbed by the Rocky Reach Project and Chelan Power System as required to maintain voltage at adjacent switchyards. Under certain operating conditions, the MVARs output from the Units may cause a reduction in the Capacity of the Rocky Reach Project or Chelan Power System, as applicable.

OUTPUT

Section 1. Rocky Reach Project Output and Chelan Power System Output, as applicable, to appropriate Delivery Periods.

(A) Capacity and Energy Component. Output includes the deliverable electric Capacity and Energy from the Rocky Reach Project and the Chelan Power System, as applicable, net of the following adjustments with respect thereto:

- (i) adjustments for receipt and delivery of all upstream and downstream encroachments, adjustment for station service and losses to the Point(s) of Delivery;
- (ii) adjustment for Energy delivery or consumption obligations that are a Project responsibility under applicable Laws or agreements (including, but not limited to, fish hatcheries);

(iii) adjustment for Capacity and Energy receipt obligations with the Federal system associated with Immediate Spill Replacement;

(iv) Capacity and Energy delivery obligations under the Canadian Entitlement Allocation Extension Agreement signed by the District and the Bonneville Power Administration, acting as the U.S. Entity under the U.S. Canada Treaty of 1964;

(v) Purchaser adjustments for Energy delivery rights that are a Project right under applicable laws or agreements (including, but not limited to, PNCA); and

(vi) adjustments due to limitations imposed by and rights under the FERC licenses, MCHC, HCP, Biological Opinion, Hanford Reach Fall Chinook Protection Program and Immediate Spill Replacement.

(B) **Pond/Storage.** Output includes access to and the ability to use 100% of the Purchaser's Percentage of Pond/Storage of the Rocky Reach Project or Chelan Power System, as applicable.

(C) **Load Following and Regulation.** Output only includes Load Following/Regulation services if Purchaser provides scheduling information via a dynamic electronic signal per Section 6 (c) of the Contract.

(D) **Rocky Reach Project and Chelan Power System Rights and Obligations.** Output includes the rights and obligations from Canadian Entitlement, MCHC, PNCA, HCP, Biological Opinion, Hanford Reach Fall Chinook Protection Program and Immediate Spill Replacement.

(E) **Output Limitations.** Output is subject to limitation or adjustments due to:

(i) planned or unplanned outages for maintenance or repair;

(ii) any reductions due to fishery programs, including but not limited to, spill for fish bypass and capability reductions for a bypass system;

(iii) any reductions or limitations due to the Hanford Reach Fall Chinook Protection Program and the Biological Opinion or any other limitations imposed by Government Authorities;

(iv) any reductions or limitations due to the HCP;

(v) reductions or interruptions reasonably necessary to promote and support national, regional and local electric system stability and reliability (including, but not limited to, MVAR support of the transmission system);

(vi) minimum generation limitations due to minimum flow requirements;

(vii) other operational limitations lawfully imposed;

(viii) Uncontrollable Forces; and

(ix) Any other Operational Constraints.

(F) **Excluded Products and Services.** Output does not include the following:

(i) Black Start Capability;

(ii) RAS;

(iii) Voltage Support/MegaVars (MVARs); and

(iv) All other items not specifically included in Clauses (A) through (E) of this Section 1, except as otherwise described in Clause (G) below. It is Purchaser's responsibility to provide any additional ancillary services required to comply with safety and reliability standards in connection with Purchaser's receipt and use of Output.

(G) **Spinning Operating Reserves and Non-Spinning Operating Reserves.** The Purchaser's ability to utilize Output for purposes of Spinning Operating Reserves and Non-Spinning Operating Reserves shall be limited to and as provided in MCHC and its related operating protocols. The Parties agree that they will negotiate in good faith with each other and with other MCHC parties to modify MCHC's operating protocols in order to provide for the availability of Spinning Operating Reserves and Non-Spinning Operating Reserves; provided, however, that under any circumstances, the District reserves the right to refuse to place unloaded Units on-line for the sole purpose of meeting Purchaser's Spinning Operating Reserve obligations. This provision and Purchaser's ability to utilize Output for purposes of Spinning Operating Reserves and Non-Spinning Operating Reserves only applies if Purchaser provides scheduling information via a dynamic schedule pursuant to Section 6 (c) of the Contract.

(H) **Implementation.** The reduction of Rocky Reach Project Capacity or Chelan Power System Capacity (as applicable) deliveries to Purchaser will be imposed pro-rata such that reductions of Capacity for Purchaser at any time will equal Purchaser's Percentage of the total reductions of Capacity at such time. Energy reductions of the Rocky Reach Project or Chelan Power System, as applicable, shall be allocated according to procedures in the MCHC. The Purchaser shall have the ability to utilize its full Purchaser's Output Percentage at any point in time, subject to the availability of Units, the amount of water available, FERC limitations, maximum Ramp Rates, and any other Operational Constraints.

MEASUREMENT OF ENERGY

Section 2. Measurement of Energy Made Available. The amount of electric Energy made available hereunder from time to time shall be deemed to be the amount of Energy delivered in accordance with this Appendix, as measured in accordance with Section 8 of the Contract, that was not interrupted or curtailed due to conditions set forth herein or in the Contract.

MANAGEMENT

Section 3. Management of Rocky Reach and Chelan Power System, as applicable (MCHC). Purchaser shall have access to and the ability to use its Purchaser's Output Percentage, inflow, and 100% of the Purchaser's Percentage of Pond/Storage components of Output as it sees fit, subject to all limitations set forth in this Contract, including this Appendix A. The Rocky Reach Project and the Chelan Power System have a limited amount of Pond/Storage available each day for daily shaping use. All Pond/Storage at Rocky Reach and Chelan Power System shall be accounted for and controlled pursuant to the terms of the MCHC.

(A) Prior to the first delivery of Output, the Purchaser shall become a signatory of the MCHC. The Purchaser shall be responsible for monitoring storage levels and adjusting Energy requests as required to stay within MCHC limits. All expenses associated with acquisition, operation and maintenance of hardware and software on the Purchaser's system necessary to meet Purchaser's obligations under this Contract and the MCHC shall be Purchaser's responsibility. In the event the District must intervene to correct an MCHC problem or contractual deficiency on behalf of Purchaser, Purchaser shall reimburse the District for all resulting costs and penalties incurred by the District as a result thereof on a monthly basis as a line item on billings.

(B) The Purchaser shall manage its Energy requests, subject to the terms of the MCHC, so as not to exceed its total Capacity entitlement at the Project. All rights and duties under the MCHC as applicable to Purchaser's Output Percentage shall be discharged solely by Purchaser, except as otherwise provided in this Section 3. Purchaser shall not make any request for Energy that would cause its MCHC Pond/Storage account for the Project to go below zero MWh. An account shall be kept pursuant to the MCHC for the Purchaser, based on the information provided to the District pursuant to the MCHC. Purchaser's account will reflect Purchaser's Percentage of allocated inflow being added each hour and Purchaser's previous hour's energy subtracted. Purchaser shall not violate any MCHC limitation. In the event Purchaser's Pond/Storage account for Rocky Reach or Chelan Power System, as applicable, goes below the minimum MCHC requirements, expressed in MWh, the District, as its sole remedy for such condition, may immediately reduce Capacity associated with Purchaser's Output Percentage available from Rocky Reach or Chelan Power System, as applicable, to an amount approximating Purchaser's Percentage of allocated inflow until the Purchaser's Pond/Storage account balance has returned to zero MWh.

PLANNING DATA

Section 4. Planning Data. The District shall from time to time supply, as soon as practicable after it is available to the District, estimates of planned outages and planned Fish Spill to enable Purchaser to estimate future Output.

APPENDIX B

Attached completed Bid Form.

Bid Form for Sale of Rocky Reach and Chelan Power System Output

Public Utility District No. 1 of Chelan County, WA (District) is auctioning a slice of the Output from the Rocky Reach Hydroelectric Project and the Chelan Power System ("Output") starting HE 0100, P.P.T. December 1, 2010, and ending on HE 2400 (midnight) P.P.T., December 31, 2014, as more fully specified in the CONTRACT FOR SALE OF OUTPUT FROM ROCKY REACH PROJECT AND CHELAN POWER SYSTEM ISSUED AUGUST 3, 2010 (Contract).

Bidder, whose true and correct legal name is Avista Corporation, acknowledges that it has carefully and fully reviewed the Contract and all other necessary legal documents and hereby submits the following bid price:

BID FOR OUTPUT

Table 1.

Delivery Period	Slice Product 1 Output Percentage	Slice Product 2 Output Percentage	Combined Slice Product 3 Output Percentage
1. Dec 1- Dec 31, 2010	4.5% of Rocky Reach	0.0% of Rocky Reach	4.5% of Rocky Reach
2. Jan 1- Jun 30, 2011	4.5% of Rocky Reach	0.0% of Rocky Reach	4.5% of Rocky Reach
3. Jul 1- Dec 31, 2011	4.5% of Rocky Reach	4.5% of Rocky Reach	9.0% of Rocky Reach
4. Jan 1- June 30, 2012	4.5% of Rocky Reach	4.5% of Rocky Reach	9.0% of Rocky Reach
5. Jul 1- Dec 31, 2012	3.0% of Chelan Power System	3.0% of Chelan Power System	6.0% of Chelan Power System
6. Jan 1- Dec 31, 2013	3.0% of Chelan Power System	3.0% of Chelan Power System	6.0% of Chelan Power System
7. Jan. 1- Dec 31, 2014	3.0% of Chelan Power System	3.0% of Chelan Power System	6.0% of Chelan Power System

Bidder hereby offers to purchase the Output with the percentage shares in the Delivery Periods shown in Table 1 in accordance with the terms and conditions contained in the Contract.

BIDDER HEREBY SUBMITS BID FOR THE PURCHASE OF OUTPUT (US DOLLARS) IN TABLE 2.

Table 2.

Bidders may bid on all three Slice Products. The District may choose to award Slice Products 1 and 2 or Slice Product 3, but will not award all three Slice Products. Slice Product 3 is a combination of Slice Product 1 and 2.

Delivery Period	Bid Amount (\$US) for Slice Product 1	Bid Amount (\$US) for Slice Product 2	Bid Amount (\$US) for Combined Slice Product 3
1. Dec 1- Dec 31, 2010		N/A	
2. Jan 1- Jun 30, 2011		N/A	
3. Jul 1- Dec 31, 2011		[REDACTED]	
4. Jan 1- June 30, 2012		[REDACTED]	
5. Jul 1- Dec 31, 2012		[REDACTED]	
6. Jan 1- Dec 31, 2013		[REDACTED]	
7. Jan. 1- Dec 31, 2014		[REDACTED]	
Total Bid Amount		[REDACTED]	

This bid shall constitute an offer to the District and shall be irrevocable from the time submitted until 4:00 p.m. P.P.T. on September 21st. In the event the District accepts the bid, the District will notify the Bidder of such acceptance. Applicant shall within two (2) business days of such notice post the Independent Amount as required under the Cover Sheet Elections and properly execute and return to the District a signed copy of the Contract, Collateral Annex and Cover Sheet Elections, the WSPP Amendment and other necessary documents.

Should Bidder fail to provide the executed documents as provided above, Bidder shall pay as liquidated damages to the District the lesser of five percent (5%) of the amount of its bid or the difference between its bid and the bid of the next lowest bidder to whom the District awards the Contract.

Bidder's submittal of a bid (if any) and its execution, delivery and performance of the Contract are and will be within its powers, and that it has been duly authorized by all necessary action to enter into such Contract, and by doing so does and will not violate any of the terms and conditions of its governing documents, any contracts to which it is a party or any law, rule, regulation, or order applicable to it. Bidder shall provide a true and correct copy of a duly adopted corporate resolution or other satisfactory evidence of corporate and signature authority at the time a bid is submitted.

The Bidder fully understands that the District's request for bid is not an offer to sell Output to any bidder, and in no event will the District be obligated to enter into a contract or sell output to anyone responding to this application. Any sale of Output will be

subject the District's determination, in its sole discretion, that such transaction will be in the best interests of the District's customers.

The Bidder understands and agrees that the District shall have the right to waive any errors or irregularities in any bid. Any errors or irregularities must be corrected on the Bid Form prior to the execution of the Contract.

The person signing this document has the authority to sign this bid and bind the named entity to the bid and terms of the Contract.

BIDDER: Avista Corporation ADDRESS: 1711 E Mission
BY: Dennis P. Vermillion P.O. Box 3727
(Type or Print Name)
TITLE: President, Avista Utilities Spokane, WA 99220
SIGNED: Dennis P. Vermillion Phone (509) 495-4076
DATE: 9/21/2010